EFFECT OF MERGERS AND ACQUISITIONS ON THE PROFITABILITY OF DEPOSITS MONEY BANKS IN NIGERIA.

BY

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A DISSERTATION SUBMITTED TO THE DEPARTMENT OF BUSINESS ADMINISTRATION, NASARAWA STATE UNIVERSITY, KEFFI. IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER OF SCIENCE (M.Sc.) IN BUSINESS ADMINISTRATION.

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DECLARATION

I hereby declare that this Dissertation titled: "Effect of Mergers and Acquisitions on Profitability of Deposit Money Banks in Nigeria" has been written by me and it is a report of my research work. It has not been presented in any previous application for Master degree. All quotations are indicated and sources of information specifically acknowledged by means of references.

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CERTIFICATION

The Dissertation "Effect of Mergers and Acquisitions on Profitability of Deposit Money Banks in Nigeria" meets the regulations governing the award of Master of Science in Business Administration, Faculty of Administration, Nasarawa State University, Keffi.

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DEDICATION

This Dissertation is dedicated to Almighty God who showered me with His abundant love, released divine strength and wisdom which enabled me to complete this programme.

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ABSTRACT

For decades, mergers and acquisitions appear to provide at best a mixed performance to the broad range of stakeholders involved. While target firm shareholders generally enjoy positive short-term returns, investors in the bidding firm frequently experience share price underperformance in the months following acquisition, with negligible overall wealth gains for portfolio holders. Studies provide mixed evidence and inconclusive evidence which appears counter intuitive and many fail to show a clear relationship between mergers and acquisitions and bank profitability. The main objective of this study is thus to empirically examine the effect of mergers and acquisitions on profitability of deposit money banks in Nigeria between 1999 and 2013 using ordinary least square (OLS) regression method. Annual data on share capital (SC), customer deposits (CD), Return on assets (ROA), and Return on Equity (ROE) were utilized. Findings from the study showed SC has negative and insignificant relationship with deposit money banks ROE before mergers. It showed that before mergers and acquisitions, SC had contributed negatively to the growth of deposit money banks ROE. After mergers and acquisitions, SC has positive and significant relationship with ROE. It showed that the higher the SC after mergers and acquisitions, the higher the ROE. This was in agreement with empirical literatures which showed that mergers and acquisitions of banks has significant positive effect on dividend per share of shareholders. Finally, the result further showed that CD has positive and significant relationship with deposit money banks' ROA after mergers and acquisitions. Recommendations from the analysis are that mergers and acquisitions are necessary to ensure that banks are adequately capitalized with diversified ownership, regulatory agencies should ensure effective monitoring to minimize risk and banks should be more aggressive in financial products marketing to boost their profitability.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Growth is vital to the survival of every business and this has been pursued through internal and external means. Internal expansion involves increasing the firm's productive capacity by adding to existing plant or by building new plant while external expansion is achieved through mergers and acquisitions.

According to Udenwa and Uwaleke (2012), when one company takes over another and clearly establishes itself as the new owner, the purchase is called an acquisition. From the legal point of view, the target company ceases to exist and the buyers stocks continue to be traded. A merger happens when two firms, often of about the same size, agree to go forward as a single new company rather than remain separately owned and operated. Both companies' stocks are surrendered and a new company stock is issued in its place.

Mergers and acquisitions continue to be a highly popular form of corporate development. In the United States of America, for instance, there has been over 3500 mergers in which two or more banks were consolidated under a single bank charter and more than 5800 acquisitions in which banks retained their charter but were bought by a different bank holding company (Kama, 2007). Sectors such as finance, oil, pharmaceuticals, information technology, and chemicals have been transformed by the occurrence of very large scale mergers and acquisitions. Mergers and Acquisitions are likely to become an even more important

consideration in strategy planning and implementation with rapid technological advancement, deregulation, globalization and increased competition. The primary motives for mergers and acquisitions include synergy, diversification, tax considerations, managers personal incentives and as a panacea for failing institutions.

Globally, the activities of banks reflect their unique roles as the engine of growth in any economy. The relationship between real and financial development shows that financial intermediaries, monetization and capital formation determine the path and pace of economic growth and development of any country (Ikpefan, Okorie, Agwu, and Achugamonu, 2014). In Nigeria, the ability of the banking sector to play its role has been periodically punctuated by its vulnerability to systematic volatility, making policy fine tuning inevitable (Kama, 2006). According to Soludo (2004), the Nigeria banking system is fragile and marginal. The system faces enormous challenges which if not addressed urgently could snowball into a crisis in the near future. He identified the problems of the banks especially those seen as feeble as persistent illiquidity, unprofitable operations and having a poor asset base. A survey report by the Central Bank of Nigeria (CBN) as at end March 2004 indicated that sixty two banks out of the eighty-nine were classified as sound/satisfactory, fourteen as marginal while eleven banks were classified as unsound, with two banks failing to render statutory returns.

The CBN then chose to begin the banking sector reform process with the consolidation and recapitalization policy through mergers and acquisitions. One of the key elements of the reforms was the requirement that the minimum capitalization for banks be raised from ₦2billion to ₦25billion, with December 2005 being set as deadline for full compliance. At the expiration of the deadline on 31st December 2005, twenty five banks emerged from seventy five banks out of the eighty nine banks in existence. Fourteen banks, which neither met the minimum capital of ₦25billion nor found merger partners, had their licenses revoked by the CBN. It is noteworthy that out of these twenty five banks that emerged, only five recapitalized without recourse to merger and acquisition option, which means twenty out of the twenty five bank groups went through merger and acquisition process. This reform was necessary to arrest system decay, restore public confidence, and build strong, competent and competitive players in global arena, and ensure longevity and higher returns to investors. It will also act as a spring board to achieving improved and enhanced efficiency and financial performance.

By 2009, less than four years after the consolidation and recapitalization exercise, another round of crisis was reported in the Nigerian banking sector. According to Sanusi (2009), a review of the Expanded Discount Window (EDW) showed that four banks had been almost permanently locked in as borrowers and were clearly unable to repay their obligation. A fifth bank had been a very frequent borrower when its profile ordinarily should have placed it among the net placers of funds in the market. Whereas the five banks were by no means the only ones to have

benefited from the EDW, the persistence and frequency of their demand pointed to deeper problem and the CBN identified them as probable source of financial instability, most likely suffering from deeper problems due to non-performing loans.

In conjunction with Nigeria Deposit Insurance Corporation (NDIC), the CBN carried out a special examination of all twenty four deposit money banks in Nigeria with the aim of assessing their health, with particular focus on liquidity, capital adequacy, and risk management. Ten banks out of the existing twenty four were adjudged to be in grave states with deficiencies in capital adequacy. Of these, eight also had significant deficiencies in liquidity, risk management practices and corporate governance policies. The managing and executive directors of these eight banks were immediately replaced. The ten banks were bailed out by the injection of fresh capital totalling about ₦620 billion in the form of tier 2 capital (NDIC, 2011). Out of these ten banks, two recapitalized on their own, while the remaining eight were acquired with three of them being taken over by the government through the bridge bank mechanism.

In theory, financial services customers may benefit from these mergers and acquisitions because of lower costs from economies of scale and scope, and lower risk from diversification, however, there are nagging questions about the practical benefits of industry consolidation and convergences. As observed by Aggrawal and Jaffe (2000), in a paradox to their popularity, acquisitions appear to provide at best

a mixed performance to the broader range of stakeholders involved. While target firm shareholders enjoy positive short term returns, investors in bidding firms frequently experience share price underperformance in the months following acquisition, with negligible overall wealth gains for portfolio holders. Also Lajoux and Elson (2011) observed that a merger or acquisition deal can be a profitable springboard to long term success or it can be a costly disaster.

Based on the above observations against the popularity of mergers and acquisitions, this research examines how mergers and acquisitions have affected the profitability of deposit money banks in Nigeria.

1.2 Statement of the Problem

Mergers and acquisitions continue to be a highly popular form of corporate development. The global application of the strategy to salvage business at the verge of collapse due to dwindling economic activities is on the increase (Altunbas and Ibanez, 2004). However, in a paradox to their popularity, mergers and acquisitions appear to provide at best a mixed performance to the broad range of stakeholders involved. While target firm shareholders generally enjoy positive short-term returns, investors in the bidding firm frequently experience share price underperformance in the months following acquisition, with negligible overall wealth gains for portfolio holders (Aggrawal & Jaffe, 2000). Rose and Hudgins (2008) raised the following questions: Do mergers always increase profits for stock holders of merging financial service companies? For many mergers, the answer to these questions appears to be “no” at worst and not necessarily at best. They

submitted that a review of research studies on the outcome of bank mergers shows that many of these mergers simply do not work. According to Bruner (2004), though mergers and acquisitions is a very competitive business activity, it is possible to succeed, but competitive forces limit true success to a fortunate few. He noted that mergers and acquisitions is one of the most aggressive change agents in the business economy: volatile and disruptive.

This study examines the effect of mergers and acquisitions on the profitability of deposit money banks in Nigeria. It is motivated in part by the relative dearth of empirical evidence and the mixed results obtained from these empirical studies. While Mohammed (2005) reported that mergers in the banking industry do lead on average to improved accounting profitability, Sanni (2009) provided empirical evidence suggestive of limited opportunities for cost savings from large mergers in the banking industry. These mixed and inconclusive results require further investigations to confirm theoretical postulations on mergers and acquisitions.

1.3 Research Questions

This study seeks to provide answers to the following questions:

i. What effect does share capital (SC) have on return on equity (ROE) of deposit money banks engaged in mergers and acquisitions in Nigeria?

ii. What significant difference exists between customer deposits (CD) and return on assets (ROA) of deposit money banks involved in mergers and acquisitions in Nigeria?

1.4 Objectives of the Study

The major objective of this study is to evaluate the effects of mergers and acquisitions on the profitability of deposit money banks in Nigeria. The specific objectives include to:

i. Examine the effect of share capital on return on equity of deposit money banks involved in mergers and acquisitions in Nigeria.

ii. Examine whether significant difference exists between customer deposits and return on asset of deposit money banks engaged involved in mergers and acquisitions in Nigeria?

1.5 Research Hypotheses

The following research hypotheses will be tested in the course of this research study:

H01: Share capital has no significant effect on return on equity of deposit money banks involved in mergers and acquisitions.

H02: There is no significant difference between customer deposits and return on asset of deposit money banks involved in mergers and acquisitions.

1.6 Significance of the Study

The significance of the research are captured below:

It proffers suggestions to the government and monetary policy makers on the possible long run nature of the effects of mergers and acquisitions on the profitability of deposit money banks. This study points out risks associated with

mergers and acquisitions highlighting the need for regulatory agencies to strive to mitigate these risks so as to avoid failure.

It helps the monetary authorities and other relevant decision making bodies to adopt an appropriate policy when faced with the challenge of restructuring for growth, diversification or stabilization.

It serves as an area for further academic research study for the acquisition of knowledge.

It contributes to the growing body of literature on the effect of mergers and acquisitions on the profitability of banks.

1.7 Scope and Limitations of the Study

This study covered the period 1999 to 2013, divided into pre-merger and post-merger periods. While 1999 to 2005 form the pre-merger period, 2006 to 20013 is taken as the post-merger period. This is to enable the researcher compare the profitability of the banks before and after mergers and acquisitions in order to ascertain the possible effect. It used a sample of all the merged and acquired banks to represent the population of twenty one deposit money bank in Nigeria as at the end of December 2013.

The inadequacy of comprehensive data on economic activities including reliable financial data on Nigerian Banks posed a limitation to this study.

1.8 Definition of terms.

The following terms were defined in this study: Merger, Acquisition, Consolidation, Takeover and Profitability.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter involves carrying out comprehensive study of literature on how mergers and acquisitions have impacted on the performance of deposit money banks. The focus will be on the key variables of interest in this study. It is therefore divided into the following segments:

The concept of mergers, acquisitions, bank performance, merger types, empirical literature review, theoretical framework and summary.

2.2 Concepts of Merger, Acquisition, Consolidation, Takeover and Profitability.

The concepts of mergers and acquisitions have attracted different definitions from different scholars and some have even used them synonymously and interchangeably. There is a great deal of confusion and disagreement regarding the precise meaning of terms relating to the business combination, viz, merger, acquisition take over, amalgamation and consolidation (Pandey, 2010).

According to Copeland and Weston (1992), most generally, merger means any transaction that forms one economic unit from two or more previous ones.

Ross, Westerfield and Jordan (2003, pg 842) identified three legal forms of acquisitions to include; merger or consolidation, acquisition of stock, and acquisition of assets. A merger is the complete absorption of one firm by another. The acquiring firm retains its name and identity, and it acquires all of the assets and

liabilities of the acquired firm. After a merger, the acquired firm ceases to exist as separate business entity. A consolidation is the same as a merger except that an entirely new firm is created. In a consolidation, both the acquiring firm and the acquired firm terminate their previous legal existence and become part of a new firm. Therefore consolidation is a merger in which an entirely new firm is created and both the acquiring and the acquired firms cease to exist (Ross, et al 2003).

Acquisition of stock: This another way for a firm to acquire another firm simply by purchasing the firm's voting stock with the exchange of cash, shares or other securities. This process will often start as a private offer from the management of one to that of another and later taken directly to the target firm's stock holders, through a tender offer. Tender offer is a public offer to buy shares, made by one firm directly to shareholders of another firm.

Acquisition of Assets: A firm can effectively acquire another firm by buying most or all of its assets. The target firm will not necessarily cease to exist. It will have just sold off its assets. The "shell" will still exist unless its stockholders choose to dissolve it (Ross, et al 2003).

These scholars observed that the term merger is often used regardless of the actual form of acquisition.

Shim and Siegel (2007) defined a merger as the combination of two or more companies into one, where only the acquiring company retains its identity. Typically, the larger of the two companies is the acquiring company whose identity

is maintained. Merger is one of the three ways of joining two or more companies. The other two are consolidation and holding company.

In a consolidation, two or more companies are combined to form a new company. None of the consolidation firms legally survives. They are dissolved and new one formed. A holding company holds or owns enough shares of common stock to have voting control of one or more other companies. The holding company comprises a group of businesses each operating as a separate entity. The holding company is called the parent and each company controlled is called a subsidiary.

According to De Pamphilis (2011), a merger is a combination of two or more firms in which all but one cease to exist legally; the combined organization continues under the original name of the surviving firm. An acquisition occurs when one company takes controlling ownership interest in another firm, or selected assets of another firm. An acquisition may involve the purchase of another firm's assets or stock, with the acquiring firm continuing to exist as a wholly - owned subsidiary.

Block and Hirt (2000) defined merger as a combination of two or three more companies in which the resulting firm maintains the identity of the acquiring company. Schiller and Benis (in Sumner Levine, 1975), saw merger as a combination of two corporations, which is effected by one losing its corporate existence. The surviving company directly or indirectly acquires the assets and assumes the liabilities of the merged company. They defined an acquisition as one which gives rise to a parent subsidiary relationship when the acquired company retains its corporate identity subject to the control of the acquiring corporation.

Kazmi (2008) captured the concepts of mergers and acquisition in a single definition, thus: a merger is a combination of two or more organizations in which one acquires the assets and liabilities of the other in exchange for shares or cash, or both. The organizations are dissolved and assets and liabilities are combined and new stock is issued. For the organization which acquires another, it is an acquisition. For the organization which is acquired, it is a merger. If both organizations dissolve their identity to create a new organization, it is a consolidation.

Section 590 of the Companies and Allied Matters Act (1990) defined merger as any amalgamation of the undertakings or any part of the undertakings or interest of two or more companies and or more bodies corporate. The Act interprets acquisition as synonymous with take over and thus defines it to be "the acquisition of one company of sufficient shares for example up to 51% shares in another company to give the acquiring company control over that other company".

Pandey (2010) opined that merger is said to occur when two or more companies combine into one company- there is a complete amalgamation of assets and liabilities as well as shareholders' interest and businesses of the merging companies. Merger may take two forms: merger through absorption and merger through consolidation. Absorption is a combination of two or more companies into an existing company. All companies except one lose their identity in a merger through absorption. Consolidation is a combination of two or more companies into a new company. In this form of merger, all companies are dissolved while a new entity is created. Acquisition may be defined as an act of acquiring effective control

over assets or management of a company by another company without any combination of business. Generally speaking, take-over means acquisition. A take-over occurs when the acquiring firm takes over the control of the target firm. An acquisition or take-over does not necessarily entail full legal control over another company by holding minority ownership. The term take over is understood to connote hostility. When an acquisition is a forced or unwilling acquisition, it is called a take-over.

Holding company is a company that holds more than half of the nominal value of the equity capital of another company, called a subsidiary company or controls the composition of its board of directors. Both holding and subsidiary companies retain their separate legal entities and maintain their separate books of accounts.

Based on the review of the definitions offered by various scholars regarding the concepts of mergers and acquisitions, we shall be adopting the definitions offered by Pandey (2010). In this light, a merger will be defined as combination of two or more companies to form a single entity, either with an existing name or entirely new name. While an acquisition will be defined as where one firm takes effective control of another firm's assets or management but they still exist as two separate legal entities. Therefore in a merger, operations of the companies involved are combined, whereas in an acquisition, businesses or operations are not combined but separately run.

2.2.2 Types of Mergers

There are three common ways businesses get together to gain advantage in their market. The three types of mergers are: vertical, horizontal and conglomerate mergers (Shim &Siegel, 2007). A vertical merger takes place when a company combines with a customer or supplier. This means vertical mergers involve firms at different stages of production operations. For example, when a furniture manufacturer combines with a chain of furniture stores. Horizontal merger involves two firms operating in the same kind of business activity; for example when one commercial bank combines with another commercial bank or an oil company buying another oil company. A conglomerate merger occurs when two companies in unrelated industries combine. For example when an appliance manufacturer combines with a book publisher, a conglomerate is formed.

Three types of conglomerate mergers are also identified. These include:

Product extension mergers which broaden the product lines of the firms, geographic market extension mergers which involve two firms whose operations had been in non-overlapping geographic areas and pure conglomerate mergers involving unrelated business activities that would not qualify as either product extension or market extension mergers.

2.2.3 Measuring and Evaluating Bank Performance

The most important performance dimensions for any bank are profitability and risk (Rose, 1999). They are the most widely used indicators of the quality and quantity of bank performance. While the behaviour of stock price is in theory the best

indicator of a business firm’s performance because it reflects the market’s evaluation of the firm’s performance, this indicator is often not reliable in banking. This is because some bank stock is not actually traded in international or national markets. This forces the financial analysts to fall back on surrogates for market value indicators in the profitability ratios.

Key profitability ratios in banking:

Among the most important ratio measures of bank profitability used today are the following:

The Return on Equity measures the rate of return flowing to the banks shareholders. The Return on Assets is an indicator of managerial efficiency showing how capably the management of the bank has been converting the institutions assets into net earnings.

The net operating margin and net interest margin are efficiency as well as profitability measures. They indicate how well management and staff have been able to keep the growth of revenues ahead of rising cost. The net interest margin measures how large a spread between interest revenues and interest cost management has been able to achieve by close control over the bank’s earning assets and the pursuit of the cheapest sources of funding.

The non interest margin measures the amount of non- interest revenues arising from deposit service changes and other service fees the bank generates-fee income relative to the amount of noninterest cost incurred (including salaries and wages, repair and maintenance costs on bank facilities and loan-loss expenses). The

earnings per share (EPS) provides a direct measure of the returns flowing to the banks owners (stockholders) measured relative to the number of shares sold to the public.

The emphasis of this study shall be on return on equity and return on asset as proxies for bank profitability.

2.3 Empirical Literature on Mergers, Acquisitions and Profitability

Several research studies have been carried out to determine the effect of mergers and acquisitions on profitability of banks and other firms with mixed results reported. In this section we shall be reviewing some of these studies: Abdul-Rahman and Ajala (2013) in their study on "post-merger performance of selected deposit money banks - an econometric perspective; used a judgemental sample technique to select 15 listed commercial banks in Nigeria. From their regression analysis, they found strong positive relationship between bank performance and merger (strategic decisions). They concluded that on average bank consolidation resulted into improved performance and therefore recommended that the management of banks should embrace diversification and financial innovation on product strategies, and that they should also try to use merger as a strategic tool which must be continuously applied and implemented.

Umoren and Olokoyo (2007) observed in their study on merger and acquisition, an analysis of performance pre-and- post consolidation, that bank consolidation, on average, resulted in to improved performance. They analysed the performance ratio of a sample of seven mega banks to consider if there was considerable

improvement on their profitability, liquidity and solvency. The indicators noted as independent variables included asset composition, capital structure, liquidity, profitability, efficiency, and risk exposure, while for dependent variable, they measured change of performance as the difference between the merged banks return on equity after the acquisition and the weighted average of the return on equity of the merging banks two years before the acquisition.

Onikoyi (2012) also provided evidence to show that mergers and acquisitions lead to operational and relational synergy, producing financial gains far more than the 2+2=5 synergistic effect.

Salisu (2012) submitted that though there is a positive correlation between increase in capital base (shareholders' funds) and profitability of Nigerian banks, this relationship is not significant always. Whereas the results in respect of Afribank and Access Bank showed significant positive relationship, the First Bank result indicated a weak positive relationship. Furthermore, changes in capital base of banks as represented by the shareholders funds, the gross revenue, and profit (loss) after tax of the selected bank showed a zigzag movement.

The study of Okpanachi (2010) showed mixed results. While his analysis showed that there is no significant relationship between the pair of gross earnings and profit after tax/net assets in both the pre- and post-mergers and acquisitions periods, profit after tax has a significant relationship with net assets.

The study by Ikpefan, Okorie, Agwu and Achugamonu (2014) focussed on bank capitalization and cost of equity on profitability of deposit money banks. Using

paired sample test technique for difference between two periods before and after the recapitalization, they submitted that recapitalization is significant to performance of deposit money banks but has not shown increasing impact on their profitability. They further stated that the relative performance of the banking sector in terms of asset size, private sector credit relative to the economy have been very marginal such that it can be safely concluded that the consolidation exercise has not brought about any meaningful contribution to some of the performance indicators.

Barde (2011) focussed on the health care sector in Nigeria; this study also showed that relatedness of business, diversification, mergers and acquisitions could lead to growth. Akambi (2010) focussed on the oil sector and also submitted that earnings per share, profit after tax and sales were improved as a result of mergers and acquisitions, positive synergies can be generated, customer services improved and human resources developed.

Altunbas and Ibanez (2004) found that on average, bank mergers in the European Union resulted in improved return on capital, they also found significantly different results for domestic and cross-border mergers. For domestic deals, it could be quite costly to integrate dissimilar institutions in terms of their loans, earnings, cost, deposits and size strategies.

Schenk (2000) in his study of banking mergers in the European banking and insurance sectors concluded that it is unlikely that mergers among large banks, as well as take-overs of small banks by large banks, are able to create much economic

wealth. He found also that such mergers and take-overs do not generally create positive shareholders returns.

Sufian (2004) studied the efficiency effect of bank mergers and acquisitions in a developing economy, evidence from Malaysia. He observed that Malaysian banks have exhibited commendable overall efficiency and that (their) result suggested that the merger program was successful, particularly for small and medium size banks, which have benefited the most from the merger via economies of scale. On the other hand, their results suggest that the larger banks should shrink to benefit from scale advantages.

Liargovas and Repousis (2010) in their study of the Greek Banking sector using event study approach stated that the overall results indicate that bank mergers and acquisitions have no impact and do not create wealth; and also that operating performance does not improve following mergers of acquisitions.

2.4 Theoretical Framework

Economists have promoted several competing theories of mergers and acquisitions. Due to the existence of some empirical findings which suggest that mergers under-perform the market, this literature has been divided into two broad schools - the value increasing, efficient market school and the value - decreasing agency school, (Weitzel & McCarthy, 2009).

The Value- Increasing Theories

According to the value increasing school, mergers occur broadly because they generate synergies between the acquirer and the target and synergies, in turn, increases the value of the firm (Hitt, Harrison and Ireland, 2001). Some of the value increasing theories include the theory of efficiency and theory of corporate control while the value destroying theories include theory of managerial hubris, theory of managerial discretion, theory of managerial entrenchment and empire building theory.

The Theory of Efficiency suggests that mergers will only occur when they are expected to generate enough realisable synergies to make the deal beneficial to both parties; it is the symmetric expectation of gains which results in a friendly merger being proposed and accepted. If the gain to the target was not positive, the target firm owners would not sell or submit to the acquisition, and if the gains were negative to the bidder's owners, the bidder would not complete the deal. Therefore, efficiency theory predicts value creation with positive returns to both the acquirer and the target. Benerjee and Eckard (1998), and Klein (2001).

Commenting on value creation in mergers and acquisitions, Chatterjee (1986) distinguished between operative synergies or efficiency gains achieved through economies of scale and scope and allocative synergies or collusive synergies resulting from increased market power and an improved ability to extract consumer surplus. While more recent literature concludes that operating synergies are more significant source of gains the market power theory remain a valid merger motive,

as increased allocative synergies is said to offer the firm positive and significant private benefits (Feinberg, 1985). This is due to the fact that firms with greater market power charge higher prices and earn greater margins through the appropriation of consumer surplus. Market power can also allow for the deterrence of potential future entrants (Motta 2004) which can give the firm a significant premium and confer a long term source of gains.

The Theory of Corporate Control provides another justification why mergers must create value. This theory suggests that there is always another firm or management team willing to acquire an underperforming firm, to remove those managers who have failed to capitalise on the opportunities to create synergies, and thus to improve the performance of its assets

(Weston, Mitchell and Mulherin, 2004). Managers who offer the highest value to owners will take over the right to manage the firm until they themselves are replaced by another team that discovers an even higher value for its assets. Hence inefficient managers will supply the market for corporate control (Mann, 1965), and managers that do not maximize profits will not survive, even if the competitive forces on their product and input markets fails to eliminate them. Hostile take-overs should therefore be expected amongst poorly performing firms and those whose internal corporate governance mechanisms have failed to discipline their manager.

The Value Destroying Theories.

A number of value destroying theories have been put forward to explain the failure of mergers to create value. Puranam and Singh (1999), have suggested that

somewhere between 60 and 80% of mergers are classified as failures, while Dickerson, Gibson and Tsakolotos (1997) submitted that the impact of mergers and acquisitions on the performance of the acquiring firm remain at best inconclusive and at worst systematically detrimental. The value destroying theories can be grouped into two: the first group assumes that the bidder's management is rational and thus makes mistakes and incur losses due to informational constraints despite their value increasing intentions. The second group assumes rational but self-serving managers, who maximize a private utility function, which fails to positively affect the firm value.

The Theory of Managerial Hubris (Roll, 1986) suggests that managers may have good intentions to increase their firms' value, but being over-confident, they over-estimate their abilities to create synergies. Over-confidence increases the probability of over paying (Hayward and Hambrick, 1997, Malmendier and Tate, (2008) and may leave the winning bidder in the situation of a winner's curse, which increases the chances of failure

(Dong, Hirschleifer, Richardson and Teoh, 2006). While Berkovitch and Narayanan (1993) find strong evidence of hubris in U.S take-overs, Goergen and Renneboog (2004) find the same in the European context, estimating that about one third of the large takeovers in the 1990s suffered some form of hubris.

The Theory of Managerial Discretion (Jensen 1986) stated that it is not overconfidence that drives unproductive acquisitions, but rather the presence of excess liquidity, or free cash flow (FCF). Firms whose internal funds are in excess of

the investment required to fund positive net present value projects are more likely to make quick strategic decisions and are more likely, to engage in large scale strategic actions with less analysis than their cash trapped peers. High levels of liquidity increase managerial discretion, making it increasingly possible for managers to choose poor acquisitions when they run out of good ones (Martynova & Renneboog, 2008). This theory suggests that otherwise well intentioned managers make bad decisions not out of malice, but simply because the quality of their decisions are less challenged than they would be in the absence of excess liquidity.

The Theory of Managerial Entrenchment (Shleifer and Vishny, 1989) states that unsuccessful mergers occur because managers primarily make investments that minimise the risk of replacement. It suggests that managers pursue projects not in an effort to maximize enterprise value but in an effort to entrench themselves by increasing their individual value to the firm. Entrenching managers will accordingly, make manager-specific investments that make it more costly for shareholders to replace them, and value will be reduced because free resources are invested in manager specific assets rather than in a shareholder value maximising alternative.

Amihud and Lev (1981) support this notion, suggesting that managers pursue diversifying mergers in order to decrease earnings volatility which in turn enhance corporate survival and protects their positions. Entrenchment is pursued for job security and extraction of more wealth, power, reputation and fame for the manager.

The Theory of Empire Building. According to this theory managers are explicitly motivated to invest in growth of their firms' revenue (sales) or asset base subject to a minimum profit requirement (Marris 1963, Baumol, 1967).

While the first two theories submit that mergers create value, the others suggest that mergers destroy value. This research work is based on the efficiency theory of mergers.

2.5 Summary

The efficiency theories of mergers suggest that mergers will only occur when they are expected to generate synergies that will make the deal beneficial to both the acquirer and target. The theory of corporate control states that there is always another firm or management term willing to acquire an underperforming firm in order to remove those managers who have failed to effectively utilize the existing opportunities in those firms. The theory of managerial hubris suggests that managers though with good intentions to increase the firm's value may be overconfident, thereby overestimating their abilities to create synergies. This may leave the winning bidder in the situation of the winner's curse which increases the chances of failure.

The theory of managerial discretion states that it is the presence of excess liquidity or free cash flow that drives unproductive acquisitions. High levels of liquidity increases managerial discretion which makes it increasingly possible for managers to choose poor acquisitions when they run out of good ones. The theory of managerial entrenchment states that unsuccessful mergers occur because mangers primarily make investments that minimize the risk of their replacement.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the methodology to be used in this research study in order to highlight the main activities to be undertaken. The research design, population and sampling techniques, methods of data collection, procedure for data analysis, model specification and justification of methods will be discussed in this chapter.

3.2 Research Design

This study adopted descriptive research design method to provide trend analysis and description of the effect of mergers and acquisitions on profitability of banks in Nigeria.

3.3 Population and Sampling Technique

For the purpose of this research study, the twenty one (21) deposit money banks in Nigeria as at 31 December, 2013 form the population while, the sixteen (16) banks that emerged from the merger/acquisition process of 2005 and 2009 form the sample for the study, selected using the multistage sampling technique (Appendices I and II). This technique involves selecting large samples from which smaller samples are eventually selected.

3.4 Method of Data Collection

This study relied on secondary sources of data covering the period 1999 – 2013. The period 1999 – 2005 formed the pre-merger era, while the 2006 – 2013 formed the post-merger period. The data was extracted from the published Central Bank of Nigeria (CBN) annual report and statement of accounts, statistical bulletin and other related sources.

3.5 Procedure for Data Analysis and Model Specification

Quantitative method of analysis was used for the purpose of this study, because quantitative analysis results provide support for anticipated directions of the association between independent and dependent variables. The research employed Ordinary Least Square (OLS) regression analysis to examine the effect of merger and acquisition on banks profitability. This was achieved by the use of statistical package for social science (SPSS).

Bank profitability is the dependent variable and the proxies used for this accounting measure of profits are return on equity (ROE) and return on asset (ROA). The independent variables are the share capital (SC) and customer deposits (CD).

Model Specification

In order to determine the relationship between bank profitability and mergers, this study will be adopting the model with two definitional models as follow:

The following models needed to test the set hypotheses can be explicitly specified:

$$ROE = f(SC) - - - - - - - - - - - - - - 1$$

$ROA = f(CD)$ -------------- 3

The above equation can be stated as follows or could be modified and transposed to reflect an intermediation efficiency models as follows:

$ROE = \alpha + \beta_1 SC + \mu_t$ --------- 3

$ROA = \alpha + \beta_3 CD + \mu_t$ --------- 4

Where:

SC= Share Capital

CD= Customer deposits

ROA= Return on asset of banks

ROE= Return on equity

μ_t = represents the stochastic error term

3.6 Justification of the methods

Ordinary least square (OLS) is a method for estimating the unknown parameters in a linear regression model. Some of the advantages are as follows;

a) It minimizes the sum of squared vertical distances between the observed responses in the dataset and the responses predicted by the linear approximation. The resulting estimator can be expressed by a simple formula, especially in the case of a single regressor on the right hand side.

b) The OLS estimator is consistent when the regressors are exogenous and there is no perfect multicollinearity, and optimal in the class of linear unbiased estimators when the errors are homoscedastic and serially uncorrelated. Under these conditions, the method of OLS provides minimum-variance mean unbiased estimation when the errors have finite variances.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS OF RESULTS

4.1 Introduction

This chapter consists of data presentation and analysis. It basically contains presentation of data, results, hypotheses testing and discussion of empirical findings.

4.2 Data Presentation

Table 4.2: Share Capital (SC) Return on Assets (ROA), Return on Equity (ROE) Customer Deposits (CD), 1999-2013.

	YEAR	**ROA**	**ROE**	**Share Capital (Billions)**	**Customer Deposits (Billions)**
Pre-Merger and Acquisition	1999	3.82	102.88	286.00	74.900
	2000	3.78	115.27	209.00	120.40
	2001	4.82	114.29	205.10	142.40
	2002	2.63	41.63	250.20	128.30
	2003	2.00	29.11	332.40	186.40
	2004	2.10	27.32	570.10	187.20
	2005	0.75	5.52	263.20	121.40
Post-Merger and Acquisition	2006	0.59	4.12	582.10	195.60
	2007	5.92	36.83	540.60	234.50
	2008	3.94	22.12	712.40	393.80
	2009	-64.72	-9.28	556.30	472.30
	2010	3.91	162.98	630.00	467.60
	2011	-0.04	-.028	1096.10	1218.0
	2012	2.62	22.20	616.10	2072.8
	2013	2.15	19.14	727.30	3313.8

Sources: CBN Statistical Bulletin (2014)

4.3 Normality Statistics (Descriptive Statistics)

The normality statistics for the variables: CD, ROA, ROE and SC, are as shown in Table 4.3 below. The mean for CD, ROA, ROE and SC are all different. This indicates that the variables exhibit significant variation in terms of magnitude, suggesting that estimation of the variables in levels will not introduce some bias in the results. The Jarque-Bera statistics for all the variables are significant; hence we reject the null hypothesis and conclude that the series are normally distributed (or have a normal distribution).

Table 4.3 Summary of Normality Statistics

	CD	ROA	ROE	SC
Mean	621.8467	-1.712700	42.25667	505.11333
Median	195.6000	0.590000	4.120000	582.00000
Maximum	3313.800	5.920000	162.9800	1096.000
Minimum	120.4000	-64.72000	-9.280000	205.0000
Std. Dev.	134.15364	13.24948	9.6512.25	23.82241
Skewness	0.793561	1.150766	0.204947	0.752542
Kurtosis	2.733379	2.644343	1.881026	3.301179
Jarque-Bera	1.618778	3.389713	0.887572	1.472492
Probability	0.045130	0.003626	0.041603	0.008908
Sum	2.59E+08	25.68900	663.8490	7576.700
Sum Sq. Dev.	2.52E+15	2.46E+13	1.30E+11	7945.100
Observations	15	15	15	15

Source: Authors computation, 2015

4.4 Statistical Test of Hypothesis

The first hypothesis formulated in this study was tested using student t-statistics. The level of significance for the study is 5%, for a two tailed test. The decision rule is that we shall accept the null hypothesis if the critical t-value (±1.96) is greater than the calculated value, otherwise reject the null hypothesis. That is, using the

student t-test (t-statistic), we say that a variable is statistically significant if t^* (t-calculated) is greater than the tabulated value of ±1.96 under 95% (or 5%) confidence levels and it is statistically insignificant if the t^* is less than the tabulated value of ±1.96 under 95 %(or 5%) confidence levels. Thus;

H_0: $\beta_0 = 0$ (Null hypothesis)

H_1: $\beta_1 \neq 0$ (Alternative hypothesis)

The second hypothesis was tested using the ANOVA f-statistics. The f-statistics measures significant differences that exist between two variables. The probability value (p-value) of the f-statistics is expected to be less than 0.05 for null hypothesis to be rejected; otherwise, we may accept the null hypothesis.

4.4.1 Hypotheses One: *H_{01}: Share capital has no significant effect on ROE of deposit money banks.*

Model one: $ROE = \alpha + \beta_1 SC + \mu_t ---------- 1$

Table 4.4.1: Regression Result on ROE and SC

Dependent Variable: LOG(ROE)
Method: Least Squares
Date: 09/25/15 Time: 17:12
Sample: 1999-2005
Included observations: 7

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	23.86440	1.455919	10.89649	0.0001
LOG(SC)	-0.541993	0.423737	-1.390260	0.0724

R-squared	0.507587	Mean dependent var	12.56921
Adjusted R-squared	0.409105	S.D. dependent var	0.391795
S.E. of regression	0.301172	Akaike info criterion	0.672685
Sum squared resid	0.453523	Schwarz criterion	0.657231
Log likelihood	-0.354398	Hannan-Quinn criter.	0.481674
F-statistic	5.154081	Durbin-Watson stat	2.023569
Prob(F-statistic)	0.000211		

Source: Authors computation, 2015

$ROE = 23.86 - 0.54SC ---------------- 2$

$SEE = 1.45 \quad 0.42$

$t* = \quad 10.89 \quad -1.27$

$F* = \quad 7.34$; Prob(F-statistic)=0.00021

$R^2 = 0.3164; Adj.R^2 = 0.2865$

$DW = 2.02$

From the regression result in table 4.2, the calculated t-value for SC before merger is -1.27 and the tabulated value is ±1.96. Since the t-calculated is less than the t-tabulated (-1.39 < -1.96) it also falls in the acceptance region and hence, we may not reject the first null hypothesis (**$H0_1$**). In conclusion, ***share capital has no significant effects on ROE of deposit money banks before mergers and acquisitions.***

The F-statistics which is used to examine the overall significance of regression model equally showed that the result is significant, as indicated by high value of the

F-statistic 5.15 and it is significant at the 5.0 per cent level. That is, the F-statistic value of 0.00021 is less than 0.05.

The R^2 (R-square) value of 0.3164 shows that the ***SC*** has a very poor impact. It indicates that about 31.64 per cent of the variation in ***ROE*** is explained by ***SC before mergers and acquisitions,*** while the remaining 68.36 percent is captured by the error term.

The model also indicates that there is no autocorrelation among the variables as indicated by Durbin Watson (DW) statistic of 2.02. This shows that the estimates are unbiased and can be relied upon for policy decisions.

Table 4.4.2: Regression Result on SC and ROE after mergers and acquisitions

Dependent Variable: LOG(ROE)
Method: Least Squares
Date: 09/25/15 Time: 17:24
Sample: 2006-2013
Included observations: 8

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.340038	2.253823	5.058243	0.0023
LOG(SC)	0.892155	0.536196	2.677566	0.0299

R-squared	0.641170	Mean dependent var	12.54287
Adjusted R-squared	0.518636	S.D. dependent var	0.305948
S.E. of regression	0.323588	Akaike info criterion	0.793625
Sum squared resid	0.628254	Schwarz criterion	0.813486
Log likelihood	-1.174501	Hannan-Quinn criter.	0.659675
F-statistic	20.257623	Durbin-Watson stat	2.178717
Prob(F-statistic)	0.0001170		

Source: Authors computation, 2015

$$ROE = 0.340 + 0.89SC ----------------4$$

$SEE = 2.25 \quad 0.53$
$t* = \quad 5.05 \quad 2.67$
$F* = \quad 22.25$; Prob (F-statistic) $= 0.00011$

$R^2 = 0.5478; Adj.R^2 = 0.5096$
$DW = 2.13$

The calculated t-value for ***share capital (SC) after mergers and acquisitions*** was found to be 2.67(ROE model) and also by rule of thumb, the tabulated value is ±1.96 under 95% confidence interval levels. The calculated SC value is found to be greater than the tabulated value (that is; 2.67 > 1.96), we thus, reject the second null hypothesis ($H0_2$). ***In conclusion, there is a significant relationship share capital and ROE after mergers and acquisitions of deposit money banks.***

Also, by examining the overall fit and significance of the post-merger/acquisition ROE model, it was found to have a good fit, as indicated by the high *F*-statistic value of 22.25 and it is significant at the 5.0 per cent level. That is, the F-statistic value of 0.000011 is less than 0.05.

More so, the R^2 (R-square) value of 0.5478 shows that the model have a very good fit also. It showed that about 54.78 per cent of the variation in post-merger & acquisition ROE is explained by post-merger/acquisition SC, while the remaining low value of 45.22percentage unaccounted variation is captured by the error term.
Durbin Watson (DW) statistics which is also used to test for the presence of serial correlation indicates that there is no autocorrelation among the variables as captured by (DW) statistic of 2.13, and as thus the estimates are unbiased and can also be relied upon for sound policy decisions.

4.4.3 Hypotheses Two: H_{02}: *There is no significant difference between customer deposits (CD) and ROA of deposit money banks after mergers and acquisitions.*

Model three: $ROA = \alpha + \beta_3 CD + \mu_t ---------5$

Table 4.4.3: Regression Result on ROA and CD

Dependent Variable: LOG(ROA)
Method: Least Squares
Date: 09/25/15 Time: 17:56
Sample: 1999- 2013
Included observations: 15

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	23.98858	6.999200	5.447563	0.0001
LOG(CD)	1.879006	0.428157	3.711268	0.0026

R-squared	0.514445	Mean dependent var	12.19057
Adjusted R-squared	0.477095	S.D. dependent var	2.024293
S.E. of regression	1.463810	Akaike info criterion	3.723528
Sum squared resid	27.85561	Schwarz criterion	3.817935
Log likelihood	-25.92646	Hannan-Quinn criter.	3.722522
F-statistic	13.77351	Durbin-Watson stat	2.183825
Prob(F-statistic)	0.002613		

Source: Authors computation, 2015

$ROA = 23.98 + 1.87CD ---------------6$

$SEE = 6.99 \quad 0.42$

$t* = \quad 3.12 \quad 2.98$

ANOVA $- F* =$ 23.87; Prob(F-statistic)=0.00001

$R^2 = 0.5687; Adj.R^2 = 0.4698$

$DW = 1.98$

The ANOVA- F-statistic

The ANOVA f-statistics measures significant differences that exist between two variables. The F-statistics has a very high value of 23.87 and it is significant at the 5.0 per cent level. That is, the F-statistical probability value of 0.00001 is less than 0.05. We thus, reject the third null hypothesis ($H0_3$) and conclude that ***there is a significant difference between customer deposits and ROA of deposit money banks after mergers and acquisitions***

More so, the R^2 (R-square) value of 0.5687 shows that the model have a very good fit also. It showed that about 56.87 per cent of the variation in ROA is explained by CD, while the remaining 43.13 percentage unaccounted variation is captured by the error term.

Durbin Watson (DW) statistics which is also used to test for the presence of serial correlation indicates that there is no autocorrelation among the variables as captured by (DW) statistic of 1.98, and as thus the estimates are unbiased and can be relied upon for sound policy decisions.

4.4 Discussion of Research Findings

From the estimated results in equation 2, it could be observed that SC has negative and insignificant effect on deposit money banks ROE before mergers and acquisitions. It showed that before merger and acquisition, SC had contributed negatively to the growth of deposit money banks ROE. However, Sobowale (2004) and Osho (2004) noted that it is expected that the value of the companies that participated in merger and acquisition activities would be higher than before because future dividends and earnings streams are expected to rise and subsequently improves

efficiency. The function thus shows that a 1.0% change in pre-merger/acquisition SC, on the average, reduces ROE by 0.54million between 1999 and 2013.

However, equation 4 shows that post-merger/acquisition SC has positive and significant relationship with ROE. It showed that the higher the SC after merger and acquisition, the higher the ROE. This is in line with the results of Olagunju (2012) who in his findings observed that mergers and acquisitions of commercial banks has increased the capital base of banks. Increase in capital base of commercial banks has not only enhanced revenue generation but has acted as a hedge against future losses, economic slow-down and had secured the capital of shareholders. Datta (2011) also noted that mergers and acquisitions, has significantly affected the earnings per share of investors. His study further showed that the merger and acquisition of banks have acted as a catalyst for enhanced control, rapid growth and survival of banks in Nigeria. Agbaje (2010) further stated that mergers and acquisitions of banks has significantly influenced dividend per share of shareholders. He went further to conclude that consolidation of the banking sector has led to changes in company's share ownership, and that mergers and acquisitions have significant impact on the level of stock value of commercial banks. Akpan (2007), using chi square to test his stated hypothesis found that the policy of consolidation and capitalization has ensured customers' confidence in the Nigerian banking industry in term of high profit. The function thus shows that 1% change in post-merger/acquisition of SC has on the average, increased deposit money banks ROE by 0.89Million between 2006 and 2013.

Furthermore, the results in table 4.4.2 showed that there is a significant difference between pre-merger and post-merger/acquisition customer deposits and ROA of Deposit money banks. The results revealed that CD between pre and post-merger and acquisition has positive and significant relationship with deposit money banks ROA. The finding is in agreement with Soludo (2008) who noted that there are drastic changes during pre and post- merger and acquisition of commercial banks in terms of asset structure, liquidity and capital structure. He went further to state that consolidation has helped to curb the problem of illiquidity in the capital structure of commercial banks. The financial activities of the bank being a fall-out of the merger process have to some extent benefited most of the customers and the shareholders. Among such benefits are improvements in the bank profitability, improved asset structure, strong capital base, increased stock value, liquidity among others. Similarly, Uchendu (2005) and Kama (2007) opined that, the bank consolidation which took place in Malaysia facilitated banks expansion which led to growth. The study by Stiroh (2002) using data on United States banks found that, there has been more substantial scale efficiency from larger sizes of banks as a result of mergers and acquisitions. For Yener and David (2004), mergers and acquisitions played an important role in improving after merger financial performance which is a stimulus for efficiency. Most of the studies examined found that mergers and acquisitions add significantly to the profits of the banking sector. The function thus showed that a 1.0% change in CD, has also on the average, increased deposit money banks pre-merger and post-merger/acquisition ROA by 1.87million between 1999 and 2013

CHAPTER FIVE

SUMMARY, CONCLUSION, AND RECOMMENDATIONS

5.1 Summary

The purpose of this study was to examine the effect of mergers and acquisitions on deposit money bank profitability in Nigeria, with a view to finding out the kind of relationship which exists between them.

Various literatures were reviewed regarding the effect of mergers and acquisitions on the profitability of deposit money banks. Conceptual literatures posited that merger and acquisition is simply another way of saying survival of the fittest, that is to say a bigger, more efficient, better-capitalized, more skilled industry. It is primarily driven by business motives and/or market forces and regulatory interventions. Numerous studies were empirically examined to determine whether mergers and acquisitions are solutions to bank problems. Evidence as provided suggested that mergers and acquisitions in the financial system could have positive effect on the efficiency of most banks. Mergers and acquisitions in the Nigerian banking sector are reform strategies recently adopted to reposition the banking sector. These were done to achieve improved financial efficiency, forestall operational hardships and expansion bottlenecks. It is against this backdrop that the study made a comparative analysis of the effect of mergers and acquisitions on the profitability of banks in Nigeria.

Ordinary least square (OLS) regression analysis was used in the study. This analysis was used in order to find the linear effect relationship between the independent variables, which are: share capital (SC) and customer deposits (CD); while the dependent variables are Return on assets (ROA) and Return on equity (ROE).

Findings from the study revealed that SC before mergers and acquisitions has negative and insignificant relationship with deposit money banks ROE. It showed that before merger and acquisition, SC had contributed negatively to the growth of deposit money banks ROE. However SC after mergers and acquisitions has positive and significant relationship with ROE. It showed that the higher the SC after merger and acquisition, the higher the ROE. This is in agreement with Agbaje (2010) who stated that mergers and acquisitions of banks has significantly influenced dividend per share of shareholders. He went further to conclude that consolidation of the banking sector has led to changes in company's share ownership, and that mergers and acquisitions have significant impact on the level of stock value of commercial banks.

Finally, the findings showed that there is a significant difference between customer deposits and ROA of deposit money banks. The results revealed that CD in both pre and post-merger and acquisition periods has positive and significant relationship with deposit money banks ROA.

5.2 Conclusion

The study shows that the mergers and acquisitions in the banking industry have significantly influenced profitability of deposit money banks in terms of return on asset and return on equity. Equally important, is the fact that introduction of consolidation through merger and acquisition has brought about changes in ownership structure. It has brought about decentralization of ownership to many shareholders contrary to over centralization of ownership in the hand of few shareholders prior merger and acquisition of commercial banks in Nigeria. More

importantly, the merger has helped to curb the problem of illiquidity characterized by the banks. The idea underlying the consolidation policy is that bank consolidation would reduce the insolvency risk through asset diversification.

Generally, the study affirms that for a bank to survive in the current dispensation it needs to maximize its comparative advantage (strength), by promoting its uniqueness in the areas where it performs best. The decisive factors for competition and profitability in the new era would be the optimization of resources by the emerging mega banks. If any bank wishes to compete in the coming era, now is the time to plan for optimal resources structure, because the banks with the best brains and best hands would have an uncommon edge not only for future profitability but also survive future shocks.

5.3 Recommendations.

The study recommends that banks should be more aggressive in financial products marketing and expansion to increase financial efficiency for an improved financial position in term of gross earnings, profit after tax and net assets in order to reap the benefit of post mergers and acquisitions bid in the Nigerian banking sector. Other specific recommendations are:

i. Capital acts as the last defense to absorb losses. Therefore the merger process should ensure that the merged entities should be adequately capitalized to meet these requirements. While it is desirable that the ownership of merged entity is with diversified shareholders, appropriate measured are to be taken to prevent individual shareholder or group of shareholders exercise interference or influence on the banks. Since the merger results in the creation of large financial conglomerates, the

regulatory authorities should ensure that the existing supervisory practices are adequate to supervise such entities.

ii. Mergers and acquisitions have associated risk which if not well managed and implemented can lead to failure: buyers wrong estimation of the value of assets and/or liabilities of the target firm, and managers inability to handle the complex task of integrating two firms with different processes, accounting methods, operating culture, vision and focus. No matter how good the deal design, implementing the merger integration is where the deal benefits are either realized or not. Therefore, besides choosing the right integration strategy, adequate managerial skill is required for implementation. The Central Bank of Nigeria (CBN), Nigerian Deposit Insurance Corporation (NDIC) and Securities and Exchange Commission (SEC) being banks' supervisory/regulatory agencies should intensify efforts towards effective monitoring and ensure that the gains from the mergers and acquisitions are sustained.

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APPENDIX I

LIST OF DEPOSITS MONEY BANKS IN NIGERIA AS AT 31ST DECEMBER, 2013.

(1) Access Bank Plc.

(2) Citi Bank Nigeria Ltd.

(3) Diamond Bank Plc.

(4) Eco Bank Nigeria Plc.

(5) Enterprise Bank Nigeria Plc.

(6) Fidelity Bank Plc.

(7) First Bank of Nigeria Plc.

(8) First City Monument Bank Plc.

(9) GT Bank Plc.

(10) Heritage Bank Ltd.

(11) Keystone Bank Ltd.

(12) Mainstream Bank Nigeria Ltd.

(13) Skye Bank Plc.

(14) Stanbic IBTC Bank Plc.

(15) Standard Chartered Bank Nigeria Ltd.

(16) Sterling Bank Plc.

(17) Union Bank of Nigeria Plc.

(18) United Bank for Africa Plc.

(19) Unity Bank Plc.

(20) Wema Bank Plc.

(21) Zenith Bank Plc.

Source: Central Bank of Nigeria 2015 Annual Report.

APPENDIX II

LIST OF BANKS INVOLVED IN MERGERS/ACQUISITIONS IN 2005 AND 2009 REFORMS

(1) Access Bank Plc.

(2) Diamond Bank Plc.

(3) Eco Bank Nigeria Plc.

(4) Enterprise Bank Nigeria Plc.

(5) Fidelity Bank Plc.

(6) First Bank of Nigeria Plc.

(7) First City Monument Bank Plc.

(8) Keystone Bank Plc.

(9) Mainstream Bank Nigeria Plc.

(10) Skye Bank Plc.

(11) Stanbic IBTC Bank Plc.

(12) Sterling Bank Plc.

(13) Union Bank of Nigeria Plc.

(14) United Bank for Africa Plc.

(15) Unity Bank Plc.

(16) Wema Bank Plc.

Source: Central Bank of Nigeria 2015 Annual Report.