International Journal of Business and Management Invention
ISSN (Online): 2319 – 8028, ISSN (Print): 2319 – 801X
www.ijbmi.org Volume 2 Issue 2 ‖ February. 2013‖ PP.12-20

CONSOLIDATION AND ASSET QUALITY OF BANKS IN NIGERIA

Aminu Bebeji

Department of Accountancy, College of business and management studies
Kaduna Polytechnic, Kaduna

ABSTRACT: *The banking sector in Nigeria over the years has witnessed a number of crises that led to the distress of many banks particularly in the 1990s through early 2000s. The crisis, which was caused and fueled by among others by high figures of non-performing loans and loan loss provisioning leading to dissipation of profit, capital erosion and impairment of liquidity, and consequently poor asset quality has necessitated the introduction of consolidation in order to address the problem head-on. This study assesses consolidation and asset quality of banks in Nigeria. The study designs its methodology along historical and descriptive approaches, and uses t-test to test the research hypotheses based on the secondary data collected from 10 sampled banks over the period 2002 through 2008. The study finds that consolidation has positive impact on non-performing loan. Based on the findings, the study recommends that the regulatory authorities be allowed to exercise its regulatory functions unperturbed; such as evolving tighter limits on excessive concentration of risk and tightening provisioning requirements on non performing loans so that banks liquidity is sustained especially during economic downturns.*

Keywords: *Consolidation, Asset Quality, and Nonperforming Loans*

I. BACKGROUND TO THE STUDY

Banking sector reform since 1990s is globally receiving more attention. The driving forces for this attitudinal change are technological innovation, deregulation of the financial sector and international competition (ECB 2001). Another reason can be attributed to banking crisis of the 1990s witnessed in the Asia and Latin America. These global phenomena has its toll in the Nigerian banking sector because of globalization, which has paved way for the Nigerian banking sector reform.

The banking sector reform in Nigeria covers variety of issues, prominent among which is bank consolidation policy. Consolidation is a policy geared towards enhancing the performance of banks by raising their capital base either through mergers, absorptions (acquisitions) or recapitalization.

There exist vast definitions of the word consolidation in the literature. Bello (2005:46) views consolidation as the merger of two or more commercial interest or corporations. Berger, Allen, Rebecca and Phillips (1999) and Lederman (2003) opine that it is a reduction in the number of banks and other deposit taking institution with a simultaneous increase in size and concentration of the consolidated entities in the sector. Soludo (2005:5) perceives consolidation as an amalgamation or a combination in which all the combining companies are legally dissolved and a new company is formed with the objectives of enhancing performance through sound asset quality as one of the yardsticks. In this paper however, consolidation refer to the intervention policy of the Central Bank of Nigeria (CBN) in 2004 to better sanitise the banking sector.

In Nigeria, commercial banking began in 1892 when the South African based African Banking Corporation (ABC) opened a branch in Lagos. It ran into operational problems which led to its closure and subsequent take-over in 1894 by the Bank of British West Africa (BBWA) now First Bank of Nigeria. With the coming of the then Barclays Bank now Union Bank of Nigeria, in 1917, expatriate banks dominated the banking sector until when the indigenous banks join the queue in 1927(CBN,1995). The period 1892 to 1951 is usually referred to as the era of "free banking" or "banking boom" in Nigeria because apart from the absence of stringent laws governing the establishment and management of banks during this period, the establishment of banks was not related to the capacity of the economy to effectively absorb the sharp growth in financial asset (CBN, 1995).The establishment of indigenous banks then was driven largely by nationalistic considerations rather than economic factors; hence these banks ran into crisis more so that there was minimal regulation. Most of the early indigenous banks collapsed in rapid succession (Okigbo, 1981). The introduction of the Banking ordinance of 1952, the establishment of the Central Bank of Nigeria (CBN) in 1959, and the promulgation of the banking Act of 1969 made the bank distress syndrome relatively contained in Nigeria.

Since 1892, the banking sector has witnessed devastating episodes of distress. The first took place in the late 1930s and early 1950s mainly due to lack of regulation, poor asset quality and bad management. In fact, 21 of the 25 indigenous banks which had been established in the country by 1954 failed (Okigbo, 1951).

The federal government policy of indigenization made Federal government to acquire 40 percent of foreign banks holding. This action created further collapse and crisis in the banking industry as government resort to borrowing from banks to finance its deficit budget resulting in huge bad debts which literally translated into poor asset quality. The sharp fall in Nigeria's oil revenue in the 1980s also precipitated another chain of crisis to the banks (Hamman, Umar, Nwozu and Nwolisa 2004:6).

The intervention of Government in the banking sector to resolve distress crisis led to the introduction of the Structural Adjustment Programme (SAP) and the establishment of the Nigeria Deposit Insurance Corporation (NDIC) in 1986 and 1988 respectively. The liberalization policy in 1986 re-introduced banks with foreign equity. Systematic distress resurfaced in the Nigerian banking industry again between 1989 and 1998 leading to a number of distress syndromes. The crisis of 1989 was attributed to the withdrawal of public sector deposits from banks. This development constrained banks' ability to grant out fresh loans, while the ones issued out were turning out to be non-performing. Most of the state-owned banks became insolvent because they carried heavy bad debts (Hamman, et al 2004). The 1996/97 liberalization led to significant number of bank closure and takes over and control by the CBN and NDIC. The alarming rate of distress scourge in the banking sector between 1997 and 2003 gave birth to the banking sector reform of July 6, 2004 of which consolidation is one of the 13 point reform agenda (Hamman, et al 2004).

Huge non-performing asset figures, high provisioning of loans and gross lending related insider abuse are among the major problems of the banking sector in Nigeria. According to Soludo (2006), prior to consolidation, many banks engaged in sharp lending practices that resulted in poor asset quality, and consequently leading to distress among many of them. Asset quality (loan quality) refers to the degree of financial strength and risk in a bank's loan assets (www.stlousfed.org). It is one of the several measurement tools used to determine the extent of a banks' credit risk exposure. According to Wariboko (1995), asset quality evaluates the health of a bank's loan assets and how vulnerable the assets are to risk exposure.

Sustaining sound asset quality involves careful granting of loan that must be performing and that which can lead to the widening of a bank's revenue base. Indiscriminate granting of loan on the other hand, leads to poor asset quality that will result in income and profit reduction, reserves and deposit dissipation, zero dividend payout, erosion of capital base and negative shareholders funds (Robert 2002). In view of the above, this study is undertaken to assess the impact of consolidation on the quality of asset of banks in Nigeria.

Statement of the Research Problem

Before the introduction of consolidation, poor asset quality has led to the distress of many banks specifically due to inadequate capital base that cannot continue to absorb loan losses suffered by the banks.

Banks have been recoding double digits in the ratio of non-performing loans which indicate poor asset management. For example (CBN 2004, 2005) reports ratios of 25:2%, 27.8% and 24.1% for non-performing loans in 2002 through 2005 period.

Further barely four years into consolidation of the industry, (Sanusi 2009) report that some banks have seriously exhibited varying symptoms of distress which necessitated CBN to bailout nine out of the 24 banks with the sum of N620 billion in 2009 in order to prevent the occurrence of distress in the industry.

The action of the CBN became imperative because, the balance sheet of the affected bank had shrunken, their shareholders funds impaired and they had liquidity problem (Sanusi, 2009). This development is yet another clear indication of poor asset management. The question that comes to mind is whether consolation has really helped improve the asset quality of banks in Nigeria? And this is what has motivated the study to be carried out.

The studies therefore will asses consolidation policy and asset quality of banks in Nigeria between 2002 to 2008 period. Only one asset quality measurement variables as adopted by CBN will be used i.e. nonperforming loans. These variable is important because non performing loans leads to high provisioning which affects profitability causing illiquidity, impairment of shareholders funds, dilution of capital and consequently poor asset quality resulting into distress.

The new policy intervention will bring about better asset management in line with Soludo's proposed distress resolution strategy. And that bank in post consolidation period is expected to record low non-performing loans and hence sound asset quality.

II. OBJECTIVES THE STUDY

The main objective of the study is to assess the impact of consolidation on assets quality of banks in Nigeria. Other, objective which the study sets out to achieve is:

To assess the impact of consolidation on nonperforming loans of banks in Nigeria.

Statement of the Hypotheses

The following hypothesis has been formulated for testing in the study:
Ho1: Consolidation has no significant impact on non performing loans of banks in Nigeria.

Scope of the Study

This study is limited to the assessment of consolidation and asset quality of banks in Nigeria. Asset quality means loan quality, that is, the degree of financial strength and risk in banks' loan assets; while consolidation as used in this paper connotes government's intervention policy by way of an increase in banks capital. The study is restricted to a single measurement variable of asset quality that is commonly used by the CBN i.e. non-performing loans ratios.

The study covers a period of seven years, 2002 to 2008 inclusive, where 2002 to 2004 is considered the pre-consolidation era and 2005 to 2008 as post-consolidation. The seven year period was chosen because five years is the minimum period within which time series effect can be manifested.

The period 2009 to 2011 was deliberately excluded because during these periods new developments emerges in the banking sector which might impede the outcome of the study; for example recapitalization of some banks through bail out, new merger agreements, acquisitions, nationalization of certain banks and categorizations-hence these developments were isolated and will be studied in a different paper.

III. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

This Section provides the conceptual framework of the study and reviews relevant literature and empirical studies on bank consolidation and asset quality of banks. It also discusses theories of bank consolidation and identifies the theoretical framework upon which the study is based.

Concept of bank consolidation

Consolidation is viewed as the banking sector reform that requires all Deposit Money Banks operating in Nigeria to have a minimum capital base of N 25 billion as at 31st December 2005 Soludo (2006). Generally, consolidation involves either mergers or acquisitions between or among banks and or through mobilizing additional capital in the stock market.

According to Ferguson Jr. (2002) cited in Ajayi (2005), Cost efficiency could also improve if more efficient banks acquire less efficient ones. Though studies on efficiency in banking raised doubts about the extent of overcapacity, they did point to the considerable potential for improvement in cost efficiency through mergers.

Modern concepts of consolidation however, view bank mergers as not just about adjusting inputs to effect costs; but, also involves adjusting output (product) mixes to enhance revenues. The studies of Akhavein, Jalai, Bergerd and Humprey (1997) and Berger (1998) support this view. They found that bank mergers tend to be associated with improvements in overall performance, partly because banks achieve higher valued output mixes through a shift toward higher yielding loans away from securities. The studies revealed that merged banks also tend to experience a lowering of their cost of borrowed funds without needing to increase capital ratios.

A merger can result in a reduction in some dimension of risk. This then affords the post consolidation banks more latitude to shift to a higher risk output mix. The other way of meeting the capitalization requirement is through the capital market. Capital market provides a conduit for investment funds and devolution of ownership structure. Further, the capital market assist in sustaining consolidation and thus valuations problems associated with consolidations are reduced substantially.

The sophisticated nature of banks and their peculiar characteristics especially in the 21st century when banks are on daily basis embracing risky ventures which has made them to shift from just lending and keeping assets to a more vibrant and challenging functions. In view of this, Soludo (2005) points out that government will not allow the banking sector to succumb to distress; rather, it has to promote mergers and acquisitions in the industry as possible ways out to overcome any challenges faced by the banks.

Banking crisis usually starts with a bank's inability to meet its financial obligation to its stakeholders. This, in most cases precipitates runs on banks as they and their customers engage in massive credit recall and withdrawals. Quite often, this situation necessitates apex bank's liquidity support. In some acute cases, governments, through the collaboration of international finance institutions such as the International Monetary Fund (IMF), intervene to stem the crisis from widening and deepening. The intervention mechanisms recommended by the CBN for example may be in the form of consolidation, use of bridge banks, establishment of asset management companies to assume control and recovery of banks assets and sometimes outright liquidation of non-salvageable banks.

Bank consolidation is implemented to strengthen the banking system, embrace globalization, improve healthy competition, exploit economies of scales, adopt advanced technologies, raise efficiency and improve profitability. The ultimate goal is to strengthen the intermediation role of banks and to ensure that they are able to perform their developmental role of enhancing economic growth which subsequently leads to an improvement in the overall economic performance and societal welfare.

According to Ogubunka (2005:16), countries reform their banking sectors for a number of reasons. However, the banking reform program of one country may provide some good lessons for others this is in line with best practice.

Ogubunka (2005:22) further stated that the Turkish banking sector reform appears to have addressed most of the identified problems that motivated it. Thus it brought about enhanced capital and capital adequacy. Like Turkey, Malaysia and Indonesia had also passed through banking sector reform processes

Noy (2005) further observes that the Malaysian and Indonesian banking sectors after liberalization became generally more concentrated, foreign-owned and suffer more regulation/restrictions on their areas of operations. He argues that though, the legal powers accorded to auditions have increased significantly and the ratio of non-performing asset to total assets has also decreased in these countries, doubts have been casted on the efficiency of these measures because the primary institutional arrangements remain the same with the supervisory authorities subjected to the dictates of the government. He concludes however, that the problem may not be with the reform but with the implementation strategy.

Nature and scope of bank asset quality

Banks are unavoidably involved in risk taking by the nature of their business operations. Types and various forms of risks faced by banks are well documented in the literature (Sundarajan & Bakino, 1991; Ebhodaghe, 1992; Ferguson, 2003). For instance, banks face the risk of not being able to meet their obligations to depositors to whom they have issued demandable claims. This is called liquidity risk. There is also the risk of default or credit risk, which is the likelihood of borrowers failing to repay as agreed. Similarly, there is the possibility that the mechanism processes and controls employed by banks to carry out its functions fail to achieve desired results, thus causing operational risk.

Many theoretical literatures have also indicated that besides individual bank's specific endogenous factors, there are also some exogenous factors that trigger risks and which banks have to contain with. Some of these external factors are adverse developments in the macro-economy; policy reversals; lapses in the regulatory/supervisory framework as well as weak legal and or judicial system that could precipitate or exacerbate poor quality assets. To stay in business, banks generally adopt risk mitigating principles to minimize their risk exposure by rigorously screening lending opportunities available, using unique expertise as well as continuously monitor and obtain repayment (Donli, 2004). This presupposes that competency in the overall risk analysis, and effective monitoring mechanism could minimize the incidence of non-performing facilities in the banking system.

Empirical studies on bank consolidation and asset quality

There are quite a number of empirical studies on bank consolidation and asset quality. These studies are conducted both within Nigeria and internationally some of which are hereby reviewed.

In a study conducted by Yixin Hou (2005) on the non – performing loans problem in commercial banks, he used Regression model and find that non – performing loans have non – linear negative effect on banks’ lending behavior, when banks have non performing loans lower than the threshold, they are less regressive in increasing lending. However when non performing loan rates are under the threshold level, non performing loans have positive impacts on banks’ lending behaviour with a statically significant positive coefficient.

In a study conducted by Ezeoha (2011) the study use a panel data from 19 out of a total 25 banks operating in Nigeria; where he uses a multivariate constant coefficient regression model to test weather consolidation heighten incidence of non-performing credit in a fragile banking environment. He find that there is deterioration in asset quality and the deterioration in asset quality and increased credit crisis between 2004 and 2008 was exacerbated by the viability of bank to optimally use their huge asset capacity to enhance their earnings profiles. This implies that excess liquidity syndrome and relatively huge capital bases fueled reckless lending by banks portfolio ironically helped to mitigate the level of nonperforming loans within the studied period.

In another study Babihuga (2007) analyses the relationship between selected macroeconomic and financial soundness indicators (FSI) for 96 countries for the period 1998 -2005. The determinants of asset quality were model following an approach adopted by Demirguc Kunt and Huizinga (1999, 2000), using a parsimonious model with the share of non-performing loans in total loans as a function of macroeconomic variables. They find a collapse in business credit worthiness and the subsequent deterioration in the value of collateral are the main mechanism of a macroeconomic shock to banks’ portfolio.

deposit insurance on Non-performing Loans (NPLs). They find that unlimited Insurance scheme create moral hazard incentives that encourage banks to take excessive risk and it also caused a remarkable increase of Nonperforming Loans (NPLs).

In Taiwan, Hu, Li and Chiu (2004) in their own study examining how ownership structure affects Non-performing Loans (NPLs). Their findings revealed that an increase in the government’s shareholding facilitates political lobbying. On the other hand, private shareholding induces more Non -performing Loans (NPLs).

In Africa, while investigating the determinants of Nonperforming loans in sub-Saharan Africa (Fofac, 2005) uses correlation and causality analysis. His study investigates the association between Non performing loans and domestic credits. The result shows a positive association between the variables. This result is consistent with most sub Saharan countries he has selected.

In a Nigerian study (academia.edu) reviews performance of banks within the context of Nonperforming loans (NPLs).The result show that earnings risk is most prevalent in explaining variation in nonperforming loans.

Raulin (2008) study focuses on asset quality, which is in line with other empirical works on banking failure which analyses proxies of asset quality. Therefore, Roulin in his study estimating bank failures and acquisition used a cox model. And find that a weak asset quality increases the probability of banking failure.

In Banaccorsi di Patti and Gobbi(2002),they find that consolidation greatly enhances the supply of credit for (high –quality) corporate borrowers.

In another study conducted by Adam (2003) on bank regulation, risk asset and income of banks in Nigeria using before and after regulation approach, complemented by statistical test of equality between means of different samples. The “before and after” approach yields a systematic picture in development of key financial variable before and after regulation. The major findings are that regulation has improved risk asset quality, loan provisioning and profit performance in the banking sector.

Although some of these studies were carried out in advanced economies, using different methodologies, and also in an environment where there is relative stability in their financial system. The studies in the developing economies may suffer some hitches because of environmental factors and difference in the methodology; hence the study may not necessarily yield the same results as was the case with the advanced economies (Sabari,2010). Nevertheless, their findings suggest the need for conducting research in similar areas in Nigeria, more so, none of the studies specifically studies consolidation and asset quality per-se; hence this added value to the current study. And none of the studies use our methodology and the statistical tool for analysis. Our results might conflict or be in accord, possibly because of these reasons stated above.

IV. THEORITICAL FRAMEWORK

There are quite a number of economic theories that provide theoretical underpinning for bank consolidation. Some of these theories are bank efficiency theory, synergy theory; too big to fail (TBF), Agency, share holders value and financial intermediation theories, however for the purpose of this study was based on synergy and financial intermediation theories.

Synergy theory suggests value enhancement resulting from consolidation. According to Pandey (2005), synergy implies a situation where the combined firm is more valuable than the sum of the individual combining firms. It is defined as two plus two equals to five (2+2>5) phenomenon. Synergy refers to benefit other than those related to economies of scale.

Traditional theories of intermediation are based on transaction costs and symmetric information. They are designed to account for institutions which take deposits or issue insurance policies and channel funds to firms (Allen 1996).

However, according to the “non-performing loan hypothesis” when banks are in poor condition ridden by high level of non-performing loans, the willingness for the banks to expand loans is decreased, which implies that loan growth will not be consistent with expansion of deposits. This situation aptly describes the scenario of Nigerian banks prior to consolidation. However, with consolidation now in place, financial intermediation is an important activity in the economy, because it allows funds to be channeled from people who might otherwise not put them to productive use to people who will. In this way financial intermediation help promote a more efficient and dynamic economy using the financial intermediaries mechanisms.

V. METHODOLOGY

The methodology of this research is designed along historical and descriptive approaches.

The population of the study comprises the 25 Deposit Money Banks (DMBs) that emerged after the consolidation exercise as at 2005 (NSE 2006).

The sample size is 10 banks, selected out of the 25 operational banks that emerged after consolidation of the banking sector in Nigeria. The banks selected are shown in table 3.1

Table 3.1 Selected Sampled banks

S/No.	Banks	Date of incorporation	Capital size as at 31 Dec. 2005	Capital size as at 31. Dec. 2010	Remarks
1	First bank of Nigeria Plc	1969	48.7	340.6	First Incorporated in 1894
2	United bank for Africa	1961	50.0	179.4	
3	Oceanic bank Plc	1990	58.9	(124.5)	
4	Access bank	1988	29.4	175.3	
5	IBTC/STANBIC	2006	36.1	85.0	Partly foreign
6	Bank PHB	1989	26.9	96.3	
7	WEMA	1945	37.7	(45.4)	
8	fcmb	1977	29.0	134.7	
9	Skye bank	1999	35.0	107.7bn	
10	CITI BANK	1984	37.79	37.7bn	Formerly NIB

Source; The selected bank annual reports various issues.

The Margin of error formula was used to arrive at the sample size, as shown below (Zwillinger, 1995 & Stattrek.com).

$$E = Z^{Q}/_{2} \left(\frac{\sigma}{\sqrt{n}}\right)$$

$$E\sqrt{n} = Z^{Q}/_{2} .(\sigma)$$

$$\sqrt{n} = \frac{Z^{Q}/_{2} . (\sigma)}{E}$$

$$n = \left(Z^{Q}/_{2} . (\sigma)\right)^{2}$$

Where: n is the sample size

ZQ/2 is the critical value

(σ) the standard deviation of the population

E margin of error

A 95 % confidence level is used and a margin of error of 0.05

Stratified sampling was used to filter the elements in the population based on proportional stratums' share of the entire population and then to pick appropriate number of sample from each stratum in order to provide adequate and diverse information required for the study. Convenience sampling was further used to

select the banks from each strata based on their capital base. For the stratification purposes, the IMF report that divided the banks into four strata after consolidation in Nigeria was used and out of the 25 banks a sample was selected (Morgan, 2008).

Later toward the end of 2007, Stanbic Bank and IBTC merged to form Stanbic IBTC Bank, reducing the DMBs to a total of 24. Using elevation factor and sampling factor, the proportion of banks to be selected from each of the four strata was arrived at, hence we have 3, 4,2and 1 banks from strata 1, 2, 3, and 4 respectively. The banks selected are First Bank of Nigeria, UBA, Oceanic, Access, IBTC, PHB, Wema, FCMB, SKYE, and CITI Banks.

Sources and Method of Data Collection

Data for this study was collected from secondary source through the instrumentation of publications from the Banks, journals, magazines, business dailies, CBN and NDIC Publications and NSE facts book.

Statistical technique for Data Analysis

Paired sample t-test was used to test the hypothesis formulated earlier on.

VI. DECISION RULE

If the p-value is greater than 0.05, null hypothesis should not be rejected and the result adjudge not statistically significant. If p-value is less than or equals 0.05 but greater than 0.01, null hypothesis should be rejected and result is said to be significant at 5 percent level. If the p-value is less than or equal to 0.01 null hypothesis is rejected and the result is said to be significant at 1 percent level. Alternatively, if the calculated value is greater than the table value, at a confidence level of 95%, we reject the null hypothesis for the paired sample t-test and if otherwise, we fail to reject the null hypothesis.

VII. ANALYSIS OF RESULTS AND FINDINGS

In this section, a descriptive analysis of the datasets of all the variables of the study is given. The analysis is then followed by test of the hypothesis that relate to each dataset and discussion of the result obtained there from.

Consolidation and Non-Performing Loans

The table 4.1 below contains the dataset for non-performing credit ratio extracted from various individual banks' annual reports from 2002 to 2008.

Table 4.1: Non-performing Credit Ratio

Year	Total Credit N million	Non-performing Loans N million	Proportion of Non-performing Loans %
2002	212,737	32,392	15.2
2003	247,783	49,980	20.2
2004	315,060	61,636	19.5
2005	426,830	73,286	17.2
2006	677,565	76,029	11.2
2007	1,472,088	97,912	6.6
2008	2,639,745	116,950	4.4

Source: The selected banks annual reports various issues

From the table 4.1 above, the proportion of non-performing loans to total credits is higher before the consolidation period. Even though the pre consolidation period recorded fluctuating figures, the values are higher than those of the post consolidation period in all cases. In the post consolidation period however, non-performing loans experienced downturn throughout from 11.2 percent to 6.6 percent and then to 4.4 percent in 2006, 2007 and 2008 respectively. Despite these dwindling reported proportions of non-performing loans over the period of the study, the figures are considered adequate as they all have passed the minimum acceptable criterion set by the CBN of not more than 20 percent level, for an asset quality to be adjudged as fairly unacceptable.

To test the first hypothesis that consolidation has no significant impact on non-performing loans of banks in Nigeria, a test was carried out using SPSS and the summary of the output is presented below.

Table 4.2: Paired Samples Test for Non-Performing Loans

	Paired Differences					***T***	***df***	***Sig. (2-tailed)***
	Mean	***Std. Deviation***	***Std. Error Mean***	***95% Confidence Interval of the Difference***				
				Lower	***Upper***			
Pre Consolidation Non-performing Loan – Post Consolidation Non-performing Loan	***-34429.667***	***7558.562***	***4363.938***	***-53206.177***	***-15653.157***	***-7.890***	***2***	***.016***

Source: Author's computation from SPSS Output

Table 4.2 shows that the mean value and standard deviation of non-performing loans for the two periods; pre and post consolidation is -34429.67 and 7558.56 respectively; while the t-value from the paired sample t-test result is -7.890. The p-value is 0.016, which indicates significant relationship at 5 percent.

The result provides enough evidence for the null hypothesis to be rejected, that consolidation has no significant impact on nonperforming loans of banks in Nigeria. In other word, the result shows that there is significant difference between pre and post consolidation non-performing loans for banks in Nigeria. The result is consistent with the finding of Karabulut and Bilgin (2007) and Hu, Li and Chiu (2004).

Policy Implications

First, the enhanced liquidity through raising the minimum capital requirement has positively affected non performing loans of banks in Nigeria; this is so because as the quantum of loanable funds increases, the tendency or frequently of certain facilities becoming non-performing might be high, further to sustain their position, banks venture into nonbanking businesses worsening the asset quality, therefore, the regulatory authority need stringent measures for tackling the non performing loans loss especially that nonperforming loan has strong correlation with banks profitability and dilution of the capital base.

VIII. CONCLUSIONS

The following conclusions are hereby drawn from the findings;

First, that there is a significant positive relationship between consolidation and nonperforming loans. It also establishes that consolidation exercise, credit policies and administration were not adequate enough to prevent non performing credits. The finding shows that although the non- performing loan ratio declines (decreases) after consolidation but the actual Naira value of non performing credits increases possibly due to diversification of banks activities into all sectors.

Secondly, the intermediation role of banks has not improved credit creation by bank after consolidation. It was also discovered that there is dearth of knowledge and professionalism in the manner and way the banks accounts are Prepared.

It is pertinent to state here, that High quality asset supports a capital structure, low quality assets results in loss threaten liquidity and impair solvency. The higher the asset quality the less need for a high capital base and vice versa, hence need for sound asset quality.

RECOMMENDATIONS

It is recommended that:

1. Regular review of minimum capital requirements becomes imperative as it will reduce moral hazards and also serve as an early detector and make problem bank easier to recapitalize or sell at right time. Likewise the prudential guidelines should be reviewed frequently. More so, that there is significant positive relationship between consolidation and non performing loans.
2. Stringent Penalties or laws should be promulgated for non disclosure of insider credit by banks. Despite their existence most banks refuse to report same.
3. The establishment of asset Management Company of Nigeria (AMCON) should be applauded; however, it should be carried out with extra cautions; while acquiring or mopping up the toxic assets from banks. Because even though there is significant positive relationship between consolidation and nonperforming loans, some non performing credit were given on "personal guarantee" basis and hence not collaterised, while in some cases a single asset is fledged for two or more facilities.
4. Banks in the economy should not venture into all sectors of the economy but resort to niche banking, where focus is purely on banking activities. This will reduce the sporadic nature of credits being created and or guaranteed.

5. The apex bank should enforce the employment of right caliber of staff in the banking industry to enhance efficiency and professionalism. As most of problem of poor asset quality has their root in ignorance by the operators and the regulators.
6. Attestation: Auditors should be required to refrain from the blanket opinion of "true and fair view" but to categorically make mention and report their findings on asset quality.
7. The individual banks on their part should develop more robust internal credit policies to check the level of their credit risk exposure, in line with CBN prescribed minimum limit.

Sound and safe banking environment generates investments and consequently jobs creation thereby ensuring National security and sustainable development for better transformation Agenda in Nigeria

REFERENCES

[1]. Adam A.J (2003) "Predicting Banks crisis in Nigeria (1986 – 2001) "The Abuja management Review Vol.1, Issue No. 3, Septembe

[2]. Ajayi, M. (2005) Banking Sector Reforms and Bank Consolidation: conceptual framework. Bullion Vol. 29 No.2 (2-9)

[3]. Allen N. Berger (1996) Bank liquidity creation and risk taking during distress, Discussion paper series 2: Banking and Financial studies No. 05/2010.

[4]. Babihuga, R (2007) Macroeconomic and Financial soundness indicators: An Empirical investigation, IMF working papers.

[5]. Banaccorsi di Patti E and Gobbi (2003): The effect of bank mergers on credit availability: Evidence from corporate data.

[6]. Banking supervision Department (2001)

[7]. Bello, Y.A. (2005): Banking System consolidation in Nigeria and some regional experiences: challenges and prospect, Bullion Vol. 29 No. 2 46-53.

[8]. Berger, Allen N., Rebecca S., A. Philip E., (1999) "The Consolidation of Financial Services Industry: Causes, consequences and implications for the futures, "Journal of Banking and Finance; Vol. 23 PP. 135-94

[9]. Berger, N.A. (1998) "THE efficiency effects of Bank Mergers and Acquisition: A preliminary look at 1990, Data in Bank Merger and Acquisitions, eds. Y. Amihud and G. Miller. Amsterdam: Kluwer Academic Publishers.

[10]. Demirgur - Kunt A and H.E Detragiache (1999) 'Monitoring banking sector fragility: A multivariate logit Approach "IMF working paper 99/147, (Washington: International Monitoring Fund).

[11]. Donli, J.G. (2004) Causes of Bank Distress and Resolution options; in Nigeria financial sector stability, issues and challenges, Bullion, Vol. 28 No. 1

[12]. Ebhodaghe, J.U. (1992) "Bank Rehabilitation" The Nigerian experience, NDIC quarterly Journal, Vol. 2 No.3

[13]. ECB --- European Central Bank, Consolidation in central counter party clearing in euro area. Monthly Bulletin August (2001)

[14]. Ezeoha, A.E (2011) "Banking Consolidation, credit crisis and asset quality in a fragile banking system: Some evidence from the Nigerian data" Journal of financial Regulation and compliance, vol.19 Lss: 1, pp 33-44

[15]. Fofac, H (2005) "Non- performing Loans in sub-Saharan Africa, Causal Analysis and Macroeconomic

[16]. Ferguson, R.W. (2003) Basel II "A Case Study in "Risk Management". Risk Management Workshop for Regulation, Washington D.C.

[17]. Hamman, HM, Umar, F. I., Nwozu C.P and Nwolisa, C.V (2004) A case study of distressed Banks in Nigeria, CBN.

[18]. Hu, J.Y. Li and Chiu, Y. (2004) " Ownership and Non-performing loans: Evidence from Taiwan's Banks" The Developing countries, XLII-, pg 405-420

[19]. Karabulut, G and Bilgin, M. H (2007) "Sources of Non-performing loans in Turkish Banking System" Journal of Business and Economics Research, vol.5,No. 10

[20]. Nigeria Deposit Insurance Corporation (1986 and 1988) Annual Report, Nigerian Deposit Insurance Corporation.

[21]. Noy, I. (2005): Banking Crisis in East Asia: The Price Tag of liberation. Asian Pacific issues, East West Centre No. 78.

[22]. Ogubunka, U. M. (2005) Banking Sector returns and Bank consolidation: The experience of Turkey, the Bullion vol. 29 No. 2, Pg 16- 24

[23]. Okigbo, P.M.C. (1951): Nigerian's Financial System, Longman Group.

[24]. Okigbo, PMC (1981) Nigeria financial system, Longman Group.

[25]. Robert, Z (2002) Policy implications from the second forum on Asian insolvency Reform Proceedings Philippine

[26]. Sabari, M.H. (2011) Risk and Uncertainty as Determinant of size of consolidated banks in Nigeria.

[27]. Soludo, C. (2005) Rationale for Mergers and Acquisition. Business Day Jan. P. 15

[28]. Soludo, C. (2006): Rationale for Mergers and acquisition. Business Day Jan, No.5

[29]. Sundarajan, V. R. Bakino, T. (1991) Banking crises: cases and Issues, international monetary Fund, Washington D.C.

[30]. Wariboko, N. (1995) Principles and Practice of Bank Analysis and Valuation. Spectrum Book Ltd, Sunshine House, Ibadan, Nigeria.

[31]. Yixin, H (2005) The Nm-performing loans: some bank level evidences, corresponding author department of Economics University of Birmingham, Edgbaston Birmingham.

[32]. Zwillinger, D. (1995) Standard Mathematical Tables and Formulae, Chapman &Hall/CRC

[33]. Websites:

1. www.st.louisfed.org.