EMPIRICAL INVESTIGATION OF IMPACT OF RECAPITALIZATION OF BANKS AS A PREDICATE OF BANK PERFORMANCE: A CASE OF NIGERIA

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ABSTRACT
The failure and weak capital base of the Nigerian banking sector questioned the effectiveness of the sector that is seen as one of the agent of financial stability and economic development in Nigeria. The Central Bank of Nigeria (CBN) recent reform to consolidate the banking sector through drastic increase to ₦25 billion as a minimum capital base has led to a remarkable reduction in the numbers of banks changed their mode of operation and their contribution to the economy, the research posits further that “Reforms of this nature such as consolidation of banks are one of the ways to improve the banking sector for financial stability and sustainable development. The dependent variable used was bank profitability while the independent variables were Return on Assets (ROA), Return on Equity (ROE), Non- performing loans (NPL), the purpose of this study was to find out the effect of recapitalization on the composition of banks in Nigeria, the varying level of bank profitability since 2008, the significant relationship between recapitalization and bank profitability, and the extent at which recapitalization has affected the banking sector. At the end of the research it was discovered that since the onset of recapitalization bank profitability has been on a persistent increase and recapitalization had caused greater good than harm in the banking sector.

Key words: Bank profitability, recapitalization, assets, banking sector, capital base, financial stability.

INTRODUCTION

Banking reforms have been an ongoing phenomenon around the world right from the 1980s, but it is more intensified in recent time because of the impact of globalization which is precipitated by continuous integration of the world market and economies. Banking reforms involve several elements that are unique to each country based on historical, economic and Institutional imperatives. In Nigeria, the reforms in the banking sector preceded against the backdrop of banking crisis due to highly undercapitalization deposit taking banks; weakness in the regulatory and supervisory framework; weak management practices; and the tolerance of deficiencies in the corporate governance behavior of banks (Uchendu, 2005).

Banking sector reforms and recapitalization have resulted from deliberate policy response to correct perceived or impending banking sector crises and subsequent failures. A banking crisis can be triggered by weakness in banking system characterized by persistent illiquidity, insolvency, undercapitalization, high level of non-performing loans and weak corporate governance, among others (Adegbaju & Olokoyo, 2008). Similarly, highly open economies like Nigeria, with weak financial infrastructure, can be vulnerable to banking crises emanating from other countries through infectivity.

Banking crisis usually starts with inability of the bank to meet its financial obligations to its stakeholders. This, in most cases, precipitates runs on banks, the banks and their customers engage in massive credit recalls and withdrawals which sometimes necessitate Central Bank liquidity support to the affected banks. Some terminal intervention mechanisms may occur in the form of consolidation (mergers and acquisitions), recapitalization, use of bridge banks, establishment of asset management companies to assume control and recovery of bank assets, and outright liquidation of non-redeemable banks. Bank consolidation, which is at the core of most banking system reform programs, occurs, some of the time, independent of any banking crisis (Ajayi, 2005).

Irrespective of the cause, however, bank consolidation is implemented to strengthen the banking system, embrace globalization, improve healthy competition, exploit economies of scale, adopt advanced technologies, raise efficiency and improve profitability. Ultimately, the 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 improved overall economic performance and societal welfare. The proponents of Bank consolidation believe that increased size could potentially increase bank returns, through revenue and cost efficiency gains. It may also, reduce industry risks through the elimination of weak banks and create better diversification opportunities (Berger, 2000).

On the other hand, the opponents argue that consolidation could increase banks' propensity toward risk taking through increases in leverage and off balance sheet operations. In addition, scale economies are not unlimited as larger entities are usually more complex and costly to manage (Adah, 2012). Banking sector reforms in Nigeria are driven by the need to deepen the financial sector and reposition the Nigeria economy for growth; to become integrated into the global financial structural design and evolve a banking sector that is consistent with regional integration requirements and international best practices. It also aimed at addressing

issues such as governance, risk management and operational inefficiencies, the centre of the reforms is around firming up capitalization (Ajayi, 2005).

Capitalization is an important component of reforms in the Nigeria banking industry, owing to the fact that a bank with a strong capital base has the ability to absolve losses arising from non performing liabilities. Attaining capitalization requirements may be achieved through consolidation of existing banks or raising additional funds through the capital market (Adegbaju & Olokoyo, 2008).

The primary objective of the reforms is to guarantee an efficient and sound financial system. The reforms are designed to enable the banking system develop the required flexibility to support the economic development of the nation by efficiently performing its functions as the pivot of financial intermediation (Lemo, 2005). Thus, the reforms were to ensure a diversified, strong and reliable banking industry where there is safety of depositors' money and position banks to play active developmental roles in the Nigerian economy.

The objective of this paper is to assess the relevancy of the recapitalization in the Nigerian Banking industry. This paper is divided into five parts. Part 1consists of introduction, statement of problem, research objective, hypothesis and significance of the study. Part 2 deals with review of relevant literature on bank reforms and recapitalization. Part 3 states the methodology that is used in gathering data and how the data were analyzed. Part 4 states the data presentation and discussion of result while part 5 states the summary, conclusion and recommendation.

Statement of the Research Problem

In the fact of age long systematic distress, the loose-grasp of authorized regulatory bodies, i.e. Central Bank of Nigeria (CBN), Nigeria Deposit Insurance Corporation (NDIC) etc on the administration, control and development of banks, the unethical and poor standards practices of the bank themselves gave rise to insecurity of depositor's demand, rampant liquidation and distress of banks, inability to give loans and fraudulent activities by employees due to a porous style of banking. A critical examination of these problems after the recapitalization policy has been effected, and gives rise to the following research questions; (i.) What has been the effect of recapitalization on the composition of banks? (ii.) What has been the varying level of bank performance from 2008-2012? (iii.) To what extent has recapitalization in the banking sector affected its performance? The research hypothesis for the study is: there is no significant relationship between recapitalization and bank performance.

The objective of the study includes: (i.) to determine the effect of recapitalization on the composition of banks, (ii.) to examine the extent of relationship if any, between recapitalization and bank performance, and (iii.) to determine to what extent has recapitalization in the banking sector affected its performance. The study is limited to UBA, First bank and Zenith bank which were operating in the banking sector before recapitalization and also met the ₦25 billion minimum requirements shall be studied. The study was conducted in 2014, covering the period between 2008 and 2012. All data were gotten from CBN, NSE for UBA, First Bank and Zenith's Banks Annual Report.

REVIEW OF RELATED LITERATURE

Theoretical and empirical review of the study

Globally activities of banks reflect their unique roles as the engine of growth in any economy (Cameroon, 1972). The banking sub- sector stands as a pivotal point within the confine of the financial industry due to its unchallengeable role in the process of financial intermediation, provision of an efficient payment system and serving as conduit for the implementation of monetary policy. Its role in economic development has been readily articulated as pioneer, who was of the view that financial institutions are necessary conditions for economic development which was later corroborated by other scholars like Goldsmith (1969), Cameroon (1972) and Patrick (1966).

The importance of the financial sector of an economy which comprises banks and non-banks financial intermediaries, the regulatory Framework and ever increasing financial products, in stimulating economic growth is widely recognized especially in developmental economic. Uboh (2005) sets the pace for the landslide of other units in the interdependent relationship between banks and economic growth. Stressing further the pioneering work of Gurney and Shaw (1956) in the relationship between real and financial development shows that financial intermediaries, monetization and capital formation determine the path and pace of economic development.

The Nigerian banking system has undergone remarkable changes over the years, in terms of the number of institutions, ownership structure as well as depth and breadth of operations. These changes have been influenced largely by challenges posed by deregulation of the financial sector, globalization of operation technological innovation and adoption of supervisory and prudential requirement that conform with international standards (Chude & Chude, 2014).

In Nigeria, the reforms in the banking sector preceded against the back drop of banking crisis due to highly under-capitalization, weakness in the regulating and supervisory framework, weak management practices and the tolerance of deficiencies in corporate governance behavior of banks (Uchendu, 2005). Banking sector reforms and reapplication resulted from deliberation policy response to correct perceived or impending banking sector crises and subsequent failures. A banking crisis can be lingered by weakness in banking system characterized by: (1) Persistent Illiquidity (2) Insolvency (3) Undercapitalization (4) High level of non-performing loans (5) Weak corporate governance among others (Adegbaju & Olokoyo, 2008).

Prior to the recent reforms, the state of the Nigerian banking sector was very weak. According to Soludo, the Nigerian banking system today is fragile and marginal. The system faces enormous challenges much, if not addressed urgently, could show ball into a crisis in the near future. He identified problems of the banks, especially those seen as feeble and weak as persistent illiquidity, unprofitable operation and having poor asset base (Onaolapo & Ajala, 2013).

Imala (2005) posited that the objectives of banking systems are to ensure price stability and facilitate rapid economic development. Regrettably, these object, have remained largely unattained in Nigeria as a result of some deficiencies in our banking system, these includes; (i.)

Low capital base, as average capital base of Nigerian bank was very low. (ii.) Large number of small banks with relatively few branches. (iii.) Dominance of few banks. (iv.) Poor rating of number of banks. (v.) Weak corporate governance evidence by inaccurate reporting and nun-compliance with regulating requirement. (vi.) Insolvency as evidence by negatives capital adequacy ratio of some banks. (vii.) Eroded shareholders fund caused by operating losses. (viii.) Interdependence in public sector deposits. (ix.) Foreign exchange trading. (x.) Neglect of small and medium scale price savers.

Soludo (2004) established that Nigeria banking sector plays marginal roles in the development of the real sector. He further observed that many banks appear to have abandoned their essential intermediation role of mobilizing savings and invalidating banking habit at the household and micro-enterprise level. The difference of banks towards small savers, particularly at the grassroots level, has not only compounded the problems of low domestic savings and high bank lending rate in the country but has also reduced access to relatively cheap and stable fund that could provide a reliable source of credit to the productive sector at affordable rates of interest.

Imala (2005) also comment that the current structure of banking system has promoted leniency towards rather sticky behavior of deposit rates, particularly at the retail level such that while banks lending rate remain high and positive in real terms, most deposit rates, especially those on savings are low and negative. In addition, savings mobilization at the grass roots level has been discourage by the unrealistic requirements by many banks, for opening accounts with them.

Recapitalization as a major banking reform

Capitalization is the structure of the capital of a company or other organizations, which is the extent to which its capital is divided into share or loan capital and the extent to which share capital is divided into ordinary and preference shares (Law & Smullen, 2008). Bank Capitalization is simply the act of applying long-term funds to a bout to place the bank on good stead-financial use to carry out the business of banking properly (Bello, 2005). Bank recapitalization is the act of beefing up the long-term ownership capital of a bank to the level required by the monetary authorities.

Soyinbo and Adekanye (1992) and Adam (2003), traced recapitalization to take its roots from bank failures. According to them, most banks in Nigeria failed as a result of inadequate capital base, mismanagement of funds, overtrading, lack of regulation and control, and unfair competition from the foreign banks. Thus, recapitalization is one of the banking reforms to tackle these problems. According to Omoruyi (1991), he opined recapitalization appears to be the main driving force of bank reforms. It focuses mainly on restructuring, rebranding and refurbishing the banking system to accommodate the challenges of bank liquidation. Obviously, adequate capital base is very crucial to the success of any bank.

Apart from its multiplier effect on the economy as a whole; it acts as a buffer and security for banks. Commercial bank must have enough capital to provide a cushion for absorbing possible loan losses, funds for its internal needs, and expansion and added security for depositors. Adequate capital increases the confidence and financial state of stock holders. Bank

regulators view it as an important element in holding government banking risks to an acceptable level. Soyinbo and Adekanye (1992) argued that recapitalization drives bank consolidation (mergers and acquisitions) so that increased concentration goes hand in-hand with efficiency improvements. Imala (2005) buttressed this argument. They stressed further that consolidated banking system enhances profits efficiency, and lower bank fragility. More importantly, high profits arising from this provides a buffer against adverse shocks and increases the franchise value of the banks.

Turning to the effectiveness of recapitalization and its overall economic implications, authors like Sani (2004), Adetiloye (2004), and Onaolapo (2008) have made some empirical contributions. In his analysis Onaolapo (2008) employed CAMEL rating system to examine the effectiveness of recapitalization. Onaolapo found that recapitalization has improved the financial health of the banks. He also discovered that the percentage of sound bank has reached the highest point of 70% as at 2006. This finding was collaborated by Sani (2004). Using a regression model, Sani discovered a positive and significant relationship between recapitalization policy and economic growth in Nigeria.

To the contrary, Adegbaju and Olokoyo (2008) examined the effectiveness of recapitalization on the performances of 20 Nigerian banks. He discovered that while few banks recorded appreciable improvements in their performances, majority of the banks remain the stability and economic growth has been examined by two polar schools of thoughts. The proponents of bank recapitalization believe that increased capital base has potentially increased bank returns through revenue and cost efficiency gains. On the other hand, the opponents argued that recapitalization has increased bank's propensity toward risk taking through increases in leverage and off balance sheet operations. There is therefore a divergence views on the effectiveness and growth.

Recapitalization entails increasing the debt stock of the company or issuing additional shares through existing shareholder in new share holder or a combination of the two. It could even take the form of Merger and acquisition in foreign direct investment. Asedionlen (2004) opined that recapitalization may raise liquidity in short term but will guarantee a conducive macroeconomic environment required to ensure high asset quality and adequate returns.

Soludo (2004) said that low capitalization of the banks has made them less able to finance the economy, and more prone to unethical and unprofessional practices which includes: (a. Poor loan quality of up to 21% of shareholders fund compared to 1 - 2% in Europe and America; (b. Over-trading in the sector; (c. Abandoning the time function of banking to focus in quick profit making venture, such as trading in FOREX and tilting their finding support in favor of import-export trade instead of manufacturing; (d. Reliance in unstable public sector fund for deposit base justifiable targets in deposit mobilization; and (e. High cost of fund, etc.

Ologbondiya and Aminu (2004) maintained that increasing the capital base of banks in Nigeria would strengthen the banking sector and in the process deepen activities within the industry. They further states that Nigeria economy is about the number of banks that have the capacity to operate in all the states of the federation, fund agriculture and manufacturing concerns and in the process generating employment for Nigerians.

Imperatives of bank recapitalization in Nigeria

This rise to the question of why bank recapitalization? Is it necessary? The answers to these questions shall be X-rayed under the imperatives of bank recapitalization. The Nigerian banking system has undergone remarkable changes over the years in terms of the number of institution, ownership structure as well as the depth and breadth of operations. These changes have been influenced largely by challenges posed by deregulating of the financial sector, globalization of operation, technological innovations that conforms to international standard (Asedionlen, 2004). Aside the above, there are so many fundamental problem and weaknesses identified in the banking industry that spurred the CBN governor to the new recapitalization policy in order to save the financial system from the seemingly looming distress syndromes. Some of the identified weaknesses by Babatunde (2012) though not exhaustive are as follows:

(i.) Size of banks and degree of soundness: Based on global experience and empirical evidence bigger banks apart from offering better services have enough capital to with stand cyclical and industry specific shocks. This is believed to insulate a financial system from distress contagion and moral hazard. Before recapitalization, the capital base of the largest Nigerian bank was use USD 240million while the smallest bank in Malaysia had USD52 million. As at June 30, 2004 most banks in Nigeria operated with a capital base of less than USD 10million. This situation left Nigerian banks under regulation zone in the world financial market and structure and as such needed to be brought out of that of that dangerous quagmire. Despite the small size most banks still engaged in huge overhead cost in terms of expensive headquarters, hardware and software package, expensive cars, huge salaries packages with branch return to mainly in the commercial centers. Just to be competitive and to remain in business.

(ii.) Stunted growth in the real sector: It is a known fact that the real sector of the economy is the engine for economic growth and development of any country and that bank in any economy is to render financial service to the real sector (Cameroon, 1972). One would notice the proliferation of banks in Nigeria since the early 1990s at a rapid rate while the economy has been more or less stagnant. About 70% of the industrial capacity remains utilized. But the stunted growth in the real sector is inefficient to support all banks operations, hence heavy dependence by banks in government business. This also confirms further that the private business is inadequate to support all banks operations. With the stunted growth in the real sector, there have been credit losses for banks as loan repayment difficulties impaired asset quality safety. In order to ease off the above tension and forestall the calamity which such tension could bring was the need for recapitalization.

(iii.) High lending rate and shunning of real sector: The low capital base has made distress a recurring issue in the sector and has denied the banks the capacity to finance the commanding heights of the economy. More importantly is the cost of borrowing from the banks by the private sector to pursue economics activities. Inadequate capital has been implicated as the cause of high lending rate and the shunning of the real sector by the banks. There is also the argument that banking should now be a high volume low margin game in which the big banks derive their competitive advantage from economic of scale and building capacity at both the corporate and retail levels. Due to high operational cost, banks usually lend out depositors' money to prospective borrowers at a very high interest rate as against the rate paid to depositors in order to make profit, pay returns to shareholders and remain in business. The potential borrowers in turn,

turn their backs against the banks since borrowing at a higher interest rate than expected will not be profitable and lucrative investments with several billions of Naira are queuing up begging to be funded.

(iv.) Over-dependence on public sector deposits: Of great concern to the monetary authorities is the significant over-dependence of many Nigerian banks on the three-tier government's deposits and consequent neglect of the medium and small class of savers. With the current reapplication, dependence on government deposits for survival will drastically reduce.

(v.) Unprofessional and unethical conducts: In response to the negative effects of stunted growth in the real sector due to the banks' greed, banks shifted to money market trading and self-liquidating transactions as opposed to core banking activities. The number of players continued to grow to compete for a shrinking market share, leading to excessive competition in the industry. Ethics and decency were thrown over-board as bank executives set tough revenue targets for all levels of workforce requiring workers to achieve or quit. In the bid to meet high revenue targets out of the virtually stagnated economy, bank workers were groomed to discard commitment and honesty in banking. Some banks introduced various types of client cheating innovations that greatly belittled a once noble profession. Under intense pressure to win deposits, unethical marketing practices became the norm for many banks.

(vi.) Erasure of distress in the minds of the banking public: Despite financial distress resolution measures applied, the banking system remained vulnerable to a number of risks and serious concern about the soundness and stability of Nigerian banking system had remained deep in the minds of depositors, investors and the general public. There is need to address this issue with adequate capital.

(vii.) Curtailment of excessive risk taking by banks: As the competitive struggle for survival with inadequate capital, intensified, marginal banks resorted to excessive risk taking and rampant breaking of regulatory rules. Insider dealing which is the use of information and other resources obtained through the bank as a corporate entity to effect transaction that benefits self or other related to self, will also blossom. For example due to dearth of capital, insider (Bank staff/directors) can put their own self-interest above those of the bank by using their authority to grant loans to themselves or a relative or friend at preferential terms using lower credit standards and at times without collateral.

(viii.) Illiquidity and insolvency: Illiquidity and insolvency are evidenced by negative capital adequacy ratios, poor liquidity ratios and shareholder's funds that have been completely eroded by operating losses. Let us look at the measures of capital adequacy and liquidity of banks for us to appreciate the need for recapitalization.

Measures of capital adequacy of banks

Capital adequacy measures the relationship between the degree of risk a bank takes and the amount invested by its owners. A bank must adhere strictly to all capital adequacy guidelines issued by the CBN (Olowe, 2003) measures of capital adequacy include:

(i) Equity/Total Asset Ratio; (ii) Equity/Risk Asset Ratio; (iii) Equity/Fixed Asset Ratio;

(iv) Equity/Total Deposit Ratio; and (v) Debt/Equity Ratio.
The above ratios in most of our banks are below the industry standard hence the need for recapitalization.

Measures of liquidity

Liquidity is a measure of the ability of a bank to meet its obligations as they fall due. The liquidity of a bank should be measured both in the short and long run in order to establish its ability to redeem its obligations promptly. Liquidity is not necessarily synonymous with profitability. A bank could be very profitable while its liquidity position could be poor if the lives of assets and liabilities are not properly managed. Measures of liquidity of a bank include:

(i) Assets/Total Deposits;
(ii) Demand Liabilities/Total Deposit;
(iii) Risk Assets/Total Assets Ratio;
(iv) Loans & Advances/Total Deposit Ratio; and
(v) Quick Assets/Total Assets Ratio.

The implications of bank recapitalization

Bank recapitalization has affected banks both positively and negatively, some of its positive and negative implications are as follows:

Positive implications

The post-recapitalization banking environment is likely to be one of a level playing ground compete. All banks are likely to become settlement banks. Recapitalized banks are likely to roll out new banking policies large enough to significantly alter the structure of competition in the industry. Some of the benefits of bank recapitalization are discussed briefly below (Onaolapo, 2008):

(a. Bigger, stronger and better: In the emerging global financial world, there will be no room for petty banks. Therefore, it is imperative for banks management to have solid capital base to muscle other international banks and withstand the rigor of doing business on such scale.

(b. Petty banking: The increase in the capital base of banks will make the operations of banks as it should be serious minded business and entrepreneurs.

(c. Improved financial intermediaries: The core activities of banks area to be financial intermediaries i.e. they mobilize funds for surplus ends to deficit ends. However, to ensure prudence and avoid excesses in lending, there are regulations on the percentage of banks' capital base that can be borrowed by the public, an increase in the capital base would translate to more funds lending to the real or positive sector. It is myopic for anybody to think that the increase to ₦25billion capital base of banks will lead to unemployment, perhaps due to the closure of certain ailing banks or reductions in the number of banks in the country.

(d. Development needs: Nigeria as a developing nation, desires a strong financial system with the strongest that will aid it in achieving necessary growth and aspirations of growth and development.

(e. Better regulation: The smaller the number of banks with increased capital base of banks to ₦25billion, the regulatory body, CBN will find it easier to monitor and regulate the banks and sanitize their records thereby reducing the practice of dubious banking activities.

Negative Implications

(a. Loss of identity: Banks which will have problems meeting the new capitalization standards should subject themselves to takeover or merge with other banks or quit the scene. This is because their continued weak positions constitute a threat to the systemic stability of the banking industry and by extension the economy.

(b. Sanction on erring banks: From December 31, 2005 only the banks that meet this new requirement would hold public sector deposits and also participate in the Dutch Auction System (DAS) for the sale of official foreign exchange. In essence, any bank which does not meet the new capital requirement after the deadline will be barred from the FOREX market and any patronage from government will be withdrawn automatically from such bank. In a desperate move to meet the new capital base, some banks may get involve in round-tripping and other malpractices. To checkmate such act CBN pronounce penalty include revoking the dealership license of the affected banks. No fewer than 21 banks were fined N1m each and suspended for one year from the interbank market by CBN between March and April 2002 for engaging in Round-tripping.

(c. Downsizing the workforce: Consolidation through mergers and acquisitions will undoubtedly, have far-reaching implications on the human capital of the banks. There will be initial job losses to right-size and right-fit people. If the expectation of the CBN materializes it means that only 10 banks out of the current 89 banks in the system would remain. The balance of 79 banks would either be swallowed up or forced into liquidation. If it happens this way, certain jobs would be lost as follows: At least, 79 bank Managing Director/Chief Executive Officers; at least 156 Executive Directors; more than 546 Management Staff and about 31200 other Staff of banks.

(d. Fifths safety by depositors: There is likelihood that many banks would experience massive Deposit withdrawals, expressed in the flight to safety that is a common feature of distress in any financial System. The sheer number of banks that are vulnerable to such reaction by bank depositors may lead to systemic distress.

(e. Higher shareholders expectation: Huge capital translates to much higher shareholders expectation in terms of return on capital employed. How long will it take an investor to recoup his fund? Yet, this has not considered the inflation and discounting factors. Would the race for adequate profit to repay adequate capital not result in compromise of ethics which the industry is getting over gradually?

(f. Collusion to form monopoly: Even though consolidation produced improved profitability and operational efficiency in Europe, there is no strong reason to expect that in Nigeria. The consolidation of the sort envisaged through this move by the CBN can reduce competition. It is easier for fewer banks to collude to create monopoly than for the multitude that have to compete

for survival, growth and profitability. This monopoly is likely to dampen innovation and the desire to create market niches, which may take us back to the pre-new generation banking era.

Bank performance

Policy makers, economists and monetary authorities recognize that the ability of banks to achieve the desired results and to continue to play the role earmarked for them depends not only on the existence of an enabling (regulatory) environment and the number of operating banks (and perhaps the spread of bank branches) but more importantly on their performance from one financial year to the other. Quite obvious, the greater the number of operating banks that are resistant to adverse financial condition, the better for monetary policy and ultimately the economy.

The performance of banks attracted considerable attention from bank regulators and monetary authorities for this reason and also because of the adverse implications that bank failures would have public confidence in the banking system. This is why from country to country such classifications as problem & non-problem, failed and surviving, financially successful and non-financially successful and vulnerable Resistant; have been used to distinguish the performance of banks (Adekunle & Asaolu, 2013; Ogunleye, 1999).

In recent times, the monetary authorities in Nigeria have classified banks as healthy or distressed in an attempt to distinguish the performance of the country's banks. For the majority of the so-called distressed banks, some steps are taken to minimize the potential impact on the banking system and the economy of eventual failure though the primary desire is that they ultimately revert to sound health.

RESEARCH METHODOLOGY

Data collection entails obtaining relevant information regarding the major idea of the research questions and hypothesis of the study for the purpose of confirming whether they are true or not. Secondary data is used in this study. The secondary information was gotten from Nigerian stock exchange (NSE) annual facts books and annual report of United Bank for Africa (UBA), First Bank of Nigeria, and Zenith Bank from 2008 to 2012. The sampling method adopted is convenience sampling method. It is a method in which the researcher attempts to obtain a sample of convenient elements, by selecting convenient sampling units or sampling subjects. Of all the 24 insured banks in the country, First bank of Nigeria, UBA (United bank for Africa) and Zenith bank were picked using the convenience sampling.

Model specification

In analyzing the relevant data the mathematical relationship to be adopted is:

$$Y = \beta o + \beta 1x1 + \beta 2x2 + 3\ \beta\ x3 + 4\ \beta\ x4 + \mu$$

Where:

βi (i= 0,1,2,3) are estimates of the true parameters of the relationship
β_0, - Intercept
β_1, β_2, β_3 are partial slope coefficients of ROA, ROE, and NPL
μ - stochastic variable which is introduced to account for other factors that may disturb bank performance that are not included in the model of this research work.

DECISION CRITERIA

Economic criteria: A priori Expectation

This explains the theoretical linkage about the signs and magnitude of the parameters of the specified functions. A priori expectations are determined by the principle of financial and economic theory guiding the relationship among the variables under study (Taiwo, 2000).

(i) β_1 which is the coefficient of the effect of recapitalization on the composition of banks is expected to be positive.
(ii) β_2 which is the coefficient of the varying levels is expected to be positive.
(iii) β_3 which is the coefficient of the relationship between the variables is expected to be positive
(iv) β_4 which is the coefficient of the extent of performance is expected to be positive.
It can be summed up as: $\beta\ 1 > 0$; $\beta\ 2 > 0$; $\beta\ 3 > 0$; $\beta\ 4 > 0$

STATISTICAL CRITERIA: FIRST ORDER TEST

These are referred to as the first order test of statistical significance used to evaluate the reliability or otherwise of the parameter estimates at a particular level of significance. There are two main tests commonly used here:

R-SQUARED: This is used in judging the explanatory power of the coefficient of linear regression on both binary digits of banking crisis. It would show the percentage of total variations in dependent variable that is explained for by the independent variable(s). The stronger it is, the better for the explanation. In this research work, the Pseudo R-squared amenable to the Econometric research package used is the McFadden R-Squared.

STANDARD ERROR OF ESTIMATE: This is to ascertain the statistical reliability of the estimates of the regression coefficients. It enables us to decide how good these coefficients to their true values are. It is expected to be twice lesser than the estimated coefficient to ascertain its significant difference from the true value of estimates, but if otherwise, insignificance, hence, better for our result.

Econometric Criteria**:** This is regarded to as the second-order test of reliability which entails the F-ration, T-ratio, T-statistics and Durban –Watson (d) statistics.

F-RATIO: This is a test for heteroscedasticity developed by Gold-field and Quandt (1962), as cited in Taiwo (2000). The test assumes normal distribution of the error term suggesting that error term of each period is unique; different form that the other period. Here, the observed F*

ratio is composed with the theoretical or tabulated F*ratio. We reject the null hypothesis of heteroscedasticity if F* > F but accept if otherwise.

DURBIN WATSON (d) STATISTICS: this is used in measuring the extent to which the problem of auto correlation or social correlation problem is deep-seated in the econometric result.

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

Test of Hypothesis

Regression analysis was carried out to know the impact of recapitalization on the bank performance. Standard error test, t-test, f-test, Durbin Watson test and P values were used to test the hypothesis. The financial statements of case study banks were used to carry out the regression analysis. The research hypothesis for the study is: there is no significant relationship between recapitalization and bank performance.

Table 01 -- Analysis of the effect of recapitalization on the composition of banks

VARIABLE	Coefficient	Std Error	t-Statistics	Prob.
NPL	195522.8	182124.0	1.073570	0.4774
ROE	6817760	3266896.	2.086923	0.2845
ROA	-19858510	10038739	-1.978188	0.2980

R-Squared 0.651895

Adjusted R-Squared -0.044314

S.E of Regression 15083.60

Sum squared Residual 2.28

Log likelihood -41.318862

Durbin Watson Stat 2.858546

Mean dependent var 19453.75

S.D dependent var 14760.11

Akaike info criterion 22.19431

Schwarrz criterion 21.73403

Hannan Quinn criterion. 21.18426

The result of the model in table 1 shown above indicates that the constant term, recapitalization and bank performance are positively related. This shows that an increase in bank recapitalization will lead bank performance and vice versa. This shows that the more capital a bank has the more liquid it is and the more it will be able to provide better services to the public. The more the public are able to get loan from banks as well as other services, the better for the banking sector and the economy at large. The test further revealed that an increase or decrease in capital base do have significant impact on the bank performance.

The R-squared also indicate that only 34.9 percent of the total variations in capital base are explained by the exogenous variables while 65.1 percent are explained by other variables not mentioned in the model. The Durbin-Watson statistics is 2.85 and it is used to test for the presence of first order serial correlation.

Table 02 – Yearly variation in the effect of recapitalization

Year	PAT	%Change in ROA	%Change in ROE	%Change in NPL
2008-2009	8541000	6.98	1.90	4.48
2009-2010	11468000	7.06	1.93	5.25
2010-2011	19831000	2.1	5.1	8.18
2011-2012	40002000	3.09	9.33	8.22

From the table, PAT in 2009 was N8,541,000 million, it then increased to N 11,468,000 million in 2006, it increased also in 2011 but not as much as the rate between 2009 and 2010, in 2011 the profitability rose drastically by N29,916,500. Change in ROA for 2009 was 6.98% which was very positive, it became 7.06 %in 2010 which was very positive too, but in 2011 it dropped, the growth started again in 2009 but it was negative. Change in ROE for 2009 was 1.90 which was negative, it became 1.93 in 2010 which was equally negative, in 2011 it was 5.1 which was satisfactory, in 2012 there was a drastic growth which was positive. Change in NPL for 2009 was 4.48 which was negative, it increased to 5.25% in 2010 which was positive but not too good, in 2011 it became 8.18% which was positive, in 2012 it increases to 8.22 which was equally positive.

It became evident that the consolidation of banks led to a remarkable reduction in the number of banks from 89 to 25 by merge, acquisition, initial public offer and other means. The research work concludes that bank consolidation has resulted in making banks more efficient and reliable and also, their intermediary potentials have also been revised.

Table 03 – Analysis of the varying level of bank performance from 2008-2012

VARIABLE	Coefficient	Std Error	t-Statistics	Prob.
NPL	1.1908	8468376.0	14.03718	0.0453
ROE	82462129	1.4508	0.567242	0.6715
ROA	-2.7108	3.9708	-0.683937	0.6181

R-Squared 0.991239

Adjusted R-Squared 0.973718

S.E of Regression 1178544

Sum squared Residual 1.3912

Log likelihood -58.82233

Durbin Watson Stat 2.222391

Mean dependent var 5854696.0

S.D dependent var 7269693.0

Akaike info criterion 30.91116

Schwarrz criterion 30.45088

Hannan Quinn criterion. 29.90111

The result of the model in table 2 shown above indicates that the constant term, Bank recapitalization and bank performance are positively related. This shows that an increase in bank recapitalization will lead bank performance and vice versa. This shows that the more capital a bank has, the more liquid it is and the more it will be able to provide better services to the public. The more the public are able to get loan from banks as well as other services, the better for the banking sector and the economy at large. The test further revealed that an increase or decrease in capital base do have significant impact on the bank performance.

The R-squared also indicate that only 0.9 percent of the total variations in capital base are explained by the exogenous variables while 99.1 percent are explained by other variables not mentioned in the model. The Durbin-Watson statistics is 2.22 and it is used to test for the presence of first order serial correlation

Table 4 – Yearly *variation in the level of bank performance from 2008-2012*

Year	PAT	%change in ROA	% change in ROE	% change in NPL
2008-2009	435430	7.55	2.057	0.42
2009-2010	737149	9.27	2.538	0.357
2010-2011	6083439	2.22	5.2	0.647
2011-2012	16056464	0.24	0.75	1.35

From the table, PAT in 2009 was N435,430, it then increased to N 737,149 in 2010, it increased also in 2011 to N6,083439, in 2012 the profitability rose drastically to 16056464 which still remained positive. Change in ROA for 2009 was 7.55% which was very positive, it became 9.27 % in 2010 which was very positive too, and in 2011 there was a decrease also in 2012. Change in ROA was low in 2011 it picked up and was positive but in 2012 it dropped again**.** Change in NPL for 2009 was negative till 2012.

Table 05 – Analysis of the extent of recapitalization effect on performance

VARIABLE	Coefficient	Std Error	t-Statistics	Prob.
NPL	-7.5908	1.3909	-0.545375	0.6821
ROE	-7776076	5.1108	-0.015211	0.9903
ROA	5.8208	2.0209	0.287862	0.8216

R-Squared 0.792558 | Mean dependent var 5992525.0
Adjusted R-Squared 0.377673 | S.D dependent var 6387780.0
S.E of Regression 5039173.0 | Akaike info criterion 33.81709
Sum squared Residual 2.54013 | Schwarrz criterion 33.35681
Log likelihood -64.63418 | Hannan Quinn criterion. 32.80704
Durbin Watson Stat 1.602499

The result of the model in table 3 shown above indicates that the constant term, Bank recapitalization and bank performance are positively related. This shows that an increase in bank recapitalization will lead bank performance and vice versa. This shows that the more capital a bank has more liquid it is and the more it will be able to provide better services to the public. The more the public are able to get loan from banks as well as other services, the better for the banking sector and the economy at large. The test further revealed that an increase or decrease in capital base do have significant impact on the bank performance.

The R-squared also indicate that only 20.75 percent of the total variations in capital base are explained by the exogenous variables while79.22 percent are explained by other variables not mentioned in the model. The Durbin-Watson statistics is 1.60 and it is used to test for the presence of first order serial correlation.

Table 6 – Yearly variation on the extent of recapitalization effect on performance

Year	PAT	%change in ROA	% change in ROE	% change in NPL
2008-2009	862100.0	2.77	7.42	1.66
2009-2010	2465000	2.66	7.29	1.13
2010-2011	5517000	3.01	7.09	1.79
2011-2012	15126000	5.34	16.12	2.15

From the table, PAT in 2009 was N862100, it then increased to N 2465000 in 2010, it increased also in 2011 but not as much as the rate between 2009 and 2010, and in 2012 the profitability rose drastically to N15126000. Change in ROA for 2009 was 2.77% which was very negative, it became 2.66 % in 2010 which was still negative, in 2011 it increased but it remained negative, the growth started again in 2012 which was satisfactory. Change in ROE for 2009 was 7.42 which were positive, it became 7.29 in 2010 which was equally positive, and in 2011 it dropped to but remained positive, in 2012 there was a drastic growth which was positive. Change in NPL for 2009 was 1.66 which was negative; it still remained negative till 2012.

CONCLUSION

Recapitalization is good for the economy but the way the banks raise their funds to meet the recapitalization funds should be carefully looked into so that they do not make their shareholders worse off than they were before the recapitalization. To generate more profit the banks need a good regulatory environment that will enable the banks to expand their scope of business but strictly within the financial service industry.

RECOMMENDATIONS

According to Adegbaju and Olokoyo (2008), it is obvious that the shareholders could be made worse- off after recapitalization and many Nigerian investors do not realize this, the last recapitalization exercise witness many Nigerian banks running off to the capital market to raise fund and many of the shares were over subscribed to by Nigerian investors. It was recommended that the following should be taken into consideration: (1) Calculative steps should be taken by the bank management to increase profitability. Unless these steps are taken the recapitalization will result in loss of fund for the shareholders. (2) Banks should improve their total asset turnover and diversify in such a way that they can generate more income on their assets. It was discovered from our data that bulk of the banks investments as a component of their total assets were in the short term and this would not help their profitability stance in the long run. Hence, they need to diversify their investment and should be more of the long-term type. (3) Unnecessary cost and expenses will be cut down and the profit will increase. The government too has a role to play in providing necessary infrastructure to ensure that the cost of doing business in Nigeria is reduced significantly to allow the banks to make more profit. (4) Since the capital market is a vital mechanism through which banks raise equity, it is important that activities in the stock market be properly regulated so that there will be a level playing ground that is transparent for investors to invest in knowing fully their return of equity is a measure used by investors to gauge the financial responsibility of banks.

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