Impact of Bank Reform on Capital Adequacy and Profitability of Nigerian Banks

Ijeoma, Ngozi Blessing (Ph.D)
Department of Accountancy, Nnamdi Azikiwe University, Awka-Nigeria

ABSTRACT: *The study assessed the impact of bank reform on capital adequacy and profitability of banks using Zenith bank PLC as a case. The main objective of this study was to review the impact of Bank reforms on the economic survival of Nigerian banks. The data used in this study was secondary data obtained from the annual reports and accounts of the bank. The statistical tools employed include the correlation analysis, the paired sample t-test analysis and descriptive analysis. Findings from the analysis revealed that the reform programme has brought about certain implications on the Nigerian banking sector which include brand and structural implication. A similar behavior in terms of the capital adequacy in both pre and post recapitalization era, though they expressed different capitalization. The ratios obtained showed inadequate capitalization of the bank and the need for recapitalization as a parameter to ensure capital adequacy of the bank. It was found that there exists a very high degree of variability between the pre and post recapitalization era in terms of the calculated ratios. Also, result showed that there exist about 72.7% relationship on share capital obtained for before reform and after reform which implies strong positive relationship. The result further revealed that bank reform has significant impact on share capital of Zenith bank Plc for before reform and after reform. In addition, it was observed that there exist about 64.2% relationship on profit after tax obtained for before reform and after reform which implies positive relationship. Findings showed that bank reform has significant influence on profit of Zenith bank Plc for before reform and after reform; hence, bank reform was able to boast profitability of Zenith bank Plc.*

Keywords - *Capitalization, Survival, Profitability, Pre recapitalization, Post recapitalization, Reform*

1. INTRODUCTION

Before 1952, there was no legal minimum capital requirement for banks operating in the Nigerian colony. Despite this fact, foreign banks were able to operate successfully without any bank failure. This was in part due to the fact that these foreign banks were well capitalized. For instance, the paid up share capital for Barclays Bank was $121,510 and for the Bank of British West Africa-$120,000 in 1947 and 1948 respectively. Most of the indigenous banks were poorly capitalized, poorly staffed and in some cases infested with fraud. For instance, in 1952, the paid up share capital of some of the indigenous banks that eventually failed were City Bank Limited $105; Onward Bank Limited $100; Metropolitan Commercial Bank of Nigeria Limited $100; Cosmopolitan Commercial Bank Limited $1220, and Premier Bank Limited $1,128. When this is compared to the capitalization of British West Africa Limited and Barclays Bank Limited cited above, the difference is very clear.

The indigenous banks came into existence on the platform of assisting the Africans to overcome the economic shackles of colonialism. But government, in anticipation of some problems and possible crisis in the sector, invited G.D Patron, a consultant for the Bank of England to investigate the Nigerian banking environment with the possibility of introducing regulations. One of the recommendations of Patron was that the minimum share capital be fixed at $2000, of which $12500 should be paid up.

Subsequent to the Patron recommendation, Africans anticipating regulation, rushed to establish commercial banks before the implementation of regulation by the government. Thus between 1951 and 1952 alone, 17 such banks were established. The banking ordinance which came into effect in 1952, gave existing banks three years to meet the provisions of the ordinance or face liquidation. This, in itself precipitated runs (operations) on banks perceived to be unsound to well established banks.

The 1958 banking ordinance which repeated the 1952 ordinance raised the share capital requirement for foreign banks to $200,000. The requirement for the indigenous banks remained unchanged; in practice, this change had very little or no effect on banking operations in Nigeria since

most of the foreign banks already maintained share capital above the $200,000 requirement.

In 1962, the share capital requirement was again amended. The share capital requirement for indigenous banks was increased from $12,500 to $250,000. Existing banks had 7 years to meet this requirement. In the case of banks whose head offices were not situated in Nigeria (foreign Banks), and undertaking to provide and retain in Nigeria funds equal to the minimum capital of $250,000 was required.The 1962 legislation was followed by series of enactments and decrees such as decrees 1969, 1988 and 1991. The relevant sections of these laws raised the minimum share capital of commercial banks in Nigeria to N6 million, N10 million and N50 million respectively.

Despite all these changes and variations in the minimum share capital, Nigerian commercial banks have not been able to meet with the demands of the economy. The lackluster performances of the Nigerian commercial banks over the years to the following factors: poor credit policies; poor regulation by the apex banks; poor risk management and lack of general banking ethics.

Given the prevailing situation, the former governor of the Central Bank of Nigeria (CBN), Professor Charles Soludo introduced several reforms that culminated in the review of the capitalization of the banking sector to a whooping twenty five billion naira, a policy that reduced the number of banks from eighty nine to twenty five, through mergers, acquisitions and bankruptcy. The whole thrust of that reform was to bring about a robust banking sector that can effectively power development in the country and forestall a breakdown. Nigerians were enthusiastic the first time Nigeria got listed among the top 1000 banks in Nigeria.

Reformation is a natural phenomenon. According to Professor Pat Utomi of the Lagos Business School, "any government that is not reforming has no business being in governance in the first instance". There is really nothing wrong with reforms. Banking reforms were initiated because of the need to enhance the quality of banking activities and ensure an effective and efficient banking sector. Banking reforms interchangeably called financial reforms aims at providing solutions to challenges experienced in the financial system. According to [1], banking reforms are viewed as government intervention in the banking industry to provide a panacea for existing anomalies in the banking sector. Most countries reform their banking sectors for a number of reasons, including structural, capitalization, consolidation and ownership issues. Most importantly, banking reforms are geared towards financial development in all ramifications and this would inevitably boost economic performance. [2], observed banking reforms to involve several elements that are unique to each country based on historical, economic and institutional imperatives. Banking reforms are implemented to enhance the intermediation role of banks. The reforms ensure that banks are well positioned to greatly mobilize savings and optimally allocate these mobilized savings in form of credit to profitable investments. These investments are of cognizance to the development process of a nation as provided in the framework of the dual-gap analysis.

The current banking reforms as captured by the Central Bank governor, in a lecture he delivered at the University of warwick's Economic Summit, UK on the 17th of February, 2012. " the current reforms which was initiated in 2004 by Professor Soludo with the consolidation programme were necessitated by the need to strengthen the banks. The policy thrust at inception was to grow the banks and position them to play pivotal roles in driving development across the sectors of the economy. As a result, banks were consolidated through mergers and acquisitions, raising the capital base from N2 billion to a minimum of N25 billion which reduce the number of banks from 89 to 25 in 2005 and later to 24. Beyond the need to recapitalize the banks, the regulatory reforms also focused on the following:

- Risk focused and rule based regulatory framework.
- Zero tolerance in regulatory framework, in data/ information rendition/ reporting and infractions;
- Strict enforcement of corporate governance principles in banking;
- Expedition process for rendition of returns by banks and other financial institutions through e- FASS; (electronic financial Analysis surveillance system).
- Phased withdrawal of public sector funds from banks beginning July 2004 etc.

It is therefore necessary to subject this current reform in the Banking sector by Professor Soludo to a critical review to determine its impact on the economy. Raising capital adequacy requirement from N2 billion to N25 billion has freed Nigerian banks from reliance on public sector funds and better equipped them to finance bigger projects within the oil, gas and telecommunication sectors- with N406 billion raised from the Nigerian capital market including notable deals such as Zenith Bank's N20.3 billion IPO and over $ 650

million raised from the international markets- in order to generate sufficient shareholders funds to meet the target. All these measures taken to recapitalize the banks have necessitated the examination of capital adequacy and measure of riskiness in Nigerian Banks.

2. OBJECTIVE OF THE STUDY

The main objective of this study is to review the impact of Bank reforms on the economic survival of Nigerian banks. In line with this, the specific objective of this study is stated thus:

(1) To determine the level of capital adequacy and measure of riskiness in the banks.
(2) To ascertain whether bank reform has affected profitability in banks
(3) To determine whether bank reform has impacted the share capital of banks.

3. CONCEPTUAL FRAMEWORK

The main goals of economic reforms are to achieve the macroeconomic objective of price stability, full employment, high economic growth and internal and external balances. Thus, economic reforms are undertaken to ensure that all components of the economy function optimally. Doubtlessly, the ongoing banking reforms in Nigeria are an integral part of the country wide reforms being undertaken to reposition the Nigerian economy. The reforms aim at making Nigeria one of the world's 20 largest economies by the year 2020. As part of the vision, the banking sector is expected to play its role in intermediation and be strong enough to be among global players in the international financial markets. It is envisaged that the financial system should be robust enough to sustain one of the world's 20 largest economies. This is captured in the financial system strategy 2010 (FSS 2010) in which the Central Bank of Nigeria (CBN) brought together stakeholders in the financial system to craft the common vision and roadmap.

Nigeria was not insulated from the global financial crisis that started in late 2001 due to the subprime lending in the United States. Also, Nigeria was badly hit in late 2008, particularly by the second round of the crisis. An investigation into what caused the crisis in the Nigerian Banking system in 2008 revealed eight interrelated factors, the factors include:

- macro economic instability caused by large and sudden capital outflows
- failures in corporate governance in banks
- lack of investor and consumer sophistication
- inadequate disclosure and transparency about true financial position of several banks
- critical gaps in the regulatory framework and regulations
- uneven supervision and enforcement
- unstructured governance and management processes at the CBN and,
- Weakness in the overall business environment

In the wake of the crisis, many Nigerian banks suffered huge losses due to their exposure to margin trading in the capital market and lending to the downstream oil sector. The Nigerian stock market shrank by about 70 percent in 2009 and there was unprecedented growth in banks' non-performing loans (NPLs). Consequently, the CBN carried out a comprehensive audit on the banks. Based on the findings from the audit, it became imperative for measures to be put in place to bring about financial stability, healthy evolution of the financial sector and to ensure that the banking sector contributes to the development of the real sector of the economy. This was necessary to make sure that the growth potential of the Nigerian economy is adequately harnessed.

Thus, the Central bank of Nigeria crafted a blue print known as the potential Alpha initiative to reform the Nigerian financial system in general, and the banking sector in particular. The reforms were aimed at removing the entrenched weaknesses and fragmentation of the financial system, integrating the various ad-hoc and peace meal reforms, and unleashing the huge potentials of the economy. The CBN had to rescue eight banks through the injection of capital and removed the leadership of the erring banks, and prosecution commenced against those that committed infractions. This action was necessitated by the need to rebuild the much eroded confidence in the banking system. Thanks to the measure put in place and the far reaching reforms embarked upon by the regulatory authorities, the Nigerian banking system has evolved.

3.1 History of Recapitalization

After the first banking ordinance of 1952, the colonial government in 1958 raised the capital requirement for the foreign commercial banks from €200,000 to €400,000. This trend has been replicated so many times thereafter both in Nigeria and in other parts of the world. In 1969, bank capitalization was raised to N1.5 million for foreign commercial banks while it was made N600,000 for indigenous commercial banks. When in 1979, merchant banks came into Nigeria, their capitalization was put at N2 million.

In 1988, following the deregulation that was an integral part of the structural adjustment programme (SAP), there was a further need to recapitalize the banks. In February 1988, the capital base for commercial banks was raised to N5 million and N3 million for merchant banks. Because of the dynamic and volatile nature of the economic environment at the time, by October, the same year, the capital bases were doubled to N20 million for commercial banks and N12 million for merchant banks. A year after that, the capital bases became N50 million and N40 million respectively. The rapid increases in bank capitalization requirements forced some banks into liquidation. In 1998, twenty six (26) commercial and merchant banks were liquidated when unable to recapitalize. In 1997, the minimum paid up capital requirement of commercial banks was harmonized to a uniform level at N500million and by December 1998, all existing banks were thus recapitalized. Thus, continuing the upwards trend in bank recapitalization. In 2001, the capital base was increased to N1 billion for existing banks and N2 billion for new banks with the advent and adoption of universal banking in principle. By July 2004, the CBN directed that all banks in Nigeria be recapitalized to the tune of N25 billion minimum by December 2005 [3]. This represents a 1250% increase in capitalization. The process culminated in the 89 banks consolidating into just 25 banks through various schemes of mergers and acquisitions. It should be noted that the CBN brought into practice the risk- weighted measure of capital adequacy as recommended by Basel II Accord of the bank for international settlements in 1990. This had hitherto been measured by the ratio of adjusted capital to total outstanding loans and advances.

3.2 Banking/ Credit crisis

A very prominent fallout of the global financial crisis that manifested in 2008 was the banking/ credit crisis that was witnessed in many countries of the world. It is pertinent to note that the global crisis was triggered off by both the failures of the mortgage market and the burst of the credit bubbles in the U.S. At that time, Icelandic banking system completely collapsed and the Northern Rock had to be nationalized by the UK to prevent it from going the way of others like Lehman Brothers. Goldman Sachs, J.P Morgan Chase, Fannie Mac and Freddie Mac, amongst others.

Many countries in Europe experienced much the fate as the U.S. There was credit squeeze following the fall in business confidence in those economies. The crises of 2008 manifested in many fronts among which were:

1. Bank liquidity which led to drastic curtailment of credit to business firms and households.
2. The crash of the stock market which engendered general loss of confidence in the economy.
3. Tight credit coupled with the massive capital losses reduced purchasing power and consumption capacity
4. Tight business credit and reduced consumption levels led to static business inventories followed by production cut backs.

Nigeria like all the western capitalistic economies was not spared the woes of the crisis. The toxic assets syndrome that was pervading U.S and Western European banks was also with us. There was illiquidity and many of the banks actually carried huge bad assets which began to limit the flow of credit even at very high interest rates. The banks were said to be over- laden with huge non- performing loans which reflected what was happening in Western Europe. In consonance with the bailout strategies by governments of major economies at the time, the CBN pledged to inject $2.6 billion into five troubled banks; this notwithstanding, the recent consolidation and recapitalization of those banks.

The banking / credit crisis thus culminated in vicious circles of troubled assets, lack of confidence in the economy, liquidity, credit squeeze and high interest rates, and interbank lending was greatly impaired [4].

3.3 Bank Capital Versus Expertise

The banking business of modern times is done in an atmosphere of intense competition, and it has often been argued that bank capitalization is key to bank survival [5]. However, [6] submitted that bank expertise also plays a key role in the survival of banks. He further developed a model on the rebalancing of the capital- expertise balance for banks so as to provide an answer regarding the effects of deregulation. The model shows that highly capitalized banks benefit when competing with poorly capitalized banks after deregulation shocks that decrease capital requirements or otherwise cause the capital at low and high capital banks to increase proportionately; increase the riskless interest rate or eliminate geographic restrictions. It also shows that low capital banks have stronger incentive for financial specialization than banks with more financial strength. Previous research has extensively analyzed the role of banks capital and identified four such roles: bank capital can reduce an excessive tendency by banks to take risks; bank capital can serve as a cushion against insolvency; bank capital can signal the risk

preferences of a bank and bank capital can act as a tool that allows a bank to offer lower rates without affecting its incentives to monitor. A central intuition to be captured in the model is that banks have different kinds of expertise in the line of business of a product. Ref [6] concludes his study thus, "the joint consideration capital and expertise leads to some novel conclusion about efficiency. The banking industry will be more efficient, the more important expertise is relative to capital; in addition, this analysis has provided several comparative static results that can be translated into testable empirical implications. Specifically, highly capitalized banks should benefit when competing with those that are poorly capitalized after:

I. A decrease in capital requirements or some other regulatory shocks that cause both banks capital to increase proportionally.
II. Technological improvements that reduce monitoring costs by intermediaries
III. An increase in the interest rate due to a tightening of monetary policy and
IV. A lifting of geographical restrictions.

3.4 Capital And Risk Management

Risk management is not just an exercise in managing the quantum of risk in a business such that profits are sufficient to compensate that risk but more about making decisions to ameliorate the chances or effects of downward scenarios and enhance the probability or effects of upward scenarios. It is simply more about maximizing shareholders value by managing the direct impact of risk on profits themselves. Nowhere is this postulation more profitable than in the banking industry. Ref [7], identified the benefits of economic capital as: maintain solvency; creating accountability for risk; and the advancement of quantitative analysis. They however noted that economic capital has some potential distortions by the existence of a disconnect between risk and capital and required return; and a disconnect between market and book values of capital and the link to share price. According to them, we usually distinguish between expected and unexpected losses in credit management, when a change in expected losses (defined as the mean of the loss distribution) has a direct profit and loss implication through the loan loss provision. This, when applied at the enterprise level implies a triangular relationship between risk, capital and profit. In this analysis, risk is said to give rise to the need of capital which in turn creates the need for profit. Is the economic capital view which ties risk and required profit together through capital.

As credit risk management decisions can influence expected credit losses (and hence the profitability of loan stock), so risk management decisions generally can influence expected profits at the enterprise level. Their contention is that: "the risk management profession's heavy emphasis on developing a close identity and robust quantitative link between risk and expected profit". They therefore concluded that "whilst we are broadly in favor of economic capital, we do not yet regard it as a comprehensive mature system for managing risk, capital and value in financial service firms. Key areas for development include greater sophistication in the treatment of interrelated value drivers (risk being but one)".

It should however be noted that in banks, capital adequacy is measured as a percentage of a bank's risk weighted exposure; also known as "capital to risk- weighted assets ratio (CAR).

CAR is calculated as;

$$CAR = \frac{\text{Tier One Capital + Tier Two capital}}{\text{Risk Weighted Assets}}$$

CAR is used to protect depositors and promote the stability and efficiency of banking systems. The formula essentially ties two types of capital to risk to show the link between capital and risk management. The two capital types are Tier One Capital (this can absorb losses without requiring the bank to cease operations), and Tier Two Capital (this can absorb losses in the course of winding-up), it provides lesser cushion against risk.

Still linking bank capital with risk management, the government has embarked on stress tests of the financial health of the 19 largest banks, to determine whether they have adequate capital to withstand an even worse recession than is expected. The testing along with the recent events at Citigroup has spurred an extended discussion of what " capital" is and how much banks need to have".

The whole idea of the stress tests is summed up in drawing a link between bank capital and their ability to withstand various forms of stress conditions which a recession can induce in the form of defaults. It is right to insist that banks temporarily carry additional capital sufficient to handle this stress case since a large audience needs reassurances that the banking system can handle the worst. It is right to focus primarily on raising this cushion through additional Tier/ Capital which includes a fairly wide range of capital instrument. The findings of [8], tends to support this. They found that Latin American financial systems endured the financial crises reasonably well. One significant factor is that most of the banks in each Latin American country entered the crises with

higher capitalization measures than their peers in Europe or U.S. The average (RAC) ratio for the world's largest 75 banks was 6.7% and 7.9% as of June 2009 and June 2010, and the weighted average of the largest 60 U.S banks was 5.8% and 7.4% as of June 2009 and June 2010….. the Latin American banks' RAC reflected on average a similar RAC ratio as of June 2010 was 8%. It is suggestive therefore that the higher the capitalization of a bank, the greater its ability to absorb risk and be able to endure any crises.

3.5 The Basel Accords

The Basel committee published Basel 1 capital Accord in 1988; this was the first major attempt at international convergence of supervisory regulations on capital adequacy. The objectives were to promote soundness and stability of the international banking system and provide a level playing field for internationally active banks. This was to be achieved through the imposition of minimum capital requirements for credit risks, amongst others. The basic problems that beset Basel 1 Accord were:

- Lack of sufficient risk differentiation for individual loans.
- No recognition of diversification benefit
- Inappropriate treatment of sovereign risk and
- Few incentives for better overall risk measurement and management.

These shortcomings highlighted the inappropriateness of capital adequacy measurement under the framework. The Basel committee therefore came out with Basel II Accord in 2004. The Basel II framework consists of a broad set of supervisory standards to improve risk management practices. These were provided along three mutually reinforcing pillars:

- Pillar I- this addresses minimum requirements for credit and operational risks.
- Pillar II- this provides guidelines on the supervisory oversight process.
- Pillar III- this requires banks to be more transparent about their risk profile and capitalization as a means of promoting market discipline.

Basel II represents an important improvement (though incomplete) in the analysis of risk sensitivity of capital, and its risk weights are classified to provide the banks with incentives in terms of capital reduction to migrate towards more advanced risk management approaches. The major challenges to Basel II includes:

- Cost of implementation
- Inadequate supervisory capacity
- Impact on domestic banking system is not fully understood
- Home- host supervisory co- ordination
- Ineffective Pillar 3
- Considerable and perhaps excessive supervisory discretion.
- Little experience with ECAI's (External Credit Assessment Institutions)
- Unavailability of required risk data in easily accessible or comprehensive format.
- Potentially excessive capital requirement due to inappropriate calibration

The Basel III Accord which was approved by leaders of the world top 20 economies (G 20) in November 2010 will force banks to set aside far more capital to withstand market shocks in future in a bid to lessen the need for bailouts by governments. Under Basel III Agreement, minimum core equity capital ratio will be equivalent to 7% of a bank's riskier assets. The Basel III Accord which was to come into effect in 2013 will force banks to hold more and better quality capital in a bid to keep taxpayer off the need to bailout banks in future financial crisis. Basel I and II overlooked the importance of liquidity. This is addressed by Basel III. Under the accord, banks are required to comply with tougher capital and liquidity rules. Following the Basel III proposal, several positive reactions have trailed the recommended adoption of the Accord.

3.6 Under Capitalization

Under capitalization is a situation in which business cannot acquire the funds needed for operations. Usually, such organizations will not be able to afford the current operational expenses due to lack of capital. This situation will usually induce bankruptcy and this will usually be due to improper financial planning or artificial constraints imposed by economic downturn and regulatory barriers. The different causes may include:

- Financing growth through short- term capital, rather than long term permanent capital.
- Failure to secure loan at a critical time
- Failure to obtain adequate insurance against predicable business risks.
- Adverse macroeconomic conditions

The capital sources available to an organization include the following: reinvestment of earnings, assuming debt through selling equity, establishing a line of credit, and borrowing against it. The following must be understood in capital formation:

- The least expensive ways to raise capital are to finance from cash flows.
- Debt is more expensive
- Equity financing is the most expensive

In the banking industry, a bank is said to be undercapitalized when it is having inadequate capital to cover foreseeable risk. The Federal Deposit Insurance Company (FDIC) of the U.S categorizes banks according to their risk- base capital ratio, thus:

- Well capitalized: 10% or higher
- Adequately capitalized: 8% or higher
- Undercapitalization: less than 8%
- Significantly undercapitalized: less than 6%
- Critically undercapitalized: less than 2%

The FDIC is usually concerned when the bank is undercapitalized at which point the FDIC issues a warning to the bank. When the ratio drops below 6%, the FDIC may change the management of the bank and force it to adjust. When the ratio further drops to less than 2% (critically undercapitalized), the bank is declared insolvent.

3.7 Predicting Inadequate Capitalization

Central in regulatory oversight of safety and soundness in banking system is capital adequacy. Inadequate capital leads to bank failure. The ability of regulators to predict capital inadequacy would go a long way to enhancing the supervisory efficiency and timely intervention that could prevent financial distress/ crisis.

Many studies have been done on capital adequacy [9]. Ref [9] attempted to develop an early warning system (EWS) to predict inadequate capitalization in banks using both the logit analysis and trait recognition analysis (TRA), a neutral network- like method and classifying banks as capital adequate and capital inadequate. There are two approaches to analyzing bank distress: multinomial choice and survival time approaches. An example of multinomial choice analysis is to classify the firms as a non- bankrupt, financially weak, and bankrupt firms, another classification stability, omitting or reducing dividend payments, default on loan payments, protection from chapter X or XI of the Bankruptcy Act, and bankruptcy and liquidation. In general, studies based on this analysis found that accounting information can detect incipient financial distress of non- financial firms.

The survival time research predicts the probable time to failure using financial economic, managerial and regulatory factors. The empirical results of these studies supported the notion that financial distress is a dynamic process and this can be predicted using financial, economic and other explanatory variables. One significant variable in all the studies predicting savings and loan institutions failure is equity capital ratio.

Ref [9], maintained that banks that expanding their consumer lending rapidly tended to significantly add risk to their portfolio and this subsequently resulted in losses and deterioration in the capital ratio. In contrast, a significant expansion of commercial and industrial loans (rather than consumer loans) tended to lead to profitability and reduced the likelihood of the capital ratio falling below the threshold limit. This is particularly note-worthy for Nigerian banks where most of the effort is concentrated on household/ individual consumption. Their findings also indicate that banks with higher proportions of assets invested in investment securities had a greater cushion against bad lending decisions and are therefore less likely to encounter financial distress; also, more efficient banks with greater net income to non- interest expenses ratio tended to have lower probability of financial distress in the near future. However, considering the variables in the model in isolation does not provide a complete picture of the early stages of financial distress in banking institutions.

The result of their study therefore shows that capital deficient banks are much different from other banks in terms of their financial health. Capital adequacy is a broad concept that requires review of a wide array of different kinds of financial and economic variables, and that trait recognition analysis results show the importance of complex interaction variables in identifying banks with deficient capital.

3.8 Framework For Crisis Management In The Financial Sector

Following the 2008 financial crisis, governments have had to grant aid to banking institutions. The amount of such aid represents 30% of European Union (EU) GDP. In order to ensure that this situation is not repeated, this communication proposes a European framework which should enable banking institutions fail like any other business without calling into question the stability of the financial system.

ACT: Communication from the commission to the European parliament , the Council, the European Economic and Social Committee of the Regions and the European Central Bank of 20 October 2010- An EU framework for crisis management in the financial sector (Com (2010) 579 final- not published in the official journal).

SUMMARY: This communication describes the results of consideration led by the European Commission on avenues to be pursued in order to equip the European Union (EU) with a framework for crisis management in the financial sector.

Enterprises concerned and objectives of the crisis management framework.

The framework for crisis management in the financial sector concerns:

- All credit institutions
- Certain investment firms, more particularly those whose failure might imperil the financial system

The aim of this framework is to ensure that the financial system is stable, even in the event of a business failure, and thus to:

- Favor prevention and preparation over risk as regards the financial system
- Prepare credible resolution tools
- Implement fast and effective means to act
- Reduce moral hazard
- Contribute to a smooth resolution of cross border groups and preserve the internal market
- Ensure legal certainty
- Limit competitive distortions

3.8.1 Features of the crisis management framework

The framework proposed by the commission sets out measure in the following areas of action:

- Authorities responsible for crisis management: Pursuant to the Directive on capital adequacy and the Directive on the taking up of the business of credit institutions, prudential supervisors are granted powers of early intervention. However, each member state shall designate a resolution authority that is independent from supervision.
- Preparation and preventative measures: These measures include in particular the implementation of a supervisory programme for each supervised institution, on-site supervisory examination, and a more detailed supervisory assessment. Intra-group liquidity management is also to be facilitated in order to preserve the financial stability of the member states where transferring entities are established, in order to protect the right of creditors and shareholders.
- Triggers: A trigger for early intervention should be put in place in case a bank or investment firm cannot satisfy the requirements of the Capital Requirement Directive or requirements relating to the take up of the business of credit institutions.
- Early Intervention: This type of measure provides for the hindering and clarifying of supervisors' powers. Banks and businesses would be obliged to present a plan enabling the institution to recover in the event of financial difficulties.
- Resolution: The commission insists on the need to reform legislation on bank insolvency in order that failing banks may benefit from liquidation proceeding.
- Debt write-down: This involves allowing an institution in difficulty to continue its activities or to cease some of them in order to limit risks of contagion to other institutions.

3.8.2 Cross-border crisis management

The commission considers that cross-border crisis management should take place by means of a coordination framework based on harmonized resolution tools. Supervisors would be bound to consult and cooperate through resolution colleges and group resolution schemes in particular.

3.8.3 Financing Resolution

The commission intends to apply the communication on the creation of national bank resolution funds. It wishes to establish a strong link between the new resolution framework and financing managements. In certain member states, deposit- guarantee schemes may finance some resolution funds.

Resolution funds should benefit from a harmonized basis for the calculation of contributions. Banks covered by the crisis management framework will contribute to such funds in the form of shared responsibilities.

3.83 Reforming the Financial System

In this communication, the commission presents the reforms that are envisaged by the European Union in the financial sector. These reforms aim at improving the transparency, supervision and stability of financial markets. They are also directed at increasing the protection of investors and consumers. Furthermore, these reforms supplement the reforms that were already iniitiated following the 2008 financial crisis.

ACT: Communication from the commission to the European parliament, the Council, the European Economic and Social committee and the European Central Bank of 2nd June 2010- regulating Financial services for sustainable growth (com (2010) 301- Not published in the official Journal)

SUMMARY: The reforms undertaken by the European Union (EU) in the financial sector are aimed at making the financial system safer and more responsible in order to foster the development of sustainable economic growth.

The proposals made in this communication supplement the reforms that were already initiated following the 2008 financial crisis and the G20 summits. The proposals pursue four main objectives: Enhancing the transparency of markets; Establishing effective supervision and enforcement in the financial sector and strengthening the responsibility of financial actors and improving consumer protection.

1. **ENHANCING THE TRANSPARENCY OF MARKETS**: the commission notes that lack of transparency in the financial sector was one of the main triggers of the 2008 financial crisis. It therefore intends to enhance transparency in terms of transactions, products and the sectors in financial markets.
   Supervisory authorities, investors and consumers will thus have access to more reliable information about markets.
   The commission also intends to improve the reliability and quality of financial ratings. They are produced by credit rating agencies that are responsible for giving an appreciation of risk as regards financial solvency. The first regulation on credit rating agencies was adopted following the 2008 crisis.

2. **ESTABLISHING EFFECTIVE SUPERVISION AND ENFORCEMENT**: The commission plans to set up several financial supervision organizations:
   - A European Systemic Risk Board tasked with detecting the macro- economic risks which might lead to crisis situations
   - A European Supervisory Authority for the Banking marking
   - A European Supervisory Authority for the securities market.

   The commission also intends to combat excessive and irresponsible speculation through an effective system sanctions. In particular, it plans to harmonise the practices of national financial authorities in order to improve their effectiveness.

3. **ENHANCING THE RESILIENCE AND STABILITY OF THE FINANCIAL SECTOR**: The commission intends to regulate the capital held by banks more effectively. Banks' capital guarantees their solvency in the event of difficulties. It is essential to encourage banks to increase their capital under favourable economic conditions so that they are able to withstand crisis situations.

The commission will also present an action plan for crisis management. This plan should lead to a series of proposals for a complete set of tools for prevention and resolution of failing banks.

Strengthening the responsibility of financial actors and improving consumer protection: the reforms aim to restore the confidence of investors and customers in financial markets. To this end, in July 2010, the commission proposed a review of the regulations of deposit guarantee schemes in order to protect depositors effectively throughout the EU. The commission is also to prepare proposals to improve investor compensation and the compensation offered to insurance policy holders in case of a failing insurance company.

4.0 BANK REFORM AND IT IMPACT ON THE ECONOMY

According to [10], financial reforms are deliberate policy response to correct perceived or impending financial crises and subsequent failure. Ref [11], opined that the objectives of banking reforms in Nigeria include; to improve the regulatory framework and procedures in order to prevent bank distress; to promote healthy competition in the provision of banking services; to expand the savings mobilization base in support of investment and growth through market-based interest rates; to reduce government interference in the market to ensure optimum allocation of resources and to provide a conducive enabling environment by laying the basis for minimal inflationary growth.

Ref [12] assessed the contribution of the financial sector reforms on savings, investment, and growth of gross domestic product (GDP) of the Ghanaian economy. He employed the Regression analysis and saving-investment model and the result of his finding showed that financial sector reforms stimulated savings, investment and growth of GDP and consequently economic growth by increasing the rate of capital accumulation and improving the optimum allocation of capital.

In study, [13]) examined whether financial sector reforms lead to financial development in multiple countries. Their findings revealed a positive impact of banking reforms on economic growth especially in those countries where institutional environment was conducive. Ref [14] examined the

effectiveness and efficiency of financial reforms on Nigerian financial institutions with emphasis on the banking sub-sector. He employed the classical least squares techniques and the results obtained showed that the performance of the financial sector has been greatly influenced over time by the reforms which began in 1986. Ref [15] assessed the impact of banking and enterprises reforms and other factors on banking development in transition economies at both aggregate level and that of individual banks. The study used the new panel data set of 515 banks in 16 transition economies for the period between 1994 to 1999 for the analysis. From his findings, it was evidenced that progress in banking reform is essential for banking development which inevitably affects economic growth. Ref [16] investigated the influence of banking sector reforms on economic growth in Nigeria over the period 1999 to 2009. Using the ordinary least square regression technique, it was established that interest rate margins, parallel market premiums, total banking sector credit to private sector, inflation rate, inflation rate lagged by one year, size of banking sector capital and cash reserve ratio account for a very high proportion of the variation in economic growth. Except total banking sector capital, other exogenous variables were found to revealed wrong signs with economic growth. Ref [17] examined the effect of financial sector reforms as a panacea to capital market growth in Nigeria. Two approaches were employed in their study, the first approach involves the comparison of the capital market variables before and after the adoption of financial sector reform and the second approach is a regression analysis. Overall, the main findings indicated that the financial sector reform in Nigeria has led to a significant improvement and growth of the capital market. Ref [18] conducted an empirical analysis of financial reforms in Pakistan to examine whether it affects economic growth. It explored correlation among economic growth, deposits, lending, real interest rate, savings, and inflation, taking data of thirty-six years (1973-2008). The regression analysis showed a positive impact of financial reforms on the growth of the Pakistani economy. . Study by [19] investigated the impact of financial reforms in two countries (India and China). The study was able to provided evidence that banking reforms enabled India to overcome the problem of bad debt by allowing new entrant into market while China restored its state-owned banks by establishing asset management institutions. Ref [20], investigated the effects of market-based financial sector reforms on the competitiveness and efficiency of commercial banks, and economic growth in Zambia. The results show that reforms adopted in Phase II and III had significant positive effects on bank cost efficiency. They also found using an endogenous growth model that bank cost efficiency, financial depth, Phase II and III financial sector reforms, degree of economic openness, and rate of inflation are significant determinants of economic growth. Phase II policies and inflation rate have adverse effects while the rest of the variables have positive impact on economic growth. Ref [21] observed that in a developing economy, such as Nigeria, financial sector development has often been accompanied by structural and institutional changes and the sector generally have long been recognized to play a crucial role in economic development of the nation. Banking reforms have been a continuum phenomenon around the world right from the1980s, but has been intensified in recent time because of the impact of globalization which is precipitated by continuous integration of the world market and economies [3]. Ref [22] explained that the goal of the reform 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 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.

According to [23], the bank reforms were also to ensure the safety of depositors' money, position banks to play active developmental roles in the Nigerian economy, and become major players in the sub-regional, regional and global financial markets.

According to [24]), the key elements of the 13-point reform programme in Nigeria include: Minimum capital base of N25 billion with a deadline of 31st December, 2005; Consolidation of banking institutions through mergers and acquisitions; Phased withdrawal of public sector funds from banks, beginning from July, 2004; Adoption of a risk-focused and rule-based regulatory framework; Zero tolerance for weak corporate governance, misconduct and lack of transparency; Accelerated completion of the Electronic Financial Analysis Surveillance System (e-FASS); The establishment of an Asset Management Company; Promotion of the enforcement of dormant laws; Revision and updating of relevant laws; Closer collaboration with the EFCC and the establishment of the Financial Intelligence Unit [25]. Finding by [26] established that there bank reforms impacts on the performance of banks as well as on the Nigerian economy. She then noted the importance of new evolved banking groups in understand the implications of their consolidation in order to be a successful unit, both in the short and long run which will in turn benefit the banking industry and the Nigerian economy at large. It is clear that the

reforms has affected the performance of the banking sector over the period, thus for a stronger and more resilient banking and financial system, banks need to improve their current state of development to be truly classified amongst the top banks in the world. In summary, she opined that some of the reforms have come too soon and thus, rendering sections of the economy such as the lower class, illiterates and the economically active poor incapable of banking transactions. A very good example is the cashless policy in Lagos State, and also the minimum withdrawal requirement set upon banks by the Central Bank of Nigeria. This paper therefore recommends that the implementation of these newer reforms should be made to evolve in a gradual process for proper enlightenment and entrenchment. She advocated the need for the Central Bank of Nigeria (CBN) in endeavoring to capture the short and long term implications, on all sectors of the economy particularly the rural sector, when making future policy recommendations. The banks should endeavor to drive zero tolerance for inadequate corporate governance and imbibe best practices, improve on self-regulation, institute IT-driven culture and seek to be competitive in today's globalizing world. This would ensure that the public sectors confidence in them is guaranteed.

5. METHODOLOGY AND MATERIALS

5.1 Population of Study and Source of Data Collection

The area of study covered is only a comparative study of both pre (Before reform) and post (after reform) recapitalization era of Zenith Bank Nigeria plc. A total of 8 annual reports from 2006- 2013 post recapitalization era consist the population of the study

5.2 Variables Definition

The variables examined in this study are principally capital and risk covering for the banks. This is to show the extent to which the banks are prepared to be able to handle problems that may evolve during a banking crisis.

In this study, capital is first defined as share capital which is ordinary share capital since none of the banks has preference shares. Other components of equity funds are excluded because they are amenable to earnings management, negative creative accounting or window dressing which can distort financial information. This is the stricter definition of capital. The second definition of capital is equity funds capital. This expands capital to include reserves but excludes long term debts because it represents obligations of banks to outsiders and not true capital that owners can use as cushion to protect liabilities to others.

The risk of banks is measure in terms of the default that may arise from the amount of loans and advances given to customers. This is the most basic measure of risk. It is further measured by the possibility of default on risky assets (made up of loans and advances under finance lease, investment securities and amount due from other banks). Another measure of risk used in the study is the protection given by equity funds capital to the customers' deposits. This is seen as some form of insurance coverage for depositors.

5.3 Statistical Tools Used In This Study

Statistical tools employed in this study include the paired sample t-test, the correlation analysis, mean, standard deviation, range and pictorial analysis. The paired sample t-test statistic was employed to assess the impact of the variable s on before and after reform while the correlation analysis was used in determining the extent of relationship between the before and after reform period. The pictorial analysis were employed to reveal the distribution of the data set of interest.

6. Data Analysis and Discussion

The descriptive statistics of all variables used in this study are presented in the table below. The table shows mixed patterns of relationships as indicated by the ratios. The ratio shows some measures of riskiness in the bank.

Table 1: Descriptive Statistics on capital adequacy ratios

	YEARS	n	min	max	Range	mean	Std. Deviation
Share capital to loan & Advance ratio	2007-2011	5	42.54	53.29	10.75	48.33	3.54
	2001-2005	5	12.29	40.38	28.09	24.97	10.82

Share capital to risk Assets ratio	2007-2011 2001-2005	5 5	26.86 12.47	81.97 41.11	55.11 28.64	49.34 24.97	20.85 10.89
Shareholders' funds to loan & Advance ratio	2007-2011 2001-2005	5 5	1.23 1.88	2.13 3.41	0.90 1.53	1.85 2.57	0.32 0.63
Shareholders' funds to risk Assets ratio	2007-2011 2001-2005	5 5	1.10 1.90	3.57 3.46	2.47 1.56	1.86 2.57	0.88 0.63
Shareholders' funds to customers deposits ratio	2007-2011 2001-200	5 5	3.38 4.56	5.03 8.36	1.65 3.80	1.98 5.88	0.62 1.36
	5						

Source: computed from various annual reports and accounts on both pre and post re- capitalization era of 2001- 2005 and 2007-2011 respectively

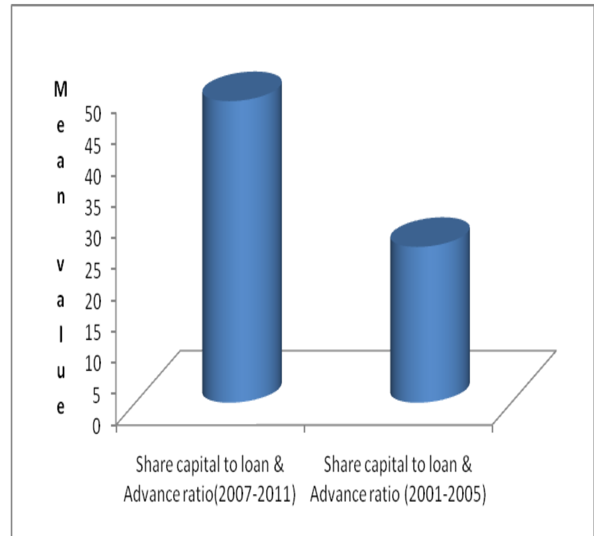

Figure1: Distribution of mean share capital to loan & Advance ratio

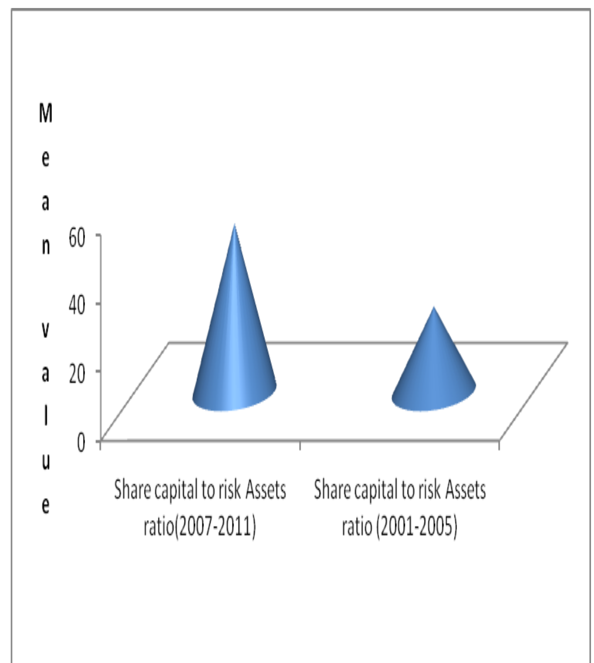

Figure 2: Distribution of share capital to risk Assets

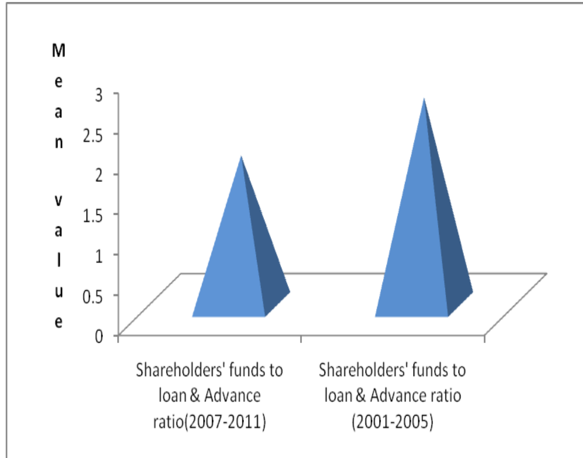

Figure 3: Distribution of shareholders' funds loan & Advance ratio

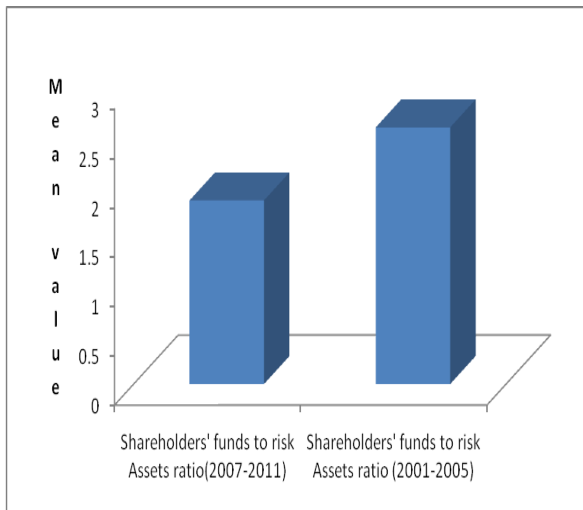

Figure 4: Distribution of shareholders' funds to risk Assets ratio

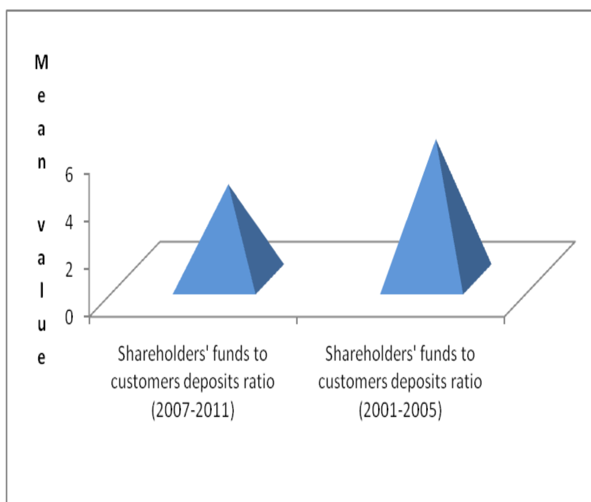

Figure 5: Distribution of shareholders' funds to customers deposits ratio

Interpretation

The result obtained in Table 1 showed that there is a very high degree of variability between the pre and post recapitalization era in terms of the calculated ratios. For instance, while the mean share capital to loans and advances in post era is 24.97, the standard deviation is for post 3.54 and pre 10.82 with range of 10.75 for post and 28.09 for pre era.

The share capital to risky assets ratio shows almost same as the share capital to loans and advance ratio except the wider difference in standard deviation on post era of recapitalization. A mean of 49.34 is the highest share capital and can cover the risk Assets ratio in times of trouble.

Shareholders’ funds to loans and advance ratio shows that only post 1.85 and pre 2.57 loans and advances is covered by the shareholder funds. Same goes for shareholders’ funds to risky Assets ratio. Again, only 3.98 shareholders’ funds to customers deposit is covered in post era; while 5.88 is covered in pre- capitalization era, showing inadequate capital coverage in all the calculated ratios.

6.1 Paired Sample Analysis on Share Capital for Before reform and After reform

H_0: Bank reform has no significant impact on share capital of Zenith bank Plc

H_1: Bank reform has significant impact on share capital of Zenith bank Plc

Table 2: Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Before Reform	1.6301E6	5	8.09044E5	3.61816E5
	After Reform	1.1392E10	5	4.82829E9	2.15928E9

Table 3: Paired Samples Correlations

	N	Correlation	Sig.
Pair 1 Before Reform & After Reform	5	.727	.164

Table 4: Paired Samples Test

		Paired Differences				t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference Lower	Upper			
Pair 1	Before Reform - After Reform	-1.13904E10	4.82770E9	2.15902E9	-1.73848E10	-5.39598E9	-5.276	4	.006

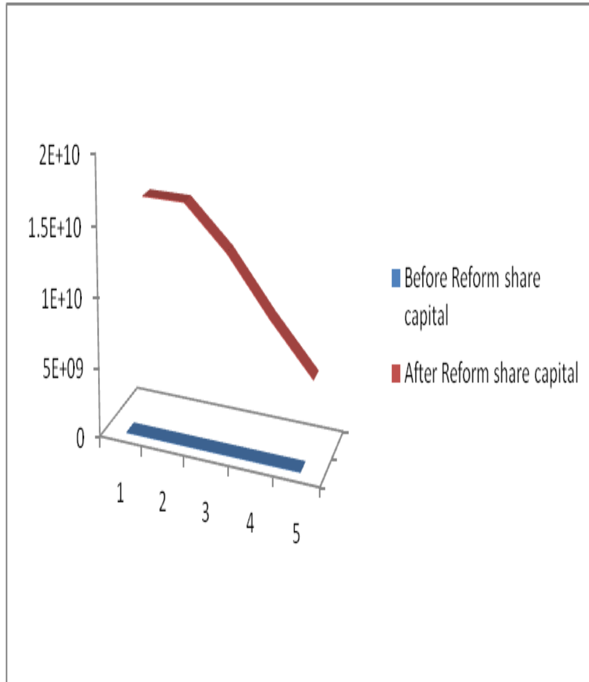

Figure 6: Distribution of share capital for before reform and after reform

Interpretation

The paired sample statistics (see Table 2) result showed a mean of 1630100 for before reform with a corresponding standard deviation of 809044 and 11392000000 for after reform with a corresponding standard deviation of 4828290000. The result showed that there exist about 72.7% relationship on share capital obtained for before reform and after reform which implies strong positive relationship (see Table 3). The result of the paired sample test (see Table 4) revealed that bank reform has significant impact on share capital of Zenith bank Plc for before reform and after reform since a t-test statistic value of -5.276 was obtained with a p-value of 0.006 which falls on the rejection region of the hypothesis assuming a 95% confidence level (since p-value= 0.006 is less than α=0.05). This result connotes the acceptance of the alternative hypothesis (H1) and the deduction that bank reform has significant impact on the share capital of the bank. Also, Figure 6 showed that the share capital for after reform to be in a decreasing trend but still greater than before reform share capital for all the period observed.

6.2 Paired Sample Analysis on Profit After Tax for Before reform and After reform

H0: Bank reform has no significant influence on profit of Zenith bank Plc
H1: Bank reform has significant influence profit of Zenith bank Plc

Table 5: Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Before Reform	4.5386E6	5	1.79270E6	8.01720E5
	After Reform	3.0575E10	5	1.24991E10	5.58975E9

Table 6: Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	Before Reform & After Reform	5	.642	.243

Table 7: Paired Samples Test

		Paired Differences						
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference Lower	Upper	t	df	Sig. (2-tailed)
Pair 1 Before Reform - After Reform	-3.05703E10	1.24979E10	5.58923E9	-4.60885E10	-1.50521E10	-5.469	4	.005

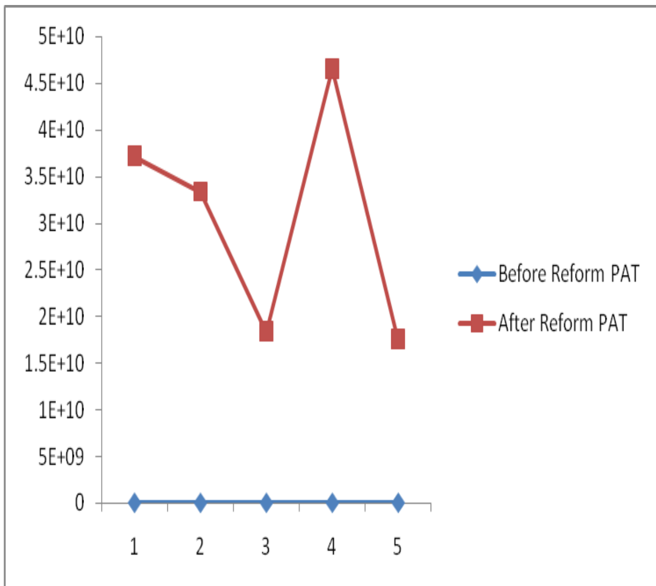

Figure 7: Distribution of profit after tax (PAT) for the before reform and after reform period

Interpretation

The paired sample statistics (see Table 5) result showed a mean of 4538600 for before reform with a corresponding standard deviation of 1792700 and 30575000000 for after reform with a corresponding standard deviation of 12499000000. The result showed that there exist about 64.2% relationship on profit after tax obtained for before reform and after reform which implies positive relationship (see Table 6). The result of the paired sample test (see Table 7) revealed that bank reform has significant influence on profit of Zenith bank Plc for before reform and after reform since a t-test statistic value of -5.469 was obtained with a p-value of 0.005 which falls on the rejection region of the hypothesis assuming a 95% confidence level (since p-value= 0.006 is less than α=0.05). This result implies the acceptance of the alternative hypothesis (H1) and the conclusion that bank reform has significant influence on the profit of the bank. Also, Figure 7 revealed that the profit after tax for after reform to be in a steeply decreasing trend but still greater than before reform profit after tax for all the period observed.

7. CONCLUSION

The study explored bank reforms and performance of banks in Nigeria using Zenith bank plc as a case scenario. It has become necessary in the face of evolving developments in the banking industry in Nigeria especially with the exchange of baton by the Central Bank of Nigeria (CBN) governors and introduction of new ideas and reforms. As a result of this, the Nigerian banking system has undergone remarkable changes in recent years, in terms of the number of institutions, ownership structure, as well as depth and breadth of operations. However the reform programme has brought about certain implications on the Nigerian banking sector which include brand and structural implication. A similar behavior in terms of the capital adequacy in both pre and post recapitalization era, though they expressed different capitalization. The ratios obtained showed in adequate capitalization of the bank and the need for recapitalization as a parameter to ensure capital adequacy of the bank. This observation suggests that if there is a major run on the banking system, the system may be plunge to instability. To ensure stability and growth of the banking system, there is need to demand higher recapitalization from the bank.

The result of the findings showed that there exists a very high degree of variability between the pre and post recapitalization era in terms of the calculated ratios. The share capital to risky assets ratio showed almost same as the share capital to loans and advance ratio except the wider difference in standard deviation on post era of recapitalization. Also, it was found that there exist about 72.7% relationship on share capital obtained for before reform and after reform which implies strong positive relationship. The result further

revealed that bank reform has significant impact on share capital of Zenith bank Plc for before reform and after reform. In addition, it was observed that there exist about 64.2% relationship on profit after tax obtained for before reform and after reform which implies positive relationship. Findings showed that bank reform has significant influence on profit of Zenith bank Plc for before reform and after reform; hence, bank reform was able to boast profitability of Zenith bank Plc.

8. RECOMENDATIONS

Based on the empirical findings, it is necessary to make policy recommendations. It is recommended that;

(a) regulators should ensure that only quality capital is recognized in assuring the capital adequacy of the banks. The bank should not be giving minimum capitalization requirements this is because capitalization expected from each bank should be a function of some measure of the volume of activities by the bank such as average outstanding customers deposits loans and advances or risky assets. This could imply the bank capitalization not being static but based on some dynamics within the banks. Hence, there is need for higher standard of corporate governance from the banks. Also, it is expected that among the requirement, the banks must practice higher transparency and minimize window dressing and unethical creative accounting.

(b) The regulatory and supervisory framework should be further strengthened to ensure stability and promote public confidence in the banking system.

(c) There is also the need to give room for more deregulation of banking activities.

(d) Government should always properly implement banking reforms in the correct sequence by first maintaining macroeconomic stability.

REFERENCES

[1] U. M. Ogbunuka, Banking Sector Reforms and Bank Consolidation: The Experience of Turkey, *CBN Bullion*, Vol.29 (2), April-June 2005

[2] M. Ajayi, Banking Sector Reforms and Bank Consolidation: Conceptual Framework, *CBN Bullion*, Vol. 29(2), April-June 2005

[3] A. A. Adegbaju, and F. O. Olokoyo , Recapitalization and Bank's Performance; A case study of Nigerian Banks, *African Economic and Business Review*,Vol.6, No.1.pp 1-4, 2008.

[4] W. Connors, Nigeria Plan $2.6 billion banks bailout, ousts top executives, *The Wall Street Journal*, 2009, Wsj.com

[5] B. Bernanke & M. Gertler, Banking and microeconomic equilibrium in "New approaches to monetary economics" (Barnett, W and Singleton, K, ed.) 89-111 New York, Cambridge University Press, 1987.

[6] A. Almazan, A model of competition in banking: Bank capital vs. expertise. *Journal of Financial Intermediation*, 11, 87-121, 2002.

[7] M. Kennedy & M. Johnston, Risk, capital and economic profit-Are we seeing the full picture *Pricewaterhousecorpers, The journal, Special risk management Edition, 2004*.

[8] S. Carnido & S. P. Garibian, Comparison shows Latin American large banks' risk-adjusted capital is adequate in general and a neutral to positive for ratings, 2011. Available at www.standardpoors.com.

[9] J. A. Jagtiani, Kolari, C. M. Lemieux, & C. H. Shin, Predicting inadequate capitalization: Early warning system for bank supervision. Federal Reserve Banks of Chicago, Policy studies, 2000 (S & R-2000-10R).

[10] B. B. Ebong, Banking Sector Reforms: Opportunities and Challenges, *Union Digest* 10(12), 2006.

[11] S. E. Omoruyi, The Financial Sector in Africa: Overview and Reforms in Economic Adjustment Programmes, *CBN Economic and Financial Review*, 29 (2), 110-124, 1991.

[12] G. N. Asamoah, The Impact of the Financial Sector Reforms on Savings, Investment and Gross Domestic Product (GDP) in Ghana, *International Business and Economic Research Journal*, Vol. 7(10), 73-84, 2008, Banking System", Paper presented at the NDIC organised Workshop for FICAN Enugu.

[13] T. Tressel, & E. Detragiache, Do Financial Sector Reforms Lead to Financial Development? Evidence from a New Dataset", IMF Working Paper No. 08/265, 2008, International Monetary Fund, Washington D.C

[14] B. O. Iganiga, Evaluation of the Nigerian Financial Sector Reforms Using Behavioural Models, *Journal of Economics*, 1(2), 65-75, 2010.

[15] S. Fries, & A. Taci, Banking Reform and Development in Transition Economies", EBRD Working Paper No. 71, 2002, European Bank for Reconstruction and Development, London

[16] S. O. Fadare, Recent Banking Sector Reforms and Economic Growth in Nigeria, Middle Eastern Finance and Economics, Issue 8, 146- 160, 2010.

[17] C. A. Jegede, & J. O. Mokuolu, Financial Sector Reform: A Panacea to Capital Market Growth, Proceedings of the Annual Conference of the Nigerian Society for Financial Research on Financial Liberalization and Growth in Developing Countries: A Reassesment, University of Lagos, November 10-12, 102-107, 2004.

[18] W. Rehman, Banking Reforms and Economic Growth: A Case Study of Pakistan, *International Conference on Financial Management and Economics*, Vol. 11, 405-409, 2011.

[19] L. Saez, (2001), Banking Reform in India and China, *International Journal of Finance and Economics*, 6(3): 235-244, 2001.

[20] A. Mwenda & N. Mutoti, Financial Sector Reforms, Bank Performance and Economic Growth: Evidence from Zambia, *African Development Review*, 23(1): 60-74, 2011.

[21] O. Kanayo, *Financial Sector Reforms in Nigeria: Issues and Challenges*, Enugu, African Institute for Applied Economics, 2011.

[22] T. Lemo, Regulatory Oversight and Stakeholder Protection, *Paper presented at the BGL Mergers and Acquisitions Interactive Seminar, held at Eko Hotels & Suits. V. I*, 2005.

[23] J. A. Afolabi, Implications of the Consolidation of Banks for the Nigerian, 2004.

[24] Central Bank of Nigeria, Banking Supervision Annual Report, Abuja, CBN Press, 2006.

[25] C. Soludo, Consolidating the Nigerian Banking Industry to Meet the Development Challenges of the 21st Century, Being an address delivered to the Special Meeting of the Bankers' Committee, held on July 6, at the CBN Headquarter, Abuja, 2004.

[26] F. O. Olokoyo, Bank Reforms and performance of Banks in Nigeria. International Journal of Education and Research, 1(9): 1-10, 2013.