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Effect of Merger and Acquisition on Growth and Profitability of Money Deposit Bank – A Case Study of Access Bank Plc, Nigeria

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Abstract

The study used bank's profitability indices – profit after tax (PAT), shareholders' fund (SHF) and total assets (TOA) data of a period spanning 2005 to 2019 for Intercontinental Bank Plc, Diamond Bank Plc and Access Bank Plc to investigate the effect of merger and acquisition on the growth and profitability of Access Bank Plc. Between 2005 and 2019, Access Bank Plc first, acquired Intercontinental Bank Plc, and later merged with Diamond Bank Plc. The performance indices of the test Banks before and after acquisition and merger were extracted from the Banks' Annual Reports, subjected to statistical analysis for paired mean comparison, trend analysis (regression) and coefficient of determination using Microsoft Excel Statistics Toolkit. The study established the growth pattern and significant differences in banks' performances before and after the acquisition/merger. The findings revealed that Access Bank Plc had a double benefit, the first from the acquisition of Intercontinental Bank Plc, and the second from the merger with Diamond Bank Plc. Mean PAT, SHF and TOA were ₦ Billion 11.90, ₦ Billion 128.50 and ₦ Billion 644.50, respectively before acquisition of Intercontinental Bank Plc, whereas they were ₦ Billion 50.60, ₦ Billion 325.02 and ₦ Billion 2242.23, after the acquisition. The merger with Diamond Bank Plc resulted in remarkable increases in the Access Bank Plc's PAT (7.47%), SHF (18.81%) and TOA (37.12%) in a year (2018 - 2019). Consequently, Access Bank Plc became bigger with more branches, Automated Teller Machines and customers. Besides, it transformed from its traditional wholesale banking institution to a balance financial service provider.

Keywords: Access Bank Plc; Shareholders'Fund; Total Asset; Profit after tax; Bank consolidation.

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1. Introduction

The Nigeria banking sector had 89 banks before the banking reform agenda of 2005 (Olagunju & Obafemi, 2012). Hitherto, the banks were characterized by a low capital base, operational decay, loss of public trust and confidence in the banking business, and inadequate forex supply for the exchange of goods. Consequently, there was continued depreciation of Naira (₦), the country currency to US dollar and poor domestic credit policies. Meanwhile, world business risks had continued to threaten the long-run survival of Nigerian banks. The Central Bank of Nigeria (CBN) banking reform agenda ordered recapitalization while encouraging consolidation among Nigerian banks through mergers and acquisition format to boost the capital base of the banks (Soludo, 2004). Therefore, the 13-point banking reform agenda saw the Nigerian money deposit banks meeting a mandatory minimum capital base of ₦25Billion, which may be achieved through the acquisition of weaker banks and or through the merger of banks. Indeed 25 banks (either with old or new identities) emerged from the merger and acquisition processes involving 75 old banks. The failed banks had their operating licenses withdrawn by the apex bank. Also, the reform agenda (CBN, 2011) encouraged banks to achieve cost efficiencies through diversification, economies of scale, expansion of their product range, and improvement of activities which can bring about an increase in performance.

Anthony (2008) believed that mergers and acquisitions were able to address the insolvency in banks, in addition to being useful for the growth of firms. Besides, it raises performance (i.e profitability) of banks in the long run. De-Nicolo, (2003) opined that mergers and acquisitions practices in the finance sector impacted positively on the operations of many banks that have adopted the practice for their survival. Akpan (2007) asserted that the process of allowing banks to consolidate enhanced customers' trust in the banking business in Nigeria due to their resultant increased earnings after consolidation and recapitalization process. Afolabi (2011) noted that merger and acquisition have issues concerning implementation in terms of payment efficiency and distress resolution where a strong organization decides to take over a weak business that is not doing well, to save the business from going bankrupt. The attention of regulatory authority is needed so prevent the healthy entity from experiencing solvency problems. In a study where two banks were used as the sample size, Joshua (2010) explained that in the post-consolidation era the banks make more revenue than the pre-consolidation period. Olagunju & Obademi (2012) stated that during the banking reform of 2005 in Nigeria, there was a significant relationship between merger and acquisition, the capital base of the firms, and the resultant improved profit recorded in the period after 2005. Ikpefan & Kazeem (2013) examined the obstacles encountered by Nigeria banks during the recapitalization period and noted that merger and acquisition of the sampled banks did not affect the banks' cost of equity but had effects on the banks' performance. On the contrary, however, Odetayo & Olowe (2013) noted that consolidation and recapitalization did not affect the bank's profit significantly. Owolabi & Ogunlalu (2013) concluded that consolidations or merging and acquisition would not always automatically amount to increased return on investment of banks. They discovered that capital alone did not result in an excellent performance.

Given the conflicting reports on the effects of merger and acquisition on the performance of deposit money banks after consolidation, the present study aimed at investigating the banking business in Nigeria with a particular reference to Access Bank Plc more so the bank experienced the transformation processes. The bank, after the surviving consolidation era of 2005, acquired 75% majority shareholding of Intercontinental Bank, Plc, in 2011 (Oyebode, 2012). Also, the bank's shareholders approved the merger with Diamond Bank, Plc in 2018, and subsequently, the bank became the largest bank in the country in terms of customer base and total asset (Bello-Olusoga, 2019). The present study answered the questions as to whether or not merger and acquisition had a remarkable influence on the profitability, shareholders'fund, and total assets of Access Bank PLC.

2. Methodology

2.1 Case Study

Access Bank Plc, licensed by CBN in 1989 and listed on the Nigeria Stock Exchange in 1998, is a full-service commercial bank with its headquarter in Nigeria, west of Africa. Intercontinental Bank Plc was established in 1989 as Intercontinental Merchant bank, it transformed to Intercontinental Bank Limited, a commercial bank, this Bank was listed on the Nigeria Stock Exchange. Diamond Bank Plc started in 1991. The Bank, although incorporated in 1990, became a universal bank in 2001. Diamond Bank Plc was listed on Nigeria Stock Exchange in 2005. The CBN later repealed the Bank's universal banking model and converted its license to international commercial bank business. With its mission of becoming one of the top three largest commercial banks in Nigeria in focus, the Access Bank Plc after the consolidation era of 2005 began the process of acquisition of Intercontinental Bank Plc and got that mission actualized in 2011. In furtherance of its mission, in 2018 Access Bank Plc got into a merger with Diamond Bank Plc. Besides being located in all major commercial centres and cities across Nigeria, the Bank has branches in some West and East African countries and the United Kingdom. The bank also has representative offices in the Republic of China, Lebanon, the United Arab Emirates, and India (Access Bank Annual Reports, 2019).

2.2 Data collection & Statistical Analysis

Indices of performance including Profit After Tax (PAT), Shareholders'Fund (SHF) and Total Assets (TOA) reported by the Access Bank Plc six years before and after the acquisition of Intercontinental Bank Plc (i.e. 2006 -2017) and those indices reported by Diamond Bank Plc six years before its merger with Access Bank Plc (i.e. 2012 - 2017). Available performance data of the Access Bank Plc and Diamond Bank Plc after the merger was compared. Bank's performance data were collected through secondary sources, that is, from the Annual Reports and Accounts of the Access Bank Plc the Intercontinental Bank Plc, and the Diamond Bank Plc. The Annual Reports are reliable statutory reports and they are a true representation of the official reports of banks. Consequently, they are reliable documents of any business entity that is accessible to the public. PAT, SHF, and TOA data collected were subjected to both descriptive and inferential statistical analysis using Statistical Toolkit of Microsoft Excel to establish trends and significant differences in banks'performance, pre, and post-merger/post-acquisition. Correlation and regression analysis were done to establish relationships and trends in performance respectively.

3. Results and Discussion

The results presented in Table 1 shows the performance data recorded in the Annual Reports of the three Banks selected for the case study before the acquisition and merger arrangements. The results showed that the three Banks had their performance indices increased progressively between 2005 and 2008. However, Intercontinental Bank Plc showed remarkable higher values in the indices than the two other Banks. Indeed, the results of significance in Table 2 showed that PAT and TOA of Intercontinental Bank Plc were significantly higher ($P>0.05$) than those of the Access Bank. Also, Intercontinental Bank's SHF was higher but not significantly different from the Access' ($P<0.05$). The results were suggestive of a better performance by the Bank before the acquisition by Access Bank. Also, it appeared that the acquisition plan of Access Bank Plc was a good decision and a good move. Consequently, the performance of Access Bank Plc before and after the acquisition of the Intercontinental Bank Plc was reviewed by comparison of the values of the three indices from the financial year 2006 to 2017.

Table1 Performance data for Intercontinental Bank Plc, Access Bank Plc and Diamond Bank Plc for 2005 to 2019*§

Year	Intercontinental Bank Plc			Access Bank Plc			Diamond Bank Plc		
	PAT	SHF	TOA	PAT	SHF	TOA	PAT	SHF	TOA
2005	5.02	32.58	164.35	0.5	14.07	66.92	2.53	20.71	124.99
2006	8.6	53.91	360.9	0.74	28.89	174.55	3.85	34.97	223.05
2007	14.81	155.87	663.54	6.08	28.38	328.62	6.93	53.89	312.25
2008	34.77	200.41	1,392.21	16.06	172	1,043.47	11.82	116.98	603.33
2009				22.01	173.15	647.57	2.05	110.36	604
2010				12.9	182.8	726.9	6.52	116.88	548.4
2011				13.6	185.8	945.9	-13.72	85.98	796.23
2012				31.6	187	949.4	22.11	108.86	1,178.10
2013				31.1	237.6	1,516.80	29.76	138.3	1,354.93
2014				39.9	274.2	1,981.00	22.06	205.66	1,750.27
2015				58.9	360.4	2,411.00	3.8	208.08	1,555.08
2016				76.6	421.7	3,094.90	1.97	211.34	1,662.51
2017				65.5	469.2	3,499.70	0.86	213.56	1,687.56

2018	68.1	440.8	3,968.10	7.36	28.34	1,374.29
2019	73.6	542.9	6,311.00	2.53	20.71	124.99

*PAT= Profit after tax; SHF = Shareholder funds; TOA = Total asset
[§]All values are expressed in ₦'Billion

Table 2. t-Test: Paired Two Sample for Means of Performance indices of Intercontinental Bank Plc and Access Bank Plc*

	PATI	PATA	SHFI	SHFA	TOAI	TOAA
Mean	15.8	5.845	110.6925	60.835	645.25	403.39
Variance	176.2965	53.0105	6472.017	5539.478	290134.5	193624.3
Observations	4	4	4	4	4	4
Pearson Correlation	0.992772		0.777942		0.989557	
Hypothesized Mean Difference	0		0		0	
Df	3		3		3	
t Stat	3.257391**		1.920633[n.s]		3.993058**	
P(T<=t) one-tail	0.023612		0.075272		0.014068	
t Critical one-tail	2.353363		2.353363		2.353363	
P(T<=t) two-tail	0.047225		0.150544		0.028136	
t Critical two-tail	3.182446		3.182446		3.182446	

*PATI = PAT Intercontinental Bank; PATA = PAT Access Bank; SHFI = SHF Intercontinental Bank; SHFA = SHF Access Bank; TOAI = TOA Intercontinental Bank; TOAA = TOA Access Bank.

**Significant (P>0.05); [n.s.]Not Significant (P<0.05)

The results presented in Table 3 showed that the average mean values of PAT, SHF, and TOA of Access Bank Plc before the acquisition of Intercontinental Bank Plc were significantly (P>0.05) lower than mean values attained after the acquisition exercise. The remarkable enhancement of the Access Bank's performance within six years after the acquisition exercise supports the results earlier workers who showed that a positive relationship existed between merger and acquisitions and profitability with a positive effect on the shareholders'fund (Akpan, 2007; Joshua, 2010; Ikpefan & Kazeem, 2013; Onikoyi & Awolusi, 2014). However, the findings were contrary to those of Odetayo & Olowe, (2013) did not observe in a merger and acquisition a significant effect on the financial performance of banks.

Table 3. t-Test: Paired Two Sample for Means of performance indices of Access Bank Plc before and after acquisition Intercontinental Bank Plc**

	PAT/BF	PAT/AF	SHF/BF	SHF/AF	TOA/BF	TOA/AF
Mean	11.89833	50.6	128.5033	325.0167	644.5017	2242.133
Variance	56.36514	364.528	6012.764	12132.22	115490.3	920531.9
Observations	6	6	6	6	6	6
Pearson Correlation	0.580798		0.8285		0.725195	
Hypothesized Mean Difference	0		0		0	

df	5	5	5
t Stat	-5.94369*	-7.61798*	-5.215*
P(T<=t) one-tail	0.000963	0.00031	0.001712
t Critical one-tail	2.015048	2.015048	2.015048
P(T<=t) two-tail	0.001926	0.00062	0.003424
t Critical two-tail	2.570582	2.570582	2.570582

**PAT/BF = PAT before; PAT/AF = PAT after; SHF/BF = SHF before; SHF/AF = SHF after; TOA/BF = TOA before; TOA/AF = TOA after

*Significant (P>0.05)

Acquisition or takeover has been defined as the act of purchasing the controlling interest of an organization by another business entity such that the acquired company becomes the subsidiary or a division of the acquirer company (Nwude, 2013). The author added that its advantages in business include a reduction in risk, improved business techniques, technological exchange, improved profits, open market listing, and the ability to assess a larger loan (Nwude, 2013).

The merger of Access Bank Plc and Diamond Bank Plc began in 2018 and completed a year later. Therefore, there is very little performance data to date to assess the performance of the Access Bank Plc post-merger period. A casual look at the performance of both banks in 2019 shows that while Access Bank Plc showed remarkable increases in the PAT (7.47%), SHF (18.81%) and TOA (37.12%) from 2018 to 2019, the reverse was the case for Diamond Bank Plc. The latter recorded decreases of 65.63%, 28.83%, and 90.91% in PAT, SHF, and TOA, respectively. However, the study of performances of both Banks in the pre-merger period to indicate their strength was done. Graphical representations of the growth pattern of both Banks for six years before the merger (i.e. 2012-2017) are presented in Figures 1-3. The graphs of the trends in PAT (Figure 1), SHF (Figure 2) and TOA (Figure 3) show the regression equations that best describe the trends and from which projections can be made and R^2, coefficient of determination of the curves.

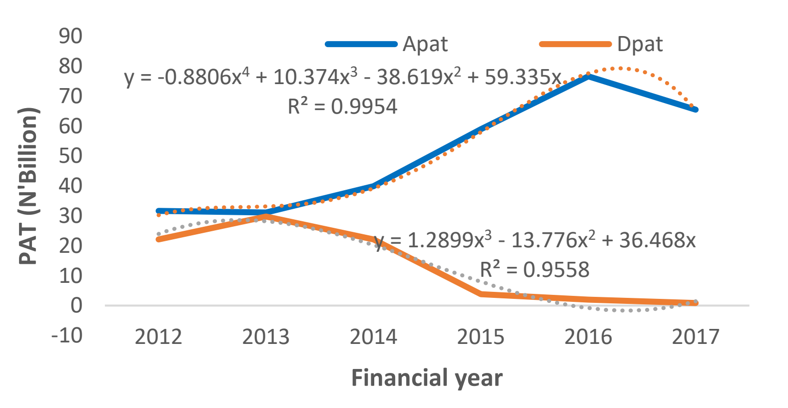

Figure 1. Profit After Tax of Access Bank Plc and Diamond Bank Plc (2012-2017)

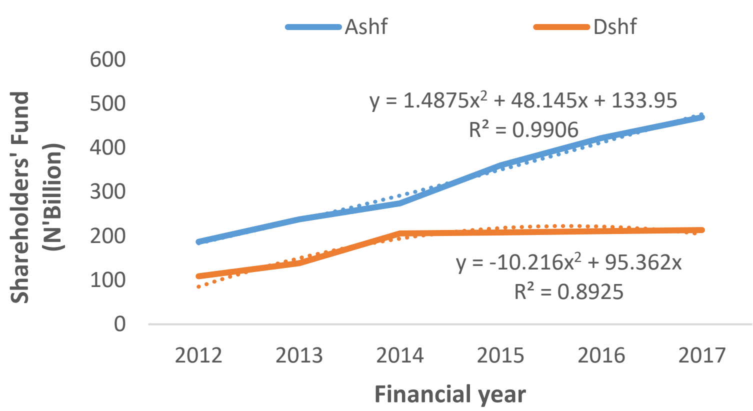

Figure 2. Shareholders' Fund of Access Bank Plc and Diamond Bank Plc (2012-2017)

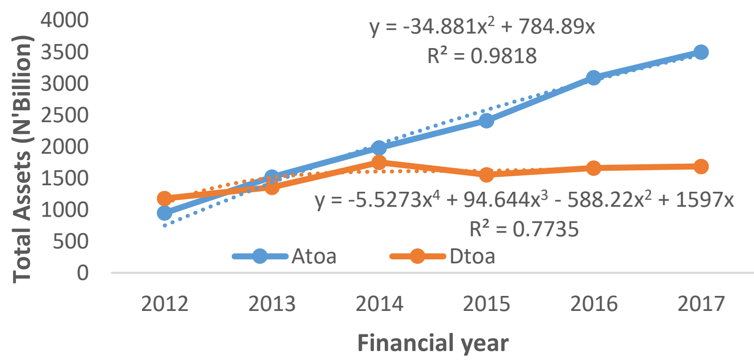

Figure 3. Total Assets of Access Bank Plc and Diamond Bank Plc (2012-2017)

The graphs revealed that both Banks showed similar Profit after tax in 2012 and 2013. Afterwards, it rose sharply up to 2016 and stabilized thenceforth in Access Bank. On the other hand, it plummeted sharply and stabilized at a low level in Diamond Bank Plc. Also, both Banks showed similar strength in shareholders' funds and total assets up to 2014 when Access Bank Plc continued to increase while Diamond Bank Plc declined. The decline in the performance of Diamond Bank Plc during the period might be due to the merger arrangements that were in the final stages and the winding down of its operations, whereas Access Bank Plc received a substantial boost in the shareholders' fund and total assets.

Ikpefan and Kazeem (2013) observed that a merger involves two businesses or firms of relative same size and strength, deliberately decided to form a culturally new business organization. Also, according to Nwude (2013), a merger is seen as an aspect of corporate strategy, corporate finance, and management dealing with the combining of different companies that can aid, finance, or help a growing company in a given industry to grow rapidly without having to create another business entity. One or more firms can come together to create a new business organization with an existing firm through consolidation, where the newly created business entity inherited the assets and liabilities of the firms that came together to form the new business. The other businesses that come to join a new one will wound up, the merger is thereby finalized when the available shares are distributed among the new owner of the new and larger firm that merged.

Access Bank Pl, through the acquisition of Intercontinental Bank Plc, took advantage of synergy theory to increase its branches, thereby enjoying the advantages provided from the economy of scale. Also, the Bank transformed from its traditional wholesale banking institution to a balance financial service provider and had an increased customer base and diversified board members with high-level management skills. The Bank expanded to become one of the largest four commercial Banks in Nigeria with over 5.7 million customers, 309 branches, and over 1,600 Automated Teller Machines (ATMs) was created (Wigwe, 2018). The key business segments of Access Bank Plc are corporate and investment banking, commercial banking, business building, and personal banking. Its merger with Diamond Bank's best digital technology innovation and customer-centricity resulted in the diversity of the Bank with over 36 million customer networks (Wigwe, 2019).

4. Conclusion

The consequent growth patterns as indicated by the three performance indices of Access Bank Plc before and after the acquisition and merger exercises, it may be concluded that the Access Bank Plc had a double benefit, the first from the acquisition of Intercontinental Bank Plc, and the second from the merger with Diamond Bank Plc. The Bank's profitability was raised enlargement of its market share which includes shareholders fund, enlarge customer base, increase profit and total assets. The Bank became bigger with more branches, Automated Teller Machines and customers. Besides, it transformed from its traditional wholesale banking institution to a balance financial service provider.

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