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Banking Industry Consolidation and Financial Performance of Selected Quoted Banks in Nigeria

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Abstract

In any economy, the banking industry is a highly regulated industry owing to the fact that the industry is considered as the engine of economic growth and development. The objective of this research is to analyze financial performances of pre and post consolidation program in order to determine whether there is significant difference between the two periods. The study employed the use of secondary data gathered from the audited financial reports of selected banks. Descriptive analysis was employed through the use of tables and charts; then the regression is used to determine the relationships while t-test statistics is used to find out whether there is statistical difference between the means of consolidation variables and financial performance variables. It was discovered that it is not all the time that consolidation transforms into good financial performance of banks and it is not only capital that makes for good performance of banks. The study, therefore, recommends that the CBN should increase its oversight role so as to ensure that none of the banks has weak corporate governance.

JEL classification numbers: E44, G1
Keywords*:* Merger, Acquisition, Consolidation, Financial Performance

1 Introduction

The banking system is the engine of growth in any economy, given its function of financial intermediation. Through this function, banks facilitate capital formation, lubricate the production engine turbines and promote economic growth. However, banks' ability to engender economic growth and development depends on the health, soundness

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and stability of the financial system. The need for a strong, reliable and viable banking system is underscored by the fact that the industry is one of the few sectors in which the shareholders' fund is only a small proportion of the liabilities of the enterprise. It is, therefore, not surprising that the banking industry is one of the most regulated sectors in any economy. It is against this background that the Central Bank of Nigeria, in the maiden address of its former Governor, Prof. Charles Soludo, outlined the first phase of its banking sector reforms designed to ensure a diversified, strong and reliable banking industry.

The primary objective of the reforms is to guarantee an efficient and sound financial system. The reforms are designed to enable the banking system develop the required resilience to support the economic development of the nation by efficiently performing its functions as the fulcrum of financial intermediation (Lemo, 2005). Thus, the reforms were to ensure the safety of depositors' money, position banks to play active developmental roles in the Nigerian economy, and become major players in the sub-regional, regional and global financial markets.

According to Enyi (2007), the grand objective in the banking sector reforms was to re-engineer and fast-track a system that will engender confidence and power a new economy. But whether this objective can be achieved will depend to a large extent on how the reform is implemented. Going by the main focus of the reform, banks recapitalization and consolidation stands out. The main method by which this aspect was achieved was by asking individual banks to raise their capital base to a minimum of N25Billion or in the alternative merge with others. The merger option thereafter became the most feasible solution as only Zenith Bank Plc was able to reach this level out of the entire 89 banks. The question remains; how viable are these mergers or business combinations?

Business combinations result as spin-off effects from corporate restructuring. Owing to the ever changing nature of global business environment culminating from rapid interactive economic movements as driven by innovations and obsolesces in technology, corporate restructuring had become a regular exercise in capitalist and semi-capitalist economies. Corporate restructuring in the words of Pandey (2005:672) refers to changes in ownership, business mix, assets mix and alliances with a view to enhance the shareholders value. The most common forms of business combination are mergers and acquisitions.

The Central Bank of Nigerian's resolve to carry out reforms in the banking sector was borne out of the past of the nation's banking industry. Between 1994 and 2003 a space of nine years, no fewer than 36 banks in the country closed shops due to insolvency. In 1995 four banks were closed down. But 1998 may go down well in history as the saddest year for the banking industry as 26 banks closed shops that year. Three terminally ill banks also closed shops in 2000. In 2002 and 2003 at least a bank collapsed. The failed banks had two things in common – small size and unethical practices. Of the 89 banks that were in existence as at July 2004, when the banking sector reforms were announced, no fewer than 11banks were in distress. According to the CBN, between 69 and 79 of the banks were marginal or fringe players. In fact, an assessment of the Nigerian banking industry shortly before the pronouncement of the consolidation agenda shows that while the overall health of the system could be described as generally satisfactory, the state of some banks was less cheering. Specifically, as at the end of March 2004, the CBN's ratings of all the banks, classifies 62 as sound/satisfactory, 14 as marginal and 11 unsound, while two of the banks did not render any returns during the period. The fundamental problems of the marginal and particularly, unsound banks according to Soludo (2004) have been identified to include persistent illiquidity, poor assets quality and unprofitable operations. He further summarises the major problems of many Nigerian banks to include weak corporate governance, gross insider abuses, insolvency, weak capital base and over-dependency on public sector deposits.

Banking crisis usually starts with inability of the bank to meet its financial obligations to its stakeholders. This, in most cases, precipitates runs on banks, the banks and their customers engage in massive credit recalls and withdrawals which sometimes necessitate Central Bank liquidity support to the affected banks. Some terminal intervention mechanisms may occur in the form of consolidation (mergers and acquisitions), recapitalization, use of bridge banks, establishment of asset management companies to assume control and recovery of bank assets, and outright liquidation of non redeemable banks. Bank consolidation, which is at the core of most banking system reform programmes, occurs, some of the time, independent of any banking crisis.

Irrespective of the cause, however, bank consolidation is implemented to strengthen the banking system, embrace globalization, improve healthy competition, exploit economies of scale, adopt advanced technologies, raise efficiency and improve profitability. Ultimately, the goal is to strengthen the intermediation role of banks and to ensure that they are able to perform their developmental role of enhancing economic growth, which subsequently leads to improved overall economic performance and societal welfare. The proponents of Bank consolidation believe that increased size could potentially increase bank returns, through revenue and cost efficiency gains. It may also, reduce industry risks through the elimination of weak banks and create better diversification opportunities (Berger, 2000). On the other hand, the opponents argue that consolidation could increase banks' propensity toward risk taking through increases in leverage and off balance sheet operations. In addition, scale economies are not unlimited as larger entities are usually more complex and costly to manage (De Nicoló et al., 2003).

Banking sector reforms in Nigeria are driven by the need to deepen the financial sector and reposition the Nigeria economy for growth; to become integrated into the global financial structural design and evolve a banking sector that is consistent with regional integration requirements and international best practices. It also aimed at addressing issues such as governance, risk management and operational inefficiencies, the centre of the reforms is around firming up capitalization. (Ajayi, 2005)

Capitalization is an important component of reforms in the Nigerian banking industry, owing to the fact that a bank with a strong capital base has the ability to absolve losses arising from non performing liabilities. Attaining capitalization requirements may be achieved through consolidation of existing banks or raising additional funds through the capital market. This research work examines and analyses the impact of the banking industry consolidation on financial performance of banks in Nigeria

The major objective of the study therefore is to evaluate the effect of consolidation of the Nigerian Banking industry on the financial performance of the emerging banks. However, the minor objectives are:

1. To analyse the pre- and post-consolidation financial performances.
2. To determine the extent to which banking industry consolidation improves the key profitability ratios of the banks.

In order to achieve the objectives of this research work the following questions guided the work

1. What is the impact of consolidation on the emerging banks in Nigeria?

2. What is the present level of financial performance of the consolidated banks in Nigeria?
3. Does consolidation exercise have any significant impact on the financial performances of Nigerian banks?

The following postulations were put forward for testing; the major Hypothesis tested was:

$H_0$1: There is no significant difference between pre-consolidation financial performance and the post consolidation financial performance of banks in Nigeria.

However the following subsets of the major hypothesis were tested:

$H_0$1a: There is no significant difference between the pre consolidation Net Profit Margin and post consolidation Net Profit Margin.

$H_0$1b: There is no significant difference between the pre consolidation Return on Assets and post consolidation Return on Assets.

$H_0$1c: There is no significant difference between the pre consolidation Return on Capital Employed and post consolidation Return on Capital Employed.

In conclusion, this study is divided into five parts, the first part being the introduction; the second part deal with review of relevant literature and theoretical underpins; the third part deals with research methodology employed; the forth part deals with the analysis of data and discussion; while the last part pinpoints policy directions for various relevant financial regulators.

2 Review Of Relevant Literature and Theoretical Underpins

Brockington (1987: 251) defines a merger as the result of a process whereby two or more previously autonomous concerns come under common control. Samuelson (1980:493) introduced what he refers to as *conglomerate mergers* to include situations where a company in one industry takes on a company in another unrelated industry.

Kazmi (2006) classifies mergers into four: horizontal, vertical, concentric and conglomerate mergers. Horizontal mergers take place when there is a combination of two or more organizations in the same business, or of organization engaged in certain aspects of the production or marketing processes. Vertical mergers take place when there is a combination of two or more organizations, not necessarily in the same business, which create complementarities either in terms of supply of materials or marketing of goods and services. Concentric mergers take place when there is a combination of two or more organizations related to each other either in terms of customer functions, customer groups or alternative technologies used. Conglomerate mergers take place when there is a combination of two or more organizations unrelated to each other, either in terms of customer functions, customer groups or alternative technologies.

An acquisition, on the other hand, may be defined as the purchase or take-over of effective controlling interest in a company by another company which enables the later to control the assets and management of the former without any loss of identity of the two companies. Ernst and Young (1995) identify four alternatives of acquisition: Financial, geographic, symbiotic, and absorption acquisitions. Financial acquisitions are companies bought into a holding company for the purpose of restructuring. Geographic acquisitions are intended to expand the acquirer's core business across new frontiers. Symbiotic acquisitions describe situations where newly acquired products and competencies are absorbed into the parent's business but the acquired company retains some independence. Absorption acquisitions imply that the two businesses are fully integrated, with one effectively losing its identity.

The *Pan Reference Books Dictionary of Economics* defined consolidation as the action of reinvesting a capital gain made on a speculative share in a more conservative security. The term could also connote the selling of equities at a gain and reinvesting of the proceeds in fixed-interest securities. Similarly, the Harold Sloan and Arnold Zurcher *Dictionary of Economics* (1970) conceptualized consolidation as a fusion of the assets and liabilities, in whole or in part, of two or more business establishments to form an entirely new establishment. From the above definitions, consolidation represents the idea of investment and the coming together of firms or enterprises as a single entity.

Consolidation also means larger sizes, larger shareholder bases and larger number of depositors, and by extension larger profit. According to Adam (2005), bank or corporate consolidation could be achieved by way of mergers and/or acquisition, recapitalisation and proactive regulation.

Bank consolidation is more than mere shrinking of the number of banks in any banking industry. It is expected to enhance synergy, improve efficiency, induce investor focus and trigger productivity and welfare gains (Nnanna, 2004 and Enyi, 2007).

The consolidation of banks around the globe has fuelled an active policy debate on the impact of consolidation on financial stability (Beck, Demirguc-Kunt and Levine, 2003 and Boyd and Graham, 1998 and 1991). However, according to Somoye (2008), the consolidation of banks has been the major policy instrument being adopted in correcting deficiencies in the financial sector.

Merger and acquisition activity results in overall benefits to shareholders when the consolidated post-merger firm is more valuable than the simple sum of the two separate pre-merger firms. In line with this, Enyi (2007) concluded that the banks consolidation exercise of 2005 as supervised by the Central Bank of Nigeria has yielded basketful of benefits in terms of improved banking environment and renewed customer confidence in the banking industry. The primary cause of this gain in value is supposed to be the performance improvement following the merger. The research for post-merger performance gains has focused on improvements in any one of the following areas, namely efficiency improvements, increased market power, or heightened diversification (Piloff and Santomero, 1998).

2.1 Trends in Bank Consolidation

The banking system consolidation is a global phenomenon, which started in the advanced economies. Two notable examples of countries experiencing a wave of mergers and consolidation in the banking industry in recent times are the United States of America (USA) and Japan (Hall, 1999). According to Kwan (2004), since the enactment of the Riegle-Neal Act, which allows interstate branch banking beginning from 1997, the number of large bank mergers in the USA has increased significantly. Today, the U.S. banking sector is reported to be in good shape, with record profits and relatively low volumes of problem loans. Further research on mega mergers in the USA suggests that merged banks experienced higher profit efficiency from increased revenues than did a group of individual banks, due to the fact that they provide customers with high value added products and services (Akhavin, et al, 1997). Furthermore, consolidation may allow a mega bank to enjoy a hidden subsidy which Kwan (2004) referred to as "too-big-to-fail" subsidy due to the market's perception of an illusion of government backing of a mega bank in times of crisis. The Japanese experience also shows that the consensus has been that significant economies of scale existed in the banking industry before the onset of the crisis and subsequent reforms in the '90s at all levels of output throughout the industry (Fukuyama, 1993, McKillop et al, 1996).

Consolidation in financial services in the USA and other industrialized countries has occurred along three lines, namely: within the banking industry, between banks and other non-bank financial institutions, and across national borders. In the USA, most of the consolidation that took place occurred within the banking sector. For instance, in that country, the number of banking organizations fell from about 12,000 in the early '80s to about 7,000 in 1999, a decrease of over 40 per cent. In the USA and Canada, there has been a trend towards consolidation of commercial banks and investment or merchant banks, whereas in Europe, where the universal banking model is more prevalent, the trend has been to combine banking and insurance business. While most of the bank consolidations in the developed economies have occurred within the domestic front, there are signs of increased cross-border activities. Such cross-border activities have been facilitated in Europe with the launch of the Euro (Adeyemi, 2006).

2.2 An Overview of the Nigerian Banks Consolidation Exercise

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

The Nigerian banks consolidation exercise, mainly through bank mergers and acquisitions (M & As) in order to attain a minimum capital base of N25 billion (approx $250 million), is an aspect of the first phase of the reforms. It resulted in the compression of 74 banks, which accounted for about 93 per cent of the industry's total deposit liabilities, into 25 new banks (Komolafe and Ujah, 2006: 1). After the exercise was concluded, attention has clearly shifted to its term effects on the Nigerian banking system (Omoh, 2006: 5). Hence, in this study, we are concerned about the impacts of this exercise on the financial performance of the Nigerian banking system during pre- and post- consolidation periods.

2.3 Strategies for Consolidation Adopted by Nigerian Banks

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

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

Available statistics show that during the 18-month consolidation period, the capital market received a boost with a total of N 406 billion raised, out of which the apex bank has verified and cleared only N306 billion as at 31st December, 2005. The consolidation drive has also brought in a staggering $3 billion into the sector, $500 million of which represents Foreign Direct Investment (FDI). This is the highest inflow of FDI into the non-oil sector within one year (Adeyemi, 2006).
The table below shows the names of the 25 banks that successfully met the N 25 billion minimum share capital requirement and the banks that constitute each group.

Table 1: Banks that Met the N 25 Billion Minimum Capital Requirement and the Banks Constituting Each Group

S/N	Consolidated Bank	Capital Base (N Billion)	Constituent Bank(s)
1	Access Bank Plc.	28.5	Access Bank, Marina International Bank & Capital Bank
2	Afribank Plc.	29	Afribank & Afribank International (Merchant Banker)
3	Diamond Bank	33.25	Diamond Bank & Lion Bank
4	EcoBank Nigeria	Over 25	Ecobank Nigeria
5	Equitorial Trust Bank	26.5	Equitorial Trust Bank and Devcom Bank
6	First City Monument Bank	30	FCMB, Cop. Development Bank and NAMB Limited
7	Fidelity Bank	29	Fidelity Bank, FSB International Bank and Manny Bank
8	First Bank Plc	44.62	First Bank of Nigeria, FBN Merchant Bankers, and MBC International Bank
9	First Inland Bank	28	First Atlantic Bank, Inland Bank, IMB International Bank and NUB International Bank
10	Guaranty Trust Bank	34	Guaranty Trust Bank
11	IBTC-Chartered Bank	35	IBTC, Chartered Bank and Regent Bank
12	Intercontinental Bank	51.1	Intercontinental Bank, Equity Bank, global and Gateway Bank
13	Nigerian International Bank	25	Nigerian International Bank (City Group)
14	Oceanic Bank	31.1	Oceanic Bank & International Trust Bank
15	Platinum Bank	26	Platinum Bank & Habib Bank
16	Skye Bank	37	Prudent Bank, EIB International, Cooperative Bank, Bond Bank & Reliance Bank
17	Spring Bank	Over 25	Citizens International Bank, Guardian Express Bank, ACB International Bank, Omegabank, Fountain Trust Bank & Trans International Bank.
18	Stanbic Bank	25	Stanbic Bank
19	Standard Chartered Bank	26	Standard Chartered Bank
20	Sterling Bank	25	Magnum Trust Bank, NAL Bank, Indo-Nigeria Bank & Trust Bank of Africa

21	United Bank of Africa	50	United Bank of Africa & Standard Trust Bank
22	Union Bank	58	Union Bank, Union Merchant Bank, Universal Trust Bank & Broad Bank
23	Unity Bank	30	Intercity Bank, First Interstate Bank, Tropical Commercial Bank, Pacific Bank, Centre Point Bank, NNB International Bank, Bank of the North, Societe Bancaire & New Africa Bank
24	Wema Bank	26.2	Wema & National Bank
25	Zenith Bank	38	Zenith Bank

Source: Compiled from CBN Press Release (3/1/06), Financial Standards (16/1/06), and The Comet (3/1/06) as presented by Adeyemi (2006)

From the above, it is obvious that the consolidation groupings followed four scenarios, namely:

1. Some weak small and medium-sized banks that came together, e.g. Unity Bank and Skye Bank;
2. Banks with regional or cultural affiliation and having common shareholders that came together, e.g. Intercontinental Bank Plc, Wema Bank Plc and Spring Bank Plc;
3. Some large-size banks that acquired smaller and weaker ones in order to bail them out, e.g. the acquisition of UTB, Broad Bank and Union Merchant Bank Ltd. by Union Bank of Nigeria Plc;
4. Large-sized banks and notable players in the industry that came together to form a bigger bank. The merger between UBA and STB is a classic example of this case.

From all indications, it appears that the preferred option by the CBN is for big and strong banks to acquire or merge with the smaller and weaker ones although the result of the consolidation did not show the adoption of much of this option.

3 Methodology

The research employed the use of descriptive research design, for instance means and standard deviations and analytical techniques such as the t-test (the test of equality of means) and regression analysis. Test of Equality of mean helps to compare mean of a variable to see if there is any significant difference between the mean of a period compared with another period of the same variable. Where it is higher than 0.05 it means that they are not significant, meaning that there is no difference between the two means compared. But where it is less than 0.05 it means they are significant. On the other hand, regression is used to determine the relationships between the variables specified.

This research employed use of only secondary data gathered from the Audited Financial Reports of the four selected banks. This data covered the period of five years pre consolidation and five years post consolidation. According to Top 10 Nigerian Banks in Africa Report's Top 200 List (2011), the first four banks with total assets value of $47,699,247.00 which account for 65.2% of the total assets of the 10 banks ranked are selected for this research. Therefore based on this computation, United Bank for Africa Plc (UBA), First Bank of Nigeria Plc (FBN), Zenith Bank Plc (ZB) and Guaranty Trust Bank Plc (GTB) were selected for this study. Consequently, the findings of this study are used as means of generalization for the Nigerian Banking Industry.

The data gathered was analysed as follows:

1. Calculation of relevant ratios for the selected years;
2. Interpretations of each of the results computed from the ratios computed;
3. Comparing the calculated results for each financial year to establish the trend;
4. Conclusion based on the interpretations derived from each result to determine whether consolidation has affected the financial performance trend of the selected banks.

An analytical technique through the use of Statistical Package for Social Sciences (SPSS) was further employed to test the equality of the mean of the key profitability ratios using t-test statistic. Regression analytical technique was also employed to determine the relationships between the consolidation variables (Shareholders' Fund – SHF and Total Assets – TA) and the performance evaluation variables (Net Profit Margin – NPM, Return on Assets – ROA and Return on Capital Employed - ROCE).

4 Data Analysis and Discussion

4.1 Data Presentations

In this section the data analysed with the aid of Microsoft Excel and SPSS are presented in form of tables and charts. This is presented in two sections;, the first section focuses on the description of the trends that are observable in the pre and post consolidation periods, while the second section focuses on the empirical data analysis. The data interpretations and discussions follow each of the sections for easy comprehension of the tables presented.

4.1.1 Descriptive data analysis and discussions of results

Table 1: Zenith Bank Performance Evaluation Ratios

	Years	NET PROFIT MARGIN (NPM)	RETURN ON ASSETS (ROA)	RETURN ON CAPITAL EMPLOYED (ROCE)	SHAREHOLDERS' FUND (₦'million)	TOTAL ASSETS (N'million)
Pre-consolidation	2001	26.80%	4.02%	35.95%	6,726	60,190
	2002	28.91%	3.79%	37.65%	9,306	92,563
	2003	24.79%	3.93%	34.97%	12,652	112,535
	2004	21.69%	2.69%	33.12%	15,675	193,321
	2005	20.50%	2.17%	14.78%	37,789	329,717
Post-consolidation	2006	19.73%	1.88%	11.44%	100,401	610,769
	2007	19.63%	1.98%	15.52%	112,833	883,941
	2008	24.47%	2.77%	13.74%	338,483	1,680,032
	2009	7.23%	1.17%	5.59%	328,383	1,573,196
	2010	19.68%	1.86%	9.51%	350,414	1,789,458

Source: Excel computation, 2012.

Table 2: Guaranty Trust Bank Performance Evaluation Ratios

	Years	NET PROFIT MARGIN (NPM)	RETURN ON ASSETS (ROA)	RETURN ON CAPITAL EMPLOYED (ROCE)	SHAREHOLDERS' FUND (₦'million)	TOTAL ASSETS (N'million)
Pre-consolidation	**2001**	22.58%	3.53%	38.92%	4,124	45,472
	2002	19.58%	3.36%	27.28%	8,016	65,021
	2003	18.87%	3.48%	32.62%	9,639	90,245
	2004	21.81%	3.08%	35.10%	11,754	133,835
	2005	21.34%	2.93%	17.49%	31,070	185,151
Post-consolidation	**2006**	36.88%	2.71%	27.88%	47,324	486,485
	2007	34.10%	2.89%	13.23%	160,009	732,038
	2008	44.24%	3.73%	20.13%	177,992	959,184
	2009	19.67%	2.22%	12.66%	187,103	1,066,504
	2010	31.81%	3.33%	18.72%	204,795	1,152,002

Source: Excel computation, 2012.

Table 3: First Bank Performance Evaluation Ratios

	Years	NET PROFIT MARGIN (NPM)	RETURN ON ASSETS (ROA)	RETURN ON CAPITAL EMPLOYED (ROCE)	SHAREHOLDERS' FUND (₦'million)	TOTAL ASSETS (N'million)
Pre-consolidation	**2001**	15.69%	2.26%	27.88%	18,170	224,007
	2002	10.32%	1.64%	24.61%	19,406	290,593
	2003	21.76%	2.69%	40.77%	27,006	409,083
	2004	22.38%	2.99%	27.60%	41,605	384,211
	2005	23.11%	2.81%	27.16%	48,726	470,839
Post-consolidation	**2006**	45.05%	4.51%	49.11%	83,627	911,427
	2007	46.95%	4.78%	20.78%	351,854	1,528,234
	2008	5.76%	0.63%	3.73%	337,405	2,009,914
	2009	2.53%	0.23%	1.57%	311,270	2,174,058
	2010	14.49%	1.45%	9.81%	340,626	2,305,258

Source: Excel computation, 2012.

Table 4: United Bank for Africa Performance Evaluation Ratios

	Years	NET PROFIT MARGIN (NPM)	RETURN ON ASSETS (ROA)	RETURN ON CAPITAL EMPLOYED (ROCE)	SHAREHOLDERS' FUND (₦'million)	TOTAL ASSETS (N'million)
Pre-consolidation	**2001**	5.65%	0.56%	13.54%	10,422	200,102
	2002	6.95%	0.78%	14.74%	10,627	200,196
	2003	13.56%	1.61%	22.01%	14,901	203,871
	2004	18.46%	2.13%	23.17%	19,533	212,024
	2005	18.86%	1.96%	25.31%	19,443	250,783
Post-consolidation	**2006**	12.77%	1.31%	23.80%	48,535	884,137
	2007	19.58%	1.80%	12.78%	167,719	1,191,042
	2008	24.08%	2.44%	21.10%	193,460	1,673,333
	2009	0.96%	0.15%	1.31%	181,513	1,548,281
	2010	0.32%	0.04%	0.34%	176,529	1,617,696

Source: Excel computation, 2012

Table 5: Performance Evaluation Average for the Four Banks

	Years	NET PROFIT MARGIN (NPM)	RETURN ON ASSETS (ROA)	RETURN ON CAPITAL EMPLOYED (ROCE)	SHAREHOLDERS' FUND (₦'million)	TOTAL ASSETS (N'million)
Pre-consolidation	**2001**	17.68%	2.59%	29.07%	9,861	132,443
	2002	16.44%	2.39%	26.07%	11,839	162,093
	2003	19.74%	2.93%	32.59%	16,050	203,934
	2004	21.09%	2.72%	29.75%	22,142	230,848
	2005	20.95%	2.47%	21.18%	34,257	309,123
Post-consolidation	**2006**	28.61%	2.60%	28.06%	69,972	723,205
	2007	30.06%	2.86%	15.58%	198,104	1,083,814
	2008	24.64%	2.39%	14.67%	261,835	1,580,616
	2009	7.60%	0.94%	5.28%	252,067	1,590,510
	2010	16.58%	1.67%	9.60%	268,091	1,716,104

Source: Excel computation, 2012.

5 Discussions

Tables 1 to 4 show the analyses of data for the four selected banks individually while Table 5 shows the summary of the average results for the banks. The tables clearly highlight the pre and post consolidation situation for the various performance ratios of the selected banks for this study following the five years before and five years after the consolidation. These results show a trend analysis of both pre and post consolidation periods of years 2001 to 2010. From table 5 above the following observations are made:

The Profit Margin (NPM) – There are fluctuations in this ratio during the pre consolidation; it falls from 17.68% to 16.44% between 2001 and 2002 but in both 2003 and 2004 it increases from 19.74% to 21.09%. This ratio further declines to 20.95% in 2005. However during the post consolidation, it shows some improvements and later some declines; from 2006 to 2007 it shows a drastic increase from 28.61% to 30.06% while in 2008 and 2009 it crashes from 24.64% to 7.60% but later increases to 16.58% in 2010.

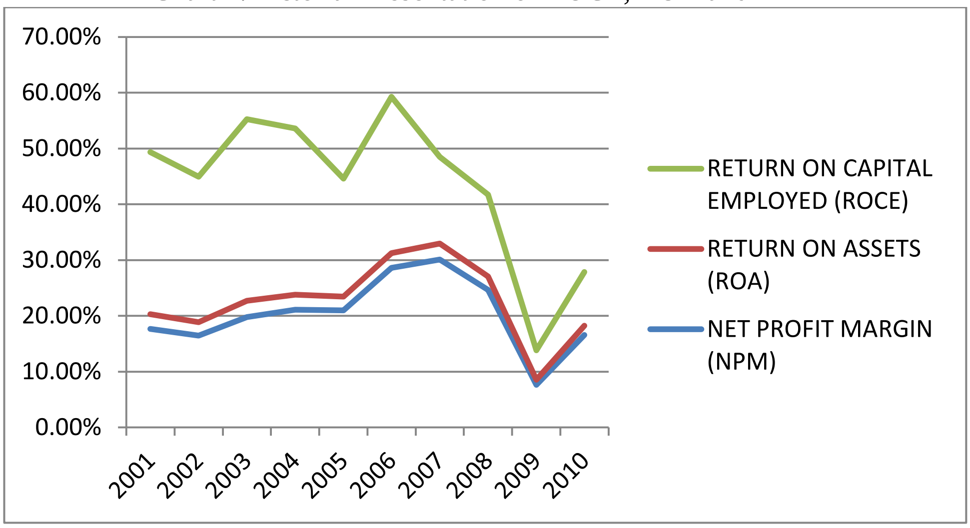
Return on Assets (ROA) – During the pre consolidation, this ratio decreases from 2.59% in 2001 to 2.39% in 2002 but later picks up in 2003 to 2.93%. In 2004 and 2005 it deepens from 2.72% to 2.47% respectively. However post consolidation begins with slight increase; for between 2006 and 2007, it slightly increases from 2.60% to 2.86% but following the two years (2008 and 2009) experience a drastic fall from 2.39% to 0.94% respectively but later bounces back to 1.67% in 2010.

Return on Capital Employed (ROCE) – The ROCE which measures the rate of return to shareholder experiences a decline between 2001 and 2002 declining from 29.07% to 26.07%; it bounces back to 29.75% in 2004 but later decreases to 21.18% in 2005. However in the post consolidation period, apart from 2006 which shows an improvement over 2005 by 6.88, this ratio sharply declines to 5.28% in 2009 but begins to show some improvement by increasing to 9.60% in 2010. This shows that the shareholders receive very low returns in terms of dividend after the consolidation exercise. This is not surprising as most of the banks raised their funds through equity shares which now increase the equity capital and the profit after tax have to improved substantially to compensate the shareholder for the additional funds given to finance the bank consolidation.

Shareholders Fund (SHF) and Total Assets (TA) – Both SHF and TA for pre and post consolidation experience a gradual increase; this is indicative of the fact that both improve through the ten-year periods considered for this study. This is not also surprising because the whole idea of consolidation is premised on the sustained improvements in both capital base and assets base of the bank.

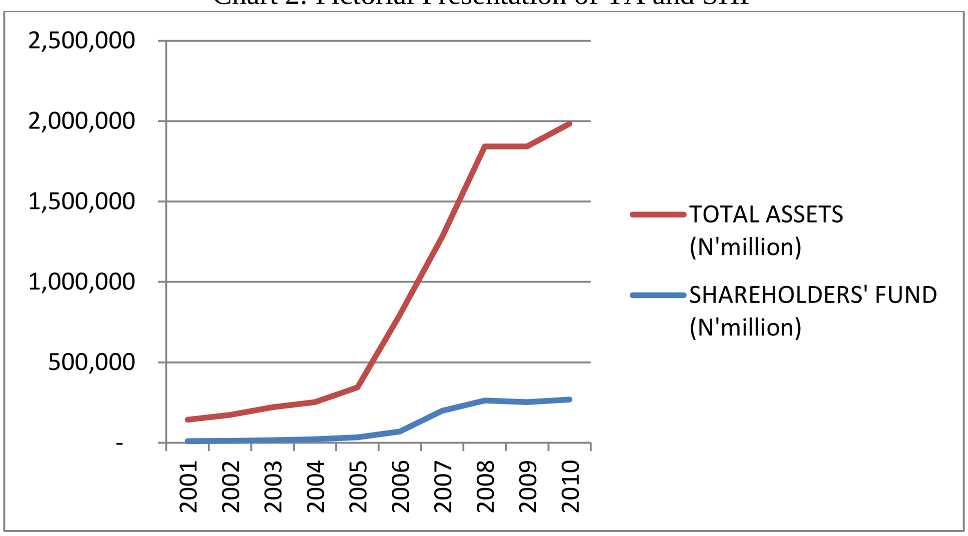
This descriptive data analysis can also further be pictorially explained by the following line charts:

Chart 1: Pictorial Presentation of ROCE, ROA and NPM



Source: Excel computation, 2012.

Chart 2: Pictorial Presentation of TA and SHF



Source: Excel computation, 2012.

Table 6: T-Test

		N	Minimum	Maximum	Mean	Std. Deviation	Std. Error Mean
Pair 1	Net Profit Margin (Pre)	20	0.06	0.29	.1918	.06084	.01361
	Net Profit Margin (Post)	20	0.00	0.47	.2150	.14619	.03269
Pair 2	Return on Asset (Pre)	20	0.01	0.04	.0262	.00980	.00219
	Return on Asset (Post)	20	0.00	0.05	.0209	.01350	.00302
Pair 3	Return on Capital Employed (Post)	20	0.00	0.49	.1464	.11234	.02512
	Return on Capital Employed (Pre)	20	0. 14	0.41	.2773	.08378	.01873

Source: Researcher's SPSS Computation, 2012.

Table 7: Paired Sample Test

Paired Samples Test									
		Paired Differences							
					95% Confidence Interval of the Difference				
		Mean	Std. Deviation	Std. Error Mean	Lower	Upper	t	df	Sig. (2-tailed)
Pair 1	Net Profit Margin (Pre) - Net Profit Margin (Post)	-.02316	.16719	.03739	-.10141	.05509	-.619	19	.543
Pair 2	Return on Asset (Pre) - Return on Asset (Post)	.00528	.01563	.00350	-.00204	.01259	1.510	19	.148
Pair 3	Return on Capital (Post) - Return on Capital (Pre)	-.13095	.14335	.03205	-.19804	-.06386	-4.085	19	.001

Source: Researcher's SPSS Computation, 2012.

Table 6 shows that the NPM pre consolidation mean is lower at 19.18% than the post consolidation NPM mean at 21.50% but table 19 shows that the difference in mean is not statistical significant. The implication of this is that there is no difference in the performance of the banks' Net Profit Margin before and after the consolidation exercise. This then means that the null hypothesis that there is no significance difference between the pre consolidation NPM and post consolidation NPM should be accepted because at 5% level of significance there is no difference in the two means compared.

On Return of Assets, the pre consolidation mean is 2.62% with a .98% standard deviation while the post consolidation mean shows 2.09% with a standard deviation of 1.35%. The implication of this result is that the pre consolidation assets yield more returns than the post consolidation assets. However, table 7 shows that at 5% level of significance there is no difference in the two means compared, meaning that it is not statistically significant.

This implies that statistically, there is no difference in the mean of the pre and post consolidation ROA. It therefore means that the null hypothesis of there is no significant difference between pre consolidation ROA and post consolidation ROA should be accepted.

The Return on Capital Employed result shows that the post consolidation mean is lower at 14.64% and 11.23% standard deviation than the pre consolidation mean of 27.73, though it has a better standard deviation of 8.38%. However the t-test shows that the difference between the pre and post consolidation periods is significant at the 5% level of significance. This means that the shareholders are not earning as much as they were earning before the consolidation exercise. Therefore, the null hypothesis of there is no significant difference between the pre consolidation ROCE and post consolidation ROCE should be rejected and the alternate hypothesis is accepted.

Overall, this study in line with the conclusion of Adegbaju and Olokoyo (2008) has found that judging from the profitability of the banks and the test of equality of the pre and post consolidation periods; it is not all the time that consolidation transforms into good financial performance of banks and it is not only capital that makes for good performance of banks. As banks consolidate, the economic environment has to be conducive to make good profit generation possible and to deepen the financial structure of the economy.

5.1 Policy Direction

In order to avert negative consequences of the banks consolidation exercise in Nigeria and to realize the benefits derivable from the exercise, it is pertinent for the CBN to make it clear that none of the banks existing today is “too big to fail” (Aburime, 2008). In view of this the following recommendations are hereby suggested:

1. In order to discourage unethical practices on the part of the banks and their managements, the Central Bank of Nigeria (CBN) and other regulatory bodies should turn their searchlights on the Nigerian banking industry, so that the megabanks would not begin to perpetuate financial crimes to generate jumbo returns from the enormous funds available to them.
2. There is an urgent need, now more than ever before, for the Federal Government to tighten the noose on the activities of money launderers and banks that collaborate with them.
3. In order to build and retain public confidence and avoid a run on Nigerian banks, greater transparency and accountability should be firmly embedded as the hallmark of the Nigerian banking system.
4. Since concentration theories have linked bank consolidation to reduction in credit supply to small and medium scale enterprises - SMEs (Aburime, 2008), the CBN owes a duty to the Nigerian economy to ensure that this does not happen during the post-consolidation era. Although, the Small and Medium Industries Equity Investment Scheme (SMIEIS) is established for this purpose; but banks should be given further encouragement to lend to SMEs. The development of SMEs is a prerequisite for Nigeria’s economic development. Banks in Nigeria should find suitable investment outlets in them.
5. Consolidation of any industry is likely to pose additional challenges arising from integration of processes, IT and culture. In addition, research has shown that two-thirds of mergers, world-wide, fail due to inability to integrate personnel and systems as well as due to irreconcilable differences in corporate culture and management, resulting in Board and Management squabbles (CBN, 2006). In view of this, the emergence of mega banks

in the post consolidation era is bound to task the skills and competencies of Boards and Managements in improving shareholder values and balance same against other stakeholder interests in a competitive environment. Therefore, in order to ensure that the synergy that the bank consolidation promises, and to mitigate post-consolidation conflicts, adequate steps should be taken to train and retrain the staff and management of all the banks that have scaled the consolidation huddles while the regulatory environment has to be tightened to close all the loopholes that could come up as a result of the increased size of the firms in the industry.

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

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Appendices

Appendix 1

Top 10 Nigerian Banks in Africa Report's Top 200 List in 2011.

BANKS AND RANKING	**TOTAL ASSETS IN USD**
1. United Bank of Africa (Ranked 12th)	15,488,160.00
2. First Bank of Nigeria (Ranked 13th)	14,250,590.00
3. Zenith Bank PLC (Ranked 17th)	10,887,652.00
4. Guaranty Trust Bank PLC (Ranked 7th)	7,072,845.00
5. Oceanic Bank PLC (Ranked 32nd)	5,911,147.00
6. Access Bank PLC (Ranked 41st)	4,550,973.00
7. Skye Bank PLC (Ranked 47th)	4,149,272.00
8. Diamond Bank PLC (Ranked 48th)	3,964,614.00
9. Bank PHB (Ranked 51st)	3,660,768.00
10. Fidelity Bank PLC (Ranked 54th)	3,321,113.00
Total	**73,257,134.00**

Appendix 2

Zenith Bank Plc

YEARS	**PROFIT AFTER TAX**	**GROSS EARNING**	**TOTAL ASSETS**	**TOTAL CAPITAL**	**SHAREHOLDERS' FUND**
	N'million	N'million	N'million	N'million	N'million
2001	2,418	9,023	60,190	6,726	6,726
2002	3,504	12,119	92,563	9,306	9,306
2003	4,424	17,844	112,535	12,652	12,652
2004	5,191	23,931	193,321	15,674	15,675
2005	7,156	34,913	329,717	48,429	37,789
2006	11,489	58,222	610,769	100,401	100,401
2007	17,509	89,194	883,941	112,833	112,833
2008	46,524	190,120	1,680,032	338,483	338,483
2009	18,365	254,147	1,573,196	328,383	328,383
2010	33,335	169,370	1,789,458	350,414	350,414

Source: Zenith Bank Audited Financial Reports

Appendix 3

Guaranty Trust Bank Plc

YEARS	**PROFIT AFTER TAX**	**GROSS EARNING**	**TOTAL ASSETS**	**TOTAL CAPITAL**	**SHAREHOLDERS' FUND**
	N'million	N'million	N'million	N'million	N'million
2001	1,605	7,109	45,472	4,124	4,124
2002	2,187	11,169	65,021	8,016	8,016
2003	3,144	16,665	90,245	9,639	9,639
2004	4,126	18,917	133,835	11,754	11,754
2005	5,434	25,459	185,151	31,070	31,070
2006	13,194	35,779	486,485	47,324	47,324
2007	21,169	62,080	732,038	160,009	160,009
2008	35,821	80,963	959,184	177,992	177,992
2009	23,687	120,393	1,066,504	187,103	187,103
2010	38,347	120,543	1,152,002	204,795	204,795

Source: Guaranty Trust Bank Audited Financial Reports

Appendix 4

First Bank of Nigeria Plc

YEARS	PROFIT AFTER TAX	GROSS EARNING	TOTAL ASSETS	TOTAL CAPITAL	SHAREHOLDERS' FUND
	N'million	N'million	N'million	N'million	N'million
2001	5,066	32,291	224,007	18,170	18,170
2002	4,776	46,267	290,593	19,406	19,406
2003	11,010	50,597	409,083	27,006	27,006
2004	11,483	51,318	384,211	41,605	41,605
2005	13,234	57,255	470,839	48,726	48,726
2006	41,066	91,163	911,427	83,627	83,627
2007	73,114	155,725	1,528,234	351,854	351,854
2008	12,569	218,287	2,009,914	337,405	337,405
2009	4,901	193,966	2,174,058	311,270	311,270
2010	33,411	230,606	2,305,258	340,626	340,626

Source: First Bank of Nigeria Audited Financial Reports

Appendix 5

United Bank for Africa Plc

YEARS	PROFIT AFTER TAX	GROSS EARNING	TOTAL ASSETS	TOTAL CAPITAL	SHAREHOLDERS' FUND
	N'million	**N'million**	**N'million**	**N'million**	**N'million**
2001	1,478	32,291	224,007	18,170	8,639
2002	1,566	22,521	200,196	10,627	10,627
2003	3,280	24,194	203,871	14,901	14,901
2004	4,525	24,510	212,024	19,533	19,533
2005	4,921	26,089	250,783	19,443	19,443
2006	11,550	90,447	884,137	48,535	48,535
2007	21,441	109,512	1,191,042	167,719	167,719
2008	40,825	169,506	1,673,333	193,460	193,460
2009	2,375	246,725	1,548,281	181,513	181,513
2010	598	185,186	1,617,696	176,529	176,529

Source: United Bank for Africa Audited Financial Reports