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INTRODUCTION

1.1 Background of the Study

The Nigerian banking sector has undergone remarkable changesover the years, in terms of the number of institutions, ownership structure, aswell as the depth of operations. Thesechanges have been influenced largely by challenges posed by deregulation of thefinancial sector, globalization of operations, technological innovations andadoption of supervisory and prudential requirements that conform tointernational standards. The Nigerian banking industry witnessed dramatictransformation during the recapitalization exercise which deadline was December31st, 2005. Overall, the banking sectorexperience steady consolidation through recapitalization and mergers andacquisitions that have resulted in fewer banks holding a greater value of thetotal assets in the sector (Okpanachi, 2011). Spearheaded by the announcement of the Central Bank of Nigeria on July6, 2004 about a major reform program that would transform the banking landscapeof the country, an unprecedented process of merger and acquisition took placein the Nigerian banking sector, shrinking the number of banks.

Immediately after the recapitalization deadline ended onDecember 31st, 2005, the number of operating banks in the country reduced from89 banks to 25banks but later reduced further to 23 with the merger of somebanks like First Atlantic Bank Plc and Inland Bank to form Fin Bank Plc. Stanbic Bank Plc and IBTC to formStanbic-IBTC Bank. The number ofoperating bank later increased to 24 banks with the entry of Citibank NigeriaLimited. The merger and acquisition ofthe nine rescued banks i.e. the merger of Access Bank Plc with IntercontinentalBank Plc: Merger of Ecobank Transnational Incorporation with Oceanic Bank Plc:merger of First City Monumental Bank with Fin Bank Plc further reduced thenumber of banks operating in Nigeria to 21.

The wave of mergers and acquisitions that had taken place inthe Nigerian banking industry raises an important question of whether bankconsolidation enhances the financial performance of Nigeria banks. Hosono et al (2007) argued that consolidationmay increase or decrease the performance of a bank. Mergers and Acquisitions are common place indeveloping countries of the world but are just becoming prominent in Nigeriaespecially in the banking industry. Umoren (2007) says that merger and acquisition is simply another way ofsaying survival of the fittest that is to say a bigger, more efficient,better-capitalized, more skilled industry.

As the banks are devising ways of improving efficiency andensuring the optimization of the available resources, policy makers andregulatory authorities are moving towards openness, competiveness, and at thesame time ensuring market discipline. This is in tandem with the trend in the banking sector globally. Ahmed (2000:33) described this development asa magic one which caused quite a substantial number of Nigerian banks to besick while some became healthier. In hisview, he contended that growth in the banking sector should be transmittedeasily into growth of the real sector. But as banks continued to record impressive growth in all economics,indices show a declining margin of economic growth. This makes one wonder where the impacts ofthe impressive performance of the banks as reported in the financial reportsare being felt. Even the NDIC (NigerianDeposit Insurance Corporation) which is established to insure the depositliabilities of licensed banks has liquidated some distressed banks. The action, Ezeikpe (1993: 36-38) commendedwhile arguing that some distressed banks should be liquidated as a way ofsurvival for the banking system.

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