Financial Risk and Management Reviews
2018 Vol. 4, No. 1, pp. 34-48
ISSN(e): 2411-6408
ISSN(p): 2412-3404
DOI: 10.18488/journal.89.2018.41.34.48

DEPOSITORS' CONFIDENCE AND MERGERS AND ACQUISITIONS: THE NIGERIAN BANKING SECTOR EXPERIENCE

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Article History
Received: 15 October 2018
Revised: 21 November 2018
Accepted: 24 December 2018
Published: 7 January 2019

Keywords
Mergers and acquisitions
Depositors' confidence
Nigerian banking sector
Deposit liabilities
shareholders' funds and bank distress.

JEL Classification:
G28.

ABSTRACT

Nigeria implemented major financial reforms between 2004 and 2005 in which mergers and acquisitions became an imperative option for most of the deposit money banks to meet the new and hiked minimum capital base requirement. This study examined the impact of mergers and acquisitions (M&As) on depositors' confidence in the Nigerian banking sector. An ex-post facto research design was used with secondary data collected for twenty years. The study covered all the deposit money banks in Nigeria within the period 1995-2015 with 2005 as a base year separating pre and post merger periods. Multiple regression and paired student t-test approaches were employed to analyze the data with the aid of SPSS (20) software. The output yielded mixed findings. While M&As as proxied by dummy merger showed mostly positive and insignificant impact on confidence of depositors, they indicated positive significant impact when measured by shareholders' funds - an alternate proxy. The paired student t-test yielded significant positive impact on depositors' confidence. Overall, the findings suggest that the mergers and acquisitions have positively and significantly impacted on depositors' confidence in the Nigerian banking sector. It is recommended inter-alia that banks should endeavor to further enhance their shareholders' funds while partnering actively with monetary authorities in pursuit of aggressive financial inclusion via innovative product offerings for cheap deposits and financial stability. This will further enhance the depositors' confidence in the banking system.

Contribution/Originality: The work is one of the very few studies which have examined the impact of mergers and acquisitions on depositors' confidence in Nigeria banking sector and also of those whose findings suggest that mergers and acquisitions have positive significant impact on confidence of depositors in the Nigerian banking system.

1. INTRODUCTION

The banking sector is considered as one of the leading contributors to the growth of global economy (Narwal and Pathneja, 2015). According to Nwaubani and Ezeudu (2015) the sector is the engine of growth in any economy. In the opinions of Adegboyega (2012) and Owolabi and Ajayi (2013) banks are the cornerstone of the economy of a country as they play a crucial role in propelling the entire economy. The sector is also seen from its essential role of intermediation which involves resource mobilization and allocation in an economy and, its position as the most important segment of the financial system in developing economies, accounting for the bulk of the financial transactions and assets (Moyo *et al.*, 2014);(Ogunbiyi and Ihejirika, 2014). The industry has equally been described as critical to the success of global economies (Iacobelli, 2017). Thus, it is imperative that the banking system should be healthy in order to fulfill its varied roles.

Nigeria implemented major financial reforms between 2004 and 2005. The reforms incorporated mergers and acquisitions as a strategy to enable deposit money banks to meet their new and hiked regulatory minimum paid capital base under banking reforms component. Prior to those banking reforms the Nigerian banking system was faced with a lot of serious challenges namely:- distress, illiquidity, board squabbles, insider- dealings, rumors of one bank or the other going distress and fears that some banks would be liquidated among others (Afolabi, 2011; Adebayo and Olalekan, 2012). Those challenges obviously eroded depositor's confidence and created doubt and fear among the depositors and general public on the ability of many the banks to continue as going concerns (Appah and John, 2011). The depositors were living in fear of loss of their funds in the banking system. Indeed a banking system which depositors could trust was clearly missing as the existing system was very unstable and marginal (Soludo, 2004).

A banking system which depositors can trust is very crucial to a sustainable banking system because banking business is majorly driven by public confidence the absence of which breeds crisis of confidence and bank runs (Eboreime, 2009). In a bid to turn around the Nigerian banking system to one which would command the confidence of the general public and the depositors, the banking reforms were implemented with the banks being required to raise their capital base from 2billion naira (US $17.7 million) to 25 billion naira (US $184 million) by 31 December 2005 or merge their operations with those of other banks (Panapress, 2004). Mergers and acquisitions were extensively employed by the deposit money banks to raise the new minimum paid capital base. The number of banks was trimmed from 89 to 25 at the end of the 2015 (Soludo, 2006).

Some empirical studies have been carried out on various aspects of the mergers and acquisitions. The problem is that most of the studies focus on synergy and efficiency achieved by the banks in the post merger era. Studies on impact of the mergers and acquisitions on depositors' confidence are very scanty and with conflicting findings. For instance while (Appah and John, 2011) finding is that despite the mergers and acquisitions of banks in the country, some of the merged banks are still facing the challenges that led to the 2005 consolidation, the outcome in Ugwuanyi (2014) is suggestive that the 2005 banking reform has corrected the erosion of public confidence witnessed before the reform. Also some years after the mergers and acquisitions, about 65% of cash in circulation is said to be still outside the banking system by 2011 (CBN, 2011). Again we still have rumors and speculations that "some banks in the country may have gone or may be going into distress" (CBN, 2011). The rumors are so strong that Central bank of Nigeria has to issue a press release to deny that some banks are going distress. Again according to Enhancing Financial Inclusion Access, EFInA (2015) 39.7% of the adult population in Nigeria by 2012 has no formal access to banking services. These facts raise doubt about the impact of the mergers and acquisitions on the confidence of the depositors and the general public in the Nigerian banking sector and thus constitute the key motivations for this study.

2. OVERVIEW OF MERGERS AND ACQUISITIONS: WORLD PERSPECTIVE

In recent decades the concept of mergers and acquisitions has dominated national and international fora. In a simple sense, a merger refers to a combination of two or more companies into one larger organization (Ailemen and Oyero, 2013; Olugbenga and Olusola, 2014). It is can also be seen as the coming together of two entities to form a completely new company (Uremadu, 2004). A merger can equally be explained as the result of a process whereby two or more previously autonomous concerns come under common control (Odetayo *et al.*, 2013) while acquisition takes place where entity A acquires all the shares of entity B and A continues to exit while B disappears (Mcclure, 2014). The terms mergers and acquisitions are usually used interchangeably to refer to transactions involving the combination of at least two independent firms to form one. In this study the terms are used interchangeably. On the other hand consolidation occurs when two companies combine to form a new enterprise altogether, and neither of the previous companies remains independently while a merger via absorption according (Pandey, 1998) is a combination of two or companies into an existing one with all the existing companies except one losing their individual identities. At the global level mergers and acquisitions activities have been on the rise though the global volume declined by 17% in 2016 with total value of $3.6 trillion as against $4.34trillion in 2015 (Roumelioti and Lewis, 2016) China recorded the highest cross-border deals worth $221billion in 2016. According to the authors, some of the notable deals documented in 2016 include: AT&T and Time Warner - $86 Billion on October 22, 2016; Qualcomm and NXP Semiconductors - $47 Billion on October 27, 2016; Shire and Baxalta - $32 Billion- a announced in January 2016 but completed in June 2016; Abbott Laboratories and St. Jude Medical- $30.6 Billion in April 2016; Microsoft and LinkedIn - $26.2 Billion on August 1, 2016 among others.

2.1. Mergers and Acquisitions: The Nigerian Perspective

Some of the early merger and acquisition deals in independent Nigeria dates back to early1980s. According to Ogbochie (2011) between 1982 and 1988, the Securities and Exchange Commission (SEC) supervised 13 mergers- including the mergers of Lever Brothers Nig Ltd and Lipton Nigeria Ltd, SCOA Nigeria Ltd and Nigeria Automotive Components Ltd, John Holt Ltd and John Holt Investment Ltd though two of them were unsuccessful. Also in 2002, there was a merger of two important petroleum companies; Agip Nigeria Plc and Unipetrol Plc to form Oando Plc (Ogbochie, 2011).

The economic recession and challenges faced by Nigeria in 2016 in particular slowed down the tempo of mergers and acquisitions activities in Nigeria. Before 2016, the mergers and acquisitions activities in Nigeria were remarkable. For instance, according to Egwuatu (2015) Nigerian Breweries Plc confirmed that its merger with Consolidated Breweries Plc had been finalized. Also shareholders of Lafarge WAMCO approved a $1.35billion deal combining its Nigerian businesses with Lafarge South Africa. The new entity would be called Lafarge Africa Plc. According to Chima (2013) KPMG Consulting reported that, mergers and acquisitions (M&As) in Nigeria for 2012 was worth $7.415 billion – a 379 percent rise from 2011's figure of $1.548 billion. However it may be noted that it was the 2004/2005 regulatory induced banking consolidation that popularized the concept of mergers and acquisitions in Nigeria (Ogbochie, 2011).

3. REVIEW OF THE NIGERIAN BANKING SYSTEM BEFORE THE 2004/2005 MERGERS AND ACQUISITIONS

A review of the period before the 2004/2005 bank consolidation makes for better appreciation of factors that necessitated the employment of mergers and acquisitions in the Nigerian banking sector Meanwhile, evolution of banking in Nigeria may be traced through phases covering an era of free banking to the era of strict regulations. However, in Nzotta (2014) view, evolution of modern banking in Nigeria could also be classified into ten different phases as shown in Table 1below.

Table-1. Evolution of banking in Nigeria

Phase	Date	Era
First	Up to 1952	Free Banking Era
Second	1952-1959	Pre Central Banking Era
Third	1959-1970	Banking Legislation Era
Fourth	1970-1976	Indigenization Era
Fifth	1977-1985	Post Okigbo Era
Sixth	1986-1992	Deregulation Era
Seventh	1993-2001	Era of Banking Distress
Eighth	2002-2004	Universal Banking Era
Ninth	2004-2009	Bank Consolidation Era
Tenth	2009-Date	Segregated Banking Era

Source: Nzotta (2014)

According to Appah and John (2011) the evolution is seen via the following phases: embryonic, expansion, consolidation/reform and post consolidation era. The embryonic phase dates back to 1892 when the African Banking Corporation of South Africa established a branch in Lagos followed by the British Bank of West Africa in 1894 while Barclays Bank DCO (Dominion, Colonial and Overseas) and the British and French Bank were established in 1925 and 1949 respectively. Indigenous banking in Nigeria commenced with the establishment of National Bank of Nigeria Limited in 1933, Agnonmagbe Bank Limited in 1945 and the African Development Bank limited in 1948. The expansion era commenced with the establishment of Rural Banking Scheme in 1977, Peoples Bank in 1989 and Community Banks in 1990. The Consolidation phase began with the in 2004/2005 mergers and acquisitions of banks which trimmed the number of banks 89 to 25. The post-consolidation kicked off with the quest of the Nigerian banks to assume the status of mega and pan-African banks via cross border expansion and penetration.

The expansion phase was a bag of mixed blessings for the Nigerian banking sector because of the crises that followed it. During the mid 1990s, there was growth in the number of banks and in addition to that, the financial sector witnessed the boom and bust cycle, which was characterized by financial liberalization with deregulation of interest rate and the loosening of credit allocation quotas. Consequently, there came the emergence of massive entry of new banks with specialized in foreign exchange operations and taking advantage of the price disparity between official and black market rates (Ailemen and Oyero, 2013). The banking sector then was characterized by distress, illiquidity, Board squabbles, inside dealings and fears that some banks were going to be liquidated and a myriad of challenges (Soludo, 2004; Afolabi, 2011; Okpanachi, 2011; Ugwuanyi, 2014). The beginning of the challenges could be traced to the financial deregulation in 1987 in Nigeria subsequent to the adoption of a Structural Adjustment Program (SAP) in 1986. The deregulation brought about high competition in terms of size and number of banks in operation. However, the increased competition, amidst political instability and financial policy inconsistencies on the part of the financial regulators led to rapid decline in profitability of the traditional banking activities (Ailemen and Oyero, 2013). Thus, in a bid to survive and remain profitable in the face of political and policy instability, banks started taking excessive risks which led to frequent bank failures and related financial shocks in the economy and the country suggesting an urgent call for a well thought out and comprehensive policy response.

4. THE 2005 MERGERS AND ACQUISITIONS: THE CBN INTERVENTION

The review of genesis of the challenges points to a serious need for government intervention in the Nigerian banking sector. Consequently, Consolidation of the banks' operations through mergers and acquisitions was the preferred option. The choice of mergers and acquisitions was based inter-alia on the fact that mergers and acquisitions especially in the banking industry have enjoyed global acceptance (Soludo, 2004). Soludo gave instances of a merger in France in 1998 that resulted in a new bank with a capital base of US$688 billion, while the merger of two banks in Germany in the same year created the second largest bank in Germany with a capital base of US$541 billion. He equally touched on emerging markets, including Argentina, Brazil and South Korea where consolidation had also become prominent, as banks strive to become more competitive and resilient to shocks as well as reposition their operations to cope with the challenges of the increasingly globalized banking systems. Thus, the 2004/2005 mergers and acquisitions wave in the Nigerian banking industry(which started in October, 2003 under Professor Soludo- a former governor of Central Bank of Nigeria) was seen as the long awaited fundamental policy response to the numerous challenges confronting the banking sector in Nigeria.

5. EMPIRICAL REVIEW

Boboye and Obisesan (2016) evaluated the effect of mergers and acquisitions on the performance of selected Deposit Money Banks in Nigeria for the period 2001- 2014. Profit after tax was used as the independent variable while shareholder's fund, total asset, loan and advances, and total deposit were the explanatory variables. The

Error Correction Model showed that long-run equilibrium relationship exits among the variables and that merger and acquisition has no significant impact on banks' performance of the selected banks in Nigeria. Njogo *et al.* (2016) evaluated the impact of mergers and acquisitions on the performance of deposit money banks in Nigeria using a sample of ten (10) banks. Secondary data obtained from the bank's annual reports covering a period of 2001-2010 were analyzed using paired t-test. The relevant variables were Return on Assets, Return on Equity, Net Profit Margin, Asset Utilization, Equity Multiplier, Earnings per share, Debt Equity ratio, Debt Asset ratio and Leverage ratio. Findings showed significant positive impact with respect to ROA, ROE and LR but displayed no significant impact when measured in terms of the other selected variables.

Ugwuanyi (2014) used aggregate deposit liabilities of all the banks in Nigeria over a period ten years (2001 to 2010). The deposit liabilities were decomposed to their individual components of time deposits, demand deposits and savings deposits. To test for a significant difference the contributions of the decomposed deposit liability of demand, savings and fixed deposits to the total deposit liability of the Nigerian banking industry were evaluated for pre and post performances for the Nigerian banking industry using the parametric statistical pooled variance t-test model. Findings revealed that though there was no significant difference in the contribution of the demand deposit to the total deposit liability of the Nigerian banking industry after the 2005 banking sector reform, significant differences were observed in contributions of the time deposits and savings deposits to total deposit liabilities following the 2005 banking reform. The study therefore, concluded that the 2005 banking reform had restored public confidence in the Nigerian banking industry. Olayinka and Farouk (2014) evaluated the impact of consolidation on the performance of banks in Nigeria using secondary data obtained on four banks for the period 2000 - 2011. The findings indicated that consolidation has significant positive impact on the performance of banks in Nigeria. Olugbenga and Olusola (2014) investigated the synergistic effect of the 2005 bank mergers and acquisitions in Nigerian banking industry against the position of economic theory which cited synergy as one of the many possible reasons why mergers might take place. Using data from three Access Bank, Ecobank and FCMB from 2006 to 2012, the authors analyzed the data employing model and technique. Their result showed that of the three banks only one showed evidence of synergy in the growth of shareholders funds while others showed no such growth.

Ailemen and Oyero (2013) employed panel data ordinary least squares approach to investigate effect of mergers and acquisitions on performance of banks inn Nigeria using return on assets, asset base, deposit growth rate, the loans to deposit ratio and total value of shareholders funds as the critical indicators. The selected banks were: Access bank Plc, Diamond bank Plc, First City Monument bank, Fidelity bank Plc, First bank Plc, Intercontinental bank Plc, Oceanic bank Plc, United bank for Africa, Union bank, Wema bank Plc. The evidence showed that mergers created synergy. The authors recommended that merger being a relatively new phenomenon in the Nigerian banking environment should be given more encouragement by the regulatory authorities.

Odetayo *et al.* (2013) carried out an empirical analysis of the impact of merger on Nigerian banks' profitability using secondary data of Access Bank and United Bank for Africa (UBA) between 2005 – 2012. The study concluded that the 2005 mergers and acquisitions did not have significant impact on post merger profits of the two banks. It may be note that this finding might have been influenced by the very small sample size of only two banks out of 24 banks then. Nwidobie (2013) examined impact of mergers and acquisitions on shareholders wealth maximization in Nigeria. The study used dividend per share and earnings per share from a sample of six commercial banks in Nigeria from 2003 to 2009 as proxies for shareholders' wealth. Findings from the paired t-test analysis showed that the mergers and acquisitions of 2005 created more wealth to the shareholders. Adebayo and Olalekan (2012) assessed the implications of mergers and acquisitions on profitability of commercial banks in Nigeria using survey design combining 95 questionnaires and secondary data/audited accounts of 10 randomly select banks. From the t-test analysis, it was found out that the mergers and acquisitions have significantly influenced profitability of commercial banks, earnings per share and dividend per share of shareholders. Based on the findings, the study concluded that the mergers and acquisitions have significantly improved the overall performances of banks.

Adegboyega (2012) evaluated the impact of mergers and acquisitions on performance of banks in Nigeria using pre-merger and post merger financial statements of two consolidated banks. Simple regression model was employed to express the relationship between consolidation proxied by shareholders funds(X) and performance represented by total assets(Y). Finding showed that there was strong relationship between shareholders funds and total assets in both banks leading to the conclusion that the bank consolidation in the Nigerian financial system increased shareholders' funds, investor's confidence, financial stability and operational efficiency of the banks. Owolabi and Ajayi (2013) examined the financial efficiency of banks in Nigeria in the post mergers and acquisitions period. The findings suggested that the post-mergers and acquisitions period was more financially efficient. Okpanachi (2011) made a comparative analysis of the impact of mergers and acquisitions on financial efficiency of banks in Nigeria. The study used gross earnings, profit after tax and net assets of Access Bank Plc, First Bank of Nigeria Plc and Wema Bank Plc as indices to determine financial efficiency by comparing the pre-mergers and acquisitions' performance with the post-mergers and acquisitions' indices for the period of 2002 to 2008. The findings revealed that the post-mergers and acquisitions' period was more financially efficient than the pre-mergers and acquisitions period. However, to increase banks financial efficiency, the study recommended that banks should be more aggressive in their profit drive. Umoren *et al.* (2007) examined the impact of consolidation on performance of the mega banks and considered whether there had been considerable improvement on their profitability, liquidity and solvency. The sample consisted of Intercontinental bank Plc, Access bank Plc, Fidelity bank Plc, IBTC-Chartered Plc, Oceanic Bank Plc, Bank PHB Plc and United Bank of Africa Plc. Performance ratios of the banks were analyzed and on average, the findings showed that bank consolidation resulted in improved performance. It was therefore suggested that the bank management should embrace broad product strategies, which could help in generating more income for the banks.

Elsewhere outside Nigeria, Yeboah *et al.* (2015) evaluated impact of mergers and acquisitions on service quality of consolidated banks in Ghana. A descriptive and explanatory design was adopted to describe customer perceived service quality and to also explain the relationship between M &As and service quality. ANOVA and T-tests techniques were used to analyze collected primary and secondary data. Findings revealed that mergers and acquisitions have had positive impact on overall service quality. Masud (2015) examined the impact of mergers and acquisitions on the financial performance of selected banks in Egypt namely: Allied bank, NIB bank and Faysal Bank. Secondary data for the period 2000 -2012 were used while ratio analysis and paired t-test were employed for the analysis. The chosen performance indicators were ROA, ROE and EPS. The analysis yielded mixed findings-while some banks showed positive and significant impact others displayed negative impact. Badreldin and Kalhoefer (2009) examined the impact of mergers and acquisitions on performance of Egyptian banks for the period 2002-2007. The study employed extensive ratio analysis of selected performance indicators of the different categories of banks involved in mergers and acquisitions. Findings indicated that mergers and acquisitions have not had a clear effect on the profitability of banks in the Egyptian banking sector.

6. RESEARCH METHODOLOGY

The research design adopted in this work is *ex-post facto* and the population is the entire deposit money banks in Nigeria within the period covered by the study. Secondary data collected from 2015 statistical bulletin of Central bank of Nigeria were used. The relevant data were annual aggregate deposit liabilities of the Nigerian banking sector decomposed to private sector deposits and public sector deposits respectively for the period covering 1995 to 2015. For the purpose of the paired student t-test, the period is categorized into pre mergers era of 10 years from 1995 to 2004 and post mergers period of 10 years from 2006 to 2015 with 2005 as the base year. Multiple regression approach (with ordinary least square method for estimating parameters) was employed in addition to the paired student t-test with the aid of Statistical Package for Social Sciences Version 20 - SPSS (20). The adopted models follow the approach adopted in Ailemen and Oyero (2013) and Odetayo *et al.* (2013) respectively for the multiple regression analysis and the approach in Okpanachi (2011) for the paired student t-test. The general equation for multiple regression is given as follows:

$Yi = \beta 0+\beta 1iX1i+\beta 2X2i + \ldots \beta nXni + \mu i$. (Gujarati, 2006; Osuala, 2010) …………………….(1)

Where:

Yi = the dependent variable(s)

Xi = the independent variables

$\beta 0$ = the intercept

βi = the slope (beta) associated with Xi

μi = Error/disturbance term

This translates to an econometric equation expressed as follows: $DCi = \beta 0+\beta 1DM + \beta 2SFi + \mu i$ ….(2)

Where:

DC =the dependent variable representing depositors' confidence

DM = dummy merger dummy (Ailemen and Oyero, 2013)

SF = shareholders' funds (Odetayo *et al.*, 2013)

This implies that, depositors' confidence is a function of merger and acquisitions: DC = f (mergers and acquisitions) where mergers /acquisitions is proxied by dummy merger and shareholders' funds translating to: depositors' confidence = $f(DM, SF)$. Depositors' confidence is measured by the aggregate private sector deposits, aggregate public sector deposits and overall deposits held by the deposit money banks in Nigeria (Ugwuanyi, 2014).

6.1. Paired Student T-test Model

Under this second model, hypotheses were tested using paired student t-test for unequal variances. The relevant paired student t-test model for unequal variances used in this study is given as

(3)

$$T = \frac{\overline{X} - \overline{Y}}{S_d / \sqrt{n}} \quad \ldots\ldots(3)$$

Where:

T = the t-test statistic

$S\sigma$ = the Standard deviation for the paired data,

n = the sample size/number of years

$\bar{X}$ and $\bar{Y}$ are the respective means of the pair of data in X and Y group/periods, and in the case of this study: pre merger period and post merger era respectively.

A paired t-test is used to compare two population means where there are two samples in which observations in one sample can be paired with observations in the other sample (Shier, 2004).

7. DATA PRESENTATION AND ANALYSIS

A look at Table 2 clearly shows an upward trend among the categories of deposit liabilities and the shareholders' funds particularly from 2006 following successful mergers and acquisitions completed in 2005. Figure 1 above graphical confirms this trend. However, PUD(green) exhibits a nose-dive in 2014 most likely because of governments campaign/election- related spending for the 2015 general elections in Nigeria while 2015 is affected by Treasury Single Account Policy took off from 2015.

Table-2. Categories of deposit money bank deposits, total deposit liabilities and shareholders' funds in Nigeria (1995-2015) (All figures except DM are in =N= billions).

Year	PRD	PUD	TDL	DM*	SF
1995	166.3	8.7	182.4	0	43.2
1996	205.1	9.6	220.4	0	55.6
1997	257.2	17.5	280.1	0	73.9
1998	291.6	26.2	327.1	0	101.4
1999	420.7	61.2	516.8	0	142.0
2000	454.2	119.7	775.9	0	196.7
2001	872.8	55.7	975.5	0	364.3
2002	1,000.7	100.0	1,209.7	0	500.8
2003	1,170.8	123.7	1,417.1	0	537.2
2004	1,429.4	176.7	1,778.7	0	688.1
2005	0	0	0	0	0
2006	2,836.8	240.0	3,379.3	0	1,389.0
2007	4,379.7	401.8	5,256.0	0	2,225.0
2008	6,629.7	669.0	8,252.7	0	3,365.0
2009	7,254.1	903.5	9,601.8	0	4,931.0
2010	7,676.2	1,428.6	10,610.0	0	2,218.0
2011	7,368.2	2,798.7	12,136.0	0	3,682.0
2012	9,585.1	1,933.1	14,245.0	0	3,638.0
2013	9,329.0	3,968.3	16,699.0	0	3,870.0
2014	11,743.5	1,245.2	16,824.0	0	4,334.6
2015	12,233.9	1,610.2	18,201.1	0	4,901.9

Source: 2015 CBN Statistical Bulletin. Note: PRD stands for all private sector deposits, PUD ►public sector deposits, TDL ► total deposit liabilities of the banks and SF ► shareholders funds. * Values of 1s and 0s were assigned to the Dummy Mergers (DM).

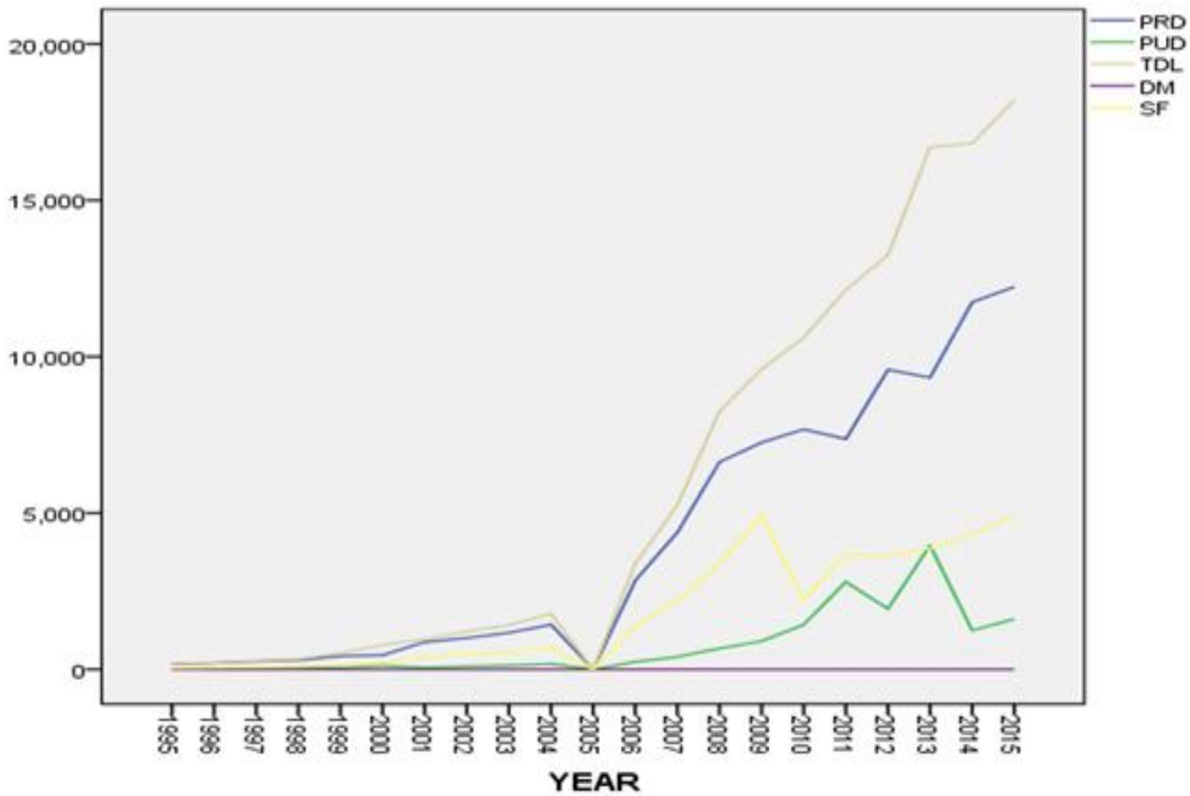

Figure-1. Trends of Private Sector(PRD), Public Sector(PUD), Total Deposits(TDL) and capital base(SF) before and after M &A.
Source: SPSS (20) Graphics, 2017

Table-3. Categories of total deposit- pre merger and post merger periods

Pre – merger period				Post –merger period			
	Private sector (PRD) =N=bn	Public sector (PUD) =N=bn	Total deposit (TDL) =N=bn	Year	Private sector (PRD) =N=bn	Public sector (PUD) =N=bn	Total deposit (TDL) =N=bn
1995	166.3	8.7	182.4	2006	2,836.8	240.0	2,379.3
1996	205.1	9.6	220.4	2007	4,379.7	401.8	5,256.0
1997	257.2	17.5	280.1	2008	6,629.7	699.0	8,252.7
1998	291.6	26.2	327.1	2009	7,254.1	903.5	9,601.8
1999	420.7	61.2	516.8	2010	7,676.2	1,427.6	10,610.2
2000	454.2	119.7	775.9	2011	7,368.2	2,797.7	12,131.5
2001	872.7	55.7	975.5	2012	9,585.1	1,933.1	14,245.1
2002	1,000.7	100.0	1,209.7	2013	9,329.0	3,968.3	16,699.4
2003	1,170.8	123.7	1,417.1	2014	11,743.5	1,245.2	16,824.0
2004	1,429.4	176.7	1,778.7	2015	12,233.9	1,610.2	18,201.1
Average	**626.9**	**69.9**	**768.4**	**Average**	**6,227.6**	**1,301.3**	**8,781.1**
As % of TDL 81.6% 9.1%			-	**As % of TDL 70.9% 14.82%**			-

Source: Authors' computations from 2015 CBN statistical bulletin

From table 3 Private Sector Deposit (PRD with average volume of N626billion constituted 81.6% of the total deposit liability of the deposit banks in the pre mergers and acquisitions period while the contribution declined in the post merger period by 10.7% to stand at 70.9% . Though in absolute terms, PRD average volume shot from less than N1trillion in the pre merger era to over N6trillion in the post merger period(893% jump), the reduced contribution to total deposit should be a source of concern to the banks and the monetary authorities. Private sector provides the right platform for the much needed domestic savings for stable and relatively cheap funds thus the gap in their contribution to total deposit should be of concern to the banks and the monetary authorities in Nigeria. This concern appears stronger in view of Federal government Treasury Single Account (TSA) by which all governments' funds are swept to and maintained by Central bank of Nigeria from September 2015. The rise in the contribution of public sector deposits to total deposits in the post merger era to 14.82% from 9.1% in the pre merger period (5.7% change) seems not sustainable in view of the TSA. It appears that the private sector have not been encouraged enough by the commercial banks via innovative product offerings to meet their pre merger quota.

It may be noted that generally, before the TSA policy, public sector deposit balance was affected by occasional sweeping of government funds from deposit money banks to Central Bank of Nigeria as part of monetary policy measures of the Central Bank of Nigeria. The pre merger average balance must have been affected by the withdrawal of the funds of the three tiers of government from the deposit money banks in July 2004 before the banking consolidation. Overall, the negative impact of the 2007/2009 global financial meltdown on the post merger balances should as well be taken into account.

Table-4. Schedule of shareholders funds: pre and post merger periods

Year			
Pre-merger (=N=billion)	**Year**	**Post-merger (=N=billion)**	
1995	43.20	2006	1,338.90
1996	55.60	2007	2,225.40
1997	73.90	2008	3,364.70
1998	101.40	2009	4,930.60
1999	142.00	2010	2,217.80
2000	196.70	2011	3,682.10
2001	364.30	2012	3,637.70
2002	500.80	2013	3,869.70
2003	537.20	2014	4,334.60
2004	688.10	2015	4,901.90
Average	**270.32**	**Average**	**2,888.14**

Source: Authors' computations from 2013 CBN statistical bulletin

Table-5. Summary of Regression Results of the Variables of the Study

Dependent Variables				
Independent Variables	**PRD**	**PUD**	**TDL**	**PUD2 (Hypothetical)**
DM-t statistic	0.824	0.421	0.280	-0.839
DM Prob (t-statistic)	0.421	0.679	0.783	0.413
DM Beta	0.127	0.150	0.051	-0.249
SF t-statistic	5.437	1.713	4.917	3.527
SF Prob (t-statistic)	0.000	0.104	0.000	**0.002**
SF Beta	0.841	0.608	0.894	1.046
R Squared R^2	0.915	0.555	0.883	0.689
Adjusted R^2	0.906	0.506	0.870	0. 655
F-Statistic	97.443	11.224	68.052	19.97
Prob (F-statistic)	0.000	0.001	0.000	0.000
Durbin Watson	1.896	1.594	1.320	1.045

Source: Result of Regression Analysis using SPSS (20). Where:
PRD, PUD, and TDL are private sector deposit, public sector deposit and total deposit liabilities respectively.
Note: The full details of the regression results are on Tables6 - 9 below.

From Table 4.3 above, it could be seen that average shareholders' funds jumped sharply from N270.32 billion to about N2.89 trillion in the post-merger period. This represents about 968% increase and is attributed to increased recapitalization consummated through the mergers and acquisitions. The performance obviously would have been better than this without the negative effect of the 2007-2009 global financial crises.

Table-6. Results of the Multiple Regression Analysis for Private Sector Deposit(PRD)

Private Sector Deposits (PRD)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.957[a]	.915	.906	1305.38817	1.896

a. Predictors: (Constant), SF, DM
b. Dependent Variable: PRD

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	332088539.519	2	166044269.759	97.442	.000[b]
	Residual	30672688.993	18	1704038.277		
	Total	362761228.511	20			

a. Dependent Variable: PRD
b. Predictors: (Constant), SF, DM

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	89.565	403.384		.222	.827	-757.913	937.043
	DM	1060.142	1287.223	.127	.824	.421	-1644.212	3764.497
	SF	1.955	.360	.841	5.437	.000	1.199	2.710

a. Dependent Variable: PRD
Source: SPSS (20) Output, 2017

Table-7. Results of the Multiple Regression Analysis for Public Sector Deposit(PUD) with Election Spending- ES (2014) and Treasury Single Account-TAS(2015)

Public Sector Deposits (PUD) with ES & TAS

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.745[a]	.555	.506	754.54458	1.594

a. Predictors: (Constant), SF, DM. b. Dependent Variable: PUD

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	12780234.939	2	6390117.470	11.224	.001[b]
	Residual	10248075.313	18	569337.517		
	Total	23028310.252	20			

a. Dependent Variable: PUD. b. Predictors: (Constant), SF, DM

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	-23.953	233.165		-.103	.919	-513.815	465.909
	DM	313.467	744.044	.150	.421	.679	-1249.712	1876.647
	SF	.356	.208	.608	1.713	.104	-.081	.793

a. Dependent Variable: PUD

Source: SPSS (20) Output, 2017

Table-8. Results of the Multiple Regression Analysis for Total Deposit Liabilities (TDL)

Total Deposit Liabilities (TDL)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.940[a]	.883	.870	2319.46909	1.320

a. Predictors: (Constant), SF, DM. b. Dependent Variable: TDL

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	732231386.747	2	366115693.373	68.052	.000[b]
	Residual	96838863.506	18	5379936.861		
	Total	829070250.252	20			

a. Dependent Variable: TDL. b. Predictors: (Constant), SF, DM

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	-73.340	716.749		-.102	.920	-1579.175	1432.494
	DM	640.654	2287.192	.051	.280	.783	-4164.557	5445.866
	SF	3.141	.639	.894	4.917	.000	1.799	4.483

a. Dependent Variable: TDL

Source: SPSS (20) Output, 2017

Table-9. Alternative (Hypothetical) Regression Result on Public Sector Deposit-PUD Without Election Spending(ES) and Treasury Single Account in 2014 and 2015 Respectively

PUB without ES & TSA

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.830[a]	.689	.655	882.03275	1.045

a. Predictors: (Constant), SF, DM
b. Dependent Variable: PUD

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	31068016.980	2	15534008.490	19.967	.000[b]
	Residual	14003672.038	18	777981.780		
	Total	45071689.018	20			

a. Dependent Variable: PUD
b. Predictors: (Constant), SF, DM

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	-147.015	272.561		-.539	.596	-719.644	425.614
	DM	-729.393	869.759	-.249	-.839	.413	-2556.688	1097.902
	SF	.857	.243	1.046	3.527	.002	.346	1.367

a. Dependent Variable: PUD
Source: SPSS (20) Output, 2017

Table-10. Results of Analysis Under Paired Student t-test

Paired Samples Test

		Paired Differences					T	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	PRDPRM – PRDPOM	-7276.75000	2546.55516	805.29145	-9098.44582	-5455.05418	-9.036	9	.000
Pair 2	PUDPRM – PUDPOM	-1452.74000	1114.38454	352.39933	-2249.92268	-655.55732	-4.122	9	.003
Pair 3	TDLPRM – TDLPOM	-10651.74000	4703.16267	1487.27063	-14016.17990	-7287.30010	-7.162	9	.000

Note: PRDPRM→private sector deposit(pre merger), PRDPOM→(PRD in post merger); PUD→ public sector deposit, TDL→total deposit liability
Source: SPSS(20) Output, 2017

8. DISCUSSION OF RESULTS

In all the regression results, dummy merger (DM) **exhibited** positive but insignificant impact on the confidence of the three categories of depositors at 5% significance level. However, M&As as proxied by shareholders funds (a joint proxy for M&As) **indicated** strong significant and positive impact on confidence of both private sector depositors and total depositors. The paired t-test results (Table 10) confirm this across board. The strong and significant impact indicated by shareholders funds as an alternate proxy for M&A meets a prior expectation in view of the initial jump in the capital base of the commercial banks from about N2billon to minimum of N25billion (over 1000% hike). The initial insignificant positive impact of M&As on confidence of public sector depositors may be linked to occasional withdrawal of government deposits from central bank of Nigeria before 2014 and the campaign/election spending in 2014 for the 2015 general elections. Another possible reason for the insignificant outcome is the negative effect of the Treasury Single Account which came into effect in September 2015. When these negative factors were adjusted for in PUD2 (Table 9), the impact becomes significant with p-value of 0.002.

In the adjustment, PUD figures for 2014 and 2015 were taken to be slightly higher than the figure for 2013 assuming there were no such negative intervening factors.

The insignificant outcomes associated with dummy mergers (DM) may require further research efforts for better insight into the actual reasons behind them. Meanwhile, the initial hiccups that greeted the introduction of the cashless policy of central Bank of Nigeria-CBN could be part of the reasons. The initial challenges which trailed the cashless policy could discourage some depositors particularly the rural depositors from patronizing the deposit money banks. Another possible reason may be traced to the nature of business of majority of the traders who ordinarily prefer to keep their cash in their vault **so that they could easily take** advantage of quick business opportunities.

The Adjusted R^2 for the three categories of deposit which stands at 90.5%-PRD, 50.6%- PUD, 65.5%-PUD2 and 87.0%-TDL, suggests that the mergers and acquisitions mainly account for the improved level of confidence of the depositors in the Nigerian banking sector. The overall model appears to have fitted the data well as it is very significant with F-statistic p-value for PRD, PUD and TDL of 0.000 respectively.

9. CONCLUSION AND RECOMMENDATIONS

9.1. Conclusion

This study examined the impact of mergers and acquisitions (M&As) on depositors' confidence in the Nigerian banking industry for the period 1995-2015. Multiple regression approach (with ordinary least square for estimating the parameters) and paired student t-test method were employed in analyzing the data under pre and post mergers and acquisitions periods. Findings show that while M&As as measured by dummy merger (DM) **indicated** mostly positive insignificant impact on depositors' confidence, they **exhibited** positive significant impact on the depositors' confidence when proxied by shareholders' funds - an alternate proxy. The paired student t-test **yielded** significant positive impact on depositors' confidence. Based on these outcomes, this study concludes that mergers and acquisitions have positive significant impact on depositors' confidence in the Nigerian banking sector.

9.2. Recommendations

(i) Banks should be run profitably to ensure enhanced shareholders' funds through earnings retention. (ii) Other strategies for improving capital base of banks such as right issues, initial public offers, **business-induced mergers and acquisitions** should be exploited whenever necessary.(iii) The banks should partner actively with monetary authorities in pursuit of aggressive financial inclusion for cheap deposits and financial stability via innovative product offerings. This will enhance financial stability and the depositors' confidence in the banking industry. (iv) Sudden changes of policies on banking and hasty implementations of new ones should be minimized by the regulatory and supervisory authorities as these acts could lead to another crisis of confidence in the banking industry in Nigeria. (v) The Cashless policy of the Central Bank of Nigeria should be subject to occasional review and fine tuning for maximum benefits.

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