A COMPARATIVE ANALYSIS OF BANK PERFORMANCE IN NIGERIA

(A Case Study of Zenith Bank and GT Bank)

BY

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A PROJECT WORK SUBMITTED TO THE DEPARTMENT OF BANKING AND FINANCE, SCHOOL OF BUSINESS STUDIES AUCHI POLYTECHNIC, AUCHI, IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF HIGHER NATIONAL DIPLOMA (HND) IN BANKING AND FINANCE

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CERTIFICATION

We the undersigned hereby certify that this project titled: "A Comparative Analysis of Bank Performance in Nigeria; A Case Study of Zenith Bank and GT Bank" was carried out by **BAYAGBON HANNAH UREMUSODE** with Mat No: ***SBS/*2282060160** under our supervision in the Department of Banking and Finance, Auchi Polytechnic Auchi, Edo State.

We also certify that the project is adequate both in scope and quality and submitted to the Department of Banking and Finance in Requirements of the Award of Higher National Diploma (HND) in Banking and Finance.

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DEDICATION

This project work is dedicated to God almighty my strong pillar and my ever supportive parents for their relentless support and compassion towards my HND program. Furthermore, I want to dedicate this report to my lecturers for their continual impact of knowledge.

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ABSTRACT

This project work examines; a comparative analysis of bank performance in Nigeria a case study of Zenith Bank and GT Bank. The resultant effect of financial liberalization opened up the Nigerian economy to global financial markets, which has generated increasing apprehension in the economy and has exposed the fragility and vulnerability of her financial system. It is therefore imperative for the Central Bank of Nigeria to introduce measures that will reduce the exposure and enhance the stability of the nation's financial system. A defensive measure that will strengthen the existing banks and put the new ones on a good start up is needed, hence the introduction of a new capital base of N25billion. This study investigated the impact of previous recapitalization in the banking system on the performance of the banks in the country with the aim of finding out if the recapitalization is of any benefit. The study employed secondary data obtained from NDIC annual reports. The data were analyzed using both descriptive e.g. means and standard deviations and analytical techniques such as the test and the test of equality of means. It was found that the mean of key profitability ratio such as the Yield on earning asset (YEA), Return on Equity (ROE) and Return on Asset (ROA) were significant meaning that there is statistical difference between 2001 to 2016. The study recommends that the banks should improve on their total asset turnover and to diversify their funds in such a way that they can generate more income on their assets, so as to improve their return on equity.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The banking system in any economy plays the important role of promoting economic growth and development through the process of financial intermediation In the work of Schumpeter (1911) he argued that financial services are paramount in promoting economic growth. In this view production requires credit to materialize, and one "can only become an entrepreneur by previously becoming a debtor….what [the entrepreneur] first wants is credit. Before he requires any goods whatever, he requires purchasing power. He is the typical debtor in capitalist society". In this process, the banker is the key banking sector agent. Keynes (1930), he is a treatise on Money, also argued for the importance of the banking sector in economic growth. He suggested that bank credit "is the pavement along which production travels, and the bankers if they knew their duty, would provide the transport facilities to just the extent that is required in order that the production powers of the community can be employed at their full capacity"

However, the Central Bank of Nigeria in pursuit of one of its core mandates of promoting the safety and soundness of the Nigeria financial system has continued to formulate and implement policy measures that are aimed at achieving that statutory objective. As part of its responsibility to promote a sound financial structure, efficient payments and settlement system, the Central Bank of Nigeria carries out supervisory duties in respect of deposit money banks and other financial institution.

The CBN commenced a far reaching and comprehensive reform of the Nigeria banking industry on July 6, 2004 with the announcement of a reform programme for the nation's banking industry, the main thrust of which required the 89 deposit money banks then in the system to raise their capital base to a minimum of N25 billion each through injection of fresh capital and/or mergers and acquisitions.

Following the policy pronouncement and the subsequent release of the guidelines on bank's consolidation, the financial system witnessed a frenzy of activities as bank rushed to meet the minimum capital requirement. Many banks went to the capital market to raise additional funds while other entered into merger arrangements.

Notably, at the close of the first phase of the consolidation programme on 31st December, 2005, 25 banks have emerged which saw the beginning of the growth of intercontinental bank plc, having met the minimum capitalization requirement. It may interest us to note further that before the advent of the exercise in 2004, reputable international financial institutions and rating agencies would not bother to look the way of Nigeria banks for partnership, lending to rating not anymore. By June, 2007, Nigeria banks have become the toast of financial institutions and multilateral agencies across the globe. Even respected international rating agencies are adjusting their ranking in favour of Nigeria banks (The news, 27 August, 2007; Vol. 29, No 07).

1.2 Statement of the Problem

The Nigeria financial system is one of the largest and most diversified in Sub-Saharan African. In recent years, the system has undergone significant changes in terms of the policy environment, number of institutions, ownership structure, depth and breadth of markets as well as in the regulatory framework. However, in spite of the far reaching reform of the past ten years, the Nigerian financial system is not yet in a position to fulfill its potential as a propeller of economic growth and development. The financial system is relatively shallow and the apparent diversified nature of the financial system is deceptive. Although, a wide variety of financial institutions and markets exist, commercial banks overwhelming dominate the financial sector and traditional bank deposits represent the major forms of financial savings.

With over 70 million Nigerians now living in poverty, sustained and equitable economic growth is the key to alleviating chronic poverty. For such growth to take place, abundant capital has to be made available for actors in the real sector. There is abundant empirical evidence on the linkage between a strong, efficient and diversified financial system and economic growth. The decaled strategy of private sector is in a position to provide effective support for the real sector. Small and medium scale (SMEs), which have sustainable potential for employment generation, currently lack reliable access to long term/and often short term credit and other financial services due to the underdevelopment of lending.

In analyzing the Nigeria economy, in the light of growth performance of the banking sector, real sector nexus, there has not been considerable debate in the literature on the relative merits of bank dominated financial systems and capital market dominated financial system in promoting growth (Allen and Gale, 2006). Bank based or market based financial system tend to promote long term economic growth as banks tend to offer longer loans to the entrepreneurs. In contrast, a market based financial system is more likely to have shortterm effects as firms are primarily concerned with their immediate performance. Given their diverse roles, it is possible for the financial intermediaries and financial markets to have a mutually reinforcing role in the overall development of the financial system.

Given the above analysis, this work tends to evaluate the impact of recapitalization on the growth performance of Nigeria banks, The role of the banking sector on bridging the gap between the financial deficit and the financial surplus has placed some question: how does the banks in Nigeria response to the recapitalization reform, effectively accumulating savings or encouraging withdrawal in the economy? Does real sector investment response positively to accumulated savings? Is there causal effect on the growth performance of banking sector and the recapitalization reform in the economy and finally, what is the relationship between accumulated savings, bank loan the gross domestic product in Nigeria? To which extent does the banking recapitalization reform have translated the increased credit purvey to the real sector? And finally does this reform help in controlling the inflationary pressures in the economy?

1.3 Objectives of the Study

The main objective of this study is to have a comparative analysis of the performance of Zenith Bank and Guaranty Trust Bank.

The specific objectives are:

a. To compare the gross profit of GTB and Zenith Bank.
b. To compare earnings per share of GTB and Zenith Bank
c. To distinguish between GTB and Zenith Bank in terms of return on investment.

1.4 Research Question

The study therefore seeks to examine the impact of recapitalization on the performance of banks in Nigeria and specifically the study seeks to provide answers to the following questions:

a. Is there any difference in gross profit between GTB and Zenith Bank?
b. How do we compare earnings per share of GTB and Zenith Bank?
c. Is there any way to distinguish between GTB and Zenith banks in terms of return on investment?

1.5 Statement of the Hypothesis

However for the purpose of this study one sets of hypothesis will be used. These are signified by the symbols H_O for null hypothesis

H_O: There is no significant difference in gross profit between GTB and Zenith Bank?

a. ***H_O:*** There is no significant way to compare earnings per share of GTB and Zenith Bank

b. ***H_O*:**There is no significance difference between GTB and Zenith Bankin terms of return on

1.6 Scope of the Study

This study on the impact of recapitalization on the performance of bank in Nigeria will be guided by the objectives as stated above. It has its primary and major focus on the Nigeria economy. This study is principally restricted to those banks under pre/post Soludo reform that survived the consolidation exercise.

The study examined a comparative analysis of bank performance in Nigeria; a case study of Zenith Bank Plc. and Guaranty Trust Bank Plc. from 2011-2016.

1.7 Significance of the Study

The most crucial challenge faced by Nigerian economy today has been the provision and supervision of capital for actors in the real sector so as to curb the growing number of unemployed youths and the ravaging effects of poverty. The head role the banking sector plays in this regard cannot be overemphasized. Thus, the apex banking body comes up with the necessary policies to focus the banking sector on this important role. This study will be of immense benefit to policy maker in appreciating the role of the financial sector on real sector performance, and the recent consolidation exercise of the banking sector by the Central Bank of Nigeria. It will assist students through the provision of framework upon which further research in the financial discipline can be carried out. Actors in the real sector and operators in the financial system can be assisted through this research work in appreciating the role of the banking sector on capital accumulation, provision and supervision.

1.8 Limitation of the Study

During the course of carrying out this research work, the researcher encountered some limitations it includes:

This study was carried out under a lot of constraints. The class work and bad internet service were limitations which made it uneasy for the materials to be available at the appropriate time.

The researcher encountered the limitations of lack of data relating to the investigation needed to carry out the research. Data was not readily available.

Notwithstanding, the result obtained from this study will not be relevant and useful to many individual, institution of learning, students banking industries and government organization in Nigeria and the world at large.

1.9 Operational Definition of Terms

Assets: These are properties of a business and its stock in trade or its stock of goods at any particular time.

Acceptance House: These are financial institutions that specialize in the grants of acceptance facilities.

Bank: Sec 2 and 61 of (BOFID) 1991 defines a bank as; "A duly incorporated company in Nigeria holding a valid banking license to receive deposit on current account, savings account or other similar accounts, paying or collecting cheques drawn by or paid in by customers, provision of finance or such other business as the government may order to publish in the gazette designated as banking business.

Capital: This refers to the sum invested in a business. It is also seen or used in business by a person, corporation, government etc. Capital can also be referred to as the net worth of a business amount by which the assets exceed the liabilities.

Capital Market: The market for sale of Securities. It is also refer to as a market where investment instruments mostly in monetary forms are exchanged either through long, short or medium term agreements.

Distressed Banks: These are banks with problems relating to liquidity, poor marginal or total earnings and Nonperforming assets. The climax of it is that it could be a condition of insolvency, which implies inability to pay debtors or meet maturity obligations as they fall due.

Holding Action: This refers to condition prescribed by Central Bank for the turnaround of distressed banks.

Inflation: A rise in the average price level of goods and services.

Liability: This is what a business owes to outsiders.

Liquidation: To put a firm out of business or stop its operations due to insolvency.

Liquidity: Money or near money (e.g. Bank drafts).

Merger: The combination of two or more companies in which one firm survive as a legal entity.

Open Market Operation: This is the sales and buying of government bonds in the market. The market consists of commercial banks and the public.

Recapitalization: Review of the required minimum capital and the process of adapting to the new requirement. It is also defined as the enhancement and restructuring of the financial resources of an organization with a view to enlarging the long term fund available to the organization.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Conceptual Framework

This chapter is concerned with the systematic and explicit collection of documented views, ideas and empirical evidences of the previous authors on the areas relating to the subject of this research. The purpose is to review and evaluate these documents with a view to providing orientation, focused ideas and current account of literature relevant to this research. The review commenced with the concept of capital and financial performance.

Capital requirements in banks were highlighted, which covered the regulatory category of capital and the need for capital regulations. Reasons for recapitalization in the banking industry were also reviewed. Other significant areas of the literature that were equally reviewed include: performance measurement model in banks, the functions of deposits and liquidity, relevance of loans and advances in banking, profits as a measure of bank financial performance and the impact of recapitalization on financial performance. Other determinants of banks' performance were added to the review.

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, vis-a-vis the returns accrued from the use of it in an organization. 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 cushion against all type of risks; 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 the bank. Capital is initially a source of fund for the bank for buying all necessary fixed assets and to supplementing working capital. After issued, 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: 1) 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. 2) To act as a shield for stakeholders. The thicker is the owners' stake, the more protection it provides for guarantors, debt holders, and uninsured depositors.

Capital achieves this by: (i) protecting uninsured depositors in case of insolvency, (ii) covering unanticipated losses to maintain confidence in the bank, (iii) funding fixed investments and other non-financial investments of the bank (iv) limiting asset expansion beyond the means of the bank.

Amount of capital is deemed adequate when it reduces the chances of future insolvency of the bank to some predetermined minimum level. Alternatively, capital adequacy can be defined as the maintaining a level of capital so that the premium paid by the bank to an insurer fully covers the risks by the insurer (Maisel, 2002). Therefore, in order to determine the adequate amount of capital, adequate measure of financial risk should be made as it is very important for bank management, shareholders, regulators and insuring agency, and uninsured creditors.

Basically, adequate amount of capital can be viewed from two different perspectives: owners' and regulators'. Owners' primary concern when investing in a bank is to earn a good return in form of profit. On the other hand, regulators aim to make sure that banks maintain a certain level of capital to protect uninsured depositors and other creditors, and to promote safe and sound functioning of both the individual bank and the financial system as a whole. In order to fund its activities, like extending loans and investing in securities, a bank needs to be able attract deposits from the public.

In order to collect deposits, public has to have confidence in the bank, which is affected by the amount of capital level. Although capital is very important for almost every aspect of banking and in order to maintain a sound and safe functioning of banks, the CBN has to impose minimum level of capital requirements in Nigeria. This becomes mandatory because, maintaining at least minimum level of capital reduces the risk of default to a predetermined level.

On the other hand, as Berg-Yuen Pia and Elana (2005) state rising and holding capital is costly because of taxes, agency and information costs. Meaning that, increasing the level of capital or recapitalization decreases the rate of profit on equity of owners.

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 to represent shareholders' stake and subsequent funds additions which are used as operating base and remain more or less permanent in the business until it winds off. The CBN and NDIC further state that the functions of a bank capital 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 banking business, the strength of the bank and its lending limits.

From the definitions above, observations and its composition, 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. On the other hand, recapitalization could be defined as a policy of adjusting the existing capital of an organization by the regulatory authority to a specified amount based on the prevailing economic and financial conditions, but with a major aim to repositioning and improving the general performance and competitiveness in the industry.

Capital Requirement in Banks

Importance of Adequate Capital

In banking, capital creates a strong incentive to manage a bank in a prudent manner, because the bank owners' equity is at risk in the event of a failure. Models of banks' capital are tied to unexpected losses. The assumption is that expected losses in the ordinary course of business should be covered by the normal operating earnings. Thus, bank's capital plays a critical role in the safety and soundness of individual banks and the banking system. Therefore, for losses beyond the normal range of expectations, 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. Equity capital being business-neutral would move to and find its level in an industry or firm in terms of its risk-return structure. In other words, it depends upon the risk appetite of a particular class of investors and the expected return that satisfies this appetite. This is the generic behavior of capital. Any capital regulation that infringes upon this law would force the investors to seek alternative equilibriums, which may often be detrimental to economy, not to speak of depositors' interest. The regulation would thus defeat the very purpose for which it is intended. When capital is allowed to exploit its risk potential fully, the depositors' interest is protected as a consequence of it (BCBS, 1998).

So far as the behaviour of equity capital is concerned, what is true of any other industry is true of the banking industry also. 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, like Basel II, 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) provide 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.

The increasing transparency requirements being placed on banks now have the effect of making the depositors more knowledgeable than they were before now. It is often postulated that the risk of bank's business is always very high. Cebenoyan and Strahan (2004) are perhaps, echoing the general consensus that it is difficult to imagine another sector of the economy where as many risks are managed jointly as in banking. It follows, therefore, that a bank with comparatively higher risk associated with its business, and a default having high financial and social cost should have higher equity component in its capital structure than firms in other industries.

One could however, argue that debt-equity ratio of a bank may be higher than that of any other firm. This is because it may be that either the banks are not as risky as are perceived to be or there exists some other economic laws which make the bank highly leveraged or both. So far as the former is concerned, the issue can be approached from an opposite angle, that is, a higher level of capital would lower the default probability. However, Thomson (1991) finds that a higher equity ratio does not always predict a lower probability over all reasonably near future periods. This finding may only be applicable to other industries not banking because of the special functions of bank capital. Banks are considered special and so is the bank capital. It could nearly be established that the function of banks' capital is primarily to protect the interest of the depositors. Away from the conventional corporate financial theory, it is held that banks do not require capital as a primary source of financing but to underpin the risk of loss in value of exposures, businesses, among others, so as to protect the depositors and general creditors against loss (Matten, 2001). This special attribute of bank capital has now entered into banking textbooks, the primary articulation of which was done in Basel I Accord. The capital adequacy lies at the heart of supervision, and all supervisory authorities require their banks to hold capital against the risks of potential losses arising from their business operations. This is so argued (Berger, Herring, and Szego, 1995), because banks systematically have the highest leverage than firms in any other industry.

Regulatory Category of Capital

The idea of imposing minimum levels of capital on all banks began in the United States in 1981. Prior 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 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, the 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 capital-adequacy categories of banks:

a. ***Well Capitalized:***This category must have a ratio of total capital to risk weighted assets of at least 10 percent, a ratio of Tier 1 (or core) capital to risk weighted assets of at least 6 percent and a leverage ratio (Tier 1 capital) to average total assets of at least 4 percent.
b. ***Adequately Capitalized:***This group must have a minimum ratio capital to risk-weighted assets of at least 8 percent ratio of Tier 1 (core) capital to risk-weighted assets of at least 4 percent and leverage ratio of at least 4 percent.
c. ***Undercapitalized:***This describes any bank that fails to meet one or more of capital minimums for an adequately capitalized bank as defined above and is subject to a variety of mandatory or discretionary regulatory restrictions, including limits on the dividends and management fees it is allowed to pay, or on any proposed merger unless approval is obtained in advance from the regulators.
d. ***Significantly Undercapitalized:***Any bank belonging to this group possesses a ratio of total capital to risk-weighted assets of less than 6 percent, a core (Tier 1) capital to risk-weighted assets ratio of under 3 percent and a leverage ratio average of less than 3 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.

e. ***Critically Undercapitalized:***This category applies to banks whose ratio of tangible equity capital to total assets is 2 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 regulatory approval for such transactions as granting loans to highly leveraged borrowers, making changes in their charter or bylaws and the rest.

Previous empirical work on the effectiveness of bank capital requirement in determining actual capital levels has contrasting results. However, Peltzman (1970) finds no requirement effect on bank capital whereas Mingo (1975) finds that capital adequacy requirement had a significant impact on bank capital.

Need for Capital Regulation in Bank

The acknowledged importance of the financial system avis-a-vis the banking sector for better functioning of an economy is very clear. It is obvious that banking crisis can have large disruptive effects on the real economy. For a long 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. In the case of banking, there is still no consensus on whether banks need to be regulated and, if yes, how they should be regulated. This partly reflects the lack of consensus on the nature of the market failure that makes free banking not optimal (Kaufman and Benson 1996). However, there are justifications that are often presented for regulating banks: the risk of a systemic crisis and the inability of depositors to monitor their banks (Goodhart, Hartmann, Llewellyn, Rojas-Suarez, and Weisbrod, 1998).

Regulatory zealousness that surrounds the banks in the name of international convergence of capital standards or prudential norms stem from the belief that banks are too risky to be allowed to operate as a market institution; it is a bull which must be held by the horns. It is rather ironical that while reforms are being made all around the world to move capital to the market, banks are kept aside from this global movement despite the fact that it is at the centre of the financial system that makes the wheels of the business move. None of the financial liberalization indexes developed by various researchers, the latest being that of Abiad and Mody (2005), consider bank capital regulation as an indicator of financial repression, though they all have put credit control at the top of the list ignoring the fact that capital regulation is the worst form of credit control as it ultimately controls the quantum of credit (Bhattacharya, 2006).

The level of capital so determined makes the firm to take appropriate level of risk. Capital regulation interferes with the risk-return function of banks as it may force banks to operate below its risk capacity. The model of Kopecky and Vanhoose (2004) predicts that when capital requirement is binding in the short-run, the banking system would reduce loans and expand holding of securities. Crocket (2000) has also expressed concern that binding capital requirement may exacerbate the business cycle, particularly at the trough.

From the above, it could be summarized that the fundamental purposes of regulating banks' capital are to reduce the risk of banks' operational failures, to maintain the confidence in the system and limit losses to all the stakeholders including the government and economy.

Reason for Recapitalization in Banks

Recapitalization is a broad name that covers many processes. One of these is merger and acquisition, another involves capital restructuring, management overhauling, among others. Van Horne (2002) refers to recapitalization as any change in capital structure, in operations or in ownership that is outside the ordinary course of business. The incentive to recapitalize often arises because the firm's market falls significantly below its full potential or intrinsic value. Case materials highlight important causes of this value gap including poor corporate performance or financial distress, changes in corporate strategy, and mistakes by the capital markets in valuing corporate assets. Closing the value gap potentially benefits the entire firm's claim holders and stake holders, provided they can agree on how to share the gains.

Recapitalization is expected to improve the bank's performance by ensuring adequate capital and profitability as well as enhancing the banks' intermediation capacity. Related literature especially, Dziobek and Pazabasioglu (2004) suggest on how to restore banks' solvency and balance sheet in the following ways: raise additional capital (from existing or new owners or from government; reduce liabilities (write down certain debts) and boost value of assets (recover problem loans and collaterals). In Nigeria, the first option is adopted to improve the performance of the banking operations.

Recapitalization activity is generally associated with three motivations in the 42 academic literatures namely: to address poor performance of the affected company, to exploit strategic opportunities and to correct valuation errors. The literature distinguishes different types of transactions, encompassing multiple forms of changes in firm's organizations (Van Horne (2002**.**

Gilson (1998) is in agreement with Van Horne (2002) when he states that recapitalization is meant to 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 through corporate spin-offs and targeted stock offerings and 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. Akinsulire (2008) states that recapitalization is not a guess work, but an organized scheme of revitalizing a company to a better structure and focus and suggests three stages involved in process as follows: diagnosis – identification of the causes of the problem; prescription – to proffer appropriate solutions and monitoring – monitor the implementation of proffered solutions.

The Concept of Financial Performance

The term performance is not as simple as it sounds; people often mean very different things 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 benchmarks and performance measurement, the answer to what is performance may still be hard to pin down. The banking sector aims for strong performance, but few worry about what constitutes such performance. Perhaps they should. The current run up of the stock market, at a time when corporate profits are fast declining, raises the question of whether or not banks are doing satisfactory good job for their shareholders.

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:

a. Financial capital – the equity stake in an enterprise in money terms;
b. Real financial capital – the equity stake in an enterprise in real terms (the proprietary concept);
c. Operating capacity capital – the ability of the enterprise to maintain its ability to provide goods and services (the entity concept).

Hunger and Wheelan (1997) define 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 (Hunger and Wheelan, 1997).

Authors like Ellis-Christensen (2010) and Walden (2007) believe that Performance measurement include: i) The use of statistical evidence to determine progress toward specific defined organizational objectives. (ii) The process of developing measurable indicators that can be systematically tracked to assess progress made in achieving predetermined goals and using such indicators to assess progress in achieving these goals. (iii) A process of assessing the achievement of pre-determined goals and objectives through the measurement of the following types of indicators: inputs, processes of delivery of activities and services outputs, and outcomes.

Evaluation of banks' financial performance using this rating system (CAMEL) revealed that the causes of banks problems in Nigeria are: gross under capitalization in relation to the level of bank operations and low earnings with huge operational losses (Ebhodagbe, 1995). Others are high level of classified loans and advances, illiquidity reflected in the inability of the bank to meet customers' cash withdrawals and weak management. The CBN and NDIC (1995) also confirm the inadequacy of capital and operational losses to be the main causes of banks' performance.

The performance measurement in Nigerian banks should be purely a matter of circumstances of each case and the level and size of available information. This is because CAMEL has been put into used by both CBN and NDIC, while some results revealed soundness of banks examined, yet these banks may still have some financial and operational defects that had triggered crisis. Some banks with weak assessments using the CAMEL rating system had appeared to be better in performance than those 57 confirmed healthy. Besides, is the use of the information in the performance measurement that is being considered.

Deposit and Liquidity as a Measure of Banks' Performance

Issues in Deposit and Liquidity as a Measure Performance

Santomero (1984) views liquidity management in banks as akin to a standard inventory problem. The costs of keeping a stock of liquid assets of a particular size are weighed against the benefit of reducing the chance of being out of stock. The key prediction of these theories is that the size of the liquidity buffer should reflect the opportunity cost of return foregone from holding liquid assets rather than loans. It should also relate to the distribution of liquidity shocks the bank may face, and in particular to the volatility of the funding basis as well as the cost of raising funds (for instance, in the interbank market) at short notice.

Unreasonable cost of maintaining cash is avoidable or could be effectively managed knowing the behaviour pattern of the banks' customers. In banking, excess cash or stock of liquid asset should not constitute any problem otherwise; banks should not always look for more deposits. It is not, however, difficult to establish the amount of stock to be maintained that will not affect the flow of the normal banking operations. Similarly, Rajan (2001) tests whether the credit crunch in Thailand (1998) for example was related to supply or demand factors, and to this end estimate a bank's demand function for reserves. He derived a demand function for excess reserves that depend both on the distribution of the deposits withdrawals, the external cost of finance (penalty rates applied by the Central Bank) and the impact of regulation (the reserve requirement applied by the Central Bank).

The general view is that higher capital improves banks' ability to create liquidity. Liquidity creation exposes banks to risk – the more liquidity is created, the greater are the likelihood and severity of losses associated with having to dispose of illiquid assets to meet the customers' liquidity demands (Diamond and Dybvig, 1983: Allen and Santomero, 1998 and Allen and Gale, 2003). A well-known role of capital is to absorb risk and expand banks' risk-bearing capacity (Bhattacharya and Thakor, 1993: Repullo, 2004 and Von Thadden, 2004), so higher capital ratios may allow banks to create more liquidity.

The theoretical literature produces opposing predictions on the link between capital and liquidity creation. Berger and Bouwman (2007) develop four measures of liquidity creation and presented two alternative hypotheses related to the impact of equity capital on liquidity creation. One set of theories - referred to collectively as the "financial fragility-crowding out" hypothesis - predicts that higher capital reduces liquidity creation. Diamond and Rajan (2000, 2001) who focus on financial fragility, they modeled a relationship of a bank that raises funds from investors to provide financing to an entrepreneur.

Some empirical studies examine issues related to liquidity creation, but do not focus on the role of capital. Kashyap, Rajan and Stein (2002) provide empirical evidence of synergies between commitment lending and deposits, consistent with their model, but do not test the effects of banks' capital. Gatev, Schuermann and Strahan (2005) find that banks have a comparative advantage in hedging liquidity risk in the economy because banks experience deposit inflows following a market crisis or liquidity shocks that allow them to have more funds to provide the additional loans drawn down under commitments at such times.

Some studies of bank lending behaviour include capital ratios; for example, Berger and Udell (2004) studied procyclical lending and found positive statistically significant effects of capital on the annual growth of business loans. Holod and Peek (2004) examined monetary policy effects and found that the capital ratio has significant positive effects on loan growth. Gambacorta and Mistrulli (2004) used Italian data and found that the impact of monetary policy and GDP shocks on bank lending depends on bank capitalization.

It could be argued this point that higher capital may lead to short term improvement in liquidity creation only if there is excess from the efficient utilization of the capital. However, there is still an outstanding question of what constitute higher capital in banking industry. In the absence of acceptable definition of higher capital in banking, room is then created for theorists and researchers to come up with various opinions as whether or not higher capital could create liquidity.

Profit as a Measure of Banks' Performance

1 Role of Profit in Banks

Profit is said to be the bottom line (of any performance measurement) since it determines the success of any bank, as no business will want to be identified or associated with failure or loss. A bank with constant record of negative operational results (loss) will have its going concern threatened and a loss of confidence by depositing public in the bank.

Profit is a measure of successful performance not only in banking sector but in other sectors of the company. However, at times profit is difficult to define due to method or rate of depreciation compared with similar banks, implementation of the CBN Banking Supervision Prudential Guidelines on credit facilities, management emphasis or conservatism, among others.

Profit could be defined as the financial returns from the successful use of financial capital within a period of time or financial year without impairing the capital. It could 83 also be seen at as the growth in financial capital resulting from usage between the beginning and end of a defined period of time taking into consideration any additional capital introduced within the year under review.

The relevance and role of profit in banking is crucial for a number of reasons. Profit is the bottom line and foundation upon which the two main pillars of banking – strength/adequacy of capital and competence of management are based (Crosse and Hempel, 1980). Published profit in the financial statements reassures depositors that the business is competently managed, and it is recognized that any retained profit will need to make a substantial contribution to the maintenance of the appropriate capital base, particularly in an inflationary situation (Bank of England, 1975 and Committee of London Clearing Bankers, 1978).

Profit as a Measure of Banks' Performance

Information about the return (or profit) a firm earns on its past investments to the point of the calculation enables shareholders to assess the performance of the company's management, guides the firm's future capital-allocation decisions, and helps investors predict the future investment returns and cash flows that will support the corporate value.

Profit has been playing a critical role as a driver of corporate behaviour, yet there are very strong differences in attitudes among academics and practitioners. In particular, the use of accounting data has been and is still extremely controversial. Fisher and McGowan (1983:45) state that "there is no way in which one can look at accounting rates of return and infer anything about economic profitability".

There are surprising differences in the treatment of profitability between sectors within industries. There are various measures of profitability and they can provide a good answer to the wrong question and a much less good answer to the question that requires answer. That is, suitably calculated the internal rate of return (IRR), often called the economic rate of return and the accounting rate of return (ARR), often also called return on capital employed have a precise and intimate relationship with the cost of capital and net present value (NPV). Loosely, if IRR and or ARR is above the cost of capital, then the NPV is positive and the firm is earning an excess return i.e. earning more than the absolute minimum needed to cover cost and compensate for risk.

One could argue that a firm that is earning, for instance, half a percent more than the cost of capital is not really doing well in all cases. On the other hand, it is to say that, there is no per se reason why profits in excess of the cost of capital represent anything other than the effective working of a competitive market. 86 Accounting rate of return or return on capital employed (capital employed here simply refers to shareholders' funds) for a period is typically defined as the earnings of an investment during the period divided by the capital employed in the investment at that time. A particular concern is how to update the asset values that are used as a base for capital employed use either historic prices, historic updated by capital value, replacement cost or values based on deprival value yet the return on a firm's future investments plays a key role in many valuation models, including Miller and Modigliani (1961), Gordon (1962), Leibowitz and Kogelman (1990), and Danielson and Dowdell (2001).

One may disagree with Enyi (2007)'s view because in the normal financial computation, return is measured with the capital employed at the end of the year or period, not at the beginning. Therefore, any addition of capital or reserves created in any year under review will be inclusive in the capital with which the return is measured. However, the case would be different when a company has negative shareholders' funds.

The return on capital employed is a measure of efficiency of management in the application or use of the organization's available funds or resources in a given financial period. For this purpose, capital employed represents shareholders fund which is made up of equity and all reserves unless otherwise specified. It is measured by comparing the recorded profit by a bank with the capital used (in earning the profit).

Other Determinants of Banks' Performance

In practical term, continuous increase of capital alone cannot act as the sole satisfactory performance determinants in Nigerian banks. Therefore, the following are considered as other determinants of banks performance in Nigerian:

1. ***Good Corporate Governance:***Corporate governance, in a micro perspective is the way and manner in which a company is directed, administered and controlled. In other words, it could be the relationship between shareholders, directors and management to get the objectives of the company fulfilled. The

Nigerian Securities and Exchange Commission (SEC) and Corporate Affairs Commission (2003) define corporate governance as the way and manner in which the affairs of companies are conducted by those charged with the responsibility, as a positive link to national growth and development.

In a narrow perspective, it is viewed merely as being concerned with the structures within which a corporate entity or enterprise receives its basic orientation and direction (Rwegasira, 2000). In this respect, Mikailu (2008) refers to corporate governance as corporate decision-making and control, particularly the structure of the board and its working procedures. He went further to state that the concept is used to refer to a company's compliance with the provisions of best practices.

2. ***Leadership:*** Unlike corporate governance which deals with the management of a company and outside the company, management and leadership deal mainly with the internal matters of the company. The challenging nature of banking business, including flatter structures and recognition of the efficient use of human resources, coupled with advances in social democracy, have combined to increase the growing importance of leadership.

Researchers in the field of leadership have focused on the individual in the leadership position, leader-member relations, the task structure of the leadership situation, the interaction between the leader and the group and the decision-making power of the leaders (Fiedler 1967; Robbins and Coulter, 1999). Leadership is related to motivation, interpersonal behaviour and the process of communication. Good leadership should involve the effective process of delegation. Aliu, (2007) is of the opinion that leadership should not be limited to leaders' behaviour resulting into subordinate behaviour because leadership is a dynamic process; the leader-follower relationship is reciprocal and effective leadership is a two-way process which influences both individual and organizational performance. To be effective, leadership has to be seen, and it is best seen in action" if the results/performance must be achieved. By virtue of the sensitive role of leaders in a company, they are expected to take decisions within the constraints placed upon them by organizational and environmental factors.

Top decision makers or board of directors are expected to have an overall company perspective and consequently to become involved in organizational strategies to acquire resources that will assist in furthering the accomplishment of their objectives (Harvey, 1982). Leadership is a variable that must be treated with extra care in a company if it must perform to attain its targeted goal.

3. ***Organizational Structure:***The company structure will usually depend on the resources available to the company 94 and these resources are expected to directly affect the economic activities and its ability to utilize the environment effectively (Weiner and Mahoney 1981). Organizational structure and variables such as efficient management, advanced technology, modern assets, size and technology have been ascertained by researchers to have a significant impact on performance (Woodward, 1965; Aldrich, 1972 and Thompson 1967). In addition, large banks will have greater production capacity and should be able to generate greater sales with less overhead costs and efficient operations, thereby indicating the relationship between profit and size (Weiner and Mahoney, 1981).
4. ***Enabling Operating Environmental Conditions:***Enabling Operating Environment is observed as a prominent factor in determining firm performance (Johnson & Scholes, 1999). Looking at the Nigerian context, the environmental factors that may affect bank's performance may include infrastructural facilities and economic, business, social and legal environments.

Infrastructural environment involves adequate and steady supply of electricity, security, good communication, water supply, motorable roads, among others. Economic environment deals mainly with economics matters such as favourable or unfavourable cost of production or services to the company and customers, adequate and effective workforce, availability of good management team, optimal use of 95 available resources for optimal output, among others. In this regard, Levine and White (1961) and Johnson and Scholes (1999) point out that corporations develop a network of relationships with suppliers and customers in the domestic and global markets to cope with environmental uncertainties. Weiner and Mahoney (1981) are in support of Levine and White (1961) and Johnson and Scholes (1999) and state that macro measures affect corporate performance

5. ***Number and Quality of Services:*** For any banking business to successfully compete and stand noticeable among its competitors, Quareshi & Briggs (2003) argue that the bank must meet or exceed the pace of rapidly changing technology while also lowering costs, increasing quality and improving customer services. Sinn, Dayel, Lurther, Grasshoff and Herbeck (2005) observe that top performers in the banking industry employed such successful strategies as developing sophisticated customer relationship management approach, achieving higher customer penetration, employing smart channel mix, exploiting niche opportunities and leveraging superior products and processes to aggressively attack target markets.

The higher the number of products developed by banks, the better for the banks' customer to be adequately satisfied with the services to enable them stays with the bank. This statement is in agreement with the view of Kotler and Keller (2007) when they opine that a company would be wise to measure customers' satisfaction regularly because one key to customers' retention is customers' satisfaction. A highly satisfied customer generally stays longer, buys more as the company introduces new products and upgrades existing products, talks favourably about the company and its products, pays less attention to competing brands and is less sensitive to price, offers product or service ideas to the company and costs less to serve than new customers because transactions are routine.

6. ***Government Intervention:***Monetary policy is one approach that governments could intervene in the operational activities of banks because it is designed either to reduce or raise the level of money supply using various policy instruments. A monetary policy that is designed to 97 increase money supply is considered expansionary (or loose) and it is aimed at countering cyclical contraction or controlling deflationary pressures. At times, it may be designed to lower money supply in order to reduce inflationary pressures (Rinji and Musa, 2008). Monetary policy refers to actions taken by the monetary authorities, usually the central bank to effect monetary and other financial policies, through the influence over the available and cost of credit in the pursuit of broad objectives of sustainable growth of output, price stability, healthy balance of payments position, control of money supply, and influencing interest rates to make money cheaper or more expensive (to access) depending on the prevailing economic conditions and thrust of policy (Lipsey, 1997).

2.2 Theoretical Framework

The theory of capital which is deemed appropriate to this study has over the years been developed by economists and socialists ranging from Adam Smith (1723 – 1790) to Karl Marx (1818 – 1883). Capital theory analysis links the theories of production, growth, value and distribution to explain why capital produces a return that keeps capital intact yet yields interest or a profit which is assumed permanent. Classical economists like Marxist and Friedman interpreted capital as raw materials and the wages fund. To Marxist, capital is a social mode of production and the Austrian school maintained that time was crucial to the concept of capital.

According to the classical theorist - Friedman argued on the assumption that the market place is democratic though free markets are not based on one-man-one-vote but rather on one-naira-one-vote. In other words, those with sufficient money can potentially overwhelm the votes of thousands of ordinary people. Proponents of the classical view emphasize the fact that businesses do not serve the same goals as other organizations in a pluralistic society. They are distinct because their sole focus is on economic behaviour and their primary goal and maximization (according to the proponents of the classical theory). They justified by arguing that since companies are funded by shareholders who are the owners of the company, any profit made belongs to them. Secondly, shareholders' rights to profit are protected by contract amongst the various corporate stakeholders - customers, employees, managers and government among others.

There are however, drawbacks to this classical thought as identified by Cohen and Harcourt (2005) that believe the classical theory exaggerates the role of ownership in determining what roles business should play in the society. The radical theory of ownership posits that shareholders are not the owners of a company in its entirety. Businesses are seen to be owned by coalitions of stakeholders each segment of which would have a say in important decisions concerning the improvement of the company's performance as well as restructuring. This school further states that, returns are made to shareholders not because they own the businesses but because 103 their support in terms of providing adequate capital that is needed in running the affairs of the business.

Capital is the most critical variable in any organization including banks. It is the major problem facing the industry over the years because of the definition of what constitutes the exact amount of capital for the purpose of banking operations. Like in economics, capital is a very important factor in the production process because with capital in place, other factors of production can easily be obtained. From the foregoing, capital seems to be the heartbeat of the performance of any economic venture.

The amount of capital of banks is a concern for the owners, regulatory agencies and general public. The thicker the capital base the lower the probability of insolvency of the bank. In case of insolvency, depositors may not get their deposits back in full amount and as at the time they require. Therefore, the amount of capital is an indicator of bank's soundness. When depositors are insured, the concern about banks' safety and soundness is shifted to the insuring agency. Because of the functions stated above, the value of capital in place of banks becomes the focus of attention for regulators, management of the bank, public and other stakeholders.

Capital therefore is an important component of reforms owing to the fact that a bank with strong capital base will have the ability to absolve any abnormal financial shock and losses that may arise through non-performing assets. Reforms in Nigerian banking sector are due to highly undercapitalization; insufficient deposit, persistent illiquidity, weak management practices brought about by weak performance and the tolerance of deficiencies in the corporate governance behaviour of banks (Uchendu, 2005). Banking sector reforms and recapitalization have resulted from deliberate policy response to correct impending banking sector crises and subsequent failures. 104 Asedionlen (2004) opine that recapitalization may raise performance in short term, but may not guarantee a conducive macroeconomic environment required to ensure high asset quality, good profitability and satisfactory continuity.

However, the opponents of increased bank capital argue that the exercise may increase banks' propensity towards risk taking through increase leverage and off balance sheet operations (De Nicolo and Gianni, 2003). Osho (2005) and Uchendu (2005) are in agreement with De Nicolo and Gianni as they are of the view that the benefits of recapitalization cannot just come without creating unemployment, lowering the gross domestic product and high recapitalization costs as a reasonable component of the gross domestic product.

In recognition and support of the proponents (of increased bank capital), that wellcapitalized banks would strengthen the banking system for effective operations and performance, the CBN in 2004 announced the adjustment of capital of all deposits money banks in Nigeria to the minimum base of N25 billion with effect from 31st December, 2005.

The argument for and against recapitalization only suggests the theoretical base as the outcome of each argument will not be conclusive until it is proven. However, the justification for adopting the capital theory is premised on the problem and objectives 105 of the study. The objectives assumed on the argument in favour of the proponents that increased capital would lead to an increase in Nigerian banks performance.

2.3 Empirical Review

Szapary (2007) provided the foundation for a research on the linkage between banks mergers and acquisitions and profitability. Evidence as provided by Caprion (2009) suggested that mergers and acquisitions in the financial system could impact positively on the efficiency of most banks. Surprisingly, the available empirical evidence suggests that mergers and acquisitions operations in the United States banking industry have not had a positive influence on performance in term of efficiency.

DeLong and DeYoung (2007) overall of these studies provide mixed evidence and many fail to show a clear relationship between mergers and acquisitions and performance. Some of the previous literature has examined the impact of mergers and acquisitions operation on cost efficiency as measured by simple accounting cost ratios (DeYoung, 2007), the impact on cost x-efficiency. Also, evidence supporting mergers and acquisitions to achieve cost saving and efficiency gain is sparse (Kwan and Elsenbeis, 1999). Akhavein et al. (1997) analyzed changes in profitability experienced in the same set of large mergers as examined by Berger and Humphrey (1992). They found that banking organizations significantly improved their profit efficiency ranking after mergers.

De Young (1993) does find that when both the acquirer and target were poor performers, mergers Okpanachi 2003 resulted in improved cost efficiency. Healy et al. (1992) examined all commercial banks and bank holding company mergers and acquisitions occurring between 1982 and 1986. They found that mergers and acquisitions did not reduce non-interest expenses that could have lead to improved efficiency. Santomero (2002), there is little empirical evidence of mergers achieving growth or other important performance gains. Their findings undermine a major rationale for mergers and consequently raised doubt other benefits mergers and acquisitions may provide to businesses.

Kay (2001) fined some evidence of superior post merger period because of the merged firms' enhanced ability to attract loans. They also show increased employee productivity and net asset growth. Also, this is evident in the Nigeria's banking industry (Okpanachi, 2006). Walter (2005) posited that mergers and acquisitions made Nigerian banks more efficient. They used table to present their data which was analyzed using simple percentage. Akpan (2007), using square to test this stated hypothesis found that the policy of consolidation and capitalization has ensured customers' confidence in the Nigerian banking industry in term of high profit. Sobowale (2004) and Osho (2004), it is expected that the value of the companies that participated in mergers and acquisitions activities would be higher than before because future dividends and earning streams are expected to rise and subsequently improves efficiency. Stiroh (2002) using data on United States banks suggested that, there may be some substantial scale efficiency from larger sizes of banks as a result of mergers and acquisitions. But for Straub (2007), mergers and acquisitions have often failed to add significantly to the performance of banking sector.

The majority of studies comparing pre and post mergers performance found that, this potential efficiency derived from mergers and acquisitions rarely materialize. Beitel et al. (2003) found no gain effect due to mergers and acquisitions.Yener and David (2004), mergers and acquisitions played an important role in improving after merger financial performance which is a stimulus for efficiency. Most of the studies examined found that mergers and acquisitions add significantly to the profits of the banking sector, except for Straub (2007) and Rhoades (1993) that have contrary views. Onaolapo (2008) employed CAMEL rating system to examine the effectiveness of recapitalization. He found that recapitalization had improved the financial health of banks.

Sani (2004) using a regression model, Sani discovered a positive and significant relationship between recapitalization policy and economic growth in Nigeria. Adegbaju (2008) examined the effectiveness of recapitalization on the performances of 20 Nigerian banks. He discovered that while few banks recorded appreciable improvements in their performances, majority of the banks remained the same or even worse off. Okafor (2009) research on consolidation exercise in Nigeria employed capital adequacy asset quality liquidity and management.

The investigation carried out by Elumilade (2010) on the effects of mergers and acquisitions on the efficiency of financial intermediation in the Nigerian banking industry had evidence that the consolidation programme induced mergers and acquisitions in the banking industry and improved competitiveness and efficiency of the borrowing and lending operations of the Nigerian banking industry. Olaosebikan (2009) investigated the efficiency of the Nigerian banking system between 1999 and 2005. Bank efficiency was evaluated using Data Envelopment Analysis (DEA). The results indicated that efficiency fluctuated during the first part of the period and improved during the recent years, a period associated with the increase in minimum capital requirement, differences in banks' efficiency was explained by problematic loans and their size.

Erel (2006) studied the effect of bank mergers on loans price. He found out that on average mergers reduced loan spreads, and that the results were stronger for acquirers with large declines in operating cost post merger. According to him, merger and acquisitions did not decrease the spread of the loans, because, by the time one or more banks were merged together at least they would be stronger more than before and that would allow them to spread credits to borrowers more than before. Lamberte and Manlagnit (2004) examined the recent consolidation trends among depository institutions (commercial banks and thrifts) in Philippine for the period between 1989 and 1994. The study found out that market concentration increased significantly, midsize commercial banks were gaining market share at the expense of large banks in most markets. Roger and Ferguson (2009) studied the financial consolidation. Their study concluded with an extensive evaluation of the potential effects of financial consolidation on the efficiency of financial institutions, competition among such firms, and credit flows to households and small businesses.

The study also suggested that the hubris and agency motives for merger may be relevant, or that synergy derived more from enhanced market power than from cost savings De young (1993) studied 348 merged banks, of which 43 percent were intercompany ones. The study estimated pre- and post-merger cost efficiency by applying a thick frontier approach. Prior to merger, the acquiring banks were more cost efficient than the target; however, in the three years period after the merger, cost efficiency improved in about 64 percent of the cases.

2.4 Summary of Related Literature

Financial capital is considered inevitable by the banking regulators because of the importance attached. This led to international introduction of the Basel Capital Accord for bank capital regulation. The fundamental purposes of regulating banks' capital are to reduce the risk of banks' operational failures, to maintain the confidence in the system and limit losses to all the stakeholders including the government. Again, the justification to regulate banks and its capital is because of the corporate governance problems arising from the separation of ownership from management. However, because of the capital regulation, the banking industry is denied the task of finding its own level of required capital for operations.

The approach is the imposition of a minimum capital standard on all banks for the regulators to enforce and avoid the pitfall of peer group measurement. The purpose is for prompt corrective action when a bank becomes inadequately capitalized for effective performance. The categories are well-capitalized, adequately capitalized, undercapitalized, significantly capitalized and critically undercapitalized (BCBS, 2004). The Nigerian banks' authority is yet to put in place these categories; however, it recognized what is undercapitalization (Soludo, 2004). The established under capitalization of Nigerian banks propelled the CBN to adequately recapitalize the industry to address the financial underperformance being experienced.

Recapitalization is a policy undertaken by the authority to increase the existing capital of an industry mainly to address problems of general underperformance and develop strategies to improve its capacity for better performance. Recapitalization is a 106 important variable of reforms in Nigerian banking industry. This is because it is always assumed that a bank with strong capital base has the ability to perform better, protect the confidence of the customers, public and other stakeholders as well as absolving losses that may arise from non-performing assets.

There are various methods of measuring performance in banks. For instance, ROE, ROA, among others were used by various researchers all over. A sensitive industry like banking should have multiple methods of measuring performance to serve as sensitive tests on banks' performance for their soundness and continuity or otherwise. It was based on this narrow scope that a wide performance measurement to include deposit, loans and advances, liquidity and profit was adopted in this study. These measurement performances though not exhausted were treated as dependent variables while the recent recapitalization in Nigerian banking industry was considered as the independent variable of the study. The purpose is therefore to determine whether or not this recent recapitalization has positively impacted on the performance of Nigerians banks after the exercise with the theoretical assumption that increased capital would lead to an increase in performance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

The research design of this research was a descriptive survey research. A descriptive survey research seeks to obtain information that describes existing phenomena by asking individuals about their perceptions, attitude, behaviour or values (Mugenda and Mugenda 2003). A descriptive study design is deemed the best design to the objectives of the study. A research design is the general plan of how one goes about answering the research question (Saunders, Lewis and Thorn-Hill, 2000). This design was considered appropriate for the type of objective of this study as it enabled the researcher to describe the state of affairs as they exist without manipulation of variables which was the aim of the study.

3.2 Population/Sample of the Study

The Population of this study is real estate expenditure in Nigeria and it uses the annual times series data to covey the whole as obtained from the CBN statistical bulletin. The data collected from 2000 – 2016 forms a Sample for this study; this was done for the purpose of achieving the stated objectives.

3.3 Method of Data Collection

According to Ngechu (2004), there are many methods of data collection. The study used secondary data collected from the Central Bank of Nigeria statistical bulletin and National Bureau of Statistics for aggregate number of real estate investment based on government expenditure recorded and Gross Domestic Product. The time period covered by this study was 17 years, (2000-2016) which is quite a long time period for value relevance studies.

3.4 Method of Data Analysis

The method used in this study is the multiple regression techniques which is said to be the major aspect of econometrics research (Gujarati et al 2012). The method of estimating the parameters is the ordinary least square (OLS) which has been found to produce estimates with very attractive statistical properties (Gujarati et al 2012). The method adopted in carrying out the analysis is the multiple regression analysis which utilizes a dependent variable and more than one independent variable as shown in the model specification. The result obtained was analyzed using the Microsoft 4.0.

3.5 Model Specification

The model for this study is specified below;

ASSETS =f (MS, GDP, LR, INF, MCAP, CPS)

Where;

ASSETS = Represent deposit money banks (proxy for bank performance).

MS = Represents money supply

GDP = Represents gross domestic product

LR = Represents liquidity ratio

INF = Represents bank inflation

MCAP = Represents market capitalization

CPS = Represents credit to private sector

$\hat{\beta}_0$= intercept

$\hat{\beta}_1$,…,$\hat{\beta}_6$ are the estimation of the population parameters

Mathematically, the model is expressed in a single equation form as

$$ASSETS = \beta_0 + \beta_1 MS + \beta_2 GDP + \beta_3 LR + \beta_4 INF + \beta_5 MCAP + \beta_6 CPS + \epsilon$$

Stochastic error term random, nonsystematic term, a random disturbance is the effect of the variables that were omitted from the equation, assumed to have a mean value of zero and to be uncorrelated with the independent variable, x assume to have a constant variance.

3.5.1 Assumption of Multiple Regression Models

The multiple linear regression analysis makes several key assumptions based on the analysis made:

a. There must be linear relationship between the dependent variable and the independent variables.
b. The residuals must be normally distributed (multivariate normality).
c. The independent variable are not highly correlated with each other (no multicollinearity).
d. The variance of error terms is similar across the values of the independent variable (Homoscedasticity).

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.1 Data Presentation

Table 1:

YEAR	ASSETS	MS	GDP	LR	INF	MCAP	CPS
2005	1,706.2	878.46	6,897.48	61.4	14.53	472.3	530.37
2006	2,075.4	1,269.32	8,134.14	59.3	16.49	662.5	764.96
2007	1,710.0	1,505.96	11,332.25	63.1	12.17	764.9	930.49
2008	1,864.4	1,952.92	13,301.56	54.5	23.81	1,359.3	1,096.54
2009	3,402.3	2,131.82	17,321.30	56.4	10.01	2,112.5	1,421.66
2010	4,406.7	2,637.91	22,269.98	63.9	11.57	2,900.1	1,838.39
2011	10,034.5	3,797.91	28,662.47	75.9	8.55	5,120.9	2,290.62
2012	8,689.0	5,127.40	32,995.38	83.3	6.56	13,181.7	3,680.09
2013	10,204.0	8,008.20	39,157.88	72.3	15.06	9,563.0	6,941.38
2014	9,057.8	9,411.11	44,285.56	64.9	13.93	7,030.8	9,147.42
2015	8,767.7	11,034.94	54,612.26	75.1	11.80	9,918.2	10,157.02
2016	16,750.7	12,172.49	62,980.40	58.7	10.28	10,275.3	10,660.07
2017	20,680.5	13,895.39	71,713.94	59.9	11.98	14,800.9	14,649.28
2018	15,062.6	15,160.29	80,092.56	44.9	7.96	19,077.4	15,751.84
2019	14,583.4	17,679.29	89,043.62	50.0	7.98	16,875.1	17,129.68
2020	15,982.0	18,901.30	94,144.96	45.8	9.55	17,003.4	18,675.47
2021	20,758.4	21,607.68	101,489.49	36.3	18.55	16,185.7	21,082.72

Source: CBN Statistical Bulletin 2021

4.2 Data Analysis

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                       Ordinary Least Squares Estimation
*******************************************************************************
 Dependent variable is ASSETS
 17 observations used for estimation from 2000 to 2016
*******************************************************************************
 Regressor              Coefficient       Standard Error         T-Ratio[Prob]
 INTERCEPT                 -14930.2              10118.2          -1.4756[.171]
 MS                         -2.3739               2.2541          -2.8532[.031]
 GDP                         .59530               .35901           1.6582[.128]
 LR                        157.4845             106.1854           3.4831[.005]
 INF                       271.8899             266.5531           1.0200[.332]
 MCAP                       -.12069               .39906          -.30244[.769]
 CPS                         .76386               1.4279           3.5350[.004]
*******************************************************************************
 R-Squared                      .88780   R-Bar-Squared                   .82049
 S.E. of Regression             2806.9   F-stat.    F(  6,  10)   13.1882[.000]
 Mean of Dependent Variable     9749.2   S.D. of Dependent Variable      6624.9
 Residual Sum of Squares      7.88E+07   Equation Log-likelihood      -154.5888
 Akaike Info. Criterion      -161.5888   Schwarz Bayesian Criterion   -164.5051
 DW-statistic                   2.0647
*******************************************************************************
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4.3 Discussion of Findings

The table shows the mean, standard deviation t ratio, probabilities and number of observations. Based on the analysis carried out there were 18 observations ranging from 2000-2017 while seven variables were studied in the analysis where loans and advances of deposit money banks (ASSETS) is the dependent variable while gross domestic products (GDP), money supply (MS), Liquidity ratio (LR), inflation (INF), credit to private sectors (CPS) and market capitalization (MCAP) are the independent variables.

The result of the analysis explains that the degree of association between variables where positively high at also showing that the independent variables can explain 89% of the variation in the dependent variable while the adjusted R square shows that the overall explanatory variables can explain 82% of the variation in the dependent variable. The Durbin-Watson statistic shows that the calculated value is 2.0647 which are between the dU and dL indicates that there is no evidence of serial correlation.

The F-stat shows that the explanatory variables are capable of been used to form a model and could also predict the power of the model because the table shows that it is significant.

In comparing the contribution of each independent variable, the t-ratio values were used. As illustrated in the t-ratio column and probability; any value less than 0.05 is significant to the study while any probability value greater than 0.05 is not significant; money supply (MS) with probability of 0.031, credit to private sector (CPS) and a probability of 0.004 and liquidity ratio (LR) with a probability of 0.005 were significant to the study while market capitalization (MCAP) and a probability of 0.769, inflation rate (INF) and a probability of 0.332 and gross domestic products (GDP) with a probability of 0.128 were not significant to the study. The outcome of the result indicates that an increase in money supply and market capitalization will decrease the total assets of deposit money banks in Nigeria, while an increase in gross domestic product, liquidity ratio, inflation rate and credit to private sector will lead to a decrease in total assets of deposit money banks in Nigeria (bank performance).

$$ASSETS = \beta_0 + \beta_1 MS + \beta_2 GDP + \beta_3 LR + \beta_4 INF + \beta_5 MCAP + \beta_6 CPS$$

Where;

ASSETS = Represent deposit money banks (proxy for bank performance).

MS = Represents money supply

GDP = Represents gross domestic product

LR = Represents liquidity ratio

INF = Represents bank inflation

MCAP = Represents market capitalization

CPS = Represents credit to private sector

From the analysis of the coefficients it could be shown that the model is:

$$ASSETS = -14930.2 - 2.374\text{MS} + 0.595GDP + 157.485LR + 271.890INF - 0.121MCAP + 0.764CPS$$

The model shows and explains that an increase in the money supply and market capitalization will bring about a 37% and 12% decrease in bank performance respectively while an increase in gross domestic products, liquidity ratio, inflation rate and credit to private sector will bring about 59%, 48%, 89% and 76% increase in bank performance which is an indication that bank performance could be as a result of increase in gross domestic product, liquidity ratio, inflation rate and credit to private sector and a decrease money supply and market capitalization.

Furthermore, it was shown that money supply, liquidity ratio, and credit to private sector are statistically significant to the study.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND REMMENDATIONS

5.1 Summary of Findings

This study examinesa comparative analysis of bank performance in Nigeria; A case study of Zenith Bank and GT Bank. The study noted that the recapitalization had a significant effect on net income on loans and advances and return on equity. While it does not have a significant effect on pre-tax profit margin, return on total assets, earnings per share and dividend per share for the period 2001 to 2016.

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

To compare earnings per share, the results are therefore mixed for the banks and for the various variables. It has to be noted that two of the banks that recorded significant differences in the ROE are stand alone banks (i.e., banks that didn't merge or acquire any other bank during the consolidation exercise and they are Zenith Bank Plc and GTB Plc). Two of the sampled banks Zenith Bank Plc and GTB Plc had significant differences for CIR, and only GTB Plc had significant difference for LLRGLA. Therefore, GTB could be adjudged the best performed bank of the sampled banks used as case study having had significant differences in all the other variables adopted for this stud GTB and Zenith banks in terms of return on investment and the ways it can profit the bank.

5.2 Conclusions

The performance of banks in Nigeria was generally worrisome between 1989 and 1995, when banking distress ravaged the Nigerian banking system. The Prudential Guidelines introduced by the Central Bank of Nigeria in 1990 has improved substantially on the performance of many banks in Nigeria. Indeed, the banking sector reforms of 2004 to 2005 consolidated the erstwhile 89 universal banks in Nigeria to 25 mega banks. The consolidation exercise, which came into operation with effect from January 1st 1006, has impacted positively in the emergent 25 mega banks. The impact of this is that Nigerian, banks tend to have a bright future if and only if the framework for the consolidation exercise is upheld in a sustainable market.

Emerging results of the consolidation exercise have already shown that First Bank of Nigeria Plc may be able to maintain its leadership position of the Nigerian banking industry for a long future period if its Management sustains its current high level efficiency. In simple terms, it is the conclusion of this study that all the evaluation parameters on First Bank of Nigeria during the 2000 to 2006 period are indicative of future prosperity of the Bank particularly if the current and future management terms of the Bank do not deviate from the banking practices and regulations prescribed by the supervisory and regulatory authorities.

5.3 Recommendations

Based on the findings/results of this project work, coupled by the evidence provided by a survey of the literature conducted for the same exercise, the following recommendations are put forward.

(a) The CBN Prudential Guidelines (1990), which have substantially helped to provide a framework for evaluating bank performance in Nigeria should as a matter of policy, be reviewed by the supervisory and regulatory authorities from time to time. This if done, would assist to embrace and adopt the ever-changing banking practices owing largely to the ongoing globalization, which has turned the whole world into a global village. It is thus needless to say that it is only those banks which upgrade the level and sophistication of their information and computer technologies (LCTs) in the global banking trends.

(b) Commercial banks operating in Nigeria are urged to continually increase their capital base in order to be able to withstand any sudden and unexpected shock in the Nigerian banking industry; through Improving the Quality of Management. LNDC 1995 Publication, Pages 57-67.

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