THE EFFECTS OF MERGERS AND ACQUISITIONS ON THE PERFORMANCEOF COMMERCIAL BANKS IN NIGERIA: *Evidenced from United Bank for Africa (UBA) plc*

BY

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ABSTRACT

The performance of the financial sector plays a vital role in the development of any economy. However, the performance of the banking industry in Nigeria over the years has been characterized by inefficiencies, a high regime of insolvency, serious incidence of distress, vulnerability to systemic financial crises and macro-economic instability. This study evaluated the effects of mergers and acquisitions on the performance of commercial banks in Nigeria with a particular interest in United Bank for Africa (UBA) Plc. Using the Capital, Asset, Management, Earnings, and Liquidity (CAMEL) criterion, the research made use of secondary data, obtained from the bank's annual reports and statements of accounts. Covering a period of 2000-2010, the work evaluated the performance of the bank before and after mergers and acquisitions, the using pair sample t-test. The results showed that mergers and acquisitions had positive, significant effects on the performance of commercial banks in Nigeria. Based on the findings, the study recommended among others, that the Central Bank of Nigeria (CBN) should set and enforce capital adequacy standards for commercial banks. The study also recommended that UBA Plc, and by extension, commercial banks in Nigeria should embark on more training and re-training programmes for their management to improve management competency.

Key words: Mergers, Acquisitions, CAMEL and performance

1.0 Introduction

The banking industry of any nation is the key driver of its economy. It is the prime mover of the economy as no economic activity will sail smoothly without adequate funds, the bulk of which is provided by the banking sector. Banks therefore occupy a significant place in the economy of every nation. It is therefore not surprising that their operations are perhaps the most heavily regulated and supervised of all businesses (Soyibo and Adekanye, 1991).

Banks play a crucial role in propelling the entire economy of a nation. It is therefore necessary to reposition them for efficient financial performance through a reform process geared towards forestalling bank distress. The performance of banks in Nigeria prior to the 2004 consolidation exercise could be described as being characterized by a high regime of insolvency, vulnerability to systemic financial crises and macro-economic instability (Obideyi, 2006). There was a serious incidence of distress and technical insolvency in the banking sector; the capital base of the banks was so low that they could not absorb losses occasioned by non-performing risk assets, keen competition and poor management. Okpanachi (2011), observes that most Nigerian banks could not perform well due to operational hardship and expansion bottlenecks as a result of heavy fixed and operating costs. There were also serious cases of insider abuse, loss of confidence by the customers and shareholders of the banks and long customer queues in the banking halls. Generally, the level of capitalization of the banks was quite low and they exhibited various forms of weaknesses and bankruptcy (SEC Quarterly, 2005). Earlier recapitalizations exercises, particularly those of 2000 and 2001 which raised the capital base of merchant and commercial banks to a uniform level of ₦1 billion and ₦2 billion respectively, were discovered to be inadequate for the survival of the Nigerian economy (Bakari, 2011). This led the Central Bank of Nigeria (CBN) to direct all commercial banks to raise their paid-up capital to a minimum of ₦25 billion or consolidate through mergers and acquisitions by December 31, 2005. According to Soludo (2004), the major goals of the CBN consolidation exercise were to: (i) create a sound and more secure banking system that depositors could trust (ii) build domestic banks that investors could rely upon to finance investments in the Nigerian economy and (iii) improve bank's efficiency and encourage competition with the goal of lowering interest rates and providing affordable credits to the economy, among others.

Following the 18 months ultimatum given by the Central Bank of Nigeria with effect from July 1, 2004 to all deposit-taking banks in Nigeria to increase their paid-up capital to a minimum of ₦25 billion with a deadline of December 31, 2005, most banks resorted to mergers and acquisitions to achieve the feat. This directive led to an unprecedented number of mergers among Nigerian banks within a space of eighteen months, between July 2004 and December 2005 (Anthony, 2008). In order to meet the ₦25 billion dateline, United Bank for Africa (UBA) Plc, pursued the mergers and acquisitions option and by December 31, 2005 the bank had successfully merged with Standard Trust Bank Plc and Continental Trust Bank Limited (CBN Annual Report, 2005). Since December 31, 2005, a number of Nigerian banks have in their pursuit of growth resorted to raising additional capital from the capital market via public offerings while others have been acquiring those banks that were unable to recapitalize or could not sustain operations on their own (Anthony, 2008).

A strong and virile economy depends to a very large extent on a robust, stable and reliable financial system, particularly the banking sector. With the successful recapitalization exercise, commercial banks in Nigeria were expected to be virile and optimally efficient. But how far the exercise has made commercial banks in Nigeria to be virile, sound, strong and efficient so as to maximise their contribution to the growth of the economy is not very clear.

It is in the light of the above that this study seeks to evaluate the effects of mergers and acquisitions on the performance of commercial banks in Nigeria with a particular reference to United Bank for Africa (UBA) Plc.

The corresponding hypothesis for the study, stated in the null form, is: There is no difference in the performance of UBA Plc before and after the mergers and acquisitions exercise.

The purpose of the hypothesis is to assess the performance of the bank in terms of capital adequacy, asset quality, management competency, earnings and liquidity efficiency. The findings and recommendations of the study would be generalised to apply to all commercial banks in Nigeria.

2.0 Theoretical framework

2.1 Bank concentration theory

Concentration refers to the degree of control of economic activity by large firms (Sathye, 2002). Bank concentration theory is linked to the work of Demirguc-kunt and Levine (2000) and that of Boyd and Runkle (1993). According to Demirguc-kunt and Levine (2000), bank concentration implies a fewer number of banks. A smaller number of banks may facilitate bank supervision and monitoring by the private sector with beneficial spill over for overall banking sector stability. Concentration theory of banks is often related to the concept of economies of scale. Increases in concentration levels could be due to considerable size enlargement of the dominant firms and/or considerable size reduction of the non-dominant firms. Conversely, reduction in concentration levels could be due to considerable size reduction of the dominant firms and/or considerable size enlargement of the non-dominant firms.

The degree to which banking market structure matters for competition and performance is a hotly debated topic. As a result of lack of consensus on the matter, a number of bank concentration theories now exist. In the main, these theories could be classified into pro- concentration theories and pro-deconcentration theories.

Therefore, the theoretical analysis of the bank concentration theory shall be based on these two aspects of the theory; pro-concentration theory and the pro-deconcentration theory.

Pro-concentration theory

Proponents of banking sector concentration argue that economies of scale drive bank mergers and acquisitions (increasing concentration), so that increased concentration goes hand-in-hand with efficiency improvements. Demirguc-kunt and Levine (2000), suggest that greater bank concentration enhances bank stability, Proponents of this ‘concentration-stability’ view argue that larger banks can diversify better so that banking systems characterized by a few large banks will tend to be less fragile than banking systems with many small banks (Allen and Gale, 2003). Concentrated banking systems may also enhance profits and therefore lower bank fragility. High profits provide a buffer against adverse shocks and increase the franchise value of the bank. Furthermore, a few large banks are easier to monitor than many small banks, so that corporate control of banks will be more effective and the risks of contagion less pronounced in a concentrated banking system (Beck, Demirguc-Kunt and Levine, 2003). This indicates that crises are less likely to occur in more concentrated banking systems. In other words, the theory suggests that a less concentrated banking sector with many small banks is more prone to financial crises than a concentrated banking sector with a few banks.

According to Demirguc-kunt and Levine (2000), increased concentration goes hand-in-hand with efficiency improvements. In terms of stability, greater concentration may augment the size, market power, and profits of banks, and thereby enhance diversification and create greater incentives for secure banks to avoid imprudent risk-taking.

Thus, the pro- concentration theory advocates for few large banks in the banking industry, believing that large banks are "too big to fail", less vulnerable to banking crises and that they could be easily monitored and controlled.

Pro-deconcentration theory

Acccording to the proponents of the deconcentration theory, concentration will intensify market power and political influence of financial conglomerates, obstruct competition in and access to financial services, reduce efficiency, and destabilize financial systems as banks become too big to discipline and use their influence to shape banking regulations and policies (Demirguc-kunt and Levine, 2000).

Demirguc-Kunt and Levine (2000) also argue that concentration may not only lead to banks that are too-big-to-fail and too-big-to discipline, concentration may create banks that disproportionately shape society's policies, regulations, and institutions governing banking sector activities. Similarly, large, politically influential banks may help shape the policies and regulations influencing banks' activities in ways that help banks, but not necessarily in ways that help the overall economy. For instance, concentrated banks may seek to stifle stock market development by pushing for higher taxes on capital gains and by discouraging regulations that protect the rights of small investors and promote accounting transparency. To boost the profitability of large clients, powerful banks may also seek to control "unruly" markets by weakening anti-trust laws and other policies designed to promote competition.

Another pro-deconcentration position is that a more concentrated banking structure enhances bank fragility. Advocates of this 'concentration-fragility' view note that larger banks frequently receive subsidies through implicit 'too big to fail' policies that small banks do not enjoy. This occurs when regulators fear potential macroeconomic consequences of large bank failures. The greater subsidy for larger banks may in turn intensify risk-taking incentives beyond any diversification advantages enjoyed by them, thereby increasing the fragility of concentrated banking systems (Boyd and Runkle, 1993).

Proponents of the concentration-fragility view disagree with the proposition that a few large banks are easier to monitor than many small banks. They believe that increased banking concentration will reduce the availability of credit supply to the economy, as concentration of banks will reduce small and medium scale enterprises' access to credit facilities.

The policy implication of the pro-deconcentration theory is that higher market concentration is associated with lower socio-economic welfare thus, higher concentration is undesirable. The theory therefore, advocates for a less concentrated banking sector with many small banks.

2.2 "Eat or be Eaten" theory of mergers

The "Eat or be eaten" theory of mergers was propounded by Gorton, Kahl and Rosen (2005), as a response to the various merger waves experienced in the United State in the 1960s up to the late 1990s. Gorton, Kahl and Rosen (2005) combine elements of neoclassical and behavioural theories in a new theoretical framework called Eat or Be Eaten.

The Eat or be eaten theory presents a model of defensive mergers and acquisitions. The theory argues that mergers and acquisitions can occur when managers prefer that their firms remain independent rather than be acquired. The theory further assumes that managers can reduce their chances of being acquired by acquiring another firm and hence increasing the size of their own firm.

According to Gorton, Kahl and Rosen (2005), the basic elements of the “eat or be eaten” theory is based on the following assumptions: First, managers may have a preference for keeping their firms independent. Managers of acquired firms are likely to play subordinated roles in the new firms or may even lose their jobs. Secondly, there is a state of the world in which at least some mergers generate value. Thirdly, a firm of a given size cannot acquire a larger firm. The larger the acquisition, the more difficult it is to finance.

The assumption that a firm cannot acquire a firm that is larger than itself implies that a firm can reduce its chance of being acquired by acquiring another firm smaller than it. This increases its size, which then reduces the number of other firms that are potential acquirers. Merger waves arise because of the externalities involved in defensive mergers: one firm’s defensive acquisition makes other firms more vulnerable as takeover targets, which induces them to make defensive acquisitions themselves, resulting in a race for firm size.

Thus, the potentially profitable acquisition opportunity for one firm can lead to an “eat or be eaten” merger wave.

Gorton, Kahl and Rosen (2005) also observe that managerial self-interest could lead to inefficient mergers and acquisitions decisions. Often, managers make defensive mergers that protect their jobs at the expense of their shareholders. They may do so even if the expected synergies of the mergers are negative.

The underlying idea is that, sometimes, maximization of private benefits of control weighs heavier for managers than looking after shareholder value. Then, when there is an expectation of a future industry shock that may make at least one acquisition profitable, some managers will try to look to the survival of their firm and, at least as important, their own positions, by engaging in pre-emptive acquisitions now, even if these acquisitions destroy shareholder value.

Thus, the policy thrust of the “eat or be eaten” theory is that mergers and acquisitions could take place either to avoid being acquired by other firms, maintain company’s independence, increase a firm’s size or protect its managers’ jobs. In other words, managerial defensive motives may be the reason for mergers and acquisitions as managers may want to make acquisitions to increase their firm’s size and hence reduce the likelihood of their firms being taken over.

In a way of linkage, the theory that best explains the mergers and acquisitions exercise of 2004-2005, is the bank concentration theory, particularly, the pro-concentration theory.

Though the 2004-2005 mergers and acquisitions exercise in Nigeria was driven by the apex bank’s policy, the policy aimed, among others, at increasing the concentration of banks in Nigeria by reducing the number of banks, deepening the financial sector and repositioning it for growth. However, for UBA Plc as an institution, apart from abiding by the apex bank’s policy of mergers and acquisitions which is best explained by the pro-concentration theory, the theories that explain why the bank opted for mergers and acquisitions could be linked to the “eat or be eaten theory” and the “neo-classical theory” of Economics.

2.3 Agency theory

Mergers and acquisitions can end up destroying value rather than creating synergies even though managers act fully rationally. The literature of agency theory throws light on how managers’ interest in maximizing their own utility can lead to decisions that are not in the interest of the shareholders. However, the decisions are fully conscious and are a result of opportunism rather than irrational behaviour (Bjarke and Peter, 2010).

Agency theory originated from economics, specifically information economics (Kivisto, 2007). According to Moe (1984), the theory was initially developed to investigate more general questions of incomplete information and risk sharing. Moe (1984), mentioned the work of Spence and Zeckhauser (1971), Rose (1973) and Arrow (1971) as the originators of agency theory. Their work which focused on property rights and addressed issues concerning contracts, shirking and monitoring of team production was expanded by Jensen and Meckling (1976).

Jensen and Meckling (1976), define the agency paradigm as: *"... a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent. If both parties to the relationship are utility maximizers there is good reason to believe that the agent will not always act in the best interest of the principal."*

To Jensen and Meckling (1976), Agency Theory is specifically directed at the ubiquitous agency relationship in which one party (the principal) delegates works to another (the agent), who performs that work.

The central idea is that the Principal is always too busy to do a given job and so hires the Agent and pays the agent's wage. But being too busy also means that the Principal cannot monitor the Agent perfectly. The Agent receives the wage but also takes costly decisions for the firm.

The agency theory assumes full rationality for both the owners and managers (Thomsen, 2008). Conflict of interest between the two parties will in agency theory be analyzed with an opportunistic behavioural assumption. Hence, the agent will always work for his personal interest and will take advantage of the superior information to own-benefit, as in what Gorton, Kahl and Rosen (2005) referred to as *eat or be eaten* mergers decisions to protect managers' job.

The policy thrust of the agency theory is that most if not all mergers and acquisitions bids are not to the benefits of share holders and business owners and may not yield any synergies since managers always have superior information of the business prospects and would take advantage of every opportunity to satisfy their personal interest.

3.0 Conceptual and empirical literature

3.1 The meaning of Mergers and Acquisitions

According to Anthony (2008), a merger refers to the combination of two or more organisations into one larger organisation. Such actions are commonly voluntary and often result in a new organisational name (often combining the names of the original organisations). An acquisition, on the other hand, is the purchase of one organisation by another. Such actions can be hostile or friendly and the acquirer maintains control over the acquired firm. To Umar (2009), a merger is a transaction involving two or more companies in which shares are exchanged but in which only one company survives. Mergers usually occur between firms of somewhat similar size and are usually friendly. The resulting firm is likely to have a name derived from its composite firms, while an acquisition is the purchase of a company that is completely absorbed as an operating subsidiary or division of the acquiring company. Okpanachi (2011), views mergers and acquisitions as global business terms used in achieving business growth and survival. A merger entails the coming together of two or more firms to become one big firm while acquisition is the taking over or purchase of a small firm by a big firm, both of which are pursuing similar motives.

Therefore, a merger can be seen as the combination or amalgamation of two or more separate companies into a single company where one survives and the others lose their corporate existence while acquisitions can be seen as the taking over of the controlling shareholding interest of another company. Usually, at the end of the process, there exist two separate entities or companies. The target company becomes a division or a subsidiary of the acquiring company.

According to Ransariya (2010), a merger can be taken as an abbreviation which means:

M: Mixing
E: Entities
R: Resources for
G: Growth
E: Enrichment and
R: Renovation

Thus, one can conveniently refer to a merger as the mixing of entities' resources for growth and renovation.

Basically, mergers and acquisitions are forms of consolidation. The terms mergers, acquisitions and consolidation are often confused, appear similar and are mostly used interchangeably. However, the three have different meanings. Unlike mergers and acquisitions, consolidation refers to the fusion of two or more existing companies into a new company in which the former companies are extinguished or losses their identities. According to Okonkwo (2004), consolidation is a business combination where two or more companies join to form an entirely new company, all the combining companies are dissolved and only the new entity continues to operate. To Ajayi (2005), consolidation is viewed as the reduction in the number of banks and other deposit-taking institutions with a simultaneous increase in size and concentration of the consolidated entities in the sector.

The 2005 CBN bank consolidation policy was therefore aimed among others at reducing the number of banks in Nigeria, deepening the financial sector and repositioning it for growth. In order to achieve the objective of the policy, most Nigerian banks opted for the option of consolidation through mergers and acquisitions.

3.2 The Rationale for Mergers and Acquisitions

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

The various institutional and technical weaknesses exhibited by the Nigerian banking industry and the need to improve its intermediation functions and reposition it for efficient performances are the main reasons for mergers and acquisitions of banks in Nigeria. According to Solodu (2004), banking reforms are designed to enable the banking system develop the required flexibility to support the economic development of the nation by efficiently performing its functions as the pivot of financial intermediation. To Adegbeju and Olokoyo (2008), capitalization is an important component of reforms in the Nigerian banking industry, owing to the fact that a bank with a strong capital base has the ability to absolve losses arising from non-performing liabilities. Capitalization requirements may be achieved through consolidation of existing banks or raising additional funds through the capital market.

Anthony (2008), opines that the concept of synergy is the underlying reason for mergers and acquisitions. Synergy is the interaction or cooperation of two or more organisations to produce a combined effect greater than the sum of the two organisations operating independently. Mathematically, this can be stated as: Value (A + B) > Value (A) + Value (B). The explanation for this occurrence is that either the firms were not performing to optimal level prior to merging or that benefits were achieved by the merger. Following this logic, firms are motivated to involve in mergers and acquisitions in order to create synergies. To Uchendu (2005), banking sector reforms and its sub-component, bank consolidation, have resulted from a deliberate policy response to correct perceived or impending banking sector crises and subsequent failures.

The Securities and Exchange Commission Quarterly (2006), revealed that most banks merged while some were acquired others as a policy-driven directive from the apex bank. However, there are a variety of reasons why banks opted for mergers and acquisitions. These reasons include: to gain operating economies by eliminating duplications and unhealthy competitions, to acquire aggressive and competent management, to diversify and improve quality of earnings and to seek rapid growth, improve liquidity and financial stability of the bank. According to Anthony (2008), there can be many and varied reasons for the purchaser seeking to acquire other companies. These reasons may include: to enter a more profitable market, to diversify or expand its products and to avoid the expenses of starting up in a new business, field or industry. On the other hand, sellers may want, among other things, to be acquired to be able to secure new or additional financing, or meet the liquidity asset needs of its owner such as the marketable securities of the acquirer.

Imala (2005), identified eight reasons for mergers and acquisitions in the financial services sector. They include:

a. Cost savings; attributable to economies of scale as well as more efficient allocation of resources.
b. Revenue enhancement; resulting from the impact of consolidation on the bank size, scope, and its overall market power.
c. Risk reduction; due to change in organizational focus and efficient organizational structure.
d. New developments; which impose high fixed costs and the need to spread these costs across a large customer base.
e. The advent of deregulation; which removes many important legal and regulatory barriers.
f. Globalisation; which engenders a more globally integrated financial services industry and facilitates the provision of wholesale financial services and geographical expansion of banking operations.
g. Financial stability; characterized by the smooth functioning of various components of the financial system, with each component resilient to shock.
h. Shareholders’ pressure on management to improve profit margins and returns on investment, made possible by new and powerful shareholder blocks.

Though, mergers and acquisitions of banks in the Nigerian economy started as the apex bank driven-policy, the reforms were designed to enable the banking system develop the required flexibility to support the economic development of the nation by efficiently performing its functions as the pivot of financial intermediation. Thus, the reforms were to ensure a diversified, strong and reliable banking industry where depositors’ money was safe, and position banks to play active developmental roles in the Nigerian economy.

3.3 Trend of banks recapitalization in Nigeria

According to Bakari (2011), recapitalization of banks in Nigerian dated back to 1952 when the first banking ordinance was passed. Adegbaju and Olokoyo (2008) opined that since then, the

Nigerian banking system had undergone remarkable changes, in terms of the number of institutions, ownership structure as well as depth and breadth of operations. The authors also observed that these changes were influenced largely by challenges posed by the deregulation of the financial sector, globalization of operations, technological innovations and the adoption of supervisory and prudential requirements that conformed to international standards.

The first round of recapitalization in Nigeria was in 1952 when the then Colonial Government introduced a minimum capital requirement for banks, especially the foreign banks, of ₤12,500. Since then, the issue of bank recapitalization has continuously re-occurred not only in Nigeria, but generally around the world. In 1969, the paid-up capital was increased from ₤12, 500 to ₤300,000 pounds (Bakari, 2011).

In 1969, when merchant banks came on board, the Nigerian banking authorities set the capital base for merchant banks at ₦600,000 and ₦ 2 million for commercial banks. From 1988, there were further increases in the capital base, particularly coupled with the liberalization of the financial system enshrined in the Structural Adjustment Programme introduced in 1986. In February 1988, the capital base for commercial banks was increased to ₦5 million while that of Merchant banks was increased to ₦3 million, and in October that same year, it was jerked up to ₦10 million for commercial banks and ₦6 million for merchant banks. In 1989, there was a further increase to ₦20 million for commercial banks and ₦12 million for Merchant banks.

Bakari (2011), opined that, in recognition of the fact that well-capitalized banks would strengthen the banking system for effective monetary management, the monetary authorities increased the minimum paid-up capital of commercial and merchant banks in 1991 to ₦50 million and ₦40 million respectively. In 1997 the minimum paid-up capital of merchant and commercial banks was consequently raised to a uniform level of ₦500 million, and was further raised to a uniform level of ₦1 billion and ₦2 billion in 2000 and 2001 respectively.

Finally in year 2005, the central bank of Nigeria brought into force the risk weighted measure of capital adequacy recommended by the Basle Committee of the Bank for International Settlements and raised the minimum capital to ₦25 billion (Bakari, 2011). Banks resorted to mergers and acquisitions to meet this requirement. By the end of 1995, the number of banks had been pruned from 89 to 25. Since then, the numbers of Nigerian banks has been falling through mergers and acquisitions: Stanbic Bank Limited merged with IBTC-Chartered Bank, Ecobank Plc acquired Oceanic Bank Plc, Access Bank Plc acquired Intercontinental Bank and the acquisition of Keystone Bank by Skye Bank has almost been completed; however, a new bank, Heritage Bank, was also licensed.

3.4 Empirical Literature

This section discusses some empirical works on the effects of mergers and acquisitions on the performances of banks.

Soludo (2004), argues that mergers and acquisitions are aimed at achieving cost efficiency through economies of scale, and to diversify and expand the range of business activities for improved performance. Ajayi (2005) and Uchendu (2005) also support this view. To Oladejo and Oladipupo (2011), the major purpose of the various financial sector reforms is to strengthen the banking industry and position it to meet world standards. Bank supervision entails not only the enforcement of rules and regulations, but also judgment concerning the soundness of banks' capital adequacy, assets, management, earnings and liquidity.

Kouser and Saba (2012), potulate that Capital, Assets, Management, Earnings and Liquidity (CAMEL) is an appropriate and simple model for the evaluating the financial and managerial performance of institutions. They argue that the CAMEL is commonly used for the evaluation of performance and ranking. The study made comparison between the performance of pure Islamic banks, conventional and mixed banks in Pakistan. The ratios of the banks' performance defined by the CAMEL model were analyzed using ANOVA to investigate any significant difference. The analysis found that, Islamic banks had developing set up. In other words, Islamic banks fare better than conventional and mixed banks in Pakistan.

Okpanachi (2011) conducted a comparative analysis of the impact of mergers and acquisitions on financial efficiency of banks in Nigeria. The study whose major objective was to make a comparative analysis of the impact of mergers and acquisitions on the financial efficiency of banks in Nigeria, made use of gross earnings, profit after tax and net assets of three selected banks namely, Access Bank Plc, First Bank of Nigeria Plc and Wema Bank Plc, extracted from their annual reports and accounts as indices to determine financial efficiency of the banks by comparing pre-mergers and acquisitions indices with the post-mergers and acquisitions indices for the period 2002 to 2008. The period 2002 to 2004 was considered as pre-merger period, 2005 as base year while year 2006 to 2008 were considered as post-merger period. This was done to determine if there were any significant difference between the efficiency of the banks in terms of gross earnings, profit after tax and net assets.

The secondary data (gross earnings, profit after tax and net assets), were analyzed by applying the t-statistic, using the Statistical Package for Social Sciences. The results showed that the post-mergers and acquisition period was more financially efficient than the pre-mergers and acquisitions period and recommended that banks should be more aggressive in their profit drive to improve their financial position and thereby reap the benefits of mergers and acquisitions.

Similarly, Berger and Humphrey (1992), found that banking organizations significantly improved their profit efficiency ranking after mergers. De Young (1997) also found that when both the acquirer and the target were poor performers, mergers resulted in improved cost efficiency. However, an examination of all commercial banks and bank holding company mergers and acquisitions occurring between 1982 and 1986 by Healy et al. (1992), revealed that mergers and acquisitions did not reduce non-interest expenses that could have led to improved efficiency.

Adegbaju and Olokoyo (2008) conducted a study which investigated the impact of previous recapitalizations in the Nigerian banking system on the performance of banks. The study which covered all insured banks in Nigeria adopted a simple ratio analysis, using specifically profitability ratios, to evaluate the performance of banks three years before the 2001 recapitalization exercise and comparing it with the performance of the banks three years after the recapitalization exercise. The ratios used included: (a) Yield on earnings assets representing the percentage of return an institution receives on its earnings assets where earnings assets include all assets that generate explicit interest income or lease receipts and are defined as Total Assets less Non Earning Assets. (b) Return on equity (that is, rate of return to the shareholders) measured as net income after taxes divided by total equity capital. (c) Return on Assets (an indicator of managerial efficiency showing the capability of management to convert the assets of the bank into net earnings), defined as net income after taxes divided by total assets. The data were obtained from the Nigerian Deposit Insurance Corporation's annual reports. The data were analysed with the t-statistic to test the equality of the means of the key profitability ratios of the pre- and post-2001 key profitability ratios of banks.

The study revealed that that the difference between the means of key profitability ratios such as the Yield on Earnings Assets (YEA), Return on Equity (ROE) and Return on Asset (ROA) were significant, suggesting that there is a statistical difference between the mean of the banks before and after the 2001 the recapitalization exercise. However, in order for the banks to generate more income on their assets and improve their returns on equity, the study recommended that banks should improve on their total assets turnover and diversify their funds.

On the other hand, a research conducted by Umar (2009) on the impact of banking industry recapitalization on employment in Nigerian banks revealed that there was a reduction in employment in the banking industry between 1999 and 2001 and an appreciable increase in employment in the Nigerian banking industry after the consolidation exercise, from 2006 up to 2008. This increase in employment was attributed to significant increases in the banks' total assets, shareholders' funds and branch networks of the banks after consolidation. Ebong (n,d.), also opined that consolidation would have a positive effect on employment in the long run and would drastically alter and redefine the nature of competition in the banking industry. However, the work of John (2006), indicates that mergers were followed by a decrease in the number of staff employed by the bank. Similarly, Adegbaju and Olokoyo (2008) found that return on equity was quite low after recapitalization which implies that share holders receive low returns as dividend after recapitalization. Return on assets also fell after recapitalization which shows that management of the banks had not been able to effectively convert the bank's assets into net earnings after the recapitalization.

According to Okpanchi(2006), merged firms enhanced the ability to attract loans, increased employee's productivity and net assets growth and that this was evident in the Nigerian banking industry. Adeyemi (n.d.), in his study titled "Banking Sector Consolidation in Nigeria: Issues and Challenges", also pointed out that mergers and acquisitions might lead to improved productivity of employees and the general performance of the banks due to the integration of ICT packages and good corporate governance.

Investigating the effects of mergers and acquisitions on the efficiency of financial intermediation in the Nigerian banking industry, Emumilade (2010) found that mergers and acquisitions had improved the operations of banks, particularly, competitiveness and efficiency of the borrowing and lending operations of the Nigerian banking industry.

Alao (2010) carried out a study titled "Mergers and Acquisitions (M&A's) in the Nigerian Banking Industry: An Advocate of Three Mega Banks" investigated the performance of the twenty-five Nigerian banks which survived after the 2004/2005 consolidation exercise. Adopting a more analytical approach, the study revealed that mergers and acquisitions did not waste resources but rather generated substantial gains which represented gains to economic efficiency. Alao (2010), therefore recommended a further shrinking of the Nigerian banks system to only three (3) mega banks with a capital base of ₦300 billion each.

Bakari (2011) conducted a study which examined the trend and growth implications of bank's recapitalization in Nigeria using secondary data which were analysed with the aid of t-statistic and test of equality of means for the period before and after recapitalization. The results showed that that there was a significant difference between the two means and hence the two periods. The results indicated that the post-recapitalization's mean was higher than that of the pre-recapitalization, implying that banks were more adequately capitalized and less risky after the programme. The result also indicated that recapitalization had low but significant influence on the growth of the Nigerian economy.

Similarly, Fadare (2010) investigated the effects of banking reforms on economic growth in Nigeria over the period 1999-2009. Using the ordinary least squares regression technique, the study established that interest rate margins, parallel market premiums, total banking sector credit to the private sector, inflation rate, inflation rate lagged by one year, size of banking sector capital and cash reserve ratios accounted for a very high proportion of the variation in economic growth in Nigeria. The findings of the study showed that, although there was a strong and positive relationship between economic growth and the total banking sector capital, the relationship between economic growth and other exogenous variables of interest rate margins, parallel market premiums, total banking sector credit to the private sector, inflation rate and cash reserve ratio revealed the wrong signs.

In the study by Adeyemi (n.d.), of banking sector consolidation in Nigeria cited earlier, the author showed that the programme could lead to the emergence of a sound and efficient financial system that would support the growth and development needs and aspirations of the Nigerian economy and called for continuous training and retraining of staff as well as the proper handling of the challenges that might arise after consolidations.

Thus, studies on consolidation, mergers and acquisitions have yielded mixed results as to whether the policy improved the performance of banks. Judging from the empirical review, one could say that mergers and acquisitions do not always transform into good performance of the banks and it is not only capital that makes for good performance of banks. However, many studies indicate that mergers and acquisitions in the Nigerian economy made the banking industry more efficient and had improved the performance of the industry.

Most studies on bank consolidation adopted a rather narrow approach. For instance, Okpanachi (2011) attempted to relate mergers and acquisitions to performance. However, the study narrowed the performance of the banks to financial performance. Similarly, Adegbaju and Olokoyo (2008) used only profitability ratios to assess the performance of the banks.

This study therefore, bridges the missing gap by assessing the performance of banks on a wider spectrum, adopting the CAMEL criterion which examines the performance of the selected bank in terms of capital adequacy, asset quality, management competency, earnings and liquidity efficiency in addition to employment creation and credit advancement by the bank.

4.0 Methodology

The study analysed the data using both descriptive and analytical tools. In addition to tables, percentages and graphs, the CAMEL criterion was employed as a framework for analysing the performance of the bank; appropriate ratios were adopted as proxy for capital, asset management, earning and liquidity. The trend of these ratios for the period before and after mergers and acquisitions was tested with the aid of paired sample t- test.

The Paired sample t- test is outlined as follows:

$$t = \frac{\overline{X}_1 - \overline{X}_2}{\sqrt{\frac{S_1^2}{n_1} + \frac{S_2^2}{n_2}}}$$

Where

$\overline{X}_1$ = Mean of the performance indicators of the bank before M&A

$\overline{X}_2$ = Mean of the performance indicators of the bank after M&A

S_1^2 = Sample variance of the performance indicators of the bank before M&A

S_2^2 = Sample variance of the performance indicators of the bank after M&A

t = t- statistic
n = Sample size with $n_1 + n_2 - 2$ degree of freedom

The variables used for analysis were capital, assets, management, earnings and liquidity. These variables were not directly measurable. Consequently, they were proxied by other variables. Capital adequacy ratio (CAR), defined as the ratio of bank's capital to asset was used as proxy for capital adequacy; it reflects the inner strength of the bank. Similarly, the ratio of performing loans to total loans (RPL), was used to measure assets quality. In the same way, return on assets (ROA), defined as the ratio of net income after taxes to total assets, was used as proxy for management efficiency. This ratio is an indicator of managerial efficiency; it indicates how capable the management of the bank has been converting the bank's assets into net earnings. Profit before tax (PBT), was employed as substitute for earnings. Finally, investment deposit ratio (IDR), also known as liquidity ratio, was used in place of liquidity. The ratio is defined as the ratio of liquid assets [cash + deposit with CBN + Treasury Bills + investments in money market (money at call, commercial paper, bankers' acceptances, bills discounted)] to total deposits. This approximates the Central Banks of Nigeria's definition of liquidity ratio.

Data on the variables for the study covered the period 2000-2010. The year 2005, the deadline for the recapitalisation, was taken as the base year while the period 2000-2004 was taken as the pre-merger period with the period 2006-2010 serving as the post-merger period.

The method of data analysis employed by this study was an adaptation of the CAMEL criterion used by Kouser and Saba (2012). It is a procedure that is widely used for the evaluation of performance and ranking of banks. As stated earlier, it assesses bank performance based on capital adequacy, assets quality, management efficiency, earnings and liquidity. The criterion was also used in part by Okpanachi (2011). Similarly, Sangmi and Nazir (2010), also used the criterion.

It was expected that the various performance indicator ratios of the bank for the period after mergers and acquisitions should be higher than those of the previous period. The values of the t-statistic were expected to be negative, indicating that the bank performance had improved after the mergers and acquisition exercise.

5.0 Findings and Recommendations

5.1 Findings:

Capital adequacy ratio (CAR), 2000-2010

As Table 5.2 shows, the bank's capital adequacy ratio was 5.6% in 2000 and fell to 4.5% in 2001 and then, rose to 4.9% in 2002, 6.9% in 2003 and 8.6% in 2004. This indicates an upward trend. However, in 2005, the year of the merger, the ratio fell to 7.1% and further to 5.6% in 2006 after which it rose to its peak of 15.0% in 2007 and later declined to 12.4% in 2008, but rose marginally to 13.4% in 2009. It suffered a slight decline to 13.1% in 2010. The fluctuation in the trend after the mergers may be attributed to the global economic meltdown of 2007-2008. The trend is depicted graphically in Chart 4.1 above.

Since the mean of the CAR for the period after the mergers and acquisition as presented in Table 5.3 and Chart 5.1 is higher than the mean before the exercise, we can say that the exercise had improved the performance of the bank in terms of capital adequacy.

Ratio of performing loans to total loans (RPL), 2000-2010

Generally, as can be seen from Table 5.2, the bank's ratio of performing loans to total loans revealed that the quality of the bank's assets was good. The ratio rose steadily from 66% in 2000 to 70% in 2001, 75.6% in 2002 to 91.5% in 2003, 96.1% in 2004, 96.2% in 2005 and 97.0% in 2006. It fell to 87.0% in 2007; this fall may have been due to the global financial crisis. It then rose to 95.8% in 2008 and later to 99.5% in 2009 and fell again to 91.6%. Furthermore, it is evident from Table 5.3 and Chart 5.1 that the exercise had improved the bank performance in terms of assets quality since the mean of the period after the exercise is greater than that of the period before.

Return on assets (ROA), 2000-2010

ROA is defined as net income after taxes divided by total assets. The bank's return on assets fell from 14.9% in 2000 to10% in 2001and to 9.9% in 2002 after which it rose to 10.2% in 2003 and rose slightly again to 10.3% in 2004 and then fell to 8.8% in 2005 the year of the merger. After the merger, it further fell to 7.2% in 2006 and 6.8% in 2007 and then rose to 7.5% in 2008 and to 11.8% in 2009 and then fell to 8.0% in 2010. The fluctuation in the trend after the mergers is attributed to the global economy meltdown.

Based on the findings of Table 5.3 and Chart 5.1, we conclude that the exercise had not improved the performance of the bank in term of management competency since the mean of the ratio for the period after the exercise is less than that of the period before the exercise.

Profit before tax (PBT), 2000-2010

For a large part of the period under review, the bank's profit before tax increased steadily, rising from ₦ 3.80 billion in 2000 to its peak of ₦ 54. 33 billion in 2008, it recorded the highest annual percentage increase of 34.6% in that year. Thereafter, it declined continuously until 2010 when it stood at ₦ 16.36 billion. The trend is depicted in Table 5.2 The continued decline is attributed to the global economy meltdown.

As the mean ratio of PBT for the period after the exercise is greater than that of the period before the exercise, we conclude that the exercise had improved the bank performance in term of earnings efficiency.

Investment deposit ratio (IDR) 2000-2010

The bank's investment deposit ratio showed a generally rising trend. Starting from 0.8% in 2000, the ratio fell to 0.6% in 2001 but rose to 0.7% in 2002, 1.4% in 2003 and 1.6% in 2004. After suffering a decline in 2005, it rose sharply to 6.5% in 2006, and 8.3% in 2007 before falling to 7.7% in 2008, largely due to the global financial crisis. But it increased dramatically to 13.1% and 28.0% in 2009 and 2010 respectively. The trend in the investment deposit ratio is depicted in Table 5.2.

Furthermore, it is evident from Table 5.3 and Chart 5.1 that the exercise had improved the performance of the bank in terms of liquidity efficiency since the mean of IDR for the period after the exercise is greater than that of the period before the exercise.

5.2 Testing of hypothesis

The research hypothesis states that there is no significant difference in the performance of UBA Plc before and after the mergers and acquisitions exercise. The study used the CAMEL criterion for measuring bank performance - capital adequacy, assets quality, management competency, earnings, and liquidity efficiency – to test this hypothesis. Appropriate proxies were used where the variables could not be observed directly. The test statistic was the paired sample t-statistic. The results for the various ratios before and after the mergers and acquisitions are presented in Table 5.4.

As stated earlier, the decision rule is to reject H_0 if the absolute value of the calculated t-ratio is greater than 2.228 which is the critical value of the t distribution at the 5% level of significance with 10 degrees of freedom. Otherwise, H_0 is accepted.

Table 5.4 shows that the mean difference of the bank's capital adequacy ratio is -5.80. With a *t* -ratio of -3.327, the difference is statistically significant, indicating that the bank is more capital adequate after the mergers and acquisitions. Hence, it can be concluded that mergers and acquisitions had improved the bank's performance in terms of capital adequacy.

Table 5.4 also shows that the mean difference of the bank's ratio of performing loans to total loans which measures the assets quality of the bank is -14.34 with a *t*- ratio of -2.400. The negative difference (-14.34) indicates that the bank's assets quality was better than the pre-merger period while the *t*-ratio of -2.400 which exceeds its critical value shows that this difference was statistically significant. Hence, there was a significant difference in the performance of the bank before and after mergers and acquisitions in terms of asset quality.

The return on assets which measures the bank's management competency yielded a mean difference of 2.800 with a *t*-ratio of 1.889. The positive mean difference indicates that the bank management was more competent before the mergers and acquisitions. However, since the *t*-statistic is less than its critical value of 2.220, the difference in the performance of the bank in terms of management efficiency is not statistically significant. In other words, mergers and acquisitions had neither significantly improved nor worsened the competency of the bank's management.

The mean difference of the ratio of the bank profit before tax was -14.62 with a *t*- ratio of -2.290 indicating that the bank fared significantly better after mergers and acquisitions in terms of earnings.

The bank's liquidity measured by its investment deposit ratio for the period under review gave a mean difference of -11.70 with a *t*-ratio of -3.072. This implies that the bank performed better in terms of liquidity after the mergers and acquisitions. Furthermore, the high *t*-statistic of -3.072 shows that the difference performance was statistically significant. Hence, there was a significant difference in the performance of the bank in terms of liquidity efficiency.

Given these results, the null hypothesis is rejected. Consequently, it is concluded that there is a difference in the performance of UBA Plc before and after the mergers. More specifically, UBA Plc performed better after the mergers and acquisitions except in terms of management competency. This conclusion is consistent with the findings of Emumilade (2010) and Alao (2010) but is contrary to the results obtained by Okpanachi (2011) who found no significant difference between the pre- and post-mergers and acquisitions period of three selected banks in terms of gross earnings, profit after tax and net assets.

5.3 Recommendations

Based on the findings of the study, it is recommended that:

1) The Central Bank of Nigeria (CBN), being the apex regulator of the banking industry, should set and enforce capital adequacy standards for commercial banks. This is necessary as a higher CAR connotes a stronger the bank.
2) Banks should intensify training and retraining programmes for all staff, particularly the management staff, to improve management efficiency.

3) The Central Bank of Nigeria (CBN) is enjoined to carry out frequent appraisals and re-appraisals of the performance of banks in Nigeria to avoid the systemic distress that preceded the banking system before the 2004/2205 consolidation exercise.
4) This study was restricted to UBA Plc. It may be necessary to extend the analysis to other banks. This would provide a basis for comparison.

Table 5.1: UBA's Financial & performance indicators (2000-2010) in million naira

Yrs	Capital	Asset	PBT	Loan & Advance	Perf. Loan	Deposit	Income	Invest.
2000	6782	119987	3804	17325	11435	82518	17866	647
2001	8427	187248	1585	23106	16175	133135	18748	757
2002	9782	198680	2238	40135	30372	131866	19633	944
2003	13767	200995	4816	46076	42177	142427	20518	2049
2004	18059	208806	5608	56136	53982	151929	21403	2387
2005	17702	248928	6239	67610	65582	205110	22016	2835
2006	47621	851241	12514	107194	93259	757407	61200	49543
2007	164821	1102348	26988	320229	306760	897651	74575	74421
2008	188155	1520091	54637	405540	403450	1258036	114530	96397
2009	187719	1400879	22989	543289	535717	1151086	165547	150565
2010	187730	1432632	16359	569312	521466	1119063	113996	313659

Sources: UBA's Annual report and statement of account

Table 5.2: UBA Plc's performance ratios (CAMEL) 2000-2010

	Pre mergers period					**Base year**	**Post mergers period**				
yrs/ratios	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
CAR	5.6	4.5	4.9	6.9	8.6	7.1	5.6	15.0	12.4	13.4	13.1
RPL	66.0	70.0	75.6	91.5	96.1	96.2	97.0	87.0	95.8	99.5	91.6
ROA	14.9	10.0	9.9	10.2	10.3	8.8	7.2	6.8	7.5	11.8	8.0
PBT	2.4	1.0	1.4	3.1	3.6	4.0	7.9	17.1	34.6	14.6	10.4
IDR	0.8	0.6	0.7	1.4	1.6	1.4	6.5	8.3	7.7	13.1	28.0

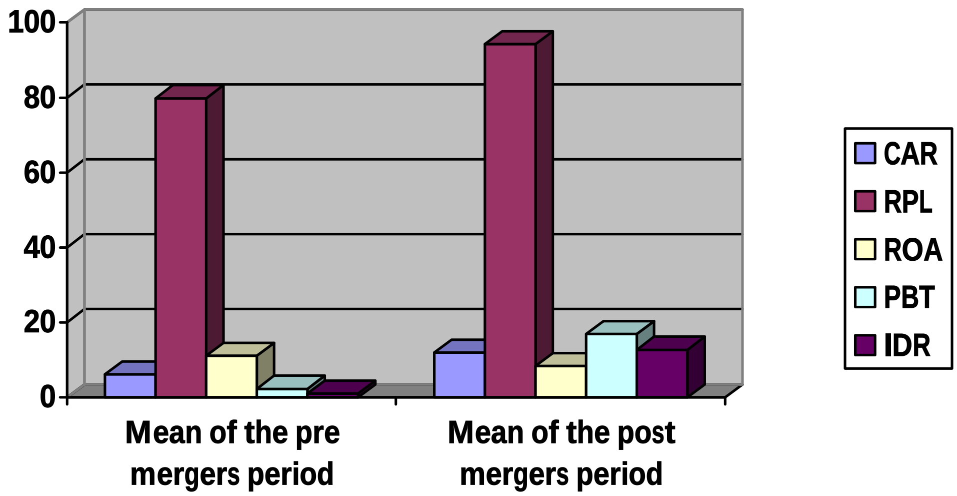
Source: Author's computation

Table 5.3 Mean of UBA Plc's performance ratios before and after the exercise

Ratios	**Mean of the pre mergers period**	**Mean of the post mergers period**
CAR	6.1	11.9
RPL	79.8	94.2
ROA	11.1	8.3
PBT	2.3	16.9
IDR	1.0	12.7

Source: Author's computation

Chart 5.1: Mean of UBA Plc's performance ratios before and after the exercise



Source: Author's computation

Table 5.4: Pair sample t-test output

Performance indicators Before and after M&A		Mean	Mean difference	Standard deviation	t-cal value	t-critical value
CAR	Before	6.100	-5.800	3.898	-3.327	1.96
	After	11.900				
RPL	Before	79.840	-14.34	13.361	-2.400	1.96
	After	94.180				
ROA	Before	11.060	2.800	3.314	1.889	1.96
	After	8.260				
PBT	Before	2.300	-14.62	11.196	-2.920	1.96
	After	16.920				
IDR	Before	1.020	-11.7	8.517	-3.072	1.96
	After	12.720				
Staff strength	Before	6.080	-6.580	5.643	-2.607	1.96
	After	12.660				
Credit advanced	Before	1.700	-16.000	7.875	-4.543	1.96
	After	17.700				

Source: Extract from SPSS output as fully presented in the appendix

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