Research Journal of Finance and Accounting
ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online)
Vol.8, No.12, 2017

Effects of Consolidation on Banks Performance in Nigeria

Okafor Victor Ikechukwu
College of Management Sciences, Michael Okpara University, Umudike

Egiyi Modesta Amaka
Godfrey Okoye University

Prof. Eyisi Adanma Sabina
College of Management Sciences, Michael Okpara University, Umudike

Abstract
The study evaluated the effect of consolidation on bank performance in Nigeria. Data were collected from secondary sources. Two hypotheses were tested using ordinary least squares regression method. The implication of the findings showed that the consolidation of banks through mergers and acquisition has significantly influenced banks' earnings; and that consolidation has not led to increase in capital adequacy ratio of banks. The study recommends that bank regulatory authorities should increase its oversight role so as to ensure that none of the banks has weak corporate governance and that there should be strong enforcement and effective regulatory oversight.
Keywords: Consolidation, NDIC, CBN, ROA, ROE

1. Introduction

The Nigerian banking industry has undergone a full cycle of reform from inception to a threshold of maturity (Olajide, 2006). The inception of the modern banking in Nigeria came into existence in 1892 as African Banking Corporation (ABC) which was latter converted back to British and latter metamorphosed to First Bank of Nigeria Plc (Somoye, 2006). Between the period 1927-1951 there were 25 indigenous banks of which a total of 23 banks failed leaving only 2 (Nnanna, 2004). Soludo (2004) noted that the high failure rate in the banking industry arose due to the absence of banking regulation, inadequate capital, shortage of qualified personnel and other factors. As a result of the above problems the first banking regulation ordinance was enacted in 1952 as to regulate the affairs of the banking (Megginson, 2005, Egwu and Ekun, 2006).

In spite of the regulatory ordinance various effort have been made to strengthen the regulatory framework by the CBN act of 1958, NDIC act of 1988, CBN act of 1991 and BOFIA act of 1991.

From the above, it could be said that reforms in the banking industry since inception has been an ongoing issue and could be seen as a reflection of the dynamic nature of banking businesses. These reforms have been such that every stage is advancement from the previous one. More so, the reforms have also been categorized under the following period; the free banking period, the regulation period, the post SAP deregulation period and the bank consolidation period. Banking reforms involved several elements that were unique to each country based on historical, economic and institutional imperatives. In Nigeria, the reforms in the banking sector preceded against the backdrop of banking crisis due to high under-capitalization of deposit, weakness in the regulatory and supervisory frameworks, weak management practices, and the tolerance of deficiencies in the corporate governance behavior of banks (Uchendu and Adams, 2005). Banking sector reforms and recapitalization have resulted from deliberate policy response to correct perceived or impending banking sector crises and subsequent failures.

A banking crisis can be triggered by weakness in banking system characterized by persistent illiquidity, insolvency, undercapitalization, high level of non-performing loans and weak corporate governance, among others.

Similarly, highly open economies like Nigeria, with weak financial infrastructure can be vulnerable to banking crisis emanating from other countries through infectivity (Adegbaja and Olokoyo, 2008). Adegbaja and Olokoyo (2008) posited that capitalization is an important component of reforms in the Nigeria banking industry, owing to the fact that a bank with a strong capital base has the ability to absorb losses arising from non-performing liabilities. Attaining capitalization requirements may be achieved through consolidation of existing banks or raising additional funds through the capital market. Banking crisis usually starts with the inability of a bank to meet its financial obligations to its shareholders. Thus, in most cases, banks and their customers engage in massive credit recalls and withdrawals which sometimes necessitate Central Bank liquidity support to the affected banks. This was the case when the CBN injected N620billion to save some problematic banks in 2009. Some terminal intervention mechanism may occur in the form of consolidation (mergers and acquisitions), recapitalization, use of bridge banks, establishment of asset management companies to control and recovery of bank assets and outright liquidation of non-redeemable banks (Soludo, 2006).

Other interventions took the form of overall regulation of banking policies. One of the modes of regulation had always been the prescription of an increase in the minimum paid capital or shareholders' funds of the banks known as recapitalization, to share up their liquidity. After the 1986 Structural Adjustment Programme (SAP) included boom, which brought about banking license liberalization, and the deregulation of interest rate, the growth in the number of banks increased tremendously and the capital base of the banks were increased to N2billion. However, the distress syndrome crept into the industry, the result of which made many banks to liquidate.

Due to this development, the CBN on March 2004 rated the registered 89 banks in Nigeria. Following this rating, 62 banks were classified as sound/satisfactory; 14 classified as marginal; 11 classified as unsound; 2 did not render any return during the period (Elumilade, 2009). Following this classification, therefore, the CBN introduced the 13 points reform agenda, which included the prescription of minimum shareholders` fund of N25billion, which must be paid up by 31st December, 2005. At the close of the deadline, 25 banks emerged as having met the N25billion recapitalization requirement. The programme resulted in the shrinkage of the number of banks from 89 to 25 banks through merger/acquisition involving 75 banks (84%), which altogether accounted for 93.5% of the deposit share of the market (CBN, 2006). The remaining 14 banks (16%) could not meet the new capital requirement and were liquidated and their operating licenses revoked (NDIC, 2006). This subsequently leads to the reduction in the number of banks which led to strong competition (Imala, 2005).

It should be noted that the primary objectives of consolidation exercise, according to the Central Bank of Nigeria include: The need to move Nigeria to proactively position, the banking system to become sound catalyst for development, and above all, become the African largest banking sector (Soludo, 2006). Specifically, the CBN maintained that bank recapitalization was to ensure a diversified, strong and reliable banking sector; ensure the safety of depositor`s money; and reposition banks to play active developmental roles in both local and global economies. The Central Bank of Nigeria equally argued that consolidation was a measure adopted to solve the problems of poorly capitalized banks who by virtue of their relatively low capital assets, and capital base, were not contributing much to the growth and development of the Nigerian economy.

Finally, to check cases of bank proliferation; eliminate weak banks already in existence in the system and to proactively control the persisting case of bank distress and failure in the country.

2. Statement of the Problem

The recent banks reform in Nigeria through consolidation has been intensified due to the forces of globalization which are guiding the regulation of the world financial markets and economies (Akpan, 2009).

The main problems facing Nigerian banking industries are low performance of banks due to weak capital base, negative capital adequacy ratio due to operating losses, and decrease in shareholders' funds/return of shareholders' equity due to operating losses.

More so, (CBN, 2005) has stated that banks consolidation in Nigeria has been motivated due to many problems associated and envisaged in the banking system. These problems are large number of small banks with few branches and poor rating of numbers of banks, late or non-publication of annual accounts that obviates the impact of market discipline in ensuring soundness, insolvency as evidenced by negative capital adequacy ratios and shareholders` funds that had been completely eroded by operating losses, over-dependency on public sector deposits, neglect of small and medium class savers, weak corporate governance, evidenced by high turnover in the board and management staff, inaccurate reporting and non-compliance with regulatory requirements, falling ethics and de-marketing of other banks in the industry, banks indebtedness to the CBN continued to rise unsustainably and weak capital base, even for those banks that have met the minimum capital requirement, which then stood at N1billion for existing banks and N2billion for new banks.

However, the consolidation of banks through merger and acquisition and meeting up with the minimum capital requirement of N25billion by banks has been carried out by banks as has been directed by the then CBN governor.

In view of the above problems, this study evaluates the effects of consolidation on banks performance in Nigeria with specific reference on consolidated banks.

3. Objectives of the Study

The broad objective of this research work is to evaluate the effect of consolidation on bank performance in Nigeria. The specific objectives are stated below:

- This study aims at evaluating the effect of consolidation through merger/acquisition on banks' earnings.
- Ascertaining whether consolidation has led to positive increase in capital adequacy ratio of banks.

4. Review of Related Literature

4.1 Conceptual Framework

Reforms are new conceptual framework of doing things based on paradigm. In any economy, the philosophy of bank reforms is essentially renewal-based, designed to improve their operations by eliminating weaknesses and faults accumulated in the banking system over time. Reform serves as new initiative to inject into the existing system an improved and modern ingenuity that would bring in fresh life, so that the system can confront the challenges of the present and enhance intermediation and general performance for a competitive place in the global standard, stability and growth (Berger, 1998).

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

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

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

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

4.2 History of Consolidation in Nigeria

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

Recapitalization of banks is not a new phenomenon. Right from 1958 after the first banking ordinance in 1952 the colonial government then raised the capital requirement for banks especially the foreign commercial bank from 200,000 pounds to 400,000 pounds. Ever since the issue of bank recapitalization has been a continuous occurrence not only in Nigeria but generally around the world especially as the world continues to witness increasing inter-dependence among national economies (CBN, 2006).

Recapitalization in Nigeria comes with every amendment to the existing banking laws. In 1969, capitalization for banks was N1.5million for foreign banks and N600,000 for indigenous commercial banks. In 1979, when merchant banks came on board, the Nigerian banking scene capital base was N2million as at 1988, there had been further increase in the introduction of SAP in 1986. In February 1988, the capital base for commercial bank was increased to N5million while that of the merchant bank was pegged at N3milion. In October the same year, it was jerked up to N10million for commercial bank and N6million for merchant banks. In 1989, there was a further increase to N20million for commercial bank and N12million for merchant bank (Soludo, 2004).

In recognition of the fact that well-capitalized banks would strength the banking system for effective monetary management, the monetary authority increased the minimum paid-up capital of commercial and merchant banks in February 1990 to N50 and N40 million from N20 and N12 million respectively. Distressed banks whose capital fell below existing requirement were expected to comply by 31st March, 1997 or face liquidation. Twenty-six of such banks comprising 13 each of commercial and merchant banks were liquidated in January, 1998 and the minimum paid up capital of merchant and commercial banks was raised to a uniform level of N500 million with effect from 1st January, 1997 and by December 1998, all existing banks were recapitalized. The CBN brought into force the risk-weighted measure of capital adequacy recommended by the Basle committee of the Bank for international settlements in 1990. Before then, capital adequacy was measured by the ratio of adjusted capital to total loans and advances outstanding. The CBN in 1990 introduced a set of prudential guidelines for licensed banks, which were complementary to both the capital adequacy requirement and Statement of Standard Accounting Practices. The prudential guidelines, among others, spelt out the criteria to be employed by banks for classifying non-performing loans. In 2001, when the Universal banking was adopted in principle, the capital base was jerk up to N1 billion for existing bank and N2 billion for new banks. But in July 2004, the new governor of the CBN announced the need for banks to increase their capital base to N25 billion and all banks are expected to comply by December 2005 (Soludo, 2004).

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

4.3 The Position of the Banking Sector Before Consolidation

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

Furthermore, the vision of consolidation amongst others includes becoming Africa`s financial Centre, facilitate the evolution of a safe and strong banking system, improve transparency and accountability in the sector and make Nigerian banks one of the best in the world within ten years. Drive down the cost structure of banks and make them more competitive and development oriented. A new banking system that depositors can trust and investors can rely upon to usher in a new economy.

4.6 Empirical Review

Adegbaju and Olokoyo (2008) in their works titled "Recapitalization and Banks' Performance: A Case Study of Nigerian Banks" recommends that the banks should improve on their total asset turnover and to diversify their funds in such a way that they can generate more income on their assets, so as to improve their return on equity. It is argued that the consolidation programme is expected to have a positive effect on employment in the long-run, and that has drastically altered and redefined the nature of competition in the banking industry. Furthermore, it argues that mere size would no longer be a critical factor in the customers' choice of which bank to patronize. Rather, emphasis would shift to the ability to deliver superior value to customers.

Bakare (2011) in his work titled "The Trend and Growth Implications of Bank Recapitalization in Nigeria" showed that there is a significant difference between the two means and hence the two periods. The result indicated that post recapitalization mean at 21.58 is higher than the pre-recapitalization Mean of 15.09, implying that banks are more adequately capitalized and less risky after the programme. This result also indicated that recapitalization has low but significant influence on the growth of Nigerian economy compare to other variables in the model. The study strongly supported the need for the government to sustain the recapitalization policy.

Okafor (2012) in her work titled "Performance Evaluation of Nigerian Commercial Banks: Before and After Consolidation" recommends that banks should try to avoid weak balance sheets and inadequate corporate governance. The research posits further that consolidation of banks may not necessarily be a sufficient tool for achieving financial stability for sustainable development. There is need to begin to develop a new framework for achieving financial sector stability rather than relying on banking consolidation policy. This is because banking consolidation in Nigeria as in many other countries has not proved to be reliable panacea for bank failures and crises.

Oladejo and Oladipupo (2011) in their works titled "Capital Regulation and the Performance of the Nigerian banks: Need for Review" argued that low capital base is not a significant factor for bank crises experienced prior to recapitalization policy. The present capital base of banks in Nigeria is too high when compare with counterparts in African region. While regulations are necessary in order to protect the depositor's funds, banks are over regulated in Nigeria especially in area of minimum capital requirement, which has made for the various problems in the sector. In the light of the above the following suggestions may be found useful: Banks should be classified into tightly capitalized, moderately capitalized and small capitalized so as to be able to serve all economic group without neglect of one, banks should be allowed to decide the level of capital required for their stay in the industry, consolidation must be monitored and evaluated so as to make possible changes to avoid some problems that could cause irreparable damages, there should be a policy by the new mega banks capable of avoiding and managing conflicts in a way that openness, equality, fairness and leadership by example prevails, need for carefully identification and the use of culture of each merging banks, full involvement and participation of organization behavior experts at all levels of post consolidation integrations, government should make banking environment more enabling by provision of infrastructural base to support banking services, training and retraining of banks staff on post consolidation integration and corporate culture conflicts management, and sponsoring of such by the CBN.

Somoye (2008) in his work titled "The Performances of Commercial Banks in Post-Consolidation Period in Nigeria: An Empirical Review" concludes that banking sector is becoming competitive and market forces are creating an atmosphere where many banks simply cannot afford to have weak balance sheets and inadequate corporate governance. The paper posits that consolidation of banks may not necessarily be a sufficient tool for financial stability for sustainable development and this confirms Megginson (2005) and Somoye (2006) postulations. We recommend that bank consolidation in the financial market must be market driven to allow for efficient process. The paper further recommends that researchers should begin to develop a new framework for financial market stability as opposed to banking consolidation policy.

Sulaimon, Akeke and Fapohunda (2011) in their works titled "Capital Reforms and Performance of Nigerian Banking Sector" revealed that there was a significant increase in capital base of banks in the Nigerian banking industry after the consolidation exercise from N970.77billion in 2005 to N2,589.03billion in 2008. The study concluded that a capital reform has no significant effect on performance of troubled banks in Nigeria.

5.1 Model Specification

The study relied heavily on the secondary data generated in the Statement of Accounts and Annual Reports of twenty (20) banks in Nigeria; namely: Access Bank, AfriBank, Bank PHB, Diamond Bank, ECOBANK, Fidelity Bank, First Bank, FCMB, First Inland Bank, GTB, Intercontinental Bank, Oceanic Bank, Skye Bank, Stanbic IBTC, Sterling Bank, Union Bank, UBA, Unity Bank, WEMA Bank and Zenith Bank. The Net Income, Total Assets, Customer Loans and Advances, Shareholders' Fund/Equity, Return-On-Asset (ROA), Capital Adequacy Ratio (CAR), and Return-On-Equity (ROE) were extracted and used in the test of the various hypotheses.

$Y = b_0 + b_1x_1 + b_2x_2 + b_3x_3 + \ldots\ldots\ldots + \mu$ …………………………….. (1)

Y = dependent variable

b_0 = Intercept

b_1, b_2, b_3 = Slopes of the model

x_1, x_2, x_3 = Independent variables (explanatory variables)

μ = error term

Applying it in this study, it will be

$ROA = b_0 + b_1PBT + b_2TA + b_3SHF + \mu$ ……………………………… (2)

ROA = Return on Assets

PBT = Profit before tax

TA = Total Assets

SHF = Shareholders fund

$CAR = b_0 + b_1CLA + b_2TA + b_3SHF + \mu$ ……………………………….. (3)

CAR = Capital Adequacy Ratio

CLA = Classified Loans and advances

TA = Total Assets

SHF = Shareholders Fund

5.2 Test of Hypotheses

Hypothesis I: the consolidation of banks through mergers and acquisition has not significantly influenced banks' earnings

$ROA = b_0 + b_1PBT + b_2TA + b_3SHF + \mu$ *(See Appendix II)*

Pre-consolidation Era

The multiple R of .884 shows that there is a strong positive relationship between the dependent variable (ROA) and the explanatory variables (PBT, TA and SHF) as the multiple R is close to 1. The R^2 of .781 shows that 78.1% variation in the dependent variable is explained by the independent variable. The ANOVA table shows that the model fit is very non-significant ($p = .573 > .05$). The intercept of .045 shows the value of the dependent variable when the independent variables are equal to zero. The slope of 0.00000001756, -0.000000001458 and 0.0000000008158 shows that a unit increase in PBT, ROA will increase by 0.00000001756 when other variables remain constant; at every unit increase in TA, ROA will decrease by 0.000000001458 unit when other explanatory variables remain constant; and that at every unit increase in SHF, ROA will increase by 0.0000000008158 unit as other variables remain constant. The explanatory variables (sig.<.001) except PBT (sig.=.635>.05) are all significant in explaining the variation in ROA. Applying from the regression output, our regression model will take the following shape as necessary variables are now known: ROA = .045 + 0.00000001756PBT - 0.000000001458TA + 0.0000000008158SHF + .003

Post-consolidation Era

The multiple R of .989 shows that there is a strong positive relationship between the dependent variable (ROA) and the explanatory variables (PBT, TA and SHF) as the multiple R is close to 1. The R2 of .979 shows that 97.9% of the variation in the dependent variable is explained by the independent variable. The ANOVA table shows that the model fit is very significant ($p = .031 < .05$). The intercept of .026 shows the value of the dependent variable when the independent variables are equal to zero. The slope of 0.000000003524, -0.0000000000771 and -0.000000000224 shows that a unit increase in PBT, ROA will increase by 0.000000003524 unit when other variables remain constant; at every unit increase in TA, ROA will decrease by 0.0000000000771 unit when other explanatory variables remain constant; and that at every unit increase in SHF, ROA will decrease by 0.000000000224 unit as other variables remain constant. The explanatory variables (sig.<.001) are all significant in explaining the variation in ROA Applying from the regression output, our regression model will take the following shape as necessary variables are now known: ROA = .026 + 0.000000003524PBT - 0.0000000000771TA - 0.000000000224SHF + .004

Decision

Comparing the levels of significance of the explanatory variables in pre-consolidation (p-value - .548, .638, <.001,) and post-consolidation (p-value - <.001, <.001, <.001), the consolidation of banks through mergers and acquisition showed a very high statistical level of significance in influencing the variation in the earnings of the selected banks. The P-value on which basis we can reject the null hypothesis that the consolidation of banks through mergers and acquisition has not significantly influenced banks' earnings is p-value<.001 (.1%), since the P-value is greater than 5% in the pre-consolidation era and vice versa in the post-consolidation era, we reject the null hypothesis and state that, the consolidation of banks through mergers and acquisition has significantly influenced banks' earnings.

Hypothesis II: Consolidation has not led to increase in capital adequacy ratio of banks

$CAR = b_0 + b_1PBT + b_2TA + b_3SHF + \mu$ (*(See Appendix III)*)

Pre-consolidation

The multiple R of .994 shows that there is a strong positive relationship between the dependent variable (CAR) and the explanatory variables (PBT, TA and SHF) as the multiple R is close to 1. The R2 of .988 shows that 98.8% variation in the dependent variable is explained by the independent variable. The ANOVA table shows that the model fit is statistically non-significant (p = .140>.05). The intercept of 1.424 shows the value of the dependent variable when the independent variables is equal to zero. The slope of 0.00000001293, 0.00000002978 and -0.00000002926 shows that a unit increase in PBT, CAR will increase by 0.00000001756 when other variables remain constant; at every unit increase in TA, CAR will increase by 0.00000002978 unit when other explanatory variables remain constant; and that at every unit increase in SHF, CAR will increase by 0.00000002926 unit as other variables remain constant. The explanatory variables (sig.>.05) are all statistically non-significant in explaining the variation in CAR. Applying from the regression output, our regression model will take the following shape as necessary variables are now known: CAR = 1.424 + 0.000000012936PBT - 0.00000002978TA - 0.00000002926SHF + .049

Post-Consolidation

The multiple R of .572 shows that there is a fair positive relationship between the dependent variable (CAR) and the explanatory variables (PBT, TA and SHF). The R^2 of .327 shows that 32.7% of the variation in the dependent variable is explained by the independent variable. The ANOVA table shows that the model fit is statistically non-significant (p = .813>.05). The intercept of 2.545 shows the value of the dependent variable when the independent variables are equal to zero. The slope of -0.00000005013, -0.0000000003024 and 0.000000002915 shows that a unit increase in PBT, CAR will decrease by 0.00000005013 unit when other variables remain constant; at every unit increase in TA, CAR will decrease by 0.0000000003024 unit when other explanatory variables remain constant; and that at every unit increase in SHF, CAR will increase by 0.000000002915 unit as other variables remain constant. The explanatory variables (sig.>.05) except total assets (Sig.<.001) are all statistically non-significant in explaining the variation in CAR. Applying from the regression output, our regression model will take the following shape as necessary variables are now known: CAR = 2.545 - 0.00000005013PBT -0.0000000003024TA + 0.000000002915SHF + .544

Decision

Comparing the slopes of the explanatory variables in pre-consolidation (slope = 0.00000001293, 0.00000002978 -0.00000002926,) and post-consolidation (slope = -0.00000005013, -0.0000000003024 and 0.000000002915), only a slope in the pre-consolidation era is negative while two slopes are negative in the post-consolidation era. Since the pre-consolidation era leads to more increase in capital adequacy ratio than the post-consolidation era, we conclude that consolidation has not led to increase in capital adequacy ratio of banks.

Discussion of Findings

The consolidation of banks through mergers and acquisition has significantly influenced banks' earnings

the major finding was that consolidation has not led to positive increase in capital adequacy ratio of banks. This is in line with the findings of Sulaimon, et al (2011), Oladejo and Oladipupo (2011), who discovered that a capital reform has no significant effect on performance of troubled banks in Nigeria and low capital base is not a significant factor for bank crises experienced prior to recapitalization policy. The present capital base of banks in Nigeria is too high when compare with counterparts in African region. While regulations are necessary in order to protect the depositor's funds, banks are over regulated in Nigeria especially in area of minimum capital requirement, which has made for the various problems in the sector.

Summary of Findings/Conclusion

The banking industry has been identified as an institution that contributes to the socio-economic growth and development of emerging and developed economies through some vital roles it plays. In Nigeria, the Central Bank of Nigeria (CBN) maintained that bank recapitalization was to ensure a diversified, strong and reliable banking sector; ensure the safety of depositor`s money; and reposition banks to play active developmental roles in both local and global economies.

Based on the results obtained in the analysis of hypothesis one, it is safe to conclude that consolidation of banks through merger/acquisition has significantly influenced banks performance, while results obtained in the analyses of hypotheses two and three, it is safe to conclude that consolidation has not led to a positive increase in capital adequacy ratio of banks, and also safe to conclude that the return of shareholders' equity has not improved since consolidation of banks in Nigeria.

From the above, it was observed that objective one has been met because it revealed that bank consolidation affected bank profitability performance positively in Nigeria; it was also found that bank consolidation could be the lasting solution to the problem of bank distress in Nigeria while objectives two and three has not been met because it revealed that bank consolidation affected banks capital adequacy ratio and return on shareholder's equity negatively, which means that it is not all the time that consolidation transforms into good financial performance of banks and it is not only capital that can help for good financial performance of banks.

From the above, we concluded that customer`s deposit and shareholders fund are still under-utilized due to management inability to diversify their funds in such a way that they can generate more income on their assets, so as to improve their return on equity.

Recommendation

Based on our findings, the following recommendations are put forward:

1. Bank regulatory authorities should increase its oversight role so as to ensure that none of the banks has weak corporate governance.
2. There should be strong enforcement and effective regulatory oversight. There cannot be improvement in shareholders' confidence if enforcement machineries are weak. Enforcement actions should be carried out without fear or favour.
3. Banks should improve on their total asset turnover and to diversify their funds in such a way that they can generate more income on their assets, so as to improve their return on equity.
4. Central Bank of Nigeria should monitor banks methods and process of giving out loans to their customers in order to get the maximum value of the shareholders' fund while increasing the profitability of the banks.
5. Banks regulatory authorities should continue to monitor and institute reforms program that will better reposition the banking industry as a major player in the wealth creation in the economy.

References

Adegbaju, A. A. and Olokoyo, F. O. (2008). Recapitalization and Bank Performance: A Case Study of Nigerian Banks. *African Economic and Business Review vol.6 No.1.*

Adegbaju, A. A. and Olokoyo, F. O. (2008). Recapitalization and Bank Performance: A Case Study of Nigerian Banks. African Economic and Business Review Vol.6 No.1.

Akpan, I. (2009). Cross Channel Integration and Optimization in Nigerian Banks. Telnet Press Release, 20 (1), 1-4.

Bakare, A. S. (2011). The trend and growth implications of bank recapitalization in Nigeria. *African Journal of Business Management Vol. 5(14), PP. 5938-5945, 18 July, 2011.*

Berger, N. A. (1998). The Efficiency Effects of Bank Mergers and Acquisition: A Preliminary Look at the 1990s Data. In Bank Mergers & Acquisitions, eds. Y. Amihud and G. Miller. Amsterdam: Kluwer Academic Publishers.

CBN, (2005). Guidelines and Incentives on Consolidation in the Nigeria Banking Industry.

CBN, (2006). Bank Consolidation: 25 Banks Meet December 31st Deadline. Press Release, Governor`s Office, Jan. 3.

Egwu, E. and Ekun, O. (2006). Banks Consolidation: The whirl wind of Benefits, Challenges. The Guardian, July 5, 2007, pp. 26-27.

Elumilade, D. O. (2009). The Impact of Merger and Acquisition on Banks Performance in Nigeria. PHD Thesis, Obafemi Awolowo University,Ile-ife.

Imala, O. I. (2005). Challenges of Banking Sector Reforms and Bank Consolidation in Nigeria. Bullion, 29(2) pp 36-37.

Megginson, W. (2005). *Leverage, Productivity and Firm Growth in Nigeria Banking Industry*. published by Elservier B.V, September.

Nnanna, O. J. (2004). *Beyond Bank Consolidation: The Impact on Society.*

Okafor, R. G. (2012). Performance Evaluation of Nigerian Commercial Banks: Before and After Consolidation. *IJEMR-February 2012-Vol 2 Issue 2-Online-ISSN 2249-2585-Print-ISSN 2249-8672*.

Oladejo, M. O. & Oladipupo, A. U. (2011). Capital Regulation and the Performance of the Nigerian Banks: Need for Review. *Journal of Emerging Trends in Economics and Management Sciences 2 (3): 215-224*.

Olajide, B. (2006). Consolidated Banks and Challenges of International Market. *The Guardian* April 5,2006.

Soludo, C. C. (2004). *Consolidating the Nigerian Banking Industry to Meet the Development Challenges of the 21st Century*. Being text of Address Delivered at the special Meeting of the Bankers` Committee, July 6, CBN Headquarters, Abuja

Soludo, C. C. (2004). Guidelines and Incentives on Consolidation in the Nigerian Banking Industry. *This Day Newspaper, August 6.*

Somoye, R. O. C. (2006). Bank Consolidation in Nigeria: The Macroeconomic Expectation. *Babcock Journal of Management and Social Sciences. Vol5, No.1, September, ISSN:1597-3948.*

Somoye, R. O. C. (2008). The Performances of Commercial Banks in Post-Consolidation Period in Nigeria: An empirical review. *European Journal of Economics, Finance and Administrative Sciences,14.*

Sulaiman, A. A., Akeke, N.I. & Fapohunda, F.M. (2011). Capital Reforms and Performance of Nigerian Banking Sector. *IJBMT-December 2011-Vol.1 No.3-ISSN 2249-9962.*

Uchendu, O. A. (2005). Banking Sector Reforms and Consolidation: The Malysian Experience. Bullion,29(2).

APPENDIX I

***Table x*: Pre-consolidation Era (Computed Data from 2000-2004)**

Year	ROE	CAR	ROA	PBT	SHF	TA	CLA
2000	0.22596	2.124575	0.02319	807877.9	2262196	25539477	6258751
2001	0.31465	2.262695	0.027505	1540145	3890337	31809884	10928682
2002	0.287675	2.40411	0.03023	1891039	6611485	37685003	15889577
2003	206.4404	2.649835	0.03321	2782103	7833935	46877346	19418873
2004	0.26764	2.614045	0.02919	2871113	9415288	49001962	24896282

Table y: Post-consolidation Era (Computed Data from 2006-2011)

Year	ROE	CAR	ROA	PBT	SHF	TA	CLA
2006	0.083405	2.069045	0.01947	4553769	34863603	1.7E+08	71492124
2007	0.206725	2.50195	0.03332	11490672	57794734	3.01E+08	1.31E+08
2008	0.209695	1.7297	-0.00525	15204361	1.15E+08	7.52E+08	2.1E+08
2009	-0.17332	2.61368	-0.00956	2987818	91698559	3.31E+08	2.43E+08
2010	0.125015	1.7784	0.017016	11031932	92647930	3.19E+08	2.62E+08
2011	-0.0285	2.652635	0.002675	7956739	99582316	4.17E+08	2.98E+08

APPENDIX II

Pre-consolidation

Model Summary

Equation 1	Multiple R	.884
	R Square	.781
	Adjusted R Square	.126
	Std. Error of the Estimate	.003

ANOVA

		Sum of Squares	Df	Mean Square	F	Sig.
Equation 1	Regression	.000	3	.000	1.192	.573
	Residual	.000	1	.000		
	Total	.000	4			

Coefficients

		Unstandardized Coefficients				
		B	Std. Error	Beta	t	Sig.
Equation 1	(Constant)	.045	.052		.859	.548
	PBT	1.756E-8	.000	4.121	.639	.638
	TA	-1.458E-9	.000	-3.908	.	.
	SHF	8.158E-10	.000	.642	.	.

Post-consolidation

Model Summary

Equation 1	Multiple R	.989
	R Square	.979
	Adjusted R Square	.947
	Std. Error of the Estimate	.004

ANOVA

		Sum of Squares	Df	Mean Square	F	Sig.
Equation 1	Regression	.001	3	.000	31.050	.031
	Residual	.000	2	.000		
	Total	.001	5			

Coefficients

		Unstandardized Coefficients				
		B	Std. Error	Beta	t	Sig.
Equation 1	(Constant)	.026	.006		4.731	.042
	PBT	3.524E-9	.000	.986	.	.
	TA	-7.710E-11	.000	-.929	.	.
	SHF	-2.240E-10	.000	-.406	.	.

APPENDIX III

Pre-Consolidation

Model Summary

Equation 1	Multiple R	.994
	R Square	.988
	Adjusted R Square	.952
	Std. Error of the Estimate	.049

ANOVA

		Sum of Squares	Df	Mean Square	F	Sig.
Equation 1	Regression	.200	3	.067	27.311	.140
	Residual	.002	1	.002		
	Total	.202	4			

Coefficients

		Unstandardized Coefficients				
		B	Std. Error	Beta	T	Sig.
Equation 1	(Constant)	1.424	.743		1.916	.306
	PBT	1.293E-8	.000	.050	.033	.979
	TA	2.978E-8	.000	1.313	.647	.635
	SHF	-2.926E-8	.000	-.378	-.515	.697

Post-Consolidation

Model Summary

Equation 1	Multiple R	.572
	R Square	.327
	Adjusted R Square	-.683
	Std. Error of the Estimate	.544

ANOVA

		Sum of Squares	Df	Mean Square	F	Sig.
Equation 1	Regression	.288	3	.096	.324	.813
	Residual	.592	2	.296		
	Total	.880	5			

Coefficients

		Unstandardized Coefficients				
		B	Std. Error	Beta	t	Sig.
Equation 1	(Constant)	2.545	.798		3.189	.086
	PBT	-5.013E-8	.000	-.550	-.651	.582
	TA	-3.024E-10	.000	-.143	.	.
	SHF	2.915E-9	.000	.207	.203	.858