BANKS CONSOLIDATION IN NIGERIA: A SYNERGISTIC HARVEST

BY

ENYI PATRICK ENYI
PhD, MBA, ACA, ACCA, MFP, RFS
Fellow, American Academy of Financial Management (AAFM)
Member, American Accounting Association (AAA)
Head, Department of Accountancy, Ebonyi state University, Abakaliki.

ABSTRACT
In order to strengthen the competitive and operational capabilities of banks in Nigeria with a view towards returning global and public confidence to the Nigerian banking sector and the economy in general, the Central Bank of Nigeria instituted a banking reform which saw most of the then existing 89 banks merging with each other. It was earlier speculated in some financial analysis quarters that the exercise might turn out to be one of those overblown hypes of an ailing economy. This, however, has turned out to be the opposite as most post-merger results tend to highlight that financial synergies exist. This paper tries to evaluate the authenticity of this assertion. To do this, pre-merger and post merger financial statements of 4 consolidated banks were obtained, adjusted, carefully analyzed and compared. The result revealed that all the four merger groups produced in addition to operational and relational synergy, financial gains far more than the 2+2=5 synergistic effects. The validating two-way ANOVA test also revealed that variations in shareholders funds can significantly affect the value of total assets of a bank.

KEY WORDS: **Consolidation, Merger, Acquisition, Synergy, Shareholders Funds, Total Assets, Growth Rate**

JEL CLASSIFICATION: C43, G21, G34, L12, M21

INTRODUCTION

As given in the address of Prof. Charles Soludo, the incumbent Central Bank of Nigeria's governor, the recent economic adjustments in Nigeria have focused on structural and institutional reforms, which include the following:

- Strengthened the institutional framework for the conduct of monetary policy
- Bank recapitalization/consolidation
- Programme to possibly eliminate or reduce government ownership of any bank (to no more than 10 percent)
- Improved transparency and corporate governance
- Zero tolerance to misreporting and data rendition, and strict adherence to the
- Anti-money laundering regulations
- Implementation of Basel II Principles and Risk-based supervision
- Payments system reforms for efficiency---- especially the e-payment
- Reforming the Exchange rate management system--- adoption of the Wholesale
- Dutch Auction System (WDAS) and increased liberalization of the forex market (which since 2006 led to the convergence of the parallel and official exchange rates for the first time in 20 years).
- Restructuring the Nigerian Security Printing and Minting, Plc;
- Addressing issues of technology and skills in the banking industry especially in risk management and ICT.
- Launching of a new Micro finance policy and regulatory framework to serve the un-served 65 percent of the bankable public
- Ongoing Pension, Consumer credit, and Mortgage system reforms
- Forging strategic alliances and partnerships between Nigerian banks and foreign financial institutions especially in the area of reserve/asset management
- Establishment of Africa Finance Corporation (AFC), as first private-sector led African Investment Bank
- Encouragement of Nigerian banks to go global, leading to more than doubling of branch network in West Africa since 2004; setting up of subsidiaries in London as well as Nigerian banks successfully issuing Eurobonds and getting listed on the London Stock Exchange.

Particularly, the grand objective in the banking sector reforms was to re-engineer and fast-track a system that will engender confidence and power a new economy. But whether this objective can

be achieved will depend to a large extent on how the reform is implemented. Going by the main focus of the reform, banks recapitalization and consolidation stands out. The main method by which this aspect was achieved was by asking individual banks to raise their capital base to a minimum of N25Billion or in the alternative merge with others. The merger option thereafter became the most feasible solution as only Zenith Bank Plc was able to reach this level out of the entire 89 of them. The question now is; how viable are these mergers or business combinations?

Business combinations result as spin-off effects from corporate restructuring. Owing to the ever-changing nature of global business environment culminating from rapid interactive economic movements as driven by innovations and obsolesces in technology, corporate restructuring had become a regular exercise in capitalist and semi-capitalist economies.

Corporate restructuring in the words of Pandey (2005:672) refers to changes in ownership, business mix, assets mix and alliances with a view to enhance the shareholders value. The most common forms of business combination are mergers and acquisitions.

Mergers: Brockington (1987: 251) defines a merger as the result of a process whereby two or more previously autonomous concerns come under common control. Samuelson (1980:493) introduced what he refers to as ***conglomerate mergers*** to include situations where a company in one industry takes on a company in another unrelated industry.

Acquisitions: An acquisition, on the other hand, may be defined as the purchase or take-over of effective controlling interest in a company by another company which enables the later to control the assets and management of the former without any loss of identity for the two companies.

The primary aim of any business combination is to create an economic advantage such that the combined present value of the new business will be greater than the sum of their individual present values as separate entities, after all, “in union there is strength” so says an Igbo adage.

If we are to go by the words of Earl Bunting which says that the goals of business cannot be separated from the goals of the whole community, then business combinations are intended to create not only enhancements to the shareholders values but also enhancement to the people’s well being.

The most common benefits usually associated with business combinations include:

- Accelerated growth in the economic activities involving the merged industries
- Enhanced profitability resulting from
    a. economies of both supply, procurement and marketing scale;
    b. Operating economies; and
    c. Synergy

- Diversification of risk as a result of diversifying investments and industrial operating environments.

Specifically and according to Pandey (2005) business combinations are intended to:

- Limit competition as it tends to encourage monopolistic build-ups
- Gain economies of scale and increased income with proportionately less investment
- Utilize underutilized market power
- Overcome the problem of slow growth and low profitability
- Achieve diversification of activities and hence investments.
- Establish a transnational bridgehead without excessive start-up costs to gain access to foreign markets.
- Utilize underutilized resources (human, physical and managerial)
- Displace existing (inefficient) management
- Circumvent government regulations
- Reap speculative gains attendant upon new security issue or change in P/E ratio.
- Overcome financing constraints

Problems

Business combinations are not all rosy affairs as we think; there are problems of monstrous dimensions if not properly articulated and implemented. There are three (3) important steps involved in the analysis of mergers and acquisitions. These three steps must be carefully followed and intelligently applied. They are:

- **Planning** - involves the articulation of the size, dimension, diversifications and possibility of the intended merger. Some merger actions are specified by law or by a regulatory body as was the case of recent bank consolidations in Nigeria.
- **Search and Screen** - Birds of the same feather, they say, flock together. There must be a consensus-ad-idem and compatibility of objectives between the merging firms otherwise the merger will fail. This is why it takes long period of time to effect a good business combination.
- **Financial Evaluation** – Financial evaluation problems may arise if there are differences in the competences, systems and methods of recording accounting transactions between the merging firms. This problem may be solved by converting all the merging firms' financial statements to a single format; unless material misstatements are embedded in any, this would overcome the problematic aspect. Another problem that may arise is the method of financing the merger. This will be discussed briefly under "*financing the merger*"

Apart from the above analytical problems, the main danger in business combinations if not properly checked is summed up in the words of Samuelson (1980:493) that *mergers may produce unwholesome monopolies which may push up prices of consumer goods arbitrally*. This is why there are anti-trust laws to check likely harmful business combinations all over the capitalist World.

Regulation

Business combination the world over is not just left to the machinations of the individual business operators. That would be chaotic and could present plethora of problems that would spell doom for the global economy. In every country there are laws, statues, edicts and court pronouncements regulating the merging and acquisition of existing businesses by others. In Nigeria, the Investments and Securities Act (ISA) 1999 charges the Securities and Exchange Commission (SEC) to review and approve all mergers, acquisitions and other forms of business combinations. This is in addition to the specific provisions of the Companies and Allied Matters Act (CAMA) 1990, and the Companies Income Tax Act (CITA) 1979 on purchase, issuance and transfer of shares and other securities.

In India, the story is not that different; business combinations are regulated through the operations of the provisions of the Companies Act 1956, the Monopolistic and Restrictive Trade Practices (MRTP) ACT 1969 as well as the Income Tax Act 1961. There are similar laws and edicts throughout the entire world bordering on the regulation of business combinations and the after-effects.

Financing the Merger

The most difficult and usually the most contentious issue in business combination is how to finance the new firm, that is, how to define the new ownership structure. Normally, there are two main methods -

(a) Cash Offer Method – which is applied mainly in cases of outright acquisition or absorption; and

(b) Share exchange method – which involves the exchange of shares between the shareholders of the merging firms. The mechanics for doing this is slightly outside the scope of this paper but whichever method is used, the most important thing is to ensure equity and fairness to all concerned in the consolidation process.

Synergy

The main purpose of this paper is to explore and highlight some of the rigors involved in the measurement and quantification of the synergistic effects of business combinations. Synergy is one of the gains expected from mergers. Indeed, it is the main expected spin-off effect of any business combination exercise. Synergy may be defined as a benefit realization far in excess of the sum of the combined benefits realizable from the individual combining firms were they to stand and operate individually.

Synergy is not peculiar to business combination alone. The word synergy was, literally, borrowed from chemistry. It is used to describe the effect of chemical fusion obtained from scientific observations of chemical reaction experiments. Though, quite useful in the analysis of business operational behaviour, it does not follow the same law mathematically as it does with chemical reactions.

According to Pandey (2005) synergy implies a situation where the combined firm is more valuable than the sum of the individual combining firms. Van Horne (1977) also maintain that **synergism** includes the realization of operating economies and opined further that the fused firm should be of greater value than the sum of the firms that made it up – that is, the effect of the fusion should be able to translate mathematically into a 2 + 2 = 5 result. This is the subject of our investigation in this paper. Before we go on to the rigors involved in the measurement of financial synergy, let us look at other benefits of business combination using Nigerian banking experience as a reference point. According to Soludo (2007), the grand objectives of the banks consolidation policy are being achieved. This he buttressed with the following statistics:

The banking system is now safe and sound. Deposits and credits have more than doubled, and non-performing loans as percentage of total loans have gone down from about 23% before consolidation to about 7% currently. Individual banks now finance big projects valued at hundreds of millions of dollars and also operate in the oil and gas sector --- a feat they never could do before now. Interest rates are gradually coming down (with average lending rate at about 16.9%, down from 25%). Currently, commercial bank branches have gone up from about 3,200 before reforms to over 4,100, and total employment in the sector has gone up from about 55,000 before reforms to over 61,000 currently. The world is celebrating Nigeria's success, and over $1.5 billion of foreign investment has gone into the sector since 2005. By end 2007, there will be about 7 or more banks with shareholders fund in excess of $1 billion and over 10 banks with market capitalization of over $2 billion each (there was none in 2004). In 2004, there was no Nigerian bank in the top 1000 banks in the world. As at the end of 2006, there were 12 banks in the top 1000, with one ranked 355th (top 500 in the world). The banking system is now powering the Nigerian Stock Exchange. Today, Nigeria has the fastest growing banking system in Africa, and one of the fastest in the world.

Methodology

The hypothetical statement which this paper sets out to investigate is that:

H_0: Recent banks consolidations in Nigeria have significantly resulted into a synergistic effect of 2 + 2 = 5 or more for the consolidated banks.

Naturally, the alternative to the above hypothesis is to prove otherwise – that is, there is no significant synergistic effect.

To proceed with this investigation, we collected data from the last audited accounts of the merging banks just before consolidation and from the first annual reports of the newly integrated firms after the consolidation. The Central Bank of Nigeria's web site supplied most of the pre-merger information while the annual reports and accounts as well as the official web site of the newly consolidated banks supplied the post-merger data.

The data collected above relate to the two most significant performance indicators for banks in Nigeria – (i) ***Total Assets***; and (ii) ***Shareholders funds***.

The analyses of pre-merger data were done first on the individual merging firms by extracting the last value before consolidation and determining the average growth rate which is then integrated with those of the other merging firms in the group. Integration of the growth rate was achieved by means of weighted average calculated on the proportion of the merging banks value on the

consolidated value for the group, (See tables 1 to 8 below). The following formulae were used in computing the research variable ratios:

a) $AnGR_i = ((Pb_{i(t)} - Pb_{i(t-1)})100) / Pb_{i(t-1)}$

Where,

AnGR = Annual Growth Rate

Pb = Previous year balance

i = Company index

t = Elapsed time (years)

b) $AGR_i = (\sum_{t=1}^{t} AnGR_i) / t$

Where,

AGR = Average Growth Rate

i = Company index

t = Elapsed time (years)

c) $EGR_i = (\sum_{t=1}^{n} AGR_i) / n$

Where,

n = number of years in the analysis

i = Company index

t = Elapsed time (years)

d) $GGR = \sum_{i=1}^{m}((Lb_i * EGR_i) / gv)$

Where,

m = number of companies in the merger group

Lb = Last pre-merger balance

gv = Total group value

i = Company index

e) $gv = \sum_{i=1}^{n} Lb_i$

Where, m = number of companies in the merger group

Lb = Last pre-merger balance

gv = Total group value

i = Company index

f) Synergy = (psr * 4) / apmr

Where, psr = post-merger result

apmr = adjusted pre-merger result

To conclude the investigation we test the post-merger data with the adjusted pre-merger data as given in tables 9 and 10 below. This test is a two way ANOVA analysis designed to show the effects of the variations in shareholders funds on total assets.

TABLE 1: COMPUTATION OF GROWTH RATE - SHARE HOLDERS FUNDS.
DIAMOND BANK GROUP

NAME OF BANK	Year	Value ₦Billion	Change	Change Rate (%)	CCR (%)	ACR (%)	EGR (%)	GGR (%)
Diamond Bank	2001	4.086	-	-	-	-		
	2002	5.320	1.234	30.20	30.20	30.20		
	2003	4.993	-0.327	-6.15	24.05	27.13		
	2004	6.520	1.527	30.58	54.63	36.29		
	2005	20.710	14.190	217.64	272.27	68.06	68.06	
Lion Bank	2001	1.061	-	-	-	-		
	2002	2.937	1.876	176.81	176.81	176.81		
	2003	3.613	0.676	23.02	199.83	99.92		
	2004	3.935	0.322	8.91	208.74	69.58		
	2005	3.955	0.020	0.51	209.25	52.31	52.31	
African International Bank	2001	-2.144	-	-	-	-		
	2002	-5.619	-3.475	-162..08	-162.08	-162.08		
	2003	-7.900	-2.281	-40.59	-202.67	-101.34	101.34	48.66

Diamond Group Summary - Diamond Bank (20.71/16.765)*68.06 = 84.07
Lion Bank (3.955/16.765)*52.31 = 12.34
A.I.B (7.9/16.765) * 101.34 = 47.75
GGR 48.66

Source: Central Bank of Nigeria BSD/BSAR/2005

TABLE 2: COMPUTATION OF GROWTH RATE - SHARE HOLDERS FUNDS.
FIDELITY BANK GROUP

NAME OF BANK	Year	Value ₦Billion	Change	Change Rate (%)	CCR (%)	ACR (%)	EGR (%)	GGR (%)
Fidelity Bank	2001	1.300	-	-	-	-		
	2002	1.915	0.615	47.31	47.31	47.31		
	2003	2.515	0.600	31.33	78.64	39.32		
	2004	3.520	1.005	39.96	118.60	39.53		
	2005	9.125	5.605	159.23	277.83	69.46	69.46	
FSB	2001	3.819	-	-	-	-		
	2002	4.041	0.222	5.81	5.81	5.81		
	2003	2.746	-1.295	-35.05	-26.24	-13.12		
	2004	2.275	-0.471	-17.15	-43.39	-14.46		
	2005	3.318	1.043	45.85	2.46	0.62	0.62	
Manny Bank	2001	1.341	-	-	-	-		
	2002	1.596	0.255	19.02	19.02	19.02		
	2003	2.804	1.208	75.69	94.71	47.36		
	2004	2.912	0.108	3.85	98.56	32.85	32.85	47.64

Fidelity Group Summary - Fidelity Bank (9.125/15.355)*69.46 = 41.28
FSB (3.318/15.355)*0.62 = 0.13
Manny (2.912/15.355)*32.85 = 6.23
GGR 47.64

Source: Central Bank of Nigeria BSD/BSAR/2005

TABLE 3: COMPUTATION OF GROWTH RATE - SHARE HOLDERS FUNDS.
INTERCONTINENTAL BANK GROUP

NAME OF BANK	Year	Value ₦Billion	Change	Change Rate (%)	CCR (%)	ACR (%)	EGR (%)	GGR (%)
Intercontinental bank	2001	3.456	-	-	-	-		
	2002	7.484	4.028	116.55	116.55	116.55		
	2003	8.611	1.127	15.06	131.61	65.81		
	2004	-	-	-	131.61	43.87		
	2005	32.576	23.965	278.31	409.92	102.48	102.48	
Global Bank	2001	0.877	-	-	-	-		
	2002	1.303	0.426	48.57	48.57	48.57		
	2003	1.919	0.616	47.28	95.85	47.93		
	2004	2.314	0.395	20.58	116.43	38.81	38.81	
Equity Bank	2001	1.800	-	-	-	-		
	2002	1.928	0.128	7.11	7.11	7.11		
	2003	2.262	0.334	17.32	24.43	12.22		
	2004	-	-	-	24.43	8.14		
	2005	3.123	0.861	38.06	62.49	15.62	15.62	
Gateway Bank	2000	0.779	-	-	-	-		
	2001	1.262	0.483	62.00	62.00	62.00		
	2002	1.706	0.444	.35.18	97.18	48.59		
	2003	2.176	0.470	27.55	124.73	41.58	15..58	88.76

Intercontinental Bank Group Summary - ICB (32.576/40.189)*102.48 = 83.07
Global (2.314/40.189)*38.81 = 2.23
Equity (3.123/40.189)*15.62 = 1.21
Gateway (2.176/40.189)*41.58 = 2.25
GGR 88.76

Source: Central Bank of Nigeria BSD/BSAR/2005

TABLE 4: COMPUTATION OF GROWTH RATE - SHARE HOLDERS FUNDS.
FCMB GROUP

NAME OF BANK	Year	Value ₦Billion	Change	Change Rate(%)	CCR (%)	ACR (%)	EGR (%)	GGR (%)
FCMB	2001	2.001	-	-	-	-		
	2002	2.231	0.230	11.49	11.49	11.49		
	2003	2.559	0.328	14.70	26.19	13.10		
	2004	2.757	0.198	7.74	33.93	11.31		
	2005	7.216	4.459	161.73	195.66	48.92	48.92	
Cooperative Dev. Bank	2000	1.096	-	-	-	-		
	2001	1.100	0.004	0.36	0.36	0.36		
	2002	1.725	0.625	56.82	57.18	28.59		
	2003	2.022	0.297	17.22	74.40	24.80		
	2004	1.822	-0.200	-9.89	64.51	16.13	16.13	
NAMBL	2001	1.228	-	-	-	-		
	2002	1.639	0.411	33.47	33.47	33.47		
	2003	1.765	0.126	7.69	41.16	20.58	20.58	
MIDAS	2001	0.070	-	-	-	-		
	2002	-0.141	-0.211	-301.43	-301.43	-301.43		
	2003	-0.522	-0.381	-270.21	-571.64	-285.82		
	2004	-0.281	-0.241	46.17	-525.47	-175.16	-175.16	

FCMB Group Summary - FCMB (7.216/10.522)*48.92 = 33.55
CDB (1.822/10.522)*16.13 = 2.79
NAMBL (1.765/10.522)*20.58 = 3.45
MIDAS (-0.281/10.522)*-175.16 = -4.68
GGR 35.11

Source: Central Bank of Nigeria BSD/BSAR/2005

TABLE 5: COMPUTATION GROWTH RATE - TOTAL ASSETS

DIAMOND BANK GROUP

NAME OF BANK	Year	Value ₦Billion	Change	Change Rate(%)	CCR (%)	ACR (%)	EGR (%)	GGR (%)
Diamond Bank	2001	47.372	-	-	-	-		
	2002	53.199	5.827	12.30	12.30	12.30		
	2003	59.287	6.088	11.44	23.74	11.87		
	2004	69.062	9.775	16.49	40.23	13.41		
	2005	125.675	56.613	81.97	122.20	30.55	30.55	
Lion Bank	2000	7.738	-	-	-	-		
	2001	10.973	3.235	41.81	41.81	41.81		
	2002	13.765	2.792	25.44	67.25	33.63		
	2003	13.463	-0.302	-2.19	65.06	21.69		
	2004	14.824	1.361	10.11	75.17	18.79	18.79	
African Int'l Bank	2000	19.158	-	-	-	-		
	2001	18.749	-0.409	-2.13	-2.12	-2.13		
	2002	14.120	-4.629	-24.69	-26.82	-13.41	-13.41	25.41

Diamond Bank Group Summary - Diamond (125.675/154.619)*30.55 = 24.83
Lion (14.824/154.619)*18.79 = 1.80
AIB (14.120/154.619)*-32.41 = -1.22
GGR = 25.41

Source: Central Bank of Nigeria BSD/BSAR/2005

TABLE 6: COMPUTATION OF GROWTH RATE - TOTAL ASSETS

FIDELITY BANK GROUP

NAME OF BANK	Year	Value ₦Billion	Change	Change Rate(%)	CCR (%)	ACR (%)	EGR (%)	GGR (%)
Fidelity Bank	2001	12.715	-	-	-	-		
	2002	15.637	2.922	22.98	22.98	22.98		
	2003	22.517	6.880	44.00	66.98	33.49		
	2004	27.552	5.035	22.36	89.34	29.78		
	2005	34.953	7.401	26.86	116.20	29.05	29.05	
FSB	2001	30.314	-	-	-	-		
	2002	31.302	0.988	3.26	3.26	3.26		
	2003	35.783	4.481	14.32	17.58	8.79		
	2004	39.817	4.034	11.27	28.85	9.62		
	2005	41.210	1.393	3.50	32.35	8.09	8.09	
Manny Bank	2001	5.539	-	-	-	-		
	2002	7.447	1.908	34.45	34.45	34.45		
	2003	8.840	1.393	18.71	53.16	26.58		
	2004	10.943	2.103	23.79	76.95	25.65	25.65	18.71

Fidelity Group Summary - Fidelity (34.953/87.106)*29.05 = 11.66
FSB (41.210/87.106)*8.09 = 3.83
Manny Bank (10.943/87.106)*25.65 = 3.22
GGR 18.71

Source: Central Bank of Nigeria BSD/BSAR/2005

TABLE 7: COMPUTATION OF GROWTH RATE - TOTAL ASSETS
INTERCONTINENTAL GROUP

NAME OF BANK	Year	Value ₦Billion	Change	Change Rate(%)	CCR (%)	ACR (%)	EGR (%)	GGR (%)
Intercontinental Bank	2001	35.779	-	-	-	-		
	2002	47.797	12.018	33.59	33.59	33.59		
	2003	71.412	23.615	49.41	83.00	41.50		
	2004	-	-	-	83.00	27.67		
	2005	164.348	92.936	130.14	213.14	53.29	53.29	
Global Bank	2001	8.181	-	-	-	-		
	2002	11.446	3.265	39.91	39.91	39.91		
	2003	17.316	5.870	51.28	91.19	45.60		
	2004	20.105	2.789	16.11	107.30	35.77	35.77	
Equity Bank	2001	15.995	-	-	-	-		
	2002	15.042	-0.953	-5.96	-5.96	-5.96		
	2003	23.669	8.627	57.35	51.39	25.70		
	2004	-	-	-	51.39	17.13		
	2005	36.284	12.615	53.30	104.69	26.17	26.17	
Gateway bank	2000	4.456	-	-	-	-		
	2001	9.411	4.955	111.20	111.20	111.20		
	2002	11.923	2.512	26.69	137.89	68.95		
	2003	14.140	2.217	18.59	156.48	52.16	52.16	47.53

Intercontinental Group Summary -
ACB (164.348/234.877)*53.29 = 37.29
Global (20.105/234.877)*35.77 = 3.06
Equity (36.284/234.877)*26.17 = 4.04
Gateway (14.14/234.877)*52.16 = 3.14
GGR 47.53

Source: Central Bank of Nigeria BSD/BSAR/2005

TABLE 8: COMPUTATION OF GROWTH RATE - TOTAL ASSETS
FCMB GROUP

NAME OF BANK	Year	Value ₦Billion	Change	Change Rate(%)	CCR (%)	ACR (%)	EGR (%)	GGR (%)
FCMB	2001	17.497	-	-	-	-		
	2002	14.951	-2.546	-14.55	-14.55	-14.55		
	2003	15.164	0.213	1.42	-13.13	-6.57		
	2004	23.736	8.572	56.53	43.30	14.43		
	2005	51.318	27.582	116.20	159.50	39.88	39.88	
Cooperative Dev. Bank	2000	7.394	-	-	-	-		
(CDB)	2001	6.895	-0.499	-6.75	-6.75	-6.75		
	2002	7.660	0.765	11.09	4.34	2.17		
	2003	7.879	0.219	2.86	7.20	2.40		
	2004	7.161	-0.718	-9.11	-1.91	-0.48	-0.48	
NAMBL	2001	5.061	-	-	-	-		
	2002	5.277	0.216	4.27	4.27	4.27		
	2003	5.532	0.255	4.83	9.10	4.55	4.55	
MIDAS	2001	2.022	-	-	-	-		
	2002	2.363	0.341	16.86	16.86	16.86		
	2003	2.575	0.212	8.97	25.83	12.92		
	2004	3.046	0.471	18.29	44.12	14.71	14.71	31.52

FCMB Group Summary -
FCMB (51.318/67.057)*39.88 = 30.52
CDB (7.161/67.057)*-0.48 = -0.05
NAMBL (5.532/67.057)*4.55 = 0.38
MIDAS (3.046/67.057)*14.71 = 0.67
GGR 31.52

Source: Central Bank of Nigeria BSD/BSAR/2005

KEY:

CCR = Cumulative Change Rate
ACR = Average Change Rate
EGR = Effective Growth Rate
GGR = Group Weighted Average Growth Rate
A R 2006 = Annual Reports & Accounts 2006

RESULTS AND DISCUSSIONS

Set out on tables 9 and 10 below are the comparative results of both the pre and post merger performance data for the merged banks. The pre-merger data have been adjusted with the computed growth rates above to bring them to the same pedestal with the post-merger data for the purpose of effective and unbiased comparison. The adjustments were done on the assumption that the individual merging firms would have improved on their last performance to the level commensurate with their last performance data compounded with their inherent growth rates which are different for both total assets and shareholders funds were they to continue as individual firms on their own. That is, the individual merging firms expected performance (without consolidation) is the same as:

$$Ep = Lp * (1 + gr)$$

Where, Ep = Expected performance

Lp = Last performance

gr = Computed growth rates as in tables 1 to 8

The comparative results tables are set out below:

TABLE 9: PRE AND POST MERGER COMPARISON -TOTAL ASSESTS (₦ BILLION).

NAME OF BANK	DATE OF ACCOUNT	PRE MERGER RESULT	DERIVED GROWTH RATE	ADJUSTED PRE-MERGER RESULT	POST-MERGER RESULT	FINANCIAL SURPLUS	FINANCIAL SYNERGY
A	B	C	D (%)	E=(C*D)/100	F	G=(F-E)	H=(F*4)/E
Diamond bank	30/4/06	154.619	8.47	167.715	227.0	59.285	2+2=5.41
Fidelity Bank	30/6/06	87.106	9.36	95.259	120.0	24.741	2+2=5.04
Intercontinental Bank	28/2/06	234.877	15.84	272.082	360.9	88.818	2+2=5.31
FCMB	30/4/06.	67.057	10.51	74.105	106.611	32.506	2+2=5.75
SOURCE...		*Tables 5 - 8*	*Tables 5 – 8*		*A R 2006*		

TABLE 10: PRE AND POST MERGER COMPARISON - SHARE HOLDERS FUNDS (₦ BILLION).

NAME OF BANK	DATE OF ACCOUNT	PRE MERGER RESULT	DERIVED GROWTH RATE	ADJUSTED PRE-MERGER RESULT	POST-MERGER RESULT	FINANCIAL SURPLUS	FINANCIAL SYNERGY
A	B	C	D (%)	E=(C*D)/100	F	G=(F-E)	H=(F*4)/E
Diamond bank	30/4/06	16.765	16.22	19.484	32.700	13.216	2+2= 6.71
Fidelity Bank	30/6/06	15.355	23.82	19.013	25.596	6.583	2+2= 5.38
Intercontinental Bank	28/2/06	40.189	29.59	52.081	53.911	1.830	2+2= 4.14
FCMB	30/4/06.	10.522	11.70	11.753	25.163	13.410	2+2= 8.56
SOURCE...		*Tables 1 - 4*	*Tables 1 - 4*		*A R 2006*		

From table 9, it is clear that the four merger groups achieved true financial synergy in total assets growth. All the four banks studied have financial synergy in total assets of over 2+2=5. This is a true indication that the bank merger exercise has produced more benefits in asset growth than that possible were the merged banks to continue to operate as formerly constituted.

From table 10, it is also clear that 3 of the four merger groups achieved true financial synergy in shareholders funds growth. The fourth group, though, achieved some gains in excess of additions of individual member funds, fell short of achieving the truly accepted notion of synergistic effect since its 2+2 was only able to give 4.14. However, since 3 out of 4 of the banks were able to record true financial synergy in shareholders funds, we can safely conclude that the banks merger exercise has produced more benefits in shareholders funds than that possible were the merged banks to continue to operate as formerly constituted.

The result of the ANOVA test (appendix 1) shows that the movement in shareholders funds does not significantly affect the position of total assets of the banks studied as a group but affected them individually. The hypothesis under consideration here is that:

> ***H_0: Variations in the value of shareholders funds do not significantly affect the value of total assets of merged banks.***

From the ANOVA results summary in appendix 1, the ***column*** difference ratio of 0.6453 was found not significant at 1% with F-ratio of 9.33 and also not significant at 5% with F-ratio of 4.75. Also, the ***interaction*** effect which has a ratio of 0.3239 was equally not significant at both levels of statistical appraisal points. However, the ***row*** factor ratio of 15.6542 was significant at both levels. This simply means that variations in the value of shareholders funds do significantly affect the value of total assets individually but not jointly, because the growth in the latter can be significantly enhanced through individual firms' profit accumulation which is an essential ingredient in the make-up of their shareholders funds. The column and interaction effect tests show no significant difference because the growth in total assets is purely an individual firm's affair; reason being that a change in the shareholders funds in bank A will not affect the asset growth in bank B since both are independent and compete in the same market. Nevertheless, all the banks in the banking industry belong to a single firm in the final analysis; this is because a problem in one bank will most likely have grave negative impact on the national economy which may in turn reduce the rate of patronage of other banks and hence less profit and consequently slower growth in total assets. However, there are other sources of funding assets growth apart from profit accumulated via the shareholders funds. These other sources may range from borrowing, lease financing, asset revaluation, etc, to long term programmes like the issue of new shares as was the case for all the merged banks. These other sources may have slightly varying

effects on profitability but nevertheless they may worth the trouble in times of dearth of internally generated funds, after all, the end justifies the means most times.

Conclusion

From the results obtained in the analyses in tables 9 and 10 and the associated deductive discussions above, we conclude that the banks consolidation exercise of 2005 as supervised by the Central Bank of Nigeria has yielded basketful of benefits in terms of improved banking environment and renewed customer confidence in the banking industry. Specifically it has created true synergistic effects in the true spirit of 2+2=5 for the merged banks themselves.

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APPENDIX 1

TWO WAY ANALYSIS OF VARIANCES FOR 4 MERGED BANKS

Data Used - Shareholders Funds

19.484	32.700
19.013	25.596
52.081	53.911
11.753	25.163

Data Used - Total Assets

167.715	227.000
95.259	120.000
272.082	360.900
74.105	106.611

Total sum of all scores = 1663.373
MSB = 31012.0841017292
Overall Variance (MSW) = 5596.693

RESULTS: Summary Table

VARIANCE SOURCE	df	SS?	MS?	F-ratio	F-1%	F-5%	Remarks
Between	3	93036.25	31012.08				
Columns	1	3611.68	3611.68	0.6453	9.33	4.75	NOT Significant: Accept NULL
Row Factor	1	87611.71	87611.71	15.6542	9.33	4.75	Significant: Reject NULL Hypothesis
Interaction	1	1812.86	1812.86	0.3239	9.33	4.75	NOT Significant: Accept NULL
Within	12	67160.32	5596.69				
Total	15	160196.63	10679.77				

The Confidence Intervals around the sample means are:
Factor1 Level1 Col1 = 25.58275 +/- (37.4055 * 2.179 = 81.5066)
Factor1 Level1 Col2 = 34.3425 +/- (37.4055 * 2.179 = 81.5066)
Factor1 Level2 Col1 = 152.29025 +/- (37.4055 * 2.179 = 81.5066)
Factor1 Level2 Col2 = 203.62775 +/- (37.4055 * 2.179 = 81.5066)