Post Consolidation Performance Of The Nigerian Banks

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ABSTRACT

Nigeria, like every other legitimate nation operates an open economy which gives rise to financial liberalization, opening the economy to the global financial market which has exposed the fragility and vulnerability of her financial system. It became inevitable for the Central Bank of Nigeria introducing measures that would enhance the financial system stability of the nation, and also reduce the exposure to the global financial danger.

This study therefore investigates the post consolidation performance of the Nigerian banks in comparison with the pre-consolidation era, with the aim of finding out if the consolidation is of any benefit. We employed secondary data obtained from bank scope annual report. The data were analyzed using techniques such as T- test and random effect regression analysis. The independent variable used were Return on Assets (ROA) and Return on Equity (ROE) which were significant, meaning that is a statistical difference between the pre and post consolidation era of the Nigerian banking system. The study recommends that before setting up a minimum capital for banks, the CBN should look at considerations from all facet of the economy so as to make significant impact. Our work advises the bank executives to embark on routine training and retraining of staff as well as proper handling of post consolidation challenges. Also, earnings on total assets should be maximized through outsourcing the bank's surplus total assets by the management.

Keywords: Consolidation, Liquidity, Regression, Capital adequacy, Asset quality

ÖZ

Nijerya her açık ekonomi uygulaması olan yasal ülkede olduğu finansal serbestleşmeye önem vermektedir. Bu yüzden merkez bankasının finansal sistemin istikrarı için bazı önlemler alması kaçınılmazdır.

Merkez bankası yönetimi varolan bankaların güçlenmesi ve yeni bankaların da iyi bir başlangıç yapması için 25 milyar Nairalık sermaye ayırmıştır. Bu çalışmanın amacı Nijerya bankalarının konsolidasyon sonrası ve öncesi performanslarını karşılaştırarak konsolidasyonun yararını araştırmaktadır. Veriler Bankscope yıllık raporlarından elde edilmiştir. Analizlerde T-test ve rastgele etki regresyonu yöntemi kullanılmıştır. Bağımlı değişken olarak varlık üzerinden getiri ve sermaye üzerinden getiri kullanılmış ve bu değişkenler istatistiksel olarak anlamlı çıkmıştır. Bu da Nijerya bankacılık sisteminde konsolidasyon öncesiyle sonrasının istatistiksel olarak farklı olduğunu kanıtlamaktadır.

Bu çalışmanın sonucunda banka yöneticilerine, çalışanlarını konsolidasyon sonrası yaşanan zorluklara karşı eğitim vermelerini öneriyoruz. Bunun yanında varlık getirisini maksimize etmeleri gerekmektedir.

Anahtar Kelimeler: Konsolidasyon, likidite, regresyon, sermaye yeterliliği, aktif kalitesi

To my parents

Kenneth Nwosu

&

Eunice Nwosu

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Chapter 1

INTRODUCTION

The global economic reform and banking sector transformation has necessitated the upgrading of the banking industry in Nigeria leading to the consolidation and critical research to measure the performance and effectiveness of the Nigerian banks in post consolidation era.

According to Inoukhude (2003), financial globalization is referred to as integration of local financial system of a country with international financial institutions and markets. Due to the fact that bank consolidation is a response to globalization, the consolidation process in Nigeria is a response to the wave of consolidation that has been spreading around the globe. The Central Bank of Nigeria outlined the principal objective of consolidation as; to mitigate the crises in the financial sector and its notion from flap (wave) of consolidation that happened in Europe, Japan, India, Argentina and the United State.

Consolidation has to do with the combination of companies legally dissolved to form a new company. Business combination could be done in two forms namely; Merger and Acquisition. Acquisition is the absorption of a company by another company, and merger is the combination in which only one surviving corporation goes out of existence. “Gaughan (1996)’’. Here, the acquiring company takes over the assets and

liabilities of the merged company, and the corporation that was merged automatically belongs to the acquiring company.

The consolidation of the banking industry in Nigeria just like other countries of the world made the banks more efficient, better capitalized and more skilled in the industry. It can also be referred to as the survival of the fittest. Consolidation is a policy introduced to address the financial institutional problems. The performance of banks is measured using two performance measures, namely; profitability and efficiency.

In banking, consolidation has been documented and debated in policy reports and research papers by Berger et al (1999), Boyd and Graham (1991), who have contributed immensely to literature and debates on the positive and negative effects of consolidation. The consolidation of banks has hastened during the last decade of 1880s and most significantly the largest number of mergers and acquisition (M&As) in this sector occurred within the national borders.

Consequently, some industrialized countries such as Belgium, Sweden, Netherlands, Australia and France reached a situation of high banking sector concentration facing a further deterioration of an already concentrated sector while a few countries like Germany and the United States were un-concentrated. Nigeria which is the engine house of the Africa economy introduced a compulsory consolidation as initiated by Prof. Soludo (CBN governor) in 2004.

The Nigerian banking industry led by Prof. Charles Chukwuma Soludo (Central Bank Nigerian Governor) announced a new set of regulations for the country's

banking system on July 6th 2004. The apex bank chief (Soludo) stated his position at the gathering of crème de la crème of the banking industry during an extra-ordinary general meeting, he addressed the national bankers' committee on the long running debate concerning economic effects of banking system structures and the size of individual banks. Soludo insinuated that the banking system in Nigeria could only gain from a series of mergers amongst banks. The CBN governor also said that only banks with minimum capitalization requirement of 25 billion naira ($172,000,000 in 2005approximately) by the deadline of December 31, 2005 would be permitted to hold public sector deposits and to publicly trade shares. Soludo's actualized ambition was in favor of a system where few large banks would dominate the Nigerian financial system, thereby paving way for the first phase of the banking industry's consolidation process.

The Nigerian banking system before the consolidation was made up of 89 banks with low capital base and weightless regulations (few enforced regulations). In 2005, 25 banks were considered marginally sound because they were among the largest banks with $240 million capital base. The professor of economics (Chukwuma Soludo, 2004) describes the pre-consolidation banks as illiquid, uncompetitive on the international market, and unprofitable, ultimately creating a risk for the Nigerian people who deposited their income with the banks and this is due to the fact that most of the banks were set-up with government fund making them highly inefficient institutions.

He proposed that the unstable nature of banks in the pre-consolidation era was caused by a number of factors, including questionable business practices, corruption, and weak corporate governance. The spate of bank failures that occurred in the

1950s, the 1980s and the early 1990s (the worst of which had 21 banks fail at the same time out of 25 banks in 1950) helped in supporting Soludo's position on the state of the banking system of the country necessitating the creation of the Nigerian Deposit Insurance Corporation.

The recently concluded consolidation process in the Nigerian banking industry with only 25 banks surviving the exercise as at December 31, 2005 is the largest process in the Nigerian banking system's history. At the conclusion of the consolidation exercise, new mega banks and the new universal banking system were created from both the amalgamation of many weak banks so as to reach requirements, and also the assimilation of weak banks by strong ones for their reserves.

The short comings in the financial sector can be corrected by the consolidation of banks being the main policy instrument. Scholars have agreed to the fact that consolidation makes banking more cost efficient due to the fact that bigger banks can eradicate extra capacity when it comes to data processing. More also, the imbrications of bank networks can be extinguished by large banks. The acquisition of less efficient banks by more efficient banks causes increment in cost efficiency. The term "Consolidation" has been defined by different authors, but the most captivating definition simply states that consolidation deals with the downsizing of financial institutions and banks with concurrent density of the integrated entities in the sector and increase in size of banks.

As we know that banks fail due to passive and complicit phrase that masked a gross irresponsibility and gross insensitivity (Sanusi Lamido 2010), failed banks are handed over to Nigerian Deposit Insurance Corporation (NDIC). Insured depositors

get paid #50,000 (317.259USD), later increases to #200,000 (1,269.04USD). We were made to understand that a lot of poor people running into thousand who kept their life savings in the bank lost it. More also, people's savings for retirement, student's school tuition, medical bills, all these were lost. As a result of these loses, a lot of people died of heart attack, many people died because they were unable to pay medical bills.

Banking sector reform in Nigeria was introduced as a result of weak management practices, high permissiveness of deficiencies in the corporate governance of banks, highly undercapitalized deposit taking banks and feeble (weak) supervisory and regulatory framework. The consolidation of banks in Nigeria was a calculated attempt to correct the comprehended (perceived) crises apparent in the banking sector and also prevent the possibility of future occurrence. The characteristics of banking crisis as mentioned above also includes persistent illiquidity, high level of nonperforming loans as well as weak corporate governance and undercapitalization mentioned earlier. Nevertheless, a country like Nigeria with an open economy could be endangered with banking Crisis from other countries through infectivity due to her weak financial infrastructure. Financial sector problems emanates from inability of banks satisfying the shareholders in the area of financial obligation. As a result, customers embark on runs, i.e. a situation whereby both the customers and the banks go into massive credit calls and pull out (withdrawal) which in most cases calls for liquidity support by the Central Bank to the affected banks. As for Nigeria, some terminal intervention mechanisms occurred, and these are; creation of asset management organization to take control and recovery of banks, recapitalization and consolidation.

Despite all odds, the implementation of bank consolidation is aimed at strengthening the Nigerian banking system, foster salubrious competition (healthy competition), embrace globalization, espouse advanced technology, increase efficiency, improve profitability and exploit economies of scale. The main aim of consolidation is to enable the banks to meet up with the expectations of being able to perform the developmental role of promoting economic growth by strengthening her intermediation role so as to enhance the general economic performance and societal welfare.

It is a general belief that bank consolidation leads to increase in the size of the purchasing bank which on the other hand leads to a potential increase in bank returns with cost efficiency gains and revenue. According to Berger (1999), industry risk could be reduced and better diversification opportunity could be created through the elimination of weak banks. Contrary to this, an argument ensued that consolidation of banks give room for increase in leverage and off balance sheet operations as a result of increase in banks' propensity toward risk taking. Also, larger organizations are always difficult and more expensive to manage because economies of scale are not unlimited (De Nicolo et al; 2003). The reform of the Nigerian banking sector is geared towards repositioning the Nigerian economy for growth and deepening the financial sector to be unified into the world's financial structure design and develop a banking sector that is consistent with best practices around the world, coupled with

regional integration requirements. Banking reform aims at handling the following issues; management of risk and operational inefficiencies and governance, it is also centered at solidifying Capitalization (Ajayi, 2005). Capitalization is an important component of reforms in the Nigerian banking industry because a bank that has strong capital base can easily absorb losses from liabilities of nonperforming loans. Meeting with the capitalization standards or requirements can be achieved in three ways, namely; public offers through the capital and/or private placement; right issues for existing shareholders and capitalization of profits and merger and acquisitions. The former governor of Central Bank of Nigeria, Prof. C. Soludo heralded a 13-point reform agenda for the Nigerian banks in his maiden address during his inauguration in 2004. According to him, the main objective of the reform is to guarantee a sound and effective financial system. According to Lemo, 2005, "The reforms are designed to help the banking industry develop the expected tractability (flexibility) to support the development of the economy of a nation by effectively performing its function as the center of the financial intermediation". Hence, the banking reform aims at radiated (diversified), strong and dependable banking industry so as to ensure that depositor's money is safe and also to make the bank play an active role in the development of the Nigerian economy. The major components of the 13-point agenda includes; Minimum capital base of 25 billion naira (158,553,967.51 USD) given December 31, 2005 in deadline to meet up with the capital requirement;

phased withdrawal of public sector fund from banks; formation of an asset company; revision and updating of relevant laws; promotion of the enforcement of dormant laws; consolidation of banking institutions through mergers and acquisitions; zero tolerance for weak corporate governance; misconduct and lack of transparency; adoption of a risk focused and risk based regulatory framework; accelerated complication of the electronic financial analysis surveillance system; close collaboration with the economic and Financial Crime Commission and the institution of the financial intelligence unit. The first point above which has to do with the increment of shareholders' fund generated a lot of controversy among the shareholders because of the need to comply before 31st December, 2005. The main aim of this research is to measure the performance and effectiveness of the Nigerian banks in post consolidation era.

My research is divided into six (6) chapters. The first chapter (1) is the introduction; the second chapter (2) deals with the overview of the Nigerian banking system; Chapter three (3) is the literature; chapter four (4) Variables description & methodology; Chapter five (5) Empirical analysis and Result and Chapter six (6) is the Conclusion and Recommendation.

Chapter 2

OVERVIEW OF THE NIGERIAN BANKING SYSTEM

The Nigerian banking history could be traced back to 1892 with the establishment of African Banking corporation (ABC), followed by the first bank of Nigeria plc in 1894 which existed in 1892 as the Bank for British West Africa being the first regional bank in Nigeria.

Two foreign banks were established in addition to Bank for British West Africa, these are Barclays bank (1916) currently called Union Bank of Nigeria plc., and the other is British and French bank (1948), currently known as United Bank for Africa Plc. In Nigeria, the period 1892 to 1952 is generally described as free banking era because it was characterized by the absence of banking regulation. The aftermath of this were the establishment of twenty-five indigenous banks during the period that did not meet up with banking standards, and this led to the liquidation of and disappearance of the banks in no distant time.

It is imperative to know that only 4 banks survived out of numerous indigenous banks established during the early period, and these are; Agbonmagbe Bank (Wema Bank), established in 1945, African continental bank, established in 1945, National bank of Nigeria, established in 1933, and Bank of the North which survived beyond the period. The banking ordinance was enacted and passed to law in 1952, marking the end of free banking period and this development made banking in Nigeria

binding on acceptable rule and stated in the banking ordinance. For the first time, establishment of banks was restricted and the practice of banking to viable companies holding valid and duly issued licenses was promoted.

The promulgation of the Central Bank Act took place in 1958 and was fully implemented and effective in July, 1959. The institution of Banking Act of 1969, in addition to the amended banking ordinance, and the Central Bank Acts 1958 Sub-primed the era of bank legislation and the various Acts constituted the legal framework for regulating the banking section in Nigeria. The aim of the banking Act of 1969 was to consolidate all the amendments to the 1958 banking ordinance and block all possible loopholes. It remained in force till 1991, when the Central Bank of Nigeria (CBN) Decree 24 of 1991 of the Banks and Other Financial Institutions Decree (BOFID) 24 of 1991 were published. This made the number of banks to increase and the sector became a significant driver for economic growth as well. Eight new commercial banks were established between 1959 and 1962, but no new bank was established between 1962 and 1979 due to tight economic reforms which included entry restriction successive to increase in the minimum paid up capital requirement for establishing new banks. Nevertheless, it is assumed that the 1967-1970 civil war in Nigeria might have scuttled plans for bank establishment.

In the Nigerian banking sector, the period between 1976 and 1986 can be ably described as one of institutional re-assessment and centrist (moderate) growth in the banking system that saw the banks increasing in number from 21 (15 commercial and co-operative banks as well as 6 merchant banks) in 1976 to 41 banks in 1986 (comprising 29 commercial banks and 12 merchant banks). The period 1986-1992 can be rightly described as that of economic de-regulation and financial system

liberalization as a result of the introduction of Structural Adjustment Program (SAP) in July 1, 1986.

The Structural Adjustment Program (SAP) introduced in Nigeria was a strategic attempt to address the structural prognosis (forecast) of the failing economic structure which resulted to unprecedented economic crises Nigeria had gone through in the early 1980s as a result of dwindling oil prices. Banking activities increased significantly and the industry was liberalized in terms of licensing and credit pricing due to the introduction of Structural Adjustment Program (SAP). The Banks and Other Financial Institution (BOFI) Decree 24 and 25 of 1991 abolished the existing bank legislation and were designed to reflect the critical role of banks in the implementation process of economic recovery programs –SAP, 1986. Between the periods of 1985 and 1992, the number of new entrants to the banking industry increased drastically from 41 to 20, comprising 66 commercial banks and 54 merchant banks.

The Nigerian banking industry witnessed the worst crises ever in its history in the 1990s, which led to the exit of more than thirty banks because of liquidity problems. As the economy continued to rifle, competition began to rise in the industry and opportunities for substantial long term capital mobilization diminished, the merchant banks could no longer cope due to their limited branches and lack of access to float fund. This made commercial banks to be more engaged in investment banking to coffer for the rising benefits from capital market activities. With this development, most merchant banks were left in a bad condition with a good number of them applying for their licenses to be converted to commercial banking. This was followed

by the relentless call for the universal banking to give all banks equal opportunity to compete across all classes of banking activities.

The Central Bank of Nigeria (CBN) approved the adoption of Universal Banking in year 2000, and the dividing line between the commercial and merchant bank crumbled with a uniform banking license issued for banking operation in Nigeria. This activity boosted the growth of banks in Nigeria as their number increased to as much as 125.

In 2004, the bankers committee of Nigeria introduced another dimension into the banking industry in Nigeria. At that point, the Governor of Central Bank of Nigeria announced the new set of banking reforms. The bone of contention was the consolidation in the banking industry and partial institution of the Basel risk management framework. This time, the minimum capital requirement was increased from Two Billion Naira (Thirteen Million USD) to Twenty –Five Billion Naira (One Hundred and Sixty-Five Million USD) starting from December 2005. The aim of the bank consolidation exercise was to create stronger banks. More also, it brought forth mergers and acquisitions amongst existing banks. Interestingly, it attracted shareholders' funds into the banking industry. And this has witnessed a tremendous increase in the capabilities of banks to do their business.

2.1 Phases of Financial Reform in Nigeria

According to Balogun, (2007), Ogunleye, (2005), there are four phases of financial reform in Nigeria. The first phase of financial reform in Nigeria that caused the deregulation of banking sector started in 1986 and ended in 1993. It was dominated

by local banks with over 60 percent, state and federal government stakes together with credit interest rate and foreign exchange policy reforms.

In the late 1993-1998, the second phase began with reintroduction of regulation which made the banking sector to suffer deep, and this lead to a financial distress which necessitates another phase of reform.

The third stage started with the introduction of civilian rule in 1999, which made the financial sector to be liberalized, as well as the acceptance of the distress resolution programme. The same period gave birth to global banking that enabled the banks to engage in all aspects of retail banking and nonbank financial market.

The fourth phase can also be referred to as the consolidation phase which started from 2004 to date. It is informed by the Nigerian monetary authorities who affirmed that the financial system was characterized by structural and operational weakness and their catalytic role in promoting private sector driven growth and could be further enhanced through a pragmatic reform.

2.1.1 Depositor's Confidence

Decree No.22 of 15 June 1988 gave room for the creation of the Nigerian Deposit Insurance Corporation (NDIC) to engrain (instill) confidence and stability of the financial system in Nigeria with effective supervision, it took off effectively in 1989. It also assists the CBN to formulate banking policies. The creation of NDIC proved the depositors wrong when they had fears of possible bank failure, and their confidence was referring to section 20 of Decree 22 of 1988 policy act, all the market and merchant banks are required to insure their deposits with NDIC. Also,

there is assurance that depositors get their payments up to a maximum of 50,000 naira if there is any bank distress (NDIC, 1989).

2.1.2 Improving The Standard of Banking in Nigeria.

The concept and practice of banking in Nigeria was changed when the federal government of Nigeria established the people's bank in 1989. The main role of this bank is to increase the asset of low income earners ranging from craftsmen, artisans, mechanics, and petty traders to bank credit. Rather than using the traditional concept of granting credit with collateral, they employed group pressure, cohesiveness, and cooperation before credit could be granted to individuals. However, the credit released to each person is small, ranging from 50 to 2000 naira. The initial transaction report of the first year is released stating that the beneficiaries should be knowledgeable about loan repayment obligations. Also, the launching of community banking since the period of deregulation is the most radical and novel financial policy compared with other policies initiated by the government in 1990. "Community bank is defined as a self sustaining financial institution, owned and maintained by a community or a group of communities for the purpose of providing credit, banking and financial services to its members, largely on their self recognition and credit-worthiness".(CBI,1990)

The services performed by the commercial banks are more of the orthodox banks which includes; acceptance of deposits and collection of proceeds of banking instruments on behalf of the customers, and issuance of redeemable debentures. Nevertheless, in other to allow them to maintain their focus, they are not supposed to embark on advanced banking services like corporate finance, foreign exchange transactions and international commercial papers, etc., (CBIC,1990). As part of the

requirement for community banks, it is not allowed for an individual to own more than 5 percent of the shares because they (commercial banks) operate under the branch banking concept operated by older banks, including the people's bank and most merchant banks. Also, they are required to raise a minimum equity share capital of 250,000 naira before it can be licensed. The orthodox banks failing to make their presence felt in the rural areas may not be beneficial whereas, the inception of community banking and people's bank is supposed to cover-up important gaps in the Nigerian banking system.

Despite the fact that the Nigerian banking subsector was not exempted from the adverse consequence of the global financial meltdown, the measures that were put in place by the Central Bank of Nigeria helped to ameliorate the crisis. In the mid 1990s, banking in Nigeria became critical because the military regime led by Gen. Sani Abacha clamped down on the failed banks by sending the chief executives to face trials due to the fact that the bank's boards and management of corporate governance while misusing depositor's funds, which led to the liquidation of the banks. According to a stock broker Mr. Joseph Iwinosa, "the era marked a dark side in the nation's banking history". On the other hand, Mr. Wale Abe, the executive secretary Financial Market Dealers Association says that the banking industry has performed relatively well by enhancing the nation's development since independence. He also said that despite the fact that the industry has witnessed some ups and downs like other sectors in the economy, it had remained strong and healthy while growing steadily. Finally, the banking sector in Nigeria recorded year 2010 as a golden year compared with other developing countries.

2.2 The Regulatory Authorities in The Nigerian Banking System

The Nigerian monetary sector is made up of bank and non bank financial institutions which are regulated by the following institutions;

2.2.1 Central Bank of Nigeria (CBN)

The Central Bank of Nigeria commenced operation on 1st July, 1959 after its establishment by the CBN act of 1958. The regulatory objective of the bank stated in the act is to maintain the external reserves of the country, promote monetary stability and a sound financial environment. Finally, it acts as banker of last resort and financier of the federal government. The central bank became more autonomous in its regulatory and supervisory role of licensing the finance companies that have been operating out of any regulatory frame work and controlling the money sector by the enactment made in 1991. The Central bank of Nigeria also ensures a healthy environment for financial institutions and other agents in the sector so as to optimize even in times of economic recession. It generally oversees the economy at large.

2.2.2 Federal Ministry of Finance (FMF)

This is the body of the government that deals with managing, controlling and monitoring federal revenues and expenditures, besides looking into the fiscal operation of the economy, it also teams up with the central bank of Nigeria over monetary affairs. The administration of Lamido Sanusi (Governor of Central Bank of Nigeria) has amended the Central Bank of Nigeria act, compelling the CBN to report to the Presidency through the federal ministry of finance which functions as the center of all economic activities and stands as a mechanism that links the trade partnership between Nigeria and the world.

2.2.3 Nigerian Deposit Insurance Corporation (NDIC)

The Nigerian Deposit Insurance Corporation was established under the decree of 1988 and commenced operation in March 1989 in order to fortify the safety net of the newly liberalized banking sector as directed by the Central Bank governor. The NDIC is a parastatal under the Nigerian ministry of Finance saddled with responsibility of protecting the Banking system from instability occasioned by runs and loss of depositor’s confidence. This is done by the examination of the books and affairs of insured deposit-taking financial institutions like the banks. Licensed banks are forced to pay 1% of their deposit liabilities as insurance premium to NDIC. If financial distress occurs, depositors are meant to claim a limited amount of 50,000 naira. The main focus of NDIC is mainly on Solvency and deposit safety in banks.

2.2.4 National Board For Community Bank (NBCB)

The NBCB is an agency of the federal ministry of finance created by Act No. 46 of 1992. The board was established to promote, develop, monitor and carryout general supervision of community banks (CBs). The mission of the board includes supervising community banks to guarantee efficient and effective sourcing and delivery of micro-credits and allied services for self-reliant grass root development.

2.2.5 Security and Exchange Commission (SEC)

The securities and exchange commission of Nigeria is the apex regulatory institution of Nigerian capital market supervised by the Federal Ministry of Finance. The SEC started with the establishment of the capital market committee in 1962 by the government as an essential arm of the Central Bank of Nigeria. The main objective of SEC is to shore up the sensitivity gap or investment gap existing in the financial institutions. The main responsibility of SEC is to regulate the market and also to see to all types of financial subjugations, mergers, acquisitions, and takeovers.

2.2.6 The Federal Mortgage Bank of Nigeria (FMBN)

The federal mortgage bank of Nigeria was formerly called Nigerian building society to incorporate some financial derivation before it was transformed to the current status. The main function of the FMBN is to provide banking and advisory services, and pursue research activities relating to housing. After the adoption of the housing policy in 1990, the FMBN was empowered to accredit and regulate primary mortgage institutions in Nigeria. It also performs its function as the apex regulatory body for mortgage finance operations in the country. The FMBN is subject to control of the CBN, its financial function was separated and delegated to the federal mortgage finance while the main agency FMBN maintained its regulatory role.

2.2.7 The Financial Services Coordinating Committee

This was established by the central bank of Nigeria in 1994 to promote a formal framework for the co-ordination of regulatory and supervisory activities in the financial sector. The main function of the committee is to examine the strength and weaknesses of the economy at large from time to time and it also makes available the reports regarding the status of both real and monetary sector in relation with the global standards and also proffers solution to the legislative arm for planning.

Chapter 3

LITERATURE REVIEW

Reforms in the banking sector have taken another dimension worldwide with the sole aim of repositioning its current way of operation in order to be more efficient and effective.

In light of the global turnaround, the Nigeria financial sector failed to live up to expectation in the pre- consolidation era (1980-2004) because it failed to measure up to the required standard of providing the needed fund for the development of the real sector economy as supposed. The current trend in banking worldwide has made it imperative for every bank in any corner of the world to be reformed so as to promote competition and capability to perform the basic function of financing investments. Going by past records, the reform in the banking sector was prompted by the need to reposition the sector for growth so as to be incorporated into the universal financial architecture and develop a banking industry that is aligned with the integration of best practices and regional requirements. (Oke, Michad 2012). Since 1980's, financial reforms have been implemented by a lot of developing countries as part of wider market oriented economic reform. Banking activities in today's world has been named as the engine of economic growth in any country.

Consolidation can be conceptualized as a fusion of the asset and liabilities in whole or in part of two or more business establishments to form an entirely new

establishment (Dictionary of Economics 1970). A good interpretation of the above definition of consolidation shows that it represents an investment idea and the combination can also mean larger shareholder base, larger number of depositors and larger size. It is predominantly propelled by the invention of new technology, enhancing intermediation, financial services deregulation, increased vehemence on the value of shareholders, international competition and privatization. (Berger; N. Allen; (1998); De Nicolo and Gianni 2003; IMF, 2001)

Hall (1999) defines consolidation as a global phenomenon that emanated from industrialized economies. In an example, he pointed at the enactment of Riegle – Neal Act, which allows interstate branch banking starting from 1997 that caused the increase in bank mergers in USA (Akhavin et al and Kwan 1997). There are three dimensions in which consolidation has occurred in the United State and other developed countries. These are: within the banking industry, between banks and other non bank financial institutions, and across national boarders. Most consolidations that occurred in the United States was within the banking sector, and as a result in 1980, the number of banking organizations was reduced from about 12,000 to about 7,000 in 1999, meaning that the number of banks decrease was more than 40%. On the other hand, there has also been a trend leading to the consolidation of merchant and commercial banks, and Europe has got the universal banking model where the trend is targeting the combination of insurance and banking business.

Banking reforms are carried out so as to reposition the financial sector and keep it on track in an efficient and effective manner for the current and future challenges. Regardless of the fact that there could be some draw-backs that reduces the growth rate of an institution which on the other hand prevents it from achieving her main

objective in pursuance towards increasing and maintaining the economic and social requirements of human endeavor. Due to the global dynamic exigencies and emerging landscape, reform has become inevitable in both developing and industrialized economies. Furthermore, in order to enhance its competitiveness, the banking sector should be fully integrated into the global financial architecture. Scholars have argued constructively as to reasons for the inadequacy of the Nigerian banking system which led to the menace and risks faced by depositors prior to the consolidation exercise in Nigeria.

According to Imala (2005), the main aim of banking system worldwide is to ensure price stability and enhance speedy economic growth and development. But in Nigeria, it has remained unattained emanating from the inefficiencies in our banking system, and the inefficiencies are as a result of large number of small banks with few branches, low capital base as the then average capital base of the banks in Nigeria was as low as $10million, the dominance of few banks, poor rating of number of banks, weak corporate governance evidenced by inaccurate reporting and non compliance.

In a research conducted by Craig and Hardee (2004), they argued that with banking consolidation, "relationship" lending is becoming increasingly rare". The use of credit scoring and formula methods are usually carried out by the large banks which does not favor the small banks especially the enterprises with negative equity. Eventually, banking consolidation without bank sources of funds may be filling the financial void of the small businesses.

Hughes and Mester (1998) in their research provided evidence to suggest that bank managers are risk averse in banking where there are economies of scale. Here, the level of risk in a bank is determined by the level of financial capital. The researchers noted that this area is of interest in the Nigerian Banking industry because the return on equity is usually calculated in another two or three years to be compared with the historical industry average. Comparing with the American system, Rhodes (1996) "The consolidation of American banks was in response to the removal of restriction on bank branching across states" and in conclusion, Hughes, J.P; W. Lang; L.J. Mester; C.G.Moon (1998) insinuated that those banks that engage and are interested in expansion that diversifies macroeconomic risk are the ones that enjoy the economic benefit of consolidation. They further stated that improved profitability and efficiency emanated from domestic merger whereas, a surer source of cost efficiency is from cross-border acquisition (national, not interstate).

According to Hughes J.P; and Moon, C.G (2000) an evidence was provided that economies of scale fail to account for risk, whereas it exist in banking. They further explained that "economies of scale that emanates from diversification and consolidation does not produce better performance in banking unless the management of the bank is soft and risk conscious in her decisions and actions. With ceteris paribus assumption, liquidity and credit risk can be reduced by appropriate large scale of operations that leads to diversification. They also argued that it is not always like that because the setting of good balance between growth by bigger banks and risk management calls for skepticism when it comes to consolidation in Nigeria, they went ahead to argue that on the long run, more banks would be established as a result of consolidation exercise which will in turn return the industry to status quo.

It was noticed that by providing social benefits, the consolidation of industry was beneficial during the first economic integration stage after the scrutinization of merger and acquisition in European banking industry which could be destroyed because the few big banks safeguard the agreement in price to introduce foreign competition in more advanced stages. Most European banks that went into merger and acquisition did so to avoid the possibility of failure knowing quite well that no bank is too big to fail. The only thing that causes a bank to liquidate is the speculation of bad news about possible failure and unreliability of the bank and letting the information get to the stakeholders more especially the depositors, the next thing that they would do is to withdraw their fund at the same time because such bank must have enough liquid assets in order to be able to meet all the maturity and long dated obligations so as to survive.

There was a sudden decrease in lending rate that later rose beyond pre-consolidated period for Nigerian banks after the final round of consolidation that ended December 31,st 2005 which is a very important social benefit that accrued to Nigerian banks as was conferred on the national economy and banking public.

3.1 Motives for Consolidation in the Financial Sector

There are varieties of reasons why financial sectors embark on mergers and acquisitions and these may vary with firm's characteristics which may include organizational structure (size), across countries, over time, across industry segment. But for simplicity sake, the reasons for mergers and acquisitions can be analyzed in two categories namely: value-maximizing and non value maximizing motives

3.1.1 Value- Maximizing Motives

This has to do with the present discounted value expected future profits. The merging of banks can cause the expected future profits to be increased in one of the following ways; increasing the expected revenue or by reducing the expected costs.

Below are the reasons why mergers can lead to reduction in cost:

Economies of Scale: This is the reduction in the per unit cost due to increased scale of operation.

Economies of scope: this is the reduction in the per unit cost due to synergies involved in producing multiple products with the same firm;

Decrease of risk due product variegation (diversification);

Reduction of tax responsibilities (obligations);

Substitution of inefficient managers with more efficient managers;

Increased monopsony power which enables firms to buy inputs at lower prices;

Permitting a firm to become large enough to receive a credit rating or gain access to capital markets;

Rather than de novo entry, it enables a firm to gain new product markets at lower cost.

Reasons Why Mergers can lead to Increased Revenue:

Firms raise prices due to increased monopoly power;

Increased market share or size making it easier for firms to attract customers (reputation or visibility effect);

Enlarged firm gives room for the companies to increase the riskiness of their portfolio

Increased size gives room for firms to better serve their large customers

Enlarged product diversification expanding the pool of potential customers

Increased product diversification gives room for companies to offer her customers a variety of different products (one-stop shopping)

3.1.2 Non Value Maximizing motives

Knowing that the decision to maximize a firm's value is not always constant when it comes to manager's decisions and actions. Managers take actions that are in tune with their own personal goals or selfish interest which may not be in the interest of the firm when identities of the owners and managers differ and capital are less than perfect. Managers sometime embark in what we would refer to as "defensive acquisition" because they derive satisfaction from controlling larger organizations which will in turn increase their job security. Managers go on defensive acquisition because they know that if they fail to acquire other firms, they will be acquired themselves not considering the fact that being acquired would benefit the firm's owners. Finally, most managers engage in consolidation simply because others are doing so. Therefore, they only consider the size of their firm relative to competitors.

3.2 The Role of Government in Consolidation Process

Consolidation process can be facilitated or hindered depending on the role that the government has chosen to play. It is understood that in most cases, government facilitates consolidation so as to curtail the social cost that may lead to a firm's failure. Citing an instance from the 1980s and early 1990s, financial assistance was provided by the United States government agencies to healthy banks during the banking crises. In France, Scandinavia, Japan and the United Kingdom, accelerated changes in the banking landscape emanated from problems with large depository institutions. In an effort to resolve failed institution, supervisory authorities force elimination and sale of the infirm establishments. For instance, during the Japans'

crisis, in 1990, the Japanese government released fund to back up the rehabilitation and consolidation of the banking industry. In an effort to create a national booster (champion) that could compete efficiently in the global arena, the government may also promote consolidation. On the other hand, laws demanding regulatory approval of mergers and acquisitions have the potential to hinder consolidation due to the significance of competition, financial constancy and possible conflict of interest between investment and commercial banking

3.3 Economies of Scale and Economies of Scope

There has been an estimated link between average cost and the size of the firm for the banking sector. Scholars have come up with a common view that economies of scale is likely to be a propelling component for mergers necessitating the blowing up of firms in the sector. It has been noted that economies of scale may be more unmanageable to dictate for very large diversified firms due to the fact that they do not show up in aggregate firm level data because they may be limited to certain product line. The consequence of economies of scope as an inducement has not been supported or debated.

3.4 Cost Efficiency

Consolidation helps to get rid of cost inefficiency if the management of the acquiring firm can be more effective at reducing cost than the target's management and is also able to eliminate unnecessary cost after the acquisition takes place. In most cases, acquiring firms are known to be cost efficient than target firms. Past studies are yet to prove that efficiency gains are realized because studies that analyze ex post changes in cost efficiency resulting from mergers and acquisitions always fail to find

any evidence that efficiency gain is realized and continuous occurrence of this (failure) causes accounting complexities which makes the measurement of changes in cost efficiency very uneasy. With this study, the importance of efficiency gains as a motivating factor of consolidation is still unclear.

3.5 Monopoly Power

Consolidation often enhance monopoly power, in order to raise profits by setting less favorable prices to customers. This is specifically reliable if the combination results in a substantial increase in market concentration and emerging firms are direct competitors. The effects of financial sector mergers and acquisitions on prices.

Chapter 4

VARIABLE DESCRIPTIONS AND METHODOLOGY

4.1. Data

The aim of this study is to analyze and compare the performance of the Nigerian banks in pre and post consolidation era using sixteen (16) banks across the period between 1998 and 2011.

One antigenic determinant (endogenous) was used to accomplish this analysis, it is also known as internal factor. The main focus of this research is to examine and ascertain the most favorable era for banking activities in Nigeria in terms of efficiency by empirically using the banks specific and panel data. The data were gotten from bank scope database of banks' financial statements, ratings and intelligence. Financial data and figures are denominated in Nigerian Naira (billions).

4.2. Panel Data Analysis (Longitudinal or Cross-Sectional time-series Data)

The aim of this model is to get the effect of endogenous variables on bank efficiency/ performance. These variables are to determine the most profitable period comparing pre and post consolidation performance of the Nigerian banks.

4.3. Independent Variable

In my research, independent variable is made up of the endogenous factors.

4.3.1Endogenous Factors: These factors are the ones that are added in the model with emphasis just on a few of them. They include asset quality; capital adequacy; liquidity and efficiency.

Capital Adequacy: This has to do with the dimension on which the decision is made on financial sector's power to meet its obligation. The formula of capital adequacy is Total Equity divided by Total Asset. According to Anbar (2011), the owner's decreases as a result of high capital ratio, making the banks to be more profitable. It could also be said that the requirement for capital adequacy is the measure of bank risk weighted asset. There should be enough capital relative to the risk profile of a registered bank with a home capital adequacy mechanism procedure.

Asset Quality: Every financial institution tries to put up an asset quality that shows the strength of its depository institutions in agreement to keep a ratio of her total asset. Assets could be regarded as real estate assets and also tangible asset for a bank. It is calculated as Loan over Total Asset. A bank is exposed to risk of failure if the ratios of loan are high and the non performing loans are on the increase. On the other hand, if the loan increases, it causes the total asset to decrease.

Liquidity: Sighting an example from past study by (Peter S. Rose et al, 2005) The bank experiences liquidity surplus whenever the liquidity supply outperforms the entire liquidity demand at any period. Liquidity surplus is noted inadequate behavior and therefore increase the bank failure. It can be measured as Cash over Total Asset.

4.4 Dependent Variables

The performance and profitability is well presented by return on asset (ROA) and return on equity (ROE) which is a clean impression established by dependent variables with the entire ratios, it also exposes some crucial changes.

Return on Equity (ROE): This is a very important ratio that is always overlooked by investors. It is used to know when an institution yields income or profit making use of the available assets. It exposes the performance of the management if the management is doing satisfactorily well. According to Neceur and Gaied, 2001, ROE can equally be used to show how successful the asset (stock) of a bank is utilized. It can be calculated by dividing the Net income over bank's Total Equity. According to Marijana Curak et al, 2012. ROE is noted to be a reliable indicator of bank profitability.

Return on Asset (ROA): According to Marijana Curak et al, 2012. ROA has been noted as an authentic or dependable variable of bank profitability indicator. It showcases the best view of a financial sector by revealing the power and qualities that a bank has to attract maximum revenue. ROA is an active important measure closely linked to bank profitability. According to Kosmidou, 2008. The increase in ROA signifies increase of bank profit. It is calculated as Net Income divided by Total Asset.

4.5 Methodology

For the purpose of this study, random effect regression analysis would be used in presenting the analysis of our empirical results. The major reason for the use of fixed and random analysis is that it appears to be the best approach in panel analysis of which this study concentrates on. This also controls for "Omitted variable bias".

Furthermore, we would also compare the effect of the explanatory variables on Liquidity and capital risks.

Furthermore, analytical technique will be employed using Hausman test to evaluate the significance of an estimator versus an alternative estimator. It helps us to evaluate if a statistical model corresponds with the data. The panel data analysis was also employed to test the efficiency / performance of banks to know the most profitable between the pre-consolidation and post consolidation era. We used 1998 as the base years in trying to test the performance of banks seven years before the 2005 consolidation exercise (2011) to know if the Central Banks' effort in consolidating the banks in Nigeria has yielded any fruit or not.

In analyzing the result of this research, we would use effect model estimates and Pearson correlation matrix. To conclude, on the actual model that we should use, we would use Hausman test to check whether the unique error (μ_i) are correlated with the regressors. Our model will be accepted if the individual heterogeneity of the banks are uncorrelated with the explanatory variables.

A variety of financial indicators are used to define the strategic features of consolidated Nigerian banks. These indicators are known as the dependent variables, which include measuring capital adequacy; Asset quality; Liquidity and Efficiency. As independent variable, we did measure the change in performance as the difference between the pre and post consolidation era with the use of bank's return on equity (ROE), 7 years before and 7 years after the consolidation exercise. While appropriating the samples, we considered data from 16 banks ranging from 1998 to 2011.

In order to be sure of the actual model that we should use, we would run a test called Hauseman test. For Hauseman test to be used, null hypothesis must be considered as the random effect model while the fixed effect model would be considered as the alternative hypothesis. Ho shows unique error unique error (μ) not being associated with independent variables, while Ha shows that unique errors are associated with dependent variables. We would run the test separately with each of the fixed effect or random effect for the Hausman test to be performed.

4.6 Table 1. Variable and description

Variables	Description
	Independent Variable
	Internal Factor
Capital Adequacy (CAR)	Total Equity/ Total Asset
Asset Quality (ASQ)	Loan Loss Reserve/ Gross Loss
Liquidity (LQR)	Net loan / Total Asset
Efficiency (EFF)	Cost to income ratio
Dependent Variable	
Return on Equity (ROE)	Net Income / Total Equity
Return on Asset (ROA)	Net Income / Total Asset

After running the test, if an expression pops out indicating Prob> chi 2 from the test is less than 5%, it means that it is more appropriate in analyzing our result with fixed effect if not, we will use the random effect model regression.

Chapter 5

EMPIRICAL ANALYSIS AND RESULT

Taking a look at the result of the Hausman test, our analysis is only focused on the values estimate made available by random effect model. For each of our financial effect model, the random effect result brings forth probability of F- statistics which is denoted by Prob> chi 2 of 0.000 which shows that our model at 28 is working correctly for the post consolidation period of the Nigerian banking sector. Since the result is less than 1%, 5%, and 10%, indicating that the whole coefficients are different from zero in the model's coefficients indicating that the model is perfect. We can use the model to produce possible variables which will impact positively on Nigerian banks.

5.1 Empirical Results for Pre - Consolidation Era

The Hausman result shows that Prob> chi 2 is equal to 0.2232 which is greater than1%, 5%, & 10%. By this, we fail to reject the null hypothesis indicating that random effect be used in our estimations (see appendix 1)

To analyze the pre-consolidation era of the Nigerian banks, the adequacy of the model is checked through the F-static. This is to confirm that the coefficients are statistically significantly different from zero. The STATA output for ROA shows that Prob> chi 2 is 0.0448, which is less than 5%, hence our model is adequate for our computation. More also, the R-sq shows an overall of 0.0968. on the other hand,

the Two-tail P-value (p>(z) for asset quality is 0.034 and efficiency is 0.049 with a constant value of 0.003 which are all less than 5% indicating that above variables have a significant influence on our dependent variable ROA. However, Capital Adequacy and Liquidity are not statistically significant in explaining changes in ROA in the pre-consolidation era. Therefore, both asset quality and efficiency has a negative effect on ROE, while Capital adequacy and Liquidity are not significant in explaining changes in ROE.

On the other hand, the pre consolidation analysis result from ROE shows that Prob> chi 2 is 0.0000 which is less than 5%, meaning that the model is a perfect one and our R-sq's overall result is 0.4051. The two – Two tail P- value (p>/z/) for ROE is as follows; Asset quality= 0.000, Liquidity 0.080, efficiency = 0.0000 and the constant value still remain 0.000, indicating that apart from capital adequacy and liquidity, every other variable is highly influenced by roe which is the dependent variables.

Table 2. Pre-Consolidation Result for ROA

ROA	**Coefficient**	**P>|z|**
Cap. Adeq.	.666448	0.682
Asset quality	-.1040447	0.034
Liquidity	-.0582281	0.421
Efficiency	-.0785343	0.049
Constant	.1078136	0.003

Table 3. Pre-Consolidation Result for ROE

ROE	**Coefficient**	**P>|z|**
Cap. Adeq.	.0007221	0.999
Asset quality	-.5217543	0.000
Liquidity	-.3151705	0.080
Efficiency	-.5483668	0.000
Constant	.7713772	0.0

5.2 Empirical Result for the Post - Consolidation Era

The Hausman result shows that prob> 2 = 0.9442, which is greater than 1%, 5%, and 10%, and also indicating that random effect should be used in our estimations.

For post consolidation analysis of the Nigerian banks, the result for ROA at 50% shows that Prob> chi 2 is 0.0000 which explains that our model is adequate and fitting. The R-sq shows an overall of 0.2315. More so, the Two- tail p-value (p>|Z|) for liquidity is 0.005, efficiency is 0.000 and the constant value is 0.000, indicating that the above variables should have a significant influence on our dependent variable (ROA) since they are less than 5%. Hence just liquidity and efficiency could explain the changes in ROA between 1998 to 2011 which is a negative relationship. However, Capital Adequacy and Asset quality could not statistically explain changes in ROA for this era.

The result for ROE indicates that Prob> chi 2 is 0.9958, showing that the model is good for our analysis, and our R-sq overall result is 0.0862. The Two-tail p-values (P>| Z|) for the constant value is 0.055 while the whole variables are higher than 1%, 5%, and 10%. Meaning that the variables have no significant influence on the dependent variable (ROE). That implies that these variables could not explain any changes in ROE statistically especially for post consolidation era.

Table 4. Post consolidation Result for ROA

ROA	Coefficient	P>|z|
Cap. Adeq.	.0071475	0.788
Asset quality	-.0322579	0.318
Liquidity	-.0804476	0.005
Efficiency	-.0362449	0.000
Constant	.0739824	0.000

Table 5. Post Consolidation Result for ROE

ROE	Coefficient	P>|z|
Cap. Adeq.	.397172	0.210
Asset quality	-.4392944	0.263
Liquidity	-.45707177	0.180
Efficiency	-1231433	0.209
Constant	.3195734	0.055

Chapter 6

CONCLUSION

This research analyzes the performance of Nigerian banks over period 1998-2011 using the random effect model. Furthermore, it compares their performance in pre and post consolidation era.

The Nigerian banking sector has benefited from the consolidation process, and specifically that foreign ownership, merger & acquisitions and bank size decrease cost. These are as a result of banking associations often relying on simple methods and partial ratios in their analysis, as well as policy makers. Policies and regulations should take into account the endogeneity issue, being the simultaneity between banks' cost and variants.

According to Adegbaju and Olokoyo(2008) supported by our result especially the ROE of post consolidation result where the coefficient of our independent variables are negative, it has shown that it is not all the time that consolidation transforms into better financial performance of banks and it is only capital that makes for good performance of banks. To make good profit generation possible and to deepen the financial structure of the economy, the economic environment has to be conducive for consolidation to take place effectively.

The consolidation exercise that occurred in Nigeria has given rise to the expansion of business activities both in the domestic economy and the integration of the financial

economy globally. The adverse effect of the consolidation exercise beckons on systemic stability which has to do with supervision practices, regulatory frame work, sophistication of the financial market and international finance integration.

The result of the post consolidation analysis of the Nigerian banks' ROA at 50% shows that the Prob > chi 2 is 0.0000 implying that our model is adequate and fitting. The R-sq shows an overall of 0.005, efficiency is 0.000 and the constant value is 0.000, indicating that the above variables should have a significant influence on our dependent variable (ROA) since they are less than 5%. There is a negative relationship due to the changes in ROA between 1998 and 2011 which is a negative relationship. However, capital adequacy and asset quality could not statistically explain changes in ROA for this era.

The result for ROE indicates that Prob> chi 2 is 0.9958, showing that the model is good for our analysis, and our R-sq overall result is 0.0862. The Two-tail p-values (P>| Z|) for the constant value is 0.055 while the whole variables are higher than 1%, 5%, and 10%. Meaning that the variables have no significant influence on the dependent variable (ROE). That implies that these variables could not explain any changes in ROE statistically especially for post consolidation era.

To analyze the pre-consolidation era of the Nigerian banks, the adequacy of the model is checked through the F-static. This is to confirm that the coefficients are statistically significantly different from zero. The STATA output for ROA shows that Prob> chi 2 is 0.0448, which is less than 5%, hence our model is adequate for our computation. Also, the R-sq shows an overall of 0.0968. on the other hand, the Two-tail P-value (p>(z) for asset quality is 0.034 and efficiency is 0.049 with a

constant value of 0.003 which are all less than 5% indicating that above variables have a significant influence on our dependent variable ROA. However, Capital Adequacy and Liquidity are not statistically significant in explaining changes in ROA in the pre-consolidation era. Therefore, both asset quality and efficiency has a negative effect on ROE, while Capital adequacy and Liquidity are not significant in explaining changes in ROE.

On the other hand, the pre consolidation analysis result from ROE shows that Prob> chi 2 is 0.0000 which is less than 5%, meaning that the model is a perfect one and our R-sq's overall result is 0.4051. Two tail P- value (p>/z/) for ROE is as follows; Asset quality= 0.000, Liquidity 0.080, efficiency = 0.0000 and the constant value still remains 0.000, indicating that apart from capital adequacy and liquidity, every other variable is highly influenced by roe which is the dependent variable.

In conclusion, we have empirically tested the pre-consolidation and post consolidation periods respectively. It is observed that the capital adequacy is statistically insignificant in both periods as it cannot explain changes in both ROA and ROE. Also, none of the variables could explain changes in ROE especially in the post consolidation era.

6.1 Recommendation

Based on our research, we will recommend the following suggestions to the apex bank regulatory authority.

Before setting up a minimum capital for banks, the CBN should look at consolidation from all angles of the economy so as to make significant impact.

Due to the fact that what is obtained in one country is different from the other, we should encourage integrated banking which deals with making use of the local realities of our environment.

Broad product strategy should be embrace by bank management as well as financial innovation and diversification from the production of new product and services.

Earnings on total asset should be maximum through outsourcing the banks' surplus total assets by the management.

It is pertinent for mega banks to establish branches of their banks in rural areas of the country so as to ensure adequate access to credit facilities and other services.

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APPENDICES

Appendix 1

Random Effect Regression Analysis For Post Consolidation of Nigerian Banks

```
. xtreg roa eqta llrgl liq eff, re

Random-effects GLS regression                   Number of obs      =        99
Group variable: id                              Number of groups   =        16

R-sq:  within  = 0.1711                         Obs per group: min =         4
       between = 0.4962                                        avg =       6.2
       overall = 0.2315                                        max =         7

                                                Wald chi2(4)       =     28.32
corr(u_i, X)   = 0 (assumed)                    Prob > chi2        =    0.0000

------------------------------------------------------------------------------
         roa |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
        eqta |   .0071475   .0265243     0.27   0.788    -.0448393    .0591342
       llrgl |  -.0322579   .0322955    -1.00   0.318     -.095556    .0310402
         liq |  -.0804476   .0284222    -2.83   0.005    -.1361541   -.0247411
         eff |  -.0362449   .0082932    -4.37   0.000    -.0524994   -.0199905
       _cons |   .0739824   .0139309     5.31   0.000     .0466784    .1012865
-------------+----------------------------------------------------------------
     sigma_u |          0
     sigma_e |   .0289314
         rho |          0   (fraction of variance due to u_i)
------------------------------------------------------------------------------
```

APPENDIX 2

```
. xtreg roe eqta llrgl liq eff, re

Random-effects GLS regression                   Number of obs      =        99
Group variable: id                              Number of groups   =        16

R-sq:  within  = 0.0315                         Obs per group: min =         4
       between = 0.2838                                        avg =       6.2
       overall = 0.0862                                        max =         7

                                                Wald chi2(4)       =      7.89
corr(u_i, X)   = 0 (assumed)                    Prob > chi2        =    0.0958

------------------------------------------------------------------------------
         roe |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
        eqta |    .397172   .3168547     1.25   0.210    -.2238519    1.018196
       llrgl |  -.4392944   .3924103    -1.12   0.263    -1.208404    .3298156
         liq |  -.4570177   .3408106    -1.34   0.180    -1.124994    .2109587
         eff |  -.1231433   .0979591    -1.26   0.209    -.3151397     .068853
       _cons |   .3195734   .1665045     1.92   0.055    -.0067693    .6459162
-------------+----------------------------------------------------------------
     sigma_u |  .06181139
     sigma_e |  .32313337
         rho |  .03529929   (fraction of variance due to u_i)
------------------------------------------------------------------------------
```

APPENDIX 3

Random Effect Regression Analysis For Pre - Consolidation of Nigerian Banks

```
. xtreg roa eqta llrgl liq eff, re

Random-effects GLS regression                   Number of obs      =        96
Group variable: id                              Number of groups   =        16

R-sq:  within  = 0.0386                         Obs per group: min =         2
       between = 0.3734                                        avg =       6.0
       overall = 0.0968                                        max =         7

                                                Wald chi2(4)       =      9.75
corr(u_i, X)   = 0 (assumed)                    Prob > chi2        =    0.0448

------------------------------------------------------------------------------
         roa |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
        eqta |   .0666448    .162889     0.41   0.682    -.2526119    .3859014
       llrgl |  -.1040447   .0491761    -2.12   0.034     -.200428   -.0076614
         liq |  -.0582281   .0723958    -0.80   0.421    -.2001213    .0836651
         eff |  -.0785343   .0398648    -1.97   0.049    -.1566679   -.0004007
       _cons |   .1078136   .0368505     2.93   0.003      .035588    .1800392
-------------+----------------------------------------------------------------
     sigma_u |          0
     sigma_e |  .06106546
         rho |          0   (fraction of variance due to u_i)
------------------------------------------------------------------------------
```

APPENDIX 4

```
. xtreg roe eqta llrgl liq eff, re

Random-effects GLS regression                   Number of obs      =        96
Group variable: id                              Number of groups   =        16

R-sq:  within  = 0.1071                         Obs per group: min =         2
       between = 0.8146                                        avg =       6.0
       overall = 0.4051                                        max =         7

                                                Wald chi2(4)       =     61.97
corr(u_i, X)   = 0 (assumed)                    Prob > chi2        =    0.0000

------------------------------------------------------------------------------
         roe |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
        eqta |   .0007221   .4051511     0.00   0.999    -.7933595    .7948037
       llrgl |  -.5217543   .1223148    -4.27   0.000    -.7614868   -.2820217
         liq |  -.3151705   .1800689    -1.75   0.080    -.6680991    .0377581
         eff |  -.5483668   .0991551    -5.53   0.000    -.7427071   -.3540264
       _cons |   .7713772   .0916575     8.42   0.000     .5917317    .9510227
-------------+----------------------------------------------------------------
     sigma_u |          0
     sigma_e |  .15043952
         rho |          0   (fraction of variance due to u_i)
------------------------------------------------------------------------------
```

APPENDIX 5

The Table below shows the names of 22 banks that successfully met the 22 billion naira minimum share capital requirement and the bank that constitute each group.

S/NO	CONSOLIDATED BANK	CONSTITUENT BANK(S)
1	Access Bank	Access Bank, Marina International Bank & Capital Bank
2	Citibank	Citibank
3	Diamond Bank	Diamond Bank & Lion Bank
4	Ecobank Nigeria	Oceanic Bank
5	Enterprise Bank	Formerly Spring
6	Fidelity Bank Nigeria	Fidelity Bank, FSB International Bank and Manny Bank
7	First Bank of Nigeria	First Bank of Nigeria, FBN Merchant Bankers, and MBC International Bank
8	First City Monument Bank	Finbank
9	Guaranty Trust bank	Guaranty Trust bank
10	Heritage Bank Plc	Heritage Bank Plc
11	Keystone Bank Limited	Formerly Bank PHB
12	Mainstreet Bank Limited	Formerly Afribank
13	Savannah Bank	Savannah Bank
14	Skye Bank	Prudent Bank, EIB International, Cooperative Bank, Bond Bank & Reliance Bank
15	Stanbic IBTC Nig. Limited	IBTC, Chartered Bank and Regent Bank
16	Standard Chartered Bank	Standard Chartered Bank
17	Sterling Bank	Magnum Trust Bank, NAL Bank, Indo-Nigeria Bank & Trust Bank of Africa
18	Union Bank of Nigeria	Union Bank, Union Merchant Bank, Universal Trust Bank & Broad Bank
19	United Bank For Africa	United Bank of Africa & Standard Trust Bank
20	Unity Bank Plc	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
21	Wema Bank	Wema and National Bank
22	Zenith Bank	Zenith Bank