IMPACT OF BANK CONSOLIDATION POLICY ON THE PERFORMANCE OF NIGERIAN BANKS

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DECLARATION

I hereby declare that this research project has been solely conducted by me under the guidance and supervision of Mallam Salisu Umar of the Department of Business Administration Ahmadu Bello University, Zaria. Any mistake therein is entirely my responsibility and all the secondary data reviewed were accordingly acknowledged by way of bibliography.

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CERTIFICATION

This is to certify that the Project titled; ‘‘*Impact Of Bank Consolidation Policy On The Performance Of Nigerian Banks* ’’ by John Olushola Oloyede meets the partial regulation governing the award of the degree of Master of Business Administration (MBA) of Ahmadu Bello University, Zaria and is therefore approved for its contribution to knowledge and literary presentation.

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DEDICATION

I dedicate this project work to God almighty for enabling me to prevail in all challenges to get to this level.

ACKNOWLEDGEMENT

I acknowledge the infinite mercy of God that kept me and saw me throughout the course of my study.

My profound gratitude and appreciation goes to my supervisor in the person of Mal. Salisu Umar for his constructive direction and guidance, which has enriched the work, the entire lecturers of Business Administration Department, my family, friends and all well wishers for their support, understanding and prayers during the period of this programme. May God bless you all.

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ABSTRACT

This study examines the impact of Bank consolidation policy on the performance of Nigerian Banks. Consolidation as a concept which means the combination of Assets and liabilities of two or more company into a new one which was implemented in 2006 by CBN to solidify and strengthen the banking sector, which is responsible for collecting, depositing and lending of fund to the productive sector of the economy. This study X-rayed the extant by which banking consolidation impacted on the performance of Nigerian banks. The research designs employed in the study were historical and descriptive methods. Secondary data were employed in this study. Moreso, Chi-square and test liability "T-test" were employed in analyzing the data and testing the hypothesis. The study revealed that Bank consolidation has a strong impact on the performance of some of the Nigerian Banks and the reform in the banking industry has been able to attract more foreign investment inflow. The study recommended that for Nigerian banks to continue survive, maintain or improve on the present success CBN should tighten its watchdog role over the Nigerian bank industry, bank must operate within their ethics and ensure that customer satisfaction is their focus, training and development of bank staff should be embark upon and proper management programmes and policies should be emphasize upon.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND TO THE STUDY

The relevance of bank in the economy of any nation cannot be overemphasized. The encyclopedia America international edition (2001) expressed briefly and clearly the position thus “economic activity as it is known could not be smooth sailing without the continuing floor of money and credit. The economies of all market oriented nations depend on the efficient operation of complex and delicately balance systems of money and credit. Banks are an indispensable element in these systems. They provide the bulk of the money as well as the primary means of facilitating the flows of credit.” Consequently, it is submitted that the economic well being of a nation is a function of advancement and development of the banking industry.

The Nigerian banking system has undergone a number of major changes in the last decade caused by restructuring and liberalization of the financial markets as well as technological progress. Before 1987, the monetary authorities restricted entry, controlled branch expansion and set both deposit and lending rate. This institutional framework led to situation of virtually little or no competition in the market, with concentration of activities in the four largest banks. Namely, First bank of Nigeria Plc, United Bank for Africa Plc, Union Bank of Nigeria Plc, and Afribank Plc.

However, in 1987, following the introduction of financial liberalization, the regulatory framework was significantly changed, entry barriers were relaxed and interest rate were decontrolled. Many new private banks and some with foreign equity owners initiated activities in the market. This however lasted for a few years, as licensing of new banks stopped in 1993, (CBN) while interest rate regulation was introduced in 1994. However in 1997, interest rate deregulation was re-implemented while entry restriction was again relaxed in 1999.

Among other things is the inconsistency in monetary policies the surveillance and regulatory measures of the Central Bank of Nigeria (CBN) have unfortunately been unable to keep the pace with the rapidity of the change in the financial system. These have combined to create a challenging and precarious financial environment of Nigeria banks. Such necessitated the resolution of the Central Bank of Nigeria (CBN) to place banking reforms system within international context and promote stability and enhance efficiency in the system to led to the proposed increase of the minimum capital base for banking from 2 billion in 2001 and 2002 to 25billion in 2004, that had in turn resulted in the form of consolidation through mergers and acquisition.

Consolidation is aimed at strengthening the banking sector to become an active player in the regional and global financial system and guarantee higher returns to investors in the industry. The Nigerian banking industry has undergone remarkable changes over the years in terms of the number of institutions, ownership structure, as well as depth and breadth of operations, these changes have been influenced by challenges posed by deregulation of financial sector, globalization of operations, technological innovation and adoption of supervisory and prudential requirement that conform to International standard.

As at January 2005, 89 banks were operating in Nigeria comprising institutions of various sizes and degree of soundness. The largest bank in Nigeria had a capital base of 240Million dollars compared to 256Million dollars in Malaysia. The small size of most Nigeria banks each with expensive head quarters, separate investment in software and hardware, heavy fixed cost and operating expenses and with bunch of branches in few commercial centers led to high cost of intermediation, affects the spread between deposits and lending rates, and put undue pressure on banks to engage in sharp practices as a means of survival, which ended in the unhealthy state of our Nation's economy.

1.2 STATEMENT OF PROBLEM

The introduction of the banking consolidation policy has ushered in a new era of challenges to the Nigerian banking industry which before now has undergone remarkable changes over the years, in term of ownership structure, as well as depth and breadth of operations. These changes have been influenced by challenges posed by consolidation in the financial sector, globalization of operations, technological innovations and adoption of supervisory and prudential requirements that conform to international standards. The Nigerian banking scene is bedeviled by the small size of most of the banks though with expensive headquarters, separate investment in software and hardware, heavy fixed cost and operating expenses, with bunch of branches in few commercial centers led to high cost of intermediation, affected the spread between deposit and lending rates, and also brought banks under undue pressure.

Another major issues bank have is the inconsistency in monetary and regulatory policies. The surveillance and regulatory measures of the Central Bank of Nigeria (CBN) have unfortunately been unable to keep the pace with the rapidity of the challenges in the financial system.

These factors have combined to create a challenging and precarious financial environment of the banks. Consequence of the new financial environment has been rapidly declining profitability of the traditional banking activities. This is in a bid to survive and maintain adequate profit level in this highly competitive environment, bank have tended to take excessive risk. But, then the increasing tendency for greater risk taking has resulted in insolvency and failure of large number of the banks. The continuing deterioration in financial health of the banks and increasing incidence of the bank failure since deregulation have raise question about the nature and state of the Nigerian banking sector. For example, low capital base; dominance of a few banks, over dependence on public sector deposits and foreign trading and poor asset quality among others.

1.3 RESEARCH QUESTIONS

To achieve the objective of the study, the following research questions were raised?

i. Does the banking consolidation have any impact on the Performance of Nigeria banking sector?

ii. Does sound capital base of commercial banks improved their profitability?

1.4 OBJECTIVES OF THE STUDY

This study is primarily aimed at examining the impact of bank consolidation on performance of Nigerian Banks; and

i. To identify the benefits of bank consolidation.

ii. Also, this study will help us determine whether banks witness more profitability and growth during this period than before the consolidation period in Nigeria. Using some selected banks performance as a bases for comparison.

1.5 STATEMENT OF HYPOTHESIS

The following hypotheses stated in the research are as follows:

H_0: There is no significant relationship between banks consolidation and profitability.

H_1: There is significance relationship between banks consolidation and profitability.

1.6 SIGNIFICANCE OF THE STUDY

It is in view of the researcher that this project work will be significant to the following:

Banking Sector: The findings and recommendations will be useful towards actualizing their visions and to play developmental roles in the Nigerian economy and be competent and competitive players in the African and global financial system.

Shareholders and Investors: To show to shareholders and investors the state of banks before and after the consolidation policy. The banks have undergone a lot of changes through consolidation and hence, a sure ground for good investment and renewed customer confidence in the banking industry.

Regulatory Agencies: It will encourage the regulatory and supervisory authorities to make relevant laws that will enhance the activities of the banking industry to the benefits of the stakeholders. It will also assist the regulatory authorities to improve their supervisory capability and pursue policies that would enhance the safety, soundness and efficiency of the financial service industry.

Researchers: It will help researchers because it will serve as a literature material to enhance their future research.

Government: It will place them in a better footing on whether to encourage consolidation in other sector of the economy that is performing marginally, for example the aviation industry.

1.7 SCOPE OF THE STUDY

This study is limited to the impact of the consolidation policy on the performance of Nigerian banks. This research work is designed to cover the following areas: The evolution of banking in Nigeria, the state and position of the banking industry before consolidation. The objectives of consolidation in the banking industry. Impact of consolidation on the banking industry and the effect of bank consolidation on the economy of the nation at large, using the following banks; First bank of Nigeria Plc, Union Bank of Nigeria Plc, United Bank for Africa Plc (UBA) and Zenith Bank Plc. The study is based on historical perspective, which covers policies in the banking industry from 2003-2007 i.e. pre and post consolidation.

1.8 LIMITATION OF THE STUDY

This research work is basically on the impact of bank consolidation policy on the performance of Nigerian banks. It will concentrate and will not go beyond the consolidation programme and its effects beyond 2003 and 2007. And also the sample size is also a limitation because out of the consolidated 25 banks as at 2006 out of which only 4 are selected due to their size and operation capacity.

1.9 DEFINITION OF TERMS

Banks: This is a financial institution that deals with financial transaction such as receiving (saving and depositing) and lending (loans and advances of money) on interest issues, exchanges and takes care of money, extend credit and provide ways of sending money and credit quickly from place to place.

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

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

Merger: It is the combination of two or more separate firms into a single firm

Acquisition: It is where a company takes over the controlling shareholding interest of another company.

Capital: It is the shareholders fund. This includes paid up capital, retained earnings and statutory reserve.

Universal Banking: A multipurpose banking without restriction on the areas of operation in the financial service sector.

Policy: Collective programming of the organization which distinguishes the member of one company from another.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

Reforms are predicted upon the need for re-orientation and re-positioning of an existing status quo in order to attain an effective and efficient state. There could be fundamental bottle neck that might inhibit the functioning of the institution for growth and the achievement of core objectives in the drive towards enhancing and sustaining economic and social imperatives of human endeavors carried out through either government institution or private enterprise. Hence, reforms become inevitable in the light of global dynamic exigency and emerging landscape.

Consequently, the banking sector as an important sector in the financial landscape needs to be reformed in order to enhance its competitiveness and capacity to play a fundamental role in economic development and in financial investment.

Bank consolidation was seen as one of the ways to reform the banking sector. Bank consolidation is said to be the process of increasing the sizes of bank that could cause potential increase in bank returns through revenue and cost efficiency gains.

According to Sloam and Arlond (1970),"Consolidation is a fuse of the assets and liabilities in whole or in parts of two or more business establishments and the coming together of firms. It can also mean large sizes, large shareholder base and large number of depositors.

According to Adamu (2005), bank and cooperate consolidation could be achieved by way of merger, acquisition and re-capitalization. Many literatures indicated that bank consolidation can deepen the financial sector and reposition it for growth to become integrated into the global financial architecture; and involve a banking sector that is consulting with regional integration requirements and international best practice.

2.2 THE CONCEPT OF CONSOLIDATION

Consolidation is view as the reduction in the number of banks and other deposit taking institution with a simultaneous increase in the size and concentration of the consolidation entities in the sector (Bis, 2001) It is mostly motivated by technology innovation, deregulation of financial services, enhancing intermediation and increased emphasis on shareholder value, privatization and international competition (Berger 1991; De Nicole 2003: IMF, 2001).

The process of consolidation has been argued to enhance bank efficiency through cost reduction revenue in the long run. It also reduces industry's risk by elimination weaker banks and acquiring the smaller ones by bigger and stronger banks as well as creates opportunities for greater diversification and financial intermediation.

The pattern of banking system consolidation could be view in two different perspectives, namely; market-driven and government-led consolidation. The market-driven consolidation which is more pronounced in the developed countries sees consolidation as a way of broadening competitiveness with added comparative advantage in the global context and eliminating excess capacity more efficiently than bankruptcy or other means of exit.

On the other hand, government-led consolidation stems from the need to resolve problem of financial distress in order to avoid systematic crises as well as to restrict inefficient banks (Ajayi, 2005). One of the general effects of consolidation is to the reduction in the number of players, moving the industry more toward an oligopolistic market (Adedipe, 2007).

2.3 THE CONCEPT OF CAPITAL BASE

The recent call for recapitalization in the banking industry has raised much argument among the bank regulators, promoters and depositors as if shoring up of bank's capital base is a new phenomenon in Nigeria. Historically, the failure of pioneer 1930's and 1940's brought about the enactment of banking ordinance of 1952. Banking ordinance of 1952 prescribed an operating license and emphasized on minimum equity capital for all banks (Onoh, 2002). Since then, raising of bank capital has become the hallmark response policy of the Nigerian monetary authorities.

Capitalization is an important component of reforms in the banking industry, owing to the fact that a bank with a strong capital base has the ability to absorb losses arising from non-performing liabilities (NPL). Attaining capitalization requirement is achieved through consolidation, convergence as well as the capital market. Thus, banking reforms are primarily driven by the need to achieve the objectives of consolidation, competition and convergence. (Deccan,2004), in the financial architecture.

2.4 EVOLUTION OF BANKING IN NIGERIA

The banking operation began in Nigeria in 1892 under the control of the expatriates and by 1945, some Nigerians and Africans had established their own banks. The first era of consolidation ever recorded in the Nigeria banking industry was between 1959 and 1969. This was occasioned by bank failures during 1953-1959; this was due to liquidity of banks. Banks then do not have enough liquid assets to meet customers' demands. There was no well-organized financial system with enough financial instruments to invest in. Hence, banks merely invested in real assets which could not be easily realized to cash without loss of value in times of need. This prompted the federal government then backed by the World Bank's report to institute Loynes commission on September 1958. The outcome was the promulgation of the ordinance of 1958, which established the Central bank of Nigeria (CBN). The year 1959 was remarkable in the Nigeria banking history not only because of the establishment of Central Bank of Nigeria (CBN) but that the Treasury bill ordinance was enacted which led to the issuance of our first Treasury bill in April 1960.

The period (1959-1969) marked the establishment of formal money, capital market and portfolio management in Nigeria. In addition, the company acts of 1968 were established. This period could be said to be the genesis of serious banking in Nigeria. With CBN in operation, the minimum paid-up capital was set at four hundred thousand naira (N400, 000) (USD $480,000) in 1958. By January 2001, banking sector was fully de-regulated with the adoption of universal banking system in Nigeria which merged merchant bank operation to commercial banks system preparatory towards consolidation programme in 2004.

In the 90's, proliferation of banks which also resulted in the failure of many of them led to another re-capitalization exercise that saw bank's capital being increased to five hundred million (N500,000,000)(USD $5.88million) and subsequently two billion(N2,000,000,000)(USD $0.01billion) on 4th July 2004 with the institution of a 13 point reform agenda aimed at addressing the fragile nature of the banking system, stop the boom and burst cycle that characterized the sector and evolve a banking system that not only could serve the Nigeria economy, but also the regional economy. The agenda by the monetary authorities is also an agenda to consolidate the Nigeria banks and make them capable of playing in International financial system. However, there appears to be deliverance between the state of the banking industry in Nigeria vis-à-vis the vision of the government and regulatory authorities for the industry.

This was the main reason for the policy of mandatory consolidation which was not open to dialogue and its components also seemed cast in concrete. In terms of number of banks and minimum paid-up capital between 1952 and 1978, the banking sector recorded forty-five (45) banks with varying minimum paid-up capital for merchant and commercial banks. The number of banks increased to fifty-four (54) between 1979 and 1987. The number of banks rose to one hundred and twelve (112) between 1988 and 1996 with substantial varying increase in the minimum capital. The number of banks dropped to one hundred and ten (110) with another increase in minimum paid-up capital and finally dropped to twenty-five (25) in 2006 with a big increase in minimum paid-up capital from N2 billion (USD $0.0166 billion) in January 2004 to N25 billion (USD $0.2 billion) in July 2004

2.5 THE POSITION OF THE BANKING SECTOR BEFORE CONSOLIDATION

There was existence of eighty-nine (89) banks predominantly in the urban centres as at June 2004, Characterized by structural and operational weakness of low capital base. Dominance of a few banks insolvency, and illiquidity over dependence on public sector deposits, and foreign exchange, trading. Poor asset quality, weak co-operate governance, a system with low depositor confidence. Banks that could not effectively support the real sector of the economy at 24 percent of GDP compared to African average of 87 and 272 percent for developed countries.

Furthermore the vision of consolidation amongst others includes becoming Africa's financial centre and CBN as one of the best in the world. Within ten years, Nigerian bank(s) should be among the top 50 0f the 100 banks in the world. Facilitate evolution of a strong of a save and strong banking system. Improve transparency and accountability in the sector. Drive down the cost structure of banks and make them more competitive and development oriented. A new banking system that depositors can trust and investors can rely upon to usher in a new economy.

2.5.1 THE REFORM AGENDA FOR CONSOLIDATION

Recapitalization of banks to 25 billion naira share holders fund by December 31 2005.

a. Zero tolerance on misreporting and infarctions.
b. Stricter enforcement of corporate governance principles.
c. Policy framework on Risk Management systems.
d. Strengthening risk management systems in banks.
e. Risk based supervision.
f. Payment system Reforms.

g. Closer collaboration with the Economic and Financial Crimes Commission (EFCC) in the establishment of the Financial Intelligence Unit (FIU) and enforcement of anti money laundering measures.
h. Some element of reform, to a strengthened Universal bank.

2.6 BENEFITS OF CONSOLIDATION

The consolidation program has fundamentally changed the nature of competition, in the banking industry, in Nigeria. Through the new minimum capital requirement, the number of banks in the country has been successfully reduced from eighty-nine to twenty-five. The policy has also effectively raised entry barriers for those wishing to start banking business (Osubo, 2006).

There are many benefits attached to the consolidation of the Nigerian banking sector, and the Nigerian banks stand to gain a lot from them. Some of the benefits are

The emergence of 25 banks through consolidation (compare to 89 banks before consolidation). Successful banks accounted for about 93.5% of aggregate deposit liabilities. More effective supervision focus on fewer (25) banks rather than 89 mostly sick banks.

No more wholly regionally/ ethnically based banks. Strong capital is a basic indication of solvency, and it will take a while along with careless risk for any of the newly capitalized banks to walk its way into insolvency. The consolidation provides a vehicle for taking out the weak banks in the system in an orderly manner. The consolidation will improve profitability and operational efficiency of banks.

The expansion of the shareholding base of Nigeria banks, thus eliminating the phenomenon of ‘family banks' and the tendency for poor corporate governance. The Nigeria economy will be stronger and better capitalized to finance the long term development projects in different spheres of the economy and businesses.

Banks will also invest in infrastructure development, good business enterprises and moreover, support entrepreneurship. Banks will invest heavily in training and development of manpower. (Osubo, 2005). Enhanced liquidity and capitalisation of stock market. Aggregate capitalisation of banks as a share capitalisation rose from 24% to 38%.

2.7 THE REASON FOR CONSOLIDATION

The inability of the Nigeria banking system to voluntarily embark on consolidation in line with global trend has necessitated the need to consider the adoption of appropriate legal and supervisory framework as well as a comprehensive incentive package to facilitate to consolidation in the banking industry, both as a crisis resolution option and to promote soundness, stability and efficiency of the system by the apex regulatory body of the banks in Nigeria (Soludo, 2004).

The major objective of the banking system is to ensure price stability and facilitate rapid economic development. Regrettably, these objectives have remained largely unattained in Nigeria as a result of some deficiencies. These include:

Technological drive: A bank desirous of enhancing its operations but constrained by its inability to easily access the needed technology may be driven into merging with another which has the technological advantage over it.

Desire for growth: A merger arrangement may be entered into by a bank with a view to harnessing the other bank to achieve the desire growth.

Poor rating of number of banks: though the banking system in Nigeria is, on the average, rated satisfactory, a detailed analysis of the condition of individual banks, as at December, 2004, showed that no bank was rated very sound only 10 were adjudged sound 51 satisfactory, 61 marginal and 10 unsound. (Imala; 2005).

Low capital Base: The average capital base of Nigeria banks is US$10milion, which is very low compare to that of banks in other developing countries like

Malaysia where the capital base of the smallest bank is US$526million. Similarly the aggregate capitalisation if the Nigeria banking system at 311million naira (US$2.4million) is grossly low in relation to the size of the Nigeria economy and in relation to the capital base of US$688billion for a single banking group in France US$541billion for a bank in Germany. (CBN 2005)

Stock Exchange Quotation: Business combination could be motivated by the desire for stock exchange listing. In this case, a bank unable to meet the requirement of the stock exchange, but desirous of public quotation may integrate with another bank in order to realize its goal.

Increased Market Share: Consolidation (Mergers and Acquisition) may be compelled by the desire banks that have similar line of product to enlarge its market share after the merger.

In addition to the above inadequacies, the Nigeria banking system suffers the following operational problems:

Weak corporate governance, evidence in inaccurate and non- compliance with regulatory requirement, declining ethics and gross insider abuse resulting in huge non-performing insider related credits.

Over-dependence on public sector deposits and foreign exchange trading and neglect of small and medium scale private savers. (Imala; 2005)

2.8 BANK CONSOLIDATION THROUGH MERGER AND ACQUISITION

Consolidation is achieved through merger and acquisition. A merger is the combination of two or more separate firms into a single firm. The firm that results from the process could take any of the following identities: Acquirer target or new identity.

Acquisition on the other hand, takes place where a company takes over the controlling shareholding interest of another company. Usually, at the end of the process, there exist two separate entities or companies. The target company becomes either a division or a subsidiary of the acquiring company (Pandey, 1997).

While consolidation involves merger and acquisition of banks, convergence involves the consolidation of banking and other types of financial services like securities and insurance (FRBSF Economic letter, 1998).

Anecdotal evidence indicates that the commonest form of mergers and acquisitions found in the financial services industry involves domestic firms competing in the same segment (for instance, bank to bank). The second most common type of merger and acquisition transactions involves domestic firms in different segments (e.g. bank-insurance firms). Cross-border merger and acquisition are less frequents particularly those involving firms in different industry segments (Roger, 2002).

2.8.1 APPROVAL UNDER MERGER AND ACQUISITION

Before any bank can be said to consolidate through merger and acquisition in the Nigeria industry, it must first seek and obtain the approval of the following regulatory and supervisory authorities in the industry. They include the Securities and Exchange Commission (SEC), Central Bank of Nigeria (CBN), Nigeria Stock Exchange (NSE) and the Corporate Affairs Commission (CAC).(CBN 2004).

2.8.2 PROCEDURES FOR OBTAINING APPROVAL FOR MERGERS AND ACQUISITIONS

The Company and Allied Matter Act (CAMA 1990) and The Investments and Securities Act (ISA 1999) provide the primary legal provision for effecting Merger and Acquisitions in Nigeria. This provision vested the power to review and give approval to Securities and Exchange Commission (SEC). Before granting its approval, SEC considers the effect of the proposed transaction on the competitive environment, with a view to ensure that the transaction does not restrain competition or create a monopoly. The procedure or process for obtaining approval for mergers and acquisitions entail four (4) basic steps:

a. Filling a Pre-Merger/Acquisition notification
b. Filling a formal application for approval of the Proposed Merger/Acquisition.
c. Hold a Court Order Meetings
d. Complying with post-approval requirements.

2.9 THE ROLE OF SEC, CBN, NSE, AND CAC AS REGULATORY AUTHORITIES IN MERGERS AND ACQUISITIONS

Securities and Exchange Commission (SEC):

The Nigeria law provides that every merger, acquisition or business combination between or among companies shall be subject to the prior review and approval of the Security and Exchange Commission (SEC), (ISA 1999:599(2). Subsection 3 of the said section 99 provides that the commission shall approve any application made under that section if and if only the commission finds that "it is not likely to cause a substantial competition or trend to create a monopoly in any line of business enterprise" or "use of such shares by voting or granting of proxies". It should be noted that both mergers and acquisitions requires SEC approval on monopoly. Worthy of note is that monopoly consideration is a pre-merger issue. There is no need to commerce the merger process if at the end or in the middle of the process SEC will refuse approval on the basis that the combination will inhibit competition. It is therefore important to seek a pre-merger approval should SEC. The application for pre-merger approval should include information on history and business of the combing companies as well as their market.

Apart from pre-merger approval on issues relating to monopoly, SEC has to approve the scheme after a court session and holding of court- sanctioned meetings. The role of SEC in this regard is quite different from the pre-merger approval. At this stages SEC will ply its traditional role of regulation to ensure compliance by the parties with disclosure and good corporate governance requirement of the law. The role of SEC is not to be a participant but to create the enabling environment for parties to play in affair market situation.

Central Bank of Nigeria (CBN) Approval:

Banks and other financial institutions Act (Bofid) 1991 and the CBN Act of 1991, the CBN has enormous powers to regulate banks including approval of consolidation of banks and changes in the structure and management of any bank. It follows that in view of the world powers of the CBN, it is advisable that pre-merger approval of CBN be obtained prior to commencement of the process consolidation. The pre-merger approval for merger and acquisition would be required to undergo three stages of approval namely, pre-merger consent from the CBN, approval – in- principle and final approval. Also, it is imperative that CBN approval be sought and obtained to the scheme document, shareholders agreement, new memorandum and articles of association implementing shareholders agreements, if any.

During implementation process, every structural management action would be subject to CBN approval. These would include reorganization, staff rationalization, name approval, branch rationalization, head office etc.

Nigeria Stock Exchange (NSE) Approval:

The approval of the Nigeria stock exchange is necessary if the merged company is to be a public limited liability company and desires listing on the exchange or some of the merging companies are listed on the exchange. During the merger period the NSE is like place of listed parties to the merger or technical suspension to prevent unfair trading and protect those companies.

Corporate Affairs Commission (CAC) Approval:

Essentially from the legal point of view the CAC has merely a ministerial role to play in mergers and acquisitions. It is the custodian of company documents; therefore most of the processes end up with the CAC for proper custody. This is done through statutory returns. Certificates of incorporation will eventually be returned and a new one issued for the merged company. The share capital may have to be increased substantially. Also, returns of allotment will have to be filed. Some of these processes involve payment of substantial sums in stamp duties and filling fees. It is therefore imperative that these costs be anticipated.

Although the CAC has a purely ministerial role in regulation of mergers and acquisitions, improvement in its technology and some service delivery means that, it is more able to track defaulting companies and this can slow down the process for companies involved in the merger process whose returns at CAC is not up to date. Defaulting companies may have to pay substantial penalties.

2.10 CHALLENGES OF BANK CONSOLIDATION

The challenges identified in this research work cut across the banks, their shareholders, bank employees and other stakeholders in the banking industry. It is an established fact that the route to improving efficiency in any industry is to foster competition among the operators. This is evident in two important growth sectors of the Nigeria economy- aviation and telecommunications over the last one decade (Adedipe 2005). A major challenge of bank consolidation is how to foster competition with fewer mega banks.

Certainly, fewer cannot be more competitive. There is however, the other side to the argument, which considers the number and spread of bank branches. The fewer banks are likely to be pressured to expand further, seeking business opportunities through aggressive branding to hitherto unexplored territories. (Moon, 1998).

There is ample evidence that this is the direction that the emerging banks in Nigeria are likely to follow, going by the indications in their capital raising information memorandum. International evidence in bank consolidation also confirms this except that it is more in the context of cross boarder acquisitions (Hughes, Lang, Master and Moon, 1998).

One of the supposed benefits of consolidation (Bigger Banks) is indeed and efficiency challenge. The argument has been that bigger banks might not necessarily be filter or more efficient, since they have no incentive to improve efficiency within the limited competitive field. Observers of Nigerian banking have noted that the big banks (perhaps because of the increase in the number of customers) have slipped back to their erstwhile habits before the advent of the new generation banks. Available, empirical evidences from Hughes(1998).

Another major challenge of consolidation is capacity building for risk management for both the regulators and operators. Both constituencies of the bank system need to enhance their risk management skills and indeed acquire new ones, covering the three plant of risk recognition, evaluation and monitoring (Adepide, 2005).

2.11 THE IMPLICATION OF CONSOLIDATION ON THE BANKING INDUSTRY

The directive by the Central Bank that, banks should raise their capital base to the tune of N25 billion several implications for both the banking industry and the Nigerian economy at large. These implications are as follows: with respect to the banking industry, the implications can be categorized into two parts namely; brand and structural implications.

BRAND IMPLICATION: With regards to branch implications, the new entities that will come from the dust of consolidation will need to deal with brand-related issued such as:

There will be a change of name if two or more banks come together and decide not to adopt any of the participating bank name. The logos which were formally used by each of these banks will be dropped and another one adopted.

There will also be the evolution of a new brand culture for the emerging banks after consolidation. The brand message of the consolidated banks will also be changed. The place of information communication technology (ICT) in the bank will be changed, that is, banks software as the new banks will go for the best to meet up customers demand.

STRUCTURE IMPLICATION: The recapitalization of banks will leave in its wake, a number of structural issues which will have direct impact on staff, customers and the entire banking sector. They include:

The reduction in the number of banks in the country. The closure of many small banks, especially those in the rural areas with poor capital deposit. There will be increase competition due to better incentives and rendering of banks services. Acquisition digestion issues which will include loss of jobs, consolidation of branch locations and tackling of inefficiencies and bureaucracies. And also reconstitution of management and board of the banks.

2.12 PROSPECT OF BANKS AFTER CONSOLIDATION

The initial public offering by banks through the capital market help to increase the level of financial deepening as evidenced in the upsurge in the volume and value of trading in stock market.

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

The consolidation of banks attracts a significant level of foreign banks entrance into Nigeria which will become a feature in the industry over time. This will bring about more confidence by the international community of the banking sector thereby attracting more foreign investment into the country. As the level of financial intermediation increase, interest rate is likely to fall and increase lending to the real sector that will generate employment and booster growth.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

The importance of methodology in any given research undertaking cannot be overstressed. Apart from the fact that it explains the manner and process through which the research work would be conducted, it also describes the population and the sample upon which the study is based. This chapter therefore explains the method(s) that would be adopted for this research, the technique(s) of collecting data, the population and sample size, and the techniques of analyzing data, among other things.

3.2 RESEARCH DESIGN

For the purpose of this study, the historical research method will be adopted. Historical research involves the interpretation of past trends of attitude, events and facts in order to link the past to both the present and the future.

3.2 SOURCE OF DATA COLLECTION

Basically in the course of this study, secondary data source were used.

3.2.1 SECONDARY DATA SOURCE

Secondary data analysis is commonly known as second hand analysis. It is simply the analysis of pre-existing data in a different way or to answer a different question than originally intended. The secondary sources of data collection employed in this study include documentary report in form of textbooks, professional's journals, online articles and financial statement of the selected banks. It will assist to compare, analyze and provide a better understanding of the selected banks before and after consolidation.

3.4 SAMPLE SIZE AND SAMPLING TECHNIQUES `

However, the sampling size of the banks are determine using the size of the banks, the population of the study constitutes the consolidated 25 banks as at 2006 out of which 4 are selected due to their size and operation capacity, stratified random sampling technique are equal adopted.

3.5 TECHNIQUES OF DATA ANLYSIS

Two techniques are used in data analysis namely: Qualitative and Quantitative techniques of data analysis. The qualitative method involves description of data without the use of numbers while the qualitative technique is concerned with the use of numbers.

For this study, both methods have been used. The qualitative technique was used to organize data contained in the financial report of the selected population, in order to aid understanding, while testing the research hypothesis, the use of inferential statistics (qualitative technique) was put with the aid of T-test.

3.5.1 T-TEST DISTRIBUTION

The T-test (different test) is calculated as given by Luccey. T. (1996)

$$t = \frac{\bar{x} - \mu}{\frac{S}{\sqrt{n}}} = \frac{\bar{x} - \mu}{S}\sqrt{n}$$

Where s is an estimate of 6

μ is a population parameter

n is a number of sample items

x is an Arithmetic means of the difference

x is a difference

S= standard deviation of the difference is worked out as

$$\frac{\Sigma(X-\bar{X})^2}{n-1}$$

n= number of items in the sample and is based on the (n-1) degree of freedom.

V= degree of freedom. Thus v=n-1

Decision Rule

When the calculated value of t is less than the table value, we accept the null hypothesis and reject the alternate hypothesis, and when the calculated value of t is greater than the table value, we reject the null hypothesis and accept the alternate hypothesis.

Furthermore, financial ratio would be used to appraise the performance of the selected banks before and after consolidation. This performance as opined by Aborade (2004) would be applied under four headings. Viz: capital adequacy, asset quality, profitability and liquidity. To appraise the performance, the following formulae should be used:

CAPITAL ADEQUACY: (standard) as set by BOFIA is 5%

$$\frac{\text{Equity}}{\text{Total asset}} \times 100$$

Asset quality (should not be less than 20%)

$$\frac{\text{Classified loans}}{\text{Gross loans and advances}} \times 100$$

Note: classified loans are non-performing loans and advances.

PROFITABILITY (The higher, the better for the banks)

$$\text{Pre-tax profit margin} = \frac{\text{Profit before tax}}{\text{Cross earnings}} \times 100$$

LIQUIDITY: (40% is the standard while 20% is problematic)

$$\frac{\text{Cash in bank balance}}{\text{Total liabilities}} \times 100$$

3.6 JUSTIFICATION OF THE TECHNIQUES

The choice of the research methods is justified by the fact that bank consolidation is more or less a past event, and studying it now should mean going down the memory lane. Similarly, in view of the researcher’s constraint, especially time, the use of the survey method is very appropriate because it will avail the researcher the opportunity to draw a sample from the population for vigorous study, with a view to make generalization on the population as a whole.

i. However, the sampling size is arrived at by using the size and the operation capacity of the banks.

ii. The sampling techniques adopted for these studies are T-test distribution.

Furthermore, the sample size of five banks born out of the fact that the selection of a large sample within the limited time available to the researcher would make the whole study cumbersome. Similarly, the stratification of the bank into pre and post consolidation to ascertain whether or not the years of operation have any bearing on performance.

Secondary sources like textbooks had to be used to aid in the definition of various relevant concepts.

To analyze and provide a better understanding of the pre and post financial statement of the selected banks, qualitative techniques were employed and quantitative techniques too, because of the need to analyze research hypothesis.

3.7 SUMMARY

Research method and methodology have proven to be consequential to the study of any project work, because it broadens the understanding of both the researcher and the user of the work in addition to giving a wide knowledge to areas that have shortcomings.

The research techniques adopted are descriptive and proven to be authoritative and appreciably and impeachable because of the data used were collected from secondary sources.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 INTRODUCTION

The issue of “impact of bank consolidation policy on performance of Nigerian banks” remains a major concern to players in the industry, policy makers and researchers. This chapter attempt to give answers to questions earlier raised in the course of this work.

In this section, presentation and analyzes of data gathered from secondary source which are published financial statement of the banks are sample and presented.

Nigeria as a developing country desires a strong system that will aid it in achieving her economic aspiration of growth and development. Since banks are the core of financial system, the stronger the better ability to provide funds to meet the development needs of the country the greater is will be the ability of the country to achieve its economic goals.

4.2 TEST OF HYPOTHESIS

For the purpose of this study, the hypothesis formulated is to be tested using Chi Square and T-student distribution. It stated thus;

H_0: There is no significance relationship between banks consolidation and profitability.

H_1: There is significance relationship between bank consolidation and profitability.

4.2.1 HYPOTHESIS TESTING

Table 4.1: Banks profit after tax (PAT) before and after consolidation

Banks	Profit before consolidation ₦ Million		Profit after consolidation $(O\text{-}E)^2$	
First Bank Of Nigeria Plc	11,010	11,483	17,383	20,637
Union Bank of Nigeria Plc	7,146	4,185	10,868	13,876
United Bank For Africa Plc	2,989	4,185	11,468	19,831
Zenith Bank Plc	4,424.186	5,190.768	11,488.8	17,509.145

Source: Annual Report and account of the banks, various issues

We further take the average of the profit after tax for the two years before consolidation and the two years after consolidation as shown in the table below.

The chi-square method of data analysis would be used to test the hypothesis.

CHI-SQUARE: -

A measure of discrepancy existing between the observed and expected frequency is supplied by chi-square (X^2) statistics given by Murray et al 2004.

.i.e. $X2 = \frac{(fo - fe)^2}{fe}$ or $\sum_{j=1}^{k} \frac{(oj - ej)^2}{fe}$

$X^2 = \underline{(o1 - e1)}^2 + \underline{(02 - e2)}^2 + \underline{(o3 - e3)}^2 \ldots \underline{(on - en)}^2$

e1 e2 e3 en

The frequency observed are the results of the questionnaire which were administered. They will be compared with the expected frequency to see whether the results are significantly different from independence.

DECISION RULE:

Reject Ho, if the calculated X^2 value is greater than the statistical (Critical) value.

Accept Ho, if the calculated X^2 value is less than the statistical value.

OBSERVED FREQUENCY

F_o	f_e	$F_0 - f_e$	$(F_0 - f_e)^2$	$\frac{(F_0 - f_e)^2}{Fe}$
20,637	17,963.286	2,673.714	7,148,746.6	397.9643
13,876	17,963.286	-4,087.286	16,705,907	930.00284
19,831	17,963.286	1867.714	3488355.6	194.19362
17,509.145	17,963.286	454.141	206,244.05	11.481421
				1533.6421

$$\text{Expected Frequency} = \frac{\text{Total Frequency}}{\text{No of categories}}$$

71,853.145/4 = 17,963.286

Where: -

fe is frequency expected

fo is frequency observed

∑ is summation

Reject Ho, if the calculated X^2 value is greater than the statistical (Critical) value.

Accept Ho, if the calculated X^2 value is less than the statistical value.

DEGREE OF FREEDOM

In computing chi-square, it is necessary to use observation from the sample as well as certain population parameters. The degree of freedom is calculated by deducting the number of columns and rows each by one (1). The multiples of these are known as the degree of freedom usually denoted by df. The degree of freedom is used to check the chi-square value on the table.

df = (c – 1) x (r – 1)

Where; C is the total number of columns.

R is the total number of rows.

From the frequency observed table, there are two columns and rows.

C = 2

R = 2

df = (c – r) x (r – 1)

= (2 – 1) x (2 – 1)

= 1 x 1

= 1

LEVEL OF SIGNIFICANCE: -

In testing hypothesis, the maximum probability which we would be rejecting a hypothesis when it should be accepted is called level of significance.

In other words, it is the predictable level of error expected in an entire statistics. In practice, a significance level of 0.05 (i.e. 5%) is customary. Although other values are used but if for example, the 5% level of significance is chosen, then there are about 5 chances in 100 that we would reject a hypothesis which is supposed to be accepted. This also signifies that we have 95%confident level too make the right decision.

Using 5% level of significance and a degree of freedom of 1 (one), then the established value = 3.841.

INTERPRETATION: -

The calculate Chi square value (1533.6421) is greater than the statistical table value (3.84) hence we reject the null hypothesis (Ho) which states that There is no significance relationship between banks consolidation and profitability and accept the alternate hypothesis which states that There is significance relationship between bank consolidation and profitability

The second hypothesis of the study is also replicated below, for the purpose of testing.

$H_{02\ =}$ consolidation has no significant positive impact on the Nigerian economy.

$H_{02} =$ consolidation has significant positive impact on the Nigerian economy.

The presence of any economy is measured in terms of its Gross Domestic Product (GDP), preferably at current basic prices, thus, as was the case in the foregoing hypothesis, we are again going to make use of t-test (difference test) to see whether or not there is significant difference between Nigeria's GDP before consolidation and after consolidation.

The table below depicts Nigeria's gross domestic products current basic price before and after consolidation.

Table 4.3: T-Test difference table 11

Years	GDP BEFORE (N'B)	GDP AFTER (N'B)	DIFF = $\overline{X}$
1	8,487.00	18,564.60	10.077.60
2	11,410.10	22,625.30	11,214.20
n=2			21,291.80

Source: Researcher's computation, 2013

To find the mean difference $X = \frac{\sum \overline{X}}{n}$

$\overline{X} = \frac{21,291.80}{2} = 10,645.90$

The standard deviation difference can be calculated thus;

Table 4.6

Years	Diff = X	$X - \overline{X}$	$(X - \overline{X})^2$

1	10,077.60	-568.30	322,964.89
2	11,214.20	568.30	322,964.89
n=2			645,929.87

Source: Researcher's computation

$$S= \sqrt{\frac{\sum(X-X)^2}{n-1}}$$

$$= \sqrt{\frac{645,929.78}{2-1}} = \sqrt{\frac{645.929.78}{1}}$$

S= 803.70

We can now substitute our mean differences and standard deviation difference into out t-test formular

$$t= \frac{x-\mu}{\frac{s}{\sqrt{n}}}$$

This is can be written thus

$$t= \frac{\bar{x}-\mu}{s}$$

$$t= \frac{10.645.90 - 0}{803.70} \times \sqrt{2}$$

t= 10.645.90 x 2

$$\overline{\quad 803.70 \quad}$$

$$t = \frac{15{,}055.58}{803.70}$$

t= 18.733.

Degree of freedom (n-1) = (2-1) = 1

From the critical values table, of t at 5% level of significance (for one tailed test) = 6.314.

Since the calculated value of t is greater than its table value, it means that there is significant impact. This implies consolidation has significant positive on the Nigerian economy.

4.3 DISCUSSION ON FINDINGS

Result from the second data, established that within the short term of two years (2003-2007), bank consolidation has a significant positive impact on the performance of the Nigerian economy. This impact is represented by the growth in Nigeria's cross domestic products during the period in question. This result was perhaps realized due to assumption that the performance of banks is the only factors that affect changes in the GDP.

In summary, the reveals that bank consolidation has brought about significance improvement in the performance of the banks and as well as the performance of the Nigerian economy within two years after the exercise at an average level.

4.4 PERFORMANCE APPRAISAL OF THE SELECTED BANKS

The relevance of performance appraisal to any organization cannot be overemphasized as it assist the stakeholders, creditors, shareholders etc assess whether the organization is making progress or not. Aborode (2004) express his opinion that the most efficient and convenient way of appraising the performance of an organization is by interpreting its financial statement over a period of time. He went to discuss the reason why the financial statement should be interpreted and analysis as can be seen logically below.

i. Evaluation of the trading performance of a firm in order to have a measure of the quality of management running it.
ii. Appraisal and monitoring of the constituent of the capital structure and the cost allocated with them.
iii. Whether or not an enterprise has solid liquidity base a position of being able to meet contractual obligation as they are due is revealed.
iv. Comparism of the operation of an enterprise for two or more years or between similar firms within the same industry could assist merger or take-over consolidations.

He therefore, say that financial statement can be interpreted in one of two ways; using individual items contained in financial statement (ratio analysis). Thus, in the case of this research, the latter approach to appraise the performance of the selected banks consolidation are employed. Analyzes of performance under four broad headings as given by Aborode (2004). Capital adequacy, Asset quality, profitability and liquidity.

The table below shows the capital adequacy ratio of the selected banks. The standard, asset by the bank and other financial institution Act (BOFIA) is 5% while the international standard is 8% (Aborode 2004).

Table 4.7: Capital Adequacy ratios of the Selected Banks

Banks	2003%	2004%	2006%	2007%
First Bank Of Nigeria Plc	11.01	10.58	10.42	9.18
Union bank of Nigeria Plc	9.78	9.82	18.49	15.59
United Bank for Africa Plc	6.85	8.65	5.59	14.95
Zenith Bank Plc	11.24	8.11	16.44	12.76

Source: Computed from Annual report and account for the selected banks

Table 4.7 above shows that in 2003, the capital adequacy ratio of First Bank of Nigeria Plc, Zenith Bank Plc were 11.01%, 11.68 and 11.24 respectively while that of union Bank of Nigeria Plc stood at 9.78% and finally that of Union Bank for Africa Plc. Has 6.85% during the year 2003.

Zenith bank Plc and first bank Plc had the highest and the best ratio of 11.31% average. United Bank for Africa Plc, experienced the lowest minimum ratio of 6.585 followed by Union Bank Plc with 9.78% during the period 2003. Al the four selected banks attained the standard set by BOFIO and international standard except for United Bank for Africa that did not attained the international standard.

In 2004, the ratio for Union bank Plc and United bank for Africa rose tom 17.77%, 9.82% and 8.65 respectively while for first bank plc and zenith bank plc dropped marginally to 10.38% and 8.11% respectively during the year.

In 2006, a year after consolidation, United bank for Africa plc and First bank of Nigeria Plc experienced a dropped to 5.59% and 10.42% respectively while that of Union bank of Nigeria plc rose sharply to 18.495 followed by the Zenith bank plc with the ratio of 16.44% and 14.99 respectively.

At the end of 2007, the capital adequacy ratio of Zenith bank stood at 22.50% while that of United Bank for Africa was 14.95. Both cases represented a further increase from the previous years. Zenith Bank Plc, Union bank Plc, and First Bank of Nigeria Plc dropped marginally to 12.76% and 9.18% respectively by the end of the year 2007.

The above presentation and analysis has shown that the entire selected banks capital adequacy attained the better ratio before consolidation and the best after consolidation. The pattern was dominated by consistent increase in their capital adequacy ratio over the period. This surely puts the state of the consolidation in confident.

The ratio relating to the Asset quality of the selected banks could not be computed due to the fact that one of the key inputs classified or non-performing loans were not reflected in the balance sheets of all the banks under study. The researcher tried to get these data directly from the respective banks but the attempt was defeated as they claimed that they are far reaching.

The table 4.8 below shows the profitability ration of the selected banks before and after consolidation. The higher the ratio, the better the profitability of the Banks. Aborode (2004)

Table 4.8: Profitability Ratios of the Selected Banks

Banks	2003%	2004%	2006%	2007%
First Bank Of Nigeria Plc	28.94	29.36	32.37	28.36
Union bank of Nigeria Plc	24.49	21.97	20.33	19.70
United Bank for Africa Plc	20.30	23.44	14.54	26.69
Zenith Bank Plc	30.49	26.76	26.03	26.11

Source: computed from Annual report and account of the selected Banks.

The table 4.8 above shows that the profitability ratio of first bank Nigeria Plc, United Bank for Africa Plc, Union bank of Nigeria Plc and Zenith Bank Plc were 28.94%, 20.30%, 24.49%, 32.71% and 30.49 respectively, during the period.

In the year 2004, the profitability ratio for first bank of Nigeria Plc, united bank for Africa plc experienced an increase in their profitability ratio to 29.36%, 23.44% and 40.38% respectively. For the remaining banks, Union bank of Nigeria Plc, Zenith bank Plc, dropped to 21.97% and 26.76% respectively.

In 2006, however, first bank of Nigeria plc is the only bank that had an increased in its profitability ratio among all the selected banks to 32.37% for the remaining reversed is the case as Union bank of Nigeria Plc, United bank for Africa Plc and Zenith bank plc, experienced a dropped to 20.33%, 14.54%, 39.83% and 26.03 respectively during the year.

By the year 2007, the profitability ratio of first bank plc, and Union bank plc, dropped to 28.36% and 19.70% respectively. The ratio for United bank for Africa plc and Zenith bank Plc, increased to 26.69%, 43.62% and 26.11respectively during the year. On the overall assessment of the profitability ratio of the selected banks fluctuates over the years.

The table below shows the liquidity ratio of the selected banks before and after consolidation. Liquidity ratio of 40% is the standard, while a ratio of 20% is considered problematic to the bank. Aborode (2004)

Table 4.9 LIQUIDITY RATIOS OF THE SELECTED BANKS

Banks	2003%	2004%	2006%	2007%
First Bank of Nigeria Plc	21.73	26.28	28.74	23.92
Union bank of Nigeria Plc	20.94	16.68	19.05	22.90
United Bank for Africa Plc	22.92	26.88	12.59	29.05
Zenith Bank Plc	24.25	27.62	32.70	24.70

Source: Computed from Annual report and account of the Selected Banks

Table 4.9 above depicts that in 2003 the liquidity ratio of the First bank of Nigeria plc, Union bank of Nigeria plc, United bank for Africa plc and zenith bank plc, were 21.73%,20.94%, 22.92% and 24.25 respectively.

In the following year 2004, the liquidity ratio of first bank of Nigeria plc, united bank for Africa Plc, international bank plc and zenith bank plc, experienced an increased to 26.18%, 26.98%33.58% and 27.62% respectively. While for the Union bank of Nigeria Plc, dropped to 16.68% during the year.

In 2006, Zenith bank plc experienced a series increased in its liquidity ratio slightly above the minimum standard to 43.70% for the first bank of Nigeria plc, Union bank of Nigeria Plc and zenith bank plc also experienced an increased to 28.74%, 19.05% and 32.70% respectively. But yet not up to the minimum standard. United bank for Africa, was the only bank that had a dropped to 12.59% during the year 2006.

In the year 2007, the United bank for Africa had a sharp increased to 29.055 and Union bank of Nigeria Plc had a marginal increased to 22.90%. for the first bank of Nigeria plc and zenith bank plc had a dropped to 23.92%, 37.25% and 24.70% respectively.

On the whole assessment of the liquidity of the selected banks were problematic since before and after consolidation. Only one out of the four selected banks that attained the 40% standard in 2006.

4.5 SUMMARY

Result from the first hypothesis tested from secondary data collected revealed that the bank consolidation exercise has a significance impact on the post-consolidation performance of these banks. There were measured by examining pre-consolidation and post-consolidation profit after taxes of the selected bank. The result suggested that the difference is significant. Result from the second hypothesis, which seeks to find out the significance of the impact of banks consolidation on the Nigerian economy, revealed that the exercise had a significant positive impact on the economy. The overall results revealed that the banks had better ratios after consolidation.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMENDATIONS

5.1 SUMMARY

The role of banks in mobilizing and channelling funds in an economy cannot be over emphasized. It does things through collecting savings from surplus units. And channelling them into deficit units of the economy for productive investment which will enhance productive capacity and overall output and employment. Hence the efficient performance of banks in an economy is of valuable importance. It was in the struggle to achieve this and other benefit from the exercise that the Nigerian banking sector was consolidated.

The banking sector consolidation was among other things, to bring about improvement in the capital base of banks, effective and efficient customer service delivery through healthy competition, to achieved international banking standards, ensure proper intermediation among various sector of the economy.

The study revealed that the Nigeria banking sector consolidation has improved banks performance in area of profitability, liquidity and capital adequacy through ratio analysis. The study also revealed that the consolidation exercise imparted positively to the Nigeria economy within the period under study.

5.3 CONCLUSION

Have been able to draw conclusion from the data gathered and presented, as they gave an important insight on the impact of consolidation in the performance of banks. An appraisal of the balance sheet of this selected banks for the period in question also indicated an improvement in their post consolidation financial performance. This improvement can be seen in the increase in their capital adequacy, profitability and liquidity position.

5.4 RECOMMENDATIONS

After a thorough study of four selected banks which were used as a basis for Nigeria banks, the research has found out a huge success in the exercise. Although the researcher has observed that despite the seemingly growth in the banking industry there could still be a room for further improvement in the sector. For banks to continue to survive, maintain or increase on other present success story in the post consolidation era they must:

The CBN should improve its post-consolidation regulatory capacity:

For the post consolidation performance of the banks to be success story, the regulatory authorities must improve their supervisory capability and pursue policies that would enhance the safety, soundness and efficiency of the financial service industry. Particularly, the CBN has before it herculean task of ensuring that the now twenty five mega banks comply fully to underlying regulatory and supervisory framework so as to avoid reverting to the former regime of non-compliance.

Mega banks, on their own part should operate within their ethics and ensure that customer satisfaction is their focus: they should ensure that the operates within the stipulated regulations to provide better and improved service to their customer, as this is the only way to improve profitability and by implication, performance. The issue of ethical banking devoid of shady deals is not only good for the banking sector but the Nigeria economy as a whole. Already, the improvement in international ranking for Nigeria banks is a right towards this direction.

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