NDIC QUARTERLY

The NDIC Quarterly is a publication of the Nigeria Deposit Insurance Corporation, Enquiries should be addressed to the Editor, NDIC Quarterly, Research Department, Nigeria Deposit Insurance Corporation, P.M.B 284, Abuja, Nigeria. The Views expressed in these articles are those of the authors and do not necessarily represent the official position of the Corporation.

NDIC
QUARTERLY

VOLUME 24 SEPTEMBER-DECEMBER 2013 NOS 3 & 4

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The banking sector experienced a number of remarkable developments during the third and fourth quarters of 2013. Some of these developments included the revocation of operating license of Express Discount Limited, Circulars and Guidelines issued by Central Bank of Nigeria (CBN), approval of new name for Police Mortgage Institutions by the CBN, and CBN cashless policy took off in Nigeria's Capital Abuja, among others.

Other developments during the quarters included: the appointment of new MD/CEO by Jaiz Bank, banks to identify customers by fingerprints next year, Union Bank dismissed workers to stabilize the bank, and Sterling Bank begins non-interest banking window. Details of these and other developments are contained in this report.

In the third and fourth quarters of 2013, the overall condition of Nigeria's banking industry has witnessed some improvements in most of the relevant financial indices.

The overall capital position of the banking industry during the two quarters where above the required 10%, however, two banks remained undercapitalized as at the end of the third quarter while one bank remained under-capitalized as at the end of fourth quarter of 2013. Also, Average Liquidity Ratio remained above the 30% minimum requirement while asset quality and profitability improved significantly during the two quarters under review.

In this paper, the author gave detailed insights into the building blocks for sustainable banking practice in Nigeria by analysing the Nine (9) Over-Arching Principles called "Nigeria Sustainable Banking Principles (NSBP)".

THE IMPACT OF INTEREST RATE DEREGULATION ON FINANCIAL DEEPENING IN NIGERIA

By Nura Umar Galadima

Assistant Manager, Research, policy & International Relations Department, Nigeria Deposit Insurance Corporation.

This paper examines the relationship between interest rate deregulation and financial deepening in Nigeria. The paper uses co-integration and error correction methods to distinguish between the long-run and short-run impact of deposit rate, inflation rate and per capita income on financial deepening in Nigeria.

The paper finds that deposit rate is statistically insignificant at 5% and 10% levels, indicating that an increase in deposit rate does not permanently affect financial deepening in Nigeria; inflation rate is positive and statistically significant in the model while real per capita income is negative but statistically significant.

The Impact of Mergers and Acquisition on the Growth and Survival of Banks in Nigeria: A Case Study of UBA and Access Bank Nig. Plc.

By Utaan Cordelia Angbiandoo

Management Assistant, Research, policy International Relations Department, Nigeria Deposit Insurance Corporation.

This paper examines the use of Mergers and Acquisition (M&A) as a business strategy for the growth and survival option of Nigerian banks from 2003 to 2010 using UBA and Access banks as case studies. Countries experiences from India and USA were reviewed and lessons drawn were highlighted. Key performance ratios such as profitability, earnings, asset quality and capital adequacy were applied as causative factors using ratio analysis model.
Findings revealed that the adoption of Mergers and Acquisition by Banks in Nigeria has led to the survival of merged entities but did not necessarily bring about growth to the banks.

FINANCIAL CONDITION AND PERFORMANCE OF INSURED BANKS IN THE THIRD AND FOURTH QUARTERS OF 2012

BY

RESEARCH AND OFF-SITE SUPERVISION DEPARTMENTS

1.0 INTRODUCTION

The banking industry, remained in a good state of health during the period under review, as its performance was relatively stable as depicted by relevant indices.

The Industry Total Assets stood at N20.06 trillion as against the N19.55 trillion recorded in the third quarter of 2012, thereby indicating an increase of 2.61%. Total Loans and Advances on the other hand experienced a marginal increase of 2.18% between the third and fourth quarters from N7.33trillion to N7.49 trillion. The quality of these assets remained relatively stable during the period as the ratio of Non Performing Credits to Total Credits showed a slight improvement of 0.57 percentage points from 4.08% in the third quarter to 3.51% in the fourth quarter. The industry experienced a significant improvement in profitability as Profit-Before-Tax showed an increase of 336.73% between the third and fourth quarters moving from N120.29 billion to N525.34 billion. The capital adequacy ratio also remained strong as the Capital to Risk-Weighted Asset Ratio increased marginally by 0.18 percentage points from 17.89% in the third quarter to stand at 18.07%, in the fourth quarter, above the prudential requirement of 10%. The industry liquidity position followed suit with the average Liquidity Ratio increasing by 7.53 percentage points from 60.48% to 68.01% and all remaining well above the prudential requirement of 30% in the third and fourth quarters respectively.

Apart from this introduction, the rest of this paper comprises of three sections. Section 2 presents the Structure of Assets and Liabilities; Section 3 assesses the financial condition of insured banks, while Section 4 forms the concluding part.

2.0 STRUCTURE OF ASSETS AND LIABILITIES

The Total Assets of the industry increased by 2.61% from N19.55 trillion in the third quarter to N20.06 trillion in the Fourth quarter. The structure of industry total assets and liabilities at the end of the third and fourth quarters of 2012 are presented in Table 1 and Charts 1A and 1B below.

TABLE 1

STRUCTURE OF BANKS' ASSETS AND LIABILITIES AS AT THE ENDS OF SEPTEMBER AND DECEMBER 2012

Assets (%)	4th Quarter 2012	3rd Quarter 2012	Liabilities (%)	4th Quarter 2012	3rd Quarter 2012
Cash and Due from other Banks	19.86	20.50	Deposits	71.73	68.79
Inter-bank Placements	2.13	4.48	Inter-bank Takings	0.32	1.91
Government Securities	20.29	16.21	CBN Overdraft	0.04	0.25
Other Short-term Funds	0.73	0.61	Due to Other Banks	0.72	0.59
Loans and Advances	37.33	37.50	Other Borrowed Funds	0.00	0.00
Investments	11.98	11.97	Other Liabilities	10.85	11.51
Other Assets	4.43	5.45	Long-term Loans	4.34	4.67
Fixed Assets	3.25	3.28	Shareholders' Funds (Unadjusted)	0.94	0.98
			Reserves	11.05	11.30
Total	100.00	**100.00**	**Total**	**100.00**	**100.00**

Source: Banks Returns
NOTE:

TOTAL ASSETS (N Trillion)
3rd Quarter 2012 = 19.54
4th Quarter 2012 = 20.06

OFF BALANCE SHEET ENGAGEMENTS
(N Trillion)
3rd Quarter 2012 = 4.06
4th Quarter 2012 = 4.53

CHART 1A: STRUCTURE OF BANKS' ASSETS FOR THE 3rd AND 4th QUARTERS OF 2012

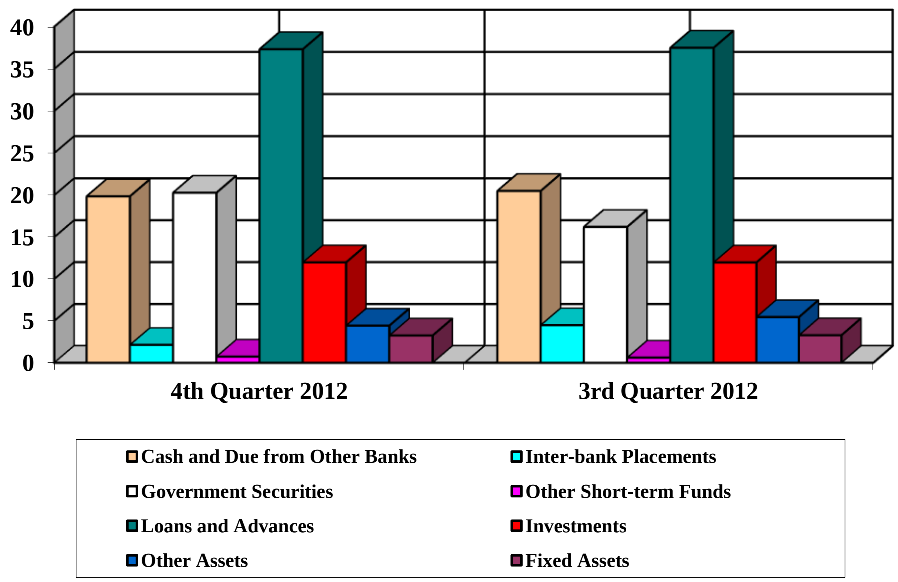
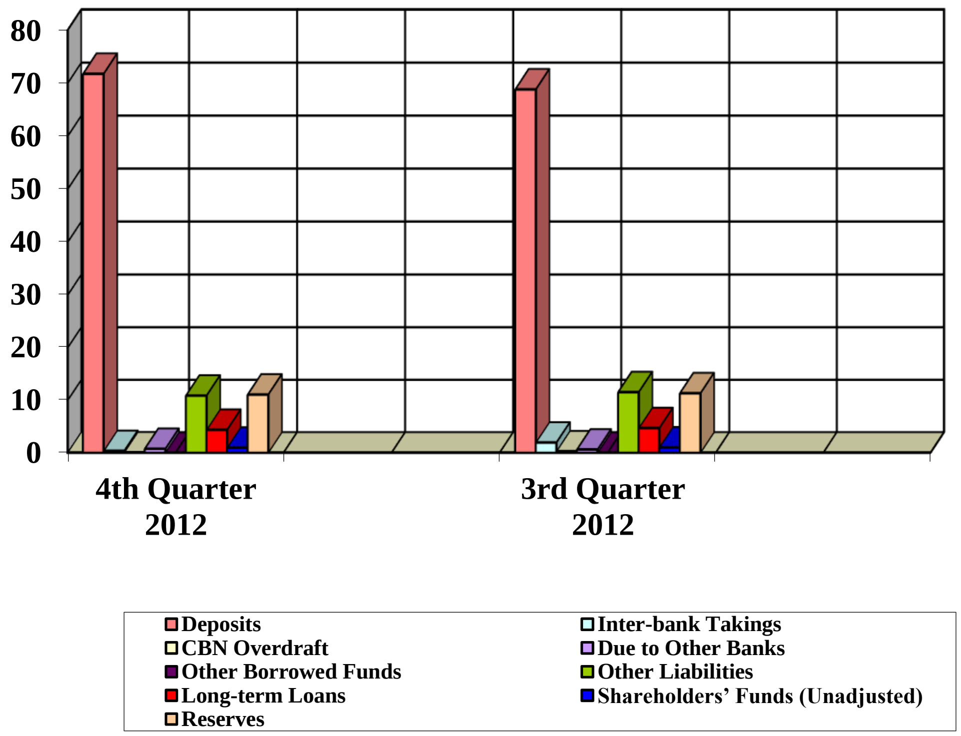


CHART 1B: STRUCTURE OF BANKS' LIABILITIES FOR THE 3rd AND 4th QUARTERS OF 2012



The largest proportion of total assets during the two quarters under review was **Loans and Advances** with this component accounting for 37.50% and 37.33% in the third and fourth quarters respectively. Government Securities was 16.21% and 20.29% in the third and fourth quarters respectively followed, alongside **Cash and Advances** whose contribution decreased from 20.50% to 19.86% between the two quarters. For the other components of the industry total assets; **Interbank Placements** decreased from 4.48% in the third quarter to 2.13% in the fourth quarter, Other Assets fell from 5.45% in the third quarter to 4.43% in the fourth quarter, Fixed Assets decreased marginally from 3.28% in the third quarter to 3.25% in the fourth quarter, while **Other Short Term Funds** increased from 061% to 0.73% during the period under review.

On the liabilities side of the balance sheet, **Deposits** remained the largest proportion accounting for 68.79% in the third quarter and increased marginally by 2.94 percentage points to 71.73% in the fourth quarter, **Reserves** which was next in size of contribution to Total Liabilities declined from 11.30% to 11.05% between the two quarters and **Other Liabilities** also showed a marginal decline of 0.66 percentage point between the two quarters with 11.51% in the third quarter and 10.85% in the fourth quarter. **Long Term Loans** was next accounting for 4.67% in the third quarter, falling marginally to 4.34% in the fourth quarter, and **Interbank Takings** falling from 1.91% to 0.32% between the two quarters.

3.0 ASSESEMENT OF THE FINANCIAL CONITION OF INSURED BANKS

3.1 Asset Quality

The industry's total Loans and Advances experienced an 8.65% increase between the third and fourth quarters from N7.33 trillion to N7.49 trillion. The quality of these assets continued to improve as the industry ratio of non performing credits to total credits improved by 0.77 percentage points from 4.08% in the third quarter to 3.51% in the fourth quarter. Ratio of non-performing credits to shareholders' fund remained relatively stable although showing a slight decline from 13.80% to 14.34% between the two quarters. During the period under review, the ratio of provision for non-performing loans to total non-performing loans however decreased by 4.30 percentage points from 123.14 to 118.84. Table 2 and Chart 2 present the indicators of insured banks Asset Quality for the third and fourth quarters of 2012.

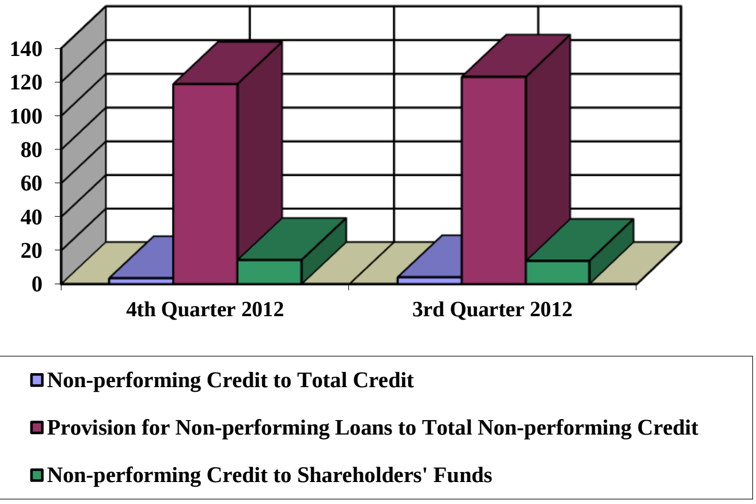
TABLE 2

INDICATORS OF INSURED BANKS' ASSET QUALITY FOR THE 3rd AND 4th QUARTERS OF 2012

Asset Quality Indicator (%)	Industry	
	4th Quarter 2012	3rd Quarter 2012
Non-performing Credit to Total Credit	3.51	4.08
Provision for Non-performing Loans to Total Non-performing Credit	118.84	123.14
Non-performing Credit to Shareholders' Funds	14.34	13.80

Source: Banks Returns

CHART 2: INSURED BANKS, ASSET QUALITY FOR THE 3rd AND 4th QUARTERS OF 2012



3.2 Earnings and Profitability

The industry recorded significant improvement in profitability between the third and fourth quarters of 2012. **Profit-Before-Tax** stood at N525.35billion as at the end of the fourth quarter, showing a 336.73% increase from the N120.29 billion recorded at the end of the third quarter of 2012. In the fourth quarter, these were composed of **Interest Income** of N1.74 trillion, **Non-Interest Income** of N575.75 billion and **Operating Expenses** of N1.19 trillion billion in the fourth quarter. These and other indices are depicted in Table 3 and Chart 3.

TABLE 3

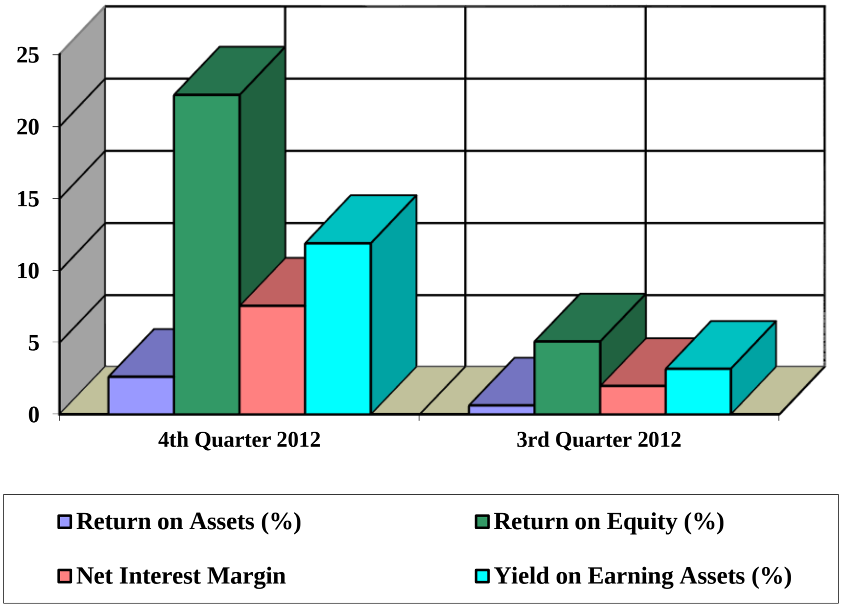
INSURED BANKS' EARNINGS AND PROFITABILITY INDICATORS FOR THE 3rd AND 4th QUARTERS OF 2012

Earnings/Profitability Indicator	**Industry**	
	4th Quarter 2012	**3rd Quarter 2012**
Return on Assets (%)	2.62	0.62
Return on Equity (%)	22.20	5.09
Net Interest Margin	7.58	1.98
Yield on Earning Assets (%)	11.92	3.18
Profit Before Tax (N' billion)	525.34	120.29
Interest Income (N' billion)	1,743.36	443.63
Operating Expenses (N' billion)	1,193.28	293.71
Non-Interest Income (N' billion)	575.75	126.88

Source: Banks Returns

As can be seen from the above, Return on Assets (ROA) also increased significantly by 2.00 percentage points between the third and fourth quarters of 2012. Both Return on Equity (ROE) and Yield on Earning Asset (YEA) also followed the same upward trend; with Return on Equity (ROE) showing a significant 17.11 percentage points difference and Yield on Earning Asset (YEA) 5.60 percentage points difference.

CHART 3: INSURED BANKS' EARNINGS AND PROFITABILITY FOR THE 3rd AND 4th QUARTERS OF 2012



3.3 Liquidity Profile

The industry liquidity position remained positive and stable during the period under review. The average liquidity ratio increased by 7.53 percentage points from 60.48% to 68.01% between the third and fourth quarters, both remaining above the required 30% minimum requirement. The net credit to deposit ratio fell marginally by 2.22 percentage points from 56.51% to 54.29%, while interbank takings to deposits ratio also decreased noticeably by 2.32 percentage points from 2.77% to 0.45%. All banks in the system met the required liquidity ratio of 30% within the period. This is as shown in the table below.

TABLE 4

INDICATORS OF INSURED BANKS' LIQUIDTY PROFILE FOR THE 3rd AND 4th QUARTERS OF 2012

Liquidity	Period	
	4th Quarter 2012	3rd Quarter 2012
Average Liquidity Ratio (%)	68.01	60.48
Net Loans to Deposit Ratio (%)	54.29	56.51
Inter-bank taking to Deposit Ratio (%)	0.45	2.77
No of Banks with Liquidity Ratio below the prescribed 30%	0	0

Source: Banks Returns

3.4 Capital Adequacy

In the periods under review, the capital adequacy position of the industry was strong recording capital adequacy ratios of 17.89% and 18.07% in the third and fourth quarters respectively, all of which met the required minimum of 10%. These and other capital adequacy indicators are as depicted in Table 5.

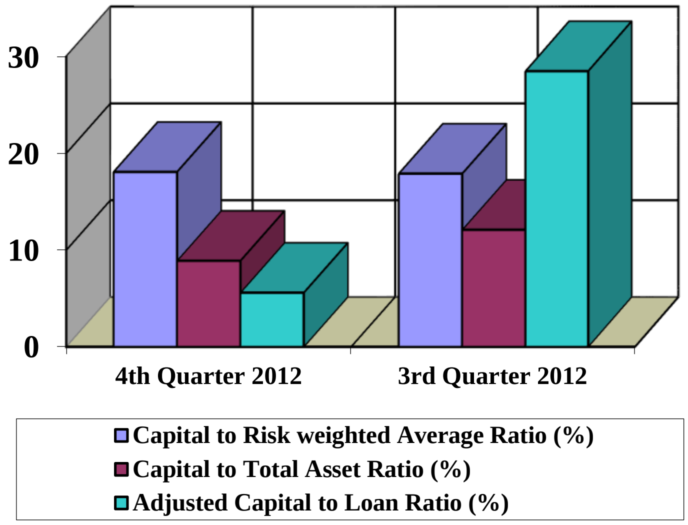
TABLE 5

INDICATORS OF INSURED BANKS' CAPITAL ADEQUACY POSITION FOR THE 3rd AND 4th QUARTERS OF 2012

Capital Adequacy Indicator	Period	
	4th Quarter 2012	3rd Quarter 2012
Capital to Risk weighted Average Ratio (%)	18.07	17.89
Capital to Total Asset Ratio (%)	8.89	12.09
Adjusted Capital to Loan Ratio (%)	5.59	28.48

Source: Banks Returns

CHART 4: INSURED BANKS' CAPITAL ADEQUACY FOR THE 3rd AND 4th QUARTERS 0F 2012



4 CONCLUSION

In summary from the above it can be seen that the condition and performance of the insured banks showed positive stability between the third and fourth quarters of 2012. This was as indicated by the strong liquidity and capital positions as well as the positive changes in asset quality and profitability recorded during the period under review.

BUILDING BLOCKS TO SUSTAINABLE BANKING PRACTICE IN NIGERIA[1]

By

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1.0. INTRODUCTION

The journey towards embracing sustainable banking practice in Nigeria could be said to have formally commenced with the release of a written declaration on it by the Bankers' Committee in October 2011. The declaration states: "We hereby sign this Joint Commitment Statement with the aim of developing a set of sustainable banking principles for the Nigerian banking sector, to drive long-term sustainable growth whilst focusing on development priorities, safeguarding the environment and our people, and delivering measurable benefits to society and the real economy" (Bankers' Committee, 2012). The Committee pledged to adopt these principles in recognition of the Nigerian banking sector's role and responsibility to deliver positive development that impacts the society whilst protecting the communities and environments in which they operate.

Subsequent to the work that followed the above declaration of commitment, the Central Bank of Nigeria (CBN), on September 24, 2012, passed a circular on the implementation of Sustainable Banking Principles by banks, discount houses and development finance institutions in Nigeria. The accompanying documents were, without doubt, comprehensive and exhaustive and left no room for ambiguity. Issues covered there-in included highlights of the nine sustainable banking principles and their contextualisation to fit the Nigerian environment; guidance notes to the principles; and sector guidelines that covered the three sectors, namely: power, agriculture and oil and gas; as well as the related laws and regulations that govern their operations. The document as well as the decision to adopt it as a policy represented a significant development and indeed, a watershed in the history of banking in Nigeria.

The purpose of this paper is therefore to provide further insights into the building blocks for sustainable banking practice in Nigeria. For ease of

[1] Paper Presented at The 13th National Seminar on Banking and Allied Matters for Judges, Organized by CIBN at National Judicial Institute, Mohammed Bello Centre, Abuja, November 13 - 14, 2013.

appreciation, the rest of this paper is organized into six sections. In Section 2, we provide a review of the concept of sustainable banking practice. A discussion on sustainable banking practice in Nigeria, including the development of the nine cardinal principles of sustainable banking comes up in Section 3. Section 4 discusses the major building blocks to sustainable banking practice in Nigeria, including the roles of regulatory authorities towards the implementation of the principles. In Section 5, some of the initiatives of CBN and NDIC are highlighted. Section 6 examines some implementation challenges for sustainable banking in Nigeria while the paper is concluded in Section 7.

2.0. CONCEPT OF SUSTAINABLE BANKING PRACTICE

Sustainable banking is an approach that recognises the role of banks in driving long-term economic development that is not only economically viable but also environmentally responsible and socially relevant. It is a value system which ensures that banks' commercial activities do not only benefit its staff, shareholders, customers and the economy, but also prevents or minimises any unintended effects on the society and natural environment. It is also about guaranteeing human rights and life in dignity, free from want and poverty. Sustainable banking was introduced in realisation that If banks integrate sustainability criteria in their risk assessment and decision making procedures, they will strengthen their financial soundness and improve financial stability.

Sustainable banking might sound like a recent phenomenon in the global financial circle. However, it is as old as banking itself, as it started in the medieval period (around 16th century) with Italian banks being operated based on religious ethics (such as avoidance of usury) and community-support local finance businesses. This metamorphosed into Credit Unions and Cooperative Banks addressing the need of financial services for the new middle class and entrepreneurs. Over time, the concept of community finance or local business fizzled out, as transnational banks started to control the global financial industry. However, such transnational institutions were criticized for their way of doing business which involved the creation of financial products that did not support the real economy and did not take into account the socio-economic and environmental impact of the communities in which these institutions operated. In the 1980s, a regulation of liabilities on contaminated sites was introduced in the Americas. Similar regulations with respect to soil, water and air pollution were introduced in Europe at that time. That changed the relationship between the financial sector and the environment significantly. In cases which lenders had used sites as collateral, the value of the collateral could be diminished by contaminations and clean-up costs for which lenders were held liable. In order to mitigate these risks, lenders started to integrate environmental issues into credit risk (Weber, 2012).

Sustainable banking by conventional financial service institutions was heralded with the management of environmental risks that negatively affected the financial institutions especially with regard to credit risk. After this phase of risk management, the financial sector took the business opportunities offered by integrating environmental and social issues into consideration as well. Sustainability then became a business case in the financial sector, as financial institutions explored ways to influence sustainable development in a positive way. They developed products and services taking sustainability issues into account.

Sustainability issues can be viewed from three dimensions namely, economic, social and environmental. The economic dimension considers how a bank manages the impact of its products and services on economic development with minimal negative impact on the environment and society. The social dimension focuses on meeting the financing needs of the society cheaply and employing staff from different backgrounds irrespective of tribe, race, religion and gender while the environmental dimension looks at the impact of the bank's activity on the surrounding/climate.

In addition to the three dimensions through which sustainability could be viewed, there are other sustainability issues that need to be taken into account when implementing sustainable banking practice in any banking system. Such issues include Corporate Governance and Risk Management. The consequences of weak governance or poor risk management in this regard have been identified to be serious. For instance, if a bank is found to be treating customers unfairly or its activities end up harming communities or the environment, not only will its commercial image suffer, its reputation for sustainability will be damaged and could end up in tatters (SAS, 2013). Regulatory and reputational risk management are two sides of the same coin. If a bank fails in one, it fails in the other. Environmental and social risks of lending could be high and that explains why banks need to develop environmental and social risk management (ESRM) policies and units to assess the risks and advise on appropriate mitigants, including, if necessary, rejecting certain deals (SAS, 2013). Banks should also commission specialist audit and assurance firms to provide independent verification of their sustainability reporting. Sustainability approach improves overall risk management and business performance. According to the Dutch financial conglomerate, ING notes, in one of its Corporate Social Responsibility reports:

"We believe that acting responsibly results in better and more comprehensive risk management, a higher degree of employee pride, a greater attraction of ING for talented people and new business opportunities" (SAS, 2013).

3.0 SUSTAINABLE BANKING PRACTICE IN NIGERIA

The Nigerian banking community through the Bankers' Committee indicated the desire to adopt sustainable banking practice in 2011. That was based on their belief that such an approach, is consistent with their individual and collective business objectives, and can stimulate further economic growth and opportunity as well as enhance innovation and competitiveness. They agreed to work towards being a driving force for good in the communities and natural environment in which they operate.

To facilitate the introduction of the practice in the system, the Bankers' Committee assigned the responsibility for the development of the sustainability principles and sector guidelines to its subcommittee on Economic Development, chaired by the MD/CEO of Access Bank Plc, who in turn set up a Strategic Sustainable Workgroup (SSWG), made up of members from the Banks, Discount Houses, CBN, NDIC, Federal Ministry of Environment, Nigeria Electricity Regulatory Commission, National Energy Commission, International Finance Corporation (IFC), The Netherlands Development Finance Company (FMO), Federal Ministry of Water Resources and Federal Ministry of Agriculture. Each of these members equally constituted the Sustainability Champions. In addition to that, a consultant on sustainability was hired to anchor and facilitate the development of the sustainable banking principles and sector guidelines for the Nigerian banking system. The workgroup and sustainability champions met several times at the secretariat provided by Access Bank, and came up with the Sustainable banking Principles and Guidelines for the three chosen sectors of the economy, namely: Agriculture, Oil & Gas and Power. The choice of the three sectors was informed by the fact that they constitute the critical sectors that drive the Nigerian economy and the fact that the banks in Nigeria are more exposed to the sectors.

At the end of the intensive work by the SSWG, Nine (9) Over-Arching Principles were developed and are called "Nigeria Sustainable Banking Principles (NSBP)". The NSBP are based on leading international sustainable finance standards and established industry best practice. They were developed in line with Nigerian context and development needs. The Principles are: Principle 1: Managing environmental and social risk in business decisions; Principle 2: Managing the bank’s own environmental and social footprint; Principle 3: Safeguarding Human Rights; Principle 4: Promoting women’s economic participation/empowerment; Principle 5: Promoting financial inclusion of communities and groups with limited or no access to the formal financial sector; Principle 6: Meeting the imperatives for good governance, transparency and accountability; Principle 7: Supporting capacity building in the sector; Principle 8: Promoting collaborative partnerships to accelerate sector progress and Reporting to take stock of sector progress and attendant needs; and Principle 9: reporting (CBN, 2012).

The NSBP requires each bank to develop an Environment and Social Risks (E&S) management system which incorporates the Principles and balances the identification of E&S risk and opportunities (CBN, 2012). The degree and level of E&S management should commensurate with the scale and scope of a bank’s business activities and operations. Each bank will also apply the Principles to its domestic operations.

In addition, banks are expected to develop and submit to the CBN an overarching Sustainable Banking Commitment, which articulates how they will apply the Principles and Guidelines, how E&S risk management considerations have been integrated into the enterprise risk management framework and their implementation targets and milestones, including a five-year plan. Furthermore, they are required to make regular submissions regarding the implementation and compliance of the Principles and Guidelines to their Board of Directors and regulatory authorities, engage their respective Board of Directors on the Principles and Guidelines, designate a sustainable banking desk or unit responsible for implementation and begin capacity building with relevant stakeholders, amongst other responsibilities.

Essentially, the implementation of the NSBP is in five phases with the last phase expected to be implemented by end December, 2014. The CBN had since directed full adoption and implementation of these principles by all members of the Bankers' Committee and had also promised to provide incentives, as necessary, to those institutions that take concrete measures to incorporate the provisions of these principles and guidelines into their operational enterprise risk management and other governance frameworks.

The adoption of the principles and guidelines by the relevant institutions in Nigeria signify the integration of social and environmental considerations into their operations, policies, processes, procedures, as well as provision of structural mechanism to support implementation at the industry level. The principles would be interpreted and applied by each bank in a manner that provides for and is appropriate with the bank’s core values, business model and enterprise risk management framework.

Until now, the model for Nigeria's banking industry was "unsustainable" as the industry provides minimal support for growth and gives less attention to the social and environmental conditions of communities in which it operates. This in turn, threatens its future as service businesses. Accordingly, banks should aim to be of service at the most cost-effective manner to the users of their services. They should integrate sustainability criteria in all lending, financing and investment decision making processes. The current model where the only goal seems to be 'profit maximization' even at the expense of the customer or environment leaves much to be desired (UNEP, 2011).

4.0. BUILDING BLOCKS TO SUSTAINABLE BANKING PRACTICE IN NIGERIA

Virtually everything contained in the document on sustainable banking practice in Nigeria is critical and need to be holistically appreciated and implemented taking into account individual banks' circumstances. However, below are some extracts considered to be very crucial to Nigeria's journey to evolve sustainable banking practice in the country.

4.1. Leadership Commitment

The starting point in the journey to a sustainable banking culture is the expression of leadership commitment. Introducing sustainable banking practices in a bank is certainly a major organisational change and failure to make and implement effective change management strategies can have costly results to the bank, which may include putting the very future of the organization at risk. Management literature reveals that effective change management must be spearheaded by senior leaders who should have full commitment and comprehensive awareness of the different roles and capabilities at all levels of the organization (Schroeder-Saulnier, 2009). They must also be able to define and measure success and periodically assess progress. Structurally, therefore, leadership commitment should begin from the topmost level and cascade down to various leadership levels in the organisation. The commitment should not only be internalised but should find expression in policies and decisions to be made, which should facilitate implementation of the principles.

4.2. Policy Framework

A robust policy framework must be developed to define the bank's commitment and approach to sustainable banking and the implementation of the principles. The framework should include:

4.2.1. Modalities of Application

Clear articulation should be made of how the principles will be relevant to the various activities and operations of the banks and how they can be applied on them without creating dislocations. Justifying the relevance and how they will be applied will no doubt facilitate understanding and buy-in as well as continuous commitment of the various internal stakeholders.

4.2.2. Review of decision-making processes

The new dispensation will necessitate a review of the decision making processes of the bank to allow for appropriate integration of the sustainable banking principles into the existing internal processes as well as, where applicable, a bank's enterprise risk management framework. The new system is expected to provide for assessment criteria and decision framework that accommodates E&S management system.

4.2.3. Application of relevant international E&S standards and industry best practice

In addition to compliance with local laws, all banks shall apply, where relevant, international E&S standards and industry best practice such as the International Finance Corporation (IFC) Performance Standards, the Equator Principles for project finance, the World Bank Group Environmental, Health and Safety Guidelines for lending to different sector activities. For instance, the IFC performance standards, which are directed towards clients provide guidance on how to identify risks and impacts, and are also designed to help avoid, mitigate, and manage risks and impacts as a way of doing business in a sustainable way, including stakeholder engagement and disclosure obligations of the client in relation to project activities (IFC, 2012). Similarly, Equator Principles (2013) is a recognised risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in projects and is primarily intended to provide a minimum standard for due diligence to support responsible risk decision-making. International standards are often evidence-based and derived from several experiences.

4.2.4. Establishment of Clear Governance Structures

The governance structures should clearly address the new business direction, which takes into account environmental and social (E&S) considerations. Governance and its structures have been clearly recognised in recent times to determine success or failure of establishments. Thus, roles and responsibilities, practices and standards, codes of conduct, performance-linked incentives, audit procedures and disclosure requirements must be clearly spelt out. In the new dispensation, client disclosure obligations must include, where necessary, environmental and social impact assessment.

4.2.5. Capacity Building Requirements

As a bank signed up to the challenge of sustainable banking, it should correspondingly brace up to the challenge of capacity building as it will be essential if we are to successfully attain the goals the sustainable banking promises to offer not just to the industry but to the larger society. The nine principles which sustainable banking in Nigeria stand for, which involve a complex interplay between economic, environmental and socio-cultural considerations, will out of necessity require innovative thinking, new approaches, and, very fundamentally, the capacity to implement them. Capacity building in this context should be holistic, encompassing a number of activities that include building abilities, relationships and values that will enable the banks individually and collectively improve their performance and achieve the objectives of sustainable banking. There will be need to engender willingness on the part of staff to play new developmental roles; strengthen the legal infrastructure and other processes and systems, develop new institutional mechanisms and deploy new and appropriate technologies to facilitate implementation.

By implication therefore, capacity building should be central to the sustainable banking agenda and should focus on acquisition of up-to-date information, knowledge, tools and skills to address various issues without ignoring or sacrificing main banking functions and services. A bank will be expected to provide the necessary resources and support to equip and train employees on E&S management approaches based on roles, responsibilities and functions. Indeed, as part of its sustainable banking policy and E&S management system, a bank should develop a sector-specific E&S approach and competencies for the three priority sectors of power, agriculture and oil and gas to fast track its implementation. It is important to note that developing competencies that will ensure the success of sustainable banking practices must cover top levels of management and all relevant employees in the organisation and will have to be on a continuous basis.

4.2.6. Stakeholder collaboration

Stakeholder cooperation has come to be seen as very critical in organisational game of survival, continuity and success. Stakeholders are defined as "those groups without whose support the organization would cease to exist" or "any group or individual who can affect or is affected by the achievement of an organisation's objectives". In wider organisational context therefore, stakeholders are seen to include owners, customers, competitors, employees, suppliers, governments, local community organizations, special interest groups, environmentalists, consumer advocates, media, unions, trade associations, financial community and political groups. The concept of stakeholder cooperation therefore underscores the need for collective efforts, at varying degrees, to ensure survival and sustainability. Thus, for sustainable banking in Nigeria to take root, it must involve the participation of all key stakeholders who should recognise the need for interdependence and for synergy in their respective roles. Such collaboration should find expression in four basic value considerations, namely:

- Transparency (Full disclosure of financial and non-financial information);

- Accountability (Ensuring that management is effectively overseen by competent governing body);

- Fairness (Equitable treatment of clients in line with provisions of sustainable banking principles) and;

- Responsibility (ensuring banks fulfil their proper roles in society)

At structural levels stakeholder cooperation must be seen in the following contexts:

- within individual banks (through entrenchment of sustainable banking culture and institutionalising good corporate governance which ensures that banks take into account the interest of a wide range of constituencies as well as of the communities within which they operate);

- between banks (through healthy competition, fair play and joint decisions as may be necessary);

- banks and the public (through social responsibility endeavours that earn respect for the banks from members of the public who may be willing to reciprocate the good gesture of the banks as and when necessary or desirable);

- government agencies (through facilitating improvement in social and environmental issues);

- businesses/clients (through proper disclosure that saves time and energy in related credit appraisal and analysis by banks);

- supervisory agencies (through effective supervision and prompt corrective action as may be necessary); and

- international level (through the bank's active participation in international and multi-stakeholder initiatives so as to benefit from exposure, as well as contribute, to international standards and best practice).

4.2.7. Self-Regulation

For the purpose of our discussion, we see self regulation as a system where an institution or an association to which an institution belongs, imposes on itself certain standards that facilitate the achievement of its objectives within the framework of existing legislative provisions. Self-regulation is no doubt one of the foremost factors in achieving organizational discipline and, of course, organisational sustainability. It facilitates effective monitoring and modification of behaviour to attain a given goal. It allows for responsible service, engenders consumer trust, increases patronage and allows for healthy competition. The strength of self-regulation is anchored on the fact that managers see the organisations as their pets, which they should nurture and protect whether or not external regulators and supervisors keep watch.

Sustainable banking in Nigeria can benefit immensely by banks operationalising the concept of self-regulation through the processes of effective goal setting, monitoring and motivation. Our banking institutions should demonstrate that responsibility that goes with self-regulation matters as irresponsible banking gives little or no sustained return. We are aware of how in the past banks in the country that ignored self-regulation and operated in manners that attracted regulatory intervention eventually could not survive. Sustainability therefore, will require our banking institutions to go extra miles in the area of self-regulation and self assessment, which can be achieved through additional dedication, patience and internal consensus. Efforts of individual banking institutions in this regard will almost certainly contribute to nation-wide sustainable banking practices in the country.

4.2.8. Legislative/Regulatory Imperative

Despite the relevance and, in fact, desirability of self regulation, the nature and limitations of human beings who run organisations have always necessitated the need for legislations and regulations to protect public interest and foster welfare and economic development. Thus, although self regulation is highly canvassed, it is not an alternative to government statutory regulation and its effective deployment. Regulation and its relevance have been aptly captured in the literature and redefined in the contemporary world to include in-puts and/ or considerations of interactions from industry associations, international bodies, non-governmental organisations and community groups, and involves mechanisms ranging from rules, codes, monitoring and sanctions. The success of sustainable banking in Nigeria will therefore also be hinged significantly on the extent to which regulatory agencies carry out their supervisory and oversight functions on various aspects of banking services. This will require development and/or enhancement of appropriate supervisory capacity on the part of the regulators. Efforts should therefore be intensified in the adoption of risk-based and consolidated supervision and prompt corrective actions as may be necessary. However, because sustainable banking goes beyond simple relationship between banks and their clients to include social and environmental concerns, other institutional stakeholders should see the development or enhancement of their respective sector regulations and their effective deployment as a matter of great importance to, among other things, facilitate sustainable banking in the country.

4.2.9. Measuring and Reporting Implementation Progress

In order to keep track of their performance, banks would be expected to articulate objectives, performance indicators and milestones. Performance tracking enables a bank to measure its progress in implementing the Principles as well as its Sustainable Banking policies and procedures. As part of its public commitment to adopting the Principles, it is required that a bank reports publicly its implementation progress on an annual basis. Specifically, after a bank has established appropriate Sustainable Banking commitment and implementation plan, it is expected to develop a reporting template that: (a) is consistent with the objectives and reporting requirements of each Principle; and (b) is aligned with the core values and business model of the bank.

5.0 INITIATIVES OF CBN AND NDIC IN PROMOTING SUSTAINABLE BANKING

Both the CBN and NDIC are members of the Bankers' Committee that pledged their commitment to the adoption and implementation of the NSBP. For this reason they are under obligation to lead by example, which means that, they should adopt and implement the principles in their operations as entities. Accordingly, the CBN and NDIC individually commenced the process of ensuring that they comply with the requirements of the NSBP where practicable.

In the case of CBN and as part of the process of implementing the Principles through its operations, it came up with the following initiatives (Mahmood, 2013):

- Developed a sustainability implementation plan
- Set up a sustainability committee to drive the implementation of the principles in the Bank
- Commenced training of the members of the CBN sustainability committee
- Sensitized departmental heads and branch controllers on sustainable banking
- Raised awareness of employees on sustainability via intranet/bank net

On the part of the NDIC, it has recognized the fact that it is one of the major stakeholders in the drive towards achieving banking sustainability in the country. Some of the efforts by the Corporation towards facilitating the implementation of the principles through its operations include the following, among others:

- Obtained Board buy-in for the implementation of NSBP.
- Sensitized the Board on sustainability during the 2012 and 2013 NDIC Board Retreats.
- Set-up sustainability desk in the Managing Director’s office.
- Appointed a coordinator to oversee the implementation of the NSBP in the Corporation.
- Set-up a committee on sustainability to facilitate the implementation of NSBP in the Corporation.
- Organized an awareness sessions on sustainable banking for the staff of the Corporation in Abuja and Lagos.
- Commenced discussion with an expert on sustainability for indepth training programmes for staff of the Corporation.

With regards to the adoption and implementation of NSBP by the banking industry players, the CBN and NDIC as regulators and supervisors have the responsibility for ensuring that members of Bankers' Committee comply with the requirements of the sustainability principles. In this regard, the CBN, which is the lead regulator in the industry came up with the following initiatives (Mahmood, 2013):

- ❖ Developed a reporting template, which had been exposed to the department dealing with the returns from the industry.
- ❖ Engaged government MDAs such as Ministry of Environment, Nigeria Security Printing and Minting Plc, etc.
- ❖ Discussed with Development Finance Institutions (DFIs) such as International Finance Corporation (IFC), The Netherlands Development Finance Company (FMO), for training programmes to build institutional capacity of the industry and IFC seems to have obliged.
- ❖ Discussed with the local training institutions such as Financial Institutions Training Centre (FITC), Chartered Institute of Bankers of Nigeria (CIBN), Lagos Business School, for customized training for the industry.
- ❖ In the process of setting up a sustainability (centre of excellence) website

The NDIC on the other hand, came up with the following initiatives towards ensuring that the banking industry implements the sustainable banking principles:

- ❖ Made input into the reporting template developed by the CBN.
- ❖ Engaged a consultant to run capacity building programmes for the NDIC examiners who would ensure the compliance of the industry.

6.0 CHALLENGES OF IMPLEMENTING NSBP

Several challenges could be encountered in the course of implementing the Nigeria Sustainable Banking Principles (NSBP). These challenges include, but not limited to, the following:

i. Dearth of Capacity: There is need for capacity building by both the regulators and operators on such areas as identification, assessment and management of environmental and social (E&S) risks; E&S cost-benefit analysis; integration of sustainability criteria in operations, etc.
ii. Compliance and Enforcement: Regulators should put in place an enabling operating environment for operators, including incentives for compliance. Regulators should also apply sanctions to defaulting institutions as a means of ensuring strict compliance.

iii. Public Awareness: Since sustainable banking is novel in our jurisdiction, there is the challenge of having to educate both the staff of banks and the banking public on the new approach to banking practice. This will go a long way in facilitating the implementation of the principles in the system.
iv. Exposure to clients/projects with poor track records on environmental and social performance would result to higher levels of risk in such portfolios (credit risk, legal risk, reputational risk).

7.0 CONCLUSION:

Perhaps there is no better conclusion for this presentation than to once again call on the various stakeholders in the Sustainable Banking drive to sustain the joint commitment. We are aware that not less than 30 institutions made up of sector regulators, banking institutions and discount houses signed the commitment to sustainable banking in Nigeria. With such a level of buy-in, by the relevant and critical institutions, there is no doubt that the new banking system and approach has come to stay in the country. What is needed is the sustainability of that commitment, which is crucial to the realisation of the goals of sustainable banking in Nigeria.

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THE IMPACT OF INTEREST RATE DEREGULATION ON FINANCIAL DEEPENING IN NIGERIA

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Abstract

This paper examines the relationship between interest rate deregulation and financial deepening in Nigeria.The paper uses cointegration and error correction methods to distinguish between the long-run and short-run impact of deposit rate, inflation rate and per capita income on financial deepening in Nigeria. The paper finds that deposit rate is statistically insignificant at 5% and 10% levels, indicating that an increase in deposit rate does not permanently affect financial deepening in Nigeria; inflation rate is positive and statistically significant in the model while real per capita income is negative but statistically significant.

1.0 **INTRODUCTION**

The neo –Keynesian analysis dominated the arena of finance and growth literature until the 1960s. The main thesis of the neo-Keynesian analyses is predicated on the view that interest rates should be kept low in order to promote capital formation (Sen and Vaidya, 1997). During this period, emphasis was laid more on expansionary measures in credit programmes and contractionary measures on interest rates as far as planning is concerned in Less Developing Countries. These became popular as a means of allocating scarce resources to 'preferred sectors' at low cost. The proponents of financial reform (Mckinnon and Shaw) argued that interest rate liberalization leads to significant economic benefits through a more effective domestic saving mobilization, financial deepening and efficient resource allocation.

Restrictions on bank behavior imposed by government often ushered in negative real interest rates and an excess demand on credit, compelling banks to ration their lending coupons. Therefore, the government in Nigeria deregulated interest rate in 1987 as part of its Structural Adjustment Programme (SAP). The government position then was that interest rate deregulation would, among other things result in modestly positive real interest rates. The consequence is an increase in the resources available to the financial system by attracting savings previously held outside the formal financial sector. Indeed, positive real interest rates would provide an incentive for borrowers to invest in more productive activities, thereby improving the productivity of the economy as a whole.

Furthermore, whether interest rates deregulation in Nigeria had positive influence on financial deepening as postulated by the proponents of interest rate liberalization remains an issue of empirical investigation. Most studies (Ndekwu 1989, Nzotta and Okereke 2009, Tennant et al 2007, Ndebbio 2004, Nicholas 2010) in this area were either limited by insufficient data coverage in other countries or had relied on panel data to examine the causal relationship between interest rate deregulation and financial development. It is clear that cross-sectional studies by lumping countries that are at different strata, profiles and stages of financial and economic development may not satisfactorily address the country specific effects.

The aim of this paper is to investigate the impact of interest rate deregulation on financial deepening in Nigeria. The rest of the paper is organized as follows: Section 2 reviews relevant literature available while section 3 deals with estimation techniques and empirical analysis while the last section concludes the paper.

2.0 LITERATURE REVIEW

2.1 CONCEPT OF FINANCIAL DEEPENING

Shaw (1993) defined financial deepening as the increased provision of financial services with a wider choice of services geared to all levels of society. Financial deepening is often understood to mean that sectors and agents are able to use a range of financial markets for savings and investment decisions, including long maturities; financial intermediaries and markets are able to deploy larger volumes of capital and handle larger turnover, without necessitating large corresponding movements in asset prices (King and Levine, 1993).

Beck et.al (2009) identified six indicators of financial deepening which include:

1) Current Liabilities to GDP: It equals currency in circulation plus demand and interest bearing liabilities of banks and other financial intermediaries divided by GDP.
2) Currency outside Banking System to Base Money: is an indicator of monetization of the economy, as it shows which share of base money is not held in the form of deposits within the banking system.
3) Financial Systems Deposits to GDP : is the ratio of all demand, saving and time deposits in banks and bank-like financial institutions to economic activity and is a stock indicator of deposit resources available to financial sector for its lending activities.

4) Credit to the Private Sector by Deposit Money Banks (DMBs) and Other Financial Institutions to GDP: is defined as claims on the private sector by deposit money banks and other financial institutions divided by GDP.
5) Stock Market Capitalization to GDP: it refers to the value of listed shares divided by GDP.
6) Corporate Bond Market Capitalization to GDP: refers to the total amount of outstanding domestic debt securities issued by private or public domestic entities divided by GDP.

In this paper we use the ratio of Current Liabilities to GDP as proxy for financial deepening.

2.2 **REVIEW OF EMPIRICAL LITERATURE**

A number of studies have been carried out on interest rate deregulation, financial development and economic growth. These studies can be broadly classified based on the econometric procedures and the types of data such as time series data, cross sectional data, or panel data.

Ndekwu (1989) investigated the impact of interest rate deregulation on bank deposits and the implication of that to the growth of the Nigerian economy and banking system. The author analyzed eleven-equation model for testing the relationship between interest rates and bank deposits via these theories: loanable funds theory; liquidity preference theory; monetarist theory; and structuralist theory. Ordinary Least Square Method was employed for estimating the equations. The study used monthly time series data, which covered the period of 1984-1988. The explanatory variables in the models were saving deposit rate, time deposit rate and demand deposit rate. The study reveals that high interest rate on savings deposit has stimulated an increase in the supply of savings in the banking system, whereas high cost of borrowing in the form of high lending rates may discourage borrowers especially the private sector producers and investors to source loan from financial institutions for investment thereby affecting productivity. Although the contribution of interest rates to inflation in Nigeria was yet to be determined, there was strong belief that high cost of borrowing working capital increases cost of production and hence prices through a mark-up pricing system. Ndekwu concluded that the McKinnon's (1973) claim that financial liberalization facilitates financial development and economic growth was yet to be conclusively established in the case of Nigeria.

Similarly, Mohsin et.al (2001) investigated the impact of inflation on financial depth in 168 countries (comprising both industrial and developing countries) and covers the period 1960-1999. The authors found that there is a threshold level of inflation below which inflation has a positive effect on financial depth, but above which the effect turns negative. The result indicated that the threshold level of inflation is generally between 3 and 6 percent a year, depending on the specific measure of financial depth that is used.

Furthermore, Bittencourt (2008) examined the impact of inflation on financial development in Brazil using data covering 1985 to 2002. The results based on different data sets, and on a range of estimators and financial development measures, suggest that inflation clearly reduced financial development in Brazil within the period. Therefore, the authors concluded that low and stable inflation, and all that it encompasses, is a necessary first step to achieve a deeper and more active financial sector with all its attached benefits.

Nicholas (2010) conducted an empirical investigation using two equation model to examine interest rate deregulation on bank development and economic growth in South Africa from 1969 to 2006, using co-integration and error correction techniques. In the first model equation, three explanatory variables: real income and deposit rate were identified whereas financial deepening served as the dependent variable. In the second equation model, the dynamic causal relationship between financial deepening and economic growth was examined, by including investment as an intermittent variable in the bivariate setting , thereby creating a simple trivariate causality model. The paper found a strong support for the positive impact of interest rate reforms on financial development in South Africa. However, the paper realized that financial development does not granger cause investment and economic growth. But there was unidirectional causal flow from investment to financial development, while no causal flow of investment to economic growth.

2.3 **THEORETICAL FRAMEWORK**

The theoretical specification of the financial deepening equation draws on the literature of finance and development, which postulates a symbiotic relationship between the evolution of the financial system and the development of the real economy. The literature on this relationship predicts that financial deepening depends on real income and real interest rate Nejib, (2005).

However, the theory of interest rate liberalization McKinnon and Shaw (1973) is based on the premise that the higher the real interest rate, the greater the degree of financial deepening, the more saving there will be, and financial savings will be allocated and invested more efficiently than if saving is invested directly in the sector in which it takes place, without financial intermediation Robin, (2008).

Up to the 1960s, the dominant view in the finance and growth literature was the neo-Keynesian perspective, which argues that interest rates should be kept low in order to promote capital formation Sen and Vaidya, (1997). During this period, the guiding philosophy of governments in the less developed economies was one of economic planning with directed credit programmes and interest rate controls. These became popular as a means of allocating scarce resources to 'preferred sectors' at low cost.

McKinnon (1973) and Shaw (1973) challenged the Neo-Keynesian perspective, which argues that interest rates should be kept low in order to promote capital formation. They termed developing economies as financially repressed. Their central argument was that financial repression lead to indiscriminate "distortions of financial prices including interest rates and foreign exchange rates" Fry, (1995). In other words, financial repression, a combination of heavy taxation, interest rates controls and government participation in the credit allocation process would lead to both a decrease in the depth of the financial system and a loss of efficiency, with which savings are intermediated Sen and Vaidya, (1997). The proponent of interest rates deregulation McKinnon, (1973) argues that interest rate liberalization tends to raise ratio of domestic private savings to income. Therefore, interest rate liberalization will lead to significant economic benefits through a more effective domestic savings mobilization, financial deepening and efficient resource allocation McKinnon, (1973). This study adopted the Ronald McKinnon and Edward Shaw view in order to assess the interest rate liberalization policy in Nigeria.

3.0 **ESTIMATION TECHNIQUES AND EMPIRICAL ANALYSIS**

3.1 FINANCIAL DEEPENING MODEL

In this section, the relationship between interest rate deregulation and financial deepening is examined by regressing the financial depth variable on deposit rate, per capita income and real inflation rate. The research question in this case is whether deposit rate and inflation rate positively or negatively affect financial depth in Nigeria? The model can be expressed as follows:

$$\text{Log (FDN) t} = \beta o + \beta 1 \text{ Log (DRt)} + \beta 2 \text{ Log (CPI) t} + \beta 3 \text{ Log (PIC)t} + \text{Ut}\ldots.. \qquad (1)$$

When converting the above long-term equation to short-term the model changed to:

$$\Delta \text{ Log (FDN) t} = \beta o + \beta 1 \ \Delta\text{Log (DRt)} + \beta 2 \ \Delta\text{Log (CPI) t} + \beta 3 \ \Delta\text{Log (PIC)t} + \alpha\text{Ut-1} + \text{Ut}\ldots.. \qquad (2)$$

Where: FDN = financial deepening variable proxied by M2/GDP; DR= deposit rate (nominal); IR= inflation rate; PIC = real per capita income; Ut = white noise and normally distributed with mean zero and variance of one; and Ut-1= speed of adjustment, where βo, β1, β2, and β3, are the parameters of the model. The βo refers to the intercept coefficient, while β1, β2 and β3 are the slope coefficients.

The rationale for including different variables in the financial deepening model is based on the assumption that the inclusion of deposit rate is expected to capture the impact of interest rate deregulation on financial deepening. The coefficient of deposit rate in the model is expected to be positive and statistically significant. The inclusion of inflation rate is meant to capture the impact of inflation on the various components of money. According to Mohsin et al (2001) inflation rate above threshold has a negative effect on financial deepening but below the threshold it has a positive effect to financial deepening. Therefore the coefficient for inflation rate is expected to be negative and statistically significant. However, the inclusion of real GDP per capita is supported by the life circle hypothesis and the coefficient is expected to be positive and statistically significant.

3.2 DATA SOURCE AND DEFINITION OF VARIBLES

3.2.1 DATA SOURCE

Nigerian time series data, which covers the period (1981- 2011), is used in this study. The data used are obtained from different sources, including CBN Statistical bulletin and National Bureau of Statistics.

3.2.2 DEFINITION OF VARIABLES

i) Financial depth
Financial depth = M2/ GDP

Where: M2= broad money stock; and GDP= gross domestic product

ii) Nominal deposit rate = interest rate on 3months deposit in commercial banks.
iii) Inflation rate = consumer price index
iv) Real per capita income:

The real per capita income is computed below

Real GDP per capita (PIC) = Real GDP/total population

3.3 EMPIRICAL ANALYSIS

3.3.1 Stationarity Test

A unit root test has been used to determine the order of integration of the variables used in the study. Table 3.1 presents unit root test carried out to determine the stationarity of the data.

Table 3.1: Unit Root Test

Variables	ADF		Phillip Perron		DF GLS		KPSS	
	Level	1st Dif.	Level	1st Dif.	Level	1st Dif.	Level	1st Dif.
Lfdn	-2.1513[c]	-4.9133[b]	-2.3011[c]	-13.3482[c]	-2.0630[c]	-4.9089[c]	0.2515[b]	0.0568[b]
Ldr	-3.2950[a]	-7.3763[c]	-2.6194[a]	-6.6888[c]	-2.4266[b]	-7.3562[a]	0.2271[a]	0.0448[b]
Lpic	-0.7834[b]	-4.1972[b]	-3.1630[b]	-15.8783[b]	-0.5037[b]	-2.8706[b]	0.2983[b]	0.0601[b]
Lcpi	-1.6331[a]	-9.4133[b]	-1.6565[a]	-10.3059[b]	-1.0609[b]	-8.8562[b]	0.2964[b]	0.0543[b]

Note a => with intercept

b => with trend and intercept

c => with none

Table 3.1 reports that all variables in the model are non-stationary at level but stationary at first difference. Having established that the variables included in the financial deepening model are integrated, the next step is to test the possibility of cointegration among the variables in the equation. The results of cointegration test are reported in Table 3.2.

Table 3.2: Cointegration Test Using Engle Granger Approach

	Dependent Variable	Explanatory variables		
	LFDN	LDR	LCPI	LPIC
z-statistic	-33.30488	-26.72350	-22.34921	-25.66428
Prob.	0.0252	0.0904	0.1871	0.1080
No. of observations	119	122	119	119

The results of cointegration presented in Table 3.2 show that there is long-term or equilibrium relationship between dependent variable (financial deepening LOG (FDN)) and explanatory variables (inflation rate, per capita income and deposit rates).This is because the probability value for dependent variable is (0.0252), below 5%. Table 3.3 presents Long run Estimation using cointegration method.

Table 3.3: Long Run Estimation.

variable	Coefficient	Std. Error	t-Statistic	Prob.
LOG(DR)	-0.051240	0.130820	-0.391681	0.6960

LOG(CPI)	-0.192099	0.045501	-4.221885	0.0000
LOG(PIC)	1.137707	0.283680	4.010527	0.0001
Constant	-6.941521	1.957366	-3.546358	0.0006
R-squared 0.319012 Adjusted R-squared 0.301844 Durbin-Watson stat 0.603861				

The long run estimation results reported in Table 3.3 show that the coefficients of inflation rate, per capita income are statistically significant at 5% while the coefficient of deposit rate is statistically insignificant at 5% and 10 % levels, indicating that an increase in deposit rates does not permanently affect financial deepening. Although the coefficients of inflation and per capita income are statistically significant with the exception of deposit rates in the model, the estimated results suffer from autocorrelation problem because the Durbin Watson statistic is very low at 0.603861.

To resolve the problem of autocorrelation there is need to introduced error correction term in the short run so as to determine whether the model converge all the variables in the model. In this case, we lagged all the variables once including error term. Table 3.4 reports on short run estimation.

Table 3.4: Short run Estimation

variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LOG(DR))	0.024463	0.085374	0.286537	0.7750
D(LOG(CPI))	0.338728	0.141003	2.402270	0.0179
D(LOG(PIC))	-0.389526	0.130305	-2.989345	0.0034
ECM	-0.132380	0.046102	-2.871490	0.0049
Constant	-0.007013	0.012299	-0.570230	0.5696

R-squared	0.220732
Adjusted R-squared	0.194090
Durbin-Watson stat	2.134216
F-statistic	8.285211

The short run estimation results reported in Table 3.4 show that the coefficients of inflation rate, per capita income and ECM are statistically significant while the coefficient of deposit rate is statistically insignificant at 5% and 10% levels, indicating that an increase in deposit rate does not permanently affect financial deepening in Nigeria. The coefficient of inflation rate is (0.34), suggesting that, holding other variables constant, if inflation goes up by 1%, the mean financial deepening goes up by about 34%. However, the coefficient of per capita income (-0.39), meaning that if per capita income goes up by 1%, mean financial deepening goes down by 39%, again holding other variables constant.

The coefficient of error correction term (ECM) is (-0.13), suggesting that 13 % of the discrepancy between long term and short term financial deepening is corrected within a quarter. As regard the overall fitness of the model, the F- statistic value (8.29) is statistically significant at 5%level, suggesting that, collectively, all the variables have a significant impact on financial deepening in Nigeria. Furthermore, the Durbin-Watson statistic (2.13) is within the acceptable region, suggesting that the model is free from autocorrelation problem.

4.0 FINDINGS OF THE STUDY

The findings reveal that deposit rate is statistically insignificant at 5% and 10% levels, indicating that an increase in deposit rate does not permanently affect financial deepening in Nigeria; inflation rate is positive and statistically significant in the model while real per capita income is negative but statistically significant. However, the coefficient of error correction term (ECM) is (-0.13), suggesting that 13 % of the discrepancy between long term and short term financial deepening is corrected within a quarter. In a nutshell, about 53 per cent of the disequilibrium between long-term and short-term is adjusted in one year. This means that discrepancy can be corrected between the two periods within just two years.

Based on the findings from this study, the following recommendations are proffered:

I. There is need to conduct further research to ascertain threshold level of inflation so as to ensure continued positive effect of inflation on financial deepening in Nigeria. According to Mohsin, et al (2001) asserted that there is a threshold level of inflation below which it has a positive effect on financial deepening, but above which the effect turns negative. The estimated threshold level of inflation is between 3 and 6 percent a year, depending on the specific measure of financial deepening that is used. Based on this, the finding of this study reveals that inflation rate has positive effect on financial deepening.

II. The findings reveal that deposit rate is positive but statistically insignificant at 5% and 10% levels, indicating that an increase in deposit rate does not permanently affect financial deepening in Nigeria. Experience has shown that interest rate deregulation has failed to ensure competition for deposits in Nigeria.

III. Surprisingly, contrary to economic theory per capita income has no positive effect on financial deepening in Nigeria. One possible explanation to this might be due to absent of effective and efficient utilization of resources in the country for economic development. The government should re-strategize it plans and policies toward achieving sustainable growth and development in the economy.

5.0 CONCLUSION

This paper presents evidence of cointegration among financial deepening variable (M2/GDP), deposit rate, inflation rate and per capita income. The paper finds that there is a close, stable relationship among these four macroeconomic variables. Indeed, the discrepancy between long term and short term financial deepening is corrected within two years.

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THE IMPACT OF MERGERS AND ACQUISITION ON THE GROWTH AND SURVIVAL OF BANKS IN NIGERIA. A CASE STUDY OF UBA AND ACCESS BANK NIG. PLC.

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ABSTRACT

This paper examines the use of Mergers and Acquisition (M&A) as a business strategy for the growth and survival option of Nigerian banks from 2003 to 2010 using UBA and Access banks as case studies. Countries experiences from India and USA were reviewed and lessons drawn were highlighted. Key performance ratios such as profitability, earnings, asset quality and capital adequacy were applied as causative factors using ratio analysis model.

Findings revealed that the adoption of Mergers and Acquisition by Banks in Nigeria has led to the survival of merged entities but did not necessarily bring about growth to the banks. Though significant growth was achieved in terms of asset size, profit after tax, market share and capital base, it was not enough to conclusively assert absolute growth. The paper recommends that M&A should be adopted as a survival option in Nigeria by banks and other similar organizations based on the findings of the case studies.

1.0 INTRODUCTION

To be sound, the Nigerian banking sector has undergone remarkable changes over the years in terms of the number of institutions, structure of ownership, as well as depth and breadth of operations (Akpan, 2007). These changes have been influenced mostly by the challenges posed by deregulation of the financial sector, globalization, technological innovations, and implementation of supervisory and prudential requirements that conform with international regulatory standards. Soludo (2004) posits that these reforms of the banking sector is part of the government's transformation agenda aimed at repositioning and integrating the Nigerian banking sector into the African regional and global financial system. The objective was to make the banking industry sound competitive and carry out its core functions of financial intermediation.

The Central Bank of Nigeria (CBN) in order to reposition the banking industry increased the minimum capital requirement of banks from N2 billion to N25 billion in July 2004, with December 31, 2005 as deadline. As a result, more than half of the 89 banks in Nigeria as at July 2004 were engaged in some form of merger and acquisition to meet the capital requirement. Some banks sourced additional capital through public offer while others explored a combination of merger, acquisition and public offering. The CBN's policy to increase the shareholder's fund was to amongst other things, strengthen the financial capacity and effectiveness of the Nigerian banking sector. The banking consolidation process (which was regulatory induced) in the Nigerian banking sector in 2004 and 2005 resulted in the reduction of the number of operating insured banks from 89 to 25 as at December 31, 2005. Another round of consolidation started in 2009 after the apex supervisory body unearthed the rot in the banking industry following conclusion of an assessment of the consolidation exercise. The CBN waded in to forestall any systemic collapse. This made some of these banks to again consider Merger and Acquisition as a survival strategy. The number of banks further reduced to 20 from 25. Although not entirely new, M&A trend is gradually gaining ground in Nigeria as a viable option of bank capitalization and survival. Therefore, the focus of the paper would be a case study on Access bank Plc and UBA bank Plc.

The main questions that the paper seeks to answer include the following: Do mergers and acquisition bring about improved earnings, increased liquidity, profitability and asset quality of the banks? Have the banks grown in terms of gross earnings and total assets?

Considerable number of studies have been carried out to ascertain whether M&A result in successful improvement of banks' profitability and efficiency (Berger and Humphrey 1992; Rafferty 2000 and Koetter et al. 2007). A wide range of performance indicators have been applied in these studies, ranging from simple Balance Sheet and Profit and Loss ratios to more advanced statistical efficiency measures. Some of these studies find little or no evidence of M&A-enabled productivity gains (Berger and Humphrey 1992; Lang and Welzel 1999; Rafferty 2000). For instance, Koetter et al. (2007) focused on the German banking market, observed that many mergers serve as a pre-emptive distress resolution measure and therefore does not necessarily bring about superior financial performance afterwards.

Studies by (Ekundayo 2008; Soludo 2006 and Soludo 2008) also show that the consolidation of the Nigerian banking sector through M&A and organic growth resulted in a remarkable improvement in the sector as a whole. The balance sheet size and Profit and Loss profile of most banks in Nigeria have more than doubled since December 2005 to date. It is evident from large number of studies conducted on M&A that it is the most widely used strategic option adopted by organizations for growth purpose (Goyal and Vijay, 2011).

However, the results of these studies are generalistic as it shows sectorial improvements rather than specific aspects or causatic factors. A gap therefore exists in determining whether M & A lead to growth and survival of banks in Nigeria with particular reference to performance ratios such as; profitability, earnings, asset quality and capital adequacy as the causative factors for the growth.

The purpose of the study is therefore to examine the impact of mergers and acquisitions on the growth and survival of Nigerian banks with key reference to Access bank Plc and UBA Plc. The specific objectives of the study are to:

I. Examine the level of growth in terms of gross earnings and total assets of the banks after a merger and acquisition deal has been executed.
II. Establish if mergers and acquisitions are a means of gaining increased liquidity, profitability, improvement in capital adequacy ratio and asset quality in banks.

In order to achieve this purpose, the paper has been organized into five (5) sections. Section 2 reviews related literature. This consists of definition of the subject matter and motives of motives of mergers and acquisition. It also reviews some empirical studies and other relevant literature in the field of this study. Section 3 discusses research methodology, i.e the methodology selected by the researcher. It will highlight the sources of data, data analysis technique, research design, sample procedure and data collection. Section 4 gives a vivid presentation and analysis of data collected and findings of the study. While section 5 outlines the summary, conclusions and recommendations.

2.0 LITERATURE REVIEW

2.1. What is Merger and Acquisitions?

The encyclopaedia (Encarta, 2005) defines mergers as "efforts to organize an industry in order to achieve practical monopoly control", while acquisitions are "the takeover by one company of sufficient shares in another company to give the acquiring company control over that other company". In the case of mergers, such actions are commonly voluntary and often result in a new organizational name. While in the case of acquisitions, such actions can be hostile or friendly and the acquirer maintains control over the acquired firm (Jimmy 2008; Alao 2010). Similarly, Gaughan (2007) defines merger as a combination of two or more corporations in which only one corporation survives.

Sudarsanam (2003) states that the terms such as merger, acquisition, buyout and take over are used interchangeably and are all part of the merger and acquisition parlance, the author opined that merger is the process whereby corporations come together to combine and share their resources to achieve common objectives with the shareholders of the merged firms still retaining part of their ownership. This may sometimes lead to a new entity being formed while acquisition resembles more of an arm's length transaction with one firm purchasing the assets of the other and the shareholders of the acquired firm ceasing to be owners of the new firm.

CAMA (1990) defines a merger as 'an amalgamation of the undertaking or any part of the undertakings or interest of two or more companies or the undertakings or part of the undertakings of one or more companies and one or more corporate bodies'. Simply put, a merger is a form of business combination whereby two or more companies join together with one being voluntarily liquidated by having its interest taken over by the other and its shareholders becoming shareholders in the other enlarged surviving company.

Musa (2005) goes further to state that; mergers are 'integration of companies such that shared resources and shared specialization are jointly utilized for rapid economic growth and development, while acquisition is the takeover by one company of sufficient shares in another company to give the acquiring company control over that other company. Greg (1990) refers to mergers as an aspect of corporate restructuring where the assets and shares of a target company are taken over by that acquiring firm.

A critical look at the various definitions show a convergence of opinion and meaning of mergers and acquisitions as corporate strategies aimed at achieving economies of scale and synergy.

2.2 Motives of Mergers and Acquisitions

There are three motives of mergers and acquisitions These motives include; Synergy motive, Hubris motive and the Agency motive. Each motive has its own implication in association with the benefits to the participant organizations in the mergers and acquisitions process.

The synergy motive (Becher 2000; Lensink and Maslennikova 2008; Carline *et al*. 2009) suggests that mergers and acquisitions occur when the combination of the two organizations results in economic gains. These could arguably arise because of the synergy created by the combination of the business entities.

The Hubris motive of mergers and acquisitions suggests that managers may over value the target as a result of valuation errors (Becher 2000; Lensink and Maslennikova 2008). Lensink and Maslennikova (2008) further argued that the acquirer mistakenly believes that the value of the target is higher than its actual market value. As a result, the bidder overpays and realises negative gains while shareholders of the target company profits.

The agency hypothesis as a motive for mergers and acquisitions argues that managers pursue their own interests to engage in takeover activity at the expense of shareholders (Lensink and Maslennikova, 2008). Carline et al. (2009) also posited that managers may aim to satisfy their own interests by increasing firm size. Managers may also increase perquisite consumption that may damage firm value.

This research work is focussed on the synergy motive for mergers and acquisitions where the economic gains of business combination could or has enhanced economic growth and survival of the merged entities.

Ravichandran et al (2010) studied the efficiency and performance of banks and found that profitability and total advances to deposits ratio had improved positively after a M & A activity had taken place. Olokoyo & Umoren (2007) analyzed the performance ratio of a sample of 13 banks in Nigeria and found that on average, bank consolidation resulted in improved performance. Similarly, Yener & Ibanez (2004) compared pre-and-post merger performance in a comprehensive sample of European Union banks from 1992 to 2001. The findings revealed that bank mergers in the European Union resulted in improved returns on capital and performance

In a related study by Koetter et al. (2007), which focused on the German banking market, it was observed that many mergers serve as pre-emptive distress resolution measures. Studies by Avkiran (1999) and Worthington (2004) also support the relative efficiency hypothesis. Support for a 'reverse' Relative Efficiency Hypothesis is provided by Resti (1998) who stated that, merger among Italian bank between 1987 and 1995, showed that the acquirers appeared even less efficient than their targets. While in a study of the US market, Wheelock and Wilson (2000) found that, contrary to the low efficiency hypothesis, inefficient banks are less likely to be acquired. This finding contradicts an earlier study by Hadlock et al. (1999) who opined that poorly performing banks are more likely to be acquired

Jimmy (2008) evaluated organic growth and mergers and acquisitions as strategic growth options in the Nigerian banking sector between 2003 to 2007 using performance ratios such as profitability, capital adequacy and earnings to ascertain which resulted in superior performance. It was found that the merged bank witnessed a higher growth rate than the other bank that grew organically.

2.3 Types of Mergers and Acquisitions

Three types of M&A are consistently discussed in the economic and financial literature. They are: Horizontal, Vertical and Conglomerate mergers. However, Cartwright and Cooper (1992) and other writers mentioned and discussed a fourth type, which is Concentric mergers (Gaughan 2007; Brealey et al. 2006 and Okonkwo 2004).

Vertical merger is a merger in which one firm supplies its products to the other.
A vertical merger results in the consolidation of firms that have actual or potential buyer-seller relationships (Coyle 2000; Fitzroy et al. 1998 and Gaughan 2007).

On the other hand, a conglomerate merger occurs when unrelated enterprises combine or firms which compete in different product markets, and which are situated at different production stages of the same or similar products combine, to enter into different activity fields in the shortest possible time span to reduce financial risks through portfolio diversification (Brealey et al. 2006; Cartwright and Cooper 1992; Gaughan 2007 and Okonkwo 2004).

A horizontal merger is the merger of two or more companies operating in the same field and in the same stages of process of attaining the same commodity or service (Gaughan 2007; Brealey et al. 2006; Okonkwo 2004). In other words, a horizontal merger is the combination of firms that are direct rivals selling substitutable products within overlapping geographical markets. The purpose of this type of merger is to eliminate a competitor company, to increase market share, buy up surplus capacity or obtain a more profitable firm in order to gain a competitive advantage. Notwithstanding such benefits, this type of mergers has the drawbacks of restricting new entrants into the market (Gaughan, 2007).

Typical examples of horizontal mergers in Nigerian M&As are: IBTC-Chartered Bank merger with Stanbic Bank Nigeria Limited, Access Bank's merger with Capital Bank and Marina International Bank, and Platinum Bank Limited merger with Habib Nigeria Bank Limited in Nigeria (Adesida 2008; CBN 2005; Ekundayo 2008).

Concentric M&A involves firms which have different business operation patterns. Although divergent, the firms may be highly related in production and distribution technologies. The acquired company represents an extension of the product lines, market participation, or technologies of the acquiring firm under concentric M&A (Cartwright and Cooper, 1992).

2.4 Benefits, Limitations and Challenges of Merger and Acquisition

The gains arising from merger include; an enlarged balance sheet and customer base for the bank, profitability and increased branch network which results in adequate presence across the country. Others are economies of scale, improved perception of the bank by all stakeholders and most importantly synergy-strength and capital base.

Acquisitions can result in the destruction of value if management reinvests the firm's resources, or free cash flows, for their own personal interest in inefficient projects.
Amihud and Lev (1981) who empirically examined the motives for the widespread and persisting phenomenon of conglomerate mergers conclude that managers are engaging in conglomerate mergers 'to decrease their largely undiversified employment risk. According to Jensen (1986), agency costs occur when there are substantial free-cash flows that are reinvested inefficiently by the managers, instead of redistributing them directly to their shareholders through dividend payments. Manager-specific investments also provide the opportunity for managers to extract higher wages and to have more control over the corporate strategy of the company (Shleifer and Vishny, 1989).
Another limitation of M&A is value-destruction that results from poor post-merger integration (Stewart, 2006). Data integrity and transparency in the conduct of mergers is also a critical success factor which either facilitates quick integration or affects a smooth take over process.

The challenges of M&A include; technology integration, human resource/manpower management issues, integrating new manpower resources and managing organizational culture. Others are; rising operating expenses due to the cost of business combination, change management with all stakeholders and the challenges in absorbing and managing the increased branch network

2.5 Experiences of India and U.S.A on M&A

Two countries -the U.S.A and India are discussed below to have a broader understanding of the concept and experience in these economies in mergers and acquisitions of business entities. The choice of these two countries is as a result of USA being a model for best practice in merger and acquisition activities. On the other hand, India being an emerging economy shared similarities with Nigerian economy as well as the financial restructuring the country achieved using this form of business strategy.

2.5.1 Mergers and Acquisitions waves in U.S.A.

Mergers and acquisitions have often occurred in waves, with different motives behind each wave. Five M&A waves in the United States of America between 1897 and 2004 were characterised by cyclic activities, caused by a combination of economic, regulatory, and technological shocks (Gaughan 2007; Mitchell & Mulherin 1996; Sudarsanam 2003). Some of today's business giants such as USX Corporation, DuPoint Inc, General Electric, Standard Oil (ExxonMobil, Chevron and Amoco) and Eastman Kodak are results of M&A (Gaughan 2007; Sudarsanam 2003). In all the waves, market share, survival and strategic restructuring were the motive of the merging entities.

2.5.2 Mergers and Acquisitions waves in India

The banking sector of India is considered as a booming sector and the soundness of the banking system has been vital to the development of the country's economy. The growth of the economy by over 9% in the last three years has made India to be regarded as the next world economic power house. Various challenges and problems faced by the Indian banking sector and the economy have made mergers and acquisition activity not an unknown phenomenon in the Indian banking industry, (Ravichandran et al., 2010).

There were about 196 rural banks in 1989 that were consolidated into 103 by merging themselves into commercial banks. In 2000, about 17 urban co-operative banks were merged with state owned commercial banks. Since about 75% of the Indian banking system consists of public sector banks, more consolidations began to take place in the late 2000 (Ravichandran et al., 2010). Indian banking institutions began facing competition when the regulators started allowing foreign banks to enter into the local banking market. Feeling this pressure, many private banks began to merge with foreign banks for reasons such as survival, building up their financial strength, capturing larger portion of the growing retail business and securing regional presence, (Ravichandran et al., 2010)

Benefits of M& A to Indian banks include; distressed banks survived after merger. It also led to enhanced branch network. Geographically, M&A led to larger customer base (rural reach), increased market share and attainment of infrastructure (Goyal and Vijay, 2011).

2.5.3 Lessons drawn from other jurisdictions

Based on the experience of the jurisdictions discussed, a few critical lessons which can be drawn by organizations in Nigeria that have engaged or have intentions to engage in this form of business combination. These lessons include: the need to establish clear reasons and objectives for the merger, the need for proper appraisal of the entity to be acquired or merged so as to avoid over-valuation hence high merger/combination cost, need to integrate and manage new human resources and the necessity to make the deal very professional. It is also very important that when two organizations are merging, one entity should also be stronger and more viable than the other i.e two sick or distressed banks should not merger.

2.6 Mergers and Acquisitions Activities in the Nigerian Banking Industry

The Nigerian Banking industry dating back to 1894 has gone through a lot of transformations as regards mergers and acquisitions. M&A had occurred involving the acquisition of African Banking Corporation in 1894 by the British Bank for West African (now First Bank of Nigeria Plc) and Union Bank of Nigeria's acquisition of City Trust Merchant Bank in 1995. Between July 6, 2004 and December 31, 2005, the number of banks in Nigeria reduced from 89-25 through mergers and acquisitions and revocation of banking license from institutions that were unable to achieve the new paid-up capital of N25 billion. Out of the 25 banks that met the N25 billion requirements, fourteen of them were the product of mergers and acquisitions involving sixty nine banks while only six grew organically (Central Bank of Nigeria, 2005). For a complete list of banks that merged from 1894 to 2009, the reader should consult *CBN Annual Report 2005.*

3.0 RESEARCH METHODOLOGY

To address the above stated objectives, the study will rely on simple statistical tools such as percentages and ratios to analytically review financial performance and market valuation of pre and post merger and acquisition period of the selected case studies.

In order to analyze the volume of data, the percentage ranking of variables would be used instead of their absolute values. Although financial ratios have their own limitations Casu et al (2006) and the volume of numbers in a bank's financial statements can be intimidating sometimes, but with financial ratio analysis, these can be presented in an organised form to minimise such limitations (Rees, 1995).

Multiple performance indicators such as liquidity; profitability (return on assets, return on equity and return on capital employed); size (the levels and growth rates of total assets and revenue) and capital adequacy ratios would be used to undertake the study. Jimmy (2008), Hirthle (1991) and Mishkin (2006) at different times had used these multiple performance indicators in previous merger and acquisition studies.

3.1 Sources of Data

The study relied primarily on secondary data from the published accounts of the sampled banks from 2003 to 2010. This will to a large extent guarantee the validity and reliability of empirical data. Although the use of the banks' own data eliminate to a large extent biases from the researcher, it has the inherent problem of providing information that favours the reporting bank. Therefore, where necessary, additional information from third party sources such as banking regulatory authorities (CBN and NDIC) and stock market information were used.

3.2 Definition of Key Performance Indicators

This part of the study gives an analysis of the key performance ratios in analysing Access Bank Plc and UBA Plc financial statements for the period 2003 to 2010 as the case studies. These banks were analysed using liquidity, profitability, capital adequacy, asset quality and growth rate as parameters. The ratios used to analyze these parameters are:

3.2.1 Liquidity ratio

Liquidity ratio measures a bank's capability to meet its maturing short-term debt obligations. This study used current liquidity ratio with the formula: cash and short term funds to current liabilities and loan to deposit ratio.

3.2.2 Profitability ratio

Profitability ratio gives users a good understanding of how well the bank utilised its resources in generating profit and shareholder value. Return on equity (ROE), return on capital employed (ROCE) and return on asset (ROA) are used in the data analysis.

3.2.2.1 Return on equity

Return on equity (ROE) ratio indicates how profitable a company is by comparing its net income to its shareholders' equity (Mishkin, 2006). The ratio measures how much the shareholders earn for their investment in the company. The higher the ratio, the more efficient management is in utilising its equity base and the better return is to shareholders. ROE is computed as: Net profit after taxes divided by Average shareholders' equity.

3.2.2.2 Return on capital employed (ROCE)

The return on capital employed (ROCE) expressed as a percentage, complements the return on equity (ROE) ratio by adding a company's debt liabilities, or funded debt, to equity to reflect a company's total "capital employed". This measure narrows the focus to gain a better understanding of a company's ability to generate returns from its available capital base (Jimmy, 2008). ROCE is calculated as Net profit after taxes divided by Capital Employed.

3.2.2.3 Return on Assets

This ratio shows how profitable a company is relative to its total assets (Mishkin, 2006).The return on assets ratio illustrates how well management is employing the company's total assets to generate profit. The higher the return, the more efficient management is in utilising its asset base. The ROA ratio is calculated by comparing net income to average total assets, and is expressed as a percentage.

ROA = Net profit after taxes / Total Assets

4.0 DATA PRESENTATION

Data was collected from 2003 to 2010 financial statements of the banks which covered three years before the merger of Access Bank with Capital Bank and

Marina International Bank Limited and four years post-merger. Financial ratios and other valuation techniques were used for the analysis and the results are presented in tables and graphs with necessary explanations. The same thing was done for UBA.

4.1 An Overview of the Case Studies

4.1.1. Access Bank Nigeria Plc

Access Bank Plc was incorporated in Nigeria as a private limited liability company in February 1989 and commenced commercial banking operations in May 1989. Consequent to the bank conversion to a public limited liability company on March 1998, its shares were listed on the Nigerian Stock Exchange in November 1998. Following the unification of banking activities in Nigeria, the CBN issued Access Bank Plc a universal banking licence in February 2001. From a modest beginning in 1989, Access Bank Plc grew its Balance Sheet size to almost N70 billion and shareholders' equity N14.07 billion with a fully paid share capital of N4.056 billion comprising 8.1 billion ordinary shares of 50 kobo each as at March 31, 2005. Following the review of minimum capital base to N25 billion by the CBN, the bank acquired Capital Bank International Limited and Marina International Bank Limited on November 1, 2005 through share exchange consideration and continued trading as Access Bank Plc. Presently the bank has again merged with intercontinental bank in the second round of consolidation 2011.

4.1.2 Rationale for the Merger

The merger was driven by the need to meet the new minimum capital requirement of N25 billion as set by the CBN with a December 31, 2005 deadline. It also provided Access Bank Plc with an inorganic growth opportunity to achieve its strategic objective of being one of the top banks in Nigeria by 2007 (Access, Capital & Marina Scheme of Merger 2005). The merging banks were expected to benefit from the followings:

• Wider geographical spread of branch network;

• Economies of scale resulting from cost reduction and increased product scale;

• Brand enhancement and improved market positioning; and

• Leveraging on the combined bank's balance sheet size and shareholders' funds to provide more credit to a larger spectrum of customers.

Table 4.1 and 4.2 below shows the summary of Access Bank's financial statements from 2003 to 2010.

Table 4.1 Summary of Access Bank’s 8 Years Profit & Loss Account

	2010 (N’m)	2009 (N’m)	2008 (N’m)	2007 (N’m)	2006 (N’m)	2005 (N’m)	2004 (N’m)	2003 (N’m)
Gross Earnings	79,847,752	75,847,752	57627098	27,881	13,360	7,495	5,515	4,368
Interest and Discount Income	59388433	61836721	40535737	16,894	8,733	3,929	2,746	2,530
Interest Expense	19,538,807	28,722,991	14,588,859	-4,952	-2,472	- 1,577	- 1,445	-1,183
Net Interest Income	39,849,626	33,113,730	25,946,878	11,942	6,261	2,353	1,301	1,347
Provision for Risk Assets	142816	4658203	3515397	-1,775	-1,386	-984	-386	-328
				10,167	4,876	1,368	915	1,019
Other Income	89,181	138,606	17091361	10,988	4,628	3,566	2,769	1,838
Operating Expense	38797403	26253003	20112197	-13,111	-8,384	- 4,183	- 2,732	-1,846
PBT & Exceptional items								1,011
Exceptional items				-	-	-	-	-200
PBT	17,688,584	41723	19,042,106	8,043	1,119	751	952	811
Taxation	4,737,143	922,475	2,985,642	-1,960	-382	-250	-314	-254
Profit After Taxation	12,931,441	(880752)	16,056,464	6,083	737	502	637	557
Earnings Per Share (Kobo)	72k	5k	173k	87k	7k	12k	21k	21k
Dividend Per Share (Kobo)	20k	70k	40k	-	-	-	10k	5k

Source: Access bank annual reports

Table 4.2 Highlights of Access Bank’s 8 Years Balance Sheet

	2010 (N’m)	2009 (N’m)	2008 (N’m)	2007 (N’m)	2006 (N’m)	2005 (N’m)	2004 (N’m)	2003 (N’m)
Total Assets	726,960,580	647,574,719	1,031842021	328,615	174,554	66,918	31,342	22,582
Total Liabilities	544,455,766	474,423,696	859,839,995	300,230	145,660	52,846	28,339	20,082
Shareholders' fund	182,504,814	173,151,023	172,002,026	28,384	28,894	14,072	3,003	2,365
Liabilities and equity	726960580	647574719	1031842021	328,615	174,554	66,918	31,341	22,447
Commitmen	194,451,93	125636911	155,035,76	80,130	30,091	14,76	31,34	6,377

ts and Contingencies	1		6			3	1	
Total Assets and Contingencies	921,412,511	773,211,630	1186877787	408,745	204,645	81,681	44,735	28,959

Source: Access Bank Annual Reports

4.1.3 UBA Plc

Today's United Bank for Africa Plc (UBA) is the product of the merger of Nigeria's third (3rd) and fifth (5th) largest banks, namely the old UBA Nigeria Plc and the erstwhile Standard Trust Bank Plc (STB) respectively, and a subsequent acquisition of the erstwhile Continental Trust Bank Limited (CTB). The union emerged as the first successful corporate combination in the history of Nigerian banking.

UBA's history dates back to 1948 when the British and French Bank Limited ("BFB") commenced business in Nigeria and the erstwhile STB and CTB both in 1990. Following Nigeria's independence from Britain, UBA was incorporated in 1961 to take over the business of BFB. Although today's UBA emerged at a time of industry consolidation induced by regulation, the consolidated UBA was borne out of a desire to lead the domestic sector to a new era of global relevance by championing the creation of the Nigerian consumer finance market, leading a private/public sector partnership at supporting the acceleration of Nigeria's economic development. It grew as a growing institution from a banking to a one-stop financial services institution, with expansion across Africa to earn the reputation as the face of banking in the continent. The bank's operations has grown to spread across 21 countries with one of the largest distribution networks in Nigeria comprising of 726 branches.

4.1.4 Rationale for the Merger

The two banks (UBA and STB) believe that the emergent institution would be well-positioned to achieve strong and stable financial performance and increased shareholder value through a more balanced business mix, greater economies of scale and enhanced efficiency and competitiveness.

Table 4.3 and 4.4 presents a summary of UBA financial statements from 2003 to 2010 financial years.

4.3 Summary of UBA's 8 Year Profit and Loss Account

	2010 (N'm)	2009 (N'm)	2008 (N'm)	2007 (N'm)	2006 (N'm)	2005 (N'm)	2004 (N'm)	2003 (N'm)
Gross Earnings	157,666	219,843	154,093	101,106	86,079	25,506	23928	23,720
Interest and Discount Income	106,597	163,456	111118	68575	57,207	14456	15,155	15,183
Interest Expense	43,670	54,920	39,800	(26531)	(24,879)	(3490)	(3107)	(3,676)
Net Interest Income	62927	108,536	71318	42044	10,966	32,328	12048	8,302
Provision for Risk Assets	1548	32568	15179	(3163)	(5,174)	(40)	761	(3,205)
Other Income	1224	2110	42974	32531	56,026	11,050	8773	8,537
Operating income	113996	163274	112744	71412	28872	21976		16,839
Operating Expense	82458	107717	58107	(5788)	(43,512)	(15,737)	13099	10,880
PBT & Exceptional items	16359	22989	54637	28615	12,514	6,239	5608	4816
Exceptional items	12666	7025	8786	(5788)	-	-	-	-
PBT	3693	15964	45,851	22827	12,514	6,239	5608	4816
Taxation	1526	3,075	5303	(2996)	(1,046)	(1,586)	(1423)	(1307)
Profit After Taxation	2167	12,889	40002	19831	11,468	4,653	4185	2989
Earnings Per Share (Kobo)	8	60	305	241	186K	249K	164K	80k
Dividend Per Share (Kobo)				-	100K	60K	60K	45k

Source: UBA bank annual reports

Table 4.4 Highlights of UBA 8 Years Balance Sheet

	2010	2009	2008	2007 (N'm)	2006 (N'm)	2005 (N'm)	2004 (N'm)	2003 (N'm)
Total Assets	1,432,632	1,400,879	1520093	1102348	851,241	248,928	208806	200995

Total Liabilities	1,244,902	1,213,160	1331939	937527	851,241	248,928	187362	187228
Shareholders' fund	187,730	187,719	188155	164821	47,621	17,702	18059	13767
Liabilities and equity	1,432,632	1,400,879	1520093	1102348	898862	266630	205421	200995
Commitments and Contingencies	628,253	684,047	446754	372325	167,184	81,821	81719	48,371
Total Assets and Contingencies	2060885	2084926	1966847	1474673	1018425	330749	290525	249336

Source: UBA Bank Annual Reports

5.0 ANALYSIS OF FINDINGS AND DISCUSSION.

Presented in this section are the findings and discussions of the study. Key performance indicators discussed in the previous section were analysed to show whether M&A had enhanced growth and survival in the two banks.

5.1 Liquidity.

Table 5.1 showed the proportion of customers' deposit given out as loans by the banks. The table shows that Access Bank had a deposit-loan ratio of 70%, 51% and 53% while UBA had 32%, 37% and 35% in 2003, 2004 and 2007 respectively.

Loan to deposit ratio, shows whether a bank is over or under trading. A higher loan to deposit ratio is an indication that most deposits are given out as loans, implying that should there be a surge in the number of depositors calling for their deposits; the bank will be faced with a temporary illiquidity until it is able to recall its risk assets or investments or seek a temporary liquidity support.

Table 5.1 also shows the ratio of cash and short-term investment to current liabilities. The table shows both Access and UBA banks as having surpassed the regulatory liquidity benchmark of 40% as set by the Central Bank of Nigeria CBN (CBN, 2005).

The data also revealed that Access bank witnessed a significant drop in liquidity in 2005. This might not be unconnected with the consolidation in the banking sector during the period as depositors' diversified/withdrew their cash from banks for investments in other financial assets with higher return. Due to liquidity squeeze in 2005, Access Bank's ratio was below the required prudential ratio of 40%. However, in 2006 financial year (first year post-merger), Access Bank recorded a significant improvement in liquidity ratio from 38% in 2005 to 59% in 2006 financial year. The drop to 31% in 2009 is attributed to the added liabilities and challenges of the process of the acquisition of Intercontinental bank Plc. While, the drop in 2010 could be attributed to the AMCON activities.

Table 5.1 Loan to Deposit Ratio and Cash and Short term Funds to Current Liabilities)

	ACCESS BANK	UBA	ACCESS BANK	UBA
YEAR	LOAN: DEPOSIT (%)	LOAN: DEPOSIT (%)	CASH & SHORT TERM FUNDS: CURRENT LIABILITIES (%)	CASH & SHORT TERM FUNDS: CURRENT LIABILITIES (%)
2003	70	32	47.8	49.7
2004	51	37	48.1	48.2
2005	50	33	37.7	48.4
2006	49	14	58.6	58.5
2007	53	35	66.6	55.4
2008	70	32	81	63
2009	88	50	31	43
2010	92	51	19	35

Source: Access Bank and UBA Annual Reports

5.2 Profitability Ratios

In this section, the study assessed the profitability and efficiency of both banks to ascertain if M&A had enhanced profitability and produced better results. Key performance indicators such as return on assets (ROA), return on equity (ROE) and return on capital employed (ROCE) were used in the analysis. These indicators are considered as measures of a bank's profitability and efficiency.

Table 5.2 presented hereunder indicated that the performance of UBA bank was mixed, ROA increased from 1.5% in 2003 to 2% in 2004 and decreased to 1.9% in 2005 pre-merger years. UBA's ROA further declined from 1.5% in 2003 to 1.3% in 2006 due to post integration challenges but recovered briefly in 2007 and plunged again to 1.6 in 2008. In 2009, the ratios declined sharply due to the cleaning up of bad loans in the banks. The bank had not fully recovered as at 2010 with a ratio of 0.2%.

Access Bank's ROA declined from 2.5% in 2003 to 0.4% in 2006 (the first post-merger year). This could be attributed to post merger integration shocks but increased significantly to 1.9% in 2007 with a sharp decline in 2009 again due also to post integration shocks of the Bank's merger with Intercontinental Bank Plc.

Table 5.2 Return on Assets

	ACCESS BANK			UBA		
Year	Profit after tax (N'm)	Total Assets (N'm)	% PAT:TA	Profit after tax (N'm)	Total Assets (N'm)	% PAT:TA
2003	557	22,582	2.5	2,989	200,995	1.5
2004	637	31,342	2.0	4,185	208,806	2.0
2005	502	66,918	0.7	4,653	248,928	1.9
2006	737	174,554	0.4	11,468	851,241	1.3
2007	6,083	328,615	1.9	19,831	1102348	1.8
2008	16,056,464	1,031842021	1.6	40002	1520093	2.6
2009	(880,752)	647,574,719	(0.14)	12,889	1,400,879	1.0
2010	12,931,441	726,960,580	1.8	2167	1,432,632	0.2

Source: Access Bank and UBA Annual Reports

Access Bank recorded improvement in profitability in 2007 which was attributed to strong growth in volume that lifted non-interest earnings and improved efficiencies. This served as a buffer which narrowed net interest margins, which had been negatively impacted by increasing competition and maintaining a highly liquid balance sheet due to poor investment outlets. However, in 2008, the bank's ROA decreased to 1.6% and in 2009 the bank recorded a loss with ratio of -0.14% as a result of huge additional provisions the bank was required to make due to recommendations of the special examination carried out on all banks. In 2010, ROA rose to 1.8% because at this time, the bank having cleared their books started making profits.

Analysis of the data showed that merger has led to growth in profitability due to growth in absolute terms in profit after tax and total assets overtime but when the ratios are analyzed individually, merger couldn't have led to growth in profitability using ROA as proxy in the banks under study.

Computed returns on equity and returns on capital employed (not shown due to space constraint) also exhibited the same pattern as ROA. A low ROE will tend to decrease a bank's access to new capital that may be necessary to expand and maintain a competitive position in the market. Net interest income of both banks witnessed a steady decline between 2003 to 2007 as shown in Table 5.3. UBA's net-interest to total asset margin declined from 4.1% in 2003 to 1.3% in 2006 while Access Bank net interest declined from 6% to 3.5% between 2003 and 2005 but marginally increased to 3.6% during 2006 and 2007 financial years. ROCE measures the returns that a company is realizing from the application of its capital. This ratio is expected to always be higher than the rate at which the company borrows; otherwise any increase in borrowing will reduce shareholders' earnings. In 2009, the ratio was negative for Access bank depicting the loss after tax recorded for the year after the Intercontinental Bank merger.

Table 5.3 Net Interest Income: Total Asset Margin

	ACCESS BANK			UBA		
YEAR	Net Interest Income (N'm)	Total Asset (N'm)	% NII:TA	Net Interest Income (N'm)	Total Asset (N'm)	% NII:TA
2003	1,347	22,582	6.0	8302	200995	4.1
2004	1,301	31,342	4.1	12048	208806	5.8
2005	2,353	66,918	3.5	32328	248928	13
2006	6,261	174,554	3.6	10966	851241	1.3
2007	11,942	328,615	3.6	42044	1102348	3.8
2008	25,946,878	1,031842021	3	71318	1520093	5
2009	33,113,730	647,574,719	5	108,536	1,400,879	8

2010	39,849,626	726,960,580	6	62927	1,432,632	4

Source: Access Bank and UBA Annual Reports

5.3 CAPITAL ADEQUACY

Capital Adequacy Ratio (CAR) is a measure of the amount of a bank's capital, expressed as a percentage of its loan exposures or assets. The minimum CAR ratio prescribed by the CBN is 10%. This implies that a bank's capital must cover at least 10% of its risk-weighted assets. It is used as a measure of a bank's financial strength and stability. Therefore a lower CAR below 10% could imply that the bank does not have sufficient capital to cushion or withstand abnormal losses not covered by current earnings which is an indication of imminent distress. While a negative CAR implies that the banks' capital had been eroded and needs fresh capital injections.

UBA's equity grew from N1.3billion in 2003 to N16.4billion in 2007 and to N18.7billion in 2010. But equity to asset ratio as a measure of capital adequacy fluctuated within the years under review. UBA witnessed a slight decrease in capital adequacy from 8.6% in 2004 to 7.1% in 2006 but increased to 15% in 2007 with fluctuations in the subsequent years. (See Table 5.4 and Figure 5.1 below).

Access Bank also recorded a phenomenal growth in equity from N2.3 billion in 2003 to N28.3 billion in 2007 and N18billion in 2010. This increase represents the additional shareholders of the resulting entity from the Access/Intercontinental merger. But equity to asset ratio as a measure of capital adequacy indicates a fluctuation for the respective years. Access Bank recorded a drop in capital adequacy from 21% to 16.6% and further to 8.6% for 2005, 2006 and 2007 financial years, respectively. However, the ratios for 2009 and 2010 improved due to increased assets from the resulting entity.

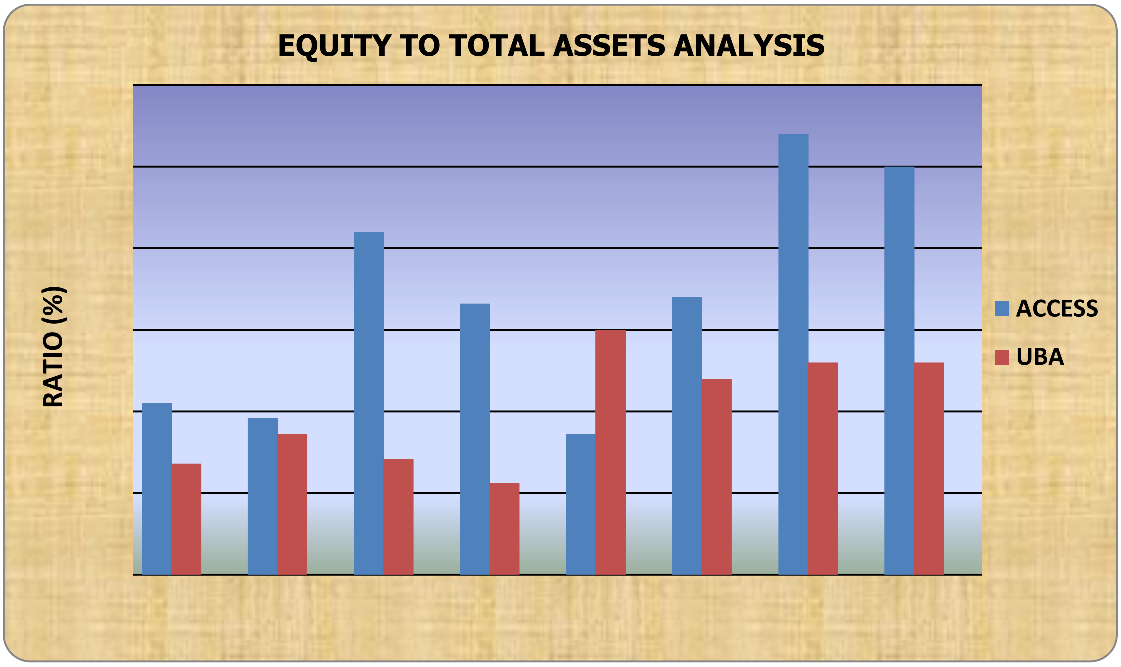
Table 5.4 Equity to Total Asset Ratio

	ACCESS BANK			UBA		
YEAR	Equity (N'm)	Total Assets (N'm)	% Equity:TA	Equity (N'm)	Total Assets (N'm)	% Equity:TA
2003	2365	22,582	10.5	13767	200995	6.8

2004	3,003	31,342	9.6	18059	208806	8.6
2005	14,072	66,918	21.0	17,702	248,928	7.1
2006	28,894	174,554	16.6	47,621	851,241	5.6
2007	28384	328,615	8.6	164821	1102348	15.0
2008	172,002,026	1,031842021	17	188155	1520093	12
2009	173,151,023	647,574,719	27	187,719	1,400,879	13
2010	182,504,814	726,960,580	25	187,730	1,432,632	13

Source: Access Bank and UBA Annual Reports

Figure 5.1 Equity to Total Assets analysis



The lower capital adequacy ratios of Access Bank are as a result of the quantum leap in loans and advances against the growth of capital for the period. Also, the drop in Access Bank's equity to assets ratio was due to a write-off of N6.59 billion balance of goodwill arising from consolidation against its reserve (Access Bank, 2007). When measured against the minimum capital adequacy (equity to total assets) requirement of 10% as set by the Central Bank of Nigeria (CBN, 2005). UBA did not meet the minimum capital adequacy requirement for the period - 2003, 2004, 2005 and 2006, but attained it in

2007 and has maintained values above the required figure; while Access Bank surpassed the minimum capital adequacy of 10% in 2003, 2005 and 2006 but failed to meet the minimum requirement in 2004 and 2007.

Table 5.5 Equity to Loans

ACCESS BANK				UBA		
YEAR	Equity (N'm)	Total Loans (N'm)	% Equity:Total Loans	Equity (N'm)	Total Loans (N'm)	% Equity:Total Loans
2003	2365	6,508	36.3	13767	46076	30.0
2004	3,003	11,507	26.1	18059	56136	32.1
2005	14,072	16,334	86.2	17,702	67610	26.2
2006	28,894	54,407	53.1	47,621	107194	44.4
2007	28384	108,775	26.1	164821	320229	51.5
2008	172,002,026	244,595,621	70	188155	405,540	46
2009	173,151,023	360,387,649	40	187,719	573,465	33
2010	182,504,814	403,178,957	45	187,730	569,312	33

Source: Access Bank and UBA Annual Reports

5.4 ASSET QUALITY

Asset quality is determined by the ratio of non-performing loans (NPL) to total loans. A lower ratio means high quality risk assets while a higher ratio implies poor asset quality using the previous pre-merger regulatory benchmark of 20% and current ratio of 5%. When asset quality was measured using non-performing loans to total loans as indices.

UBA's non-performing loans to total loans ratio was 92% and 41% in 2003 and 2004 respectively in pre-merger period. During the merger year, it dropped slightly to 36% all above the regulatory benchmark of 20% (CBN, 2005). After the merger deal, NPL declined to 14% meaning that the bank had improved its management of their loan portfolio and made more provisions for loans losses. In 2007 financial year, NPL ratio to total loans was 44% and 38% in 2008. Although the ratios had improved, they were still above regulatory benchmark. NPL to total loans further improved to 6.9% and 7%. The ratios achieved in 2009 and 2010 were as a result of the special examination of 24 banks in 2009. Also, bad loans were bought by the Asset Management Corporation of Nigeria (AMCON) to ensure a clean start for the banks and enhance financial stability. This regulatory activity also required banks to make more provisions for bad loans.

Access Bank's non-performing loans to total loans improved significantly from 119% in 2003 to 8% in 2010. In 2005 financial year which was the merger year, NPL was 107%. At this point the bank's management of its loan portfolio was poor compared to the 20% regulatory benchmark at that time. After the merger, in 2006 the first post merger year, the bank was still grappling with post integration issues and the bad debts inherited from the other banks due to the combination of the entities hence the poor NPL to loans of 149%. The second post merger year witnessed a significant improvement of 99%. This trend continued to 2008. The significant improvement in loan efficiency in 2009 and 2010 can be attributed to the efforts of AMCON and the regulatory authorities' activities.

Figure 5.2 showed that loan loss provisions took a greater percentage of Access Bank's profit before tax; showing that better loans quality could lead to improved profitability. However, with the coming of AMCON, and mopping up of bad loans, the 2009 and 2010 positions of both banks improved. A higher level of non-performing loans reduces profit and may affect capital in the future.

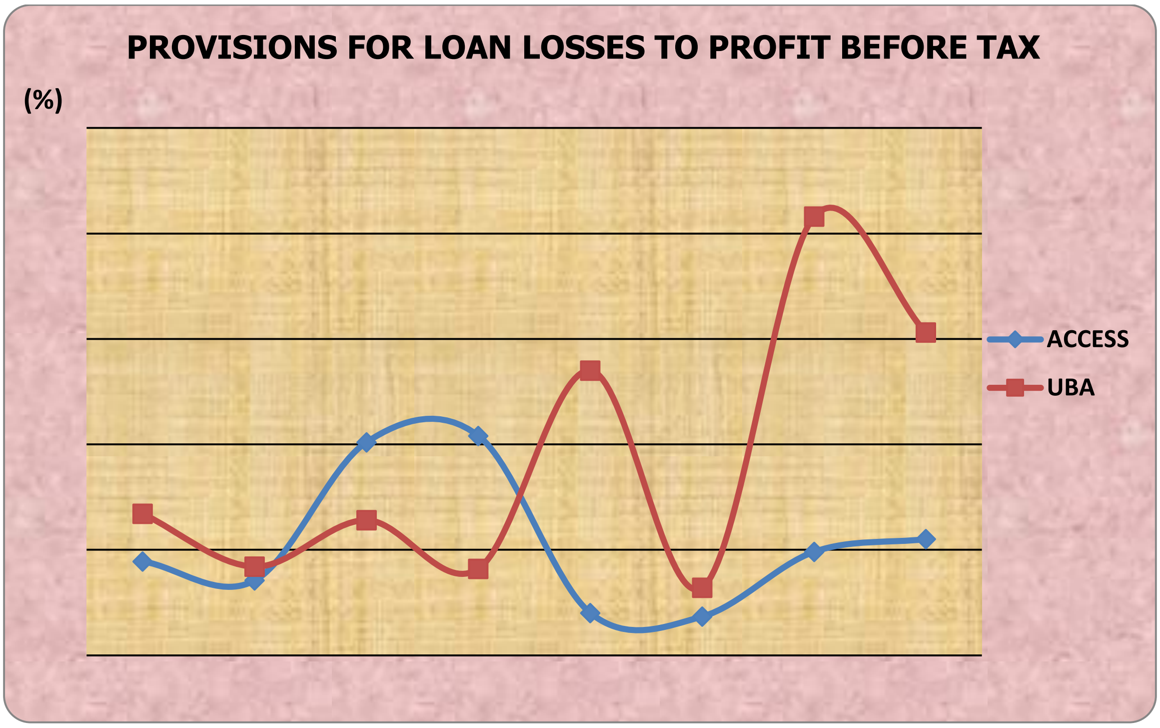
Table 5.6 Non Performing loans to Total loans

	ACCESS BANK			UBA		
YEAR	Non-Performing Loans (NPL) (N'm)	Total Loans (N'm)	% NPL:TL	Non-Performing Loans (N'm)	Total Loans (N'm)	% NPL:TL
2003	7,748	6,508	119	4246	46076	92
2004	8,673	11,507	75	2286	56136	41
2005	1,752,2	16,334	107	2,420	67610	36

2006	8,092,4	54,407	149	14,997	107194	14
2007	10,741,4	108,775	99	14,087	320229	44
2008	9,588,685	244,595 ,62	39	15,579	405,540	38
2009	61,764,163	360,387 ,649	17	39637	573,465	6.9
2010	31,228,154	403,178 ,957	8	40200	569,312	7

Source: Access Bank and UBA Annual Reports

Figure 5.2 Provisions for Loan Losses to Profit before Tax



5.5 Growth Rates

The paper used annualised growth rate to evaluate the performance of the two banks. Annualised growth rate is the hypothetical constant year-to-year growth rate necessary to take the beginning-year value of a series to its ending-year value. Growth rates in gross earnings, profit before tax, deposit, shareholders' equity and total assets/contingencies were measured to ascertain the overall performance of the banks.

5.5.1 Gross Earnings

This measured the growth in gross earnings (interest income and other operating income) between one period and the other. Figure 5.8 showed Access Bank achieved a 78% increase in gross earnings in 2006 while UBA recorded 237.5% increase. An analysis of gross earnings at pre and post merger showed that gross earnings of both banks improved post merger. An improved gross earnings by both banks is a manifestation of the synergy derived from their respective mergers in 2005. While the sharp drop in the earnings of UBA in 2007, 2009 and 2010 shows the effects of the acquisition of Gulf Bank and Liberty Bank under purchase and assumption arrangement when the bank had not stabilized its earnings position due to integration issues.

5.5.2 Profit before Tax Growth rate.

Table 5.7 shows that both Banks' profit before tax growth rate surpassed their pre-merger achievement. Access bank had a growth rate of 4,733 which decreased to 17 in 2004 and further decreased to -21% in 2005. The bank however, achieved a growth of 618% after the first round of consolidation and -58 in the year after its merger with intercontinental bank in 2007 and 2010 respectively compared with UBA's growth rate of 11%, 82% and -77% during the same period. The drop in UBA's 2005 growth rate could be attributed to instability in the bank due to the integration of the merging entities. The drop in PBT from 2009 of Access bank can be attributed to the combination cost of Access bank and Intercontinental bank merger.

Table 5.7 Profit before Tax

	ACCESS BANK			UBA		
YEAR	Current Year PBT (N'm)	Preceding Year PBT (N'm)	%	Current Year PBT (N'm)	Preceding Year PBT (N'm)	%
2003	811	-17	4,733	4816	2238	115
2004	952	811	17	5608	4816	16
2005	751	952	-21	6,239	5608	11
2006	1,119	751	49	12,514	6239	101

2007	8,043	1,119	618	22827	12514	82
2008	19,042	8,043	136	45,851	22827	191
2009	41723	19042	119	15964	45851	-65
2010	17,689	41723	-58	3693	15964	-77

Source: Access Bank and UBA Bank Annual Reports

5.5.3 Deposit Growth Rate

From Table 5.8, Access Bank's deposit grew from N32.6 billion to N205.2 billion and N440.5billion in 2005, 2007 and 2010 respectively which showed a very impressive growth. Access Bank's deposit mobilisation capacity was enhanced through increased branch network and the synergy of business combination with erstwhile Capital Bank and Marina Bank in November 2005 and intercontinental bank in 2009 While UBA grew its deposits from N151 billion to N757 billion and N115 billion in 2005, 2007 and 2010 respectively representing a steady and significant increase in deposit in the years after the merger. The growth is also attributed to the synergy of business combination and wider market coverage of the resulting entity. While the fall in actual growth rates of both banks, can be attributed to the further reforms introduced in the banking sector such as withdrawal of public sector deposits.

Table 5.8 Deposits Growth Rate

	ACCESS BANK			UBA		
YEAR	Current Year Total Deposit(N'm)	Preceding Year Total Deposit(N'm)	% Growth rate	Current Year Total Deposit(N'm)	Preceding Year Total Deposit (N'm)	%
2003	9,309	6,475	44	142427	131866	8
2004	22,724	9,309	144	151929	142427	7
2005	32,608	22,724	43	205110	151,929	35
2006	110,879	32,608	240	757407	205110	269
2007	205,235,734	110,879	85	897651	757,407	19

2008	351,789,279	205,235,734	71	1,258,036	897651	40
2009	409,349,424	351789279	16	1,151,086	1258036	1
2010	440,542,115	409349424	8	1,119,063	1151086	-3

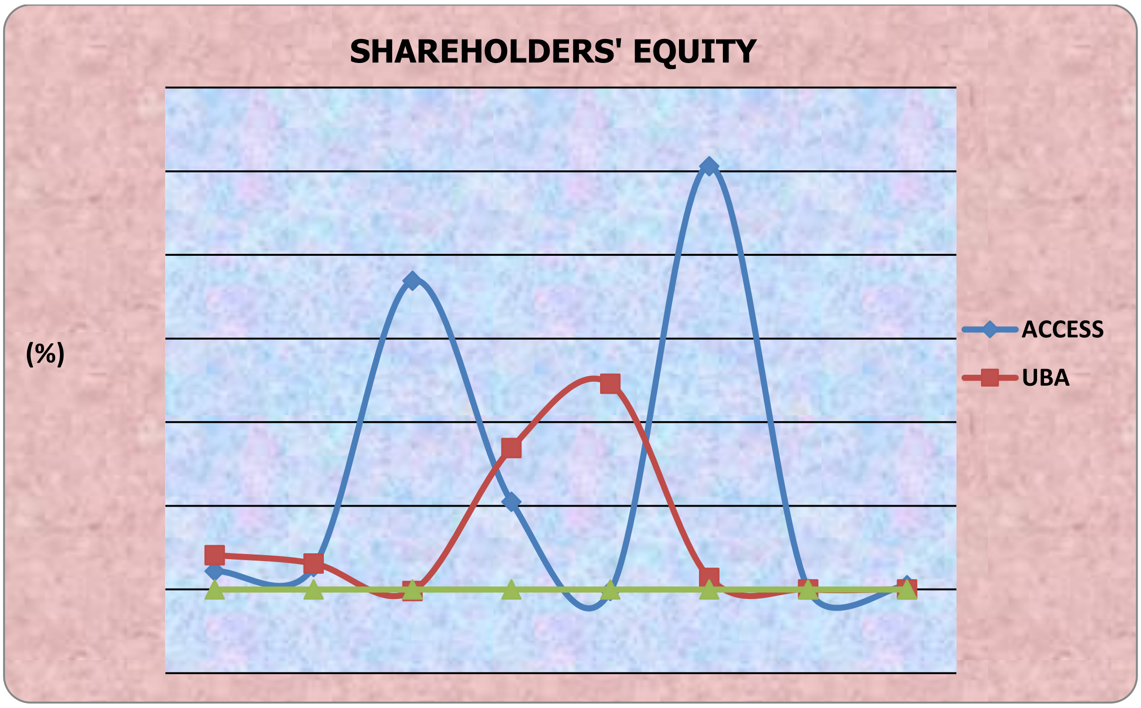
Source: Access Bank and UBA Annual Reports

5.5.4 Shareholders' Equity

Figure 5.3 show that the two sampled banks achieved significant growth in shareholders' equity in 2005. However, much of the growth could not be traced to retained earnings but fresh capitalisation in the form of public offerings and gains of business combinations through mergers. Access bank raised fresh capital through public offers in 2005 and 2006 in which it realised N12.1 billion after the merger with Capital and Marina bank which was paid for by way of share exchange (Access Bank, 2006). The drop in Access bank's shareholders' equity by 2% in 2007 was due to a write-off of the unexpired goodwill of almost N6.6 billion against share premium reserve (Access Bank, 2007). The drop in UBA's shareholders' equity in 2005 can be attributed to write off of bad loans.

However, shareholders equity growth rate fell for both banks due to the business combination of Access bank and the fall in profit after tax of UBA leading to a fall in shareholder equity in 2009 and 2010.

Figure 5.3 Shareholders' Equity Growth rate



5.5.5 Total Assets plus Contingencies

Table 5.9 presented hereunder showed a steady growth in total asset plus contingencies by Access bank between 2004 and 2006. Access Bank's balance sheet size increased each year since merger by 151% but declined slightly to 100% in 2006 and 2007 The surge in the assets growth rate of Access bank in 2009 is attributed to the addition of assets from Intercontinental bank through acquisition while UBA's balance sheet size also grew but had a slight fluctuation in 2005 due to write off of assets and bad loans as contained in the scheme of merger. UBA's growth however was closely related to the growth in shareholders' equity and increased deposit mobilisation. However, UBA's growth rate fell sharply in 2009 and 2010 due to the sale of bad assets to AMCON.

The post merger growth show that the banks' key indicators improved after mergers when compared to pre-merger positions.

Table 5.9 Total Assets plus Contingencies

	ACCESS BANK			UBA		
YEAR	Current Year Total Assets (N'm)	Preceding Year Total Assets(N'm)	% Growth	Current Year Total Assets (N'm)	Preceding Year Total Assets (N'm)	% Growth
2003	28,959	14,079	106	249336	221223	13
2004	44,735	28,959	54	290525	249336	17
2005	81,681	44,735	83	330749	290525	14
2006	204,645	81,681	151	1018425	330749	208
2007	408,745	204,645	100	1474673	1018425	45
2008	1,198,501	408,745	193	1966847	1474673	33
2009	773,212	118,688	551	2084926	1966847	6
2010	921,413	773,212	19	2060885	2084926	-1

Source: Access Bank and UBA Annual Reports

5.6 Investment Valuation ratios

Analyzed data not presented shows that decline in EPS of Access Bank during the merger years was as a result of loss of confidence by the public in the banking stocks at that time and the resulting reduction of trade involving such stocks. However, growth stabilized in 2007 after public confidence was restored business activities after the bank addressed challenges involved with merger implementation.

The EPS of UBA also declined in the immediate post-merger year due to post merger integration shocks.

Table 5.10 showed that the key performance indicators of the two banks increased from 2008 to 2010 (post merger) after merger shocks had been addressed. The result is a further testimony that mergers and acquisition is a good business decision if taken at the right time and should be encouraged in the Nigerian banking industry.

Table5.10 Key Performance Indicators

Key Indicators	2008 ₦		2009₦		2010₦	
	ACCESS	UBA	ACCESS	UBA	ACCESS	UBA
Gross Earnings	57,627,098	154,093	75,847,752	220,467	79,065,123	150,051
Total Assets	1,043,465,021	1,520,093	647,574,719	1,400,879	726,960,580	1,432,632
Total Deposits	351,789,279	1,258,035	405,836,092	1,151,086	440,542,115	1,119,063
Loans and Advances	244,595,621	421,748	360,387,649	543,289	403,178,957	571,127
Liabilities	871,462995	1,331,938	474,423,696	1,213,160	544,455,766	1,244,902
Shareholders' Funds	172,002,026	188,155	173,151,023	187,719	182,504,814	187,730

6.0 CONCLUSION

The study evaluated mergers and acquisitions as a strategic growth option in the Nigerian banking sector, with Access bank Plc and UBA Plc as case studies. It was aimed at evaluating if M&A leads to growth and survival of banks in Nigeria using performance ratios such as; profitability, earnings, asset quality and capital adequacy as the causative factors for the growth. The following major findings were highlighted in the study:

a. Liquidity: Both banks maintained adequate levels of liquidity. However, the banks' ability to manage liquidity was mixed with fluctuations after the merger year.
b. Profitability: Evaluating profitability on the basis of ROA and ROE, both banks profitability indices improved in absolute terms year after year, after merger. This implies that, M&A resulted to an increase in PAT and total assets in absolute terms but did not actually bring about growth in real terms with reference to the ratios. Therefore M&A could not adequately bring about growth in profitability of the banks.
c. Capital Adequacy as a measure of performance showed that both banks attained better quality assets post merger.
d. Growth: Both banks witnessed higher growth rate being an indication that M&A resulted in superior financial performance. The loss recorded in 2010 represents the growth rate after the cleaning of the books was carried out by the regulatory authorities.
e. Asset Quality: the analysis indicated that although both banks recorded better quality assets in absolute terms after merging, they didn't meet the regulatory benchmark for the 2006, 2007 and 2008 post merger years. However, the two banks surpassed regulatory benchmark of 5% in 2009 and 2010. Therefore making it possible to conclude that the quality of bank assets in the long run had improved after M&A in the long run.

We also find that, M&A leads to survival but not necessarily growth in banks. While the result of the study provides a testimony of the merits of M&A to Nigerian banks, it is worthy of note that such definitive conclusion should be drawn after a higher population of study is conducted of the banking industry.

We recommend that M&A of banks in Nigeria should be encouraged as a survival but not necessarily a growth strategy. We also recommend that Corporate entities especially banks should engage healthier institutions on M&A processes to preserve shareholders value and as a survival strategy. Furthermore, it is recommended that researchers undertaking similar studies in the Nigerian banking sector should evaluate the performance of at least 75% of banks using quantitative studies after a time period that can allow for more analysis so as to enable a higher generalization of the outcome.

M&A is therefore more importantly a survival strategy. However, caution and high professionalism should be employed in this form of business combination strategy so as to enhance the gains of the strategy and achievement of the purpose.

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