EFFECT OF MERGERS AND ACQUISITIONS ON PERFORMANCE OF THE NIGERIAN BANKING INDUSTRY 1998 – 2012

BY

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TITLE PAGE

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BEING A DISSERTATION PRESENTED TO THE DEPARTMENT OF BANKING AND FINANCE, FACULTY OF BUSINESS ADMINISTRATION, UNIVERSITY OF NIGERIA, ENUGU CAMPUS,
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SUPERVISOR:
ASSOC. PROF. CHUKE NWUDE

DECEMBER, 2015

APPROVAL PAGE

This dissertation by Ijeomah, Ruth Ginikachukwu with Reg. No. PG/M.Sc/12/63453, presented to the Department of Banking and Finance in the Faculty of Business Administration, University of Nigeria, Enugu Campus, for the award of Masters of Science (M.Sc) Degree in Banking and Finance, has been approved by:

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CERTIFICATION

Ijeomah, Ruth Ginikachukwu, a postgraduate student in the Department of Banking and Finance with Reg No. PG/M.Sc/12/63453 has satisfactorily completed the requirements for research work for the Degree of Masters of Science (M. Sc) in Banking and Finance.

The work embodied in this dissertation is original and has not, to the best of my knowledge, been submitted in part or in full for the award of any other Degree or Diploma of this or any other tertiary institution

_________________ _______________

Ijeomah Ruth Ginikachukwu Date

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DEDICATION

To my parents, Chief and Mrs. Murphy Ijeomah for their love, care, concern, prayers and financial support all through my academic journey.

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ABSTRACT

This study examined the effect of mergers and acquisitions on the performance of Nigerian banking industry. 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 Central Bank of Nigeria instituted a banking reform in 2004, which saw most of the then existing 89 banks merging with each other. The fundamental objectives of this research is to ascertain the impact of mergers and acquisitions on the liquidity profile of commercial banks in Nigeria, examine how mergers and acquisitions adopted by commercial banks impacted on the return on equity of the affected banks, evaluate the impact of mergers and acquisitions on the debt/equity profile of commercial banks in Nigeria and examine the extent to which earning per share of commercial banks improved as a result of mergers and acquisitions. An *ex post facto* research design was adopted in this study. The population of the study comprises of all 21 commercial banks in Nigeria. The study covered a period of 15years from 1998 to 2012. Secondary sources of data were used in this study. The data were handpicked from the annual reports of the sampled banks and internet. The data obtained were analyzed using panel data analysis. The method of estimation used is the Ordinary Least Square (OLS). The result of the study indicated that overall mergers and acquisitions has a positive effect on the liquidity profile, return on equity, debt/equity profile and earning per share of commercial banks. The study recommends that the monetary authorities should establish an institutional framework to sustain the positive and improved performance of the banking industry in response to mergers and acquisitions.

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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

The Nigerian banking sector has undergone remarkable changes over the years, in terms of the number of institutions, ownership structure, as well as the depth of operations. These changes have been influenced largely by challenges posed by deregulation of the financial sector, globalization of operations, technological innovations and adoption of supervisory and prudential requirements that conform to international standards.

The Nigerian banking industry witnessed dramatic transformation during the recapitalization exercise which deadline was December 31st, 2005. Overall, the banking sector experience steady consolidation through recapitalization and mergers and acquisitions that have resulted in fewer banks holding a greater value of the total assets in the sector (Okpanachi, 2011). Spearheaded by the announcement of the Central Bank of Nigeria on July 6, 2004 about a major reform program that would transform the banking landscape of the country, an unprecedented process of merger and acquisition took place in the Nigerian banking sector, shrinking the number of banks.

Immediately after the recapitalization deadline ended on December 31st, 2005, the number of operating banks in the country reduced from 89 banks to 25banks but later reduced further to 23 with the merger of some banks like First Atlantic Bank Plc and Inland Bank to form Fin Bank Plc. Stanbic Bank Plc and IBTC to form Stanbic-IBTC Bank. The number of operating bank later increased to 24 banks with the entry of Citibank Nigeria Limited. The merger and acquisition of the nine rescued banks i.e. the merger of Access Bank Plc with Intercontinental Bank Plc: Merger of Ecobank Transnational Incorporation with Oceanic Bank Plc: merger of First City Monumental Bank with Fin Bank Plc further reduced the number of banks operating in Nigeria to 21.

The wave of mergers and acquisitions that had taken place in the Nigerian banking industry raises an important question of whether bank consolidation enhances the financial performance of Nigeria banks. Hosono et al (2007) argued that consolidation may increase or decrease the performance of a bank. Mergers and Acquisitions are common place in developing countries of the world but are just becoming prominent in Nigeria especially in the banking industry. Umoren (2007) says that merger and acquisition is simply another way of saying survival of the fittest that is to say a bigger, more efficient, better-capitalized, more skilled industry.

As the banks are devising ways of improving efficiency and ensuring the optimization of the available resources, policy makers and regulatory authorities are moving towards openness, competiveness, and at the same time ensuring market discipline. This is in tandem with the trend in the banking sector globally. Ahmed (2000:33) described this development as a magic one which caused quite a substantial number of Nigerian banks to be sick while some became healthier. In his view, he contended that growth in the banking sector should be transmitted easily into growth of the real sector. But as banks continued to record impressive growth in all economics, indices show a declining margin of economic growth. This makes one wonder where the impacts of the impressive performance of the banks as reported in the financial reports are being felt. Even the NDIC (Nigerian Deposit Insurance Corporation) which is established to insure the deposit liabilities of licensed banks has liquidated some distressed banks. The action, Ezeikpe (1993: 36-38) commended while arguing that some distressed banks should be liquidated as a way of survival for the banking system.

This study seeks to evaluate the effect of mergers and acquisitions as strategic growth option in the Nigerian banking sector, with a view to find out if mergers and acquisitions result in superior financial performance, efficient, reliable and sound capital base for the bank that fully embraced it.

1.2 Statement of the Problem

The outbreak of bank mergers in Nigeria is attracting much attention, partly because of heightened interest in what motivates firms to merger and how mergers affect efficiency. However, there are often two distinct views to the rationale behind merger and acquisition. The first held view of mergers, especially those involving mega firms, is that firms are merging just to get bigger and not to get more efficient. Accompanying that notion is the fear that as merging firms grab greater market share, individual freedoms, competition and efficiency are threatened, because bigger is perceived as greater concentration of power.

The second view holds that firmҫs merger not just to get bigger but also to be more efficient. It is claimed that mergers enable the banking industry to take advantage of new opportunities created by changes in the technological and regulatory environment. Fallout of this is the reduction in the number of banks nationwide but the concentration of power in local banking markets has not increased. And the very force of regulatory change that spurred bank merger is also bringing new sources of competition of local banking market (especially the management of the countryҫs external reserves). The post-consolidation performance of all Nigerian banks was overcast in 2009 by the global financial and economic crisis, which was precipitated in August 2007 by the collapse of the sub-prime lending market in the United States. Sanusi (2010) attributed the post consolidation challenges of Nigerian banking industry to the inability of the industry and the regulators to sustain and monitor the sectorҫs explosive growth which as a result led to risk-build in the system. This study shall investigate the effect of the merger and acquisition that had taken place in the Nigerian banking sector on the performance of the selected banks 1998-2012.

1.3 Objectives of the Study

In a broad framework, the general objective of the study is to examine the effect of mergers and acquisitions on the performance of the Nigerian banking sector

The specific objectives of this study were to:

1. ascertain the impact of mergers and acquisitions on the liquidity profile of commercial banks in Nigeria.

2. examine how mergers and acquisitions adopted by commercial banks impacted on the return on equity of the affected banks.

3. evaluate the impact of mergers and acquisitions on the debt/equity profile of commercial banks in Nigeria.

4. examine the extent to which earning per share of commercial banks improved as a result of mergers and acquisitions.

1.4 Research Questions

The following research questions are considered relevant for the purpose of this research work:

1. What effect does mergers and acquisitions have on the liquidity profile of commercial banks in Nigeria?

2. Do mergers and acquisitions have any effect on return on equity of commercial banks in Nigeria?

3. What effect does mergers and acquisitions have on the debt equity profile of the commercial banks in Nigeria?

4. To what extent have mergers and acquisitions adopted by banks impacted on the earning per share of the affected banks?

1.5 Research Hypotheses

For the purpose of this research, the following hypothetical statements stated in their null forms are considered relevant in order to guide the researcher properly:

H_1: Mergers and acquisitions do not have any significant positive effect on the liquidity profile of the affected banks.

H_2: Mergers and acquisitions have no significant positive effect on the return on equity of commercial banks.

H_3: Mergers and acquisitions do not have any significant positive effect on the debt equity profile of commercial banks in Nigeria

H_4: Mergers and acquisitions have no significant positive impact on the earning per share of the affected banks.

1.6 Scope of the Study

This research focus on the effect of mergers and acquisitions on the performance of the Nigerian banking industry.The time frame for the analysis is 1998 ï 2012, a period of fifteen (15) years. This is with the understanding that the time frame will only be fair and balance for analyzing their performance. It is also extended to 2012 to ensure that the information and data used are timely, up to date and accurate enough to represent the current position of the banks under study.

1.7 Significance of Study

The major significance of this study relates to the evaluation of mergers and acquisitions in terms of its impact on the performance in the post-consolidation era in the Nigerian banking sector, this will serve as a yardstick for the justification of the exercise. This

study will also add to the general body of knowledge on the subject matter of mergers and acquisitions and also compliment the work of other authors.
In furtherance to the above, this research will also be significant to:

The policy makers and regulators of the banking industry, it will present a schema, through its analysis that could assist them in evolving policies and reforms that will positively impact on the performance of the banking industry.

To the public, it will enlighten the general public on the effect of bank consolidation on the performance of banks in Nigeria, and also provide a better understanding of the dynamics of the Nigerian banking industry and how it has performed within the period under review.

To investors in general, the study exposes the relationship existing between relevant variable used in this study. Investors will be in a better position to make rational investment decisions as the study will make them understand better the nature of relationship existing between mergers and acquisitions and various performance index of the Nigerian banking industry.

To students, the research will assist those who wish to take a career in economics, banking and finance to advance their understanding of the concept and mechanism of mergers and acquisitions and its effects.

Finally, the research work will serve as a reference material for future researchers on similar topic.

1.8 Operational Definition of Terms

Merger: In business or economics a merger is a combination of two companies into one larger company. Such actions are commonly voluntary and involve stock swap or cash payment to the target. Stock swap is often used as it allows the shareholders of the two companies to share the risks involved in the deal.

Acquisition: This means the buying of one company (the target) by another. An acquisition may be friendly or hostile. In the former case, the companies cooperate in negotiations; in the latter case, the takeover target is unwilling to be bought or the targets board has no prior knowledge of the offer. Acquisition usually refers to a purchase of a smaller firm by a larger one.

Bank Re-Capitalization: It is the act of supplying long-term funds of the owners of the bank to meet the requirement of monetary authority. Osiegbu (2005).

Consolidation: It is the reduction in the number of banks and other deposit taking institution with a simultaneous increase in the size and concentration of the consolidation entities in the sector (BIS, 2001:2)

Shareholder's fund: are alternative terms for ownersô or shareholders equity. It represents the funds invested in the company through stock purchase or other private investments.

Economy: The relationship between production, trade and the supply of money in a particular country or region. It is the system of trade and industry by which the wealth of a country is made and used.

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CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1. Conceptual Framework

2.1.1. Mergers and Acquisitions

Merger can be defined as a combination or fusion of two or more formally independent business units into one organization with a common ownership and management such as in current usage. A merger is a special ease of combination where both merging companies wish to pin together on agreed term. Lot (2003) defined merger as a combination of two companies where only one of them survives and continue its existence or at least continue to exist but in modified term.Acquisition on the hand is a corporate action in which a company buys most, if not all, of the target companyøs ownership stakes in order to assume control of the target firm. Acquisitions are often made as part of a companyøs growth strategy whereby it is more beneficial to takeover an existing firmøs operations and niche compared to expanding on its own. Acquisition can be either friendly or hostile. Friendly acquisitions occur when the target firm expresses it agreement to be acquired, whereas hostile acquisitions do not have the same agreement from the target firm and the acquiring firm needs to actively purchase large stakes of the target company in order to have a majority stake. In either case, the acquiring company often offers a premium on the market price of the target companyøs shares in order to entice shareholders to sell.

A consolidation is a type of merger which involves the combination of two or more companies whereby an entirely new company is formed. All of the old companies cease to exist and the shares are exchanged for the shares in the new company. Vanhorne (1998) seems to be in agreement with Hampton that õmerger is a combination of two or more corporations where only one survives. Firmsô assets and liabilities are left to the new firm.ö Ahmed (1989) also viewed merger as a unification of previously separate companies into a single corporationö. He explains that merger occurs when one or two of the combining companies survive.

This is illustrated as follows:

If company X and company Y merged and a new company Z emerges, it is called a merger, but where company Y dies and X survives, it is an acquisition. The argument about identity sprang up in disagreement with Ahmed as Joy (1990) in her write up argued that in merger, the identity of both merging companiesô ceases to exist and the surviving company takes any name as maybe wished by the new owner. Acquisition according to her is a situation where management of independently operating enterprises is brought under the control of a single management.

According to Umari (1998), in merger, take over, amalgamation or acquisition, two or more companies come together by the pulling of their undertakings or resources, that is, material money, goodwill, market, skilled personnel, and technology and so on. Acquisition can also be by buying a controlling interest on the share capital of one of the companies.

From the legal point of view, in section 590 of the Companies and Allied Matters Decree of 1990ò, mergers have been described as any amalgamation of the undertakings of any part or whole of the interest of two or more companies or corporate bodiesò. Professor Cower (2002:51) reviewed that under amalgamation, merger or takeover, two or more companies are merged either by a consideration of controlling interest in the share capital of one by the other or in the capital of both by a new company. He also stated that mergers and acquisitions are not terms of act with clearly defined and distinguishable legal meaning. They are intervention and can be used interchangeably.

2.1.2 Reasons for Mergers and Acquisitions

Economic literatures provide various reasons why companies engage in M&A, with the concept of synergy as the underlying factor (Brealey, et al., 2006; Coffee, 1988; Gaughan, 2007; Hadlock et al, 1999; Bliss and Rosen, 2001; Trautwein, 1990).

Synergy is the interaction or cooperation of two or more organisations to produce a combined effect greater than the sums of the two organisations operating independently (Coyle, 2000). Mathematically, this can be stated as:
Value (A + B) >Value (A) + Value (B). The explanation for this occurrence is either the firms were not performing to optimal level prior to merging or that benefits were

achieved by the merger. Following this logic, companies are motivated to involve in M&A in order to create synergies (Coyle, 2000). Companies derive synergy from M&Aôs activities through, but not limited to: economies of scale; economies of vertical integration; complementary resources; surplus funds; elimination of inefficiencies (Brealey, et al., 2006). Coffee (1988) was of the view that managers might also engage in growth oriented or empire building strategies in order to create a diversified portfolio within the firm to lower their employment risk but not necessarily due to business synergy.

Like any business, banks have reasons why they engage in M&As. In this study, we focus on the business motive while acknowledging that other motives, such as managerial incentives, can play an important role (Bliss and Rosen, 2001). Berger (1988) identified the Relative Efficiency and Low Efficiency hypotheses as the drivers of business motives for M&As by banks. *The relative efficiency hypothesis* provides that the acquiring bank seek to bring in the target bank to its own higher level of efficiency by transferring its superior management capacities or its business procedures.

On the other hand, *low efficiency hypothesis* is where one or both of the merging banks are inefficient relative to their peers. M&A may at this instance serve as a corrective tool to improve the performance of the bank or as a means of implementing radical business changes. While the low efficiency hypothesis and the relative efficiency hypothesis are not mutually exclusive, researchers find more evidence for the former. Vennet (1996) in his research confirms this result for European bank takeovers between 1988 and 1992. In a related study by Koetter et al. (2007), which focused on the German banking market, observed that many mergers serve as a pre-emptive distress resolution measure. Studies by Avkiran (1999) and Worthington (2004) also support the relative efficiency hypothesis. Support for a óreverseô Relative Efficiency Hypothesis is provided by Resti (1998), who stated that, merger among Italian bank between 1987 and 1995, showed that the acquirers appeared even less efficient than their targets. In a study of the US market, Wheelock and Wilson (2000) find that, contrary to the low efficiency hypothesis, inefficient banks are less likely to be acquired, this finding contradict an earlier study by

Hadlock et al. (1999) who opined that poorly performing banks are more likely to be acquired.

From the above, one can summarise that the main reasons for M&As is to improve the financial performance of the firms. This could be achieved through cost reduction, extending the range of products and services, increase in market share, obtaining tax advantages, improvement of solvency and knowledge transfer.

2.1.3 Consequences of Mergers and Acquisitions on Banks

No matter which approach is selected by banks within the Nigerian financial sector, the current consolidation will have a number of effects and implications. These effects and implications can be broken down into 2 broad categories:

1. Brand implications
2. Structural implications

2.1.3.1 Brand Implications of Mergers and Acquisitions on Banks

Typically, differentiation in the financial sector is determined by financial might and capital base. However, with the current consolidation, this differentiation factor will gradually become commoditized. This is because more banks, such as Guaranty TRUST and Zenith, will possess more financial might bringing them closer to the establishment banks (e.g. First bank).These series of acquisitions will also ensure that the gap in size (branch network) is greatly reduced. In view of this, differentiation in the unfolding financial sector will be greatly impacted upon by the strength of a banks brand within the market place, and not just the size of its balance sheet.

The current situation in the market attests to this. Consider that banks with strong brands (i.e. First bank, Guaranty Trust bank and Zenith bank) are attracting a lot of attention and may most likely serve as lead banks in which ever merger or acquisition scenario they get involved in .On the other hand, banks with weak brands face an uphill task. They become devalued and may be forced to merge or be acquired by stronger banks.

Whatever the situation, the new entities that will arise from the dust of consolidation will need to deal with brand related issues, if they are to survive in the long term. Some of the most critical issues are as follows:

a. Change of name

The Financial sector witnessed a lot of name changes. A number of names that we were familiar with ceased to exist. The name of an organization in its primary token of identification in the market place. Thus, organizations resulting from consolidation process were faced with two options:

- Adoption of the name of the organization with the strongest brand name (this is often the case if the situation is the acquisition).
- Adoption of a new name (more common with mergers).

Whatever approach is taken, the introduction of the name of the new entity must be done in such a way that the brand equity resident in the names of the organizations involved is not lost but leveraged adequately (because each of the names already has certain associations and implications).careful consideration must be given to what the associations new name would evoke in the market. Therefore, it is important that a strategic approach be applied in the development of the name because of its importance to the brand.

b. Change of logo

In addition to name changes, a number of new logos were unveiled as the merger & acquisitions spree continues. The word logo is derived from the Greek word ōLogosö. The logo of an organization is its graphical mark of identity in the market. It is therefore important to ensure that like the name, the logo from the entity resulting from a merger or acquisition scenario takes into consideration the brand equity resident in the constituent organizations. Such equity may be in the form of colours or symbols. For example, oil giant, British petroleum (BP Plc) wanted to revamp its brand after its merger with Amoco in 1998 and the further acquisition with two other companies, Arco and Castrol in 1999 & 2000 respectively. It settled for the strongest name in the group of companies i.e. BP. It also maintained BP colour palette of green and yellow as the corporate colour because it was considered a brand asset and unique in the petroleum sector. Another example is the merger between Citibank and Travelers Group, the merged firm was named Citigroup. Although Citibank was the smaller of the two, it was the stronger brand. Citi group incorporated Citibankös corporate colour-blue and a key element of the Travelers group logo- the red umbrella- into the Citigroup logo.

On the other hand, France telecoms departed from its staid logo and symbols because it wanted to communicate an entirely new concept as itôs metamorphosed from a state ï owned monopoly into a free market competitor. The new logo, an amperes and, symbolized the ñbringing together of people and the decision by the company to never go out of style.ò In the same vein, some of the consolidated entities in the banking sector may wish to signify entirely new concepts and strategic direction through their logos.

It is important to note that the design of a logo for an organization is not primarily a design function but a strategic function. Also, as a result of the new logo, it will be necessary to redesign the corporate function and visual identity materials (letterheads, business cards, identity cards, account opening book, websites, etc) for the new entity.

c. Brand culture

Perhaps the most important determinant in the progression of the new banks that will result from the merger and acquisition process is how well the culture of the various constituent banks can be melded into one unique cultural system. If this is not properly done, the resulting banks will experience cultural clashes among employees. Every organization has its own distinct way of life and its own way of doing things; this is what culture is all about. It is like an invisible hand that guides the thoughts and actions of employees. If a unique culture is not developed for the new brand, then the battle is over before it begins. It is interesting to note that in most of the mergers that have been witnessed in the Nigerian financial sector thus far, the focus has been on meeting the required minimum capitalization. But once that is done, the resulting entity will only progress as far as critical brand issues like culture have been resolved.

d. Brand message

At the end of the merger or acquisition process, a critical brand issue that will arise is ñwhat message will the new entity put out into the market?ò It is a safe assumption that each of the institutions that make up the new entity touted a particular message. This message will determine what they will be known for over time.

e. Communication

A major consequence of the consolidation of the banking sector will be an increased effort by the banks to propagate themselves within the market place. For this to be effective, it must be based on more than just a need to put out information on the entity. It must be a strategic initiative that communicates the essence of the brand, its strengths and competencies. Communication issues are critical and must be tackled properly.

2.1.3.2 Structural Implication of Mergers and Acquisitions on Banks

In addition to the aforementioned brand implications, consolidation of the banking sector leave in its wake a number of structural issues. These are issues that have direct impact on staff, customers and the structure of the entire banking sector.
Considering the following:

a. Reduced number of banks

One of the major expectations of CBN and a definite outcome of the consolidation within the financial sector is the reduction in the number of banks within the sector from the then 89 banks to 21 banks, considering the activity taking place within the sector, a reduction in the number of banks is inevitable. A similar situation occurred in the consolidation of the Malaysian banking sector during the early 90s, where the number of banks then reduced to 10 banking groups from 54 local banks.

b. Increased competition

The entities resulting from the consolidation of the Nigerian financial sector are bigger (in terms of size, capability and financial might) and thus, are able to compete more aggressively in the market. Also, because the number of banks that drastically reduced more opportunities are available for the evolved banking groups.

c. Emergence of New contenders

Taking a lead from the above, in addition to increased competitiveness within the sector, the rule of the establishment banks may be coming to an end and new contenders may arise. Front runners for the crown are Guaranty Trust Bank, Zenith Bank, and Standard Trust Bank (STB) .Each of these banks have being able to acquire billions of Naira through IPOs and public offers. Consider that Guaranty Trust Bank had a capitalization of N34b against First Banks N99b, while Zenith had N49b.When the dust from the current spate of mergers had settled, additional contenders were yet to emerge.

d. Acquisition digestion issues

In a merger scenario, a critical issue is how the constituent organizations integrate their operations and processes. The need to integrate operations effectively will lead to the following:

- Loss of jobs: This will occur from the middle level to executive level due to overlaps and duplication of functions within the system.
- Consolidation of branch locations: In a situation where the resulting entity possesses more than 1 branch in a particular location, these branches may be condensed into a singular entity. This will help reduce cost overheads and duplication of functions.
- Tackling of inefficiencies and bureaucracies: Size creates a certain level of inefficiency and bureaucracy within systems. The new banks will be a combination of three or more banks. Therefore issues of inefficiencies must be tackled.

In addition to the aforementioned, the following will also occur:

i. Customers will have fewer banks to choose from, due to the reduced number of banks that will exist in the banking sector.
ii. The management and Boards of the banks will be reconstituted.
iii. CEOs will lose their jobs or become Executive Directors.
iv. More IPOs and public offers should be expected.
v. More sophisticated products should be expected from the evolving banking groups as a differentiation strategy.
vi. True financial supermarkets will emerge as a result of the coming together of banks with varying competences and strengths.
vii. Technology will become much more important. More capital will be devoted because of integration issues.

2.2 Theoretical Review

2.2.1 Mergers and Acquisitions Research Paradigms

There are different perspectives to the study of mergers and acquisitions (M&A). Datta, et al (1992: 68) acknowledged strategic management and financial economics as two major literature frameworks for identifying sources of shareholdersô wealth in M&A activities.

However, Larsson and Finkelstein (1999) gave a more detailed categorization of M&A paradigms: economic and finance; strategy; organizational behaviour; and human resource management perspectives.

2.2.1.1. Economic and Finance Perspective

The economic and finance paradigm is primarily interested in the efficiency impact of M&A on the economy through economies of scale and market power with emphasis on ómarket for corporate controlô. The main argument of this ómarket for corporate controlô paradigm is that M&A are viewed as ócontests between competing management teams for the control of corporate entitiesô (Dattaet al.1992: 69). One of the key arguments of the market for the corporate control paradigm is that economic value created through acquisition activities is decided by market characteristics, including its competitiveness (Denis and McConnel, 2003: 266). These researchers measure the success of M&A with accounting numbers by considering their profit margins and return on equity. The finance scholars typically study M&A performance using stock market based measures. Event studies are used to examine the performance impact of the acquisitions and changes in stock prices that occur over a short period of time (Flanagan & OøShaughnessy, 2003; Ramawamy&Waegelein, 2003; Rao, Mahajan&Varaiya, 1991).

2.2.1.2Strategy Perspective

Researcher using the strategy paradigm sees M&A as a means of corporate growth and diversification, primarily emphasizing factors that are management controlled such as diversification strategies (that is, related vs. unrelated diversification) as a crucial factor in determining post-acquisition performance. They also consider the identification of differences between types of acquisition (merger vs. tender offer); and types of payment (cash vs. stock). The common variables used in this field are size, market share, pre-acquisition profitability and growth. Problems of measurement and convenience sampling are given as reasons for inconsistent findings (Marks &Mirvis, 2001; Datta, et al, 1992).

2.2.1.3OrganisationalBehaviour Perspective

Organisational behaviour researchers are interested in post combination integration process emphasizing both cultural clash and conflict resolution (e.g., Buono, 2003; Birkinshaw, Bresman & Hakanson, 2000). Constraining time-pressure or too high work pace, deficiencies concerning working conditions, incompatible or ambiguous demands and expectations around roles, tasks and responsibilities and uncertainty at work are issues of concern to organizational behaviour researcher of M&A.

2.2.1.4 Human Resource Management Perspective

Primary interest in the Human Resource management perspective is the psychological effects M&A have on individuals such as feelings of tension, alienation, and uncertainty. However, the importance of communication, and career planning are the interest of researchers in this field (Millward &Kyriakidou , 2004; Ford & Harding, 2003; Marks &Mirvis, 2001).

The organizational behaviour and human resource perspectives indicate that it is basically the ñpeople problemò that contributes to the success and failure of M&A. As the value creation of M&A mainly depends on the implementation process where people problem plays a key role (Jemision & Sitkin, 1986), the financial results of M&A cannot be explained without considering the human and organizational side of M&A. The people problem not only prevents the creation of synergistic values, but can also be a direct cause of M&A failures (Larsson & Finkelstein, 1999).

Basically, mergers and acquisitions are divided in four; horizontal, vertical, conglomerate mergers and concentric merger. horizontal mergersis a combination of two or more companies operating in the same field and in the same stages of process of attaining the same commodity or service (Gaughan, 2007: 13; Brealey, et al., 2006: 871; Okonkwo, 2004:3). In other words, a horizontal merger is the combination of firms that are direct rivals selling substitutable products within overlapping geographical market. The main purpose of this merger is to obtain economy of scale in production by eliminating duplication of facilities, reducing of competition, reducing of cost, and increase in share price and market segments. A vertical merger is a combination of two or more firms involved in different stages of production or distribution of the same product. It is a merger of one company with another having different stages of production/distribution process of the same product/service. Vertical merger may take the form or forward or backward merger. When a company combines with the supplier of material, it is called backward merger and when it combines with the customer, it is known as forward merger. Congeneric mergeroccur where two merging firms are in the same general industry, but they have no mutual buyer/customer or supplier relationship, such as a merger between a bank and a leasing company. Example: Prudentialøs acquisition of Bache and Company.Finally, conglomerate mergers takes place when the two firms operate in different industries. It is an amalgamation of two companies engaged in different line of business, in other words, the merging companies are engaged in diverse business activities.

2.2.2 Stages of Mergers and Acquisitions:

Saudarsanam (2003: 3) provide us with a five-stage model that will result in successful pursuit of synergistic gains from M&A:

ÅCorporate strategy development;

ÅOrganising for acquisitions;

ÅDeal structuring and negotiation;

ÅPost-acquisition integration; and

ÅPost-acquisition audit and organisational learning.

2.2.2.1 Corporate Strategy Development

Corporate strategic planning has been emphasized by organisations as an essential ingredient for business success, therefore, the success or failure of M&A to a large extent depends on the alignment of corporate strategy and M&A strategy (Harding and Rovit, 2004). Corporate strategy development is concerned ówith ways of optimizing the portfolios of businesses that a firm currently owns, and how this portfolio can be changed to serve the interests of the corporationøs stakeholdersô (Saudarsanam, 2003: 4). The effectiveness of M&A in achieving corporate strategic objectives depends on the conceptual and empirical validity of the models (industry structure-driven, competition among strategic groups or resource-based) upon which corporate strategy is based (Barney, 1991; Lockett, Thompson and Morgenstern, 2008). In agreement with the stance of Saudarsaram, a study by Harding and Rovit (2004) that reviewed more than 1,700 M&A and interviewed 250 Chief Executives Officers (CEOs) revealed that almost 60% of the CEOs interviewed do not understand the contribution of M&A to their companyøs long-term financial performance, while those with a clear rationale underpinning their M&A activity came to realize after the deal that their rationale were altogether wrong.

This implies that for a merger to be successful it would require serious planning which includes screening and identification of clear and realistic goals with proactive strategies to overcome resistance by the target firm or competitors bidding for the same firm.

2.2.2.2 Organizing for Acquisition

The firm lays down the criteria for potential acquisitions consistent with the strategic objectives and value creation logic of the firmôs corporate strategy and business model. Haspeslagh and Jemison (1991, cited in Saudarsaram, 2003) pointed out two contrasting perspectives of acquisition decision making process: (i) the rationalist; and

(ii) the organizational process.

Success of post-acquisition integration is determined at least partly by the thoroughness, clarity and forethought with which the value creation logic is blueprinted at the acquisition decision stage. Therefore, an understanding of the acquisition decision process is important, since it has a bearing on the quality of acquisition decision and its value creation logic (Saudarsanam, 2003).

2.2.2.3 Deal Structuring and Negotiation

M&A is tricky business and it can have serious financial implications for both the acquirer and the acquired that do not possess the necessary experience or professional guidance due to asymmetric information (Angwin, 2001). According to Saudarsanam (2003: 6), this stage of M&A involves:

a) valuing target companies, taking into account how the acquirer plans to leverage its own assets with those of the target; choice of advisers to the deal;

b) obtaining and evaluating as much intelligence as possible about the target from the target as well as other sources through due diligence;

c) determining the range of negotiation parameters including the walk-away price negotiating warranties and indemnities; negotiating the positions of senior management of both firms in the post-merger dispensation; and

d) developing the appropriate bid and defense strategies and tactics within the parameters set by the relevant regulatory regimes.

The use of third-party in the negotiations stage can be very valuable in giving the client time to consider options, or keeping the client from giving into emotions and making costly and unnecessary concessions in the heat of matters at the bargaining table (Angwin, 2001; Murphree& Hollander, 2003; Perry & Herd, 2004; Sinickas, 2004). The use of wrong valuation methods during the deal structuring stage and over optimism have resulted in the failure of many M&As in achieving the anticipated results as in the case of AT&T and NCR; Vodafone, AOL and Vivendi; and Mizuho (Rafferty, 2000; Saudarsanam, 2003: 7).

2.2.2.4 Post-Acquisition Integration

This stage involves the combination of the distinct organisations into one, resulting in changes in both the target and the acquirer, to deliver the strategic and value expectations that informed the merger (Saudarsanam, 2003). Schuler (2003), emphasized the importance of: an early planning; careful attention to leadership selection; an insiderφs view of knowledge networks and information flow; a clear, coherent and timely communication strategies; and the dedication of adequate resources to the transition management team are necessary ingredient that can lead to a successful post-acquisition integration. The value of most firms depends on its human assets-managers and skilled workers, therefore, utmost care must be taken to avoid situation whereby the valuable human assets leave to join a rival firm (Brealey, et al, 2006; Weber &Camerer, 2003).
Lubatkin, Schweiger and Weber (1999) find that cultural differences and the removal of managerial autonomy were associated with significantly greater management turnover in the first year after acquisition consistent with Lubatkin et al, (1999),Krug and Hegarty (2001) also find that most managers who departed within five years of acquisition were those who felt that the acquirer firm did not understand their firmφs culture.

Another important area to consider in post-acquisition integration is the integration of the merging firmsô information system. Effective integration of information system in any organisation is a function of technical and organisational factors (Henderson &Venkatraman, 1993: 4; Kawalek&Wastell, 2005: 84; Luftman& Brier, 1999:109; Orlikowski, 1992; Wastell, 1999: 591)

Although post-acquisition integration stage of M&A involves intangible assets which cannot be easily quantified, synergy may be elusive if not strategically handled. Issues around control and appropriate incentives for the acquired firmös employees should all be carefully handled.

2.2.2.5 Post-Acquisition Audit and Organizational Learning.

This stage involves long-term plan evaluation, adjustment and capitalizing on success of M&A. Specific performance measures, such as financial measures as well as information system integration may be assessed for further development of capabilities and learning (Cossey, 1991; Datta, 1991; Healy, et al, 1992; Ghosh, 2001; Robbins &Stylianou, 1999 and Sudarsanam, 2003).Post-acquisition audit and organizational learning enables the emergent firm to continue developing common tools, practices and processes that will be of immense relevance for future M&As.

2.2.3 Nigerian Banking Sector Regulatory Agencies

The Nigerian banking sector is highly regulated due to the strict surveillance on banking activities by regulatory authorities. Banks submits data online through an electronic Financial Analysis and Surveillance System (e-FASS) to Central Bank of Nigeria and Nigeria Deposit Insurance Corporation on a regular basis ï daily, weekly, mid-month, monthly, quarterly, semi-annually and annually (CBN circular 2007) to enable the regulatory agencies carry-out their oversight functions.

According to Llwellyn (1986, as cited by Alashi, 2002), banking regulation is defined as a body of specific rules or agreed behaviour either imposed by government or other external agency or self-imposed by explicit or implicit agreement within the industry that limits the activities and business operations of banks. The set of rules and regulations guiding the Nigerian banking sector are made by regulatory/supervisory authorities set up by government. The regulatory/supervisory authorities that are concerned with the regulation of the Nigerian banking sector include:

(1) The Federal Ministry of Finance;

(2) Central Bank of Nigeria;

(3) Nigeria Deposit Insurance Corporation; and

(4) Securities and Exchange Commission (Onyido, 2004: 13).

Section 43 and 44 of CBN Act 2007 provides for the establishment of a Financial Services Regulation Co-ordinating Committee, whose responsibilities is to:

a) co-ordinate the supervision of financial institutions especially conglomerates;

b) cause reduction of arbitrage opportunities usually created by differing regulation and supervision standards among supervisory authorities in the economy;

c) deliberate on problems experienced by any member in its relationship with any financial institution;

d) eliminate any information gap encountered by any regulatory agency in its relationship with any group of financial institutions;

e) articulate the strategies for the promotion of safe, sound and efficient practices for financial intermediaries, and

f) deliberate on such other issue as may be specified from time to time.

2.2.3.1 Federal Ministry of Finance

The Federal Ministry of Finance (FMF) advises the Federal Government on its Fiscal operations and cooperates with CBN on monetary matters. Prior to 1991, the Federal Ministry of Finance and CBN were jointly responsible for the licensing of banks, but now the sole responsibility of CBN. Section 43 (2f) of CBN Act 2007 that set up the Financial Services Regulation Co-ordinating Committee makes the Federal Ministry of Finance part and parcel of the regulatory committee.

2.2.3.2 Central Bank of Nigeria

The Central Bank of Nigeria is the apex regulatory authority in the financial system. Among its primary functions, the Bank promotes monetary stability, promotes a sound financial system, and acts as banker and financial adviser to the Federal Government of Nigeria, as well as banker of last resort to the banks (Onyido, 2004).

Central Bank of Nigeria Act 2007, gave the CBN more flexibility in regulating and overseeing the banking sector and licensing finance companies. Section 45(1)(a-b) of the CBN Act 2007 provides that the apex bank shall from time to time determine and through circulars cause banks to maintain specified reserve requirements and liquidity ratios. Also Section 44 (e) and (f) empowers CBN and other members of the Financial Services Regulation Co-ordinating Committee to articulate strategies for the promotion of safe, sound and efficient practices for financial intermediaries, and deliberate on such other issue as may be specified from time to time.

Central Bank of Nigeria through its Banking Supervision Department carryout functions and responsibilities of ensuring the soundness of the banking system, promote monetary stability and a sound financial system. In discharging this responsibility, the Department carries out on-site as well as off-site supervision of banks (Onyido, 2004).

2.2.3.3 Nigerian Deposit Insurance Corporation

The Nigerian Deposit Insurance Corporation (NDIC) was set up in 1988 to insure deposits of all licensed banks in order to promote confidence in the Nigerian banking industry. It is funded by a tax deductible premium paid on the insured deposits of deposit taking banks. Although an autonomous entity from the CBN, it complements the regulatory and supervisory role of the CBN and also acts as the liquidator for banks which the CBN decides to take over and close down (Umoh, 2004).

2.2.2.4 Securities and Exchange Commission

The Securities and Exchange Commission (SEC) is the apex regulatory organ of the capital market in Nigeria. Its major objective is to promote an orderly and active capital market by ensuring adequate protection of securities, registering all securities dealers in order to maintain proper standards of conduct and professionalism, approving and regulating mergers and acquisitions and maintaining surveillance over the market to enhance efficiency. Section 43 (2c) of CBN Act 2007 that set up the Financial Services Regulation Co-ordinating Committee name the Securities and Exchange Commission as a member of the committee regulating the activities of financial institutions in Nigeria.

2.3 Empirical Review

2.3.1 Trends in Bank Consolidation

The banking system consolidation is a global phenomenon, which started in the advanced economies. Two notable examples of countries experiencing a wave of mergers and consolidation in the banking industry in recent times are the United States of America (USA) and Japan (Hall, 1999). According to Kwan (2004), since the enactment of the Riegle-Neal Act, which allows interstate branch banking beginning from 1997, the number of large bank mergers in the USA has increased significantly. Today, the U.S.

banking sector is reported to be in good shape, with record profits and relatively low volumes of problem loans. Further research on mega mergers 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 high value added products and services (Akhavin, et al, 1997). Furthermore, consolidation may allow a mega bank to enjoy a hidden subsidy which Kwan (2004) referred to as ñtoo-big-to-failò subsidy due to the marketõs perception of an illusion of government backing of a mega bank in times of crisis. The Japanese experience also shows that the consensus has been that significant economies of scale existed in the banking industry before the onset of the crisis and subsequent reforms in the ó90s at all levels of output throughout the industry (Fukuyama, 1993, McKillop et al, 1996).

Consolidation in financial services in the USA and other industrialized countries has occurred along three lines, namely: within the banking industry, between banks and other non-bank financial institutions, and across national borders. In the USA, most of the consolidation that took place occurred within the banking sector. For instance, in that country, the number of banking organizations fell from about 12,000 in the early ó80s to about 7,000 in 1999, a decrease of over 40 per cent. In the USA and Canada, there has been a trend towards consolidation of commercial banks and investment or merchant banks, whereas in Europe, where the universal banking model is more prevalent, the trend has been to combine banking and insurance business. While most of the bank consolidations in the developed economies have occurred 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 (Adeyemi, 2006).

The work of Linder and Crane (1992) is also noteworthy. They analyze the operating performance of 47 bank-level intrastate mergers that took place in New England between 1982 and 1987. Of the 47 mergers in the sample, 25 were consolidations of bank subsidiaries owned by the same holding company. The authors aggregate acquirer and target data one year before the merger and compare it to performance one and two years after consolidation. The performance of merged banks is adjusted by the performance of all non-merging banks in the same state as the merging entities. The results indicate that mergers did not result in improved operating income, as measured by net interest income plus net non-interest income to assets.

Spindit and Tarhan (1993) find gain in their sample of 192 commercial bank mergers completed in 1986. Non-parametric tests comparing the performance changes of merged banks with a group of matched pairs indicate that mergers led to operating improvements. The results, however, may be due primarily to economies of scale. The existing evidence in the literature suggests that scale economies do exist for institutions holding less than $100 million in assets. Spindt and Tarhanôs result are based on a sample that is dominated by mergers involving banks of this size. Because the results maybe driven by economies of scale at small institutions, it is unclear whether their findings are relevant to large mergers-the transactions most severely transforming the banking industry.

Hannan and Wolken (1989) conduct a study of the value-weighted abnormal returns experienced in 43 deals announced between 1982 and 1987. The authors find that, on average, total shareholder value was not significantly affected by the announcement of the deal. The authors do, however, find that one determinant, target capitalization, cross-sectionally influenced expected synergistic gains Target capital was negatively related to the change in total value.

Houston and Ryngaert (1994) examine abnormal returns from four days before the target was initially declared a takeover candidate (by any bank) to the announcement day. In their sample of 153 mergers announced between 1985 and 1991, acquirers suffered a loss in value and targets enjoyed a gain. However, there was no significant aggregate effect on the overall value of the two organizations.

Madura and Wiant (1994) study abnormal returns of acquirers over a lengthy period following the merger announcement. They find that average cumulative abnormal returns of acquirers in a sample of 152 deals taking place between 1983 and 1987 were negative during the 36-month period following the merger announcement, however, are not likely to be due to the price. They seem more attributable to either the merger achieving fewer benefits than projected, or the market revising downward its expectations for the merger.

The only serious study of the European market on this issue is the recent work by Cybo Ottone and Murgia (1996). In it they analyze 26 mergers of European financial services firms (not just banks) taking place between 1988 and 1995 in 13 European banking markets. Their results are qualitatively similar to much of the analysis conducted on American banking organizations. Average abnormal returns of targets were significantly negative and those of acquirers were essentially zero. This pattern suggests that there was a transfer of wealth from acquirers to targets. Also comparable to mergers of American banks, the change in overall value of European financial firms at the time of the announcement was small and not significant. This pattern continued for at least a year. In the year following the merger, (excluding the first 10 days after the announcement), the combined value of the acquirer and target did not change significantly. The findings of Zang (1995) on U.S. data contradict those of most abnormal return studies. Among a sample of 107 mergers taking place between 1980 and 1990, the author finds that mergers led to significant increase in over all value. Although both merger partners experienced an increase in share price around the merger announcement, target shareholders benefited much more on a percentage basis than the acquiring shareholders.

2.3.2 Mergers and Acquisitions Waves

Mergers and acquisitions have often occurred in waves, with different motives behind each wave. Five M&A waves in the United States of America between 1897 and 2004 were characterized by cyclic activities, caused by a combination of economic, regulatory, and technological shocks (Gaughan, 2007; Mitchell &Mulherin, 1996; Sudarsanam, 2003). Some of todayộs business giants such as USX Corporation, Du Point Inc, General Electric, Standard Oil (ExxonMobil, Chevron and Amoco) and Eastman Kodak are result of merger and acquisition (Gaughan, 2007: 36; Sudarsanam2003: 14). A global view of competition, in which companies often find that they must be big to compete led to once-unthinkable combinations, such as the mergers of Pfizer and Pharmacia, Bank of America and FleetBoston Financial Corporation, Citibank and Travelers, Chrysler and Daimler Benz, Exxon and Mobil, Sanofi and Aventis, Boeing and McDonnell Douglas, AOL and Time Warner, and Vodafone and Mannesmann (Brealey, et al., 2006; Gaughan, 1999, 2007; Lipton, 2006; Sidel, 2003). Table 2.1 below summarizes the five major M&A waves that occurred in the United States of America.

Table 2.1 Summary of major Mergers and Acquisitions waves in the US

Wave	Underlying Factors	Characteristics
1st wave (1897 ï 1904) óMerging for Monopolyô	Technological developments Rapid Economic Expansion Corporation laws relaxed Voluntary code of ethical Behavior	Horizontal mergers Heavy manufacturing industry
2nd wave (1916-1929) óMerging for Oligopolyô	Post-World War I economic boom Technological developments Government encouraged firms to work together	Emergence of oligopolies, vertical mergers, and conglomerates (usually related) Used significant proportion of debt to finance deals
3rd wave (1963-1971) ñConglomerate Mergersò	Booming economy Rising stock prices High interest rates Tough antitrust enforcement Management science developments Financial manipulations	Primarily conglomerate mergers Some bidders smaller than targets Primarily owners financed investment banks did not play central role Executive managers with vision to create conglomerate
4th wave (1984-1990) ñThe Mega mergerò	Expanding economy Technological developments International competition Deregulation, Increased pension fund assets, Financial innovations Investment banking industry much more competitive Failure of conglomerates	Size and prominence of acquisition targets much greater than before, Foreign M&As became common, Heavy use of debt to pay for acquisitions More hostile takeovers
5th wave (1993-?) ñStrategic Restructuringò	Expanding economy, rising stock pricesTechnological developments GlobalizationReduced government regulation	Emphasized longer-term strategy rather than immediate financial gains More often financed with equity than debt Consolidation in the telecoms. and banking industries

Adapted from: Ensico& Garcia, 1996; Gaughan, 1999, 2007; Lipton, 2006;

Shleifer and Vishny, 1991; Sudarsanam, 2003.

2.3.3 An Overview of the Nigerian Banks Consolidation Exercise

On Tuesday, 6th of July 2004, the Governor of the Central Bank of Nigeria (CBN) made pronouncements on Nigerian banking sector reforms. The main objective of the reforms is to move the Nigerian economy forward and to strengthen the banking system in order to facilitate development. The first phase of the reforms is designed to ensure a diversified, strong and reliable banking sector, which will ensure the safety of depositorsô money, play active developmental roles in the Nigerian economy and become competent and competitive players both in the African and global financial systems; while the second phase will involve encouraging the emergence of regional and specialized banks (Okagbue and Aliko, 2005: 1).

The Nigerian banks consolidation exercise, mainly through bank mergers and acquisitions (M & As) in order to attain a minimum capital base of N25 billion (approx $250 million), is an aspect of the first phase of the reforms. It resulted in the compression of 89 banks, which accounted for about 93 per cent of the industryôs total deposit liabilities, into 21 new banks (Komolafe and Ujah, 2006: 1). After the exercise was concluded, attention has clearly shifted to its term effects on the Nigerian banking system (Omoh, 2006: 5).

2.3.4 Strategies for Consolidation Adopted by Nigerian Banks

A number of strategies were employed by banks in Nigeria in their bid to comply with the CBN minimum capital directive. The strategies are:

- Right issues for existing shareholders and capitalization of profits;
- Public offers through the capital market and/or private placement;
- Mergers and acquisitions and
- A combination of the above strategies.

Available statistics show that during the 18-month consolidation period, the capital market received a boost with a total of N 406 billion raised, out of which the apex bank has verified and cleared only N306 billion as at 31st December, 2005. The consolidation drive has also brought in a staggering $3 billion into the sector, $500 million of which represents Foreign Direct Investment (FDI). This is the highest inflow of FDI into the non-oil sector within one year (Adeyemi, 2006).

The need for a radical overhaul of Nigeriaôs banking system was evident with the introduction of the Prudential Guidelines in 1990 by the CBN. The sector was highly fragmented, with just about 10 of the 89 banks controlling more than 70 percent of the industryôs total assets and savings deposits (CIBN, 2008; Soludo, 2008). The then banks could not compete with their regional counterparts due to their relatively small size and thus had little, if any, tangible impact upon the economy. Following the sudden demise of five banks between 1994 and 1995 and the acquisition of 12 banks by the CBN/NDIC, it was clear that the sector needed urgent reforms to avoid systemic collapse (Augusto and Co., 1996: 7).

On 6 July 2004, the CBN Governor, Professor Charles Soludo released a revolutionary consolidation/reform timetable for the banking sector in line with the policy thrust of the NEEDS document (Ibru, 2006; NPC, 2004; Soludo, 2008), requiring banks to raise their minimum capital base from N2 billion to N25 billion, with December 31, 2005 as deadline. This increase representing about 1,150% was to amongst other things encourage the consolidation of the banking sector to produce mega-banks from the then existing 89 banks as most of them were just fringe players and financially unsound (Soludo, 2008).

Why mega-banks?

- Creation of mega banks was aimed at making Nigerian banks compete with banking institutions from other parts of the world. The creation of mega-banks was to help Nigeriaǿs banking sector become Africaǿs financial hub, facilitating intra-regional trade and investments, and join the world-class bank groups (Adesida, 2008; Moin, 2004; Ogbonna, 2007; Soludo, 2006);
- To act as catalyst to the economic development of Nigeria and the sub-region through the provision of superior services to the banking public. With a single- obligor-limit of 35% of equity, the maximum loan amount that can be granted to a single customer was N700 million (that is, 35% of N2 billion capital base), this was a far cry from what most customers actually needed. An increase of capital base to N25 billion meant an increase of single-obligor-limit to N8.75 billion, thus enabling banks to handle big-ticket transactions (Adesida, 2008; Ogbonna, 2007; Soludo, 2006; Soludo, 2008);
- Building confidence in the Nigerian banking sector so as to interact favourably with the rest of the world (Soludo, 2008; Steinberg, et al, 2008); and
- Providing good returns to investors through efficiencies and a better range and quality financial services.

At the end of 31 December 2005, 25 groups emerged from 75 banks out of the 89 licensed banks, these 25 bank groups that were able to meet the N25 billion capital base, either through organic growth by raising funds from the capital market by way of ‘public offering’ or by mergers and acquisition had their operating licenses renewed, while 14 unsuccessful banks had their operating licenses revoked (CBN, 2005: 45; CIBN, 2008). Alphabetically itemised in Table 2.2 below are the successful banks that attained the N25 billion capitalisation by December 31, 2005:

Table 2.2 List of Banks in Nigeria as at January 1, 2006.

	Bank	**Constituent member**
1	Access Bank Nigeria Plc	Access Bank, Marina Int’l Bank & Capital Bank International
2	Afribank Nigeria Plc	AfribankPlc and Afribank Int’l (Merchant Bankers)
3	Bank PHB Plc	Platinum Bank Limited and Habib Nigeria Bank Limited
4	Diamond Bank Plc	Diamond Bank , Lion Bank and African International Bank
5	EcoBank Nigeria Plc	EcoBankPlc
6	Equitorial Trust Bank Plc	Equitorial Trust Bank Ltd and Devcom Bank Ltd
7	Fidelity Bank Plc	Fidelity Bank, FSB International Bank and Manny Bank
8	First Bank of Nigeria Plc	First Bank Plc, MBC International Bank & FBN (Merchant Bankers)
9	First City Monument Bank Plc	First City Monument Bank, Coop Development Bank, Nigeria-American Bank and Midas Bank
10	First Inland Bank Plc	First Atlantic Bank, Inland Bank (Nigeria) Plc, IMB International Bank Plc and NUB International Bank Limited
11	GT Bank Plc	GT Bank Plc
12	IBTC-Chartered Bank Plc	IBTC, Chartered Bank Plc and Regent Bank Plc
13	Intercontinental Bank Plc	Intercontinental Bank Plc, Global Bank Plc, Equity Bank of Nigeria

		Limited and Gateway Bank of Nigeria Plc
14	**Nigeria International Bank Limited (Citi Group)	Nigeria International Bank limited
15	Oceanic Bank International Plc	Oceanic Bank International Plc and International Trust Bank
16	Skye Bank Plc	Prudent Bank Plc, Bond Bank Limited, Reliance Bank Limited , Cooperative Bank Plc and EIB International bank Plc
17	Spring Bank Plc	Citizens International Bank , ACB International Bank, Guardian Express Bank, Omega Bank, Trans International Bank and Fountain Trust Bank
18	**Stanbic Bank of Nigeria Ltd	Stanbic Bank of Nigeria Limited
19	**Standard Chartered Bank Ltd	Standard Chartered Bank Limited
20	Sterling Bank Plc	Trust Bank of Africa Limited, NBM Bank Limited, Magnum Trust Bank, NAL Bank Plc and Indo-Nigeria Bank
21	United Bank for Africa Plc	United Bank for Africa Plc, Standard Trust Bank Plc and Continental Trust Bank
22	Union Bank of Nigeria Plc	Union Bank of Nigeria Plc, Union Merchant Bank Limited, Broad Bank of Nigeria Limited and Universal Trust Bank Nigeria Plc
23	Unity Bank Plc	Intercity Bank Plc, First Interstate Bank Plc, Tropical Commercial Bank Plc, Centre-point Bank Plc, Bank of the North, New African Bank, SocieteBancaire, Pacific Bank and New Nigerian Bank
24	Wema Bank Plc	Wema Bank Plc and National Bank of Nigeria Limited
25	Zenith Bank Plc	Zenith Bank Plc

** Foreign owned banks

Source: CBN Annual Reports 2005: 45

2.3.5 Post Consolidation

Apart from the three foreign-owned banks that survived the consolidation/reform exercise, there is a considerable modification to the ownership structure of the banks; ownership is now widespread and better diversified. The emergent well diversified ownership structure promotes better corporate governance as banks can now be subjected to discipline from the capital market (CIBN 2008; Ekundayo, 2008). With over a US$1 billion in Tier 1 capital, some Nigerian banks can now compete favourably with their counterparts from other parts of the world (Soludo, 2008: 15).

Basic indicators in Table 2.3 below show that Nigeria banking is coming out stronger compared to what it used to be.

Table 2.3Basic Indicators of Banking Sector Consolidation Results Pre-consolidation

	Pre-consolidation 2004	**Post-consolidation 2006**	**Growth (%)**
Number of banks	89	25	(71.9)
Number of bank branches	3,382	4,500	33.1
Total assets base of banks (Nô Billion)	3,209	6,555	104.3
Capital and Reserve (Nô Billion)	327	957	192.7
Industry Capital Adequacy Ratio (%)	15.2	21.6	42.6
Ratio of non-performing credit to total (%)	19.5	9.5	(51.3)

Source: Central Bank of Nigeria, Abuja

Since December 31, 2005, a number of Nigerian banks have in their pursuit of growth resorted to raising additional capital from the capital market via public offering (Agbaje, 2008), others have been acquiring those banks that were unable to recapitalize (CIBN, 2008). Table 2.4 shows the distressed banks and the new bank that acquired them.

Table 2.4 Distressed Banks and the New Banks that acquired them

S/No	Distress Bank	New Bank that acquired them
1.	Afribank plc	Mainstreet Bank Ltd
2.	Equatorial Trust Bank	Sterling Bank Plc
3.	First Inland Bank	First City Monument Bank
4.	Intercontinental Bank Plc	Access Bank Plc
5.	Oceanic Bank Plc	Ecobank Nigeria Plc
6.	Spring Bank	Enterprise Bank Ltd
7.	Platinum-Habib Bank	Keystone Bank Ltd

Table 2.4 below, listed the current number of banks in Nigeria, which stood at 21 from the previous 24 after the merging of Stanbic Bank and IBTC Chartered Bank Plc in 2007. These developments are indications that Nigerian banks are poised for aggressive growth by mergers and acquisitions.

Table 2.5 List of exiting banks in Nigeria

S/No	Existing Banks in Nigeria
1.	Access Bank of Nigeria Plc
2.	Diamond Bank of Nigeria Plc
3.	Ecobank of Nigeria Plc
4.	Enterprise Bank of Nigeria Plc
5.	Fidelity Bank Plc
6.	First Bank Plc
7.	First City Monument Bank Plc
8.	Guaranty Trust Bank
9.	Keystone Bank Plc
10	Main Street Bank Plc
11.	Skye Bank Plc
12.	Stanbic IBTC Plc
13.	Standard Chartered Bank Plc
14.	Sterling Bank Plc
15.	United Bank for Africa Plc
16.	Union Bank of Nigeria Plc
17.	Unity Bank Plc

18.	Wema Bank Plc
19.	Zenith Bank
20.	Citi Bank
21.	Heritage Banking Company Ltd

2.3.6 Elements of the Banking Reforms

The key elements of the reforms are as follows:

- The requirements of minimum capitalization for banks to N25 billion as at Dec 2005 that is 18 months was given as a notice instead of 12 months normally in many countries.
- Only the banks that meet up with deposits participated in Duteh Auction System (DAS) by end of 2005.
- Consolidation of banking institution through mergers and acquisition.
- Adoption of a risk focused and ruled based regulatory framework. The rule of the game was announced in advanced and these were repeated.
- Arbitrariness was reduced to the barest minimum. More often, operators who run foul of the rules plead ñpoliticalò those who petition for ópolitical solutionsô to otherwise strictly economic and financial problems were made to understand the dangers that such arbitrariness could do to the system, and the wrong signals and morals hazard that it creates and there may be no end to it. The system will suffer. In the interest of preserving the integrity of the system, transparency and probity, the rules and regulatory framework was insisted upon for the interest of Nigeria and Nigerians.
- Adoption of zero tolerance in the regulatory framework, especially in this area of data/inform motion rendition/reporting. All returns by banks must be signed by the managing director of the banks the so-called reengineering or manipulation of accounts especially hiding of information under other assets/liabilities and off ï balance sheets attracted serious sanctions.
- The automation process for rendition of returns through the electronic financial Analysis and Surveillance system (E-FASS) was completed expeditiously.

- Establishment of a hotline confidential internet address (Governor@cenbank.org) for all Nigerians wishing to share any confidential information with the governor of the central Bank on the operations of any bank or the financial system. Only the Governor has access to the address.
- Strict enforcement of the contingency planning framework for systemic banking distress.
- Promotion of the enforcement of dormant laws, especially those relating to the issuance of dud cheques, and the law relating to the vicarious liabilities of the Board members of banks in cases of failings by the bank. A situation where a bank collapses due to negligence and mismanagement and the bank directors move about in their limousines while the poor depositors languish in pains is unjust and unfair. There is a law, which makes the Directors and management liable, and was enforced.
- Revision and updating of relevant laws and drafting of new ones relating to the effective operations of the banking system.
- Closer collaboration with the economic and financial crimes commission (EFCC) in the establishment of the financial intelligence unit (FIU) and the enforcement of the anti-money laundering and other economic crime measures. Greater transparency and accountability is the hallmark of the system.
- Rehabilitation and effective management of the mint to meet the security printing needs of the Nigeria, including the banking system which constitutes over 90 percent of the mint óbusinessô. In due course there was no need to print bank cheques abroad.

The central bank in collaboration with other institutions such as the Nigerian Deposit Insurance Corporation (NDIC) securities and exchange commission (SEC) Nigerian stock exchange (NSC) the fiscal authorities, National Assembly and the bankers committee worked out the structure of incentives and legal/regulatory frameworks to facilitate the rapid consolidation of the system. A technical committee was set up including international and national consultants who provided free consultancy services to banks that merged/acquired. The gnat of incentives and guidelines was worked out. Banks that merged and met the minimum capital base by March 2005 were recorded.

2.3.7. Legal Hurdles for M&A in Nigerian Banking Sector

M&A in the Nigerian banking sector is guided by the provisions of:

- Sections 99 - 123 of the Investment and Securities Act (ISA) No. 45 of 1999 and the Rules and Regulations of the Securities and Exchange Commission pursuant to the ISA;
- Banks and Other Financial Institutions Act (BOFIA) No. 25 of 1991; and
- Sections 538 and 539 of the Companies and Allied Matters Act (CAMA) 1990.

The objective of M&A regulation by the Investment and Securities Act, Banks and Other Financial Institutions Act and the Companies and Allied Matters Act is to prevent restraint of competition and monopolistic tendencies. They provide that a majority agreement is required at a court-ordered meetings before approval of the Securities and Exchange Commission is sought for: the transfer to the transferee of property and liabilities; allotting or appropriation by transferee company shares, debentures, policies or other like interest; continuation by or against the transferee company of any legal proceedings pending; and dissolution, without winding-up, of any transferee company. The Acts also have provision for dissenting shareholders (Okonkwo, 2004; Ogwu, 2004). Section 7(1) of the Banks and Other Financial Institutions Act (BOFIA) stated emphatically that banks must obtain the approval of the Governor of CBN before any merger and/or acquisition is announced and/or consummated.

2.3.8 Traditional Views of the Value of Mergers and Acquisitions

Merger and acquisition activity results in overall benefits to shareholders when the consolidated post-merger firm is more valuable than the simple sum of the two separate pre-merger firms. The primary cause of this gain in value is supposed to be the performance improvement following the merger. The research for post-merger performance gains has focused on improvements in any one of the following areas, namely efficiency improvements, increased market power, or heightened diversification.

Several types of efficiency gains may flow from merger and acquisition activity. Of these, increased cost efficiency is most commonly mentioned. Many mergers have been motivated by a belief that a significant quantity of redundant operating costs could be eliminated through the consolidation of activities. For example, Wells Fargo estimated annual cost savings of $1 billion from its 1996 acquisition of First Interstate.

Consolidation enables costs to be lowered if scale or scope economies can be achieved. Larger institutions may be more efficient if redundant facilities and personnel are eliminated within the post-merger organization. Moreover, costs may be lowered if one bank can offer several products at a lower cost than separate banks each providing individual products. Cost efficiency may also be improved through merger activity if the management of the acquiring institution is more skilled at holding down expenses for any level of activity than that of the target.

Bank merger and acquisition activity may also encourage improved revenue efficiency in a manner analogous to cost efficiency. Some recent deals, such as the proposed acquisition of Boatmen's Bancshares by NationsBank, have been motivated by potential gains in this area. According to this view, scale economies may enable larger banks to offer more products and services, and scope economies may allow providers of multiple products and services to increase the market share of targeted customer activity. Additionally, acquiring management may raise revenues by implementing superior pricing strategies, offering more lucrative product mixes, or incorporating sophisticated sales and marketing programs. Banks may also generate greater revenue by cross-selling various products of each merger partner to customers of the other partner. The result is supposed to be higher revenue without the commensurate costs, i.e., improved profit efficiency. The latter term in general refers to the ability of profits to improve from any of the sources noted above, cost economies, scope economies or marketing efficiency. In a sense, it represents the total efficiency gains from the merger without specific reference to the separately titled efficiency improvement areas.

Merger-related gains may also stem from increased market power. Deals among banks with substantial geographic overlap reduce the number of firms in markets in which both organizations compete. A related effect of in-market mergers is that the market share of the surviving organization in these markets is raised. These changes in market structure make the affected markets more vulnerable to reduced competition. The increased market power of the surviving organization may enable it to earn higher profits by raising loan rates and lowering deposit rates.

It should be noted that antitrust policies of the Federal Reserve and Department of Justice are designed to prohibit mergers with substantially anti-competitive effects. However, to the extent that a local market can be exploited by a merger which results in substantial market power, the potential gain could be substantial.

Finally, mergers may enhance value by raising the level of bank diversification. Consolidation may increase diversification by either broadening the geographic reach of an institution or increasing the breadth of the products and services offered. Moreover, the simple addition of newly acquired assets and deposits facilitates diversification by increasing the number of bank customers.

Greater diversification provides value by stabilizing returns. Lower volatility may raise shareholder wealth in several ways. First, the expected value of bankruptcy costs may be reduced.

Second, if firms face a convex tax schedule, then expected taxes paid may fall, raising expected net income. Third, earnings from lines of business where customers value bank stability may b e increased. Finally, levels of certain risky, yet profitable, activities such as lending may be increased without additional capital being necessary. Any one of these reasons for gains from mergers is sufficient, and different ones presumably are relevant in different circumstances. Not all mergers are expected to result in cost efficiencies; no does each one result in higher revenue and/or diversification gains. However, for any specific merger to create value, at least one of these gains appears to be necessary to achieve it. A casual review of the press suggests most mergers assert cost advantages, while revenue and diversification gains are less often mentioned. When firms of dissimilar franchise merge, on the other hand, revenue efficiency or diversification are often the indicated reasons. Participants in in-market mergers trumpet cost efficiencies, while others allege market power outcomes. In the U.S., the geographic expansion of the franchise of major super regionals, by contrast, often speaks of the transference of best practice in production and the stability of a large geographic distribution channel.

Whether any of these gains are obtained is another matter. Bankers, and their investment bankers can allege all sorts of benefits.

2.3.9 Critical Success Issues of Mergers and Acquisitions in the Nigerian Banking Industry

Consolidation is in some instances driven by regulation, the generic factors influencing a potential acquirer or buyer en-composes economic of scale, growth in market share, need to enter a new and more growth oriented market, and desire to invest excess capital.

On the side of the potential sellers, the influencing factors may include lack of management succession, inability to keep pace with change, particularly, technology, regulatory pressures and perceived opportunity to cash out at a higher price.

Reforms through consolidation are motivated by four key economic factors, which are:

(i.) Economic of scale

(ii.) Economic of scope

(iii.) Potential for risk diversification

(iv.) Bank management.

i) **Economic of Scale*:***

This is the relationship between the average production cost per unit of output and production volume. A firm that produces a higher volume of output can see its unit cost of production declining because the costs of some of the inputs are fixed. While researchers generally agree that economics of scale do exist in the banking industry at low levels of output, there is less agreement about whether diseconomies of scale prevails at high levels of output.

ii) **Economics of scope*:***

This is a situation where the joint costs of producing two complementary outputs are less than the combined costs of producing the two outputs separately, this may arise when the production processes of both outputs share some common inputs, including both capital (such as the actual building the bank occupies) and labour such as bank management.

iii) **The Risk Diversification*:***

Evidence has shown that geographic expansion would provide diversification benefits to a banking organisation not only by reducing its portfolio risk on the asset side, but also by lowering its funding risk on the liability side, as it spreads funding activities over a larger geographic area. (Hughes, Langmester and Moon 1999) further evidence suggests that product expansion could yield diversification benefits, most notably between banking and securities activities, while less so between banking and insurance.

iv)* Bank management, personal incentives*:

These may include the desire to run a larger firm and the desire to maximize their own personal welfare.

In order to achieve a less costly consolidation exercise, due diligence and negotiation are essential ingredients. Due diligence involves the judgement care and prudence that an entity should reasonably undertake in order to evaluate any business proposition. In mergers and acquisitions, due diligence is a critical element. It seeks to confirm the material facts and figures provided by the seller, the acquirer therefore has the opportunity to identify subtle but important background details that will impact on the eventual value placed on the business. Due diligence is therefore intended to provide an accurate assessment of the target by highlighting key issues, uncover hidden competitive threats, ensuring disclosure of adequate information to enable the potential acquirer take informed decisions and determine a fair value that is satisfactory to the parties involved.

Post-merger integration is a tortuous and complex process which involves the integration of organisations operations, customers and products and service offerings (Deloilte 2005) this requires an effective post acquisition integration plan that incorporates the processes involved in the integration. The integration process involves careful staff selection process that is fair, transparent, efficient and profitable, interfacing information technology applied by the companies, and synchronization of operational procedures and service offerings.

The critical success factor therefore, includes the ability to manage risks, ensure control and exploit growth areas in the blended organisation. Mr. M. Ajayi (2004) identifies some points for successful merger integration as follows:

a) Proper programme management: defining an integration roadmap and process to manage issues that may arise.

b) The ability to realize value: - being able to capture synergies, and meet strategy targets and establish the appropriate culture.

c) Integrating infrastructures establishing common bank office operations, procedures and processes, and rationalizing and migrating information systems to common platform.

d) Organisational preparedness: such as leadership and staffing, execution plans change management support.

2.3.10 Challenges of the Banking Reforms

The challenges can be viewed from 2 sides

1. Pre-consolidation
2. Post-consolidation

Pre – Consolidation Challenges

The challenges before the CBN in ensuring the realization of the objectives of the banking system reforms were enormous, especially as it was a pioneering effort with no previous internal experience in consolidation to draw from. Experiences of other countries could not represent and absolute fit to our peculiar problems, with our economic environment.

Some of the challenges are as follows: -

a. Lack of country experience and technical knowledge on large-scale consolidation manifesting partly in lack of experienced staffs on the subject of mergers and acquisitions on both the regulations and operators side.

b. Dominant government ownership in some banks and its implication for good corporate governance in emergent banks.

c. The possibility of inflow of laundered funds into the system and the stretched supervisory capacity as a result of the plethora of capital verification exercises arising from mass re-capitalization by banks.

d. The problem posed by delinquent assets and non-performing loans of banks which might distort the balance sheet of emergent banks if not well handled. The situation was worsened by the prevalence of falsified records/accounts that were kept by the banks.

e. Operational challenge arising from ICT systems and cultural integrations as a result of mergers and acquisition.

f. Supervision and regulation of mega banks.

g. Possible litigations on mergers and acquisitions.

h. It was inevitable that some of the mergers and acquisitions will result in redundancies of human resources especially where skills and competencies are duplicated.

Post-Consolidation Challenges

The post-consolidation mega institutions, would perhaps pose the greatest challenges in the areas of corporate governance, supervision, ICT integration etc.It is an established fact that the fastest route to improving efficiency in any industry is to foster competition among the operators.

A major challenge of bank consolidation is how to foster competition with fewer mega banks fewer cannot be more competitive. There is however, the other side of the argument, which considers the number and spread of bank branches. The fewer banks are likely to be pressured to expand further, seeking business opportunities through aggressive branching to hitherto unexplored territories.

The large capital requirement that comes with the on-going bank consolidation in Nigeria poses a challenge of generating commensurate return. If Nigerian banks want to maintain any semblance of their five-year average return on equity (about 43.92% during 1998 to 2002) a figure averaging between N11billion and N19.8billion would become the new profit targets. This might not be a big deal for the big banks that have being in operation within this threshold. But for the new big banks, it could signpost the race of death, which the Central Bank must gear up to monitor and find strategies to check.

Another major challengeis capacity building for risk management, for both the regulators and operators. It is not unlikely that contain key individual would in the consolidation process take some strategic positions that might not be acceptable to other stakeholders after the process is completed.

One other important challenge is in the gaps that exist in the legal frame work for banking in Nigeria, including the Central Bank of Nigeria Act and the banks and other financial institutions Act in the main provisions that enhance the autonomy of the apex bank and minimize restrictions on the emerging mega banks are most desirable in the post consolidation era.

There has been the argument that Small and Medium Scale Enterprises (SMES) will suffer neglect in lending by the emerging mega banks. Available evidence in the work of Jayaratne and Wolkan (1998) suggest that banks consolidation will have little effect on credit availability to small firms. Other findings by Cole and Walraven (1998) suggest that consolidation in the banking industry may have enhanced rather than restricting the availability of credit to small business.

Another challenge the bank regulatory authorities and indeed all the stakeholders of Nigerian banking is the fresh wave of fierce competition that accompanies bank consolidation and its capacity to trigger another around of unethical practices and poor corporate governance. Most big organizations, whether banks or non-banks have one time or the other violated the basic tenets of good corporate governance.

Berenson (2003) highlighted this in two ways;

1. Employ unethical strategies to beat competition, in the bid to meet profit targets. This entails strategies for getting and keeping business, as well as negative application of deep smarts in public sector dealings.
2. With all the mega banks listed on the stock exchange, performance pressures might result in income inflation.

An important challenge of bank consolidation comes under the nomenclature of financial infrastructure, dealing with the capital market, insurance sub-sector and new financial instruments. Only very few analysts would have given the Nigerian capital market any thought of the volume of fresh capital raised from it in the last one year, June 2004 to June 2005.

2.3.11 Prospect and Effect of Banking Consolidation

The consolidation of the Nigerian Banking system started after the announcement of July 6 2004 by the Governor of the Central Bank of Nigeria to the bankers committee on banking sector reforms. In order to encourage and assist banks to meet the requirements. Some incentives were promised by the Central Bank of Nigeria.

As at July 8, 2005 twenty-one (21) group involving sixty-four (64) banks had signed memoranda of understanding (MOU) while others were still holding discussions towards consolidations.

The prospect of the consolidated banks are as follows: -

a) Banks that consolidated were allowed to participate in foreign exchange market.

b) Permission to collect public sector deposits and government revenue.

c) Prospect to manage part of Nigeria foreign reverse holdings.

d) Reduction in transaction cost.

e) Provision of technical assistance by the Central Bank.

f) The initial public offerings by banks through the capital market when completed was expectedly increased to the level of financial deepening as evidenced in the upsurge in the volume and value of trading in the stock market.

g) The reforms in the banking industry has been able to attract more foreign investment inflow especially in the area of portfolio investment, this development if sustained will boost the level of economic activity especially towards non-oil sector.

h) The consolidation of banks is likely to attract a significant level of foreign banks entrance into Nigeria, which will become a feature in the industry overtime. This will bring about more confidence by the international community of the banking sector in Nigeria thereby attracting more foreign investment into the country.

i) As the level of financial intermediation increase, interest rate is likely to fall and increase lending to the real sector will generate growth.

Other Implications

The broad implication of the policy shift is to create a fundamentally strong banking sector for the benefit of Nigeria and all stake holders. The emerging big banks will be expected to have a stronger capital structure and expectedly a reduced risk profile, by eliminating duplicate costs, the new banking system would be more efficient.

Also, consolidation is expected to create regional banking with corresponding degree of efficiency to compete with international banks. This would enhance trade across West-Africa sub-region, whilst also contributing to the enhancement of Africa banking structure that should be able to contribute to economic growth and development in the continent.

However, the policy shift is likely to have some united adverse implications. In what follows, an attempt will be made to highlight some of the specific implications (both positive and otherwise).

a) Consolidation and payment system efficiency

Consolidation reduces inter-bank transactions and/or increases intra-bank transactions and hence efficiency payments system. In addition, many of the remaining bank payment may be cleared more quickly and efficient because there are fewer end points to which to send payment information or payment instruments. Thus every individual institution are not more proficient in handling cheques, credit card, debit cards, automated clearing system, wire payments etc, the payments system efficiency increases with consolidation as the number of institutions declines.

It also positively affects the payments system by improving scale efficiencies in bank office payments operations as larger processing sites may yield scale efficiencies in processing payments information/instruments.

b) Distress Resolution

Consolidation may be an efficient way of resolving problems of financial distress. Institutions that are troubled because of their own inefficiency or underperforming investments are often taken over as an efficient alternative to bankruptcy or other means of exit. In that type of situation, the ideal merger would be for the ailing financial institution to be merged with a conservatively/leveraged one that has a complementary mix of financial products, services, and target markets. In the United States, the Federal Home Loan Bank System had arranged the mergers of a number of large ñproblemò savings and loan associations into sound institutions, and the Federal Reserve System had done the same thing for banks.

c) Capital Market

Consolidation may encourage the development of capital markets, with potential benefits for financial stability. This is because consolidation through mergers and acquisitions may force the parties involved to raise funds from the capital market to consummate the transactions. Thus there would be increased activities in the capital market. By extension, there may be dilution in the ownership of banks. A widespread ownership of banks has the potential benefit of reducing the possibility of abuse by owners of banks, for instance, the owners using banks to form other activities.

d) Confidence in the banking system

Banks, although stringently regulated, are prone to runs. This is because they are known to be highly geared; confidence is therefore crucial for banks to attract and retain deposits, big banks have been observed to be less vulnerable to external shocks. It could therefore, be said that big banks enhance the confidence of the public. Since consolidation is expected to lead to the creation of large and strong banks, confidence in the nationôs banking system is likely to be enhanced and this in turn may lead to improvement in banking habits of the populace thereby enhancing the efficacy of monetary policy.

e) Effectiveness of IT Architecture

The effectiveness of IT system might be impaired, at least in the short-run. IT systems should be able to provide management information that is accurate timely and relevant to managing a bankôs risks. IT is most probably the biggest risk if not properly, planned and managed. In the long-run however, consolidation is expected to lead to the deployment of highly sophisticated IT systems that would be of immense advantage to the industry in particular and the economy in general.

f) Financial Safety Net

Given the importance of banks to the economy their inherent fragility and the devastating and painful consequences of banks failure, most governments put in place safety nets. Financial safety nets are made up of effective supervision, lender-of-last-resort role and deposit insurance.

g) Regulation and Supervision

Consolidation will not only lead to large banks but it may also lead to the merger of banks involved in both securities and money market activities.

The development will necessarily entail reviewing the prevailing regulatory/supervisory approaches/processes in particular, strong prudential regulation, risk-based and consolidated supervisory approaches, strong accounting and disclosure regimes and effective self-regulation may be unavoidable.

h) Strong Prudential Regulation

In order to ensure safe and sound banking practices in a consolidated banking environment, there is the need for effective frameworks for strong prudential regulation, supervision and laws covering the establishment of new banks, the implementation of minimum capital requirements, the qualifications of directors and managers, sound business activities, fit and proper test for controlling shareholders, standards for risk management, strong internal control and external audits. Supervisory discipline can be exercised by ensuring that banks are monitored for safety and soundness as well as compliance issues and that corrective actions are taken promptly when problems surface including the closure of banks when necessary.

i) Risk-Based Supervision

With consolidation, there is the need to adopt a robust, proactive and sophisticated supervisory process, which should essentially be based on risk profiling of emerging big banks. In other words, the adoption of an appropriate risk-based supervisory approach is imperative with consolidation. The approach entails the design of a customized supervisory programme for each bank and it should focus more attention on banks that are considered to have potentially high systemic impact.

j) Consolidation Supervision

Consolidation has no doubt made it imperative for consolidated supervision that requires consultation and corporation amongst the various regulatory/supervisory institutions in the system. It is equally imperative that the present reporting format of banks be reviewed so as to incorporate all possible activities that banks undertake under the present dispensation. This will make it possible for supervisors to obtain a global view of the banks operations. The current efforts of the CBN/NDIC in the development of an electronic financial analysis surveillance system (e-FASS) and the activities of the Financial Services Regulation Coordinating Committee (FSRCC) would go a long way to assist in this regard.

k) Responsive Corporate Governance

Responsive corporate governance is always an aspect that is closely monitored by the regulatory authority in order to ensure the transparency and accountability of management of banking institutions and the curtailment of the then risk appetite. Consideration should always be given to the possibility that corporate governance, in particular internal control systems, will be less effective during a merger, since the persons responsible for governance and control will be focusing on strategic issues relating to the merger. Regulatory/supervisory authorities must therefore continue to encourage the enthronement of responsive corporate governance structure for effective risk management both during and after consolidation by banks.

l) Range of Product Lines Available to Consumers

Banking consolidation should potentially be in the public interest, particularly in the area of service delivery as consolidation is expected to add some depth to the local banking sector and make a worthwhile contribution to banking services and the banking industry in a particular country. A frequent factor motivating mergers According to Mr. Afolabi of CBN research dept. is the possibility of scope efficiencies, the pursuit of these efficiencies often results in the product lines of two entities being rationalized, with consequent cost benefits, since a single delivery system is used to sell a ñbetterò (bigger) range of products. They often increase the options that consumers have and enhances the utility of these options.

He further says that it will improve economics of scale fairly likely after consolidation. Larger transaction volume and larger asset positions through a rationalized delivery system, means that unit costs can be reduced, when such cost reductions are passed on to the consumers, this may be regarded as a public interest benefit.

m) Staff Rationalization

In a service industry such as banking, motivation of staff is a key factor in ensuring that efficiency is maintained when banks consolidate, there is the tendency that jobs might be lost as part of the repositioning strategies the new management may want to undertake. Apart from the adverse impact on employment level, the development could also impact negatively on the morale of the remaining workforce.

The adverse effects on employment is, however, expected to wane with time as a stronger banking sector would inevitably recruit more staff when the respective banks grow and open new branches. In addition, the induced employment generation from the real sector of the economy might more than compensate for job loss, net of attrition, during consolidation.

2.3.12 Some Prior Study

Some of the studies that were carried out in the past that are in relation to the concept under study will be reviewed in this section.

Berger and Humphrey (1992), for example, examine mergers occurring in the 1980s that involved banking organizations with at least $1 billion in assets.The results of their paper are based on data aggregated to the holding company level, using frontiermethodology and the relative industry rankings of banks participating in mergers. Frontiermethodology involves econometrically estimating an efficient cost frontier for a cross-section ofbanks. For a given institution, the deviation between its actual costs and the minimum cost point onthe frontier corresponding to an institution similar to the bank in question measures X-efficiency. Theauthors find that, on average, mergers led to no significant gains in X-efficiency.

Berger andHumphrey also conclude that the amount of market overlap and the difference between acquirer andtarget X-efficiency did not affect post-merger efficiency gains. In addition to testing X-efficiency,they also analyze return on assets and total costs to assets and reach a similar conclusion: no averagegains and no relation between gains and the relative performance of acquirers and targets.Non-interest costs yield significant results, but the findings are opposite of expectations that theoperations of an inefficient target purchased by an efficient acquirer should be improved.

Akhavein, Berger, and Humphrey (1997) analyze changes in profitability experienced in the same setof large mergers as examined by Berger and Humphrey. They find that banking organization significantly improved their profit efficiency ranking after mergers. However, rankings based on moretraditional ROA and ROE measure s that exclude loan loss provisions and taxes from net income didnot change significantly following consolidation.

DeYoung (1993) also utilizes frontier methodology to examine cost efficiency and reachessimilar conclusions as Berger and Humphrey. Cost benefits from mergers did not exist for 34 8bank-level mergers taking place in 1986 and 1987. In addition t o the lack of average efficiency gains,improvements were unrelated to the difference between acquirer and target efficiency. However,DeYoung does find that when both the acquirer and target were poor performers, mergers resultedin improved cost efficiency.

In addition to frontier methodology, the literature contains several papers that solelyemploy standard corporate finance measures to analyze the effect of mergers on performance. Forexample, Srinivasan and Wall (1992) examine all commercial bank and bank holding companymergers occurring between 1982 and 1986. They find that mergers did not reduce non-interestexpenses. Srinivasan (1992) reaches a similar conclusion.

Both of these studies focus solely on non-interest expenses resulting in an incomplete picture ofthe cost savings associated with mergers. In order to gain a complete view of bank costs, the totalof interest and non-interest expenses must be examined. Various funding and investment strategieshave different impacts on the two cost components. For example, an increase in purchased fundsraises interest costs, but lowers non-interest costs.

Toward this end, Rhoades (1993) conducts a thorough examination of in-market mergers taking place between 1981 and 1986. Here gresses the change in several performance measures on controlvariables and a dummy variable differentiating bank that engaged in an in-market merger from thosethat did not. Rhoades also conducts several login analyses where the dependent variables measurewhether the efficiency quartile of a bank increased, decreased, or remained unchanged. In both setsof tests, cost reductions and efficiency gains were not significantly related to horizontal mergers.

The 1993 study is the most recent of a number of studies on the subject by this author. In anearlier study, Rhoades (1987) examines the impact of mergers on the ratios of net income beforeextraordinary items to assets and non-interest expenses to assets. He runs probit analyses in whicha dummy variable distinguishing non-acquired banks from banks acquired by multibank holdingcompanies is the dependent variable. Performance measures and several control variables serve asthe independent variables. Rhoades finds that neither income nor non-interest expenses were affectedby merger activity. In Rhoades (1990), a similar study to Rhoades (1993) is conducted with acquisitions involving billion dollar banks. Consistent with his other work, Rhoades finds noperformance effect due to mergers.

The work of Linder and Crane (1992) is also noteworthy. They analyze the operatingperformance of 47 bank-level intrastate mergers that took place in New England between 1982 and1987. Of the 47 mergers in the sample, 25 were consolidations of bank subsidiaries owned by thesame holding company. The authors aggregate acquirer and target data one year before the mergerand compare it to performance one and two years after consolidation. The performance of mergedbanks is adjusted by the performance of all non-merging banks in the same state as the merging entities. The results indicate that mergers did not result in improved operating income, as measuredby net interest income plus net non-interest income to assets.

Several studies find evidence of merger gains, but the results of these studies must be scrutinizedcarefully. Spindt and Tarhan (1993) find gains in their sample of 192 commercial bank merger scompleted in 1986. Non-parametric tests comparing the performance changes of merged banks witha group of matched pairs indicate that mergers led to operating improvements. The results, however,may be due primarily to economies of scale. The existing evidence in the literature suggests that scaleeconomies do exist for institutions holding less than $100 million in assets.Spindt and Tarhan'sresults are based on a sample that is dominated by mergers involving banks of this size. Because theresults may be driven by economies of scale at small institutions, it is unclear whether their findingsare relevant to large mergers--the transactions most severely transforming the banking industry.

Chamberlain (1992) demonstrates the importance that sample selection can have in influencingthe results of a merger study. Her sample consists of 180 bank subsidiaries that were acquired bybank holding companies between 1981 and 1987. The unit of analysis is the individual target bankthat experienced a change in ownership, but was not consolidated into another bank. For eachmerger, matched pair analysis is conducted. Pre-merger and post-merger performance of the acquiredbank are compared to those of a non-acquired bank from the same area and of similar size andleverage. While Chamberlain finds evidence of overall gains when Texas mergers are omitted fromthe sample, the full sample yields no evidence of gains.

Turning to studies of stock market reactions to merger announcements, researchers also generallyfail to find total gains from consolidation. Most abnormal return studies typically analyze target andacquirer returns separately. However, in order to measure the overall anticipated gains resulting froma merger, the value-weighted average of bidder and target abnormal returns must be analyzed. Mostresearch on abnormal returns does not do this.

Hannan and Wolken (1989) conduct a study of the value-weighted abnormal returns experiencedin 43 deals announced between 1982 and 1987. The authors find that, on average, total shareholdervalue was not significantly affected by the announcement of the deal. The authors do, however, findthat one determinant, target capitalization, cross-sectionally influenced expected synergistic gains.Target capital was negatively related to the change in total value.

Houston and Ryngaert (1994) examine abnormal returns from four days before the target wasinitially declared a takeover candidate (by any bank) to the announcement day. In their sample of 153mergers announced between 1985 and 1991, acquirers suffered a loss in value and targets enjoyeda gain. However, there was no significant aggregate effect on the overall value of the twoorganizations. The amount of value that was created was highest when acquirers were strongpre-merger performers and when substantial overlap existed. This relationship of value creation withthe degree of overlap is consistent with the market expecting mergers best suited for improvedefficiency and/or increased market power to experience the greatest level of post-merger benefits.

Madura and Wiant (1994) study abnormal returns of acquirers over a lengthy period followingthe merger announcement. They find that average cumulative abnormal returns of acquirers in asample of 152 deals taking place between 1983 and 1987 were negative during the 36-month periodfollowing the merger announcement. Moreover, abnormal returns were negative in nearly everymonth. Acquirer losses around the time of the announcement may reflect a loss of wealth from anoverly generous acquisition price. Negative abnormal returns in months after the announcement,however, are not likely to be due to the price. They seem more attributable to either the mergerachieving fewer benefits than projected, or the market revising downward its expectations for themerger.

The only serious study of the European market on this issue is the recent work by Cybo-Ottoneand Murgia (1996). In it they analyze 26 mergers of European financial services firms (not justbanks) taking place between 1988 and 1995 in 13 European banking markets. Their results arequalitatively similar to much of the analysis conducted on American banking organizations. Averageabnormal returns of targets were significantly negative and those of acquirers were essentially zero.This pattern suggests that there was a transfer of wealth from acquirers to targets. Also comparableto mergers of American banks, the change in overall value of European financial firms at the time ofthe announcement was small and not significant. This pattern continued for at least a year. In the year following the merger, (excluding the first 10 days after the announcement), the combined valueof the acquirer and target did not change significantly.

The findings of Zhang (1995) on U.S. data contradict those of most abnormal return studies.Among a sample of 107 mergers taking place between 1980 and 1990, the author finds that mergersled to a significant increase in overall value. Although both merger partners experienced an increasein share price around the merger announcement, target shareholders benefitted much more on apercentage basis than the acquiring shareholders. Cross-sectional results suggest that increases invalue were smallest when improved efficiency and increased market power were expected to havetheir greatest potential impact. Changes in value decreased as targets got larger relative to acquirersand as the amount of geographic overlap between acquirers and targets increased. The latter findingis consistent with diversification creating value.

Recently, several papers incorporate both approaches in the literature. The first of these studiesis conducted by Cornett and Tehranian (1992) and examines 30 large holding company merger soccurring between 1982 and 1987. The authors find that profitability, as measured by cash flowreturns on the market value of assets, improved significantly after the merger. This finding, however,must be viewed closely for several reasons. First, the market value of assets may be an inappropriatemeasure for standardizing income. It is defined primarily from the liability side of the balance sheetas the market value of common stock pl us the book value of long-term debt and preferred stock lesscash. Given the nature of banks as financial intermediaries, it is unclear why deposits are not includedin this liability-based definition. The appropriateness of subtracting cash holdings is also debatable.

Cornett and Tehranian find that net income to assets, a more traditional measure of bank profitability,does not change by a significant amount.

In addition, the findings of Cornett and Tehranian may also be partially driven by adjustingperformance by an improper benchmark. The authors use, as their peer group, a sample of bank slocated throughout the country that were traded on either the NYSE or

AMEX and that did no tmerge during the sample period. This comparison set of banking organizations may not be relevantto the sample institutions which had significantly different regional characteristics. This problem isaccentuated by a set of sample observations which has a number of questionable deals. As a result,Cornett and Tehranian's findings of post-merger improvements relative to a benchmark may be dueto the unique data used for the study.

Cornett and Tehranian also examine value-weighted abnormal returns around the time of themerger announcement. They find that the market responded to announced deals by raising thecombined value of the merger partners. The authors also find that changes in several performancemeasures, including cash flow returns on the market value of assets, were positively correlatedwith value-weighted abnormal returns. These relationships suggest that the market may have beenable to accurately forecast the eventual benefits of individual mergers. Net income to total assets isnot one of the variables that was correlated to value-weighted abnormal returns, however.Pilloff (1996), like Cornett and Tehranian, combines both approaches found in the literature toanalyze a sample of 48 mergers of publicly traded banking organizations that merged between 1982and 1991. His study improves upon Cornett and Tehranian by addressing many of the problems inthat paper. First, results are based on traditional measures of performance that are appropriate fora study of banking organizations. Second, the performance of merging banks is compared to a moreaccurate benchmark that controls for geographic location. Third, and perhaps most importantly, themerger sample is larger with substantially fewer observations that are poorly suited for analysis.Pilloff obtains results that are consistent with the bulk of the merger literature. In general,mergers were not associated with any significant change in performance, suggesting that managerswere unable to generate benefits from deals on average. Moreover, the mean overall change inshareholder value was also quite small.

Although there was no average change in either operating performance or shareholder value, therewas a great deal of variation among banks. Some mergers proceeded successfully and others resultedin failure. Likewise, the dispersion of changes in market values indicates that investors expectedsome mergers to increase and others to decrease firm value. A particularly important result of thispaper is that merger-related changes in performance were found to be unrelated to changes in marketvalue at the time of merger announcement. Investors recognized that although the mergers wouldnot create benefits on average, some would result in better performance and some would lead toworse performance. However, the market was unable to distinguish between the two types of dealsat the time the mergers were initially announced.

In summary, most studies fail to find a positive relationship between merger activity and gains ineither performance or stockholder wealth. This conclusion of no economic benefits holds across awide variety of methodologies, samples, and levels of analysis, (individual bank or bank holdingcompany). Moreover, there appears to be no relationship between changes in value at announcementand subsequent outcomes. Although Cornett and Tehranian find the existence a relationship, Pilloffprovides stronger evidence for nonexistence.

2.4. Summary

From the preceding discourse on M&A, the simple major reason why firms opt for growth and the expansion of their operations is because growth affects business and the general public opinion as it stands for stability, safety and profitability.

Strategy is the engine that drives the expansion and consolidation of business. Businesses can grow organically by internal investments or externally by acquiring other businesses. The choice of merger and acquisition may raise the question of whether it results in superior financial performance in the Nigerian banking sector. This depends on the planned growth rate and on available internal and external resources to achieve that goal.

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CHAPTER THREE
RESEARCH METHODOLOGY

3.1. Research Design

Research Design is a kind of blue print that guides the researcher in his or her investigation and analysis (Onwumere 2005). The research design adopted for this research is the *ex post facto* since it relies on historical data. Ex post facto design is a non experimental research technique in which pre-existing groups are compared on some dependent variables; it is a type of study that can masquerade as a genuine experiment.

This study is designed to use econometrics models in the analysis and is also designed to be both a time serial and cross-sectional study. In view of this and in line with previous studies, this study adopts panel data analysis. Panel data analysis is the most efficient tool to use when the sample is a mixture of time series and cross-sectional data and the structure takes into account the unobservable and constant heterogeneity (Andres and Vallelado, 2008). Hsiao (2003), Klevmarken (1989) and Moulton (1986 and 1987) highlight some merits in the use of panel data as follows: The use of panel data controls for individual heterogeneity. The underlying principle of panel data is the assumption that firms, states or countries are heterogeneous. In time series and cross section analysis, this heterogeneity is not taken care of and this poses a threat because of the risk of obtaining biased results; unlike time series studies which is plagued with multi-collinearity issues, panel data gives more informative data, more variability, less collinearity among the variables, more degrees of freedom and more efficiency; Panel data has the ability to study the dynamics of adjustment because cross-sectional distribution that looks relatively stable conceals a lot of changes. It is again able to measure effects that are difficult to detect in pure cross-sectional or time-series data.

3.2. Nature and Sources of Data

The data for this research is from secondary sources, in line with the works of Andres and Vallelado, (2008).The data were handpicked from the annual reports and statements of accounts of banks quoted on the Nigerian Stock Exchange and Fact books of the Nigerian Stock Exchange since they are believed to constitute the most authoritative and accessible documents for our research.These sources are ideal in answering our research questions and to empirically test our research hypothesis. Such annual reports and financial statement of accounts of the various banks are sourced from the banksô corporate headquarters, the Central Bank of Nigeria (CBN), the Nigerian Stock Exchange (NSE), the Securities and Exchange Commission (SEC) and other relevant bodies.The data needed based on the nature of this research is from 1998 to 2012.

Relevant data for this study is extracted from the annual reports and statements of accounts of banks quoted on the Nigerian Stock Exchange and Fact books of the Nigerian Stock Exchange since they are believed to constitute the most authoritative and accessible documents for our research. Companies in Nigeria are required by law to keep proper books of account and the production of an account that gives a true and fair view of the affairs of the company. The Companies and Allied Matters Act of 1990 requires companies to make provisions, in forms, contents and with regards to keeping accounting records which includes: the balance sheet; the profit and loss account; and also the documents to be attached, e.g. the name of the directors, Directorsô Report and the Auditorsô Report, and the publication of accounts (Ujunwa, 2010). This provision is aimed at improving the reliability of the accounting records.

3.3 Population and Sample Size

A population comprises of all elements, subjects and perhaps observations in relation to a particular phenomenon, while a sample is a group of variables or items derived from a relevant population for the purpose of examination or analysis (Onwumere, 2005). In consonance with the above definition, the population for this study comprise of all the 21 commercial banks in Nigeria, while the sample for this study consist of 10 commercial banks in Nigeria that are quoted on the Nigerian stock exchange covering a 15-year period, 1998 ï 2012. The choice for the sample size is influenced by data availability.

3.4 Model Specification

Analytically, the generalized regression model is adopted from the works ofEfe Jimmy (2008) and Yener Altunbas & David Marques (2004). The model for this study is as follows;

Hypothesis One;

Hypothesis one states that mergers and acquisitions does not have any significant positive effect on the liquidity profile of the affected banks, the relevant model is represented as:

$LR = f\,(she)$ ……………………………………………………….(i)

Model (i) can be further specified as;

$LR_{jt} = \beta_0 + \beta_1 SHE_{jt} + \varepsilon_{jt}$ ……………………………………….(ii)

Where;

LR_{jt}= Liquidity ratio for firm j at time t

SHE = Shareholders equity for firm j at time t

ε_{jt} =error component that varies over both individual firms and time.

β_0, β_1=parameters to be estimated,

j = 1,2,é ..10 and t =1998-2012.

Hypothesis Two;

Hypothesis two states that mergers and acquisitions does not have any significant positive effect on the return on equity of the effected banks, the relevant model is represented as:

$ROE = f\,(she)$…………………………………………………… (iii)

Model (iii) can be further specified as;

$ROE_{jt} = \beta_0 + \beta_1 SHE_{jt} + \varepsilon_{jt}$ ………………………………………(iv)

Where;

ROE_{jt}= Return on Equity for firm j at time t

SHE = Shareholders equity for firm j at time t

ε_{jt} =error component that varies over both individual firmsand time.

β_0, β_1 = parameters to be estimated,

j = 1,2,é ..10 and t =1998-2012.

Hypothesis Three;

Hypothesis three states that mergers and acquisitionsdoes not have any significant positive effect on the debt-equity ratio of the affected banks, the relevant model is represented as:

$DER = f\,(she)$ ……………………………………………………….(v)

Model (v) can be further specified as;

$DER_{jt} = \beta_0 + \beta_1 SHE_{jt} + \varepsilon_{jt}$ …………………………………………(vi)

Where ;

DER_{jt}=Debt/Equity Ratiofor firm j at time t

SHE = Shareholders equity for firm j at time t

ε_{jt} =error component that varies over both individual firmsand time.

β_0, β_1 = parameters to be estimated,

j = 1,2,… ..10 and t =1998-2012.

Hypothesis Four;

Hypothesis four states that mergers and acquisition does not have any significant positive effect on the earning per share of the affected banks, the relevant model is represented as:

$EPS = f\,(she)$ ………………………………………………………… *(vii)*

Model (vii) can be further specified as;

$EPS_{jt} = \beta_0 + \beta_1 SHE_{jt} + \varepsilon_{jt}$ ……………………………………………*(viii)*

Where;

EPS_{jt}= Earnings per share for firm j at time t

SHE = Shareholders equity for firm j at time t

ε_{jt} =error component that varies over both individual firms and time.

β_0, β_1 = parameters to be estimated,

j = 1,2,… ..10 and t =1998-2012.

3.5 Description of Research Variables

This research involves an empirical analysis of the dependent and independent variables. Further insight on the relevance of each of the variables is presented in the following sub-sessions.

3.5.1 Independent Variables

The independent variable in this study is mergers and acquisitions which are represented by shareholders equity.

3.5.1.1 Shareholders Equity

Shareholders’ equity represents the amount by which a company is financed through common and preferred shares. Shareholders’ equity is often referred to as the book value of the company, and it comes from two main sources. The first and original source is the money that was originally invested in the company. Along with any additional investments made thereafter. The second comes from retained earnings which the company is able to accumulate over time through its operations.

The shareholdersô equity is chosen as the appropriate representation for mergers and acquisitions because it gives an estimate of the accumulation of investment returns in the bank.

Shareholdersô Equity = Total Assets ï Total Liabilities

3.5.2 Dependent variables

Liquidity ratio, return on equity, debt/equity ratio and earnings per share has been chosen as the appropriate measure of the performance of Nigerian banks because it gives an estimate of the movements of finance in the bank.

3.5.2.1 Liquidity Ratio

The Liquidity Ratios has been chosen as the appropriate measure of mergers and acquisitions because it attempts to measure a companyös capability to meet its short-term debt obligations. This is done by comparing most liquid assets to short-term liabilities.

This study used current ratio with the formula:

Current ratio = Current Assets/Current liabilities

3.5.2.2 Return on Equity

Return on equity (ROE) ratio indicates how profitable a company is by comparing its net income to its average shareholders' equity (Mishkin, 2006: 232). The ratio measures how much the shareholders earned for their investment in the company. The higher the ratio percentage, the more efficient management is in utilizing its equity base and the better return is to shareholders.

ROE = Net profit after taxes/Average shareholdersô equity

3.5.2.3 Debt/Equity Ratio

This is a financial ratio indicting the relative proportion of shareholders equity and debt used to finance a companyös assets.

DER = Total Debt/ Shareholders funds (equity)

3.5.2.4 Earning Per Share

This is part of a company's profit apportioned to each outstanding ordinary share. EPS is used by investors as a profitability variable in determining share price.

EPS = (Net Income ï Dividends on preferred stocks)/Average outstanding ordinary shares

3.6 Techniques of Data Analysis

The estimation technique of panel data for this study is as follows;

Stationarity Test

Stationary is defined as a quality of a process in which the statistical parameters (mean and standard deviation) of the process do not change with time. The most important property of a stationary process is that the auto-correlation function (acf) depends on lag alone and does not change with the time at which the function was calculated. Stationary is used as a tool in time series analysis, where the raw data is often transformed to become stationary. The stationarity or otherwise of a series can strongly influence its behavior and properties, it can lead to spurious regressions. if the variables in the regression model are not stationary, then it can be proved that the standard assumption for asymptotic analysis will not be valid. In other words, the usualót-ratioô will not follow a t-distribution, so we cannot validly undertake hypothesis tests about the regression parameters.

Unit Root Test

In statistic, a unit root test tests whether a time series variable is non stationary using autoregressive model. A well known test that is valid in large samples is the Augmented Dickey-Fuller test. The importance of testing for the existence of unit roots is now generally accepted following the study of Granger and Newbold (1974) that regression analysis between two non stationary series could lead to a spurious result. This means that one could observe a good fit from regression results whereas the series are almost independent. Therefore it is necessary to test for the stationarity or the presence of a unit root before any regression analysis is conducted. It has been observed that many time series variables are stationary after first or second differencing. The idea of differencing may sometime imply eliminating seasonal influences on the variable but it eliminates very valuable information in the long-run which may be peculiar to the characteristics of the variable. Therefore the need to integrate short-run dynamics with long-run equilibrium gave rise to the Co-integration technique by Granger (1981), Engle and Granger (1987) and Mills (1990).

Granger Causality Test

Granger causality test is a statistical hypothesis test for determining whether one time series is useful in forecasting another. Granger causality is a statistical concept of causality that is based on prediction. According to granger causality, if a signal x_1 ógranger-causesô a signal x_2, then past values of x_1 should contain information that helps predict x_2 above and beyond the information contained in past values of x_2 alone. Its mathematical formulation is based on linear regression modeling of stochastic processes (Granger 1969). Before conducting this granger causality test we have to first make sure that our variables are stationary.

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CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

This chapter presents and tests the hypotheses stated in chapter one, using the techniques of analysis describe in chapter three, which is ordinary least square regression analysis.

4.1. Presentation of Data

Table 4.1 shows the value of the model proxies which will be used to calculate the ratios that we shall use in our analysis. From the table, we can see the values of current asset, total debt, net profit after tax, earning per share and shareholdersô equity which is used as the proxy for mergers and acquisitions in this work. These values are handpicked from the annual report of the sampled bank year by year for the period of 15years from 1998 to 2012.

4.2 Computation of the Ratio Values

Table 4.2 shows the values of the model proxies calculated using the formula; Liquidity Ratio = Current Asset/Current Liability

Return on Equity = Net Profit after Tax/Average Shareholdersô Equity

Debt Equity Ratio = Total Debt/Shareholders Equity

Earnings Per Share = (Net Income ï Dividends on preferred stocks)/Average outstanding ordinary shares

These values are obtained using the formula stated above on the values of model proxies shown on table 4.1.

The values in table 4.2 are to be used in conducting our stationarity test ratio.

(see appendix for all tables and figures)

4.3 Stationarity Test

For any econometric analysis the most important aspect we need to check is whether the data is stationary or not. If the data is not stationary then the results we will get will be absurd. We do this stationarity test by importing our data into e-views and check for unit root test using the Augmented Dickey-Fuller test level. The result of the stationarity test are presented in figures 1-5.

In figures 1 - 5, the graphical test of stationarity for panel data series (shareholders equity, liquidity ratio, return on investment, debt equity ratio and earnings per share) shows that the series is non-stationary since it is increased upward or decreased downward as time changes. The time series data is characterized by seasonality and trend as well as exhibits a type of non-stationarity called random walk with drift. The stationarity or otherwise of a series can strongly influence its behavior and properties, hence yielding Spurious regressions. Since these variables are trending over time, a regression of one on the other could have a high R^2 even if the two are totally unrelated. To avoid this, the series must be transformed into a stationary data so we can validly undertake hypothesis tests about the regression parameters.

Table 4.3: Augmented Dickey-Fuller Unit Root Test (after detrending and differencing)

Share holders equity				
	ADF Test Statistic	-13.35905	1% Critical Value*	-4.0288
			5% Critical Value	-3.4437
			10% Critical Value	-3.1464
	Durbin Watson			1.701308
Liquidity ratio				
	ADF Test Statistic	-13.09176	1% Critical Value*	-5.1288
			5% Critical Value	-4.2437
			10% Critical Value	-3.1444
	Durbin Watson			1.983132
Return on equity				
	ADF Test Statistic	-10.03807	1% Critical Value*	-3.0118
			5% Critical Value	-3.4674
			10% Critical Value	-3.3164
	Durbin Watson			1.633950
Debt-equity ratio				

	ADF Test Statistic	-5.167382	1% Critical Value*	-4.4415
			5% Critical Value	-3.6330
			10% Critical Value	-3.2535
	Durbin Watson			1.826268
Earnings per share				
	ADF Test Statistic	-31.28125	1% Critical Value*	-4.0320
			5% Critical Value	-3.4452
			10% Critical Value	-3.1473
	Durbin Watson			1.956941

Table 4.3 shows results of tests for stationarity and autocorrelation after transformation of the panel time series data. After 1st differencing and detrendingof the time series data, the series became stationary. The results in table 1 shows that the computed ADF test-statistics for all the variables are smaller than the critical values at 1%, 5% and 10% significant levels and the Durbin-Watson statistics are very close to 2 which means no autocorrelation problems in the time series data; thus we can now reject the Ho that the time series data is non stationary.

Table 4.4 Shows new data set after Differencing and Detrending, which we shall use for testing of our hypothesis.

4.4 Test of Hypothesis

4.4.1 Test of Hypothesis One

We re-state hypothesis one as follows:

H_o: Mergers and acquisitions does not have any significant positive effect on the liquidity profile of the affected banks.

H_a: Mergers and acquisitions have significant positive effect on the liquidity profile of the affected banks

Decision rules

Decision Rule 1: Accept null hypothesis if P-value is greater than 0.05 and reject null hypothesis is P-value is less than 0.05

Decision Rule 2: Accept alternative hypothesis if P-value is less than 0.05 and reject alternative hypothesis if P-value is greater than 0.05

Analysis of results

Table 4.4.1 Ordinary Least Square result for hypothesis one

Dependent Variable: D(LR(-1))				
Method: Panel Least Squares				
Date: 07/23/14 Time: 00:28				
Sample(adjusted): 5 150				
Total Panel (balanced) observations: 137				
Excluded observations: 9 after adjusting endpoints				
White Heteroskedasticity-Consistent Standard Errors & Covariance				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.010916	0.012295	0.887796	0.3762
D(SHE(-1))	0.064710	2.42E-10	2.669746	0.0085
R-squared	0.080386	Mean dependent var		-0.012688
Adjusted R-squared	0.073575	S.D. dependent var		0.150312
S.E. of regression	0.144676	Akaike info criterion		-1.014144
Sum squared resid	2.825718	Schwarz criterion		-0.971517
Log likelihood	71.46890	F-statistic		11.80080
Durbin-Watson stat	1.880911	Prob(F-statistic)		0.000787

Source: The Researcherôs E-views result

Decision rule:

Following estimation of the model, the results as shown in table 4.4.1were generated. The result reveals that mergers and acquisitions have a positive and significant effect on the liquidity profile of the affected banks (beta coefficient = 0.065, t = 2.670, $p < 0.05$). Hence, we reject the null hypothesis and accept the alternate hypothesis that mergers and acquisition have a positive and significant effect on the liquidity profile of the affected banks. The Coefficient of Determination (R^2 =0.080) indicates that little variation in liquidity ratio is explained by the model. The Durbin-Watson statistic is very close to 2 which mean no autocorrelation problems. Hence the model:

Liquidity Ratio = 0.0109 + 0.0647SHE

4.4.2 Test of Hypothesis Two

We re-state of hypothesis one as follows:

H_o: Mergers and acquisitions does not have any significant positive effect on the return on equity of the affected banks.

H_a: Mergers and acquisitions have significant positive effect on the return on equity of the affected banks

Decision rules

Decision Rule 1: Accept null hypothesis if P-value is greater than 0.05 and reject null hypothesis is P-value is less than 0.05

Decision Rule 2: Accept alternative hypothesis if P-value is less than 0.05 and reject alternative hypothesis if P-value is greater than 0.05

Analysis of results

Table 4.4.2 Ordinary Least Square result for hypothesis two

Dependent Variable: D(ROE(-1))					
Method: Panel Least Squares					
Date: 07/23/14 Time: 00:32					
Sample(adjusted): 5 150					
Total Panel (balanced) observations: 137					
Excluded observations: 9 after adjusting endpoints					
White Heteroskedasticity-Consistent Standard Errors & Covariance					
Variable	Coefficient	Std. Error	t-Statistic	Prob.	
C	-0.033603	0.039708	-0.846250	0.3989	

D(SHE(-1))	4.30E-11	4.17E-10	2.103011	0.0081	
R-squared	0.380000	Mean dependent var		-0.033485	
Adjusted R-squared	-0.300069	S.D. dependent var		0.459109	
S.E. of regression	0.460797	Akaike info criterion		1.302773	
Sum squared resid	28.66508	Schwarz criterion		1.345400	
Log likelihood	-87.23995	F-statistic		0.005129	
Durbin-Watson stat	1.788093	Prob(F-statistic)		0.943010	

Source: The Researcherôs E-views result

Decision rule:

Following estimation of the model, the results as shown in table 4.4.2 were generated. The result reveals that mergers and acquisitions have a positive and significant effect on the return on equity of the affected banks (beta coefficient = 4.39, t = 2.103, $p < 0.05$). Hence, we reject the null hypothesis and accept the alternate hypothesis that mergers and acquisitions have a positive and significant effect on the return on equity of the affected banks.The Coefficient of Determination (R^2 =0.380) indicates that less than half the variation in Return on equity is explained by the model. The Durbin-Watson statistic is very close to 2 which mean no autocorrelation problems. Hence the model:

Return on equity = -0.033603 + 4.30E-11SHE

4.4.3 Test of Hypothesis Three

We re-state of hypothesis one as follows:

H_o: Mergers and acquisitions does not have any significant positive effect on the debt equity ratio of the affected banks.

H_a: Mergers and acquisitions have significant positive effect on the debt equity ratio of the affected banks

Decision rules

Decision Rule 1: Accept null hypothesis if P-value is greater than 0.05 and reject null hypothesis is P-value is less than 0.05

Decision Rule 2: Accept alternative hypothesis if P-value is less than 0.05 and reject alternative hypothesis if P-value is greater than 0.05

Analysis of results

Table 4.4.3 Ordinary Least Square result for hypothesis three

Dependent Variable: D(DER(-1))				
Method:Panel Least Squares				
Date: 07/23/14 Time: 00:38				
Sample(adjusted): 5 150				
Total Panel (balanced) observations: 137				
Excluded observations: 9 after adjusting endpoints				
White Heteroskedasticity-Consistent Standard Errors & Covariance				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.274224	1.223905	1.041113	0.2997
D(SHE(-1))	4.18E-09	1.19E-08	3.350165	0.0068
R-squared	0.037700	Mean dependent var		1.262765
Adjusted R-squared	-0.020028	S.D. dependent var		14.18948
S.E. of regression	14.23926	Akaike info criterion		8.164373
Sum squared resid	27372.12	Schwarz criterion		8.207001
Log likelihood	-557.2596	F-statistic		0.050903
Durbin-Watson stat	1.974824	Prob(F-statistic)		0.000840

Source: The Researcherᅇs E-views result

Decision rule:

Following estimation of the model, the results as shown in table 4.4.3.were generated. The result reveals that mergers and acquisitions have a positive and significant effect on the debt-equity ratio of the affected banks (beta coefficient = 4.18, t = 3.350, $p < 0.05$). Hence, we reject the null hypothesis and accept the alternate hypothesis that mergers and acquisitions have a positive and significant effect on the debt-equity ratio of the affected banks. The Coefficient of Determination (R^2 =0.0377) indicates that less than half the variation in Debt-equity ratiois explained by the model. The Durbin-Watson statistic is very close to 2 which mean no autocorrelation problems. Hence the model:

Debt-equity ratio= 1.274224 + 4.18E-09SHE

4.4.4 Test of Hypothesis Four

We re-state of hypothesis one as follows:

H_o: Mergers and acquisitions does not have any significant positive effect on the earning per share of the affected banks.

H_a: Mergers and acquisitions have significant positive effect on the earning per share of theaffected banks

Decision rules

Decision Rule 1: Accept null hypothesis if P-value is greater than 0.05 and reject null hypothesis is P-value is less than 0.05

Decision Rule 2: Accept alternative hypothesis if P-value is less than 0.05 and reject alternative hypothesis if P-value is greater than 0.05

Analysis of results

Table 4.4.4 Ordinary Least Square result for hypothesis four

Dependent Variable: D(EPS(-1))
Method: Least Squares
Date: 07/23/14 Time: 00:40
Sample(adjusted): 5 150
Included observations: 132
Excluded observations: 14 after adjusting endpoints

White Heteroskedasticity-Consistent Standard Errors & Covariance					
Variable	Coefficient	Std. Error	t-Statistic	Prob.	
C	-8.605373	41.36414	-0.208039	0.8355	
D(SHE(-1))	2.71E-06	2.08E-06	1.303048	0.0049	
R-squared	0.124009	Mean dependent var		-0.871212	
Adjusted R-squared	0.117271	S.D. dependent var		517.3425	
S.E. of regression	486.0623	Akaike info criterion		15.22559	
Sum squared resid	30713349	Schwarz criterion		15.26926	
Log likelihood	-1002.889	F-statistic		18.40341	
Durbin-Watson stat	3.566526	Prob(F-statistic)		0.000035	

Source: The Researcherôs E-views result

Decision rule:

Following estimation of the model, the results as shown in table 4.4.4 were generated. The result reveals that mergers and acquisitions does not have a positive and significant effect on the earning per share of the affected banks (beta coefficient = 2.71, t = 1.303, p < 0.05). Hence, we reject the null hypothesis and accept the alternate hypothesis that mergers and acquisitions have a positive and significant effect on the debt-equity ratio of the affected banks.The Coefficient of Determination (R^2 =0.1240) indicates that less than half the variation in earning per shareis explained by the model. The Durbin-Watson statistic is very close to 2 which mean no autocorrelation problems. Hence the model:

Debt-equity ratio= -8.605373+ 2.71E-06SHE

4.5 Granger Causality test

Table 4.5: Granger Causality test

Pairwise Granger Causality Tests				
Date: 07/22/14 Time: 22:51				
Sample: 1 150				
Lags: 2				
Null Hypothesis:	Obs	F-Statistic	Probability	
LR does not Granger Cause SHE	134	1.99163	0.14065	
SHE does not Granger Cause LR		1.17200	0.31302	
ROE does not Granger Cause SHE	134	1.26146	0.28671	
SHE does not Granger Cause ROE		0.17476	0.83985	
DER does not Granger Cause SHE	134	3.01148	0.05269	
SHE does not Granger Cause DER		0.12083	0.88629	
EPS does not Granger Cause SHE	128	4.91978	0.00880	
SHE does not Granger Cause EPS		0.84948	0.43013	

Based on the Probability value reported in table 4.5, the hypothesis that shareholderøs equitydoes not Granger cause liquidity ratiocannot be rejected, and also the hypothesis that liquidity ratiodoes not Granger cause share holderøs equity cannot be rejected too ($P > 0.05$). The hypothesis that return on equitydoes not Granger Cause shareholderøs equitycannot be rejected, and the hypothesis that shareholderøs equitydoes not Granger cause return on equity cannot be rejected too ($P > 0.05$). Similarly, the hypothesis that debt-equity ratio and earnings per share does not Granger Cause shareholderøs equitycannot be rejected, and the hypothesis that shareholderøs equitydoes not Granger causedebt-equity ratio cannot be rejected either (P> 0.05). However, the hypothesis that earnings per share does not Granger cause share holderô̂s equity can be rejected (P <0.05) but not the other way round.

4.6 Implication of the results

4.6.0 Comparison of the findings with the objectives of the study

This section shows how the results of this study compares with the objectives of the study. There is strong support from the results which demonstrate the achievement of the key goals originally set out for this study. This is demonstrated more as follows:

4.6.1 Research objective one

To ascertain the impact of mergers and acquisitions on the liquidity profile of commercial banks in Nigeria.

The results from the regression model show that mergers and acquisitionshas positive and significant effect on the liquidity profile of commercial banks. This support our a priori expectation and also the objective of the study achieved. With the positive relationship between the shareholders equity and liquidity ratio, it follows that the banking industry has experienced growth. Our findings are consistent with the work of Capasso (2008).

4.6.2 Research Objective Two

To examine how mergers and acquisitions adopted by commercial banks impacted on the return on equity of the affected banks.

The results of the regression model indicate that mergers and acquisitions has a positive and significant impact on the return on equity of the affected bank. This is consistent with Ujunwa and Salami (2010), and support the a priori expectation, therefore, the objective of the study achieved.

4.6.3 Research Objective Three

To evaluate the impact of mergers and acquisitions on the debt/equity profile of commercial banks in Nigeria.

The results of the study indicate that mergers and acquisitions have a positive and significant impact on the debt equity ratio of commercial banks in Nigeria. When the economy grows through increase in output, this will lead to higher demand for more financial services which could exert pressure for the expansion of financial institutions to satisfy the new demand.

4.6.4 Research Objective Four

To examine the extent to which earning per share of commercial banks improved as a result mergers and acquisitions.

The regression result shows that mergers and acquisitions have a negative and non-significant impact on domestic credit to private sector. From the findings, economic growth only affects a marginal increase in domestic credit to private sector. This is an indication that economic growth have not really impacted on the lending activities of banks in the country. Adenuga (2010), examined the private credit on economic growth in Nigeria, found, on the basis of supply-led hypothesis, that private credit had in-significant impact on economic growth. However, as revealed from the demand-following hypothesis adopted in this study, economic has a positive though insignificant impact on private credit this follows our a priori expectation

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CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

The findings emanating from the study are as follows:

1. Mergers and acquisition haspositive and significant effect on the liquidity profile of the affected banks.
2. Mergers and acquisition has positive and significant effect on return on equity of the affected banks.
3. Mergers and acquisition has positive and insignificant effect on debt/equity ratio of the affected banks.
4. Mergers and acquisition has positive and significant effect on earnings per share of the affected banks.

5.2 Conclusion of the Study

This research has been able to estimate the effect of mergers and acquisitions on the performance of Nigerian banking industry from 1998-2012. The conclusions based on the findings are as follows;

1. The finding of the research is of the conclusion that mergers and acquisitions has positive and significant effect on the liquidity profile of the affected banks.
2. The effect of return on equity on mergers and acquisition are positive and significant.
3. It was concluded that the debt/equity ratio of the effected banks are positive and significant
4. Finally, the finding on earning per share of the affected banks are also positive but not significant

5.3 Recommendations of the Study

The following specific recommendations based on the objectives of this study are as follows;

1. Government should ensure the stability of operating environment for banks. The liberalization policy should be vigorously pursued to enable banks and business decision makers to work freely within a wider horizon with reasonable degree of certainty about the environment for speedy and more effective decision making.
2. In order to discourage unethical practices on the part of the banks and their managements, the Central Bank of Nigeria (CBN) and other regulatory bodies should turn their searchlights on the Nigerian banking industry, so that the megabanks would not begin to perpetuate financial crimes to generate jumbo returns from the enormous funds available to them. And also in order to build and retain public confidence and avoid a run on Nigerian banks, greater transparency and accountability should be firmly embedded as the hallmark of the Nigerian banking system.
3. Consolidation of any industry is likely to pose additional challenges arising from integration of processes, IT and culture. In addition, research has shown that two-thirds of mergers, world-wide, fail due to inability to integrate personnel and systems as well as due to irreconcilable differences in corporate culture and management, resulting in Board and Management squabbles (CBN, 2006). In view of this, the emergence of mega banks in the post consolidation era is bound to task the skills and competencies of Boards and Managements in improving shareholder values and balance same against other stakeholder interests in a competitive environment. Therefore, in order to ensure that the synergy that the bank consolidation promises, and to mitigate post-consolidation conflicts, adequate steps should be taken to train and retrain the staff and management of all the banks that have scaled the consolidation huddles while the regulatory environment has to be tightened to close

all the loopholes that could come up as a result of the increased size of the firms in the industry.

4. In the bid to ensure the practice of good corporate governance, which is a system by which corporations are governed and controlled with a view to increasing shareholder value and meeting the expectations of the other stakeholders, the CBN and other regulatory bodies like Security and Exchange Commission, Nigeria Stock Exchange, Nigeria Deposit Insurance Corporation, among others, should not allow any of the banks to have weak corporate governance.

5.4 Recommendation for Further Studies

Firstly, Nigerian banks are increasing their presence in overseas countries, mainly in Asia Pacific region by acquiring majority or strategic stakes in foreign target banks. It would be interesting to study the effectiveness of these cross-border acquisitions which we opined, is still at infancy stage and have not been analyzed by any researchers yet. Further research could be undertaken to compare both the assets size of acquiring banks and target banks on the effectiveness of post merger efficiency.

Secondly, the interest in this study was to examine the effect of mergers and acquisitions on the Nigerian banking industry. However, there are other survival strategies that can be adopted by banks like organic growths. This study recommends an up to date study on the effectiveness of this approach of survival other than mergers and acquisitions.

5.5 Contribution to Knowledge

This study investigates the effect of mergers and acquisitions on the performance of the Nigerian banking industry for the period 1998 to 2012. This study contributes to literature geographically. Most literature reviewed for this study is between 2004-2006. This study gives a more elaborate analysis of the mergers and acquisitions period so that we are able ascertain that mergers and acquisitions has improved the performance of banks in Nigeria.

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Appendices

Table 4.1 Values of Model Proxies

-	-	₦'000	₦'000	₦'000	₦'000	KOBO
-	-	-	-	-	-	-
BANK	**YEAR**	**CURRENT ASSET**	**TOTAL DEBT**	**NET PROFIT AFTER TAX**	**SHAREHOLDERS EQUITY**	**EARNING PER SHARE**
ACCESS BANK	1998					
ACCESS BANK	1999					
ACCESS BANK	2000	3,215,513.00	7,592,810.00	130,079.00	841,750.00	11
ACCESS BANK	2001	2,133,916.00	7,108,464.00	77,743.00	919,493.00	6
ACCESS BANK	2002	3,793,586.00	9,399,157.00	- 55,245.00	1,943,784.00	- 2
ACCESS BANK	2003	7,682,782.00	20,216,683.00	556,573.00	2,365,356.00	21
ACCESS BANK	2004	5,527,375.00	28,338,677.00	637,473.00	3,002,830.00	21
ACCESS BANK	2005	11,811,850.00	52,846,391.00	501,515.00	14,071,924.00	12
ACCESS BANK	2006	46,263,777.00	145,659,980.00	737,149.00	28,893,886.00	7
ACCESS BANK	2007	158,433,251.00	300,230,303.00	6,083,439.00	28,384,891.00	87
ACCESS BANK	2008	34,742,542.00	859,839,995.00	16,056,464.00	172,002,026.00	99
ACCESS BANK	2009	58,242,924.00	474,423,696.00	22,885,794.00	173,151,023.00	- 5
ACCESS BANK	2010	17,648,392.00	544,455,766.00	12,931,441.00	182,504,814.00	72
ACCESS BANK	2011	98,255,964.00	762,345,019.00	5,248,866.00	187,038,078.00	29
ACCESS BANK	2012	176,228,932.00	1,278,130,252.00	36,353,643.00	237,624,211.00	159
DIAMOND BANK	1998	7,352,132.00	15,678,110.00	569,056.00	1,679,804.00	91.00
DIAMOND BANK	1999	10,007,788.00	24,608,204.00	918,986.00	2,238,265.00	127.00
DIAMOND BANK	2000	10,205,578.00	27,608,204.00	987,405.00	2,865,145.00	137.00
DIAMOND BANK	2001	17,232,657.00	43,286,500.00	1,689,618.00	4,086,080.00	234.00
DIAMOND BANK	2002	5,124,116.00	47,498,802.00	1,478,175.00	5,564,255.00	137
DIAMOND BANK	2003	12,276,192.00	54,137,400.00	145,113.00	5,206,636.00	32
DIAMOND BANK	2004	7,070,236.00	62,363,837.00	833,498.00	6,751,094.00	27
DIAMOND BANK	2005	11,258,118.00	104,285,107.00	2,526,552.00	20,709,850.00	20
DIAMOND BANK	2006	31,066,966.00	188,078,292.00	3,849,545.00	34,969,570.00	57
DIAMOND BANK	2007	78,928,707.00	258,357,943.00	6,930,754.00	53,891,778.00	89
DIAMOND BANK	2008	60,021,067.00	486,343,532.00	11,822,011.00	116,983,008.00	110

DIAMOND BANK	2009	62,470,986.00	493,642,210.00	- 4,883,446.00	110,358,704.00	- 34
DIAMOND BANK	2010	17,764,318.00	431,521,401.00	6,522,455.00	116,881,159.00	45
DIAMOND BANK	2011	54,396,123.00	630,443,953.00	- 22,187,848.00	84,136,434.00	153
DIAMOND BANK	2012	123,224,590.00	951,820,842.00	23,073,427.00	107,316,415.00	156.00
ECO BANK	1998	3,597,041.00	8,665,761.00	550,538.00	1,251,727.00	103.10
ECO BANK	1999	5,575,678.00	16,237,329.00	530,750.00	2,075,750.00	81.32
ECO BANK	2000	9,518,641.00	16,805,947.00	531,250.00	2,215,272.00	35.00
ECO BANK	2001	15,078,160.00	21,157,653.00	716,371.00	2,522,540.00	47.00
ECO BANK	2002	7,554,730.00	21,126,046.00	563,725.00	2,945,733.00	36
ECO BANK	2003	7,332,790.00	23,794,923.00	816,816.00	3,518,887.00	36
ECO BANK	2004	7,513,772.00	33,228,739.00	894,440.00	4,413,327.00	47
ECO BANK	2005	11,137,325.00	40,915,315.00	1,668,174.00	26,737,000.00	27
ECO BANK	2006	11,200,373.00	102,771,000.00	3,558,591.00	29,321,000.00	21
ECO BANK	2007	12,926,659.00	276,573,543.00	7,450,000.00	34,822,000.00	34
ECO BANK	2008	18,768,000.00	400,710,448.00	2,130,000.00	31,756,000.00	- 3
ECO BANK	2009	9,524,000.00	282,128,000.00	- 4,588,000.00	73,534,000.00	- 33
ECO BANK	2010	19,437,000.00	379,919,000.00	1,619,000.00	74,320,000.00	12
ECO BANK	2011	86,919,000.00	1,009,696,000.00	19,344,000.00	75,362,000.00	69.00
ECO BANK	2012	112,323,000.00	1,171,687,000.00	7,805,000.00	153,628,000.00	42.00
FCMB	1998					
FCMB	1999					
FCMB	2000	9,268,275.00	15,495,972.00	769,869.00	2,000,823.00	0.77
FCMB	2001					
FCMB	2002	5,917,522.00	13,950,528.00	230,838.00	1,000,000.00	3
FCMB	2003	6,553,081.00	13,664,119.00	51,301.00	1,500,000.00	1
FCMB	2004	3,982,233.00	20,979,205.00	248,458.00	2,757,044.00	17
FCMB	2005	2,425,591.00	44,102,052.00	797,795.00	7,216,216.00	25
FCMB	2006	8,132,391.00	81,448,282.00	2,841,380.00	25,163,007.00	36
FCMB	2007	16,813,567.00	231,837,026.00	5,805,857.00	30,968,864.00	61
FCMB	2008	8,472,161.00	333,083,426.00	13,720,470.00	132,127,473.00	123
FCMB	2009	125,690,084.00	331,954,034.00	669,371.00	128,127,060.00	6
FCMB	2010	60,970,511.00	395,437,666.00	7,564,888.00	133,999,904.00	45

FCMB	2011	41,642,744.00	476,095,598.00	- 11,004,393.00	117,018,764.00	- 68
FCMB	2012	120,210,262.00	759,422,893.00	12,559,592.00	130,890,713.00	66.00
FIDELITY BANK	1998	1,893,304.00	3,959,018.00	174,918.00	779,385.00	7
FIDELITY BANK	1999	2,670,677.00	5,381,179.00	173,241.00	831,668.00	9
FIDELITY BANK	2000	3,443,937.00	9,090,196.00	207,627.00	922,122.00	23
FIDELITY BANK	2001	5,917,983.00	11,415,433.00	400,661.00	1,300,533.00	23
FIDELITY BANK	2002	5,171,463.00	13,721,769.00	539,242.00	1,915,211.00	36
FIDELITY BANK	2003	6,023,194.00	20,001,640.00	856,885.00	2,515,423.00	36
FIDELITY BANK	2004	5,321,948.00	24,032,455.00	913,604.00	3,519,624.00	30
FIDELITY BANK	2005	5,219,332.00	25,229,803.00	1,236,790.00	9,723,548.00	14
FIDELITY BANK	2006	12,174,535.00	94,388,808.00	3,162,347.00	25,596,993.00	19
FIDELITY BANK	2007	19,733,974.00	187,387,465.00	4,160,007.00	29,757,000.00	25
FIDELITY BANK	2008	30,901,857.00	397,258,245.00	12,986,570.00	135,863,988.00	45
FIDELITY BANK	2009	24,894,093.00	374,789,896.00	2,296,799.00	129,340,000.00	8
FIDELITY BANK	2010	25,505,000.00	343,574,000.00	5,827,000.00	134,446,000.00	20
FIDELITY BANK	2011	82,271,000.00	603,158,000.00	3,911,000.00	136,350,000.00	55
FIDELITY BANK	2012	117,291,000.00	752,905,000.00	17,924,000.00	161,455,000.00	68
FIRST BANK	1998					
FIRST BANK	1999	71,420,000.00	118,196,000.00	2,943,000.00	11,307,000.00	283.00
FIRST BANK	2000	126,457,000.00	166,034,000.00	4,221,000.00	14,519,000.00	324.00
FIRST BANK	2001	145,924,000.00	195,808,000.00	4,676,000.00	17,093,000.00	288.00
FIRST BANK	2002	186,978,000.00	248,609,000.00	3,979,000.00	17,747,000.00	196.00
FIRST BANK	2003	230,497,000.00	295,538,000.00	10,323,000.00	25,050,000.00	406.00
FIRST BANK	2004	24,098,000.00	341,900,000.00	11,483,000.00	41,605,000.00	110.00
FIRST BANK	2005	32,881,000.00	421,034,000.00	13,234,000.00	48,726,000.00	126.00
FIRST BANK	2006	50,992,000.00	552,547,000.00	17,383,000.00	64,277,000.00	147.00
FIRST BANK	2007	61,822,000.00	801,221,000.00	20,367,000.00	83,383,000.00	175.00
FIRST BANK	2008	89,076,000.00	825,614,000.00	30,473,000.00	339,847,000.00	95.00
FIRST BANK	2009	67,576,000.00	1,454,968,000.00	1,275,000.00	317,488,000.00	141.00
FIRST BANK	2010	74,894,000.00	1,616,523,000.00	32,123,000.00	340,735,000.00	4.00
FIRST BANK	2011	199,091,000.00	2,491,589,000.00	18,636,000.00	368,580,000.00	98.00

FIRST BANK	2012	300,531,000.00	2,747,282,000.00	75,670,000.00	438,847,000.00	145.00
UBA	1998	32,681.00	68,715.00	134.00	5,036.00	13.00
UBA	1999	47,221.00	94,967.00	1,109.00	5,011.00	111.00
UBA	2000	53,920.00	113,205.00	3,013.00	6,782.00	301.00
UBA	2001	87,712.00	178,821.00	1,183.00	8,427.00	46.00
UBA	2002	103,314.00	188,898.00	1,361.00	9,782.00	53.00
UBA	2003	92,615.00	187,228.00	2,989.00	13,767.00	117.00
UBA	2004	40,913.00	187,362.00	4,185.00	18,059.00	137.00
UBA	2005	36,461.00	229,550.00	4,653.00	17,702.00	152.00
UBA	2006	57,866.00	803,620.00	11,468.00	47,621.00	186.00
UBA	2007	63,902.00	937,527.00	19,831.00	164,590.00	241.00
UBA	2008	95,733.00	1,331,936.00	40,002.00	176,924.00	305.00
UBA	2009	38,972.00	1,213,160.00	12,889.00	187,719.00	60.00
UBA	2010	330,701.00	1,253,368.00	- 6,295.00	187,356.00	8.00
UBA	2011	352,500.00	1,483,738.00	- 7,966.00	182,315.00	
UBA	2012	629,481.00	1,712,748.00	47,375.00	220,317.00	
UNION BANK	1998	5,660,000.00	93,679,000.00	1,733,000.00	8,752,000.00	68.00
UNION BANK	1999	8,354,000.00	115,602,000.00	3,127,000.00	10,632,000.00	124.00
UNION BANK	2000	5,624,946.00	16,196,976.00	418,962.00	1,727,827.00	40.00
UNION BANK	2001	15,291,000.00	201,099,000.00	5,035,000.00	13,786,000.00	200.00
UNION BANK	2002	20,814,000.00	244,892,000.00	4,726,000.00	30,302,000.00	188.00
UNION BANK	2003	29,090,000.00	296,853,000.00	6,600,000.00	32,730,000.00	262.00
UNION BANK	2004	22,872,000.00	331,813,000.00	7,750,000.00	35,985,000.00	231.00
UNION BANK	2005	27,476,000.00	359,142,000.00	9,375,000.00	39,129,000.00	97.00
UNION BANK	2006	56,995,000.00	421,879,000.00	10,036,000.00	95,685,000.00	104.00
UNION BANK	2007	29,419,000.00	523,170,000.00	12,126,000.00	96,630,000.00	126.00
UNION BANK	2008	42,868,000.00	795,803,000.00	24,737,000.00	111,271,000.00	41.00
UNION BANK	2009	70,185,000.00	868,085,000.00	- 71,052,000.00	53,145,000.00	43.00
UNION BANK	2010	22,578,000.00	981,125,000.00	118,016,000.00	- 135,894,000.00	########
UNION BANK	2011	51,134,000.00	664,203,000.00	- 86,667,000.00	179,560,000.00	########
UNION BANK	2012	142,938,000.00	714,800,000.00	3,914,000.00	171,700,000.00	########

WEMA BANK	1998	6,121,696.00	15,830,198.00	291,805.00	1,438,676.00	28.00
WEMA BANK	1999	5,624,946.00	16,196,976.00	418,962.00	1,727,827.00	4.00
WEMA BANK	2000	8,900,170.00	20,437,790.00	251,498.00	2,314,016.00	19.00
WEMA BANK	2001	22,070,656.00	36,217,759.00	619,554.00	2,596,062.00	46.00
WEMA BANK	2002	22,475,541.00	40,333,027.00	1,481,667.00	3,768,119.00	95.00
WEMA BANK	2003	31,451,561.00	54,108,039.00	1,477,775.00	7,215,393.00	78.00
WEMA BANK	2004	19,049,247.00	63,383,488.00	967,148.00	8,040,348.00	31.00
WEMA BANK	2005	19,353,718.00	73,650,200.00	844,283.00	24,258,860.00	10.00
WEMA BANK	2006	28,964,381.00	99,569,066.00	- 6,601,961.00	20,540,041.00	- 66.00
WEMA BANK	2007	35,174,375.00	139,898,827.00	2,554,098.00	25,182,705.00	25.00
WEMA BANK	2008	6,565,677.00	96,291,923.00	- 57,738,739.00	- 32,614,652.00	- 573.00
WEMA BANK	2009	5,851,836.00	178,284,837.00	- 2,094,692.00	- 35,499,114.00	- 21.00
WEMA BANK	2010	53,504,409.00	188,835,521.00	16,238,533.00	10,512,746.00	154.00
WEMA BANK	2011	23,934,445.00	214,888,912.00	- 4,228,926.00	6,268,131.00	
WEMA BANK	2012	19,627,505.00	244,428,281.00	- 5,040,629.00	1,276,316.00	
STANBIC IBTC BANK	1998					
STANBIC IBTC BANK	1999	5,350,262.00	7,838,323.00	444,961.00	2,131,854.00	44.00
STANBIC IBTC BANK	2000	4,720,892.00	6,832,921.00	603,303.00	2,571,444.00	60.00
STANBIC IBTC BANK	2001	3,954,494.00	10,041,855.00	807,218.00	3,108,662.00	81.00
STANBIC IBTC BANK	2002	626,634.00	16,641,568.00	1,127,570.00	3,936,232.00	113.00
STANBIC IBTC BANK	2003	1,033,975.00	16,717,338.00	1,349,786.00	4,886,015.00	135.00
STANBIC IBTC BANK	2004	998,748.00	21,077,466.00	1,408,402.00	11,588,840.00	70.00
STANBIC IBTC BANK	2005	903,478.00	19,118,252.00	2,358,155.00	15,449,412.00	37.00
STANBIC IBTC BANK	2006	6,256,364.00	76,897,402.00	4,124,020.00	43,677,312.00	33.00
STANBIC IBTC BANK	2007	13,035,852.00	232,116,261.00	6,941,765.00	72,403,733.00	37.00
STANBIC IBTC BANK	2008	11,440,683.00	269,114,420.00	9,214,802.00	76,616,651.00	49.00
STANBIC IBTC BANK	2009	7,768,000.00	255,627,000.00	6,258,000.00	75,373,000.00	33.00
STANBIC IBTC BANK	2010	10,048,000.00	295,053,000.00	7,811,000.00	77,559,000.00	42.00
STANBIC IBTC BANK	2011	30,072,000.00	467,977,000.00	4,048,000.00	74,295,000.00	22.00
STANBIC IBTC BANK	2012	-	1,005,000.00	1,053,000.00	7,150,300.00	11.00

SOURCE: Researcherộs computation handpicked from annual reports of the sampled banks for relevant years using excel

Table 4.2Computed Ratio Values of the Model Proxies

BANK	YEAR	LIQUIDIT Y RATIO	RETURN ON EQUITY	DEBT-EQUITY RATIO	EARNING PER SHARE
ACCESS BANK	1998	#DIV/0!	#DIV/0!	#DIV/0!	0.0000
ACCESS BANK	1999	#DIV/0!	#DIV/0!	#DIV/0!	0.0000
ACCESS BANK	2000	0.42349	0.15453401	9.0203	0.1100
ACCESS BANK	2001	0.30019	0.08454986	7.7309	0.0600
ACCESS BANK	2002	0.40361	-0.0284214	4.8355	-0.0200
ACCESS BANK	2003	0.38002	0.235302	8.5470	0.2100
ACCESS BANK	2004	0.19505	0.21229074	9.4373	0.2100
ACCESS BANK	2005	0.22351	0.03563941	3.7554	0.1200
ACCESS BANK	2006	0.31761	0.02551228	5.0412	0.0700
ACCESS BANK	2007	0.52771	0.21431962	10.5771	0.8700
ACCESS BANK	2008	0.04041	0.09335044	4.9990	0.9900
ACCESS BANK	2009	0.12277	0.13217244	2.7399	-0.0500
ACCESS BANK	2010	0.03241	0.07085534	2.9832	0.7200
ACCESS BANK	2011	0.12889	0.02806309	4.0759	0.2900
ACCESS BANK	2012	0.13788	0.15298796	5.3788	1.5900
DIAMOND BANK	1998	0.46894	0.33876333	9.3333	0.9100
DIAMOND BANK	1999	0.40669	0.41057962	10.9943	1.2700
DIAMOND BANK	2000	0.36966	0.34462654	9.6359	1.3700
DIAMOND BANK	2001	0.39811	0.41350585	10.5936	2.3400
DIAMOND BANK	2002	0.10788	0.26565551	8.5364	1.3700
DIAMOND BANK	2003	0.22676	0.02787078	10.3978	0.3200
DIAMOND BANK	2004	0.11337	0.12346118	9.2376	0.2700
DIAMOND BANK	2005	0.10796	0.1219976	5.0355	0.2000
DIAMOND BANK	2006	0.16518	0.11008271	5.3783	0.5700
DIAMOND BANK	2007	0.3055	0.12860504	4.7940	0.8900
DIAMOND BANK	2008	0.12341	0.10105751	4.1574	1.1000
DIAMOND BANK	2009	0.12655	-0.0442507	4.4731	-0.3400
DIAMOND BANK	2010	0.04117	0.05580416	3.6920	0.4500
DIAMOND BANK	2011	0.08628	-0.2637127	7.4931	1.5300
DIAMOND BANK	2012	0.12946	0.21500371	8.8693	1.5600
ECO BANK	1998	0.41509	0.43982274	6.9230	1.0310
ECO BANK	1999	0.34339	0.25569071	7.8224	0.8132
ECO BANK	2000	0.56639	0.23981254	7.5864	0.3500
ECO BANK	2001	0.71266	0.28398796	8.3874	0.4700
ECO BANK	2002	0.3576	0.19137003	7.1717	0.3600
ECO BANK	2003	0.30817	0.2321234	6.7621	0.3636
ECO BANK	2004	0.22612	0.20266796	7.5292	0.4693
ECO BANK	2005	0.2722	0.06239197	1.5303	0.2700
ECO BANK	2006	0.10898	0.12136663	3.5050	0.2100
ECO BANK	2007	0.04674	0.21394521	7.9425	0.3400
ECO BANK	2008	0.04684	0.06707394	12.6184	-0.0300

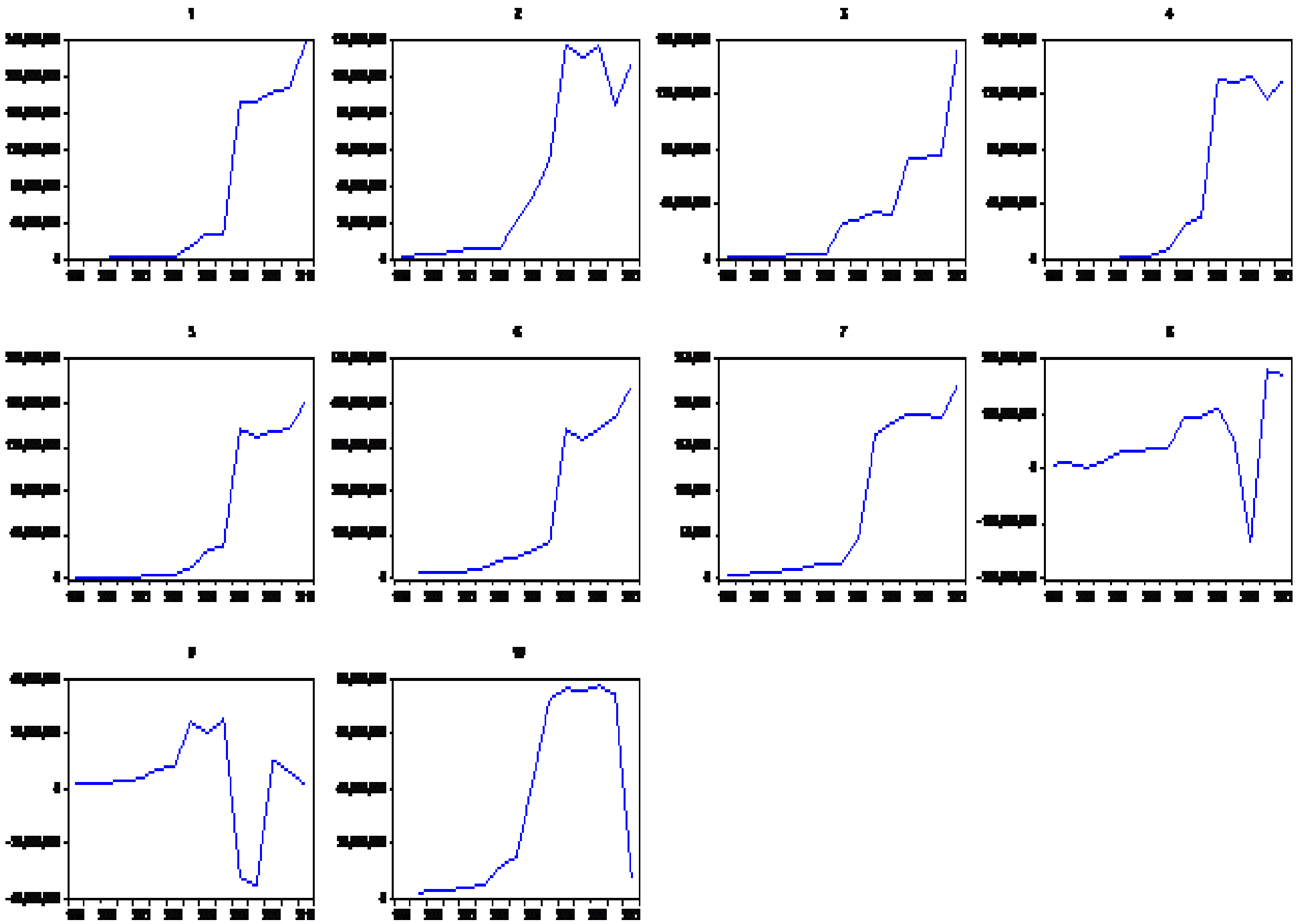
ECO BANK	2009	0.03376	-0.0623929	3.8367	-0.3300
ECO BANK	2010	0.05116	0.02178418	5.1119	0.1200
ECO BANK	2011	0.08608	0.25668109	13.3979	0.6900
ECO BANK	2012	0.09586	0.05080454	7.6268	0.4200
FCMB	1998	#DIV/0!	#DIV/0!	#DIV/0!	0.0000
FCMB	1999	#DIV/0!	#DIV/0!	#DIV/0!	0.0000
FCMB	2000	0.59811	0.38477616	7.7448	0.0077
FCMB	2001	#DIV/0!	#DIV/0!	#DIV/0!	0.0000
FCMB	2002	0.42418	0.230838	13.9505	0.0300
FCMB	2003	0.47958	0.03420067	9.1094	0.0100
FCMB	2004	0.18982	0.09011753	7.6093	0.1700
FCMB	2005	0.055	0.11055586	6.1115	0.2500
FCMB	2006	0.09985	0.11291894	3.2368	0.3600
FCMB	2007	0.07252	0.18747401	7.4861	0.6100
FCMB	2008	0.02544	0.10384267	2.5209	1.2300
FCMB	2009	0.37864	0.00522428	2.5908	0.0600
FCMB	2010	0.15418	0.05645443	2.9510	0.4500
FCMB	2011	0.08747	-0.0940396	4.0685	-0.6800
FCMB	2012	0.15829	0.0959548	5.8020	0.6600
FIDELITY BANK	1998	0.47823	0.2244308	5.0797	0.0700
FIDELITY BANK	1999	0.4963	0.20830548	6.4703	0.0900
FIDELITY BANK	2000	0.37886	0.22516218	9.8579	0.2300
FIDELITY BANK	2001	0.51842	0.30807446	8.7775	0.2300
FIDELITY BANK	2002	0.37688	0.28155749	7.1646	0.3600
FIDELITY BANK	2003	0.30114	0.34065245	7.9516	0.3600
FIDELITY BANK	2004	0.22145	0.25957432	6.8281	0.3000
FIDELITY BANK	2005	0.20687	0.12719534	2.5947	0.1400
FIDELITY BANK	2006	0.12898	0.12354369	3.6875	0.1900
FIDELITY BANK	2007	0.10531	0.13979927	6.2973	0.2500
FIDELITY BANK	2008	0.07779	0.09558508	2.9239	0.4500
FIDELITY BANK	2009	0.06642	0.01775784	2.8977	0.0800
FIDELITY BANK	2010	0.07423	0.04334082	2.5555	0.2000
FIDELITY BANK	2011	0.1364	0.02868354	4.4236	0.5500
FIDELITY BANK	2012	0.15578	0.11101545	4.6632	0.6800
FIRST BANK	1998	#DIV/0!	#DIV/0!	#DIV/0!	0.0000
FIRST BANK	1999	0.60425	0.26028124	10.4533	2.8300
FIRST BANK	2000	0.76163	0.2907225	11.4356	3.2400
FIRST BANK	2001	0.74524	0.27356228	11.4554	2.8800
FIRST BANK	2002	0.7521	0.22420691	14.0085	1.9600
FIRST BANK	2003	0.77992	0.41209581	11.7979	4.0600
FIRST BANK	2004	0.07048	0.27600048	8.2178	1.1000
FIRST BANK	2005	0.0781	0.27160038	8.6408	1.2600
FIRST BANK	2006	0.09229	0.27043888	8.5963	1.4700
FIRST BANK	2007	0.07716	0.24425842	9.6089	1.7500
FIRST BANK	2008	0.10789	0.08966682	2.4294	0.9500
FIRST BANK	2009	0.04645	0.0040159	4.5827	1.4100
FIRST BANK	2010	0.04633	0.09427561	4.7442	0.0400
FIRST BANK	2011	0.07991	0.05056161	6.7600	0.9800
FIRST BANK	2012	0.10939	0.17242912	6.2602	1.4500

UBA	1998	0.4756	0.02660842	13.6448	0.1300
UBA	1999	0.49724	0.22131311	18.9517	1.1100
UBA	2000	0.4763	0.44426423	16.6920	3.0100
UBA	2001	0.4905	0.14038211	21.2200	0.4600
UBA	2002	0.54693	0.1391331	19.3108	0.5300
UBA	2003	0.49466	0.21711339	13.5998	1.1700
UBA	2004	0.21836	0.23174041	10.3750	1.3700
UBA	2005	0.15884	0.26285166	12.9675	1.5200
UBA	2006	0.07201	0.24081813	16.8753	1.8600
UBA	2007	0.06816	0.12048727	5.6961	2.4100
UBA	2008	0.07188	0.22609708	7.5283	3.0500
UBA	2009	0.03212	0.06866114	6.4626	0.6000
UBA	2010	0.26385	-0.0335991	6.6898	0.0800
UBA	2011	0.23758	-0.0436936	8.1383	0.0000
UBA	2012	0.36753	0.21503107	7.7740	0.0000
UNION BANK	1998	0.06042	0.19801188	10.7037	0.6800
UNION BANK	1999	0.07227	0.29411211	10.8730	1.2400
UNION BANK	2000	0.34728	0.24247914	9.3742	0.4000
UNION BANK	2001	0.07604	0.36522559	14.5872	2.0000
UNION BANK	2002	0.08499	0.1559633	8.0817	1.8800
UNION BANK	2003	0.09799	0.20164986	9.0698	2.6200
UNION BANK	2004	0.06893	0.21536751	9.2209	2.3100
UNION BANK	2005	0.0765	0.23959212	9.1784	0.9700
UNION BANK	2006	0.1351	0.10488582	4.4090	1.0400
UNION BANK	2007	0.05623	0.12548898	5.4142	1.2600
UNION BANK	2008	0.05387	0.22231309	7.1519	0.4100
UNION BANK	2009	0.08085	-1.3369461	16.3343	0.4300
UNION BANK	2010	0.02301	-0.8684416	-7.2198	-21.1800
UNION BANK	2011	0.07699	-0.4826632	3.6991	19.2400
UNION BANK	2012	0.19997	0.02279557	4.1631	-13.5700
WEMA BANK	1998	0.38671	0.20282885	11.0033	0.2800
WEMA BANK	1999	0.34728	0.24247914	9.3742	0.0400
WEMA BANK	2000	0.43548	0.10868464	8.8322	0.1900
WEMA BANK	2001	0.60939	0.23865147	13.9510	0.4600
WEMA BANK	2002	0.55725	0.39321131	10.7038	0.9500
WEMA BANK	2003	0.58127	0.20480866	7.4990	0.7800
WEMA BANK	2004	0.30054	0.12028683	7.8832	0.3100
WEMA BANK	2005	0.26278	0.03480308	3.0360	0.1000
WEMA BANK	2006	0.2909	-0.3214191	4.8476	-0.6600
WEMA BANK	2007	0.25143	0.1014227	5.5554	0.2500
WEMA BANK	2008	0.06819	1.77033129	-2.9524	-5.7300
WEMA BANK	2009	0.03282	0.05900688	-5.0222	-0.2100
WEMA BANK	2010	0.28334	1.54465189	17.9625	1.5400
WEMA BANK	2011	0.11138	-0.674671	34.2828	0.0000
WEMA BANK	2012	0.0803	-3.9493582	191.5108	0.0000
STANBIC IBTC BANK	1998	#DIV/0!	#DIV/0!	#DIV/0!	0.0000
STANBIC IBTC BANK	1999	0.68258	0.2087202	3.6768	0.4400
STANBIC IBTC BANK	2000	0.6909	0.23461643	2.6572	0.6000
STANBIC IBTC BANK	2001	0.3938	0.25966734	3.2303	0.8100

STANBIC IBTC BANK	2002	0.03765	0.28645923	4.2278	1.1300
STANBIC IBTC BANK	2003	0.06185	0.27625498	3.4215	1.3500
STANBIC IBTC BANK	2004	0.04738	0.12153089	1.8188	0.7000
STANBIC IBTC BANK	2005	0.04726	0.1526372	1.2375	0.3700
STANBIC IBTC BANK	2006	0.08136	0.09442019	1.7606	0.3300
STANBIC IBTC BANK	2007	0.05616	0.09587579	3.2059	0.3700
STANBIC IBTC BANK	2008	0.04251	0.12027153	3.5125	0.4900
STANBIC IBTC BANK	2009	0.03039	0.08302708	3.3915	0.3300
STANBIC IBTC BANK	2010	0.03405	0.10071043	3.8042	0.4200
STANBIC IBTC BANK	2011	0.06426	0.0544855	6.2989	0.2200
STANBIC IBTC BANK	2012	0	0.14726655	0.1406	0.1100

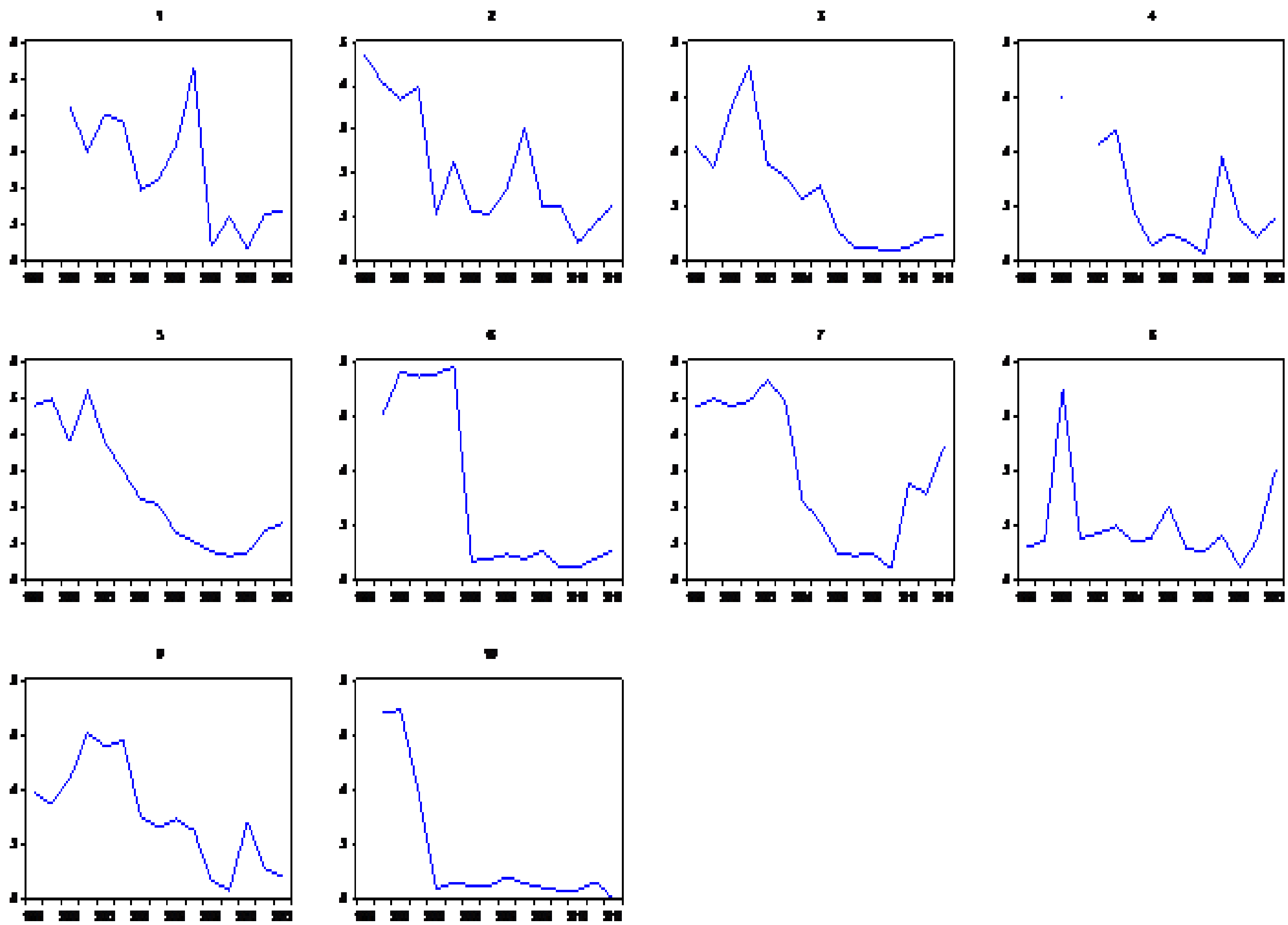
SOURCE: Researcherøs computation calculated from table 4.1 using excel

Fig 1: line graphs showing the stationarity of panel data series: share holders equity



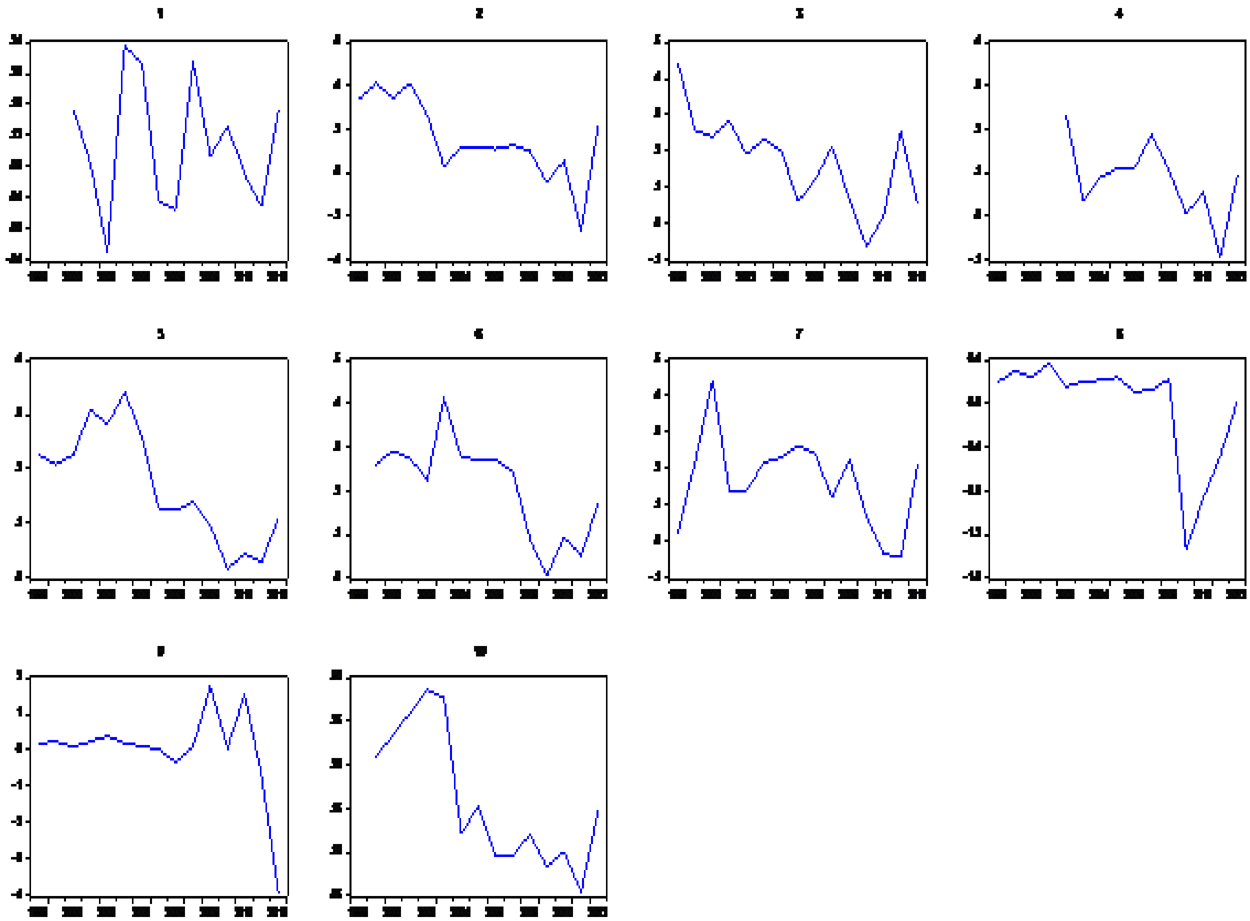
legend: 1= Access, 2 = Diamond, 3 = Ecobank, 4 = FCMB, 5 = Fidelity, 6 = Firstbank, 7 = UBA, 8 = Union, 9 = Wema, 10 = Stanbicibtc

Fig 2: line graphs showing the stationarity of panel data series: Liquidity ratio



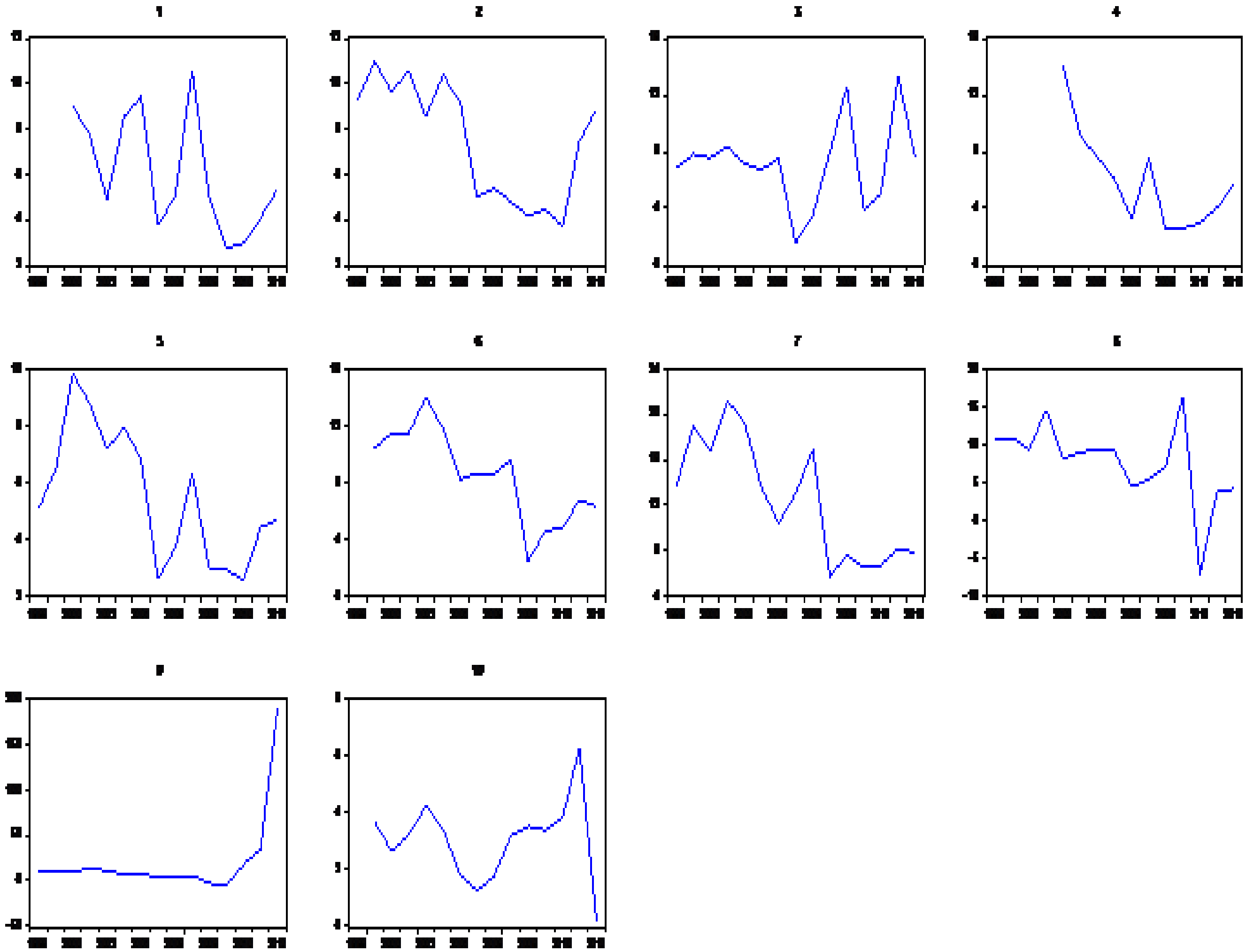
legend: 1= Access, 2 = Diamond, 3 = Ecobank, 4 = FCMB, 5 = Fidelity, 6 = Firstbank, 7 = UBA, 8 = Union, 9 = Wema, 10 = Stanbicibtc

Fig 3: line graphs showing the stationarity of panel data series: Return on equity



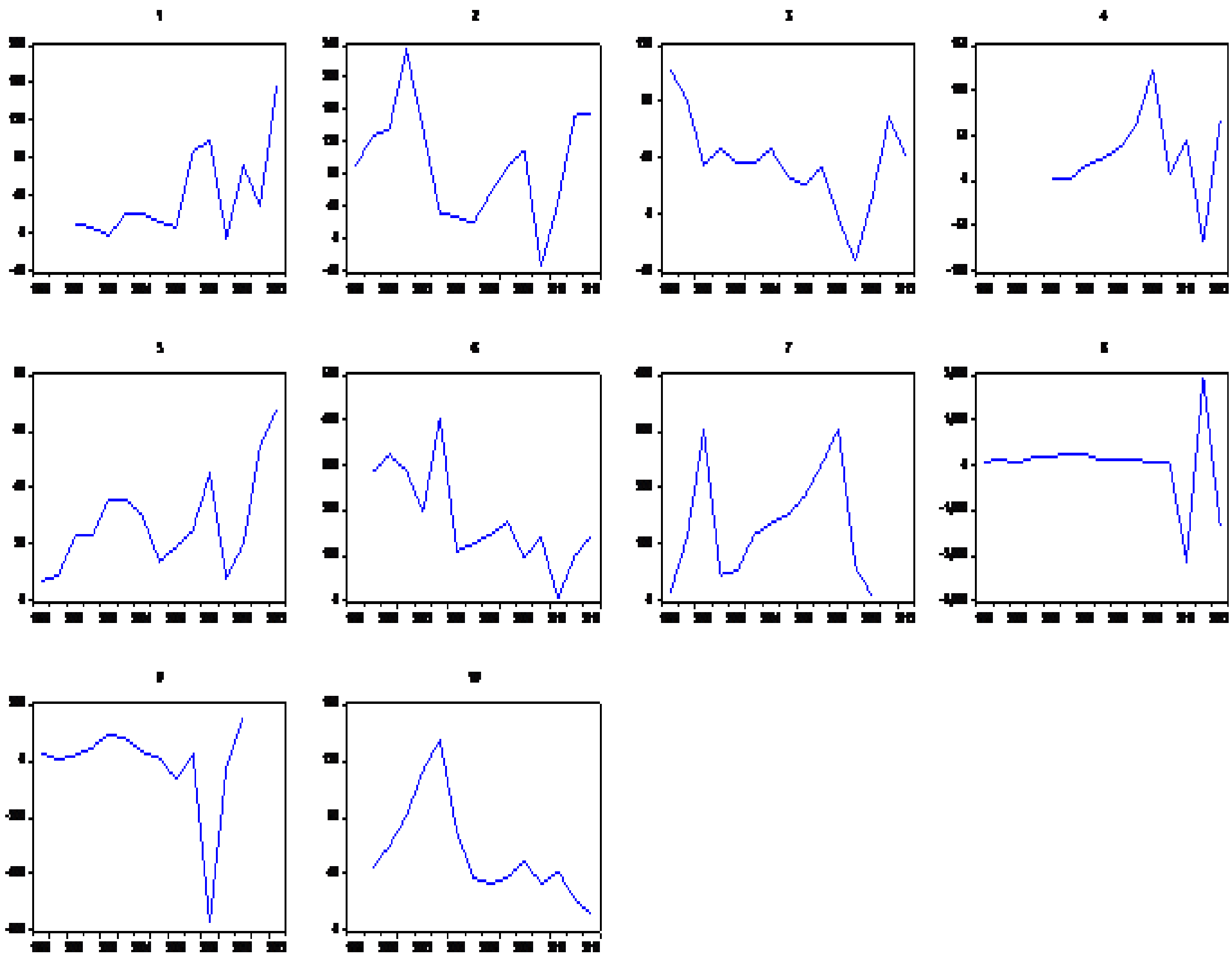
****legend: 1= Access, 2 = Diamond, 3 = Ecobank, 4 = FCMB, 5 = Fidelity, 6 = Firstbank, 7 = UBA, 8 = Union, 9 = Wema, 10 = Stanbicibtc***

Fig 4: line graphs showing the stationarity of panel data series: Debt-equity ratio



****legend: 1= Access, 2 = Diamond, 3 = Ecobank, 4 = FCMB, 5 = Fidelity, 6 = Firstbank, 7 = UBA, 8 = Union, 9 = Wema, 10 = Stanbicibtc***

Fig 5: line graphs showing the stationarity of panel data series: Earnings per share



legend: 1= Access, 2 = Diamond, 3 = Ecobank, 4 = FCMB, 5 = Fidelity, 6 = Firstbank, 7 = UBA, 8 = Union, 9 = Wema, 10 = Stanbicibtc

Table 4.4 Shows new data set after Differencing and Detrending

Year	d(DER(-1))	d(EPS(-1))	d(LR(-1))	d(ROE(-1))	d(SHE(-1))	Bank
1998	-1.29	-5	-0.12	-0.07	77743	ACCESS
1999	-2.9	-8	0.1	-0.11	1024291	ACCESS
2000	3.71	23	-0.02	0.26	421572	ACCESS
2001	0.89	0	-0.18	-0.02	637474	ACCESS
2002	-1.29	-5	-0.12	-0.07	77743	ACCESS
2003	-2.9	-8	0.1	-0.11	1024291	ACCESS
2004	3.71	23	-0.02	0.26	421572	ACCESS
2005	0.89	0	-0.18	-0.02	637474	ACCESS
2006	-5.68	-9	0.03	-0.18	11069094	ACCESS
2007	1.29	-5	0.09	-0.01	14821962	ACCESS
2008	5.54	80	0.21	0.19	-508995	ACCESS
2009	-5.58	12	-0.49	-0.12	143617135	ACCESS
2010	-2.26	-104	0.08	0.04	1148997	ACCESS
2011	0.24	77	-0.09	-0.06	9353791	ACCESS
2012	1.09	-43	0.1	-0.04	4533264	ACCESS
1998	1.3	130	0.01	0.12	50586133	DIAMOND
1999	3.95	-68	0.33	0.19	-235944407	DIAMOND
2000	1.66	36	-0.06	0.07	558461	DIAMOND
2001	-1.36	10	-0.04	-0.07	626880	DIAMOND
2002	0.96	97	0.03	0.07	1220935	DIAMOND
2003	-2.06	-97	-0.29	-0.15	1478175	DIAMOND
2004	1.86	-105	0.12	-0.24	-357619	DIAMOND
2005	-1.16	-5	-0.11	0.1	1544458	DIAMOND
2006	-4.2	-7	-0.01	0	13958756	DIAMOND
2007	0.34	37	0.06	-0.01	14259720	DIAMOND
2008	-0.58	32	0.14	0.02	18922208	DIAMOND
2009	-0.64	21	-0.18	-0.03	63091230	DIAMOND
2010	0.32	-144	0	-0.15	-6624304	DIAMOND
2011	-0.78	79	-0.09	0.1	6522455	DIAMOND
2012	3.8	108	0.05	-0.32	-32744725	DIAMOND
1998	1.38	3	0.04	0.48	23179981	ECOBANK
1999	-1.95	-52.9	0.29	0.22	-106064688	ECOBANK
2000	0.9	-21.78	-0.07	-0.18	824023	ECOBANK
2001	-0.24	-46.32	0.22	-0.02	139522	ECOBANK
2002	0.8	12	0.15	0.04	307268	ECOBANK
2003	-1.22	-11	-0.36	-0.09	423193	ECOBANK
2004	-0.41	0	-0.05	0.04	573154	ECOBANK
2005	0.77	11	-0.08	-0.03	894440	ECOBANK

2006	-6	-20	0.05	-0.14	22323673	ECOBANK
2007	1.97	-6	-0.16	0.06	2584000	ECOBANK
2008	4.44	13	-0.06	0.09	5501000	ECOBANK
2009	4.68	-37	-0.06	-0.15	-3066000	ECOBANK
2010	-8.78	-30	-0.01	-0.13	41778000	ECOBANK
2011	1.28	45	0.02	0.08	786000	ECOBANK
2012	8.29	57	0.03	0.23	1042000	ECOBANK
1998	-5.77	-27	0.01	-0.21	78266000	FCMB
1999	-1.29	-5	-0.12	-0.07	77743	FCMB
2000	-2.9	-8	0.1	-0.11	1024291	FCMB
2001	3.71	23	-0.02	0.26	421572	FCMB
2002	0.89	0	-0.18	-0.02	637474	FCMB
2003	3.71	23	-0.02	0.26	421572	FCMB
2004	-4.84	-2	0.06	-0.2	500000	FCMB
2005	-1.5	16	-0.29	0.06	1257044	FCMB
2006	-1.5	8	-0.13	0.02	4459172	FCMB
2007	-2.87	11	0.04	0	17946791	FCMB
2008	4.25	25	-0.03	0.07	5805857	FCMB
2009	-4.97	62	-0.05	-0.08	101158609	FCMB
2010	0.07	-117	0.35	-0.1	-4000413	FCMB
2011	0.36	39	-0.22	0.05	5872844	FCMB
2012	1.12	-113	-0.07	-0.15	-16981140	FCMB
1998	1.73	134	0.07	0.19	13871949	FIDELITY
1999	-0.72	-59	0.32	0.13	-130111328	FIDELITY
2000	1.39	2	0.02	-0.02	52283	FIDELITY
2001	3.39	14	-0.12	0.02	90454	FIDELITY
2002	-1.08	0	0.14	0.08	378411	FIDELITY
2003	-1.61	13	-0.14	-0.03	614678	FIDELITY
2004	0.79	0	-0.08	0.06	600212	FIDELITY
2005	-1.12	-6	-0.08	-0.08	1004201	FIDELITY
2006	-4.23	-16	-0.01	-0.13	6203924	FIDELITY
2007	1.09	5	-0.08	0	15873445	FIDELITY
2008	2.61	6	-0.02	0.02	4160007	FIDELITY
2009	-3.37	20	-0.03	-0.04	106106988	FIDELITY
2010	-0.03	-37	-0.01	-0.08	-6523988	FIDELITY
2011	-0.34	12	0.01	0.03	5106000	FIDELITY
2012	1.87	35	0.06	-0.01	1904000	FIDELITY
1998	0.24	13	0.02	0.08	25105000	FIRSTBANK
1999	-1.29	-5	-0.12	-0.07	77743	FIRSTBANK
2000	-2.9	-8	0.1	-0.11	1024291	FIRSTBANK
2001	3.71	23	-0.02	0.26	421572	FIRSTBANK
2002	0.89	0	-0.18	-0.02	637474	FIRSTBANK

2003	2.55	-92	0.01	-0.05	654000	FIRSTBANK
2004	-2.21	210	0.03	0.19	7303000	FIRSTBANK
2005	-3.58	-296	-0.71	-0.14	16555000	FIRSTBANK
2006	0.42	16	0.01	0	7121000	FIRSTBANK
2007	-0.04	21	0.01	0	15551000	FIRSTBANK
2008	1.01	28	-0.02	-0.03	19106000	FIRSTBANK
2009	-7.18	-80	0.03	-0.15	256464000	FIRSTBANK
2010	2.15	46	-0.06	-0.09	-22359000	FIRSTBANK
2011	0.16	-137	0	0.09	23247000	FIRSTBANK
2012	2.02	94	0.03	-0.04	27845000	FIRSTBANK
1998	-0.5	47	0.03	0.12	70267000	UBA
1999	7.38	-132	0.37	-0.15	-438841964	UBA
2000	5.31	98	0.02	0.19	-25	UBA
2001	-2.26	190	-0.02	0.22	1771	UBA
2002	4.53	-255	0.01	-0.3	1645	UBA
2003	-1.91	7	0.06	0	1355	UBA
2004	-5.71	64	-0.05	0.08	3985	UBA
2005	-3.22	20	-0.28	0.01	4292	UBA
2006	2.59	15	-0.06	0.03	-357	UBA
2007	3.91	34	-0.09	-0.02	29919	UBA
2008	-11.18	55	0	-0.12	116969	UBA
2009	1.83	64	0	0.11	12334	UBA
2010	-1.07	-245	-0.04	-0.16	10795	UBA
2011	0.23	-52	0.23	-0.1	-363	UBA
2012	1.45	55	-0.03	-0.01	-5041	UBA
1998	-0.36	64	0.13	0.26	38002	UNION
1999	2.93	-245	-0.31	-0.02	8531683	UNION
2000	0.17	56	0.01	0.1	1880000	UNION
2001	-1.5	-84	0.28	-0.05	-8904173	UNION
2002	5.21	160	-0.27	0.12	12058173	UNION
2003	-6.51	-12	0.01	-0.21	16516000	UNION
2004	0.99	74	0.01	0.05	2428000	UNION
2005	0.15	-31	-0.03	0.01	3255000	UNION
2006	-0.04	-134	0.01	0.02	3144000	UNION
2007	-4.77	7	0.06	-0.13	56556000	UNION
2008	1.01	22	-0.08	0.02	945000	UNION
2009	1.74	-85	0	0.1	14641000	UNION
2010	9.18	2	0.03	-1.56	-58126000	UNION
2011	-23.55	-2161	-0.06	0.47	-189039000	UNION
2012	10.92	4042	0.05	0.39	315454000	UNION
1998	0.46	-3281	0.12	0.51	-7860000	WEMA
1999	6.84	1385	0.19	0.18	-170261324	WEMA

2000	-1.63	-24	-0.04	0.04	289151	WEMA
2001	-0.54	15	0.09	-0.13	586189	WEMA
2002	5.12	27	0.17	0.13	282046	WEMA
2003	-3.25	49	-0.05	0.15	1172057	WEMA
2004	-3.2	-17	0.02	-0.19	3447274	WEMA
2005	0.38	-47	-0.28	-0.08	824955	WEMA
2006	-4.85	-21	-0.04	-0.09	16218512	WEMA
2007	1.81	-76	0.03	-0.36	-3718819	WEMA
2008	0.71	91	-0.04	0.42	4642664	WEMA
2009	-8.51	-598	-0.18	1.67	-57797357	WEMA
2010	-2.07	552	-0.04	-1.71	-2884462	WEMA
2011	22.98	175	0.25	1.49	46011860	WEMA
2012	-1.29	-5	-0.12	-0.07	77743	WEMA
1998	-2.9	-8	0.1	-0.11	1024291	STANBIC IBTC
1999	3.71	23	-0.02	0.26	421572	STANBIC IBTC
2000	0.89	0	-0.18	-0.02	637474	STANBIC IBTC
2001	-1.02	16	0.01	0.03	439590	STANBIC IBTC
2002	0.57	21	-0.3	0.03	537218	STANBIC IBTC
2003	1	32	-0.36	0.03	827570	STANBIC IBTC
2004	-0.81	22	0.02	-0.01	949783	STANBIC IBTC
2005	-1.6	-65	-0.01	-0.15	6702825	STANBIC IBTC
2006	-0.58	-33	0	0.03	3860572	STANBIC IBTC
2007	0.52	-4	0.03	-0.06	28227900	STANBIC IBTC
2008	1.45	4	-0.03	0	28726421	STANBIC IBTC
2009	0.31	12	-0.01	0.02	4212918	STANBIC IBTC
2010	-0.12	-16	-0.01	-0.04	-1243651	STANBIC IBTC
2011	0.41	9	0	0.02	2186000	STANBIC IBTC
2012	2.49	-20	0.03	-0.05	-3264000	STANBIC IBTC

Augmented Dickey-Fuller Unit Root Test (after detrending and differencing)

ADF Test Statistic	-13.35905	1% Critical Value*	-4.0288	
		5% Critical Value	-3.4437	
		10% Critical Value	-3.1464	
*MacKinnon critical values for rejection of hypothesis of a unit root.				
Augmented Dickey-Fuller Test Equation				

Dependent Variable: D(SHE,2)				
Method: Least Squares				
Date: 07/22/14 Time: 22:35				
Sample(adjusted): 5 150				
Included observations: 134				
Excluded observations: 12 after adjusting endpoints				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(SHE(-1))	-1.162435	0.087015	-13.35905	0.0000
C	6433265.	11796237	0.545366	0.5864
@TREND(1)	-50064.81	134687.9	-0.371710	0.7107
R-squared	0.576770	Mean dependent var		201531.0
Adjusted R-squared	0.570308	S.D. dependent var		1.01E+08
S.E. of regression	66479281	Akaike info criterion		38.88481
Sum squared resid	5.79E+17	Schwarz criterion		38.94969
Log likelihood	-2602.282	F-statistic		89.26217
Durbin-Watson stat	1.701308	Prob(F-statistic)		0.000000

ADF Test Statistic	-13.09176	1% Critical Value*	-5.1288
		5% Critical Value	-4.2437
		10% Critical Value	-3.1444
*MacKinnon critical values for rejection of hypothesis of a unit root.			

Augmented Dickey-Fuller Test Equation					
Dependent Variable: D(LR,2)					
Method: Least Squares					
Date: 07/22/14 Time: 22:39					
Sample(adjusted): 5 150					
Included observations: 134					
Excluded observations: 12 after adjusting endpoints					
Variable	Coefficient	Std. Error	t-Statistic	Prob.	
D(LR(-1))	-1.126151	0.086020	-13.09176	0.0000	
C	-0.003261	0.026734	-0.121986	0.9031	
@TREND(1)	-0.000164	0.000305	-0.537579	0.5918	
R-squared	0.566836	Mean dependent var		-0.001224	
Adjusted R-squared	0.560223	S.D. dependent var		0.227220	
S.E. of regression	0.150683	Akaike info criterion		-0.925146	
Sum squared resid	2.974394	Schwarz criterion		-0.860269	
Log likelihood	64.98481	F-statistic		85.71292	
Durbin-Watson stat	1.983132	Prob(F-statistic)		0.000000	

ADF Test Statistic	-10.03807	1% Critical Value*		-3.0118	
		5% Critical Value		-3.4674	
		10% Critical Value		-3.3164	
*MacKinnon critical values for rejection of hypothesis of a unit root.					

Augmented Dickey-Fuller Test Equation					
Dependent Variable: D(ROE,2)					
Method: Least Squares					
Date: 07/22/14 Time: 22:43					
Sample(adjusted): 5 150					
Included observations: 134					
Excluded observations: 12 after adjusting endpoints					
Variable	Coefficient	Std. Error	t-Statistic	Prob.	
D(ROE(-1))	-1.097605	0.109344	-10.03807	0.0000	
C	0.046106	0.082351	0.559865	0.5765	
@TREND(1)	-0.001032	0.000941	-1.097219	0.2746	
R-squared	0.436368	Mean dependent var		-0.023098	
Adjusted R-squared	0.427763	S.D. dependent var		0.613631	
S.E. of regression	0.464190	Akaike info criterion		1.325087	
Sum squared resid	28.22685	Schwarz criterion		1.389964	
Log likelihood	-85.78082	F-statistic		50.71052	
Durbin-Watson stat	1.633950	Prob(F-statistic)		0.000000	

ADF Test Statistic	-5.167382	1% Critical Value*		-4.4415	
		5% Critical Value		-3.6330	
		10% Critical Value		-3.2535	
*MacKinnon critical values for rejection of hypothesis of a unit root.					
Augmented Dickey-Fuller Test Equation					
Dependent Variable: D(DER,2)					
Method: Least Squares					
Date: 07/22/14 Time: 22:44					
Sample(adjusted): 5 150					
Included observations: 134					
Excluded observations: 12 after adjusting endpoints					
Variable	Coefficient	Std. Error	t-Statistic	Prob.	
D(DER(-1))	-0.266362	0.261856	-1.017207	0.3109	
C	-1.677685	2.473425	-0.678284	0.4988	
@TREND(1)	0.037294	0.028289	1.318343	0.1897	
R-squared	0.019458	Mean dependent var		1.132134	
Adjusted R-squared	0.004488	S.D. dependent var		13.96122	
S.E. of regression	13.92986	Akaike info criterion		8.128080	
Sum squared resid	25419.36	Schwarz criterion		8.192957	
Log likelihood	-541.5813	F-statistic		1.299798	
Durbin-Watson stat	1.826268	Prob(F-statistic)		0.000000	

ADF Test Statistic	-31.28125	1% Critical Value*		-4.0320	
		5% Critical Value		-3.4452	
		10% Critical Value		-3.1473	
*MacKinnon critical values for rejection of hypothesis of a unit root.					
Augmented Dickey-Fuller Test Equation					
Dependent Variable: D(EPS,2)					
Method: Least Squares					
Date: 07/22/14 Time: 22:46					
Sample(adjusted): 5 150					
Included observations: 128					
Excluded observations: 18 after adjusting endpoints					
Variable	Coefficient	Std. Error	t-Statistic	Prob.	
D(EPS(-1))	-1.773875	0.056707	-31.28125	0.0000	
C	2.024965	59.76081	0.033885	0.9730	
@TREND(1)	-0.069491	0.694397	-0.100074	0.9204	
R-squared	0.886726	Mean dependent var		-0.062500	
Adjusted R-squared	0.884914	S.D. dependent var		989.2878	
S.E. of regression	335.6100	Akaike info criterion		14.49293	
Sum squared resid	14079256	Schwarz criterion		14.55978	
Log likelihood	-924.5478	F-statistic		489.2589	
Durbin-Watson stat	1.956941	Prob(F-statistic)		0.000000	

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