



Mergers, Acquisitions and Financial Performance: A Study of Selected Financial Institutions

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Abstract

The aim of the study is to examine the impact of mergers and acquisition on financial performance in the Nigerian financial system. The study examined selected financial institutions in the banking sector. Specifically, some financial indicators such as asset profile, credit risk, capital structure, liquidity, size and cost control ratios, were extracted from the audited financial reports of the selected banks for the period 2000-2010 to compare the performance of the selected financial institutions in the ex-ante period and compare these performance with the ex post period of their mergers and acquisitions. Longitudinal and time series analyses were employed to observe the performance of the selected banks. Results from the analysis suggest that credit risks showed a better post merger performance, but were statistically insignificant and negatively related with the performance of the selected financial institution pre-merger. Asset profile was found to be significant and positively related with post-merger in relation to the performance of the selected financial institutions, but it was insignificant and negatively related to the financial performance of the selected firms pre-merger. Capital structure of the selected firms was found to be significant and positively related to the performance of the firms' pre-merger, but insignificant and negatively related to the performance of the firms post-merger. Liquidity of the firms indicated a significant and positive relationship with the performance of the banks pre-merger. However, post merger result indicates that, there was no significant and positive relationship between the liquidity of the firms and financial performance post-merger. The size of the selected banks indicated a significant relationship with their performance in both the pre-merger and post-merger periods. The cost control variable indicated a statistically significant and negative relationship with the performance of the banks post-merger period, but showed no significant relationship with performance of the banks in the pre-merger period. Finally, the results indicate that mergers and acquisitions can have significant impact on the performance of the selected financial institutions in Nigeria.

Keywords: Corporate Strategy; Mergers; Acquisition; Consolidation; Finance



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I. Introduction

The banking industry in Nigeria has been one of the major drivers of economic development for several decades. The importance of the banking sector to any economy is unarguable; this is because of its function as the engine of growth. As the lead financial intermediary in an economy, it mobilizes funds from savings in surplus units in the economy and transfers these funds to deficit units in the economy thereby facilitating capital formation, fostering investment and value creation and the promotion of growth (Benneth, Adebisi & Moruff, 2018). To enable the banking sector to continue play its key role in the nation's financial system, the apex regulatory body for deposit money banks operating in the country has continuously introduced several radical reforms in recent years. The most popular among these reforms by the government in the Nigerian banking sector is the banking sector recapitalization policy in 2004 (Jimmy, 2016).

The banking consolidation reform of 2004 was aimed at arresting system decadence, restoring public confidence, building of strong, competent and innovative players in the global arena ensuring liquidity and value returns to shareholders (Okpanachi, 2015) and enable banks develop the required resilience to support the economic development of the nation by efficiently performing its functions as the fulcrum of financial intermediation (Adeyemi, 2007). The reform had two major elements: the requirement that deposit money banks shore up their operating capital to a minimum capitalization of N25 billion by 31st December 2005 and to encourage consolidation in the banking industry through mergers and acquisition.

The aim of the reforms was to make Nigerian banks become global players in the international financial system and improve their financial performance. To enable deposit money banks operating in the economy as the time the reform was introduced and to carry out the reform, banks were through moral suasion encouraged to either merge or give up their operating license for acquisition (Soludo, 2010). The case for mergers and acquisition was proffered drawing from the perceived successes of economies that adopted this strategy such as: the merger between two French banks in 1998 that resulted in a capital base of US \$688 billion; merger between two German banks in 1998 that resulted in a new capital base of US \$541 billion; in Korea where eight mega banks were left after a

consolidation exercise with a branch network of four thousand and five hundred (4500); Amalgamated Bank of South Africa (ABSA) that has more asset base than all the Nigerian banks put together as at that year; Malaysia where eighty banks shrunk to 12 after a consolidation exercise.

The need for mergers and acquisition in the Nigeria banking sector was highlighted on the premise that banks in Nigeria would become Africa's financial hub and reposition themselves to compete with international banks (Ogbonna, 2007; Adesida, 2008); act as catalyst to the economic development of Nigeria through the provision of excellent intermediary services through the extension of adequate capital to investors (Jimmy, 2016) and the provision of befitting returns to investors through efficiencies and a better range of quality financial services (Soludo, 2006). The Nigerian banking industry following the reform in 2004 has witnessed several mergers and acquisitions in recent years.

It is against this background that this research seeks to examine the impact of these mergers and acquisitions and if there exists any correlation with financial performance of selected banks in the Nigerian banking industry. The main aim of this paper therefore, is to identify and examine the possible financial impacts of mergers and acquisitions on the Nigerian banking industry.

II. Materials and Methods

Bank mergers and acquisition are among the most widely studied and highly contentious issues in finance economics (Cyree, 2010). This follows from the extensive studies conducted by various scholars and differences in opinions formed by them. These studies have so far failed to produce empirically conclusive evidence (Bernard et al, 2010). There are a couple of studies that show a positive effect of mergers and acquisition on banks (Humphrey and Vale, 2002; Shaffer, 1993; Rhoades, 1998; Resti, 1998) and studies that conclude that mergers and acquisition have a negative effect on banks (Diaz et al, 2008; Linder and Crane, 1992; Srinivasin, 1992). Other studies analyzed the reasons for bank mergers and general effects, to wit, Pillof and Santomero (1998) hold that the dominating reasons for bank mergers include; improving the bidder bank's value through increased revenue or cost savings, efficiency gains, market power and increased economies of scale and scope. Berger et al (1999) analyzed 250 studies conducted on mergers and acquisition in banks in order to find out the trend of thought on this corporate growth strategy and found that in general, mergers and acquisition in banks appear to increase profit efficiency and help diversify the portfolio risks of the participants and have improved the local real economies where they occurred.

In a study conducted by Berger et al (1995) to review the banking sector mergers through regulatory frameworks and competitive environmental changes, they concluded that regulatory changes and technological advancements increased the merger activities of banks. Further, Critchfield (2005) developing the study of Berger et al (1995) implied that mergers and acquisition

is a continuing phenomenon and will be greatly influenced by regulations and globalization. Similarly, Deyoung et al (2004) argued that deregulation, technological advancements and commoditization have diminished the barriers to mergers and acquisition in banks. Further, a study conducted by Ibanez and Altunbas (2005) on European banks mergers between 1994 and 2001 to examine the impact of mergers and acquisition on post-merger financial performance, found that mergers among banks bearing substantial elements of geographical or product relatedness create value and there is improved performance in banks after mergers have taken place when there is consistency on the efficiency and deposit strategies of merging banks. They also argued that mergers are more successful when larger and more efficient banks combine with smaller and better-capitalized institutions with more diversified sources of income. However, differences between merging banks capitalization and investment in technology and financial innovation were found to enhance performance.

Evidence was found to be thin on the factors that influence the choice of a target bank in a merger; Wheelock and Wilson (2000) found that smaller banks that are less efficient with lower return on asset were more likely to be acquired; in contrast, Beatty et al (1987) found that, bidders pay larger market to book premiums for targets with higher return on equity and operating in a more concentrated market while Palia (1993) found that there is a growth in premium with a growth in target assets and core deposits. Olsen and Pagano (2005) argued that the bidders' returns are higher after a merger if they can sustain or increase growth rates. Similarly, Cyree (2010) found in his study that, banks use mergers and acquisitions to enter fast growing and high performing markets and to obtain deposit. In a study conducted on seventeen Spanish banks to examine the impact of mergers and acquisition on performance, Bernard et al (2010) found that, though mergers and acquisition have been effective in increasing productivity, they could not transfer the result to profitability because in Spain, most of the mergers were either used to penetrate new markets or increase efficiency under stiff competition. Nevertheless, they found that mergers and acquisition constitute a way to increase market power. Further, in a study conducted by Umoren and Olokoyo (2007) on 13 Nigerian banks to examine the impact of consolidation on performance and consider whether there exists a considerable improvement in liquidity, profitability and solvency, they found that on average, bank mergers resulted in improved performance.

Focarelli et al (2002) in a study aimed at finding the reasons for bank mergers with a sample drawn from the Italian banking sector from 1985 to 1996, found a result consistent with the hypothesis that expansion of revenues from financial services is a strategic objective for mergers. The resulting increase in non-interest income, offset by higher labor costs in the first few years, an increase in lending activity and a more efficient use of capital produced an increase in profitability. A number of studies were identified that measured the impact of mergers and acquisition on the financial performance of banks through the use of various accounting ratios on profitability, return to shareholders and productive efficiency indicators

(DeLong and DeYoung, 2007). The dominating conclusion is that, the assurances of scale economies resulting from size rarely materialize after the merger (Berger et al, 1999, Berger et al, 2000; Auster and Sirower, 2002). The reason identified for this is that, some efficiency gains take longer to accrue. Specifically, while some efficiency gains like risk diversification can be achieved in the short run, others such as cost control are only achievable in the long run (Vennet, 2002). Furthermore, in a study conducted by Beccalli and Frantz (2009) on 714 deals from 1991 to 2005 between random picked bidder and target banks to investigate whether merger and acquisitions influence the performance of banks, using standard accounting ratios and X-efficiency measures, they found that merger and acquisition operations are associated with a slight deterioration in return on equity, cash flow return and profit efficiency and with a marked improvement in cost efficiency.

III. Mergers and Firm Performance

There is divided opinion on the impact of mergers and acquisition on the financial performance of organizations; Epstein (2005) argued that, mergers and acquisition have been studied using narrow and uninformative measures such as short term stock valuation. The capital market is volatile in nature; the economic climate of the period a merger is undertaken to an extent, determines the interpretation of its impact. In a strong economy, a poor merger could be seen as successful and vice versa. This underscores the inadequacy of measuring a merger success with changes in stock prices or short-term analysis. DeLong and DeYoung (2007) argued that, it is important to distinguish between factors that actually damage the value of a merger and those factors that damage perception of a merger. This lack of clarity regarding the elements of merger success, along with a couple of measurement flaws has incited a debate that questions the relevance of mergers and acquisition. However, scholars have noted that the correct application of some factors would ensure the success of mergers and acquisition (Maire and Collette, 2011; Jimmy, 2008; Chanmugan et al, 2005; Epstein, 2005; Houston and Ryngaert, 2001). These factors are considered below.

Strategic fit among merging firms is a critical element in determining the success or failure of a deal (Houston and Ryngaert, 2001), because it refers to the degree to which merging firms complement each other and make identifiable contributions to the financial and non-financial goals of the new firm (Bernard et al, 2010). The strategic vision of the merger should clearly articulate a merger rationale that is centered on the creation of long-term competitive advantage rather than just short-term improvements in operational efficiency (Maire and Collette, 2011). Therefore, it is important that real growth is an expectation of the merger and that the entire rationale is not centered on cost cutting and elimination of redundancies. It is also important for the firms to analyze the strategic vision and compatibility with respect to culture, systems and processes (Chanmugan et al, 2005). Amel et al (2004) found that, the concept of strategic fit is associated with synergies and with the possibility for the resulting firm to obtain economies of scale that promote efficiency and reduce average costs.

Further, another factor identified in the literature that has led to the failure of mergers and acquisition to deliver on its promise of higher profitability is the premium paid for a target firm and the type of financing used (Epstein, 2005). Prior studies conducted on this subject show that merger premiums to targets are large, positive and statistically significant (Cyree, 2010). Becher (2000) found that, publicly traded targets gain 22% on average for a sample of mergers studied in the 1990s. Further researches show that bidding companies that make cash offers make post-merger returns that are either minimal or negative (Gaughan, 2011). Chanmugan et al (2005) stated that, bids are better informed when they are driven by downstream evaluation and defined in terms of a target return on investment and plans to realize it. However, Palia (1993) concluded from her study that, the higher the target return-on-assets and the more the target is concentrated. It is therefore necessary on one hand to assess the payment paid for the target firm to avoid overvaluing or over paying with the resultant effect of overburdening the new company with high debt and on the other hand, find the best payment method that would serve the interest of the shareholders of the bidding company. For example, in 1999, Federated acquired Fingerhut for \$1.7billion in order to harness its marketing expertise to improve sales and market share, but sold the company for \$800million in 2002 because after three years, federated was yet to reap the benefits of the acquisition and market analysts claim that the shares of Fingerhut was overpaid for by a premium of 30%.

Likewise, the merging firms should take care to ensure that, the potential deal can succeed in implementing the proposed strategic vision. This would include the conduct of due diligence, review of assets, liabilities, revenues and expenses; an investigation and evaluation of organization fit, culture symmetry, technological and human fit, comparison of accounting and budgeting practices, appraisal of business philosophies, work practices, leadership styles, expectations and facilities. According to Bernard et al (2010), it involved ensuring a match between administrative practices, cultural practices, personnel characteristics and integration of day-to-day post-merger operations. This process is necessary as the lack of careful evaluation of both the hard financial and soft personnel and organizational issues have been found to be a cause of merger failure (Beccali and Frantz, 2009; Okonkwo, 2004).

In addition, pre-merger planning is important because without clear and defined objectives, the merger integration, synergies and success are unachievable (Epstein, 2005). The pre-merger planning entails the formulation of the integration process and the making of key decisions with respect to board composition, structure of merger and timeline. Cyree (2010) claimed that, in pre-merger planning, it is better to create an entirely new organization in order not to be constrained by the existing structures. On the contrary, Epstein (2005) claimed that, dismantling of existing structure could be resource consuming and creates hostilities between the merging bodies. Chanmugan et al (2005) stated that a successful, integrated approach treats mergers as a life cycle that starts with the pre-merger strategies of goals, target identification, valuation and progress through deal execution and flows to post-merger

integration. This value-creating approach to post-merger integration is only achievable through meticulous planning, de-emphasizing functional integration and ensuring that all resources are channeled only towards the creation of value and not destroying it (Cyree, 2010).

In like manner, to maintain a seamless operation and ensure fast realizations of synergistic values, there should be a sound post-merger integration. Auster and Sirower (2002) described integration as a group of activities designed to maximize the strategic and organizational fit. It starts with the merger deal and ends when all the conscious efforts directed to achieving the optimum fit have stopped having an effect on the new entity. This integration carefully blends the processes including the management of resources, technical operations and customer relationships. A successful integration is achieved when all the different parts of an organization have the knowledge, resources and commitment to move forward without destroying values in the process (Epstein, 2005). During this phase, the management faces enormous challenges which range from steering reconfiguration, achieving strategic objectives, synchronizing activities, streamlining processes to sustaining customer satisfaction (Schneider, 2003). To achieve a successful integration, adequate attention must be paid to both cost reduction and revenue growth synergies and progress measure in terms of financial and non-financial indicators. Bernard et al (2010) underlined the fact that, the structure of post-merger integration should be designed and managed at the strategic level and be critical for explaining performance differences between resulting firms.

Nevertheless, in pursuit of perfect integration, the focus should be on clients to avoid loss of business to competitors and the employees should be encouraged to see the merger as a vehicle for business growth to minimize resistance (Maire and Collette, 2011). Moreover, Chanmugan et al (2005) argue that, post-merger integration should be about value creation and activities prioritized according to the value they create. A study by Jemison and Sitkin (1986) that analyzed 253 mergers and acquisitions in Europe and America showed that, a successful integration was responsible for improved capabilities in majority of the cases. Likewise, in a study conducted on 350 mergers by Chanmugan et al (2005), they claimed that the most successful mergers and acquisition were characterized by the superior execution of an explicit value-capture strategy and a determination by management and staff to pursue the set goals from formation to implementation. Still on, Gadiesh et al (2003) argued that, explanations regarding why numerous mergers fail to deliver on their promises relate partly to the way the post-merger period and related internal issues were resolved and partly to inappropriate business decisions. Bernard et al (2010) concluded that, a proper management of the integration process has clear positive effects on the success of mergers and acquisition.

Empirical research on the impact of mergers on performance of companies has been dominated by the use of event study methodology (Focarelli et al, 2002; Huyghebaert and Luybaert, 2010). The wide adoption of this method is hinged on the argument by finance scholars that financial markets are able to offer a correct valuation of the expected returns coming from any share traded on the stock exchange (Bernard et al, 2010). This

method assesses the impact of the announcement of the merger on the abnormal returns of the bidder and target firms around the period. A positive value in the difference of the measures is interpreted to mean a successful value creation. While this method is popular and well grounded, it is faulted on a number of grounds. It depends on an assumption of perfect foresight that is at odds with the perception of the integration process (ibid.). An illustrative example is the failed acquisition bid of Aer Lingus by Ryanair. The shares of both companies rose during the period of resistance by Aer Lingus and hostility by Ryanair and when the government intervened and vetoed the takeover, the shares of both companies fell. Further, this research argues that the post-integration process and the resolution of its complexities is an important factor in the achievement of successful mergers. Integration usually takes longer than the period the events study (abnormal loss) method values. This point underscores the importance of a longitudinal approach to the study of company performance, because such analyses are based on the actual reported financial performance of the company (Olokoyo and Umoren, 2008).

Nevertheless, the principles identified in the literature shall be adopted in the conduct of this research. Although the bulk of the studies are multi case studies, the opinions formed and results generated from those studies shall serve as a guide in the application of the various identified concepts and parameters.

IV. Methodology

This study which is a longitudinal and time series analysis of the impact of mergers and acquisition on the financial performance of two Nigerian banks, United Bank for Africa (UBA) and Standard Trust Bank (STB) shall examine the financial period of 2000-2010 consisting 5 year pre-merger and 5 year post-merger years. The methods adopted follow the perspectives of economic theories in line with the studies of Altunbas and Ibanez (2004), and Olokoyo and Umoren (2007). This research assumes that the financial data from the individual banks reflect the strategic profile of merging institutions and supports the argument by Altunbas and Marques (2008), that mergers between strategically similar firms are likely to provide greater benefits than mergers involving dissimilar strategies. In the first instance, financial ratios shall be used to compare the performance of the two banks in the ex-ante period and compare these performance with the ex-post period which is then followed by a statistical examination of the impacts using a linear regression model. The methods of analysis to be adopted in this study are defined below:

RETURN ON EQUITY

This ratio was adopted in order to measure the value gained by shareholders for investing in the company. It is measured by;

$$ROE = PBT/Shareholder Assets$$

RETURN ON CAPITAL EMPLOYED

This ratio was embraced in this research to measure the ability of the banks to generate returns from its capital. It is measured by;

$$ROCE = PBIT/Net Asset$$

RETURN ON ASSET

This ratio shall be used to evaluate how well the management of the banks is employing the banks' assets to make a profit. It is measured by;

$$ROA = PAT/Total Asset$$

LIQUIDITY RATIO

This ratio shall measure the banks' ability to meet its obligations as and when due. It is measured by;

$$Current Ratio = Current Assets/Current Liabilities$$

These ratios show how well the companies utilized resources in generating returns and increasing shareholder value. The rationale supporting the adoption of ratio analysis is to achieve a timely and concise description of the performance of the banks (Casu et al, 2006) and to enable a comparative analysis of UBA and STB in the pre-merger (ex-ante) period. Ratio analysis was used by Jimmy (2008) in a comparative study of mergers and organic growth in the Nigerian banking sector to arrive at a conclusion that mergers and acquisition has a positive impact on bank performance. Further, Okpanachi (2011) used ratio analysis in comparative study of the impact of mergers and acquisition on financial efficiency of Nigerian banks. Multiple performance indicators such as return on equity, return on assets, return on capital employed and current ratio were used in the analysis.

However, the use of financial ratio is limited by the fact that it does not account for differences in accounting policies between the banks (Mishkin 2006) and it does not detect window dressing or creative accounting and the bearing of inflation and economic effects of business cycles such as a recession on earnings is not reflected. Nevertheless, in order to overcome these limitations, further testing was carried out on the banks using linear regression.

Regression Model

In order to statistically test the impact of mergers on the banks, linear regression was adopted and a longitudinal analysis of the banks' financial statement was undertaken which was built on the approach of Altunbas and Marques (2008), Altunbas and Ibanez (2004), Ramaswamy (1997), Chatterjee et al (1992) and Datta et al (1991). The formulae and variables are briefly explained below.

UBA BANK (POST-MERGER):

$$a) \text{ PROFITABILITY } i(t) = \beta_0 + \beta_1 \text{ ASSET PROFILE } i(t-1) + \beta_2 \text{ CAPITAL STRUCTURE } i(t-1) +$$

$$\beta_3 \text{ CREDIT RISK } i(t-1) + \beta_4 \text{ COST CONTROLLING } i(t-1) + \beta_5 \text{ LIQUIDITY RISK } i(t-1) + \beta_6 \text{ PERFORMANCE } i(t-1)$$

UBA & STB BANK (PRE-MERGER):

$$b) \text{ PROFITABILITY } i(t) = \beta_0 + \beta_1 \text{ ASSET PROFILE } i(t-1) + \beta_2 \text{ CAPITAL STRUCTURE } i(t-1) +$$

$$\beta_3 \text{ CREDIT RISK } i(t-1) + \beta_4 \text{ COST CONTROLLING } i(t-1) + \beta_5 \text{ LIQUIDITY RISK } i(t-1) + \beta_6 \text{ PERFORMANCE } i(t-1)$$

Where *i* represents the firm and *t* represents time measured by their calendar year end.

The dependent variable is profitability, which is measured by the ratio of profit after tax to total assets. This ratio indicates the asset turnover that translates to the way that bank uses its assets to make profit while the independent variables are as follows:

Asset profile strategy is considered as the bank's balance sheet loan composition. It is measured by the ratio of total loan and advances to total assets ratio (TL/TA).

Credit risk is measured as the level of loan loss provisions divided by total loans (PLL/TL). In general, it can be argued that better post-merger performance may be expected when banks with very similar asset quality merge (Umoren and Olokoyo, 2007). The greater the similarities among the asset profile strategies, the higher the performance expected after merging.

Capital structure is measured as the ratio of shareholders fund to total assets (SF/TA). Regulators have given this strategy increased importance in order to introduce competition in banking and to check risk-taking with capital requirements. Banks with lower capital ratio can signal favorable information after merging with banks with larger capital ratio. This ratio is expected to be high, because the merger increases both equity and total asset.

The cost controlling strategy shows the emphasis to minimize cost by relating operating expenditure to returns and it is measured by the operating expenses to net earnings (OE/NE). As a result of economies of scale derived from horizontal mergers, the bank is competing on the basis of low-cost and operating efficiency was one of the underlying synergies expected as benefit from merging with another similarly strategized bank. Therefore, UBA is expected to show a higher performance after merging.

The Liquidity risk strategy refers to the banks' strategy towards managing liquidity risk and is measured by the ratio of cash and short-term funds to deposits (CST/D). A better liquidity management of the merged banks would imply a better performance.

V. Results

Descriptive Analysis

Table 1 provides descriptive summary statistics of the financial indicators of UBA and STB in aggregate from 2000 to 2005 and UBA Group from 2006-2010.

Table 1: Descriptive Statistics

	PRE-MERGER				POST MERGER			
	MEAN	ST.DEV	MIN	MAX	MEAN	ST.DEV	MIN	MAX
PROFITABILITY	0.293	0.009	0.008	0.369	0.309	0.123	0.001	0.037
ASSET PROFILE	0.274	0.784	0.165	0.409	0.278	0.087	0.124	0.409
CREDIT RISK	0.098	0.081	0.024	0.256	0.761	0.074	0.006	0.256
CAPITAL	0.079	0.029	0.482	0.146	0.772	0.028	0.030	0.147
LIQUIDITY RISK	0.508	0.107	0.370	0.649	0.389	0.198	0.712	0.649
COST CONTROLLING	0.541	0.548	0.456	0.596	0.524	0.625	0.405	0.597
SIZE	5.061	0.255	4.603	5.326	5.417	0.563	4.604	6.224

Source: Author's Computation.

Table 2: Linear Regression of the Pre-Merger UBA and STB and the Post-Merger Period

DEPENDENT	PRE-MERGER	POST-MERGER
	PROFITABILITY	
ASSET PROFILE	-0.0207261 (1.479878)	0.0088801 (0.0376347)
CREDIT RISK	-0.0429511 (0.0284571)	-0.042879 (0.394924)
CAPITAL STRUCTURE	0.3453494** (0.1023558)	0.1778542 (1.0094931)
LIQUIDITY RISK	-0.0979892* (0.343407)	-0.0035409 (0.0435741)
COST CONTROLLING	0.0057917 (0.0353944)	-0.075894* (0.038988)
SIZE	-0.533669* (0.184608)	-0.0288709* (0.0154282)
CONSTANT	0.3285749** (0.104541)	0.221363* (0.1012232)
NUMBER OF OBS	10	15
PROB > F	0.0677	0.0247
R-SQUARED	0.9345	0.7780

Source: Author's Computation.

- The coefficients reported in Table 2 which are ** and *, indicate a statistical significance level of 5% and 10% respectively based on the p-values.

VI. Discussion

Asset profile and credit risk are indicators of the profitability of a bank relative to its total assets and level of effectiveness of the management in using the assets to generate returns. Credit risk was measured by the ratio of provision for bad debt to total loan and the results in Table shows a better post-merger performance (-0.042879 < -0.0429511). This shows that, the bank was able to curtail the level of risk existing in the pre-merger period. That is in line with the findings of Umoren and Olokoyo (2008). However, credit risk generated a negative result in both the pre-merger and post-merger periods, which is statistically insignificant to the profitability of the bank.

With reference to the impact of mergers and acquisition on the bank's performance, there was an increase in post-merger performance with a mean of 0.309 as against the 0.293, which was received in the pre-merger period in Table 1. The improvement extends to asset profile in Table 1 with a post-merger mean of 0.278, vis-à-vis 0.274 of the pre-merger period. Further, in Table 1 the mean of the size of the bank increased to 5.417 in the post-merger period, from the pre-merger value of 5.061. This confirms the argument that, size is a valid rationale in the choice of mergers and acquisition as a means of external growth (Bernard et al, 2010). In addition, there was a significant improvement in the capital adequacy ratio of the bank, as the post-merger ratio rose to 0.772 from a pre-merger ratio of 0.079. This reflects an increase in the equity capital of the bank propelled by regulations and bank policy. In line, the rise in the asset risk ratio in Table 1 of the post-merger (0.761>0.098) is a pointer that the merger improved the risk profile of the bank. Furthermore, the cost control ratio recorded a lower ratio in the post-merger period (0.541<0.541) in Table 1, which is an indicator that UBA has amassed the benefits of economies of scale resulting from a combination of strategic similarities and geared toward a reduction in costs. Likewise, in Table 1 there was a decrease in the liquidity risk of the bank in the post-merger period in comparison with the pre-merger period (0.389<0.508), which shows that the bank has reduced its default risk to the barest minimum. However,

in terms of asset profile, the increase in the post-merger loan to asset ratio by 0.004 shows that the risk profile of the bank has changed and the management extends more loans to customers.

The result obtained in asset profile contradicts the findings of Altunbas and Marques (2000). They had argued that in asset profile, a lower performance was expected due to conflicts arising from managerial disparities on asset composition. Contrary to the prediction, asset profile was positive and higher in the post-merger period as against the negative, and negative results in Table 2 was received in the pre-merger period ($0.0088801 > -0.207261$). This shows that, UBA adopted an expansionary policy in generating return and improvement in credit management (Rawasmy, 1997). However; the result obtained is not statistically significant to the profitability of the bank.

The capital structure is a tool used by the management of the bank to signal a favorable asset profile and in the pre-merger period, capital structure was statistically significant to the profitability of the banks at 5%. But in the post-merger period, though the result is positive, it is not significant and does not affect financial performance.

Similarly, liquidity risk refers to the bank's attitude towards managing solvency. The reason is that, pursuing a tolerant liquidity ratio could be costly. UBA pursues a policy that would improve the earnings of the bank and this explains the significance of the liquidity risk at 10% in the pre-merger period and a negative result in the post-merger which bears no significance to the performance of the bank in Table 2.

Furthermore, the result on size shows that the size of the bank plays an important role in the financial performance of UBA. Both the pre-merger and post-merger results on size show that size has a 10% statistical significance on the financial performance of UBA in Table 2. This is in line with the findings of Altunbas and Ibanez (2004).

Finally, the cost control variable which emphasizes the minimization of cost by relating expenditure to earnings is predicated on the premise that firms competing on the basis of low cost is expected to benefit from merging with one another (Bollenbacher, 1995). Hence, in the post-merger period, cost control is negative and is statistically significant to the financial performance of the post-merger period in Table 2. This shows that the management of UBA embraced a low cost strategy, which is the result of economies of scale deriving from the combination of similar skills and technology. This result is parallel with the findings of Umoren and Olokoyo (2008).

VII. Conclusion and Recommendations

Mergers and acquisition have been noted to be the most popular means of external growth pursued by financial institutions (Adeyemi, 2007). But, their impact on the financial performance of merged entities is still inconclusive (Bernard et al, 2010). However, as noted earlier, the majority of studies that have found a negative relationship between mergers and acquisition, and performance have mostly evaluated the success based on short-term changes in stock (Epstein, 2005). In contrast, this research argues that mergers and acquisition should neither be undertaken to affect these short-term changes,

nor be examined on that basis. Mergers should be studied in the long-term with the consideration of firm goals and performances as well other economic indicators.

The study has implications for future research on the impact of mergers and acquisition on the financial performance of the Nigerian banking sector. The sample of the population should be expanded to include at least 75% of the banks in Nigeria in order to enable the researcher form a general view that would capture the Nigerian banking sector and other variables such as the market, regulation and tax. They should be included in the examination of the effects of mergers and acquisition on banks' performance.

Further research on the merger between UBA and STB should examine the extent to which the results in this study relate to other banks. Also, other underlying mechanisms apart from post-merger integration like strategic fit, due diligence, culture and organizational fit should be investigated to ascertain whether it justifies the results. Another opportunity for future research would be to evaluate the extent positive results are obtained and the duration of merger is affected by resources and capabilities.

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