BANK CONSOLIDATION AND FINANCIAL PERFORMANCE OF DEPOSIT MONEY BANKS IN NIGERIA

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BEING A DISSERTATION SUBMITTED TO THE POSTGRADUATE SCHOOL IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF MASTERS OF SCIENCE (M.Sc) DEGREE IN BANKING AND FINANCE OF THE DELTA STATE UNIVERSITY, ASABA CAMPUS

SEPTEMBER, 2016

DECLARATION

I hereby declare that this dissertation is an original research work carried out by me in the Department of Accounting, Banking and Finance, Delta State University, Asaba Campus.

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CERTIFICATION

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DEDICATION

This research work is dedicated to Almighty God.

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ABSTRACT

This study evaluated the impact of bank consolidation on financial performance of Deposit Money Banks in Nigeria for the period of 1997 to 2014, compromising Nine years Pre and nine years post consolidation eras. This study employed the use of secondary data gathered from the audited financial reports of selected banks in Nigeria. The population of study comprises twenty-two (22) deposit money banks in which ten (10) banks were drawn using purposive sampling techniques. Paired sample t-test was used to test the hypotheses formulated. The findings of the study shows that there is no significant relationship between consolidation and financial performance in Pre Consolidation era, but significant relationship exists between consolidation and financial performance in Post Consolidation era. Based on the findings, the study recommends that Deposit Money Banks should grant more loans to the real sector of the economy to enhance economic growth and development in Nigeria and CBN should also consider option of making Bank Consolidation a regular exercise to ensure that all loopholes are blocked to avoid abuse of funds by the Banks Executives.

TABLE OF CONTENTS

Title page	i
Declaration	iii
Certification	ii
Dedication	v
Acknowledgements	vi
Abstract	vii
Table of contents	viii
List of Tables	xii

CHAPTER ONE: INTRODUCTION

1.1	Background to the study	1
1.2	Statement of the problem	6
1.3	Research questions	7
1.4	Objective of the study	8
1.5	Statement of hypotheses	8
1.6	Scope of the study	9
1.7	Significance of the study	9
1.8	Limitation of the study	11
1.9	Operational definitions	11
1.10	Organization of the study	13
1.11	Summary	14

CHAPTER TWO: REVIEWOF RELATED LITERATURE

2.1	Introduction	15
2.2	Conceptual Review	15

2.2.1 An overview of the Nigerian Banks consolidation exercise 15
2.3 The Concept of bank consolidation 16
2.4 Consolidation in the Nigerian banking industry 20
2.4.1 Bank crisis and process of consolidation by CBN 20
2.4.2 Distress and consolidation in Nigeria 23
2.5 Reasons for consolidation 25
2.5.1 Opportunities of consolidation 27
2.6 Challenges of consolidation 29
2.7 Benefits of consolidation 30
2.8 The Concept of capital 32
2.9 Capital requirement in banks 35
2.9.1 Importance of adequate capital 35
2.9.2 Regulatory category of capital 36
2.9.3 Need for capital regulation in banks 40
2.10 Mergers and acquisition 42
2.11 The Concept of financial performance 43
2.12 Performance measurement models in banks 46
2.13 Return on Equity 47
2.14 Importance of Deposit 48
2.15 Loans and Advances 48
2.15.1 Characteristics and riskiness of loans and advances 49
2.15.2 Determining the quality of loans and advances 51
2.15.3 Categories of provision on banks risk assets 52
2.16 Theoretical review 54
2.16.1 Say's Law Theory 55

2.16.2 Concentration theories 55
2.16.3 Pro-concentration theories 56
2.16.4 Pro-Deconcentration theories 57
2.17 Empirical Framework 58
2.18 Summary 61

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction 63
3.2 Research design 63
3.3 Population and sample size 64
3.4 Sample techniques 64
3.5 Method of data collection 64
3.6 Techniques of data analysis 65
3.6.1 Model specification 65
3.7 Summary 67

CHAPTER FOUR: RESULTS AND FINDINGS

4.1 Introduction 68
4.2 Data Presentation 68
4.3 Data Analysis - 70
4.4 Test of hypotheses 78
4.5 Summary 89

CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS

5.1	Conclusion	90
5.2	Recommendations	91
5.3	Contribution to knowledge	92
	Suggestions for further study	94
	REFERENCES	95
	APPENDIX	101

LIST OF TABLES

Table 4.2.1	DMBs data on LOA, ROA, ROE, EPS and shareholders fund (Pre consolidation era 2000 – 2005)	77
Table 4.2.2	DMBs data on LOA, ROA, ROE, EPS and shareholders fund (Post consolidation era 2006 – 2014)	78
Table 4.3.1	Test of significant difference in ROA of DMBs	79
Table 4.3.2	Test of significant difference in ROE of DMBs	80
Table 4.3.3	Test of significant difference in EPS of DMBs	81
Table 4.3.4	Test if significant difference in LOA of DMBs	81
Table 4.4.1	Correlation matrix of shareholders fund and bank performance indices for pre and post consolidation era.	83

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

When banks experienced major financial setbacks, usually stakeholders such as the public, investors, depositors and the regulatory body (Central Bank of Nigeria) will respond. The setbacks are in terms of loans, profitability, deposits and continuous flow of liquidity to various sectors of the economy for the banks to maintain their role as engine of economic growth and development. The responses are that the public will tend to lose confidence not only in the affected banks but in the entire banking system. For example depositors of affected banks may rush and the markets will make it very difficult for banks to raise funds. The response by the regulatory authorities could take the form of consolidation or giving out temporary loan to enable the banks continue their normal operations without interruptions.

Financial problems in a banking system can cause great damages to a country if not timely and properly addressed, given its role as finance provider to other sectors of the economy and its ability to create liquidity. The financial problems of Nigerian banks started before the first banking law

of 1952 (Banking Ordinance) and were traced to 1930 when the first bank failure was

reported in the country. The major causes of the problems were linked to gross inadequate capital lending to technical insolvency, high operational loss due to low earnings and high operational cost, high incidence of nonperforming loans associated with poor assets quality, weak management, declining margin and gross insider abuse CBN (1995) and NDIC (1995). As a result of these unprecedented problems, the banks performances have not been adversely affecting the Banks financial needs to customers, the public, the economy and internal growth in terms of physical assets, ability to grant long term facilities and putting in place modern infrastructure that could propel the sector to greater heights.

Over the years, the regulatory bodies and the stakeholders have been very much concerned about what could be done to surmount these problems for effective performance and growth in the system. The 2005 attempt at finding a solution to these problems is the recapitalization exercise through raising the capital base of all Nigerian Deposit Money Banks (DMBs) to minimum of ₦25 billion. This recapitalization has made the exercise a regular feature or phenomenon in Nigerian banking sector. For

instance, between 1999 and 2003, the CBN has recapitalized the Nigerian banks four times. In 1999, the minimum capital requirement was N500 million between 2000 and 2001, it was moved to N1 billion for new entrant and N1.5 billion for existing banks. In 2002, it went up to N2 billion and N1 billion for new entrant and existing banks respectively. And in 2003, it became N2 billion for all banks Augusto (2004) and CBN (2004). The recapitalization policy could therefore be described as a deliberate action of the Central Bank of Nigeria (CBN) to address financial problems of the banks.

In the aftermath of the 2009 financial crisis in the banking sector, the Central Bank of Nigeria (CBN) under the leadership of Mr. Lamido Sanusi initiated series of reforms to restore public confidence and stability in the system. The new guidelines for Deposit Money banks classified them into three: Regional, National and International.

Regional banks must have a minimum paid up capital of N10 billion, while national must have N25 billion and international N50 billion. This new banking regime titled CBN scope, condition and minimum standard for commercial banks regulation No. 01, 2010 becomes effective from October 4, 2010.

According to the guideline, a commercial bank with regional banking authorization shall be entitled to carry on its banking operations within a minimum of six (6) and a maximum of 12 contagious states of the Federation, lying within not more than two geo-political zones of the Federation including Abuja. A bank with national banking authorization shall be entitled to carry on its banking operation within every state of the federation. But a bank with international banking authorization shall be entitled to carry on its banking operations within all states of the Federation as well as establish and maintain offshore banking operations in jurisdiction of its choice, subject to the approval of the CBN and compliance with regulatory requirements of host country.

In a bank, recapitalization is a regulatory policy of adjusting the existing capital as may be determined by the outcome of capital adequacy assessment with the main aim of repositioning an organization for an improved performance Adegbaju and Olokoyo (2008) are also of the view that banks recapitalization is a deliberate policy response to correct perceived or impending banking sector crisis and subsequent failure.

In the banking industry, any form of recapitalization is expected to create a capacity to provide more effective banking services that will bring

about the achievement of the desired level of economic growth and development. Therefore, the need for a strong capital base through recapitalization is to meet the challenges posed by financial and operational crisis, technological innovation and to strengthen the system.

CBN and NDIC (1995) refers to capital as the shareholders' stake and subsequent funds additions which are used as operating base and remain more or less permanent in the business until it winds up. The function of a bank capital as highlighted by CBN and NDIC (1995) include acquisition fixed assets, serve as an operating base, absorbs operating losses which cannot ordinarily be absorbed by normal earnings, abate fear of depositors, regulators and the public confidence therefore banks whose capital are relatively high may tend to command high deposit from which they can derive liquidity for their intermediation function. Similarly, the public believes that banks with high capital base are strong and reliable irrespective of the quality of service they render to their customers. No bank exists without meeting the statutory minimum liquidity requirement. Liquidity in banks represent physical cash, bank balances with CBN and other banks/financial institutions, treasury bills/certificates and any other assets of the banks that can easily be converted to cash with minimum risk or loss. The

performance of banks depends on their ability to meet their customers demand and that of the regulatory authorities at any point in time. With the consolidation, DMBs in Nigeria may be strong enough to mobilize, enhanced long and short term facilities to deserved customers and still maintain statutory liquidity requirement. This main intermediary function will transform into improved profit.

1.2 Statement of the problem

The Central Bank of Nigeria (CBN) insisted on consolidation of Nigerian banks in order to provide solution to the problem that have over the years thrown the banks into financial crisis that had led them into misplacement of their real functions. The identified problem of performance had continuously been weak and negative capital base resulting from poor operating performance, persistent illiquidity, unprofitable performance, poor asset quality and lack of extension of credit facilities to the real sector of the economy.

Capital is a legal requirement in banks. It is fundamental in any corporate existence, more importantly in banks because of obvious reasons. Capital performs a number of indispensable functions in the operations of

banks, among which are: providing a base for growth and expansion, militating against risk and fragility, maintenance of public confidence as well as enhancing deposits mobilization and efficiency. Capital is therefore expected to constantly be adequate hence the constant increase consideration. Therefore, the extent of consolidation on financial performance in this study assumed that the higher the capital, the higher the performance indicators. This not withstanding bank profits were dwindling such that some banks were threatened with liquidation. The outcome of this was the suspension of five Managing Directors by the CBN in 2009. To save these banks faced with liquidation problem. CBN embarked on a rescue mission and spent N620 billion to keep the banks alive. Against this backdrop, this research seeks to explore the impact of consolidation on the financial performance of banks in Nigeria.

1.3 Research questions

Based on the specific objectives, the following research questions were formulated:

1. To what extent have loan and advances of Pre and Post consolidation impact on return on equity.

2. To what extent have shareholders fund of Pre and Post Consolidation impact on return on equity.
3. To what extent have customers deposit of Pre and Post Consolidation impact on return on equity.

1.4 Objectives of the study

The general objective of the study is to evaluate the impact of bank consolidation on the financial performance of deposit money banks in Nigeria.

However the specific objectives are:

1. To determine whether loans and advances of Pre and Post Consolidation have impact on return on equity.
2. To determine whether shareholders funds of Pre and Post Consolidation have impact on return on equity.
3. To determine whether customer’s deposits of Pre and Post consolidation have impact on return on equity.

1.5 Statement of hypotheses

The following null hypotheses were formulated in line with the objectives and research questions of the study.

Ho_1: There is no significant difference between loans and advances of Pre and Post consolidation and Return on equity.

Ho_2: There is no significant difference between shareholders fund Pre and Post Consolidation and return on equity.

Ho_3: There is no significant difference between customer's deposits of Pre and Post consolidation and return on equity.

1.6 Scope of the study

The study focuses on bank consolidation and financial performance of deposit money banks in Nigeria. The study covers the period of 18 years from 1997 to 2014. Nine years pre-consolidation era (1997-2005) and Nine years post-consolidation era (2006 -2014). Secondary data were used extracted from the audited financial report of the ten (10) banks under review. Bank consolidation is proxy with loan and advances, shareholders funds and customers deposits as the independent variables while financial performance is proxy with return on equity as the dependent variable.

1.7 Significance of the study

The banking industry being the engine of growth and development of any nation needs careful study for comprehensive and adequate solution. Jat

(2006) sees the banking sector as the life wire of any economy and the pivot on which economic growth revolves. The findings of this research work will be useful in three aspects as follows:

i. Policy significance
ii. Practice significance
iii. Research Significance

Policy significance: The banking industry being the engine of any economy requires the government to closely monitor its operations to ensure consistent growth and development of the other sector of economy. The result of this work will assist the government in planning, implementing, controlling, monitoring and taking corrective measures to achieve the desired economic growth and development. Hence, relevant authorities may find the result of this research work useful in formulating their economic, financial and regulatory policies.

Practice Significance: The practitioners in this regard include bankers, accountants, financial analyst, theorists, financial advisors/consultants, stock brokers, and other related professionals. The findings will provide them with financial information that will assist in carrying out

advisory/consulting services to their clients. And the third category will include students and researchers in area of finance, accounting, economics and management; others are academics and social scientists like economist and political scientist.

1.8 Limitations of the study

This study has a number of observed limitations that should be addressed in further research studies. The domain of this research study was limited to Deposit Money Banks in Nigeria. However, future research studies could go ahead to expand the scope to involve other sectors in the economy and should also include other institutions as the concept consolidation and financial performance is not a concept that is practiced in the banking industry alone. The research was done in a hurry, distraction, pressure and lack of full concentration in order to gather/create more valuable results.

1.9 Operational Definitions

Loans and Advances:

The term 'loan' refers to the amount borrowed by one person from another. The amount is in the nature of loan and refers to the sum paid to the borrower. Thus, from the view point of borrower, it is 'borrowing' and from the view point of bank, it is 'lending'. Loan may be regarded as 'credit'

granted where the money is disbursed and its recovery is made on a later date. It is a debt for the borrower. While granting loans, credit is given for a definite purpose and for a predetermined period. Interest is charged on the loan at agreed rate and intervals of payment. ‘Advance’ on the other hand, is a ‘credit facility’ granted by the bank. Banks grant advances largely for short-term purposes, such as purchase of goods traded in and meeting other short-term trading liabilities. There is a sense of debt in loan, whereas an advance is a facility being availed of by the borrower. However, like loans, advances are also to be repaid.

Shareholders Fund:

Shareholders' fund refers to the amount of equity in a company, which belongs to the shareholders. The amount of shareholders' funds yields an approximation of theoretically how much the shareholders would receive if a business were to liquidate.

Deposits:

A transaction involving a transfer of funds to another party for safekeeping

Return on Equity:

Return on equity (ROE), is a financial ratio that measures the return generated on stockholders’/shareholders’ equity, the book or accounting

value of stockholders'/shareholders' equity which reflects the accumulation over time of amounts received by the company from stock/share issues plus the profits/earnings retained by the company, i.e., not yet distributed in dividends (accounting value of shareholders' equity is also equal to a company's net assets, i.e., assets minus liabilities).

1.10 Organization of the study

This research work consists of five chapters structured as follows: Chapter one presents the introduction that contains the overview of the study, followed by the statement of problems, the objectives as well as hypothesis and ended with the significance of the study, chapter two reviewed the related literature on bank consolidation and performance and also analysed the previous work conducted on similar topics. Chapter three presented the methodology adopted in carrying out the work, data analysis techniques employed in analyzing the data for hypothesis testing. Chapter four discussed the results of chapter three and chapter five contains discussion, conclusion and recommendations and future research.

1.11 Summary

The main issues and discussed in this chapter are majorly introduction of the topic, “Bank consolidation and financial performance of deposit money banks in Nigeria”. Starting with the overview of the study, it stated the problems as well as the objectives of the study which resulted in the formulation of the research questions and hypothesis. And thereafter the scope of the study was discussed, the significance of the study to Nigeria its limitation and definition of some terms and the organization of the study.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Introduction

This section provides the conceptual framework of the study and reviews relevant literature and empirical studies on bank consolidation and the financial performance of deposit money banks in Nigeria. The study also discusses theories of bank consolidation.

2.2 Conceptual framework

2.2.1 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 depositor's money, and 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 Okagbite and Aliko (2005).

The just concluded banks consolidation exercise mainly through bank mergers and acquisition (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 74 banks, which accounted for about 93 per cent of the industry's total deposit liabilities into 25 new banks Komolafe and Ujah (2006)Now that exercise has been concluded attention has clearly shifted to its term effects on the Nigerian banking system Omoh, 2006. And other subsequent reforms like the takeover of banks in year 2012. Hence, in this study, we are concerned about the impact of the consolidation exercise of the Nigerian banking system.

2.3 The concept of bank consolidation

Consolidation is viewed as the banking sector reform that requires all deposit money banks operating in Nigeria to have a minimum capital base of N25 billion as at 31st December, 2005 Soludo (2006). Generally, consolidation involves either mergers or acquisitions between or among banks and or through mobilizing additional capital in the stock market.

The CBN in its regulation on the scope of banking activities and ancillary matters No. 3, 2010 said in pursuant to its object to promote a sound

financial system in Nigeria. CBN has determined that the universal banking model and the resultant expansion of banks into a broad range of financial services, has exposed the banks to higher operating risks, increased the propensity to put depositors' funds into risky non-banking business and consequently heightened the risk of financial system instability.

According to Ferguson Jr. (2002) cited in Ajayi (2002) cost efficiency could also improve if more efficient banks acquire less efficient ones. Though studies on efficiency in banking raised doubts about the extent of over capacity, they did point to the considerable potential for improvement in cost efficiency through mergers.

Modern concepts of consolidation however, view bank mergers as not just about adjusting inputs to effect costs; but also involves adjusting output (product) mixes to enhance revenues. The studies of Akhavein, Jalai, Bergerd and Humphrey (1997) and Berger (1998) support this view. They found that bank mergers tend to be associated with improvements in overall performance, partly because banks achieve higher valued output mixes through a shift towards higher yielding loans away from securities. The studies revealed that merged banks also tend to experience a lowering of their cost of borrowed funds without needing to increase capital ratios.

The sophisticated nature of banks and their peculiar characteristics especially in the 21st century when banks are on daily basis embracing risky ventures which has made them to shift from just lending and keeping assets to a more vibrant and challenging functions. In view of this, Soludo (2005) points out that government will not allow the banking sector to succumb to distress; rather, it has to promote merger and acquisitions in the industry as possible ways out to overcome any challenges faced by the banks.

Banking crisis usually starts with a bank's inability to meet its financial obligations to its stakeholders. This, in most cases precipitates runs on banks as they and their customers engage in massive credit recall and withdrawals. Quite often, this situation necessitates apex bank’s liquidity support.

In some acute cases, governments, through the collaboration of international finance institutions such as the international monetary fund (IMF), intervene to stem the crisis from widening and deepening. The intervention mechanisms recommended by the CBN for example may be in the form of consolidation. Bank consolidation is implemented to strengthen the banking system, embrace globalization, improve healthy competition, exploit economies of scales, adopt advanced technologies, raise efficiency and improve profitability. The ultimate goal is to strengthen the

intermediation role of banks and to ensure that they are able to perform their developmental role of enhancing economic growth which subsequently leads to an improvement in the overall economic performance and societal welfare.

According to Ogubunka (2005), countries reform their banking sectors for a number of reasons. However, the banking from program of one country may provide some good lessons for others this is in line with best practice.

Ogubunka (2005) further stated that the Turkish banking sector reform appears to have addressed most of the identified problems that motivated it. Thus, it brought about enhanced capital and capital adequacy. Like Turkey, Malaysia and Indonesia had also passed through banking sector reform processes.

Banks are unavoidably involved in risk taking by the nature of their business operations. Types and various forms of risks faced by banks are well documented in the literature (Sundarajan and Bakino, 1991; Ebhodaghe, 1992; Ferguson, 2003). For instance, banks face the risk of not being able to meet their obligations to depositors to whom they have issued demandable claims. This is called liquidity risk. There is also the risk of default or credit

risk, which is the likelihood of borrowers of failing to repay as agreed. Similarly, there is the possibility that the mechanism processes and controls employed by banks to carry out its functions fail to achieve desired results, thus causing operational risk.

2.4 Consolidation in the Nigerian Banking Industry

2.4.1 Bank crisis and process of consolidation by CBN

Before 1952, banking operations were carried out without defined rules and regulations guiding the mode of operations. In the absence of enabling law, the banking businesses were conducted in whatever manner the owners thought well taken into cognizance the risk involved in the business. Not long after establishment, most of these banks developed problems, almost all of them became technically insolvent and thereafter failed (CBN and NDIC, 1995).

Banks failure was first recorded when the industrial and commercial bank ltd failed in 1930. Between 1930 and 1958 when the CBN was established, more than 21 banks failures were recorded (CBN and NDIC, 1995). However, the scope of the failure has increased between June 1989 and 1995 when the Nigerian government directed withdrawal of deposits of

government and other public sector institutions from commercial banks to CBN (CBN and NDIC, 1995).

The directive clearly exposed most of the weak banks to more financial hazards and some of them technically collapsed. Between 1994 and 1998, 26 banks were transferred to NDIC for liquidation, thus bringing the number of liquidated banks since 1994 to 31 (CBN, 1998). Between 1999 and 2002, four other banks were liquidated (Sunday, Tribune, 23rd November, 2003). The major cause of this failure was traced to high under capitalization of the banks.

Banking crisis therefore were triggered by weakness in banking system characterized mainly by undercapitalization that resulted to persistent illiquidity, insolvency, high level of non-performing loans. Bank crisis usually start with inability of the bank to meet its financial obligations to its customers and other stakeholders, who usually gives rise to run on banks, the banks and their customers engage in massive credit recalls and withdrawals which may also necessitate the central bank liquidity support to the affected banks. Some forms of intervention strategy may take place in the form of consolidation. Bank consolidation, which is at the core of most

banking system reform programmes, occurs, some of the time, independent of any banking crisis.

Asedionlen (2004) is of the view that consolidation may raise liquidity in short term but will not guaranty a conducive macroeconomic environment required to ensure high assets quality and good profitability. In February 1998, the capital base for commercial bank was increased to ₦5m, in October the same year; it was jerked up to ₦10m.

In 1989, there was a further increase to N20m for commercial banks. (Adegbaju and Olokoyo, 2008). With the CBN assumption that well capitalized banks would strengthen the banking system for effective performance. It increased the minimum paid up capital of commercial bank in February 1990 to ₦50 million. Distressed banks whose capital fell below existing requirement were expected to comply by 31st March, 1997 or face liquidation thirteen of such banks were liquidated in January 1998. Minimum paid up capital was raised to ₦500 million with effect from 1st January, 1997 and by December, 1998, all existing banks were to recapitalize. In January 2004, the CBN announced the need for banks to recapitalize to minimum of ₦25 billion for all deposits money banks operating in Nigeria with a deadline of 31st December, 2005. In October 4, 2010 a new guideline took effect when

Deposit Money Banks were classified into three: regional banks with a paid up capital of ₦10 billion, while national bank must have ₦25 billion and international bank ₦50 billion.

2.4.2 Distress and Consolidation in Nigeria

Distress could be described as an unhealthy condition where the affected bank will be unable to meet the cash withdrawal demand of its customers mainly because of illiquidity of the bank. Alashi (1993) associate distress with a cessation of operations of a financial institution. Thus, the expression, financial distress, is commonly employed to describe two distinct, but closely related conditions in an enterprise – illiquidity and insolvency. The immediate consequences of distress in the financial system is a sharp reduction in the value of the systems assets, resulting in apparent or real insolvency of many financial institution accompanied by some runs and possible liquidation of some of these institutions (CBN, 2004).

The major problems that led to distress and outright failure of banks are: inadequate capital including operational/working; reckless lending, leading to poor asset quality; absence of effective and sound management; weak earnings associated with operational losses; poor liquidity ratio due to

ineffective management and absence/weak credit policy (CBN and NDIC, 1995).

Soludo (2004) and Usman (2005) conclude that the Nigerian banking system was experiencing systematic distress before the commencement of the consolidation exercise. For example, as at June, 2004, out of the 89 banks operating, 62 were found to be sound, 13 were marginal players and the rest (14) were unsound.

With this new capital directive, the Central Bank of Nigeria (CBN) has recapitalized the Nigerian banks five times between 1999 and 2005 alone. In 1999, the minimum capital requirement was ₦500 million. Between the year 2000 and 2001 it moved to ₦1 billion for new entrants and ₦1.5 million for existing ones. In 2002, it was raised up to ₦2 billion and ₦1 billion for new entrants existing banks respectively and in 2003 it became ₦2 billion for all banks and finally to ₦25 billion in 2005 (Agusto, 2004 and CBN, 2004). Umoh (2004) is of the view that the capital of a bank is expected to fund fixed assets, absorbed future operational losses and determine the volume of risk assets created by the bank". However, the Governor did not go further to direct how the new capital (Cash Injection) shall be utilized.

One important directive is the establishment of a minimum capital base for all the banks in Nigeria. Yet, the ₦25 billion capitalization is not very clear as to its structure. It is the paid up share capital alone, paid up share capital with statutory and all other reserve or simply the shareholders fund as always being reported in banks financial statements.

Umoh (2004) in justifying for recapitalization says that the justification lies in the fragility and distressed condition of the banking sector. Before the deregulation of the sector in the late 1980s there existed at least seven (7) insolvent banks which distressed conditions were not resolved.

He gave the recapitalization requirement of distressed bank as from 1995 when 60 of the 115 operating banks were adjudged to be distressed. The recent new guideline by CBN is aimed at achieving cost efficiency through economy of scale and o diversity and expand the range of banking activities; therefore this scheme is a veritable way of achieving a more efficient and effective allocation of resources (Soludo, 2004).

2.5 Reason for consolidation in banks

According to Oke (1997) consolidation is simply another way of saying survival of the fittest that is to say a bigger, more efficient, better capitalized,

more skilled industry, consolidation is part of the natural evolutions of industries it is primarily driven by:

a. Business motives and/or market forces
b. Regulatory interventions

Consolidation is a term used by the Central Bank of Nigeria (CBN) to describe the coming together of some banks within the country to become one bank and be able to meet CBN's requirement for capitalization to a minimum of ₦ 10 billion for regional banks and ₦25 billion for national banks and ₦50 billion for international banks Gilson (1998) is in agreement with Van Horne (2002) when he states that recapitalization is meant of address corporate underperformance, financial distress, changes in business' corporate and strategic policy and information gaps between the firm and the capital market. He gives examples to include financial re-organizations and bankruptcy (liquidation); equity restructuring employees claims through lay-offs, downsizing and negotiated wage give backs. He concluded that for most firms however, recapitalization is a response to severe financial distress, following large declines in firm's profitability, market value or competitive position and operational under performance.

According to Akinsulire (2008), recapitalization refers to changes in the capital structure of a company. In some cases, the ownership structure is also changed in order to make it operate more effectively. He is of the view that it is not when a company is in distress alone that it can recapitalize, although most of the time, this is when it is considered appropriate. As long as consolidation improves the firms operating performance and increases its post transaction cash flow and debt servicing ability, it creates for shareholders and the economy. In summary, the 2010 consolidation is mainly aimed at addressing the long term financial and operational problems with a view to turnaround the DMBs in Nigeria for satisfactory performance.

2.5.1 Opportunities of consolidation

Injection of fresh capital into the industry

- Addresses cases of weak capitalization directly or indirectly.
- Provides investment capital for service delivery systems and risk management capabilities.
- Improves ability to upscale

Mergers/Acquisition

- Enables the industry to use increased volume to dilute the impact of inevitable margin reductions
- Where successful, reaps the benefits of scale/scope economics
- Reversal of thinned out experienced industry manpower
- Likely dilution of over bearing shareholders/board members
- Provides a better platform for more effective banking regulation and policy realizations
- Reality is that small scale commercial banking without a high level of efficiency/niche strength in not economically viable.

International Integration

- Post consolidation banks will become more internationally competitive especially in West Africa
- Increased opportunities to access more significant offshore lines of credit to boost financing of local projects/companies.
- Increased ability to access certain up market opportunities that are currently significantly not locally banked e.g. upstream oil and gas, telecoms.

2.6 Challenges of consolidation

Benefits are not automatic

- Technology and Process Integration
- Human resources upgrade
- Culture clashes
- Bigger is not automatically more efficient etc

Return on investment and management challenges

- Increased capitalization will lower ROI in the short term. Managers must resist the temptation of taking non banking risks to boost returns.
- Banks must also manage the possibility of over capitalization.
- Management challenges
- Are there requisite experience/skills to carry this through successfully within a short time frame?
- Managers may be thrust into the deep end of managing large businesses they did not grow
- Managing a large commercial banking business is about managing risks, serving customers and controlling costs.

Post consolidation banks will have to lend

- Credit underwriting and management skills become very critical
- Meaningful economic contribution comes from channeling financial capital to efficient users; capital particularly in Sub-Saharan Africa is a scarce resource.

Corporate governance/regulatory oversight must work

- Promised regulatory incentive must materialize
- Key economic policies must complement banking reforms
- A 25bn + banking failure will be a disaster
- A 25bn + banking rescue will be too expensive

2.7 Benefit of consolidation

Some of the benefits of consolidation of the banking industry include availability of funds for small and medium scale enterprises, opportunity for Nigerian bank to explore other regional and international markets, reduction in capital flight, massive and continuous innovations in the banking sector, externally focused competition and restoration of confidence in the Nigerian sector etc. Izedonmi (2005) has argued that the consolidation of Nigerian

banks was to make them Basel Accord II compliant by 2007. Basel II emphasized the need for banks to have a higher level of capital base which is proportional to their risk exposure. Since the consolidation, many banks have gone to the capital market to raise additional capital for various purposes such as expansion, enhancement of operational efficiency through investment in ICT.

Okoro (2006) remarked that "never in the country's history has anything near the inflow of off-shore investment of over $500 million through the banking sector been registered in one year". Equally, the bond and repurchase market are expected to kick off due to the growth in the banking sector Teriba (2004). Ifeacho (2005) argued that the Nigerian capital market had suddenly become the preferred source of raising funds by banks in the wake of the consolidation policy, thereby boosting the market capitalization in tremendous leaps. Again, white consolidation increased attention in the primary market; activities in the secondary market became ill initially because of new issues offered by banks Atufe (2005). Because of the immense contribution of the capital market in the bank recapitalization, the activities of Nigerian capital market has created more awareness of the opportunities to the investing public and listed companies.

2.8 The Concept of Capital

Capital is the most crucial element for all economic activities in any organization. It is also the basic financial indicator that should be carefully monitored and measured. In banks, capital is one of the key variables in financial management since sufficient capital level for financial institutions is considered to be the most effective way to sustain business activities.

Capital is therefore a hedge against all types of risk; as all risk management activities focus on capital level for individual transactions, business lines and the entire company. One of the most important aspects of bank management is to decide the level of capital for bank to operate in a safe and sound way. Besides, regulators pay a great deal of attention to the amount of capital in banks (Tiryaki, 2009).

Capital is the value of the net assets of the owners of the company, in this case of the bank, capital is initially a source of fund for the bank for buying all necessary fixed assets and to supplement working capital. The equity of the bank is the difference between the value of the total assets of the bank and the value of its liabilities. According to Tiryaki (2009), capital is assigned two general functions in banks:

i. To measure the owners stake in the bank. Stakeholders include anyone who has a claim on the current and future cash flows of the company.

ii. To act as a shield for stakeholders. The stronger the owner's stake, the more protection it provides for guarantors, debt holders.

According to Maisel (1981) for the purposes of determining adequate amount of capital, a bank may be considered insolvent in two cases: first, when its liquidity is so low that it cannot pay its due debts; second when the market value of its assets is less than the value of its liabilities. Accordingly, Csrouhy and Galai (1986) suggest that risk of solvency basically depends on:

i. The risk that in the future bank has to incur a rate higher than the Current yield on its assets

ii. The risk of capital loss on bank's assets

iii. The risk that some loans cannot be collected

iv. The initial amount of capital that can cover the adverse effect of the Previous three risks.

Adequate capital is mandatory to the Survival of any business. Inadequate capital may be detrimental to the successful operations of business

particularly in the banking industry, where the regulatory authority is of the opinion that capital is no longer sufficient to absorb the volume of operations, increase or consolidation of capital may be contemplated either through merger, acquisition or restructuring for the survival of the industry.

Wood and Sangster (2002) define capital as the amount of the resources supplied by the owners. Hassan (2007) defines capital as a fund of any corporate organization that has potentials to generate profit through investment. CBN and NDIC refer to capital of a bank as shareholders stake and subsequent funds additions which are used as operating base and remain more or less permanent in the business until it wind off they state the functions of a bank capital to include:

i. Acquisition of fixed assets
ii. Operating base
iii. Absorb operating losses which otherwise cannot ordinarily be Absorbed by normal earnings
iv. Allay fear of depositors, regulators and the public (Public confidence) and
v. Show owners confidence in the bankingbusiness, the strength of the

band and its lending limits.

Therefore, capital could be defined as the financial resources in use in an organization at any point in time either provided by the owners, through debt holders or combination of these two groups, with the potentials to achieve the objectives of the organization.

2.9 Capital Requirement in Banks

2.9.1 Importance of Adequate Capital

In banking, capital creates a strong incentive to manage a bank in prudent manner, because the bank owner's equity is at risk in the event of a failure. Bank's capitals are tied to unexpected losses. Bank's capital plays a critical role in the safety and soundness of individual banks and the banking system. Sufficient capital should be in place to absorb the loss and leave the bank stable and able to continue operating effectively hence there is the need for at least adequate capital requirement in the banking sector (BCBS, 1998).

Banking is like any other business with certain risks and return characteristics. Banking is the most regulated business of the world and

capital regulation is the arch pillar of this regulatory structure; the more complex it is, the higher the regulatory satisfaction.

There is increasing reluctance to let capital find its own level in the banking industry. The central argument against this is that social, economic and financial cost of bankruptcy is tremendous for the banking industry and central to this risk of bankruptcy is the failure of banks to honour commitment to the depositors who are assumed to be gullible, not knowing what banks are doing with their money and not able to distinguish between 'good' banks and 'bad' banks. Despite this statement, Calmoris and Wilson (2004) provides evidence from their study of banking crisis during the great depression that depositors were able in some degree, to identify weak banks and to make roughly accurate assessment of the deposit risk by following market movements related to stock prices of banks and changes in bank leverage.

2.9.2 Regulatory category of capital

The idea of imposing minimum levels of capital on all banks began in the United States in 1981. Prior to this date, Federal and State regulatory authorities used a subjective approach that relied on peer group comparison

to decide if a bank had enough capital. Capital ratios are used to measure adequacy of capital, then were: Total capital to Total deposit; Total capital to Total assets and total capital to total risk assets (New Basel Capital Accord: an explanatory note, 2001).

The recent approach is imposing a minimum capital standard on all banks for the regulators to enforce and avoid the pitfall of peer group measurement.

In 1992, FDIC and other Federal bank regulators created five capital adequacy categories of banks for purposes of implementing "prompt corrective action" when a bank becomes inadequately capitalized. The FDIC improvement Act of 1991 has the following five (5) capital-adequacy categories of banks:

i. **Well capitalized:** This category must have a ratio of total capital to risk weighted assets of at least ten percent, a ratio of shareholders equity, all disclosed reserve less goodwill if any. Capital to risk weighted assets of at least six percent and a leverage ratio (Shareholders equity, all disclosed reserved less good will if any) to average total assets of at least four percent.

ii. **Adequately capitalized:** This group must have a minimum ratio capital

to risk-weighted asset of at least eight percent of shareholders equity, all disclosed reserved less goodwill if any). Capital to risk weighted assets of at least four percent and leverage ratio of at least four percent.

iii. **Undercapitalized:** This describes any bank that fails to meet one or more of capital minimum for an adequately capitalized bank as defined above and is subject to its transactions to granting loans to highly leveraged borrowers, making changes in their charter or bylaws etc. In Nigeria, the CBN has not attempted to classify banks capital into the above categories this may be due to instability in the banking system, untrue and possibly misleading financial report including improper recognizing of earnings inability or insincerity to identify different types of capital and other factors. The debate surrounding capital and its adequacy is an important concern for both banks as well as the regulators thus has been at the forefront of policy discussions over the years. Despite the immense amount of work that has been devoted to the issue, there has been little in the way of agreement among the various commentators as to the guiding principles (Ringle, 1975).

iv. **Significantly undercapitalized:** Any bank belonging to this group

possesses a ratio of total capital to risk weighted assets of less than six percent of (shareholders equity, all disclosed reversed less goodwill if any). Capital to risk weighted assets ratio of under three percent and a leverage ratio average less than three percent. A bank in this category is subject to all the restrictions faced by undercapitalized banks (as described above) plus other restrictions such as mandatory prohibitions on paying bonus and raises to senior staffers without regulatory approval,

v. **Critically undercapitalized:** This category applies to banks whose ratio of tangible equity capital to total assets is two percent or less (where tangible equity includes common equity capital and cumulative perpetual preferred stock minus most forms of intangible assets). Banks in this lowest capital group face all the restrictions applying to undercapitalized banks plus having to get regulators approval for such transactions as granting loans to highly leveraged borrowers, making changes in their charter or bylaws and the rest.

In Nigeria, the CBN has not attempted to classify banks capital into the above categories; this may be due to instability in the banking system,

untrue and possibly misleading financial report including improper recognizing of earnings, inability or insincerity to identify different types of capital and other factors.

The debate surrounding capital and its adequacy is an important concern for both banks as well as the regulators thus has been at the forefront of policy discussions over the years. Despite the immense amount of work that has been devoted to the issue, there has been little in the way of agreement among the various commentators as to the guiding principles (Pringle, 1975).

2.9.3 Need for capital regulation in bank

The acknowledged importance of the financial system vis-a-vis the banking sector for better functioning of an economy is very clear. It is obvious that banking crisis can have large disruptive effect on the real economy. For along time policymakers have put considerable effort into the design of banks capital as a way of safeguarding overall financial stability. The Basel Accord was issued in 1988, market risk was dealt with in 1996 and a revised (risk based) framework was issued in June 2004, (Basel II). Accompanying this policy effort, were the issues on the bank capital and

capital regulation. The need for any regulation in banking business usually comes from a market failure such as externalities, market power or asymmetry of information between buyers and sellers.

Banking is still the most regulated among all industrial sectors of an economy whether it is a fully controlled, partially controlled or a market economy. Some twenty-five years ago, Buser, Chen and Kane (1981) holds that banks have traditionally been conceived as more than just another business firm; they operate under unusual regulatory restrictions including entry limitations, Interest rate ceilings, reserve requirements and government guarantees on their deposit liabilities. The situation has not changed much since then, only that the earlier systems of regulated deposit rate, among others have now been replaced by regulatory capital requirement. The regulatory zeal has transverse the national boundaries.

Despite this, regulating capital standards often require banks to maintain equity cushions exceeding what they would otherwise choose based on market discipline alone. When this happens, banks may view these standards as a form of regulatory taxation, more so, because cost of equity in banks is generally perceived to be much greater than the cost of the debt.

No amount of regulation can catch up with innovations, which

predominantly come up at the call of equity capital in response to existing regulations. Therefore, the fundamental purpose of regulating banks capital is to reduce the risk of banks' operational failures, to maintain the confidence the system and unit losses to all the stakeholders including the government and economy.

2.10 Mergers and acquisition

Mergers and acquisition are divisions of consolidation are common place in developed countries of the world but are just becoming prominent in Nigeria especially in the banking industry. Before the recent consolidation, the Nigerian banks had not fully embraced mergers and acquisitions as expected because of their cultural background in terms of asset ownership, greediness, shame, fear of what people will say and lack of proficiency required for mergers and acquisitions, among other reasons. The issue of mergers and acquisitions in banking industry started in October, 2003 under the past Governor of CBN (Charles Soludo). The CBN rolled out incentives to encourage weaker banks adopt mergers and acquisition. The incentives included concessionary cash reserve ratio for a period of two years to the newly restructured banks, conversion of over drawn positions of weak banks to long term loans with concessionary interest and the acquired banks could

be given up to 24 months grace period for complying with the minimum liquidity ratio requirement to enable it settle down as a newly recapitalized/restructured bank. Though, most of the feeble banks were unwilling to comply until the new order of July 6, 2004 Famakinwa (2004). The situation changed from July 6, 2004 as many banks had either merged with or acquired other banks.

The increase in awareness and scheme is due to a number of reasons such as threat of distress, regulatory driven environment, foreign inducement, persuasion from regulatory bodies and economic benefits of mergers and acquisitions. The most common of these factors that is responsible for the growth of mergers and acquisition in Nigerian banks is regulatory factor. Thus, mergers and acquisitions as consolidation tools have become a near permanent feature of our financial system after July 6, 2004 (Ewubare, 2004). The policy of 25 billion naira minimum capital base forced banks to go into merger and or acquisition on one another as a strategy to meet the requirement.

2.11 The concept of financial performance

The term performance is not as simple as it sounds; people often mean very different thing when they talk about performance. There are several aspects of performance, each of which contributes to the overall performance in an organization. Despite the evolution of various available benchmark and performance measurement, the answer to what is performance may still be hard to pin down. The banking sector aimed at strong performance, but few worry about what constitutes such performance.

No performance review is beyond dispute, for instance, reported profit is a matter of opinion. If income is to be measured in terms of the increase or decrease in the wealth of an enterprise, obviously some definitions of that stock of wealth is required. Three basic measures of wealth are evident from the literature (Akinsulire, 2008 and Pandy, 2003) as follows:

i. **Financial capital:** The equity stake in an enterprise in money terms;
ii. **Real financial capital:** The equity stake in an enterprise in real terms (the proprietary concept);
iii. **Operating capacity capital:** The ability of the enterprise to maintain its ability to provide goods and services (The entity concept).

Hunger and Wheelan (1997) defined performance as the end result of activity and the appropriate measure selected to assess corporate performance is considered to depend on the type of organization to be evaluated and the objectives to be achieved through that evaluation. Performance measurement is therefore the process whereby an organization establishes the parameters within which programmes, investments, outputs and acquisitions are reaching the desired results.

In banking industry, the regulatory authorities used common rating system, i.e. CAMEL to assess the performance of a bank for soundness or otherwise. However, the arrangement of CAMEL has criticized by Wirnkar and Tanko (2007) and suggested another acronym of CAMEL; however this has not been tested either by the regulatory authorities.

C - Capital adequacy

A - Determination of the assets or loans and advances quality

M - Assessment of management quality

E - Measurement of earning of the bank

L - Test of liquidity ratio

The result of this rating system will confirm the condition of a bank. However, thirteen banks are poised to carry on in business going by the new

rule of the Central Bank of Nigeria (CBN) that sets ₦100 billion equity capital for offshore expansion. The banks will have to set up a holding company o keep their offshore interest or step back and remain a national bank with just ₦25 billion capital bases. The banks with equity capital in excess of N100 billion are Diamond, intercontinental, Fidelity, Guaranty Trust, First City Monument, Access and Oceanic Banks. Others are Zenith, United Bank of Africa, Finbank, Bank PHB and Union Bank.

2.12 Performance Measurement models in Banks

Cameron (1986) and Hitt (1988) suggest that studies on corporate performance should include multi-media criteria analysis. Weiner and Mahoney (1981) have indicated that there are numerous measures of corporate performance that could serve as dependent variables.

The performance of a firm can be measured in terms of their productive (cost and output) efficiency and allocative efficiency (market Power). To measure efficiency, input and output have to be compared with each other and researchers of banking markets face the problems of how to define the inputs and output process. This explains why no techniques have

been accepted and thus has brought considerable differences in the measurement of efficiency.

Researchers such as Evanoff and Fortier (1988) in order to overcome these problems have adopted the common measures on banks' performance return on assets (ROA), others include return on equity (ROE) and bank stock price Maiturare (2004). This has rendered ROA as the most widely used bank performance measure as suggested by Evanoff and Fortier (1988).

On the part of CBN, which classified thirteen banks as the largest, possibly best, it used multiple (four) criteria for the performance measurement. The criteria are asset base, equity capital, deposit base and credit facilities (CBN, 2005).

The profit is the bottom line as all other performance measurement is measured by the returns in the form of what they can contribute to the overall profitability of the banking business.

2.13 Return on Equity

Return on Equity is the primary measure of banks performance, ROE has proven enduring at one level, this makes sense and it focuses on return

to the shareholders of the company. If you are a shareholder, this gives you a quick and easy to understand metric. But ROE can obscure a lot of potential problems. If investors are not careful, it can divert attention from business fundamentals and lead to nasty surprises. Banks can resort financial strategies to artificially maintain a healthy Return on equity.

2.14 Importance of Deposit

Deposit of banks represents the amount of cash and cash equivalent accepted, received or collected from customers on behalf of customers and prospective customers for safe keeping, payment on demand, project planning, future withdrawal, interest generating among others.

Deposits are liabilities on the part of the banks since the deposits will eventually be withdrawn by the customers. To a bank deposit is a raw material with which it processes to maintain its role of intermediation.

2.15 Loans and advances

Creation of credit facilities is one of the most important functions of banks. The creation of credit is accompanied by the lending and investing activities of banks in compliance with the CBN circulars and directives. The

power of the banking system to create credit is of great economic significance because it results in the elastic credit system that is necessary for economic progress at a relatively steady rate of growth.

Banks can directly affect the level of economic growth of a country through the granting of credit facilities. It therefore follows that the greater the percentage of a bank's total resources placed in loans, the better the banks performance Bauker (1970) thus an important function of the banking system is to provide financial intermediation and this is reflected in the loan and advances provided by the banks.

Consequently, the amount of loans and advances outstanding and the loan and advances to deposit ratio can be used to evaluate the intermediation function of the Nigerian Banking System.

The loans and advances to deposits ratio gives an impression of the extent to which banks used the resources available to them and thus considered a positive index of performance of the bank system (Jat, 2006).

One of the four performance measurements used by the CBN to determine the largest thirteen banks is total loans and advances of the banks.

2.15.1 Characteristics and riskiness of loans and advances in banks

Risks are broadly defined as financial, operational, business and events risks. These risks can result in loss to the banks or affect their liquidity if they are not properly identified, assessed and managed.

Creation of credit facilities is one of the most important functions of banks. The creation of credit accompanies the lending and investing activities of banks in compliance with the CBN's circulars and directives. The power of the banking system to create credit is of great economic significance because it is expected to result in the elastic credit system that is necessary for economic progress at a relatively steady rate of growth.

Carse (2000) opines that banking involves risk and no amount of care and prudence will prevent the occasional problem from arising. However, good banking involves the judicious taking of risks, managing and pricing them properly, rather than avoiding or hiding them and in the process making the banking system work for the economy and to the benefit of all stakeholders. CBN banking supervision (1990) defines credit facilities credit facilities to include loans, advances, overdrafts, commercial papers, banker's acceptances, bills discounted, leases, guarantees and other loss contingencies connected with a bank's credit risk.

When a bank grants loans, it could therefore be deduced that it has actively created a claim against itself and in favour of a borrower, the claims a bank takes from its customers in exchange for its deposits are the bank's assets. Therefore, the standard assets of a deposit money banks are overdraft and loans, bills discounted, investments and cash.

2.15.2 Determining the quality of loans and advances

Provision on classified facilities/bad and doubtful loans is of great importance for bank and its regulators. Provisions here represent the expected losses on a portfolio of impaired and good loans. It is quite evident that this accord will not have much relevance if the measurement of bank capital is not satisfactory. A key input in the measurement of banks capital is the amount of loan-loss provisions on loans.

Bank loans by their economic nature, have no much market based information to estimate their current value, loan-loss provisions must be estimated. Several countries including Nigeria have provided a provisioning schedule for non performing loans that takes into account the number of days since the default date and the quality of collateral support.

Two approaches have been suggested to measure credit risk and provisions on a loan portfolio: a mark-to-market model and a default model. In a mark-to-market mode, the value of loans (both performing and non performing) is estimated, either with actual market prices or with an estimate of their value, which will integrate the probability of default mode approach, provisions are estimated only for non performing loans.

2.15.3 Categories of provisions on banks risk assets

According to Chakabarti (2005) default risk is an essential feature of all lending and most banks have had "bad" or unrecoverable loans in their portfolios. As long as such loans form a relatively small part of a bank's portfolio. The standard international asset classification rules as adopted by Van Greuning and Bratonovic (2003) are summarized below:

1. **Standard/Pass:** Standard risk assets are those that service capacity considered to be beyond any doubt. In general, risk assets that are fully secured, including principal and interest, are usually classified as standard or pass, regardless of arrears of other adverse credit factors. These assets are reflected as "performing" in the balance sheets of the banks and a provision of 1% is set aside for them.

2. **Watch:** These are risk assets with the potential of drifting into the substandard category if not checked or corrected. They pose the danger of jeopardizing the borrower's repayment capacity and the income budget of the bank. This category of risk assets is merely used as a risk management monitoring tool and is not reflected in bank's balance sheet. The provision on this category 5%.
3. **Substandard:** Substandard risk assets indicate credit weakness that jeopardize debt services capacity, in particular when the primary sources of repayment are insufficient and the bank is forced to recourse to secondary sources for repayment. Non performing assets (NPAs) that are at least 90 days past due in principal and interest are normally classified as substandard. Such risk assets are reflected in the balance sheet of the bank as NPA and a provision of 10% is set aside for them.
4. **Doubtful:** These risk assets have the same weaknesses as substandard, but their collection in full is questionable on the basis of existing facts. The possibility of these assets deteriorating to loss category is present but certain factors that may strengthen the asset deter its classification until a more exact status may be determined.

NPAs that are at least 180 days past due in principal and interest are classified as doubtful. They are also reflected in the balance sheet of the bank as NPA and a provision of 50% is set aside for them.

5. **Loss:** These are risk assets that are considered uncollectible and such little value that the continued definition as bankable assets is not warranted. This does not however, mean that these assets have absolutely no recovery or salvage value; rather they have neither practical nor desirable to defer the process of writing them off. NPA that are at least one year past due in principal and interest are classified as loss. Such risk assets are also reflected as NPA in the balance sheet of the bank and 100% provision against profit is made for them.

NPA is a credit that is past due in principal and interest repayment. Broadly speaking, it is defined as one with interest and/or principal repayment installment unpaid for a specific period Chakrabarti (2005).

A number of studies Asogwa(2002), Otu(2005), Adeyemi, (2006) Enyi(2007), Hesse(2007) and Afrivest(2008) identified NPA as a major cause of banks distress in Nigerian banking industry. Other direct causes identified are poor credit administration, insider abuse, pressure to meet risk assets

and income budgets and harsh economic environment are identified Altman and Saunders (1998).

2.16 Theoretical framework

Based on the important nature of this research work, it is anchored on four theories which is say's law and concentration theory.

2.16.1 Say's Law theory

This theory believes that recapitalization of banks leads to increased capital base which may imply increase availability of loanable funds to the economy. This should lead to a fall in interest rate and should be capable of stimulating or eliciting a demand following response as envisaged by Say's Law of markets. While Say's Law remained silent with regard to the role of money, it however argues that the only reason to have money is to buy goods; hence this theory did not envisage the Keynesian outcome that there could be the precautionary and speculative demand for money Kates(1998).

This argues that the premise of the financial sector recapitalization appears to be consistent with the classical view of monetary policy that the

main function of money is to act as a medium of exchange while its importance is to determine aggregate price level.

2.16.2 Concentration theories

This is the theory that explains the degree of control in which larger firms have on economic activities in the country Sathye(2002). This theory argues that economies of scale bring about bank merger and acquisition so that concentration will be based on bank efficiency Demirgue-kunt and Levine, (2000). Some theoretical argument believed that less concentration on banking industry with small size bring about financial crisis in banking sector than the large banks Allen and Gale(2000) and Beck, Demirgue – Kunt and Levine(2004).

Supporters of this theory argue that large banks can grow faster and as well enhance profitability than the smaller banks. Based on the above theory, small banking industry is easy to monitor than those large banks because corporate control of banks will be more effective Beck, Demirgue – Kunt and Levine (2004)

2.16.3 Pro-concentration theories

Proponents of banking sector concentration argued that economies of scale drive bank mergers and acquisitions (including concentration), so that increased concentration goes hand in hand with efficiency improvements Demirgue-Kunt and Levine (2000). To buttress this point, Boyd and Runkie (1993) examined 122 U.S bank holding companies and found on inverse relationship between size and volatility of asset returns. However, these finding are based on situations in which the consolidation were voluntary, unlike the case with the concluded banks consolidation exercise in Nigeria.

Some theoretical arguments and country comparisons suggest that a less concentrated banking sector with many small banks is more prone to financial crisis than a concentrated banking sector with a few large banks Allen and Gale (2000) and Beck, Demirgue – Kunt and Levine (2004).

2.16.4 Pro-Deconcentration Theories

Findings from a study carried out by Chang (1991) indicate that bank consolidation tends to increase the risk of bank portfolios. Proponents of banking sector deconcentration also argues that concentration will intensify market power and political influence of financial conglomerates, stymre

competition in and access to financial services, reduce efficiency and destabilize financial systems as banks become too big to discipline and use their influence to shape banking regulations and policies Demirgue-kunt-Levine(2000); Beck, Demirgue-Kunt and Levine(2004) and Bank for International Settlements (2001), while excessive competition may create an unstable banking environment, insufficient competition and contestability in the banking sector may breed inefficiencies. Pro deconcentration, there is evidence linking increase in banking concentration to reductions in credit supply.

Another pro-deconcentration position is that a more concentrated banking structure enhances bank fragility. Advocates of this ‘‘concentration-fragility’ view note that larger banks frequently receive subsidies through implicit ‘too big to fail’ policies that small banks do not enjoy.

2.17 Empirical framework

Adegbagu and Olokoyo (2008) used descriptive research design (Mean and Standard deviation) and t-test and test of equality mean and analytical techniques to study the effect of recapitalization on bank's performance on Nigerian banks. The study found out that the means of bank

profitability ratio such as the Yield on Earning Asset (YEA), Return on Equity (ROE) and Return on Assets (ROA) were significant. This means that there is statistical indifference between the mean of the Pre and Post 2005 bank recapitalization.

Somoye (2008) examined the performance of government induced banks consolidation and macro economic performance in Nigeria in a post consolidation period. He found out that bank consolidation may not necessarily be a sufficient tool for financial system stability and sustainable development. The study posits that consolidation programme has not improved the overall performance of banking industry significantly and also has contributed little to the growth of the real sector for sustainable development.

Umah (2009) used exploratory research design and multiple regression analysis to study the impact of banking industry recapitalization on employment in Nigerian banks. The study revealed that stockholders funds, total asset and number of domestic branches caused 62% of employment in the banking industry. This recapitalization led to increase in employment in the Nigerian banking industry from 2006 to 2008.

Ezeoha (2007) studied the structural effects of banking industry consolidation in Nigeria – A review and notes that the ongoing banking industry consolidation in Nigeria represents the latest attempt by the CBN to solve the problem of bank distress and failure, and to reposition the industry for national and global economic challenges. The study finds that some of the operational difficulties facing the banks even before consolidation are external to them and are still prevalent in the Nigerian economy.

The study concludes that consolidation alone cannot be seen as the solution to the problem of the industry, unless the background economic difficulties such as weak state of the national economy, deplorable state of the infrastructure and the decreasing level of public confidence in the overall economic and financial reforms gang on in the country is addressed, the expected benefits of consolidation may be hard to realize.

Samuel (2010) in a study of recent banking sector reforms and economic growth in Nigeria using ordinary least square regression techniques. The result established that interest rate margins, parallel market premiums, total banking sector credit to the private sector, inflation, rate, size of banking sector capital and cash reserve ratios account for a very high proportion of the variation in economic growth in Nigeria. This shows that

there is a strong and positive relationship between economic growth and banking sector reforms in Nigeria.

Olufayo (2011) used questionnaire to investigate Nigeria bank consolidation exercise and plight of female employees. The study revealed that the removal of conditionality's for bankers would not affect productivity much because it kicks against boosting the moral of staffs.

Bakare (2011) used simple test techniques and E-view statistical packages to analyze the trend and growth implication of bank consolidations in Nigeria. The study revealed that banks are more adequately capitalized and are less risky after the exercise. It also revealed that recapitalization has low but significant influence on the growth of Nigerian economy. The study used quasi-experimental research design approach in data analysis.

Nwankwo (2013) used T-test to empirically analyze the impact of pre and post bank consolidation on the growth of Nigerian economy. The study observed that post bank consolidation have significant positive effect on the growth of Nigerian economy; pre bank consolidation has positive and insignificant effect on economic growth.

2.18 Summary

Capital creates a strong incentive to manage a bank in a prudent manner, because the bank owner equity is at risk in the event of failure. Bank capital is tied to unexpected losses and it plays a critical role in the safety and soundness of individual banks and the banking system.

Banking crisis were triggered by weakness in banking system characterized mainly by undercapitalization that resulted to persistent illiquidity, insolvency, high level of nonperforming loans and weak corporate governance, among others. Bank crisis usually starts with inability of banks to meet its financial obligations to its customers and other stakeholders which usually give rise to runs on banks, the banks and their customers engage in massive credit recalls and withdrawals which may also necessitate the Central bank liquidity support to the affected banks. So the existing banks were either marginally sound or unsound in 2001. In 2003, although the total number of banks had reduced to 87, thirty percent of banks were in that category in 2004, meaning that one out of every three banks was either marginally unsound or totally unsound. Bank failure, it should be noted, had earlier been experienced in the 19902 during which period one out of every two banks was distressed. As a result of these occurrences Professor Chukwuma Soludo, the Governor of Central Bank of Nigeria (CBN)

announced to a weary public his plans to sanitize the banking sub sector in his now famous consolidation exercise, considered as one of the most ambitious programmes of the time, which led to several mergers and acquisitions of some of the weaker banks by the bigger and stronger ones and ultimately helped to restore confidence in the banking sector to a large extent.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides the essential point of the research work. It deals with the method through which data were collected, analyzed and interpreted. Other contents of this chapter include definition and size of the population. The research instrument, methods of data analysis, variables of the study and their measurements and the techniques that were adopted in testing the hypotheses formulated. It is the background against which the reader of this work may evaluate the findings and conclusion of this research work.

3.2 Research design

Research design provides the framework for finding solution to any problem under study. In this line, Kothari, (2008) is of the opinion that the choice of research design is determined by the focused objectives of the study. The study adopts paired sample t-test research design considering the objectives of the study, hypothesis and the data used. This method is considered appropriate because it will be used to compare two periods. In

addition, the result from the test of hypothesis can be used to generalize the findings of the study to the entire population.

3.3 Population and sample size

The population of this study comprises of twenty-two (22) operational Deposit Money banks. However, owing to the small number of DMBs in Nigeria, the study made use of ten (10) banks operating presently in Nigeria.

3.4 Sample techniques

The sample techniques adopted for this study is the purposive sampling techniques. Here, the researcher uses her own judgment to determine which respondent to choose to suit the purpose of the study. Nkeonyeasua (2011) and Olannye (2006) noted that it involves deliberate selection of the sample subjects considered as representative of the target population. The criteria to be used are usually a matter of the researcher's judgment. Therefore, the sample is assumed and guided by what the researcher considers likely to provide him with the required information.

3.5 Method of data collection

The data used for this study were secondary data as represented by the financial statement from the websites of the ten (10) Deposit Money

Banks under study. The secondary data was justified by Orjih (2006) as he noted that the variables were quantifiable and verifiable.

3.6 Techniques of data analysis

According to Grofel (2003) the method of data analysis simply means the statistical tool or techniques utilized in processing the data collected, with a view to arriving at valid conclusions. The statistical techniques adopted for this study are paired sample T test.

Paired sample T-test is used to compare the variables, for Pre and Post Consolidation Period covered since T-test is a statistical tool that is used when one variable is examined on two different occasions.

3.6.1 Model Specification

This study employed a version of the econometric model of the previous work of Chioma, Oleka and Christopher (2014) which revealed various measures of profitability to include Return on Asset (ROA), Return on Equity (ROE) and Earning per Share (EPS). From among these, the study adopted Return on equity as a measure of financial performance.

Hence, the model is specified as follows:

$Y = F(X1, X2, X3, \ldots .Xn)$

ROE = F(LOA, SHF, DPS)

Where ROE = Return on Equity (dependent variable)

LOA = Loans and Advances

SHF = Shareholders fund } Independent variable

DPS = Deposit

The above functional equations are better specified into random or stochastic model for research and estimation purposes and as such specified below:

ROE_t = $\beta_o + \beta_1 LOA_t$ --- - - (1)

ROE_t = $\beta_o + \beta_2 SHF_t$ - - - (2)

ROE_t = $\beta_o + \beta_3 DPS_t$ - - - (3)

Transforming equation 1 – 4 into econometric model gives:

$ROE = \beta_o + \beta_1 LOA_t + \beta_2 SHF_t + \beta_3 DPS_t$

Where t … times series interval

U= Error term assumed to capture the influence of other exogenous factors that are capable of influencing shareholders fund

β_1 = are parameters

β_0 = Intercept (i.e the expected values of the dependent variables when all the explanatory variables assume zero value).

In the above model ROE is the dependent variable that measures the performance of deposit money banks in Nigeria while LOA, SHF, DPS are the Independent variables that measures consolidation. In light of the above model specification the "a priori" expectation of the researcher is that return on equity is expected to have positive influence on LOA, SHF, and DPS.

3.7 Summary

This chapter centers on the methods used in carrying out the research work; the population and sample size is ten (10) Deposit Money Banks (DMBs) and the period of study is 1997 – 2014, the purposive sampling techniques is adopted. The data used were secondary in nature and the data analysis will be done by the use of paired sample T test.

CHAPTER FOUR

RESULTS AND FINDINGS

4.1 INTRODUCTION

This chapter presents the statistical analysis and interpretation of the data collected from the sampled banks in relation to the impact of consolidation on the performance of deposit money banks in Nigeria. Specifically one (1) dependent variable and three (3) independent variables were selected for the analysis. They are Return on Equity (dependent variable), Loans and Advances, Shareholders Fund and Customers Deposit. A total of ten (10) banks were involved in the analysis. They include Diamond Bank, First City Monument Bank, Fidelity Bank, First Bank, Guaranty Trust Bank, Skye Bank, United Bank for Africa, Union Bank Wema Bank and Zenith Bank.

4.2 DATA PRESENTATION

Data were collected from the financial statement of the banks under study between 1997-2005 for pre consolidation era and 2006-2014 for post consolidation era.

Table 4.2.1

DEPOSIT MONEY BANK DATA ON RETURN ON EQUITY, LOANS AND ADVANCES, SHAREHOLDERS FUND AND DEPOSITS IN NIGERIA (PRE 1997-2005 AND POST 2006-2014 CONSOLIDATION)

YEAR	ROE %	LOAN₦'000	SHF₦'000	DPS₦'000
1997	33.48	4823102.1	3829797.7	7572797.7
1998	32.58	5190708.8	5897237.8	9691927.6
1999	30.13	5020857.7	6420697.5	9890572
2000	31.83	5116022.3	6768472.2	10446559.4
2001	33.54	6239902.8	8261131.7	14735292.3
2002	31.09	7916931.3	11297218.3	18359997.9
2003	26.58	10638554.8	13978271.8	23904544.6
2004	22.49	15339149.7	22611299.3	32268335.3
2005	17.23	30014991.2	346036857.5	45145561.1
2006	17.75	47302016.8	75791250.3	88329624.1
2007	16.15	127097856.4	17703030862.8	144062877.7
2008	22.34	117326231.1	216912168.5	219708320.1
2009	7.02	115700379.2	53056555.2	146471360
2010	8.74	123903629.8	51286472.1	148839324.2
2011	10.61	141291371.2	49978698.7	199475416.5
2012	14.65	169366708.9	58289588.6	246639533.6

2013	12.79	206666833.8	64297710.4	322478012
2014	8.54	229072048.6	78169432.9	250981243

Source: Annual Report and Account of Deposit Money Banks in Nigeria (1997-2005 & 2006-2014)

Table 4.2.1 above shows the data for deposit money banks in Nigeria, it was extracted from the average of the 10 deposit money banks under study, it shows at a glance the overall picture of 9 years pre (1997-2005) and 9 years post (2006-2014) consolidation era for comparism.

4.3 DATA ANALYSIS

The data in table 4.2.1 were transformed to 4.2.2, ROE, LOA, SHF and DPS connotes pre consolidation era while ROE2, LOA2, SHF2 and DPS2 connotes post consolidation era.

Table 4.3.2

DEPOSIT MONEY BANKS DATA ON RETURN ON EQUITY, LOANS AND ADVANCES, SHAREHOLDERS FUND AND DEPOSITS IN NIGERIA (PRE 1997-2005 AND POST 2006-2014 CONSOLIDATION)

ROE %	ROE2 %	LOA₦'000	LOA2₦'000	SHF₦'000	SHF2₦'000	DPS₦'000	DPS2₦'000
33.48	17.75	4823102.1	47302016.8	3829797.7	75791250.3	7572797.7	88329624.1
32.58	16.15	5190708.8	127097856.4	5897237.8	17703030862.8	9691927.6	144062877.7
30.13	22.34	5020857.7	117326231.1	6420697.5	216912168.5	9890572	219708320.1

31.83	7.02	5116022.3	115700379.2	6768472.2	53056555.2	10446559.4	146471360
33.54	8.74	6239902.8	123903629.8	8261131.7	51286472.1	14735292.3	148839324.2
31.09	10.61	7916931.3	141291371.2	11297218.3	49978698.7	18359997.9	199475416.5
26.58	14.65	10638554.8	169366708.9	13978271.8	58289588.6	23904544.6	246639533.6
22.49	12.79	15339149.7	206666833.8	22611299.3	64297710.4	32268335.3	322478012
17.23	8.54	30014991.2	229072048.6	346036857.5	78169432.9	45145561.1	250981243

Source: Annual Report and Account of Deposit Money Banks in Nigeria (1997-2005 & 2006-2014)

Table 4.3.3: DESCRIPTIVE STATISTICS OF RETURN ON EQUITY

Descriptive Statistics

	N	Range	Minimum	Maximum	Mean	Std. Deviation
PRE CONSOLIDATION ROE	9	16.32	17.23	33.54	28.7738	5.63055
POST CONSOLIDATION ROE	9	15.32	7.02	22.34	13.1774	5.02144
Valid N (listwise)	9					

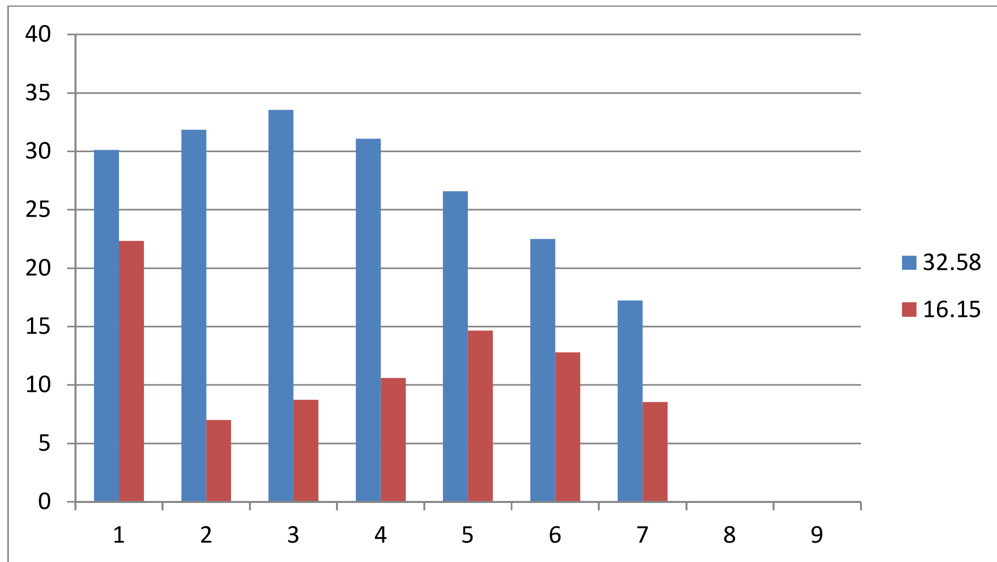
Source: Statistical Package for Social Science Output 22.0

From table 4.3.3 above return on equity of the 10 deposit money banks over the nine (9) years period recorded a minimum of 17.23% in the pre-consolidation era, on the other hand 7.02%minimum in the post-consolidation era; the maximum of 33.54% during the pre-consolidation era and 22.34 during the post consolidation era. On the average in the pre consolidation era is 28.7738 while 13.1774 during post consolidation era; the standard deviation obtained during the pre consolidation period is 5.63055 while post is 5.02144; lastly the range value for pre is 16.32 while post is 15.32.

By direct comparism using graphical approach, one can infer that performance of deposit money banks as regards return on equity tilts towards the pre consolidation era; this is shown further in figure 4.3.1.

Note: 32.58 (blue node) connotes pre-consolidation while 16.15 (the red node) connotes post-consolidation.

FIGURE 4.3.1: PRE AND POST CONSOLIDATION ROE



Source: Researchers Computation through Microsoft Excel 2010 version.

Table 4.3.4: DESCRIPTIVE STATISTICS OF LOAN AND ADVANCES

Descriptive Statistics

	N	Range	Minimum	Maximum	Mean	Std. Deviation
PRE CONSOLIDATION LOA	9	25191889.10	4823102.10	30014991.20	10033357.8556	8265563.24353
POST CONSOLIDATION LOA	9	181770031.80	47302016.80	229072048.60	141969675.0889	54002890.11005
Valid N (listwise)	9					

Source: Statistical Package for Social Science Output 22.0

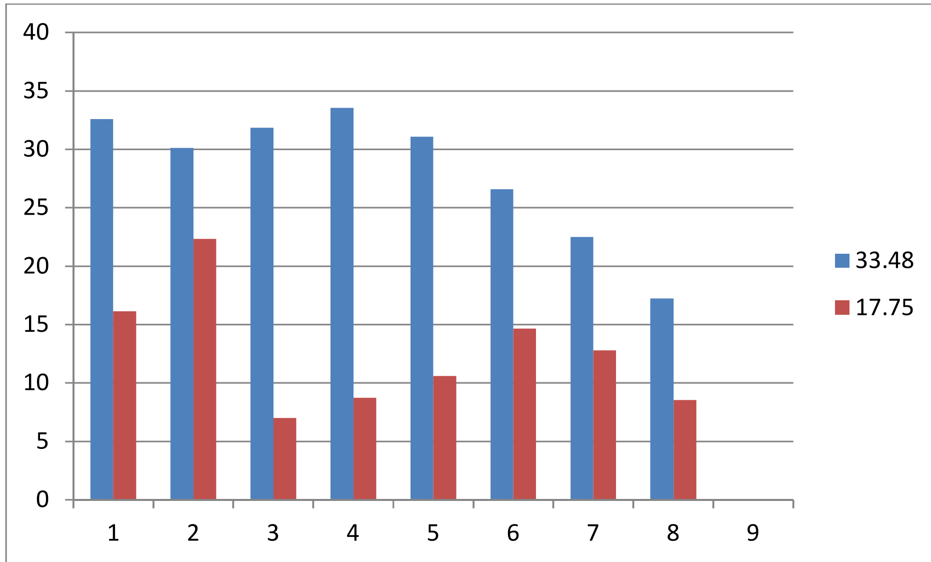
From table 4.3.4 above loan and advances of the 10 deposit money banks over the nine (9) years period recorded a minimum of 4823102.10 in the pre consolidation era, on the other hand 47302016.80minimum in the post consolidation era; the maximum of 30014991.20 during the pre-

consolidation era and 229072048.60 during the post-consolidation era. On the average in the pre consolidation era is 10033357.85 while 141969675.08 during post-consolidation era; the standard deviation obtained during the pre-consolidation period is 8265563.2 while post-consolidation era is 54002890.11; lastly the range value for pre is 25191889.10 while post is 181770031.80.

By direct comparism using graphical approach, one can infer that performance of deposit money banks as regards loan and advances points towards the pre consolidation era; this is shown further in figure 4.3.2.

Note: 33.48 (blue node) connotes pre-consolidation while 17.75 (the red node) connotes post-consolidation.

FIGURE 4.3.2: PRE AND POST CONSOLIDATION LOA



Source: Researchers Computation through Microsoft Excel 2010 version.

Table 4.3.5: DESCRIPTIVE STATISTICS OF SHARE HOLDERS FUND

Descriptive Statistics

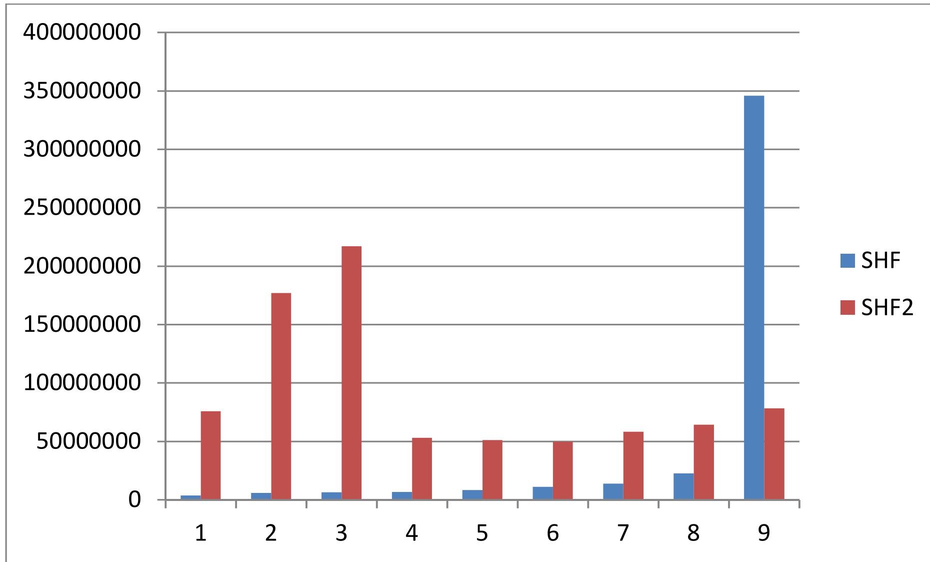
	N	Range	Minimum	Maximum	Mean	Std. Deviation
PRE CONSOLIDATION SHF	9	342207059.80	3829797.70	346036857.50	47233442.6444	112194887.65386
POST CONSOLIDATION SHF	9	166933469.80	49978698.70	216912168.50	91645859.9444	61369738.65449
Valid N (listwise)	9					

Source: Statistical Package for Social Science Output 22.0

From table 4.3.5 above shareholders fund of the 10 deposit money banks over the nine (9) years period recorded a minimum of 3829797.70 in the pre consolidation era, on the other hand 49978698.70minimum in the post consolidation era; the maximum of 346036857.50 during the pre-consolidation era and 216912168.50 during the post-consolidation era. On the average in the pre consolidation era is 47233442.64 while 91645859.94 during post-consolidation era; the standard deviation obtained during the pre-consolidation period is 112194887.65 while post-consolidation era is 61369738.65; lastly the range value for pre is 342207059.80 while post-consolidation is 166933469.80.

By direct comparism using graphical approach, one can infer that performance of deposit money banks as regards shareholders fund.

FIGURE 4.3.3: PRE AND POST CONSOLIDATION SHF



Source: Researchers Computation through Microsoft Excel 2010 version.

Table 4.3.6: DESCRIPTIVE STATISTICS OFDEPOSITS

Descriptive Statistics

	N	Range	Minimum	Maximum	Mean	Std. Deviation
PRE CONSOLIDATION DPS	9	37572763.40	7572797.70	45145561.10	19112843.1000	12627057.08866
POST CONSOLIDATION DPS	9	234148387.90	88329624.10	322478012.00	196331745.6889	71697933.60946
Valid N (listwise)	9					

Source: Statistical Package for Social Science Output 22.0

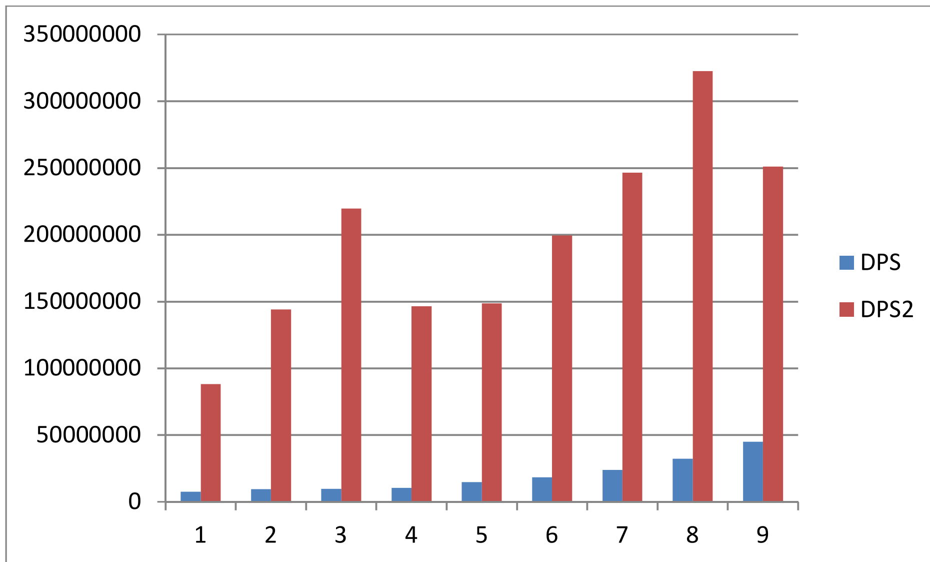
From table 4.3.6 above deposits of the 10 deposit money banks over the nine (9) years period recorded a minimum of 7572797.70 in the pre consolidation era, on the other hand 88329624.10minimum in the post

consolidation era; the maximum of 451145561.10 during the pre-consolidation era and 322478012.00 during the post-consolidation era. On the average in the pre consolidation era is 19112843.10 while 196331745.68 during post-consolidation era; the standard deviation obtained during the pre-consolidation period is 12627057.08 while post-consolidation era is 71697933.60; lastly the range value for pre-consolidation is 37572763.40 while post-consolidation is 23414838.90.

By direct comparism using graphical approach, one can infer that performance of deposit money banks as regards shareholders fund points towards the post- consolidation era; this is shown further in figure 4.3.2.

Note: (blue node) connotes pre-consolidation while (the red node) connotes post-consolidation.

FIGURE 4.3.3: PRE AND POST CONSOLIDATION DPS



Source: Researchers Computation through Microsoft Excel 2010 version.

4.4 TEST OF HYPOTHESIS

For the purpose of this study four hypotheses is tested and stated below:

HYPOTHESIS ONE

Ho_1: There is no significant difference between loans and advances and return on equity of DMBs in Nigeria.

Decision rule:

Compare the probability value as given by sig 1 and sig 2 values respectively in the pre consolidation and the post consolidation era; if sig 1 > sig 2 accept null hypothesis. Also compare the mean value of the pre consolidation period with the mean value of the post consolidation period.

```
T-TEST PAIRS=LOA WITH LOA2 (PAIRED)
  /CRITERIA=CI(.9500)
  /MISSING=ANALYSIS.
```

T-Test

Table 4.4.1a

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	PRE CONSOLIDATION LOA	100333357.8556	9	8265563.24353	2755187.74784
	POST CONSOLIDATION LOA	141969675.0889	9	54002890.11005	18000963.37002

Table 4.4.1b

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	PRE CONSOLIDATION LOA & POST CONSOLIDATION LOA	9	.837	.005

Table 4.4.1c

Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	PRE CONSOLIDATION LOA - POST CONSOLIDATION LOA	-131936317.23333	47303008.68825	15767669.56275	-168296628.44749	-95576006.01918	-8.368	8	.000

Source: Statistical Package for Social Science Output 22.0

From the paired samples statistics (table 4.4.1a) the mean value for loans and advances before consolidation is 100333357.85, while the mean value for loans and advances after consolidation is 141969675.08, this shows that the consolidation exercise has not impacted positively and significantly on returns on equity of DMBs after consolidation. From the paired samples correlation(table 4.4.1b) above, it can be seen that the p-value of the sig 1 (pre consolidation) is 0.005 while the p-value of sig 2 (post consolidation period) (table 4.4.1c) is 0.000, since sig 1 is greater than sig 2 it infers that there is no significant relationship between loans & advances and returns on equity.

HYPOTHESIS TWO

Ho_2: There is no significant difference between shareholders fund and return on equity of DMBs.

Decision rule:

Compare the probability value as given by sig and sig 2 values respectively in the pre consolidation and the post consolidation era; if sig 1 > sig 2 accept null hypothesis. Also compare the mean value of the pre consolidation period with the mean value of the post consolidation period.

```
T-TEST PAIRS=SHF WITH SHF2 (PAIRED)
  /CRITERIA=CI(.9500)
  /MISSING=ANALYSIS.
```

T-Test

Table 4.4.2a

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	PRE CONSOLIDATION SHF	47233442.6444	9	112194887.65386	37398295.88462
	POST CONSOLIDATION SHF	91645859.9444	9	61369738.65449	20456579.55150

Table 4.4.2b

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	PRE CONSOLIDATION SHF & POST CONSOLIDATION SHF	9	-.101	.796

Table 4.4.2c

Paired Samples Test

		Paired Differences					T	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	PRE CONSOLIDATION SHF - POST CONSOLIDATION SHF	-44412417.30000	133212186.30201	44404062.10067	-146808368.12379	57983533.52379	-1.000	8	.347

Source: Statistical Package for Social Science Output 22.0

From the paired samples statistics (table 4.4.2a) the mean value for shareholders fund before consolidation is 47233442.64, while the mean value for shareholders fund after consolidation is 91645859.94, this shows that the consolidation exercise has not impacted positively and significantly on returns on equity of DMBs after consolidation. From the paired samples correlation (table 4.4.2b) above, it can be seen that the p-value of the sig 1 (pre consolidation) is 0.796 while the p-value of sig 2 (post consolidation period) (table 4.4.2c) is 0.347, since sig 1 is greater than sig 2 it infers that there is no significant relationship between shareholders fund and returns on equity.

HYPOTHESIS THREE

Ho_3: There is no significant difference between deposits and return on equity of DMBs in Nigeria.

Decision rule:

Compare the probability value as given by sig and sig 2 values respectively in the pre consolidation and the post consolidation era; if sig 1 > sig 2 accept null hypothesis. Also compare the mean value of the pre consolidation period with the mean value of the post consolidation period.

```
T-TEST PAIRS=DPS WITH DPS2 (PAIRED)
  /CRITERIA=CI(.9500)
  /MISSING=ANALYSIS.
```

T-Test

Table 4.4.3a

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	PRE CONSOLIDATION DPS	19112843.1000	9	12627057.08866	4209019.02955
	POST CONSOLIDATION DPS	196331745.6889	9	71697933.60946	23899311.20315

Table 4.4.3b

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	PRE CONSOLIDATION DPS & POST CONSOLIDATION DPS	9	.757	.018

Table 4.4.3c

Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	PRE CONSOLIDATION DPS - POST CONSOLIDATION DPS	-177218902.58889	62681877.43338	20893959.14446	-225400458.77670	-129037346.40108	-8.482	8	.000

Source: Statistical Package for Social Science Output 22.0

From the paired samples statistics (table 4.4.3a) the mean value for deposits before consolidation is 19112843.10, while the mean value after consolidation is 196331745.68, this shows that the consolidation exercise has not impacted positively and significantly on returns on equity after consolidation. From the paired samples correlation (table 4.4.3b) above, it can be seen that the p-value of the sig 1 (pre consolidation) is 0.018 while the p-value of sig 2 (post consolidation period) (table 4.4.4c) is 0.000, since sig 1 is greater than sig 2 it infers that there is no significant relationship between deposits and returns on equity.

4.5 DISCUSSION OF FINDINGS

This study focuses on Bank Consolidation and Financial Performance of Deposit Money Banks in Nigeria. It further focuses on the significant difference that existed between Returns on Equity and Loans and Advances, Shareholders Fund and Customers Deposits. Based on the results obtained from the test of hypotheses, we proffer the following discussions.

Hypothesis One

From the paired samples statistics in chapter four above (table 4.4.1a) the mean value for loans and advances before consolidation is 100333357.85, while the mean value after consolidation is 141969675.08. From the paired samples correlation (table 4.4.1b) above, it can be seen that the p-value of the sig 1 (pre consolidation) is 0.005 while the p-value of sig 2 (post consolidation period) (table 4.4.1c) is 0.000, since sig 1 is greater than sig 2 it infers that there is no significant relationship between loans & advances and returns on equity; to this end the null hypothesis is accepted (H0) and the alternate is rejected.

Hypothesis Two

From the paired samples statistics in chapter four above (table 4.4.2a) the mean value for shareholders fund before consolidation is 47233442.64, while the mean value after consolidation is 91645859.94. From the paired samples correlation (table 4.4.2b) above, it can be seen that the p-value of the sig 1 (pre consolidation) is 0.796 while the p-value of sig 2 (post consolidation period) (table 4.4.2c) is 0.347, since sig 1 is greater than sig 2 it infers that there is no significant relationship between shareholders fund and returns on equity; to this end the null hypothesis is accepted (H0) and the alternate is rejected.

Hypothesis Three

From the paired samples statistics (table 4.4.3a) the mean value for customers deposits before consolidation is 19112843.10, while the mean value after consolidation is 196331745.68. From the paired samples correlation (table 4.4.3b) above, it can be seen that the p-value of the sig 1 (pre consolidation) is 0.018 while the p-value of sig 2 (post consolidation period) (table 4.4.3c) is 0.000, since sig 1 is greater than sig 2 it infers that there is no significant relationship between customers deposits and returns

on equity; to this end the null hypothesis is accepted (H0) and the alternate is rejected.

4.6 SUMMARY

The chapter discussed data presentation, analysis of data, testing of the four hypotheses. It went further to analyze the data using paired sample t-test and result derived was discussed further in chapter five.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 CONCLUSION

Globally the activities of banks reflect their unique roles as the engine of growth in any economy. Generally, the banking system is more than just institutions that facilitate payments and extend credit. It encompasses all functions that direct real resources to their ultimate user. It is the central nervous system of a market economy and contains a number of separate, yet co-dependent, components all of which are essential to its effective and efficient functioning.

Based on the discussion of findings, we proffer that there is no significant relationship between Consolidation proxies Loans and Advances, Shareholders Funds, Customers Deposits and Returns on Equity in pre consolidation era between (1997-2005) but significant relationship exist between post consolidation (proxies) loans and advances, shareholders funds, customer's deposits and return on equity.

5.2 RECOMMENDATIONS

Based on the findings of this research, we therefore present the following recommendations:

1. Deposit money banks (DMBs) should grant more loans to the real sector of the economy to enhance economic growth and development. And they should also develop robust internal credit policies to check the level of their credit risk exposure in-line with CBN prescribed minimum limit.
2. The shareholders should choose their directors, which in turn choose management team that will run the affairs of the banks; protect their investment and increase the profitability of the banks.
3. Deposit money banks should mobilize funds in order to build and retain public confidence.
4. Deposit money banks should improve on their total asset turnover and to diversify their funds but strictly within the financial service industry in such a way that they can generate more income so as to improve their return on equity.
5. The Central Bank of Nigeria (CBN) should consider the option of making Bank Consolidation a regular exercise and to ensure that all

loop-holes are blocked to avoid abuse of funds by the bank's executives.

5.3 CONTRIBUTION TO KNOWLEDGE

The study has however contributed the following to the study of bank consolidation and financial performance of Deposit Money banks in Nigeria.

i. This study extended the scope from 1997 to 2014, inorder to examine the impact of Bank Consolidation on the financial performance of Deposit Money Banks.
ii. This study adopted different variables such as shareholders funds, loans and advances, customer's deposits as dependent variables and Return on Equity as Independent variable.
iii. This study introduced graphical approach to infer the performance of Deposit Money Banks in Pre and Post Consolidation eras.
iv. This study extensively covered bank consolidation as it relates to performance, hence it will serve as a data base for future research.

Suggestions for further studies

This study focuses on Bank Consolidation and Financial Performance of Deposit Money Banks in Nigeria; hence the following areas are suggested for further research:

i. Performance evaluation of consolidation in Nigerian Banks using non-financial measures.

ii. Is financial capital the problem of Deposit Money Banks in Nigeria?

iii. Impact of consolidation on the operational performance of Deposit Money Banks in Nigeria.

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APPENDIX A

List of Deposit Money Banks in Nigeria as at 31st December, 2005

S/N	BANK/GROUP NAME	MEMBERS OF THE GROUP
1	Oceanic Bank	Oceanic Bank Plc International Trust Bank
2	Zenith Bank	Zenith Bank Plc
3	Guaranty Trust	Guaranty Trust Bank
4	Sterling Group	Magnum Trust Bank Ltd NBM Bank Ltd NAL Bank Plc INMB Bank Ltd Trust Bank of African Ltd
5	First Bank Plc Group	First Bank of Nigeria Plc FBN Merchant Bankers MBC international bank ltd
6	Intercontinental Bank Group	Global Bank Plc Equity Bank of Nigeria Ltd Gateway Bank Intercontinental Bank Plc
7	Wema Bank Group	Wema Bank Plc National Bank Plc
8	ETB/Devcom Group	Equatorial Trust Bank Ltd Devcom Bank Ltd
9	STB/UBA	Standard Trust Bank

		United Bank for Africa Plc Continental Trust Bank
10	IBTC/Chartered Bank Group	Regent Bank Ltd Chartered Bank Plc IBTC Ltd
11	Unity Bank Group	Bank of the North New African Bank Plc Tropical Commercial Bank Centre Point Bank Plc New Nigerian Bank Plc First interstate Bank Ltd Intercity Bank Societe Bancaire Ltd Pacific bank Ltd
12	Union Group	Union Bank of Nigeria Plc Union Merchant Bank Universal Trust bank Broad Bank Ltd

S/N	**BANK/GROUP NAME**	**MEMBERS OF THE GROUP**
13	Afribank Group	Afribank Nigeria Plc Afribank Int'l Ltd (Merchant Bankers)
14	FCMB Group	FCMB Bank Plc

		Cooperative Devpt. Bank Plc Nig-American Bank Ltd Midas bank Ltd
15	Access Group	Marina International Bank Ltd Capital Bank international Ltd Access bank of Nigeria Plc
16	Skye Group	Prudent Bank Plc Bond Bank Ltd Cooperative Bank Plc Reliance bank Ltd EIB Bank Ltd
17	Platinum/Habib Group	Platinum Bank Ltd Habib Nigeria Bank Ltd
18	Diamond Bank	Diamond Bank Ltd Lim Bank plc Africa International Bank Ltd
19	First Inland Group	IMB Bank Plc Inland Bank Plc First Atlantic Bank NUB Bank Ltd
20	Fidelity Group	Fidelity Bank Plc FSB International Bank Manny Bank Ltd

21	Spring Bank Group	Guardian Express Bank Citizens International Bank Fountain Trust Bank Ltd Omega Bank Plc Trans International Bank Ltd ACB International Bank Plc
22	Ecobank	Eco Bank Nigeria Plc
23	NIB	Nigeria International Bank
24	Stanbic	Stanbic Bank Ltd
25	Standard Chartered	Standard Chartered Bank Ltd

Source: CBN, BSAR, 2005.

However IBTC/Chartered Bank Group and Stanbic merged in 2009 and the name changed to Stanbic IBTC Bank.

APPENDIX B

DEPOSIT MONEY BANKS IN NIGERIA AND THE REFORM MODE

S/N	NAME OF BANK	REFORM MODE
1	Access	Acquisition
2	Afribank	Acquisition
3	Keystone	Acquisition
4	Guaranty Trust	Restructure
5	Stanbic IBTC	Merger
6	Intercontinental	Acquisition
7	Union	Acquisition

8	Wema	Acquisition
9	Platinum Habib	Merger
10	Diamond	Acquisition
11	Equatorial	Acquisition
12	Fidelity	Acquisition
13	Finbank	Merger
14	First City monument	Acquisition
15	Unity	Merger
16	Zenith	Restructure
17	Oceanic	Acquisition
18	Skye	Merger
19	Sterling	Merger
20	UBA	Merger
21	Ecobank	Acquisition
22	Nigeria International	Merger
23	Standard Chartered	Restructure
24	Spring Bank	Merger

APPENDIX C

Table 4.3.2

DEPOSIT MONEY BANKS DATA ON RETURN ON EQUITY, LOANS AND ADVANCES, SHAREHOLDERS FUND AND DEPOSITS IN NIGERIA (PRE 1997-2005 AND POST 2006-2014 CONSOLIDATION)

ROE %	ROE2 %	LOA₦'000	LOA2₦'000	SHF₦'000	SHF2₦'000	DPS₦'000	DPS2₦'000
33.48	17.75	4823102.1	47302016.8	3829797.7	75791250.3	7572797.7	88329624.1
32.58	16.15	5190708.8	127097856.4	5897237.8	17703030862.8	9691927.6	144062877.7
30.13	22.34	5020857.7	117326231.1	6420697.5	216912168.5	9890572	219708320.1
31.83	7.02	5116022.3	115700379.2	6768472.2	53056555.2	10446559.4	146471360
33.54	8.74	6239902.8	123903629.8	8261131.7	51286472.1	14735292.3	148839324.2
31.09	10.61	7916931.3	141291371.2	11297218.3	49978698.7	18359997.9	199475416.5
26.58	14.65	10638554.8	169366708.9	13978271.8	58289588.6	23904544.6	246639533.6
22.49	12.79	15339149.7	206666833.8	22611299.3	64297710.4	32268335.3	322478012
17.23	8.54	30014991.2	229072048.6	346036857.5	78169432.9	45145561.1	250981243

Source: Annual Report and Account of Deposit Money Banks in Nigeria (1997-2005 & 2006-2014)

LOANS AND ADVANCES

```
T-TEST PAIRS=LOA WITH LOA2 (PAIRED)
  /CRITERIA=CI(.9500)
  /MISSING=ANALYSIS.
```

T-Test

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	PRE CONSOLIDATION LOA	10033357.8556	9	8265563.24353	2755187.74784
	POST CONSOLIDATION LOA	141969675.0889	9	54002890.11005	18000963.37002

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	PRE CONSOLIDATION LOA & POST CONSOLIDATION LOA	9	.837	.005

Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	PRE CONSOLIDATION LOA - POST CONSOLIDATION LOA	-131936317.23333	47303008.68825	15767669.56275	-168296628.44749	-95576006.01918	-8.368	8	.000

Source: Statistical Package for Social Science Output 22.0

SHAREHOLDERS FUND

T-TEST PAIRS=SHF WITH SHF2 (PAIRED)
/CRITERIA=CI(.9500)
/MISSING=ANALYSIS.

T-Test

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	PRE CONSOLIDATION SHF	47233442.6444	9	112194887.65386	37398295.88462
	POST CONSOLIDATION SHF	91645859.9444	9	61369738.65449	20456579.55150

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	PRE CONSOLIDATION SHF & POST CONSOLIDATION SHF	9	-.101	.796

Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference Lower	Upper			
Pair 1	PRE CONSOLIDATION SHF - POST CONSOLIDATION SHF	-44412417.30000	133212186.30201	44404062.10067	-146808368.12379	57983533.52379	-1.000	8	.347

Source: Statistical Package for Social Science Output 22.0

DEPOSITS

```
T-TEST PAIRS=DPS WITH DPS2 (PAIRED)
 /CRITERIA=CI(.9500)
 /MISSING=ANALYSIS.
```

T-Test

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	PRE CONSOLIDATION DPS	19112843.1000	9	12627057.08866	4209019.02955
	POST CONSOLIDATION DPS	196331745.6889	9	71697933.60946	23899311.20315

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	PRE CONSOLIDATION DPS & POST CONSOLIDATION DPS	9	.757	.018

Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	PRE CONSOLIDATION DPS - POST CONSOLIDATION DPS	-177218902.58889	62681877.43338	20893959.14446	-225400458.77670	-129037346.40108	-8.482	8	.000

Source: Statistical Package for Social Science Output 22.0