

BANKING RECAPITALIZATION AND ITS ACCOUNTING IMPLICATION IN NIGERIA

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Abstract

In the recent developments in the financial sector, particularly the recapitalization of banks and its attendant effects have triggered a more focused attention on the activities of the recapitalized banks. Furthermore, as banks continue to struggle with profitability in sluggish and complex economy, recapitalized banks are further being challenged to demonstrate their contributions to the economy and national development. It is on the above premise that this study was designed to examine the recapitalization of banks and its accounting implications. The highs and the lows of the exercise was brought to the fore.

The study adopted survey for data collection and analysed using chi-square method.

In line with findings, recommendations were offered to relevant offices and public in general.

Introduction

This study shall focus deeply on the accounting implications of recapitalization of banks (commercial) in Port Harcourt. The banking industry has gone through the refinery of fire of the central bank and at the end of an 18 month regulatory surgery, the shape of a new banking has emerged. History has been made in the banking reform that was a regulatory characteristics of the entire banking industry free of financial distress. It was an opportunity to unmask the defects in the system and tackle finally the problem of systematic distress in the industry.

It is indeed a regulatory feat to have shrunk the 91 banks in the system to about 26 in a matter of 18 months. A change is being, made from mushroom to mega banking and banks with much bigger financial muscles have begin to take their places in an industry that is entirely reborn.

Banking recapitalization strategies have followed two main approaches and each has its implications on performance quality on post consolidated recapitalized operating environment. The first is using large understanding reserves to meet the minimum banks. Such banks now have already relatively low volume of shares in issue, which means rates of returns are not likely to decline.

Banking in Nigeria has been for over 60 years and by all measures has not been totally successful however the banking industry and the Nigeria economy are going through a tumultuous change at an unprecedented pace. It is clear to the management of these banks that the market environment in the future will be intensely competitive and challenging and that the strategies that made banks "successful" over these past years may not be suitable for the next few years ahead.

It is in respect to the above scenario that this study is being embarked upon to review banks strategies, organization, power and technology. The basic problem lies in the following:

RESEARCH QUESTIONS

1. Recapitalization harnesses the potentials of the bank and assure its continued leadership in the Nigeria economy?
2. Can recapitalization secure the continued profitability, prosperity and survival of banks?
3. What will be the nature and challenges of the banking industry in a post recapitalized era depends on what the banking reform has been able to accomplish and what it has not?

Statement Of Hypothesis

1. Does accounting implication have any positive impact in the recapitalization of banks?
2. Recapitalization does not instill public confidence on the banking sector.
3. Recapitalization does not create more employment in the economy.
4. The reform will not sanitize the banking sector.

STATEMENT OF RESEARCH PROBLEM

At the survival of the struggle to recapitalization laid the quest for its impact in the Nigerian economy. In many fronts, at post recapitalization, the banking sector has not really meaned up tp expectations of the banking public.

The banks continued to face daunting challenges of staff salary and wage load, decline in popularity, employment generation, competitive loan pricing and sustained growth.

This study tends to delve into ascerting how well the banks have fared in post recapitalization.

Table 1 COMPONENT MEMBERS OF CONSOLIDATED BANKS

S/NO	NAMES OF BANKS	MERGER MEMBERS BANKS
1	Access Bank plc	Marina capital Bank International
2	Afrikbank plc	Afrikbank and Afrikmerchant
3	Diamond Bank	Diamond Bank, Lim Bank and African International Bank (AIB)
4	Ecobank	Ecobank (lately All states Trust Bank)
5	Equatorial Trust Bank plc First Bank of Nigeria plc	Equatorial Trust Bank and Devcom FBN plc, FBN Merchant and I'vfBC
7	First Inland Bank plc	1MB, Inland Bank, First Atlantic and NUB
8	fliT Bank plc	Guarantee Trust Bank plc
9	International Bank Lc	Global Bank, Equity, Gateway and International
10	NIB	Nigeria international bank Oceanic Bank and
11	Oceanic Bank plc Platinum-Habid	International Trust Platinum and Habid Bank
12	Bank plc	plc
13	Skye Bank plc	Prudent Bank, Bond Bank, Cooperative Bank, Reliance Bank and EIB

14	Spring Bank plc	Guardian Fountain Express, Trust, Bank. Citizens Ba Omega Trans
15	Stanbic Bank plc	Stanbic Bank
16	UBA plc	STB, UBA, and CTB
17	Unity Bank plc	New African Bank, Tropical Commercial Bank, Center point Bank, Bank of the North, First Inter State Bank, Intercity Bank, and Pacific Bank
18	Union Bank plc	Union Bank, Universal Trust Bank and Broad Bank Union Merchant B
19	Wema Bank	Wema Bank and National bank
20	Zenith Bank plc	Zenith Bank plc
21	Standard Chartered Bank Ltd	Standard Chartered Bank Ltd

Source: CBN 2006

Pursuant to the liquidation of the undercapitalized banks, the CBN also removed their directors and appointed on interim management for each of them. The management committees are expected to "determine the overall condition of the banks; ascertain the level of the asset stripping (if any). And to advise regulatory authorizes of specific ways to satisfy the key stake holders of the banks". One bank that featured neither among the "under liquidated nor recapitalized" banks was the African International Bank Ltd; its acquisition by Diamond Bank however got consummated afterwards.

Post Consolidation Challenges and Trends Economic Policy Question

The state of the Nigerian economy in the post consolidated banking industry remains a matter of government concern. There seems to be a presumption that the reform in the banking sector is all that is required to fix the economy. Recapitalization of the banking industry involved drawing much of the money from the rest of the economy into the banking industry and that present one sided reform that is not matched with equal capacity building in the real economy. Much of the difficulties that banks were facing before in the real sector as domestic output remained subdued and aggregate demand remained increasingly insufficient to support the service capacity of the banking sector. This warranted heavy dependant by banks on government business in confirmation that private sector business is insufficient to support all their operation. These hard economic fundamentals have not been addressed in the banking reform and there is no doubt those banks will continue to face the difficulties emanating from the poor state of the economy. Notwithstanding some cases of abuse of the credit system by management in banks it is important to recall that stunted growth in the real sector resulted in significant credit looses for banks as loan repayment difficulties facing banks is an issue that requires comprehensive economic policy approach.

This has led operators to be extremely cautious in growing risk asset volumes. The asset structure of banks will therefore most likely continue to wear a short term maturity profits as long as economic performance remains disappointing.

**Table 2: Nigeria; capital market funds raised by banks (June-Dec, 2004)
INSTITUTION**

	AMOUNT RAISED		
	INITIAL	SUPPLEMENTARY ₦.000	TATAL ₦.000
Guaranty Trust Bank plc	10.60	10.60	21.20
Zenith Bank plc	8.70	11.70	20.40
Oceanic International (Nig) plc	17.00	0.60	17.60
Access Bank plc	8.70		8.70
Afrikkbank Nigeria plc	17.00		17.00
International Bank plc	16.50		16.50
Wema Bank plc	17.50		17.50
Standard Trust ---- Bank plc		4.40	4.40
	96.60	27.30	123.30

Source: Nigeria Stock Exchange.

The coming together of several small and medium seized banks also had its problems.

ACCOUNTING IMPLICATIONS ON BANKS CAPITALIZATION AND CONSOLIDATION

The *implication of this recapitalization and consolidation* ors Nigerian banking industry, include the following that cut across the operators and regulators.

Integration challenges have often focused on information and communication technology (ICT), whereas it is all embracing process, procedures, people, cultures, etc. needed to be integrated as well. The extent of the challenge this pose is easily appreciated in these two instances:

1. A group of banks that had-board and management relationship merged, but the staff of the lead bank in the group regarded the others as "inferior" some what and treated them as intruders who came to dilute the culture.

Another bank that acquired others simply defined its culture as inviolable, and that the staff of the acquired banks must accept its poorer remuneration. If any of such staff does not find this acceptable, he/she would be shown the door immediately. As such,. what is happening is more of creating a facade of a fully integrated

bank, whereas there is real trouble within that the institutions would never admit outside. There is the likelihood that the integration challenges might trigger "divorce" eventually the worst case in merger history is the transaction that failed after almost ten years of unsuccessful effect to integrate disengagement of surplus employees-one of the argument made when the consolidation was announced was the inevitability of 'disengagement of "surplus" staff. The logic was quite simple. If the number of banks in operation comes down from 89 to 11, at least 78 banks managing directors would lose their jobs or be down graded. If this scenario runs through the entire organizations, some jobs would certainly have to go. This produces an estimated figure of 31,980 job losses, which the CBN dismissed as unlikely because the need for expansion by the bigger banks would mean retention or recall of the affected staff. See Adedipe (2004).

Summary of Questionnaires Distributed and Returned

Table .1

RESPONDENT	NO OF QUESTIONS DISTRIBUTED	PERCENTAGE	NO OF QUESTIONS RETURNED	PERCENTAGE
Directors	17	34	18	40
Managers	15	30	14	31
Accountants	7	14	6	13
Junior staff	6	12	4	9
Clerk	5	10	3	7
TOTAL	50	100%	45	100%

Source: field survey, August, 2010

No of questionnaires returned:

$$\frac{45}{50} \times 100 = 90\%$$

No of questionnaires not returned:

$$\frac{5}{50} \times 100 = 10\%$$

This means that 90% responded to the questionnaires and 10% did not respond therefore the mortality rate is 10%.

Above shows the various levels of staff that the questionnaires were distributed to as well as the rate of the responses from the different levels of staff.

TABLE SEXES OF RESPONDENTS

SEX	NO OF RESPONDENT	PERCENTAGE
Male	20	44
Female	25	56
TOTAL	45	100%

Source: field survey. August, 2010

From the above table shows the information of sex respondent. It shows that 44% of the respondents are male while the remaining 56% are female respondent.

TABLE AGE OF RESPONDENTS

RESPONDENTS	NO OF RESPONDENT	PERCENTAGE
18-35	20	45
36-45	15	33
46-above	10	22
TOTAL	45	100%

Source: field survey, August, 2010

From the table 4:3 above shows the information of the various age groups that responded to the questionnaires. Age group 18-35 response rate is 45% as the highest while age group 46-above response rate is 22% as the lowest.

TABLE : POSITIONS IN THE BANK

RESPONDENTS	NO OF RESPODENTS	PERCENTAGE
Management	22	49
Supervisory	18	40
Clerical	5	11
TOTAL	45	100%;

Source: field survey. August, 2010

Simple bar chart is use to illustrate table 4.4 above.

From the table above shows the information of the position of the bank respondents. The management level has the highest of 49% while the clerical level has the lowest of 11%.

Table Marital Status

Respondents	No of Respondent	Percentage
Single	24	53
Married	21	47
TOTAL	45	100%

Source: field survey, august, 2010

From the table; above shows that 53% of the respondents are single while 47% of the respondents are married.

TABLE : Educational Qualifications

Respondents	No of Respondents
M.SC	4
HND	
WACE	6
B.SC	1.6
MASTERS (others}	14
TOTAL	45

Source: field survey, August, 2010

From the table 4:6 above shows that the respondent in the educational qualification of B.SC has the highest of 128° of the respondents while the lowest is 32° of M.SC.

5.10years IOyears above

The above table shows the information that ht length of service of IOyears and above is 62% which is the highest over the others.

Perception of respondents, can this reform improve the Nigeria banking sector

Respondents	No. of Respondents
Strongly agreed	19
Agreed	10
Strongly disagreed	5
Disagreed	9
Undecided	2
Total	45

Source: Field Survey: August, 2010.

Strongly agreed	$\frac{19 \times 360}{45}$	152 ⁰
Agreed	$\frac{10 \times 360}{45}$	80 ⁰
Strongly disagreed	$\frac{5 \times 360}{45}$	40 ⁰
Disagreed	$\frac{9 \times 360}{45}$	72 ⁰
Undecided	$\frac{2 \times 360}{45}$	16 ⁰
Total		3600

From the table **above** shows the category of respondents that strongly agreed which resulted to 152⁰ as the highest. While the undecided had the lowest that resulted to 16^o.

TABLE

Perception of respondents, does the investor have confidence in the Nigerian banking sector?

RESPONDENTS	NO OF RESPONDENT	PERCENTAGE
Strongly agreed	20	4
Agreed	15	33
Strongly disagreed	2	5
Disagreed	5	11
Undecided	3	7
TOTAL	45	100%

Source: field survey, August, 2010

From the table 4:9 above shows the information of the respondents that strongly agreed which resulted to 44% as the highest. While the strongly disagreed had the lowest that resulted to 5%.

TABLE

Perception of respondents, to what extents, can this reform improve the Nigeria economy?

RESPONDENTS	NO OF RESPONDENTS
To a great extent	40
To a moderate extent	
To a low extent	
TOTAL	45

Source: field survey, August, 2010

From the table 4:10 above shows that a great majority (320⁰) of the respondents believe the recapitalization exercise will provide economic growth and development within the country to a great extent and also improve infrastructure. While the remaining (40⁰) had a different view that recapitalization exercise will not provide economic growth and development.

Perception of respondents how does a bank or merged banks *reconcile their accounting* implication?

Respondents	No. of Respondents	Percentage
Monthly		
Quarterly		
Yearly		
All of the above	45	100
Total	45	100%

Source: field survey, August, 2010

From the table 4:13 above shows (100°0 of the respondents that stated that accounting implications that is brought about by the recapitalization has to be resolved monthly, quarterly and yearly respectively.

It is important to state here categorically that the central bank of Nigeria would be strictly interested in such things as the capital base of these banks, their declared profits, number of directors etc. which have an impact on the economy and the industry at large. To avoid presenting figures which will not reflect a true and fair view of the banks, regular reconciliation must be done.

Perception of respondents, does this reform sanitize the banking sector?

Source: field survey, August, 2010

Using simple bar chart to illustrate table 4:13 above

Respondents	No. of Respondents	Percentage
Strongly agreed	22	49
Agreed	10	22
Strongly disagreed	6	13
Disagreed	4	9
Undecided	3	7
Total	45	100%

From the table 4:14 above shows the information that (49%) of the respondent said that the reform can sanitize the banking sector while (7%) undecided had a different view.

Hypothesis Testing

For the purpose of this research, hypothesis were formulated and tested, The hypothesis has been tested using the statistical tool as mentioned in the previous.

The following format was adopted in testing the hypothesis

1. Statement of hypothesis
2. Identification of test statistics
3. Identification of decision rule
4. Computation of statistics
5. Interpretation of findings

Hypothesis 1

HO: it may not likely improve the Nigeria banking sector to a significant extent.

Hi: It may likely improve the Nigeria banking sector to a significant extent.

The response to the above hypothesis provided data below. The testing of hypothesis was done using the coefficient of correlation.

$$R_s = \frac{N(xy) - (T_x)(Y_y)}{\sqrt{(N^2(x^2) - (T_x)^2)(N^2(y^2) - (T_y)^2)}}$$

TABLE 4:15

$$= \frac{5(174) - (15)(45)}{\sqrt{5(55) - (15)^2} \sqrt{5(570) - (45)^2}}$$

$$R_s = \frac{870 - 675}{\sqrt{275 - 225} \sqrt{2855 - 2025}}$$

$$R = \frac{195}{\sqrt{50} \sqrt{830}}$$

$$R = \frac{41500}{195 \times 204} = 0.96$$

To test for the significance of the coefficient we use t-test it is calculated thus:

$$t = \frac{r}{\sqrt{1-r^2}} \sqrt{\frac{n-2}{1}}$$

$$t = \frac{0.96}{\sqrt{1-0.96^2}} \sqrt{\frac{5-2}{1}}$$

$$t = \frac{0.96}{\sqrt{0.077}} \sqrt{3}$$

$$t = \frac{0.96 \times 6.24}{0.277} = 5.99$$

Therefore the t critical value at 0.10, level of significance will be 2.35. DECISION RULE: reject the null hypothesis if the t-calculated is greater than t-tabulated otherwise accept.

Interpretation of Findings

The critical value of d.f = 3 and at 0.10 level of significance IS 2.35, while the computed value of t-calculated = 5.99. since the critical value is less than the computed value of t-calculated, we accept the alternative hypothesis ‘which states that the recapitalization exercise of the banking sector may likely improve the Nigeria system of banking to a significance extent.

HYPOTHESIS 2

HO: it may not have confidence in the Nigeria banking sector. HI: it may have confidence in the Nigeria banking sector,

Table II

Respondents	No. of Respondents
Strongly agreed	20
Agreed	10
Strongly disagreed	3
Disagreed	7
Undecided	5
Total	45

$$0.14 \times 4.63 = 4.306$$

Therefore the t critical value at 0.10, level of significance will be 2.35.

DECISION RULE: reject the null hypothesis if the t-calculated is greater than t-tabulated otherwise accept.

INTERPRETATION OF FINDINGS

The critical value of $d1=3$, and at 0.10 level of significance 2.35, while the computed value of t-calculated — 4.306 since the critical value is less than the computed value of t-calculated, we accept the alternative hypothesis which state that the recapitalization exercise of the banking sector may have confidence in the Nigeria banking sector.

HYPOTHESIS 3

HO: the recapitalization of the banking industry may not create more employment.

1 : the recapitalization of the banking industry may create more employment.

TABLE

Respondents	No. of Respondents
Strongly Agreed	21
Agreed	13
Strongly disagreed	6
Disagreed	3
Undecided	
Total	45

			KY	X ²	
1	5	21	105	25	441
	4	13	52	16	169
3	3		18	9	36
			6	4	9
			2	1	4
15	15	45	45	55	f 659

$$R = \frac{N(Y:xY)'(Y,x)(ZY)}{(N)::x^2Hx)^2(NT/7^7T(Y)^2}$$

$$R = \frac{(5(55) - (15)^2(5(659) - (45)^2))}{915 - 675}$$

$$R = \frac{(275-225)(3295-2025)}{63500}$$

$$R = \frac{240}{251}$$

R = 0.96
To test for the significance of the coefficient we use t-test xt is thus.

with n -2 degree of freedom

$$t = 0.96 \frac{i(5-2)}{1-r^2}$$

$$t = \frac{1 - 0.96 \cdot 3}{0.96 \cdot \frac{3}{1 - 0.923}}$$

strongly agreed agreed strongly disagreed undecided
 agreed disagreed

t = 0.96
 0.077
 t = 0.96x6:24
 t = 5.99

Therefore the t critical value at 0.10 the level of significance will be 2.35.

DECISION RULE: reject the null hypothesis if the t-calculated is greater than t-tabulated otherwise accept.

Interpretation Of Findings

The critical value of d.f =3, and at 0.10 level of significance 2.35, while the computed value of t-calculated —5.99. since the critical value is less than the computed value of t-calculated, we accept the alternative hypothesis which states that the recapitalization exercise of the banking industry may create more employment.

HYPOTHESIS 4

HO: this reform may not sanitize the banking, sector_

1-11: this reform may sanitize the banking sector.

TABLE

N		Y	XY	X ²	Y ²
		22	110		482
2		10	40	16	100
3	3	6	18	9	36
	2	4	8		16
5	1	3	3	1	9
15	15	45	179	55	643

Respondents	No. of Respondents
Strongly Agreed	22
Agreed	10
Strongly disagreed	6
Disagreed	4
Undecided	3
Total	45

DECISION RULE: reject the null hypothesis if the t-calculated is greater than t-tabulated otherwise accept. From the table above shows the information that (49%) of the respondent said that the reform can sanitize the banking sector while (7%) undecided had a different view.

Conclusion

The study proposes that recapitalization of banks significantly affects bank's performance. The four aspects of the recapitalization implication investigated were the extent to which banks have improved after the recapitalization customer's confidence toward banks and structural changes in terms of composition,

content and holdings to the capital market, and how regularly the implication will be reconciled.

From the data collected and analyzed it was revealed that there has been a significant level of improvement by these banks in terms of profitability and resource utilization, customer's satisfactions and depositors confidence. Similarly, there have been enhancements of professionalism, transparency, good corporate governance and accountability. The study also revealed that recapitalization of banks has strengthened investor's confidence, create employment opportunities and enhance proper resource utilization. Therefore it would be concluded from these findings that the recapitalization of banks has impacted positively on the economy of the country Nigeria.

Recommendation

The continuity of any firm is to constantly meet its market demand at a competing stance. From the inferences drawn in form of conclusion of this study, it is recommended among other things thus:

1. That the CBN governor and other regulatory agencies should take a proactive step/measure to prevent imminent crack or system crisis in the banking sector. By strengthening the components of the recapitalization modules.
2. That the #25 billion banks recapitalization rate should not be used as a yardstick in measuring banks performance rather it should be measured on their level of profitability, liquidity, etc. hence proper monetary team should be established to avoid future mismanagement and misrepresentation of financial statements by banks.
3. That the CBN and the Nigerian deposit insurance cooperation (NDIC) should develop a strategy to monitor the banking industry to ensure the continuous investors and depositors' confidence as is obtained now.
4. That the minister for labour and productivity should synergize with CBN, NDIC to harness the employment gains which the exercise seem to present.

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