PERFORMANCE EVALUATION OF NIGERIAN COMMERCIAL BANKS: BEFORE AND AFTER CONSOLIDATION

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Abstract

A banking consolidation programme aimed primarily at correcting deficiencies in the financial sector and to put Nigerian banking industry on the part of global competitiveness was introduced in Nigeria in 2005. This study attempts to evaluate the performance of Nigerian banks before and after that consolidation exercise. The major components of assets and liabilities of banks from 2004 – 2009 were extracted from the aggregated balance sheet structure of the banking system sourced from the CBN annual reports. The major performance variables analyzed were capital adequacy, asset quality, liquidity and management efficiency. The period 2004-2005 was designated the pre consolidation era, while 2006 – 2009 was deemed the post consolidation period. The statistical tool applied in testing the hypotheses was the t-test, which helped to ascertain whether there was a significant difference in the performance of banks before and after consolidation. The result shows that consolidation has improved the performance of the Nigeria banking industry in terms of asset size, deposit base and capital adequacy. However, the profit efficiency and asset utilization efficiencies of the banks have deteriorated since the conclusion of the consolidation programme. The paper recommends that banks should try to avoid weak balance sheets and inadequate corporate governance. The research posits further that consolidation of banks may not necessarily be a sufficient tool for achieving financial stability for sustainable development. There is need to begin to develop a new framework for achieving financial sector stability rather than relying on banking consolidation policy. This is because banking consolidation in Nigeria as in many other countries has not proved to be reliable panacea for bank failures and crisis.

INTRODUCTION

The Nigerian banking sector has gone through different phases of banking operations, which could be classified into seven phases namely unguided/laissez-faire phase (1930-1959), control/indigenization era (1960-1985), de-control/market deregulation (1986-1993), guided deregulation (1994-1998), universal banking era (1999-2003), consolidation era (2004-2008) and post-consolidation era 2009 to date. During each of these periods, the basic operational mandate of banks ranging from deposit mobilization, credit creation, promotion of a payment system, execution of monetary policies, agency functions and other miscellaneous functions remained the same. However each phase in this process of banking development could be associated with different approaches to the discharge of these functions.

Before the then CBN governor Prof. C.C. Soludo announced a major bank recapitalization programme on July 6, 2004, many banks had exhibited several weaknesses including under capitalization, illiquidity, weak/poor asset quality and poor earnings (Onwumere, et al, 2006). The programme was primarily introduced to firm up bank capitalization because a strong capital base helps banks to absorb losses arising from non-performing liabilities (Ajayi, 2005). Twenty five commercial banks that attained the capitalization requirement of 25 billion naira through consolidation emerged out of the 87 banks that were in existence at the end of 2004.

Though the consolidation of banks in Nigeria resulted in a decrease in the number of non-performing banks, decrease in non-performing loans, increase in bank branches, increase in total asset of banks, increase in total deposits, and increase in net interest margin. The huge recapitalization capital inflow to banks did not guarantee banking sector stability for a reasonable period. Despite all the admitted improvements, return on equity (ROE) was lower in Nigerian banks than what obtained in some other countries (IMF Report 2008). These and other problems led to a major banking reform in August 14, 2009, when eight of the 24 banks were found to be in grave conditions of illiquidity, capital inadequacy and poor corporate governance (Sanusi, 2009).

In executing the 2009 reform programme, the CBN injected the sum of N620 billion into the eight banks found to be non-performing in a bid to stabilize their operations. The banks that made some profits obviously were not affected. For instance, Zenith Bank Plc reported N20.6 million profit after tax in 2009 (Zenith Bank 2009 Annual Report), and First Bank Plc reported up to N35.074 billion in the same period (First Bank Annual Report). The issues raised above underscore the need for a thorough evaluation of the performance of the banking industry in Nigeria.

One key indicator of bank performance is the net margin on loans and advances. Since interest on loans and advances constitute the major turnover of banks, the net margin on loans and advances has direct impact on bank profit performance. Other performance indicators are return on equity (ROE), which is a relevant measure of equity investors` residual claims of corporate income. It is the relevant profit indicator which assesses overall profit performance. Other indicators include, the return on assets (ROA), return on investment (ROI), and a banks ranking on the CAMEL rating system. The CAMEL rating system, which is adopted by the Bank for International Settlement, is an acronym for capital adequacy, asset quality, management efficiency, earnings strength (profitability) and liquidity.

The main objectives of this paper is to evaluate the overall performance of banks, based on the above indicators before and after the last consolidation exercise in order to determine the performance impact of the consolidation programme. To do that, two hypotheses were formulated to be tested in the null form.

1. Consolidation programme has not significantly improved the overall performance of Nigerian banks.

2. The operational efficiency of the banking industry has not improved significantly after consolidation.

THEORETICAL AND CONCEPTUAL ISSUES

Banking consolidation is a popular policy instrument, adopted by many countries to address deficiencies in the financial sector. It has been applied in such countries as Yugoslavia, Japan, United States of America, Malaysia as well as a number of African countries. Whereas the impact of consolidation on the banking structure of these countries has been obvious, its impact on bank performance has been mixed. Berger (1998) and Akhavein, et. al. (1997) argue that consolidation gives banks the opportunity to merge and bank mergers are not just about adjusting inputs to affect costs; rather, but also involves adjusting output (product) mixes to enhance revenues. Consolidation was identified as a key means of achieving capital adequacy in line with regulatory stipulations as well as raising the competitive advantage and strategic positioning of banks.

The CBN in 2004 raised the minimum capital base of banks from N2 billion to N25 billion with the maximum implementation period of 18 months. The aim was to integrate the Nigerian banking sector into the global financial architecture, and also evolve a banking sector that is consistent with regional integration requirements as well as international best practices (Ajayi, 2005). The increased capital base required of banks created the need for high level consolidation through mergers and acquisitions. The studies of Berger (1998) and Akhavein, et. al. (1997) reveal that a bank merger is associated with improvement in overall performance. However, overall performance of banks or the strength of a bank depends primarily on the sources of capital funds available to it, quality of corporate governance, and the growth prospects. It also depends on liability management and the investment portfolio management of such funds.

Capital adequacy refers to the level of unimpaired capital resources needed by a bank to sustain its operations. Under the consolidation programme banks that are not able to attain a minimum paid up capital of N25 billion are deemed undercapitalized. Apart from this requirement, the banking laws stipulate that banks must build up statutory reserves out of net profits before declaring dividends. The provision seeks to compel banks to build up adequate capital and thus, enhance the operational environment of the banks, their earning potentials and the protection of depositors.

Bank capital comprises two components namely tier one and tier two capital funds. Tier one capital fund refers to equity capital, which consists of share capital, share premium reserve, statutory reserve, bonus issues reserve and general reserve. The International standards requirement is that it should constitute not less than 50% of total bank capital. Tier two capital fund is supplementary capital which is made up of undisclosed reserves, asset revaluation reserves, general provision loss reserves, loan stock, debentures and preference shares. Capital adequacy is measured using two principal ratios i.e. ratio of classified loans and advances to share holders` fund; and ratio of capital to risk-weighted assets. The first ratio defines capital adequacy from the perspective of capital cover for a bank`s non-performing loans, while the second one defines capital adequacy from the standpoint of risky assets, i.e. assets whose reliability is doubtful. Adequate capital cover enables banks to hedge against risks even in the event of liquidation.

Banks as well as their inspectors are generally concerned about the level of risk exposure and hence the level of asset quality. Asset quality is measured in different ways. The first one is the ratio of classified loans and advances to total loans and advances. The recommended maximum fixed by the monetary authority is 80%. The second one is the ratio of performing loans and advances to total loans and advances. This ratio when high is an indication of good quality assets. The third one is the ratio of loan loss provision to non-performing loans. This ratio shows the extent to which delinquent loans have adequately been provided for. The fourth one is loan loss provision over gross loans and advances. This ratio shows the extent of deterioration of asset quality.

It is true that loans and advances are important output for bank profitability but they could also create disastrous problems for a bank. Such problems include illiquidity, default risk, inflation or purchasing power risk and exposure to bad publicity. If a borrower delays repayment or defaults completely, a bank could face a liquidity problem or may miss other attractive investment opportunities. Interest rates on loans are normally fixed, and can depreciate in real terms with every upward movement of the inflation rate. In this respect, a bank is exposed to inflation or purchasing power risk. In an attempt to recover its loans, a bank may decide to prosecute its loan defaulters and this could expose the bank to bad publicity.

Researchers have expressed divergent views on the importance of different performance variables. For example, Lewis, et. al. (1972) regard profit as the evidence that corporate operations have yielded an increase in national wealth. Okafor (1984) regard profit as a reward for past efforts and a necessary inducement for future investment efforts. The reward in this context implies earnings, while inducement for further investment efforts may imply making efforts to invest on assets that produce the highest rate of return for the level of risk assumed. However, profitability in the banking industry is closely associated with banks` ability to stand up to creditors demand. From the perspective of customers, banks which are liberal in granting loans and advances are deemed to be performing well (Wood and Porter, 1979). The relevant measure of profit is of course the after tax profit (PAT) because that is the variable which represents the residual income available to the owners of a business. Return on asset is regarded as a good indicator of management`s ability to generate income from available resources entrusted to it by owners and creditors of a firm. Reed, et. al, (1980) have argued that the return on asset (ratio of profit before taxes to total assets) constitute the best indicator of bank profitability. Okafor (1985) in his study of Transnational Banks in Nigeria applied three profitability indicators namely return on assts, return on equity and return on loans in evaluating profit performance but gave greater prominence to the return on assets.

The return on investment (ROI) is a profitability ratio which relates profits to shareholders` and creditors` long term funds. Other things being equal, higher levels of capital employed should yield higher levels of profit. At times, the situation turns out differently because of sub-optimal utilization of bank resources by bank management. Effective management endeavours is required to acquire the right type of asset to yield the highest rate of return, and maintain optimal balance between the cost of capital and the return from the investment. The issue is not simple for bank managers because the management of bank assets is constrained by factors other than profitability. Bank managers are further constrained to maintain a delicate balance between the needs for liquidity and the demands for profitability. The constrain arises because operational actions of bank managers which promote profitability often endanger the liquidity position of the bank. Further more, commercial banks in Nigeria are constrained by provisions of the Banks and Other Financial Institutions Act (BOFIA) which specify the relative structure of assets to be maintained by banks. For instance banks are required to maintain a specified level of liquidity ratio at each point in time which is defined as the minimum ratio of banks` deposit liabilities that must be held in the form of liquid assets.

The return on equity is the ratio of after-tax-profit to equity shareholders` funds. It assesses profitability from the perspective of a firm`s risk takers – the holders of equity interest. Inanga (1985) had argued that a high return on equity ratio suggests high profitability that attracts competition into the line of business and therefore ultimately reduces future returns. Based on that scenario, Okafor (1984) argues that in a competitive economy, a bank can only achieve a relatively high ROE if it has maintained an optimum liquidity position, has employed optimum financial leverages, has achieved optimum turnover, and has controlled costs effectively. Since equity shareholders are the residual claimants of corporate income, any measure which affects ROE must necessarily have direct impact on every other profitability indicators.

Although, equity shareholders have residual right over total profit after tax, the actual cash income received by them is only that part of earnings that is distributed as cash dividend. High dividend payout rate could suggest high profit performance, but the board of directors, who has ultimate responsibility for dividend policy could opt for a dividend policy that is inconsistent with the profit performance of a company. A company may decide to retain its earnings for re-investment in the firm. In such a case, dividend would not be paid out even if the company had made substantial earnings (Miller and Modigliani, 1961 and Gordon, 1959). Brigham (1985) is of the opinion that a rise in profit performance particularly as evidenced by high dividend payout rate often gives rise to a proportionate increase in the market value of the share.

Bank performance also depends on the level of efficiency exhibited in the application of human, financial and material resources available to a bank. In managing the resources available to a bank, bank managers face several risks such as liquidity risks, earnings risks, operating risks, credit risks, interest rate risks, investment risks, foreign exchange risks, fraud risks and loss of confidence risks. It is important to mention that banks operate on the premise of minimizing risks. However a bank that endeavours all risks cannot adequately serve the credit needs of its customers or respond appropriately to the demands of economic development. On the other hand, a bank that takes excessive risks would easily run into liquidity crisis and capital adequacy problems. Most often, management efficiency is affected by several indices like professional competence, cost control ability, level of cognitive initiative exhibited by management in responding dynamics of the economic environment, ability to comply with established internal and external checks and balances, ability to motivate and retain talents, ability to drive the organization to higher earnings.

One key factor which impinges on bank efficiency and profitability is the extreme dynamism of the banking regulatory environment. Very often government changes policy directives very suddenly, and sometimes rather violently. In recent times, many areas of banking operations have been visited with varying degrees of reforms. Major areas so far affected include the minimum capital requirement of banks, methods of access to foreign exchange, determination of foreign exchange rates, composition of bank credit mix and the imposition of a common end of year reporting date (31st December) on all banks. Similarly, the introduction of the International Financial Reporting System and the revised (2010) prudential guideline has increased the operational problems of many banks. The deregulations of interest rates have affected the sourcing cost of funds for bank and consequently the profit margin of banks.

METHODOLOGY:

The banking industry exists primarily to provide funding and other financial services for economic growth and development. The current banking sector reforms in Nigeria were basically designed to promote among other things the viability, soundness and stability of the economic system, to enable the commercial banks to adequately promote accelerated economic growth and development and also to put the Nigerian banking industry on the part of global competitiveness, and to enable it effectively respond to the challenges of globalization. Different parameters are normally applied in evaluating bank performance. For instance, Akhtar (2007) adopted the impact of banking on national economic growth as the index of banking performance. Mohan (2005 a & b) defined banking performance in terms of the productivity/efficiency ratings while Nandy (2010) adopted profitability as the key index of performance. In Nigeria, the CBN and Nigeria Deposit Insurance Corporation (NDIC) apply the CAMEL rating system which is adopted in this paper. The CAMEL rating system, which was developed by the Bank For International Settlement (BIS) assesses banking performance with a composite of five variables namely capitalization, asset quality, management efficiency, earnings and liquidity.

Commercial banks operating in Nigeria from year end 2004 to 31st December 2009 were studied. The period was segmented into two sub periods, a pre-consolidation period (2004-2005) and a post-consolidation period (2006-2009). Data were collected from the annual reports and accounts of the Central Bank of Nigeria as well as the summary from the operating statistics of 20 of the 21 banks quoted on the Nigerian Stock Exchange as published by the NDIC. The variables on which data were collected include total asset and total liabilities of the banks as well as the income statement. The techniques of data analysis adopted comprised descriptive, quantitative, qualitative and comparative approaches, while the statistical tool applied in testing the hypothesis is the t-test. The test statistic was used to determine whether there is significant difference in the level of performance of banks before and after consolidation.

The test statistic is defined as follows:

$$t_{n-1} = \frac{\bar{D}}{\frac{S_P}{\sqrt{n}}} \text{ with (n-1) degrees of freedom}$$

Where $D = \frac{\sum D_1}{N}$

$$Sp = \sqrt{\frac{N\sum_{i=1}^{n} D_1^2 - \left(\sum_{I=1}^{n} D_1\right)^2}{n\,(n-1)}}$$

N - Sample size

Sp = Standard deviation

D_1 = Different between the value in pre consolidation and value in post consolidation

The 1% degree of significance was adopted for testing the hypothesis.

DATA PRESENTATION AND ANALYSES

The major components of assets and liabilities of banks from 2004 – 2009 were extracted from the aggregate balance sheet of the banking system sourced from the CBN reports. The major variables analyzed were capital adequacy, asset quality, liquidity and management efficiency.

Table 1: **AGGREGATE BALANCE SHEET STRUCTURE OF THE BANKING SYSTEM PRE CONSOLIDATION**

ASSETS	**30TH September 2005**		**31sth December 2004**	
	N Billion	%	N Billion	%
Cash and due from banks	1,034	23.56	935	27.56
Call and placement	230	5.24	102	3.01
Government security	65	15.15	573	16.89
Short-term funds	238	5.42	104	3.07
Advanced/Leases (Net)	1477	33.65	1,133	33.39

Investments	194	4.42	105	3.09
Other Assets	368	8.38	281	8.28
Fixed Assets	183	4.17	160	4.72
Total (Net)	4,389	100	3,393	100
Liabilities				
Total Deposits	2,546	58.01	1,797	52.96
Money at call and taking	70	1.59	54	1.59
Due to other banks	57	1.30	47	1.39
Other borrowed funds	67	1.53	61	1.80
Other liabilities	1,090	24.86	1,080	31.89
Long-term loans	4	0.09	3	0.09
Paid up capital	171	3.90	141	4.16
Reserves	383	8.73	210	6.19
Total	4,399	100	3,393	100
Off balance sheet items	859	100	664	19.57
Number of banks	86		87	

Sources: Central Bank of Nigeria, Annual Reports and Accounts 2004 - 2005

TABLE 2: AGGREGATE BALANCE SHEET STRUCTURE OF THE BANKING SYSTEM POST CONSOLIDATION

ASSETS	**31st Dec. 2009**		**31st Dec. 2008**		**31st Dec. 2007**		**31st Dec. 2006**	
	NB	**%**	**NB**	**%**	**NB**	**%**	**NB**	**%**
Cash & due from banks	2,688	17.93	2,891	18.84	1802	17.21	2066	30.66
Call and placement	1320	8.8	1224	7.98	438	4.18	135	2.00
Government securities	722	4.8	792	5.16	1584	15.13	1048	15.55
Short-term loans	840	5.6	929	6.05	491	4.69	263	3.90
Advanced/leases (Net)	5,880	39.23	6170	40.21	3802	36.32	2081	30.88
Investments	1140	7.6	1356	8.84	892	8.52	430	6.38
Other Sssets	1890	12.6	1411	9.20	1006	9.61	450	6.68
Fixed Assets	540	3.6	570	3.72	454	4.34	265	3.93
Total (Net)	14990	100	15343	100	10469	100	6738	100
Liabilities								
Total Deposits	7607	54.13	8703	56.72	5363	51.23	3442	51.08
Money at call and taking	615	4.38	567	3.70	254	2.43	57	0.85
Due to other banks	206	1.47	226	1.47	198	1.89	689	10.23
Other borrowed funds	1	0.01	1	0.01	1	0.01	67	0.99
Other liabilities	3320	23.6	2740	17.86	2685	25.65	1441	21.39
Long-term loans	115	0.82	317	2.07	257	2.45	1	0.01
Paid up capital	230	1.64	211	1.38	153	1.46	170	2.52

Reserves	1958	13.94	2578	16.80	1558	14.88	871	12.93
Total	14052	100	15343	100	10469	100	6738	100
Off balance sheet items	4818	25.54	3918	25.54	2581	24.65	1380	20.48
Number of bands	24		25		25		25	

Source: Central Bank of Nigeria Annual Reports and Statement of Accounts 2006-2009

Note: NB = Naira billion

Analyses of the data in tables 1 and 2 indicate that total assets of the 87 banks operating in Nigeria in 2004 prior to the consolidation programme was N3393 billion. After the consolidation, it rose to a peak of N15,343 billion in 2008 before dropping to N14,990 billion in 2009. The annual growth rates of the assets were 22.58% in 2004, 29.35% in 2005, 53.52% in 2006 and 55.37% in 2007, while rate of drop was 46.56% in 2008 and 46.44% in 2009. However, the average asset size per bank which was N36 billion in 2004 grew astronomically to N639 billion in 2008 within four years after the consolidation exercise. This was an impressive performance.

The tables also indicate that total deposits was N1797 billion in 2004, N2546 billion in 2005, N3442 billion in 2006, N5363 billion in 2007, N8703 billion in 2008 and N7607 billion in 2009, representing annual growth rates of 53.3%, 58%, 60.5%, 71% , 71% and 77% respectively.

Five key indicators were adopted in evaluating the relative performance of the banks over the two periods. The measures are (i) the trend in the level of aggregate bank credit (ii) the ratio of aggregate bank credit to deposits (iii) the ratio of non-performing credit to total credit (iv) the ratio of bad debts provision to total credit, (v) profit and asset utilization efficiencies as indicated by the return on equity and return on assets. The trend in these indicators is presented in table 3.

Table 3: **PERFORMANCE INDICATORS OF NIGERIAN COMMERCIAL BANKS (2004-2009)**

Measures	2009	2008	2007	2006	2005	2004
Total Deposits	N7607	N8703	N5363	N3442	N2546	N1797
Ratio of aggregate credit to aggregate deposit	77%	71%	71%	60.5%	58%	55.5%
Total credit (Net)	N5880	N6170	N3802	N2081	N1477	N1133
Non-Performing credits	N620	N464	N388	N222	N357	N316
Ratio of non-performing credits to total net credits	10.5	7.5	10.2	10.6	24.1	27.8
Provision for bad and doubtful debts	N390	N370	N308	N133	N283	N256
Ratio of Bad debts provision to total credits	6.6	6.1	8.1	6.3	19.1	22.6
Ratios measuring Operating Efficiency						

Interest Margin	53.12	54.80	52.25	60.15	54.37	55.87
Return on assets	3.81	3.95	3.89	1.61	1.85	3.12
Return on Equity	21.76	22.01	23.84	10.60	12.97	27.35
Operating cost efficiency	36.66	31.77	65.90	71.43	39.97	77.03

Source: Computed from tables 1 and 2 and NDIC Annual Reports and statement of Accounts for the various years.

A close examination of table 3 as well as aspects of tables 1 and 2 indicates as follows:

(i) Total bank credit showed a positive trend in the post consolidation era though not consistent. It improved from N1133 billion in 2004 to N1477 billion in 2005, to N2081 billion in 2006, N3802 billion in 2007 to N6170 billion in 2008 and dropped to N5881 billion in 2009.

(ii) The ratio of aggregate credit to aggregate deposits was 55.5% in 2004, 58.5% in 2005, and 60.5% in 2006, and was flat at about 71% between 2007 and 2008 and further increased to 77% in 2009. The levels however indicated increased, but were below the maximum recommended ratio of 80%.

(iii) Non-performing credits have worsened in the post consolidation era. It grew from N316 billion in 2004 to N357 billion in 2005 representing an average of N337 billion in the pre consolidation era as compares to N222 billion in 2006, N388 billion in 2007, N464 billion in 2008 and N620 billion in 2009. The trend over the period 2008 and 2009 is certainly worrisome.

(iv) Provision for bad and doubtful debts grew from N256 billion in 2004 to N390 billion in 2009. Similarly, non-performing credits to total net credit grew from 2.9% in 2004 to 10.5% in 2009 while the ratio of bad debt provision to total credits was 22.6% in 2004, 19.1% in 2005, 6.3% in 2006, 8.1% in 2007, 6.1% in 2008 and 6.63% in 2009. These ratios indicate a steady decay in the quality of bank assets as represented by total credit.

(v) The table also indicates, the profit efficiency and asset utilization have not been impressive, though the banks improved marginally on gross earnings from their pre consolidation performance level. Their profit and asset utilization efficiencies ratings declined in the post consolidation period. For instance, the industry return on equity declined from 27.35% in 2004 to 10.6% in 2006 while return on asset declined from 3.12% to 1.61 within the same period.

HYPOTHESES TESTING

The primary task in this paper is to test the contention that the consolidation programme has improved the overall performance of banks in Nigeria. The hypotheses formulated in section one is restated as follow:

1. Ho: Consolidation programme has not significantly improved the overall performance of banks in Nigeria and therefore, the efficiency of operations in the banking industry has not improved significantly after consolidation.

   Hi: Consolidation programme has improved the overall performance of banks in Nigeria, and therefore, the efficiency of operations in the banking industry has improved significantly after consolidation.

The alternate hypothesis will of course, be accepted if the null hypothesis is rejected.

TABLE 4: TEST OF PERFORMANCE DIFFERENCE PRE AND POST CONSOLIDATION

	#Banks	SD	df (n-1)	t- Statistic	Sig.
Assets	20	517.82	19	-2.04	.01
Liabilities	20	554.48	19	-1.902	.01

Percentage point of t-distribution at 1% level of significance

The test statistics show that t = -2.04 (in terms of asset) and t = -1.902 (in terms of liability). They are both greater than -2.538 (percentage point of t-distribution at 1% level of significant). The null hypothesis is therefore accepted. Since the null hypothesis has been accepted, it would therefore be concluded that consolidation programme has not improved the overall performance of banks significantly.

There are two possible explanations for this. The first is that banks were not sufficiently prepared to effectively manage the unexpected upsurge in capitalization which led to sub-optimal investments and the measure granting of loans to dubious customers with poor credit history. The second reason is the global financial crisis of 2008 and 2009 which impacted negatively on most market economies including Nigeria.

CONCLUSION

The result of consolidation in Nigeria is a replay of what happened in other countries. The experience in other countries is that banking consolidations induced by government rather than market forces merely create cosmetic changes in the balance of banks without generating sustainable improvements in banking sector performance.

Consolidation has to a large extent improved the structure of Nigerian banking in terms of asset size, deposit base and capital adequacy. But it has not impacted positively on profit performance and asset utilization efficiencies of the banks which have declined since the conclusion of the programme. The analyses suggest that banking sector has not achieved the primary goals and policy expectations of consolidation.

Increasing competition in the banking sector and the greater impact of market forces have forced many banks to work extra hard to improve their balance sheets and adhere to better corporate governance principles. The research posits further that consolidation of banks may not necessarily be a sufficient tool for engineering financial stability for sustainable development. The paper recommends that researchers should begin to develop more pragmatic framework for financial sector stability rather than rely solely on the consolidation model.

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