



**THE EFFECT OF MERGERS AND ACQUISITIONS ON BANKS FINANCIAL
PERFORMANCE IN THE GHANAIAN BANKING INDUSTRY (A CASE STUDY OF
FBNBANK GHANA LIMITED AND INTERNATIONAL COMMERCIAL BANK)**

BY

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**THIS LONG ESSAY IS SUBMITTED TO THE DEPARTMENT OF FINANCE,
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DECLARATION

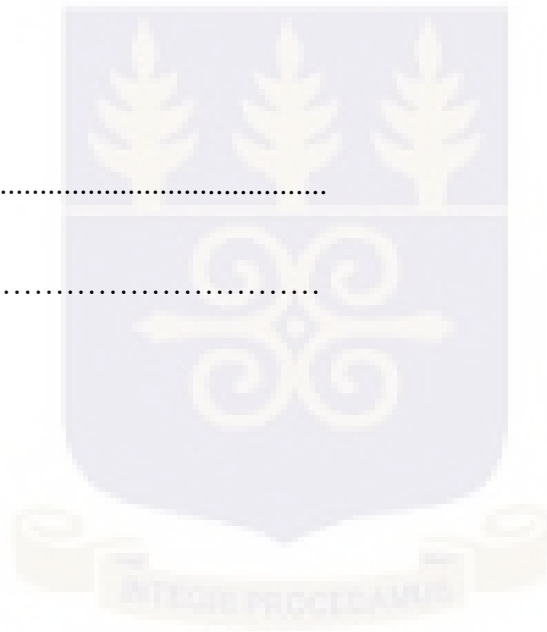
I, hereby declare that apart from references to other people which have been duly cited, this project work is as a result of my own work, and that it has neither in the whole nor in part been presented elsewhere.

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CERTIFICATION

I, hereby declare that the preparation and presentation of this long essay was supervised by me in accordance with the guidelines and supervision on long essays laid down by the University of Ghana.

Supervisor's Name: Dr. Lordina Amoah

Signature:

Date:



DEDICATION

To my dad, Mr. B.C.K Appiah; I remember your exceptional faithfulness, dedication and commitment to me these many years, right from the very beginning. Thank you for the many hours of your time invested in me and providing me a perspective on what is truly important in life.



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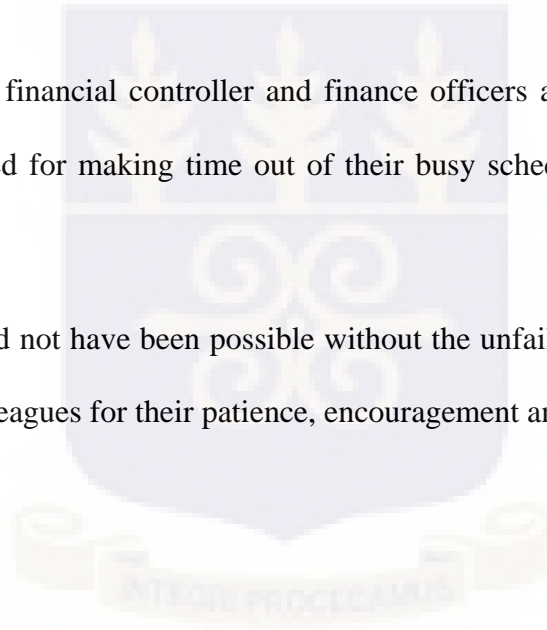


TABLE OF CONTENTS

DECLARATION	i
CERTIFICATION	ii
DEDICATION	iii
ACKNOWLEDGEMENTS	iv
TABLE OF CONTENTS.....	v
LIST OF TABLES	viii
LIST OF FIGURES	ix
ABSTRACT.....	x
CHAPTER ONE	1
INTRODUCTION	1
1.1 Background to the Study.....	1
1.2 Research Problem.....	3
1.3 Research Objectives	4
1.4 Research Questions	5
1.5 Research Hypothesis	5
1.6 Significance of the Research.....	6
1.7 Research Scope	7
1.8 Research Limitation	8
1.9 Organization of Study	8
CHAPTER TWO	10
LITERATURE REVIEW	10
2.0 Introduction.....	10
2.1 Overview of Concepts.....	10
2.1.1 Definition of Merger and Acquisitions.....	10
2.1.2 Reasons for Mergers and Acquisitions.....	11
2.1.3 Types of Mergers and Acquisitions.....	12
2.1.4 Processes involved in Mergers and Acquisition.....	13
2.2 Theoretical Literature	15

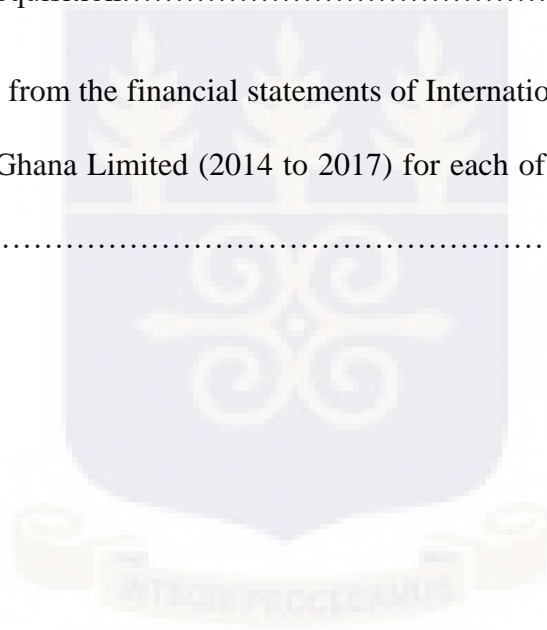
2.2.1 Theories on Mergers and Acquisitions	15
2.2.2 Bank Concentration Theory.....	15
2.2.3 Eat - or - be- Eaten Theory	17
2.2.4 Agency Theory	18
2.2.5 Valuation Theory	19
2.2.6 Hubris Theory.....	19
2.3 Empirical Literature	20
CHAPTER THREE	25
METHODOLOGY	25
3.0 Introduction	25
3.1 Research Approach/Design	25
3.2 Population.....	25
3.3 Sample Size	26
3.4 Sampling Technique.....	26
3.5 Justification for Sample.....	26
3.6 Data Source	26
3.7 Data Type	27
3.8 Data Analysis	27
3.8.1 Profitability Ratios	28
3.8.2 Expense Ratio	29
3.8.3 Liquidity Ratios	29
3.8.4 Investment Ratio	30
3.8.5 Solvency Ratios (Leverage Ratios).....	31
3.8.6 Growth Ratios	31
CHAPTER FOUR.....	33
DISCUSSION OF RESULTS.....	33
4.0 Introduction	33
4.1 Bank Profile.....	33
4.1.1 International Commercial Bank.....	33
4.1.2 FBN Bank Ghana Limited	33
4.2 Financial Performance of the Bank Before and After Acquisition	34

4.3 Discussion of Results	36
4.3.1 Profitability Ratio.....	36
4.3.2 Expense Ratio	40
4.3.3 Liquidity Ratio	41
4.3.4 Investment Ratio	45
4.3.5 Solvency Ratio	47
4.3.6 Growth Ratio.....	51
CHAPTER FIVE	60
SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS.....	60
5.0 Introduction	60
5.1 Summary	60
5.2 Conclusion.....	61
5.3 Recommendations	63
REFERENCES	64



LIST OF TABLES

Table 4.1: Selected ratios calculated based on the financial statement of International Commercial Bank (2009 to 2012) and FBN Bank Ghana Limited (2014 to 2017) for each of the periods before and after acquisition.....	36
Table 4.2: Averages of selected ratios calculated based on the financial statement of International Commercial Bank (2009 to 2012) and FBN Bank Ghana Limited (2014 to 2017) for each of the periods before and after acquisition.....	37
Table A.1: Selected items from the financial statements of International Commercial Bank (2009 to 2012) and FBN Bank Ghana Limited (2014 to 2017) for each of the periods before and after acquisition.....	69



LIST OF FIGURES

Figure 4.1: Net Profit Margin and Return on Capital Employed.....	38
Figure 4.2: Return on Asset.....	39
Figure 4.3: Averages of Net Profit Margin, Return on Capital Employed and Return on Asset.....	40
Figure 4.4: Expense to Income Ratio.....	41
Figure 4.5: Averages of Expense to Income Ratio.....	42
Figure 4.6: Capital Adequacy and Non-Performing Loans Ratio.....	43
Figure 4.7: Loan to Deposit Ratio.....	44
Figure 4.8: Averages of Capital Adequacy and Non-Performing Loan Ratio.....	45
Figure 4.9: Averages of Loan to Deposit Ratio.....	46
Figure 4.10: Earnings per Share.....	47
Figure 4.11: Averages of Earnings per Share.....	48
Figure 4.12: Interest Coverage Ratio.....	49
Figure 4.13: Debt Ratio.....	50
Figure 4.14: Averages of Interest Coverage Ratio.....	51
Figure 4.15: Averages of Debt Ratio.....	52
Figure 4.16: Operating Income Growth and Total Asset Growth.....	53
Figure 4.17: Deposit Growth.....	54
Figure 4.18: Growth in Shareholder's Fund.....	55
Figure 4.19: Averages of Operating Income Growth, Total Asset Growth, Deposit Growth and Growth in Shareholder's Fund.....	56
Figure 4.20: Operating Income, Total Asset and Deposit.....	57
Figure 4.21: Shareholder's Fund.....	58
Figure 4.22: Profit Before Tax.....	59

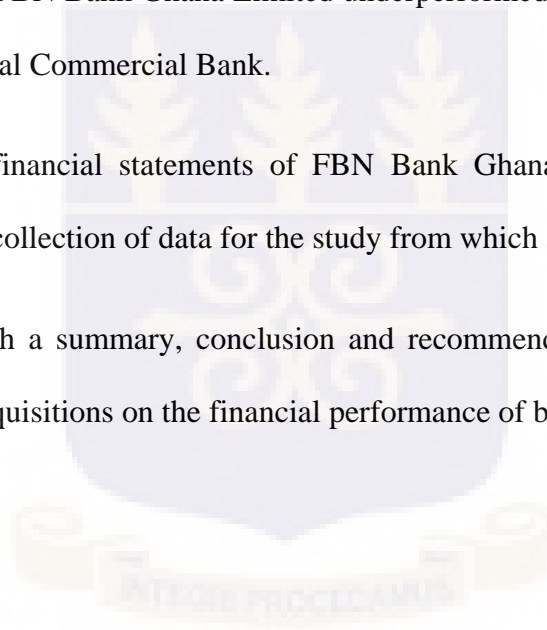
ABSTRACT

This study sought to bring to the fore, the effect of mergers and acquisitions on banks financial performance in the Ghanaian banking industry via a case study of FBN Bank Ghana Limited and International Commercial Bank.

The study identified the effects of mergers and acquisitions on the financial performance of FBN Bank Ghana Limited post-acquisition of International Commercial Bank. Furthermore, it identified areas in which FBN Bank Ghana Limited underperformed and needed improvement in comparison to International Commercial Bank.

The study adopted the financial statements of FBN Bank Ghana Limited and International Commercial Bank in the collection of data for the study from which analysis were made.

The study concluded with a summary, conclusion and recommendations on how the positive effects of mergers and acquisitions on the financial performance of banks could be maximized.



CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Banks play critical roles in the development of an economy. They act as intermediaries between borrowers and savers of funds. Without banks, financial intermediation between borrowers and lenders will be a very costly and time consuming one. Given their level of importance to the economy, there has been the need to regulate their activities. This is to help prevent the entire collapse of the financial sector of the Ghanaian economy. By this, the Central bank of Ghana has come up with a number of reform programs over the years, to help strengthen the banking industry by making the banks more solvent in order to meet the growing challenges associated with the banking industry.

According to Pilloff and Santomerro (1999), a bank merger is said to have occurred when two or more formerly distinct banks are brought together as one institution. This assertion has been supported by Farcarelli (2002) who also concluded that a bank merger only occurs by adding the liabilities and assets of the Active (Bidder) Bank to that of the Target (Passive) Bank; while changing the target bank's name to that of the bidder's through a series of legal and administrative procedures.

The Bank of Ghana has in the past years introduced many "reforms in the banking sector which have led to banks having to engage in mergers and acquisitions as an alternative of meeting these directives". One of the major reforms was the pegging of the minimum capital of banks at GH¢ 60 million in the year 2008. This was further increased after five years to GH¢ 120 million.

Banks in Ghana were expected to increase their stated capital from GH¢ 60million to GH¢ 120 million by end of December 2013. This led to some universal banks exploring the option of mergers and acquisitions as an alternative to meeting this minimum capital directive. The Bank of Ghana cited the protection of depositors' funds as one of the reasons for carrying out this exercise. Banks which could not meet this minimum capital requirement were compelled to merge or get acquired by other banks. Prominent amongst them was the takeover of The Trust Bank by Ecobank Ghana Limited.

In September 2017, a new minimum capital directive requesting banks in Ghana to recapitalize from the current GH¢120million to GH¢400million was once again issued by the Bank of Ghana. This, according to them, was necessitated by the initiation of the Internal Capital Adequacy Assessment Process (ICAAP) under the Basel II framework. This ICAAP required the Bank of Ghana to surge the minimum capital for banks in Ghana. As a result, the banks in Ghana were given a deadline of December 31, 2018 to meet this directive.

Some banks in Ghana faced difficulties in raising the needed capital to meet this deadline. This was due to they not having parent banks to assist them recapitalize. As well as, they not having sufficient retained earnings to convert into stated capital. This left them with the option of either finding a strategic investor or having to enter into merger and acquisition talks with stronger banks or banks that are equally facing similar challenges.

The Bank of Ghana in August 2018 announced the approval of the merger of Omni Bank and BSIC Bank (also known as Sahel Sahara Bank). They also announced the acquisition of Energy Commercial Bank by First Atlantic and that of GHL Bank by First National Bank in January 2019.

Even though mergers and acquisitions are known to be associated with so many benefits, it is equally worth noting that “some empirical research proved that mergers and acquisitions can as well lead to the failure of a firm”.

1.2 Research Problem

In as much as mergers and acquisitions are known to help businesses in their expansion drive as a corporate strategy; by providing them with lots of positive opportunities, it has also been discovered by some empirical researchers that mergers and acquisitions also come along with some challenges.

Some of the challenges cited by Šević (1999) advanced that mergers and acquisitions may fail due to the over-promising expectations of the benefits and misconception of post integration challenges such as difficulty in finding market, technology issues and business culture clashes. Soludo (2006) on the other hand pointed out that in Nigeria; the banking industry had undergone a consolidation exercise, aimed at recapitalizing of these banks through the growth of their capital base. But this consolidation exercise had little or no symbolic impact on the performance of these banks. This he said was due to the existence of weak banks as a result of huge non-performing loans.

Levine and Aaronovitch (1981) from their research also pointed out that there was no evidence of any compelling difference between the target and acquiring firms for their growth and the profit related variables.

These disadvantages associated with mergers and acquisition were further supported by Scherer (1988) who also showed that most of the firms did not show compelling improvement in long

term profitability after their mergers and acquisitions. Martynova, Oosting and Renneboog (2006) also discovered that the target and acquiring firms significantly outperformed their median peers within the industry prior to their takeover event whereas, profitability of the combined firm decreased significantly following the takeover.

As a result of the above stated disadvantages associated with mergers and acquisition coupled with some positives referred to by Ikeda and Do (1983); when they concluded in their research after testing criteria such as efficiency, profitability, growth, research and development discovered that the financial performance in relation to profitability was higher during the post-merger period for the merged firm. To support this positive claim of mergers and acquisitions, Healy, Palepu and Ruback (1992) pointed out in their research that the merged companies recorded an improvement in performance during post-merger periods in connection to that of their industry peers. The improvement in performance was attributed to increase in their asset productivity.

The divergent views on the effects of mergers and acquisitions on the performance of firms, has resulted in the need for a research to be conducted to confirm “whether or not mergers and acquisitions have a negative or positive effect on the financial performance of banks through the use of FBN Bank Ghana Limited and International Commercial Bank as a case study”.

1.3 Research Objectives

The purpose of this study is to:

- i. Evaluate the financial performance of FBN Bank Ghana Limited after acquisition of International Commercial Bank

- ii. Analyze the financial performance of International Commercial Bank prior to acquisition by FBN Bank Ghana Limited
- iii. Examine the effect of Mergers and Acquisitions on Banks Financial Performance in the Ghanaian Banking Industry

1.4 Research Questions

The study explores to answer the following questions:

- i. What was the Financial Performance of FBN Bank Ghana Limited after acquiring International Commercial Bank?
- ii. What was the Financial Performance of International Commercial Bank prior to acquisition by FBN Bank Ghana Limited?
- iii. To what extent have mergers and acquisitions impacted on the Financial Performance of Banks in the Ghanaian Banking Industry?

1.5 Research Hypothesis

In order to fulfill the purpose of the study, the study was undertaken within the context of the following hypothesis:

H_o : There was no significant improvement in the financial performance of International Commercial Bank after acquisition by FBN Bank Ghana Limited

H_a : There was a significant improvement in the financial performance of International Commercial Bank after acquisition by FBN Bank Ghana Limited

1.6 Significance of the Research

“The recent announcement of an increase in the capital base of banks from GH¢ 120 million to GH¢ 400 million by the Bank of Ghana, has led to banks having to resort to the option of mergers and acquisitions in order to meet Bank of Ghana recapitalization directive”. This has necessitated the need for a research to be conducted to resolve whether or not mergers and acquisitions were prudent choices for banks to explore in an attempt to meet recapitalization directives by the Bank of Ghana, while taking into consideration their post-merger financial performance.

The researcher believed that the findings of this study would help provide relevant information to stakeholders such as shareholders in their decision making as to whether or not to merge or acquire a bank.

It would also provide information to investors who would like to invest in these banks in considering the option of mergers or acquisitions by providing “an understanding on the brunt of mergers and acquisitions in relation to a bank’s financial performance”.

Furthermore, this research would assist bank managers in assessing the profitability of mergers and acquisitions of banks as a growth strategy. “The findings from this research would be of importance not just to banks and their managers, but also, to managers of corporate entities by providing an understanding of the impact of post-mergers and acquisitions on the efficiency and profitability of firms; so as to adequately assess the risk and returns associated with employing mergers or acquisitions as a corporate expansion strategy”.

Lastly, this research would provide more acumen into “the relationship between mergers and acquisitions on the financial performance of universal banks in Ghana. It would contribute to the

literature on mergers and acquisition of banks in the Ghanaian banking industry; by providing relevant information to other researchers who would like to carry out further research in this field”.

1.7 Research Scope

The study’s scope was narrowed to two banks which were recently involved in a merger and acquisition process in Ghana {that is, First bank of Nigeria (FBN Bank Ghana Limited) acquisition of International Commercial Bank (ICB)}.

There have been several mergers and acquisitions that have taken place in the Ghanaian banking industry in the last few years. Outstanding among them are the mergers and acquisitions between “Ecobank Ghana Limited and The Trust Bank”, “Access Bank and Intercontinental Bank”, “Merchant Bank and Universal Merchant Bank (Fortis)”. And in recent times, the consolidation of seven local banks (UniBank, Sovereign Bank, Beige Bank, Heritage Bank, Premium Bank, Royal Bank, Construction Bank) to form the Consolidated Bank Ghana Limited. Other recent mergers and acquisitions include that of First National Bank (FNB) and GHL Bank, OmniBank and BSIC Bank and First Atlantic Bank and Energy Commercial Bank.

The criteria used in selecting the banks for this study were that these merged or acquired banks should have operated “at least for four (4) years after their merger or acquisition process was completed”. Hence, the selection of these two banks that happen to be part of the banks that met the criteria used in this study.

1.8 Research Limitation

The researcher intended “to conduct this research over a much longer period such as a ten (10) year period, so as to ascertain the true impact of mergers and acquisitions in the Ghanaian banking industry”. However, considering that most mergers and acquisitions in Ghana have been quite recent as at the time of conducting this study, such a research could not be conducted; hence, the use of the four-year financial statements (pre- acquisition from 2009 to 2012 and post-acquisition from 2014 to 2017) of “International Commercial Bank (ICB) and FBN Bank Ghana Limited” respectively.

Information available on “the financial statements of International Commercial Bank and FBN Bank Ghana Limited” compelled the researcher to limit his assessment of their financial performance to that of financial ratios such as return on capital employed, return on asset, “capital adequacy ratio”, and “non-performing loan ratio”, among others.

The findings and recommendations made in this study would help banks within the country trying to explore the option of mergers and acquisitions to make an informed decision, despite the study’s limitation.

1.9 Organization of Study

This chapter introduced the study on the effect of mergers and acquisitions on banks financial performance in the Ghanaian banking industry. The background discussed the rationale behind mergers and acquisitions within the banking industry. “The statement of the problem discussed possible issues that could arise as a result of mergers and acquisitions. Research objectives, research hypothesis, the significance of the research, scope of the research and the research

limitation were also discussed in this chapter”. Chapter two discussed the theoretical and empirical literatures which were reviewed from other researchers and journals related to mergers and acquisitions. Chapter three discussed the methodology employed in the study, whereas, chapter four discussed the analysis of the findings. Lastly, chapter five discussed the summary of the findings, conclusions and recommendations of the study.



CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter reviews the literature on mergers and acquisitions and its effects on the financial performance of banks. This chapter is divided into three parts, the first part deals with the overview of the literature, the second takes into account the theoretical literature reviewed; and the third considers the empirical aspects of the literature.

2.1 Overview of Concepts

2.1.1 Definition of Merger and Acquisitions

According to Sudarsanam (1995), merger involves the “combination of two business entities to form a third entity with the owners of these firms becoming joint owners of the new firm”. DePamphilis (2011) on the other hand, defined mergers as the legal non-existence of one firm after the combination of two or more firms. Anthony (2008) described mergers and acquisition as a combination of two or more firms into one large firm. On his part Umar (2009), referred to merger as a transaction between two firms in which shares are exchanged but with the survival of only one firm.

Acquisition was defined by DePamphilis (2008) as the taking of controlling interest in the target firm by the acquiring firm. This, he said, “may involve the purchase of the target firm’s assets”. Anthony (2008) further described acquisition as the purchase of a target firm by an acquiring firm. This can be through a friendly or hostile takeover.

2.1.2 Reasons for Mergers and Acquisitions

“According to Roberts et al. (2011), mergers and acquisitions take place based on the under listed reasons”:

- Speculative
- Financial Necessity
- Political
- Management Failure

Roberts et al. (2011) explained the speculative reasons as a situation where the acquiring firm perceives the target firm as a commodity. Based on this, the acquiring firm approaches the target firm based on its perceived benefits it is likely to obtain from merging or acquiring that firm.

Financial necessity was explained by Roberts et al. (2011) as a situation where mergers and acquisitions take place due to the financial distress the target firm finds its self. Due to the uncomfortable financial stress, the target firm is willing to merge or be acquired by a financially strong acquiring firm.

Again, Roberts et al. (2011) explained that mergers and acquisitions can be politically motivated. This, he said, could be due to directives issued by overseeing authorities in certain industries. Such directives may include changing regulations, sometimes in the form of capital injection. This can lead to a “merger or acquisition process taking place in order to meet such a directive”.

Management failure according to Roberts et al. (2011) can necessitate mergers and acquisition. In that, shareholders in an attempt to change the management team for failing to meet their expectations can penalize management by getting involved in a merger or acquisition in an attempt to achieve this objective.

Anthony (2008) is of the view that “one of the components necessary for arousing mergers and acquisitions is the concept of synergy”. Synergy involves the interaction between two firms to generate a combined benefit greater than the sum of the two firms operating independently.

Imala (2005) discovered the following as deductions into why mergers and acquisitions take place within the financial service industry:

- i. Cost Savings
- ii. Revenue Enhancement
- iii. Risk reduction
- iv. New developments which impose high fixed costs
- v. The advent of deregulation
- vi. Globalization
- vii. Financial stability
- viii. Shareholders’ pressure on management to improve profit margins and returns on investment

2.1.3 Types of Mergers and Acquisitions

“According to Roberts et al. (2010), there exist three types of mergers”. These are:

- Vertical Integration
- Horizontal Integration
- Conglomeration

Roberts et al. (2010) described vertical integration as a form of merger and acquisition where the acquiring firm either merges or acquires a strategic firm within its supply chain in an attempt to reduce cost of production. This type of merger and acquisition can be in the form of backward or forward integration within the acquiring firm’s supply chain.

Horizontal integration as explained by Roberts et al. (2010) refers to the acquisition of a target firm which operates within the same industry by the acquiring firm. Horizontal integration often occurs between competitors within the same industry.

DePamphilis (2011) described conglomeration as merges and acquisitions that take place among unrelated businesses in unrelated industries. This implies that the target firm acquired operates in an industry totally different from the acquiring firm.

2.1.4 Processes involved in Mergers and Acquisition

Sudarsanam (2003) described mergers and acquisitions as a process and not a transaction. According to him, there existed five (5) stages within merger and acquisition process. These include the following:

1. Development of Corporate Strategy
2. Organizing for Acquisitions
3. Negotiation and the Structuring of Deal
4. Post-Acquisition Integration
5. Post-Acquisition Audit and Organizational Learning

Sudarsanam (2003) described the Development of Corporate Strategy as a stage where a firm optimizes its current portfolio and seeks to find out how it can change its current portfolio in order to maximize shareholder's value. Such ideas are developed by firms in an attempt to increase their market share, benefit from economies of scale as well as internalize vertically liked operational activities in an attempt to cut down on cost.

The second stage of the merger and acquisition process as explained by Sudarsanam (2003) is the Organizing for Acquisitions. This involves the scanning of the industry for potential target

firms. This can be done by accessing the strengths and weaknesses of these potential target firms and accessing whether the acquiring firm will profit from such a merger or acquisition.

Sudarsanam (2003) explained that Deal Structuring and Negotiations which represented the third stage within the merger and acquisition process involves the meeting of selected potential target firms to structure a deal and negotiate various terms and conditions within the merger or acquisition proposal. This stage as described by Sudarsanam (2003) goes through the following processes:

- Determine the value of the target firm
- Choose advisors to assist with the structuring and negotiations of the deal
- Gather intelligence about the target firm and analyze your findings
- Conduct Due diligence
- Negotiate for the position of senior management for both firms within the context of a post-merger deal
- Develop an appropriate bid and defense strategy within the regulatory regime

Post-Acquisition Integration stage involves the integration of systems, processes, strategy and people of both firms and all firms involved in the merger or acquisition. The aim of this stage is to have in place one merged firm to deliver on the targets and aspirations of shareholders as explained by Sudarsanam (2003).

Sudarsanam (2003) referred to “the final stage in the merger and acquisition process as the Post-Acquisition Audit and Organizational Learning. The main focus of this stage is the auditing of the merged or acquired organization’s books in order to ascertain the true financial position of the merged or acquired organization. It also involves the training of employees of the newly

merged firm in order to ensure there is a better understanding of how to use the newly merged systems”.

2.2 Theoretical Literature

2.2.1 Theories on Mergers and Acquisitions

There exist a number of theories explaining the rational and effects of mergers and acquisitions.

Some of these theories include:

- Bank Concentration Theory
- Eat - or - be- Eaten Theory
- Agency Theory
- Valuation Theory
- Hubris Theory

2.2.2 Bank Concentration Theory

“The Bank Concentration theory is credited to the works of Boyd and Runkle (1993) and Demirguc-Kunt and Levine (2000). This theory has broken down bank concentration into the Pro-Concentration and De-concentration theories”.

According to the Pro-Concentration theory, economies of scale tend “to be the major driver of bank mergers and acquisitions”. According to them, the concentration of banks enhances bank stability, profitability and reduces the bank’s fragility. Concentration of banks into few large banks makes monitoring of their activities by the regulator much easier. This leads to effective corporate control and less pronounced risk of contagion as asserted by Beck, Demirguc-Kunt and Levine (2003).

Proponents of this theory further argue that “in a less concentrated banking industry, financial crisis are most likely to occur than in a concentrated banking industry with few large banks”.

It has been argued by “Demirguc-kunt and Levine (2000) that efficiency improvement is positively related to increased concentration”. This increased concentration, prevents banks from taking imprudent risk due to enhanced diversification as a result of an augmentation in their size, market power and profit. In summary, the proponents of the Pro-Concentration theory are of the view that “having few large banks within the banking industry of any economy is the best. In that such large banks are “too big to fail”, easily monitored by their regulator and making them less susceptible to financial crisis”.

“According to the proponents of the De-concentration theory, concentration of banks into few large ones, do not only make them “too big to fail” but also makes them “too big to discipline”. This according to them will make these few large banks have the opportunity to influence banking regulations and policies that govern their conduct within the industry. This statement has been supported by Demirguc-kunt and Levine (2000), according to them, the concentration of banks leads to an intensified market power, political influence and obstruction of competitor’s access to financial services, reduction in efficiency and the destabilization of the financial system. As these banks become “too big to discipline”, they turn to dictate the rules, regulations and policies that govern the banking industry”.

It has also been argued by Boyd and Runkle (1993) that “when there is high concentration of banks within the banking industry of any economy, it leads to bank fragility”. This according to them is due to the fact that these few large banks tend to receive subsidies when regulators fear their failure may lead to major macroeconomic consequences. This subsidy according to

proponents of the de-concentration theory, leads to increase in risk taking activities by these large banks; thereby increasing the fragility of the banking industry. In summary, the proponents of the De-concentration theory are of the view that having few large banks within the banking industry of any economy is not the best. In that these large banks seen as “too big to fail” turn to be “too big to discipline”. They also tend to increase the banking industry’s fragility due to their increased risk taking activities as a result of receipt of subsidies; and the argument that such large banks tend to make unavailable credit facilities to small and medium scale enterprises thereby reducing credit supply within the economy which leads to a reduction in the socio-economic welfare of society.

2.2.3 Eat - or - be- Eaten Theory

“The Eat or Be Eaten theory was proffered by Gorton, Kahl and Rosen (2005)”. This theory was meant to explain the waves of mergers experienced in the United States of America between the 1960s and the 1990s. It is a theory made of the views of neoclassical as well as behavioral theories.

It is regarded by many as a defensive model for mergers and acquisitions. This theory is underpinned by certain assumptions. Some of these assumptions include:

- Managers will only allow a merger or an acquisition to occur if they want their firms to remain independent instead of been merged or acquired.
- In order for managers to significantly reduce their chances of being acquired, they will rather prefer acquiring another firm so as to eliminate the threat of acquisition outright.
- If a firm is large enough, it is capable of repelling threats of acquisition due to its sheer size rather than firms of smaller size. This is because larger firm acquisition is more difficult to fiancé than smaller ones.

- Externalities associated with defensive mergers give rise to merger waves. This is because a defensive merger approach adopted by one firm renders other firms vulnerable as takeover targets. This leads to these firms adopting the defensive merger approach by acquiring other smaller firms so as to increase their size and prevent possible acquisition.

This theory also points out that “in the event that managers want to protect their interest at the expense of shareholder, they end up making inefficient merger and acquisition decisions even if they expect the synergy to generate a negative effect”. In summary, the theory of “Eat or Be Eaten” is built on the assumption that mergers and acquisitions take place with the sole purpose of a firm preventing acquisition by another firm or managers seeking to protect their self-interest at the expense of shareholders.

2.2.4 Agency Theory

“This theory is of the view that managers take actions that inure to their personal benefits rather than that of shareholders”. By this, mergers and acquisitions decisions can be made by managers due to the personal benefit they will derive from such an activity rather than the increase in the values of shareholder’s wealth even if these acts will not benefit shareholders.

The agency theory according to “Moe (1984) was originated by Spence and Zeckhauser (1971), Rose (1973) and Arrow (1971) in an attempt to investigate risk sharing as well as incomplete information. The research work done by these individuals which had to do with contract issues, property rights as well as shirking and monitoring of team production was further developed by Jensen and Meckling (1976)”.

Research by Thomsen (2008) assumes that both the owners of the business and the managers of the business are fully rational when it comes to the agency theory. Conflicts of interest is said to

exist between the principal and the agent. But the conflict between these two parties is said to be an opportunistic behavioral assumption rather than an irrational decision.

2.2.5 Valuation Theory

“This theory is of the view that mergers or acquisitions take place only when the acquiring firm has information which makes the firm perceives to derive an advantage form combining its assets with the target firm”. This kind of merger can also arise when the acquiring firm estimates that the target firm has been undervalued on the stock market. But this assumption is critiqued as being in conflict with the efficient market theory. This is because, according to the efficient market theory, all public information about a particular firm must be factored into its stock price.

2.2.6 Hubris Theory

This theory uses a psychological approach to explain the rationale behind mergers and acquisitions. It assumes that managers of the acquiring firm tend to overestimate their abilities in turning around the fortunes of target firms. By this, managers of the acquiring firms due to their over optimism tend to make erroneous decisions which are often overpriced as pointed out by Trautwein (1990).

According to Hayward and Hambrick (1997), Malmendier and Tate (2008) and Dong (2006), the overconfidence of managers of the acquiring firm often leads to the over bidding of the target firm; causing the winning bidder to have a bidding situation often referred to as the winner’s curse. This winner’s curse often leads to failure as the acquiring firm later on realizes they have overpaid for the target firm.

This theory further assumes that during “the announcement of a possible merger or acquisition of the target firm, shareholders of the bidding acquiring firms tend to incur initial losses from the share price of the target firm’s stock which tends to be a gain to shareholders of the target firm”.

According to Machiraju (2010), the “moment an acquiring firm makes its intention clear to a target firm for a potential merger or acquisition, the share price of the target firm tend to increase because of the willingness of their shareholders to release their shares to the acquiring firm at a high premium which the acquiring firm is proposing”. This ends up “increasing the risk of failure after merger or acquisition”.

2.3 Empirical Literature

Some empirical researches have been undertaken by researchers to ascertain “the impact of mergers and acquisitions on the financial performance of firms”. Varying conclusions have been drawn as to the true impact of mergers and acquisitions of firms due to the fact that these researches have been carried out based on different geographical locations as well as industries. Some of these finds have been discussed below:

A study conducted by Attablayo (2012) in trying to establish “the impact of mergers and acquisition in the Ghanaian Banking industry chose Société Générale-Social Security Bank (SG-SSB) of Ghana as a case study and discovered that mergers and acquisitions taking place in the banking industry showed improved execution during the post-merger period relative to the pre-merger period”.

Amegah (2012) carried out a research on the effect of mergers and acquisitions on the acquiring organization's financial performance within the Ghanaian economy. His research focused on “the acquisition of Ghana Telecom by Vodafone”. Conclusions drawn from this research showed that “there was a decline in profitability, operating expense and financial leverage. Liquidity on the

hand had been on the rise”. This as a result indicated an improved post-acquisition performance in some areas and decreased post-acquisition performance in other areas as well.

Whereas, Kumar and Bansal (2008) after employing monetary information, tables and distinctive proportions in carrying out their investigation into the relationship between merger and acquisition and financial performance of firms, by conducting a study on “the effect of merger and acquisition on corporate execution in India”; concluded that in majority of the cases there existed some level of advantages and cooperative energy amongst firms that have been merged or acquired. Some of the advantages they pointed out include income growth and greater cost control leading to a reduction in operating expenses. Kemal (2011) pointed out that the financial performance of Royal Bank of Scotland (RBS) in Pakistan with regards to profitability, liquidity, resources management, leverage, and cash flows had shown a satisfactory performance prior to the merger after employing accounting ratios in his analysis of gathered data.

Seidu (2008) found out that “the only advantage accrued from the merger was an improvement in the earnings per share and profit of the firm during the three-year post-merger period”. His study was on “the effect of mergers and acquisitions on the corporate financial performance of Guinness Ghana Breweries Limited”.

The conclusion that “it is more financially efficient during post-merger and post-acquisition periods relative to pre-merger and pre-acquisition periods drawn by Okpanachi (2011) was based on a research conducted on the comparative analysis of the impact of mergers and acquisitions on the financial efficiency of banks in Nigeria; while employing the t-statistic and the Statistical Package for Social Sciences as a method of data analysis”.

An investigation into the effects of mergers and acquisitions on the efficiency of financial intermediation in the Nigerian Banking industry was a research work done by Emumilade (2010). “From the analysis of his data, it was discovered that there was an improvement in the competitiveness and operational efficiency of borrowing and lending within the Nigerian Banking industry post mergers and acquisitions”.

Alao (2010) on examining mergers and acquisitions in the Nigerian Banking industry suggested that after his analysis of the data gathered, concluded that there existed a substantial gain in mergers and acquisitions through economic efficiency and as such did not lead to a waste of resources.

After using excel software tools in “the analysis of his data to determine the impact of mergers and acquisitions on six commercial banks in Indonesia”, Viverita (2008) “concluded that through mergers and acquisitions, the six banks under study experienced an increase in their profits”.

The impact of mergers and acquisitions on the operational aspects of publicly traded firms in China was a research conducted by Jin (2004). He discovered that total revenue, return on assets and profit margins displayed an improvement in their performance during the post-merger periods. However, there wasn't much of an impact on the asset turnover of the firms. The method of data analysis employed was the use of Excel software tools.

“After sampling thirteen companies from the total number of companies engaged in mergers or acquisitions listed on the Bombay Stock Exchange and gathering data on them for the period of 2002-2005”, Selvam (2009) concluded that “the liquidity performance of the firms engaged in the merger and acquisition process saw an improvement during the post-merger and acquisition periods”.

Whereas, a study involving the effects of mergers and acquisitions on the financial performance of insurance companies in Nairobi, Kenya conducted by Ndora (2010) discovered that “there existed a positive relationship between mergers and acquisitions and the financial performance of firms”; Marangu (2011) on the other hand, after employing excel software tools in the analysis of data gathered, also discovered that a positive relationship existed between mergers and acquisitions and the financial performance of petroleum firms.

Tuni (2011) on assessing “the impacts of mergers and acquisitions on the financial performance of financial institutions in Kenya”, discovered an “improvement in the financial performance of these institutions in relation to return on asset, return on equity and earnings per share”.

Ndora (2010) examined the effects of mergers and acquisitions on the financial performance of insurance companies in Kenya. After using six insurance companies out of a population of forty-two that had gone through a merger between the periods of 1995 and 2005, it was discovered that there was an improvement in the financial performance of the firms during the post-merger periods in relation to the pre-merger periods.

A study of fifteen banks between the periods of 2000 to 2010 by Misigah (2013) revealed that there was a significant growth in shareholder’s value after the merger. Whiles a research conducted by Rhoades (1993) on the impact of mergers in the banking industry on efficiency and profitability by considering both the domestic and cross border mergers; discovered that many of the domestic mergers showed a significant improvement in their cost efficiency while showing marginal improvement in their profitability. Cross border mergers on the other hand showed little or no improvement in their profitability and cost efficiency respectively.

Canadian acquiring firms significantly underperform during a review of their 3-year post merger and acquisition financial performance. This was a discovery made by Andre, Kooli and L'Her (2004) in their study of “the long-term performance of two hundred and sixty-seven Canadian mergers and acquisitions taking place within the periods of 1980 to 2000”.

Sufian (2004) from his research into the efficiency effects of mergers and acquisitions of banks in Malaysia, found that there was an overall improvement in the efficiency of the banks reviewed during the post-merger periods. This assertion was supported by Sufian and Habibullah (2010). They also discovered that there was a greater mean of technical efficiency level during the post-merger period in comparison to the pre-merger period.

In order to prove their assertion that mergers and acquisitions in the Egyptian banking sector, showed an improvement in profitability and a marginal positive impact in their position in relation to their credit risk, Badreldin and Kalhoefer, (2009) conducted a research on Egyptian banks faced with mergers or acquisitions during the era of 2002 to 2007. They concluded based on their findings that there was an improvement in the financial performance of banks during the post-merger periods compared to the pre-merger periods.

Kilelo (2013) in his study of “mergers and acquisitions in the banking industry in Kenya”, discovered that “the rationale behind most banks venturing into mergers and acquisitions was basically to improve upon their capital base, target market and returns on their investments; while using mergers and acquisitions as an avenue to enter the banking industry”.

From the empirical literature studied and the various conclusions drawn by the researchers, it is quite clear that there exists a positive correlation between working capital management and firms' profitability.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter presents the methodology of the study. It includes the various methods that the researcher used to obtain the data for the project work, research design, population and sample size, sampling technique, justification for sample, data source, data type and the method of data analysis.

3.1 Research Approach/Design

“The study will adopt a descriptive statistics method in the analysis of the data gathered”. This will aid in the graphical and numerical process which will be used in the summarization of the analyzed data in a clear and comprehensible form. The descriptive statistics method was adopted because the researcher aimed to gather information in relation to events and phenomenon.

3.2 Population

There has been a total of about eight (8) mergers and acquisitions of banks that have taken place in the Ghanaian banking industry between 2012 and 2019. These mergers and acquisitions include “Ecobank Ghana Limited and The Trust Bank”, “Access Bank and Intercontinental Bank”, “Merchant Bank and Universal Merchant Bank (Fortis)”, the consolidation of seven local banks (UniBank, Sovereign Bank, Beige Bank, Heritage Bank, Premium Bank, Royal Bank, Construction Bank) to form the Consolidated Bank Ghana Limited, First National Bank (FNB) and GHL Bank, “OmniBank and BSIC Bank, First Atlantic Bank and Energy Commercial Bank” and “First Bank of Nigeria and International Commercial Bank”.

3.3 Sample Size

“Out of the total of eight (8) mergers that have taken place in the banking industry between 2012 and 2019, only four (4) mergers and acquisition met the criteria for this study”. These were mergers and acquisitions between “Ecobank Ghana Limited and The Trust Bank, Access Bank and Intercontinental Bank, Merchant Bank and Universal Merchant Bank (Fortis) and First Bank of Nigeria and International Commercial Bank”. Out of the mergers and acquisitions that met the criteria of the study, the “acquisition of International Commercial Bank by First Bank of Nigeria (FBN Bank Ghana Limited)” was selected and used as sample.

3.4 Sampling Technique

The sampling technique engaged in the selection of the sample was a purposive sampling method. This was because the researcher wanted to find out how the financial performance of a bank within the Ghanaian banking industry after acquisition is impacted by a bank from another country which has not operated in Ghana before.

3.5 Justification for Sample

This sample was selected on the basis of their countries of operations prior to the acquisition. This was to give the research a different outcome from other researches where both the acquiring and acquired banks operated within the same country. First Bank of Nigeria (FBN Bank Ghana Limited) operated in Nigeria; whereas, International Commercial Bank operated within Ghana prior to acquisition.

3.6 Data Source

The financial statements of “FBN Bank Ghana Limited and International Commercial Bank were used in gathering the relevant data needed for the study”. The financial statements covered the

periods 2009 to 2012 for International Commercial Bank and 2014 to 2017 for FBN Bank Ghana Limited.

3.7 Data Type

The type of data that was used in this study was secondary in nature. This was because all the relevant and needed information were available in the published financial statements of the selected banks. As a result, there was no need for primary data to be gathered. The researcher therefore, did not distribute questionnaires nor conduct interviews with the stakeholders of the selected institutions to obtain information.

3.8 Data Analysis

The analysis of the data gathered from the financial statements of FBN Bank and International Commercial Bank was done with the use of financial ratios and graphs. The analysis of the financial statements using the financial ratios covered a nine (9) year period. These were four (4) years before and four (4) years after acquisition; with the acquisition year inclusive as well.

“The study adopted six (6) types of financial ratios in order to accurately analyze the trend in the financial performance of our sampled banks before and after acquisition”. The financial ratios used are as follows:

- a. Profitability Ratios
- b. Expense Ratios
- c. Liquidity Ratios
- d. Investment Ratios
- e. Solvency Ratios (Leverage Ratios)
- f. Growth Indicators

3.8.1 Profitability Ratios

“Profitability Ratios are financial ratios that are used by financial analysts to measure the ability of a firm to generate profit in relation to their revenues, assets, operating costs and shareholders’ equity during a given period”.

The ratios used for the measure of the bank’s profitability include:

- i. Net Profit Margin
- ii. Return on Capital Employed (ROCE)
- iii. Return on Assets (ROA)

❖ Net Profit Margin

Net Profit Margin measures the net profit of a firm in relation to its generated revenues over a given period.

$$\text{Net Profit margin} = (\text{Profit After Tax (PAT)}/\text{Gross Revenue}) * 100$$

❖ Return on Capital Employed (ROCE)

Return on Capital Employed measures the profitability of a firm in relation to the efficiency with which the firm’s capital was used over a given period.

$$\text{ROCE} = \text{Earnings Before Interest and Tax (EBIT)}/\text{Capital Employed}$$

❖ Return on Assets (ROA)

“Return on Assets measures the proportion of the firm’s profitability that was generated from its assets over a given period”.

$$ROA = \text{Profit Before Tax (PBT)} / \text{Average Total Asset}$$

3.8.2 Expense Ratio

Expense Ratio is a financial analysis ratio that is employed by financial analysts in determining the value of a firm's assets and used to cater for operating and administrative expenditures during a given period. The ratio used for the measure of the bank’s expense ratio is the Operating Expense Ratio (OER).

❖ Operating Expense Ratio (OER)

Operating Expense Ratio involves the cost measurement associated with operating a firm in relation to revenue generated over a given period.

$$OER = (\text{Total Operating Expense} - \text{Depreciation}) / \text{Gross Revenue}$$

3.8.3 Liquidity Ratios

“Liquidity Ratios are financial analysis ratios employed by financial analysts to measure the ability of a firm to pay off its current debt obligations without raising external capital during a given period”. The ratios used for the measure of the bank’s liquidity include:

- i. Loan to Deposit Ratio
- ii. Capital Adequacy Ratio (CAR)
- iii. Non-Performing Loan Ratio

❖ Loan to Deposit Ratio

Loan to Deposit Ratio measures a bank's liquidity through the comparison of the bank's total loans in relation to its total deposits over a given period.

$$\text{Loan to Deposit Ratio} = \text{Total Loans} / \text{Total Deposit}$$

❖ Capital Adequacy Ratio (CAR)

Capital Adequacy Ratio measures a bank's available capital expressed as a percentage of its risk-weighted credit exposures over a given period.

$$\text{CAR} = (\text{Tier 1 Capital} + \text{Tier 2 Capital}) / \text{Risk Weighted Assets}$$

❖ Non-Performing Loan Ratio

Non-Performing Loan Ratio measures the proportion of the bank's gross loans that are classified as non-performing after defaulting for a number of days over a given period.

$$\text{Non-Performing Loans} = \text{Non Performing Loans} / \text{Gross Loans}$$

3.8.4 Investment Ratio

Investment Ratio is a financial analysis ratio employed by financial analysts to assess how a firm's shares are performing during a given period. "The ratio used for the measure of the bank's investment ratio is the Earnings per Share (EPS)".

❖ Earnings per Share (EPS)

Earnings per Share measure the allotment of a company's profit that is distributed among each share of common stock over a given period.

$$\text{EPS} = (\text{Net Income} - \text{Preferred Dividends}) / \text{Common Shares Outstanding}$$

3.8.5 Solvency Ratios (Leverage Ratios)

“Solvency Ratios are financial analysis ratios employed by financial analysts to measure the ability of a firm to meet its total financial obligations during a given period”. The ratios used for the measure of the bank’s solvency include:

- i. Interest Coverage Ratio (ICR)
- ii. Debt Ratio

❖ Interest Coverage Ratio (ICR)

Interest Coverage Ratio determines how easily a company can pay interest on its outstanding debt over a given period.

$$\text{ICR} = \text{Earnings Before Interest and Taxes (EBIT)} / \text{Interest Expense}$$

❖ Debt Ratio

Debt Ratio measures the extent of a company’s leverage over a given period.

$$\text{Debt Ratio} = \text{Total Debt} / \text{Total Assets}$$

3.8.6 Growth Ratios

Growth Ratios are financial ratios that are used by financial analysts to measure how a firm is growing in respect of various parameters during a given period. The ratios used for the measure of the bank’s growth include:

- i. Operating Income Growth
- ii. Total Asset Growth
- iii. Deposit Growth
- iv. Growth in Shareholders’ Funds

❖ Operating Income Growth (OIG)

Operating Income Growth Ratio measures how a bank's income grew over a given period.

$$\text{OIG} = (\text{Current Year Income} - \text{Previous Year Income}) / \text{Previous Year Income}$$

❖ Total Assets Growth (TAG)

Total Asset Growth Ratio measures how a bank's assets grew over a given period.

$$\text{TAG} = (\text{Current Year Asset} - \text{Previous Year Asset}) / \text{Previous Year Asset}$$

❖ Deposit Growth

Deposit Growth Ratio measures how a bank's deposit grew over a given period.

$$\text{DG} = (\text{Current Year Deposit} - \text{Previous Year Deposit}) / \text{Previous Year Deposit}$$

❖ Growth in Shareholder's Fund (GSF)

Growth in Shareholder's Fund Ratio measures how a bank's shareholder's fund grew over a given period.

$$\text{GSF} = (\text{Current Year S. Fund} - \text{Previous Year S. Fund}) / \text{Previous Year S. Fund}$$

CHAPTER FOUR

DISCUSSION OF RESULTS

4.0 Introduction

This chapter presents the analysis and interpretation of the data collected. The information was gathered from the financial statements of FBN Bank Ghana Limited. The analysis and interpretation are presented in the form of tables, graphs and narrative interpretations.

4.1 Bank Profile

According to the Bank of Ghana website, on 24th September 2013 a press release on the “acquisition of International Commercial Bank (Ghana) by First Bank of Nigeria (FBN)” was announced. This press release went further to state that “ICB Financial Group Holdings AG had agreed to sell its shares in International Commercial Bank (Ghana) Limited to First Bank of Nigeria (FBN)”, a transaction the Bank of Ghana had given approval for.

4.1.1 International Commercial Bank

International Commercial Bank commenced operations in Ghana in November 1996. In 2013, International Commercial Bank sold a one hundred percent equity stake in the West African Operations to First Bank of Nigeria after approval by Bank of Ghana. International Commercial Bank had 17 branches throughout Ghana prior to acquisition.

4.1.2 FBN Bank Ghana Limited

According to FBN Bank Ghana website, FBN Bank Ghana Limited is a subsidiary of First Bank of Nigeria. In 2013 First Bank of Nigeria acquired one hundred percent equity stake in the West African Operations of International Commercial Bank and after approval by Bank of Ghana, the name of the bank was changed to FBN Bank Ghana Limited.

The vision of the Bank is to be “a clear leader and Ghana’s Bank of first choice. The mission of the bank is to maximize shareholder value through sustainable growth, superior customer service and innovation”.

FBN Bank Ghana Limited has 19 branches and 2 agencies throughout Ghana.

4.2 Financial Performance of the Bank Before and After Acquisition

The annual financial reports of International Commercial Bank and FBN Bank Ghana Limited were used in the analysis of the bank’s Pre-Acquisition and Post- Acquisition Performance. This was made up of International Commercial Bank financial statement for the period 2009 to 2012 (which represents a four-year financial statement before acquisition) and FBN Bank Ghana Limited financial statement for the period 2014 to 2017 (which represents a four-year financial statement after acquisition). Data from the financial statement for the period 2013 represents the year of acquisition. The comparison of the Pre-Acquisition and Post- Acquisition Performance of the bank is to determine whether or not there has been growth or a decline in the financial performance of the bank after acquisition.

Table 4.1: Selected ratios calculated based on the financial statement of International Commercial Bank (2009 to 2012) and FBN Bank Ghana Limited (2014 to 2017) for each of the periods before and after acquisition.

Ratios extract from Income Statement and Balance Sheet from 2009 - 2017									
	2009	2010	2011	2012	2013	2014	2015	2016	2017
Ratios	%	%	%	%	%	%	%	%	%
Net Profit Margin	3.53	22.85	23.55	2.63	19.69	26.16	36.26	5.06	17.75
Return on Capital Employed	2.21	10.44	11.32	1.35	13.98	19.95	27.52	3.97	15.34
Expense to Income Ratio	93.36	65.84	68.91	96.08	72.77	67.18	54.61	93.25	74.16
Loan to Deposit Ratio	39.77	42.94	57.08	61.92	72.70	93.57	59.39	33.51	22.75
Return on Asset	0.63	3.65	3.60	0.37	3.77	5.50	7.04	0.89	3.60
Interest Income to Capital Employed	56.14	38.01	39.62	46.01	59.10	64.35	64.85	67.46	71.11
Capital Adequacy Ratio	73.58	58.96	28.48	35.57	34.96	31.00	27.10	33.63	52.44
Interest Coverage Ratio	7.53	69.00	97.19	7.94	71.12	128.90	180.31	20.13	56.68
Non-Performing Loan Ratio	33.10	34.84	21.17	18.68	23.63	2.37	8.78	5.24	9.73
Debt Ratio	63.62	66.22	69.89	74.43	71.60	73.13	75.46	80.08	77.29
Asset Growth	79.40	15.78	20.40	18.84	-1.34	18.92	23.81	26.82	-3.38
Income Growth	17.78	56.74	27.88	-1.99	57.59	31.52	12.52	4.43	7.65
Deposit Growth	15.65	29.46	34.56	32.82	-16.22	0.97	22.14	36.72	5.47
Growth in Shareholder's Fund	363.30	7.51	7.31	0.92	9.58	12.53	13.09	2.92	10.15
Earnings Per Share	0.075	0.084	0.088	0.003	0.125	0.180	0.300	0.050	0.190
Growth in Total Expense	76.04	10.55	33.84	36.64	19.36	21.41	-8.54	78.33	-14.39

Source: Researcher's Calculations, 2019.

Table 4.2: Averages of selected ratios calculated based on the financial statement of International Commercial Bank (2009 to 2012) and FBN Bank Ghana Limited (2014 to 2017) for each of the periods before and after acquisition:

Averages of Ratios extract from Income Statement and Balance Sheet from 2009 - 2017		
	Pre-Acquisition	Post-Acquisition
Ratios	%	%
Net Profit Margin	13.14	21.31
Return on Capital Employed	6.33	16.69
Expense to Income Ratio	81.05	72.30
Loan to Deposit Ratio	50.43	52.30
Return on Asset	2.06	4.26
Interest Income to Capital Employed	44.95	66.94
Capital Adequacy Ratio	49.15	36.04
Interest Coverage Ratio	45.41	96.51
Non-Performing Loan Ratio	26.95	6.53
Debt Ratio	68.54	76.49
Asset Growth	33.61	16.54
Income Growth	25.10	14.03
Deposit Growth	28.12	16.32
Growth in Shareholder's Fund	94.76	9.67
Earnings Per Share	0.06	0.18
Growth in Total Expense	39.27	19.20

Source: Researcher's Calculations, 2019

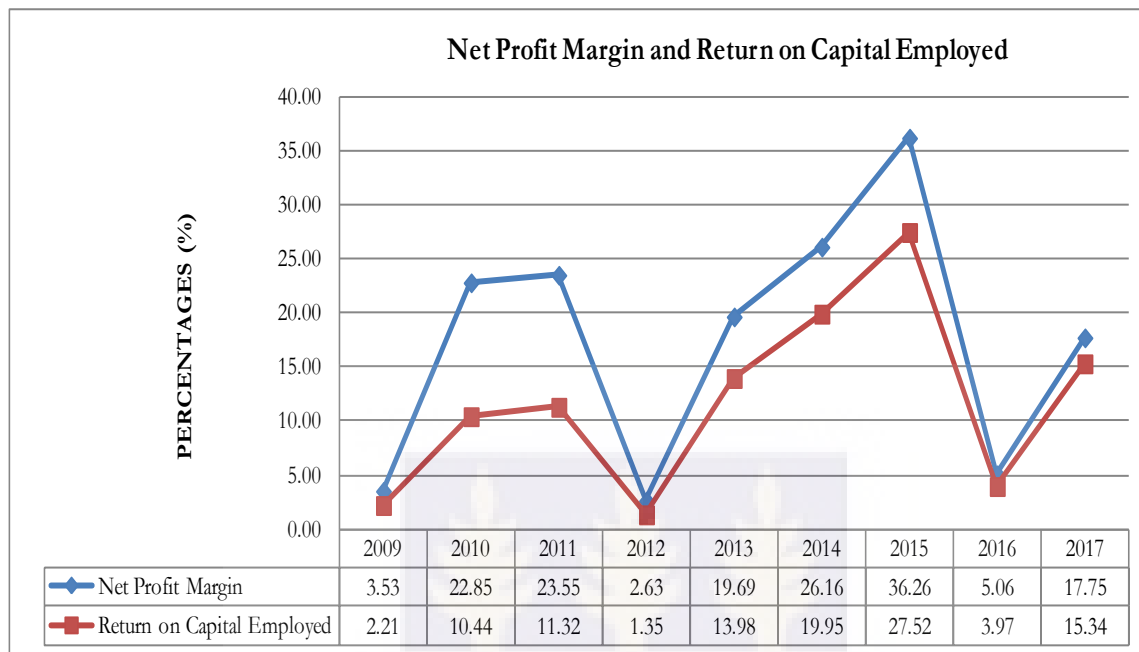
4.3 Discussion of Results

4.3.1 Profitability Ratio

The profitability performance during the pre and post-acquisition period was measured using the:

- Net Profit margin
- Return on Capital Employed
- Return on Asset

Figure 4.1: Net Profit Margin and Return on Capital Employed.



Source: Researcher’s Calculations, 2019

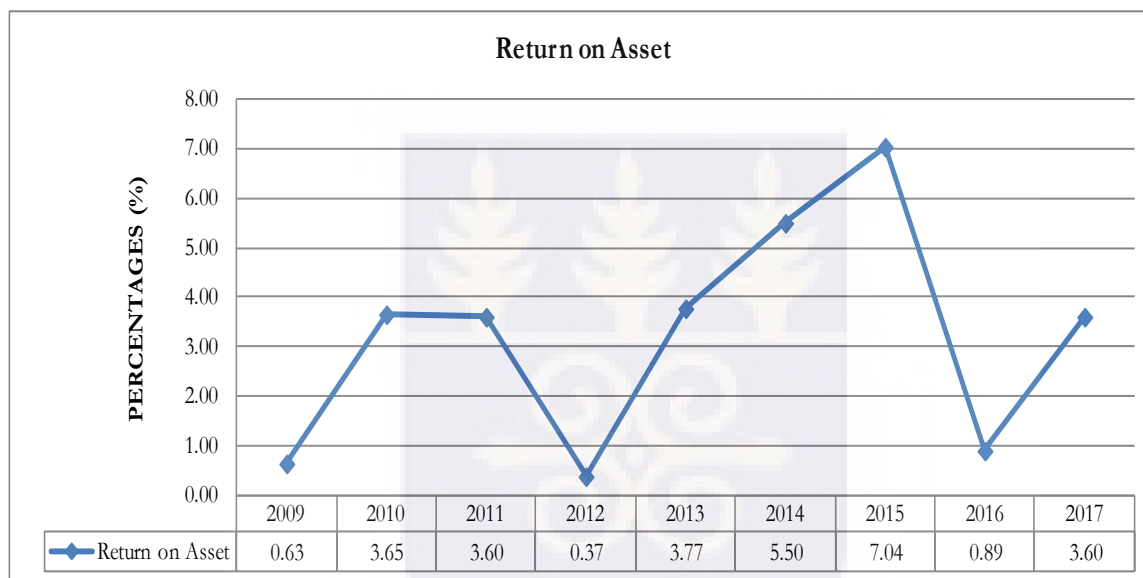
Based on Figure 4.1 above, it can be observed that between the year 2009 and 2012 (representing the pre-acquisition period), Net Profit Margin increased significantly from 3.53 in 2009 to 22.85 in 2010. After which, it remained slightly stable in 2011 recording a Net Profit Margin of 23.55; before falling sharply in 2012 to record a 2.63 Net Profit Margin.

The years 2014 to 2017 (representing the post-acquisition period), saw a significant increase in Net Profit Margin from 26.16 in 2014 to 36.26 in 2015 as well as a sharp decline in the year 2016 and a significant rise in the following year 2017 representing a Net Profit Margin of 5.06 and 17.75 respectively.

Return on Capital Employed on the hand, witnessed a significant increase from 2.21 in 2009 to 10.44 in 2010. After which, it remained slightly stable in 2011 recording a Return on Capital Employed of 11.32; before falling sharply in 2012 to record a 1.35 Return on Capital Employed.

The years 2014 to 2017 (representing the post-acquisition period), saw a significant increase in Return on Capital Employed from 19.95 in 2014 to 27.52 in 2015 as well as a sharp decline in the year 2016 and a significant rise in the following year 2017 representing a Return on Capital Employed of 3.97 and 15.34 respectively.

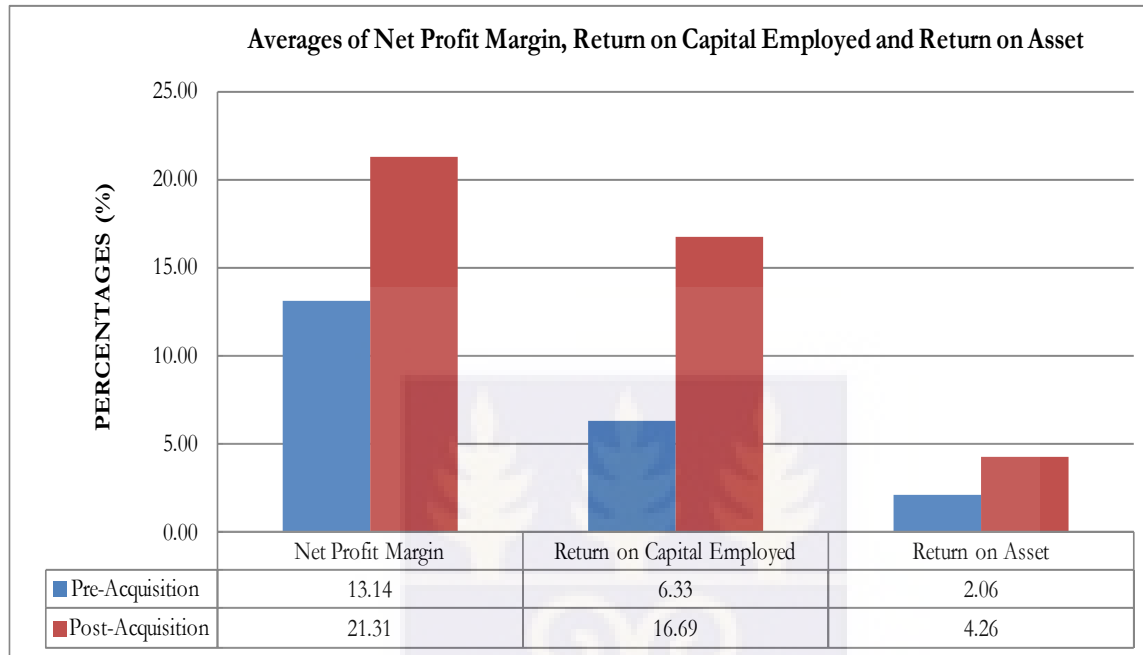
Figure 4.2: Return on Asset.



Source: Researcher's Calculations, 2019.

Based on Figure 4.2 above, it can be observed that between the year 2009 and 2012 (representing the pre-acquisition period), Return on Asset increased significantly from 0.63 in 2009 to 3.65 in 2010. After which, it remained slightly stable in 2011 recording a Return on asset of 3.60; before falling sharply in 2012 to record a 0.37 Return on Asset. The years 2014 to 2017 (representing the post-acquisition period), saw a significant increase in Return on Asset from 5.50 in 2014 to 7.04 in 2015 as well as a sharp decline in the year 2016 and a significant rise in the following year 2017 representing a Return on Asset of 0.89 and 3.60 respectively.

Figure 4.3: Averages of Net Profit Margin, Return on Capital Employed and Return on Asset.



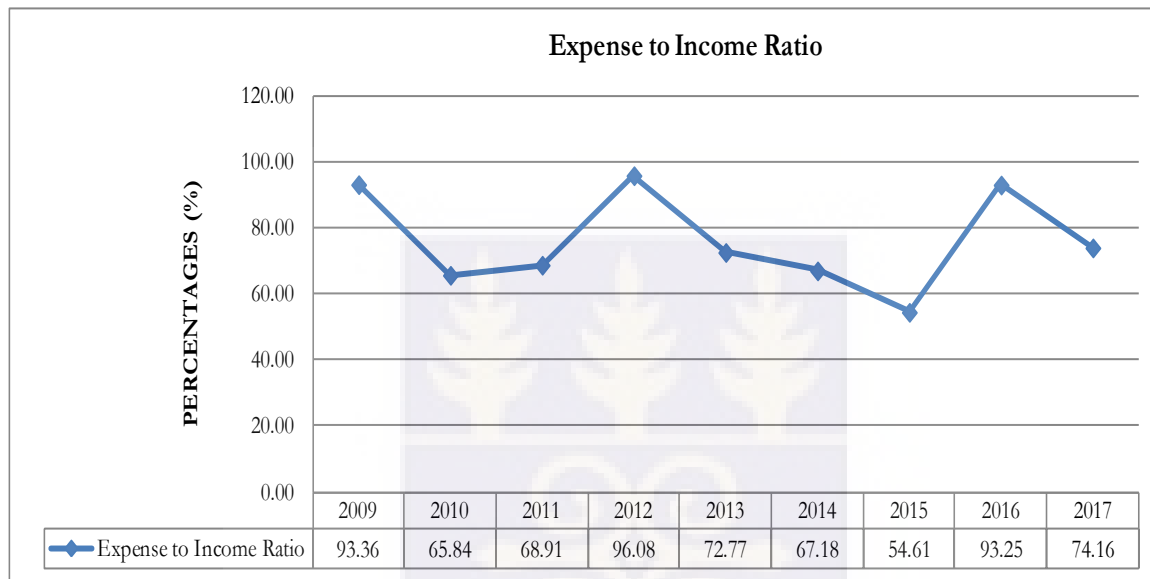
Source: Researcher's Calculations, 2019.

Based on Figure 4.3 above, it can be observed that for each of the profitability ratios, the post-acquisition period shows an improvement in the performance of the bank relative to the pre-acquisition period. It can be observed that the bank recorded a pre-acquisition Net Profit Margin of 13.14 relative to the post-acquisition Net Profit Margin of 21.31. Return on Capital Employed on the hand, witnessed a pre-acquisition Return on Capital Employed of 6.33 relative to the post-acquisition Return on Capital Employed of 16.69; whereas, Return on Asset showed a pre-acquisition Return on Asset of 2.06 relative to the post-acquisition Return on Asset of 4.26.

4.3.2 Expense Ratio

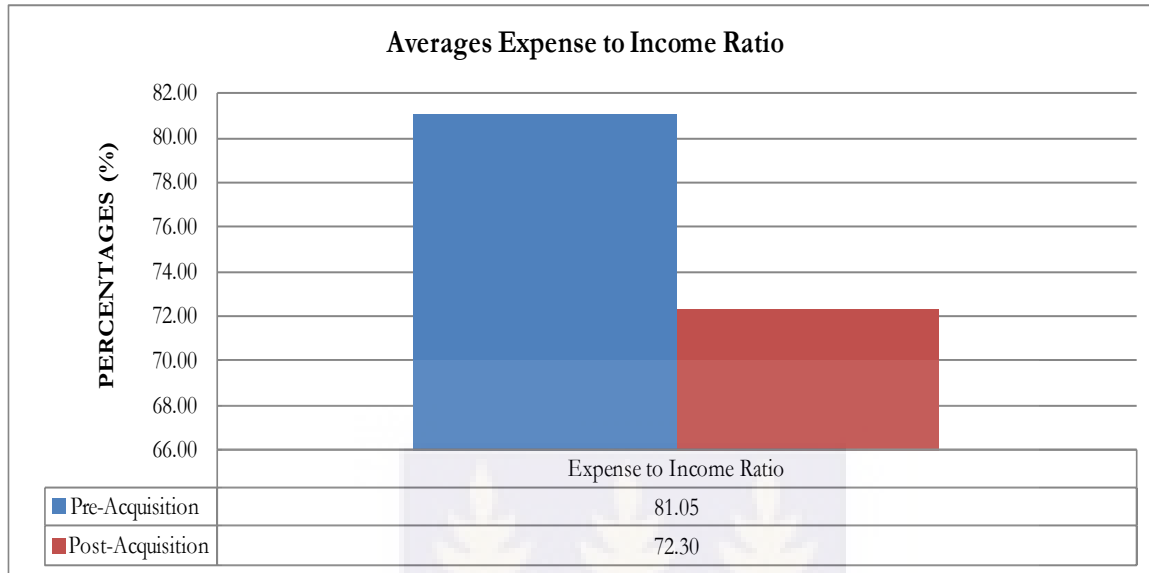
The expense performance during the pre and post-acquisition period was measured using the Operating Expense Ratio (OER). A lower ratio is preferred relative to higher one.

Figure 4.4: Expense to Income Ratio.



Source: Researcher's Calculations, 2019

Based on Figure 4.4 above, it can be observed that between the year 2009 and 2012 (representing the pre-acquisition period), Expense to Income Ratio decreased significantly from 93.36 in 2009 to 65.84 in 2010. After which, it slightly increased in 2011 recording an Expense to Income Ratio of 68.91; before rising sharply in 2012 to record a 96.08 Expense to Income Ratio. The years 2014 to 2017 (representing the post-acquisition period), saw a significant decrease in Expense to Income Ratio from 67.18 in 2014 to 54.61 in 2015 as well as a sharp rise in the year 2016 and a significant fall in the following year 2017 representing an Expense to Income Ratio of 93.25 and 74.16 respectively.

Figure 4.5: Averages of Expense to Income Ratio.

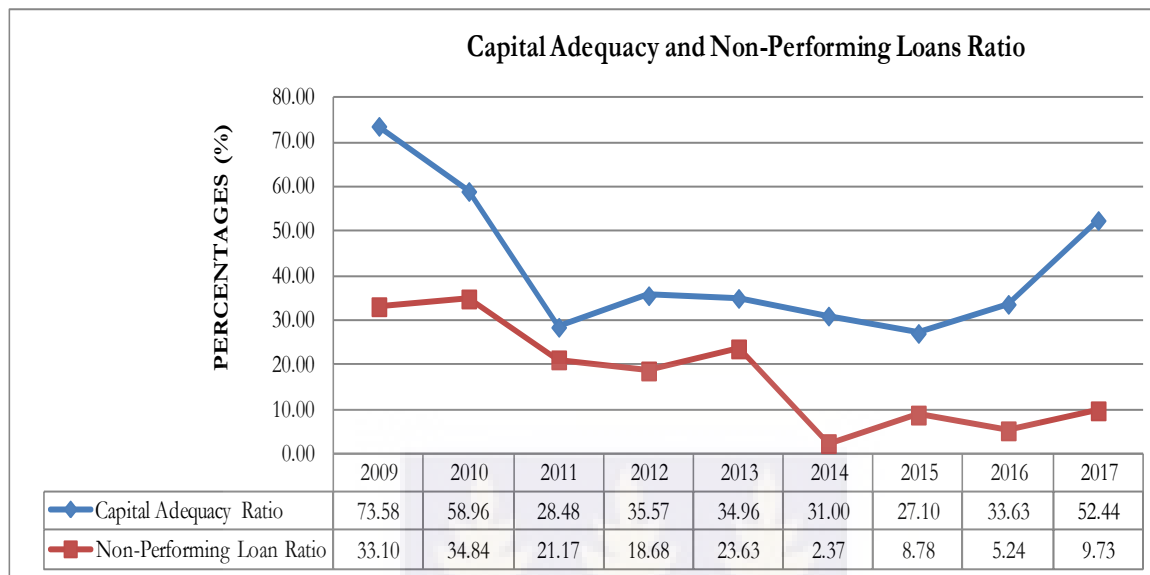
Source: Researcher's Calculations, 2019

Based on Figure 4.5 above, it can be observed that for the Expense ratio, the post-acquisition period shows an improvement in the performance of the bank relative to the pre-acquisition period. It can be observed that the bank recorded a pre-acquisition Expense to Income Ratio of 81.05 relative to the post-acquisition Expense to Income Ratio of 72.30.

4.3.3 Liquidity Ratio

The liquidity performance during the pre and post-acquisition period was measured using the

- Loan to Deposit Ratio
- Capital Adequacy Ratio (CAR)
- Non-Performing Loan Ratio

Figure 4.6: Capital Adequacy and Non-Performing Loans.

Source: Researcher's Calculations, 2019.

Based on Figure 4.6 above, it can be observed that between the year 2009 and 2012 (representing the pre-acquisition period), Capital Adequacy Ratio decreased significantly from 73.58 in 2009 to 58.96 in 2010. After which, it decreased further in 2011 recording a Capital Adequacy Ratio of 28.48; before rising slightly in 2012 to record a 35.57 Capital Adequacy Ratio. The years 2014 to 2017 (representing the post-acquisition period), saw a slight decrease in Capital Adequacy Ratio from 31.00 in 2014 to 27.10 in 2015 as well as a slight increase in the year 2016 and a significant rise in the following year, 2017 representing a Capital Adequacy Ratio of 33.63 and 52.44 respectively.

Non-Performing Loan Ratio on the hand witnessed a slight increase from 33.10 in 2009 to 34.84 in 2010. After which, it fell significantly in 2011 recording a Non-Performing Loan Ratio of 21.17; before falling further in 2012 to record a 18.68 Non-Performing Loan Ratio. The years 2014 to 2017 (representing the post-acquisition period), saw a significant increase in Non-

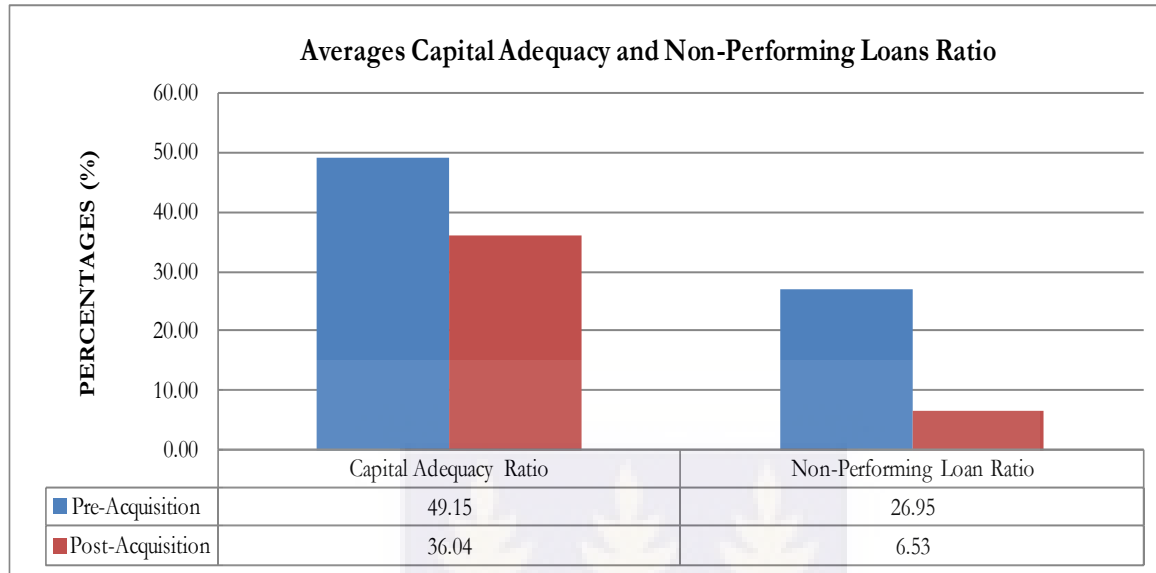
Performing Loan Ratio from 2.37 in 2014 to 8.78 in 2015 as well as a slight decline in the year 2016 and a slight rise in the following year 2017 representing a Non-Performing Loan Ratio of 5.24 and 9.73 respectively.

Figure 4.7: Loan to Deposit Ratio.



Source: Researcher’s Calculations, 2019.

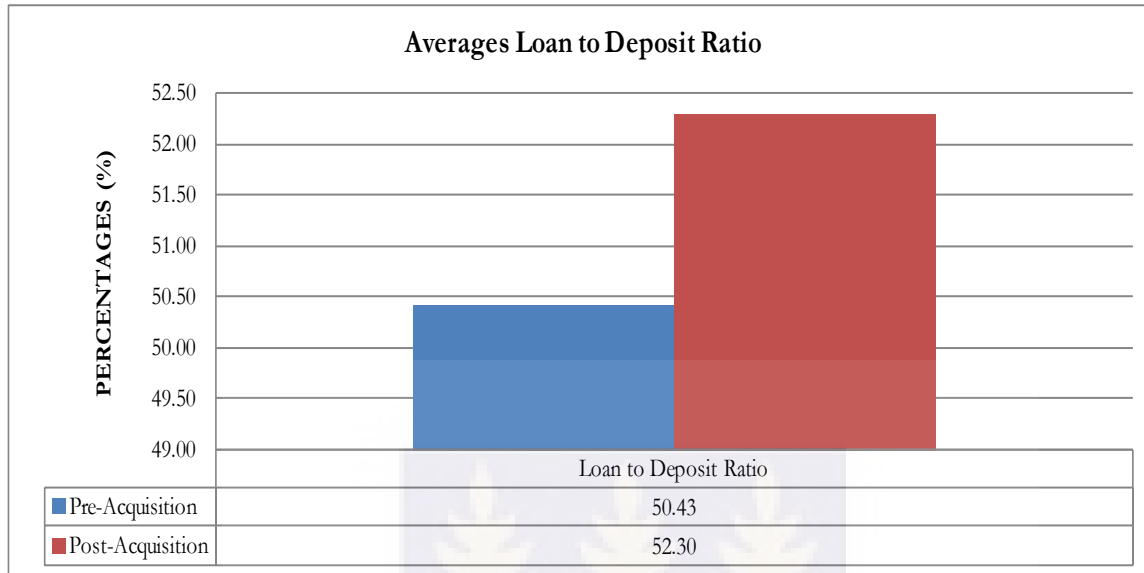
Based on Figure 4.7 above, it can be observed that between the year 2009 and 2012 (representing the pre-acquisition period), Loan to Deposit Ratio rose slightly from 39.77 in 2009 to 42.94 in 2010. After which, it significantly increased in 2011 recording a Loan to Deposit Ratio of 57.08; before rising slightly in 2012 to record a 61.92 Loan to Deposit Ratio. The years 2014 to 2017 (representing the post-acquisition period), saw a significant decrease in Loan to Deposit Ratio from 93.57 in 2014 to 59.39 in 2015 as well as a further decrease in the year 2016 and 2017 representing a Loan to Deposit Ratio of 33.51 and 22.75 respectively.

Figure 4.8: Averages of Capital Adequacy and Non-Performing Loan Ratio.

Source: Researcher's Calculations, 2019.

Based on Figure 4.8 above, it can be observed that for each of the liquidity ratios, the post-acquisition period shows an improvement in the performance of the bank relative to the pre-acquisition period. It can be observed that the bank recorded a pre-acquisition Capital Adequacy Ratio of 49.15 relative to the post-acquisition Capital Adequacy Ratio of 36.04. Non-Performing Loan Ratio on the hand, witnessed a pre-acquisition Non-Performing Loan Ratio of 26.95 relative to the post-acquisition Non-Performing Loan Ratio of 6.53.

Figure 4.9: Averages of Loan to Deposit Ratio.

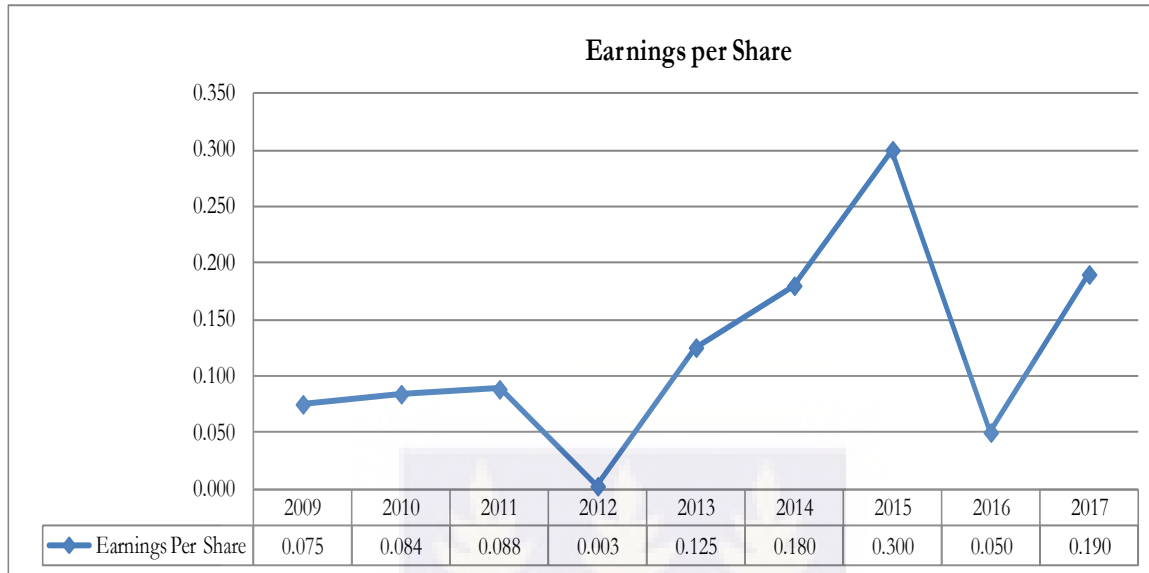


Source: Researcher’s Calculations, 2019.

Based on Figure 4.9 above, it can be observed that for the liquidity ratio, the post-acquisition period shows a slight growth in the performance of the bank relative to the pre-acquisition period. It can be observed that the bank recorded a pre-acquisition Loan to Deposit Ratio of 50.43 relative to the post-acquisition Loan to Deposit Ratio of 52.30.

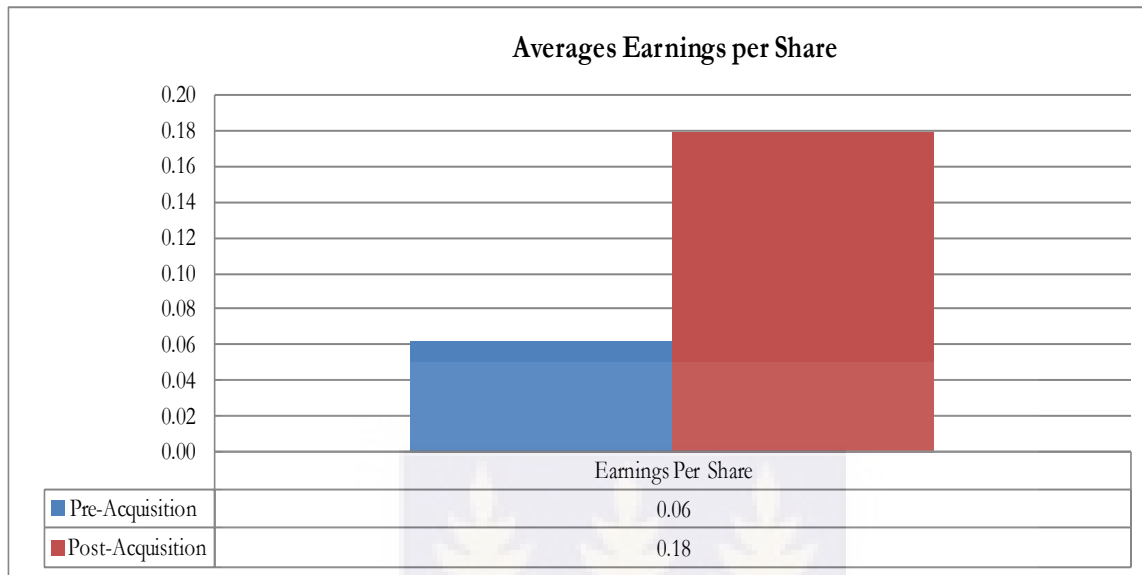
4.3.4 Investment Ratio

The investment performance during the pre and post-acquisition period was measured using the Earnings per Share (EPS).

Figure 4.10: Earnings per Share.

Source: Researcher's Calculations, 2019.

Based on Figure 4.10 above, it can be observed that between the year 2009 and 2012 (representing the pre-acquisition period), Earnings per Share increased slightly from 0.075 in 2009 to 0.084 in 2010. After which, it further increased in 2011 recording an Earnings per Share of 0.088; before falling sharply in 2012 to record a 0.003 Earnings per Share. The years 2014 to 2017 (representing the post-acquisition period), saw a significant increase in Earnings per Share from 0.180 in 2014 to 0.300 in 2015 as well as a sharp fall in the year 2016 and a significant rise in the following year 2017 representing an Earnings per Share of 0.050 and 0.190 respectively.

Figure 4.11: Averages of Earnings per Share.

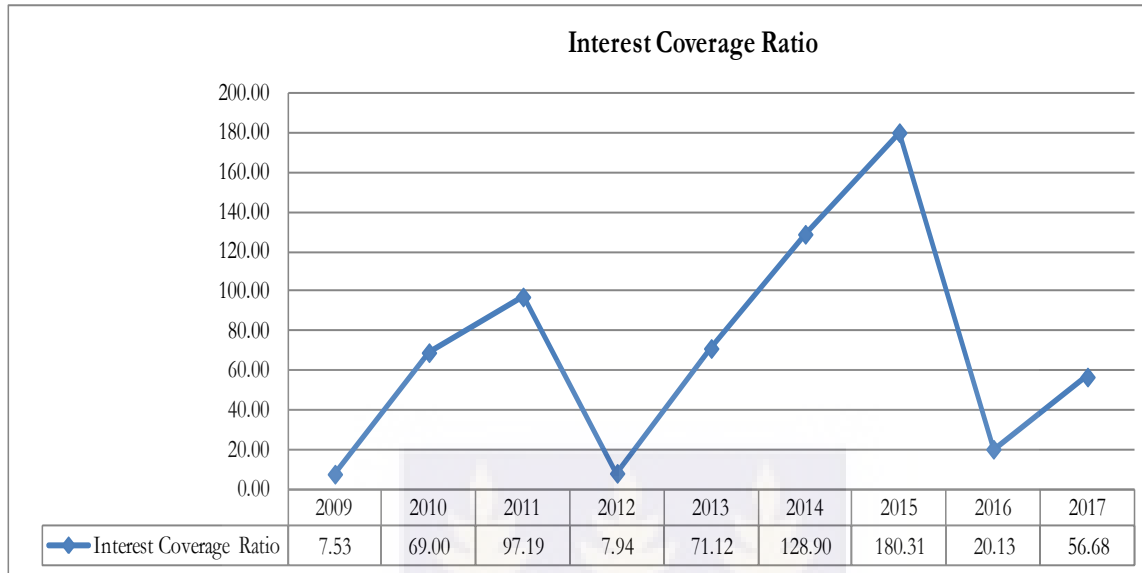
Source: Researcher's Calculations, 2019.

Based on Figure 4.11 above, it can be observed that for the Investment ratio, the post-acquisition period shows an improvement in the performance of the bank relative to the pre-acquisition period. It can further be observed that the bank had pre-acquisition Earnings per Share of 0.06 relative to the post-acquisition Earnings per Share of 0.18.

4.3.5 Solvency Ratio

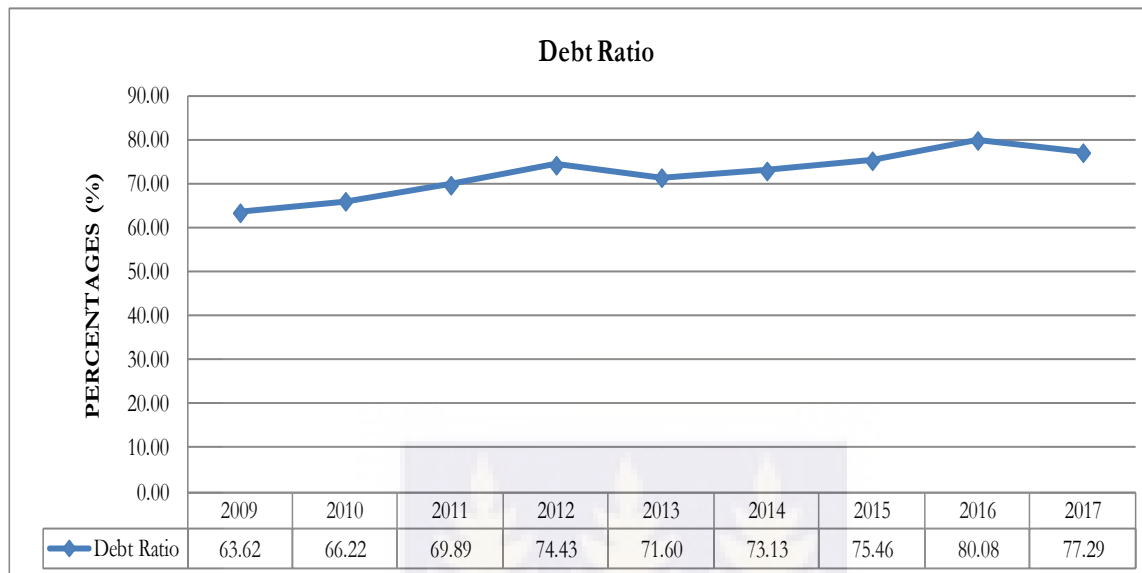
The solvency performance during the post and pre -acquisition period was measured using the

- Interest Coverage Ratio (ICR)
- Debt Ratio

Figure 4.12: Interest Coverage Ratio.

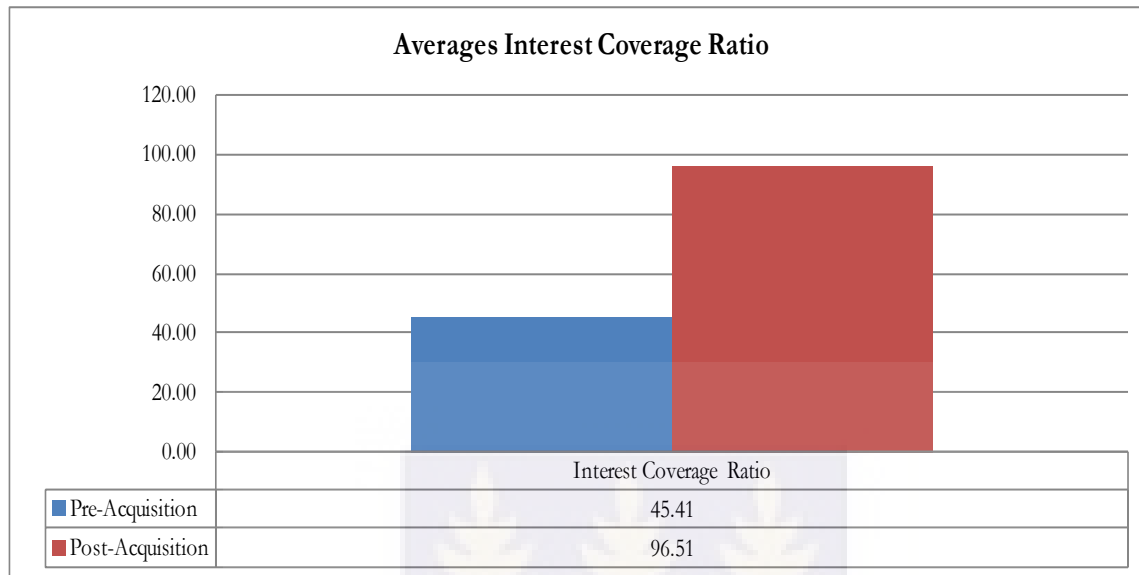
Source: Researcher's Calculations, 2019.

Based on Figure 4.12 above, it can be observed that between the year 2009 and 2012 (representing the pre-acquisition period), Interest Coverage Ratio increased significantly from 7.53 in 2009 to 69.00 in 2010. After which, it further increased in 2011 recording an Interest Coverage Ratio of 97.19; before falling sharply in 2012 to record a 7.94 Interest Coverage Ratio. The years 2014 to 2017 (representing the post-acquisition period), saw a significant increase in Interest Coverage Ratio from 128.90 in 2014 to 180.31 in 2015 as well as a sharp fall in the year 2016 and a significant rise in the following year 2017 representing an Interest Coverage Ratio of 20.13 and 56.68 respectively.

Figure 4.13: Debt Ratio.

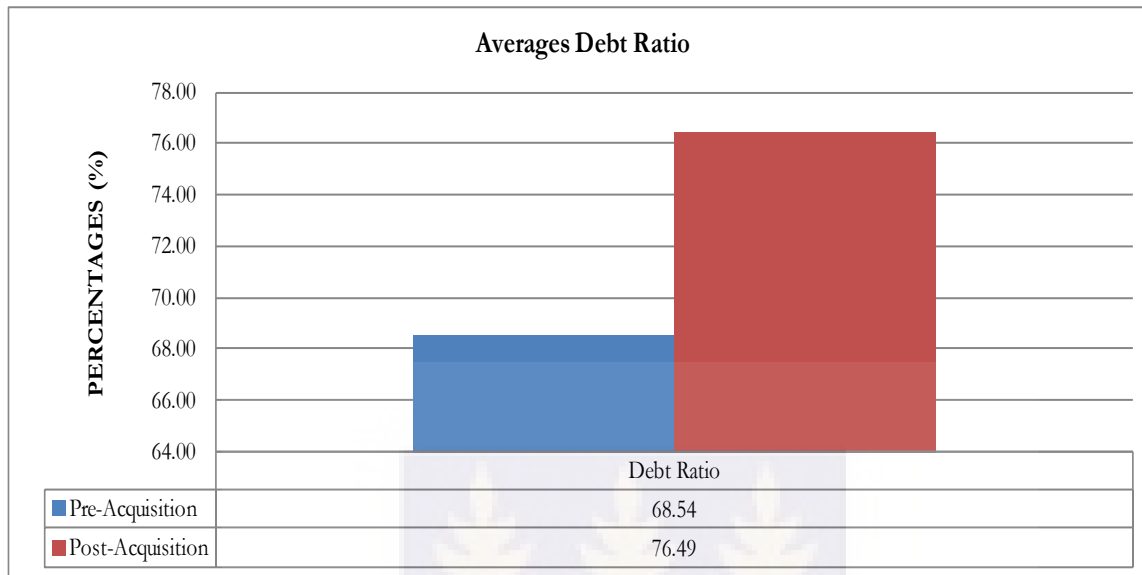
Source: Researcher's Calculations, 2019.

Based on Figure 4.13 above, it can be observed that between the year 2009 and 2012 (representing the pre-acquisition period), Debt Ratio increased slightly from 63.62 in 2009 to 66.22 in 2010. After which, it further increased in 2011 recording a Debt Ratio of 69.68; before rising sharply in 2012 to record a 74.43 Debt Ratio. The years 2014 to 2017 (representing the post-acquisition period), saw a slight increase in Debt Ratio from 73.13 in 2014 to 75.46 in 2015 as well as a further increase in the year 2016 and a slight fall in the following year 2017 representing a Debt Ratio of 80.08 and 77.29 respectively.

Figure 4.14: Averages of Interest Coverage Ratio.

Source: Researcher's Calculations, 2019.

Based on Figure 4.14 above, it can be observed that for the Solvency ratio, the post-acquisition period shows an improvement in the performance of the bank relative to the pre-acquisition period. It can also be seen that the bank documented pre-acquisition Interest Coverage Ratio of 45.41 relative to the post-acquisition Interest Coverage Ratio of 96.51.

Figure 4.15: Averages of Debt Ratio.

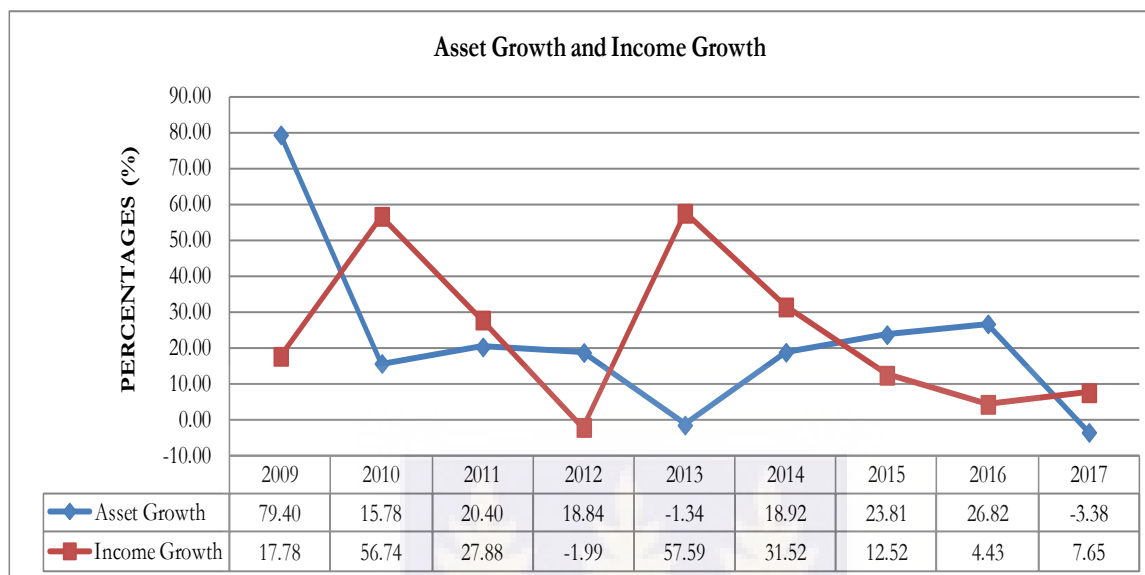
Source: Researcher's Calculations, 2019.

Based on Figure 4.15 above, it can be observed that for the Solvency ratio, the post-acquisition period shows an improvement in the performance of the bank relative to the pre-acquisition period. One main observation that can be made is that the bank recorded pre-acquisition Debt Ratio of 68.54 relative to the post-acquisition Debt Ratio of 76.49.

4.3.6 Growth Ratio

The growth performance during the pre and post-acquisition period was measured using the

- Operating Income Growth
- Total Asset Growth
- Deposit Growth
- Growth in Shareholders' Funds

Figure 4.16: Operating Income Growth and Total Asset Growth.

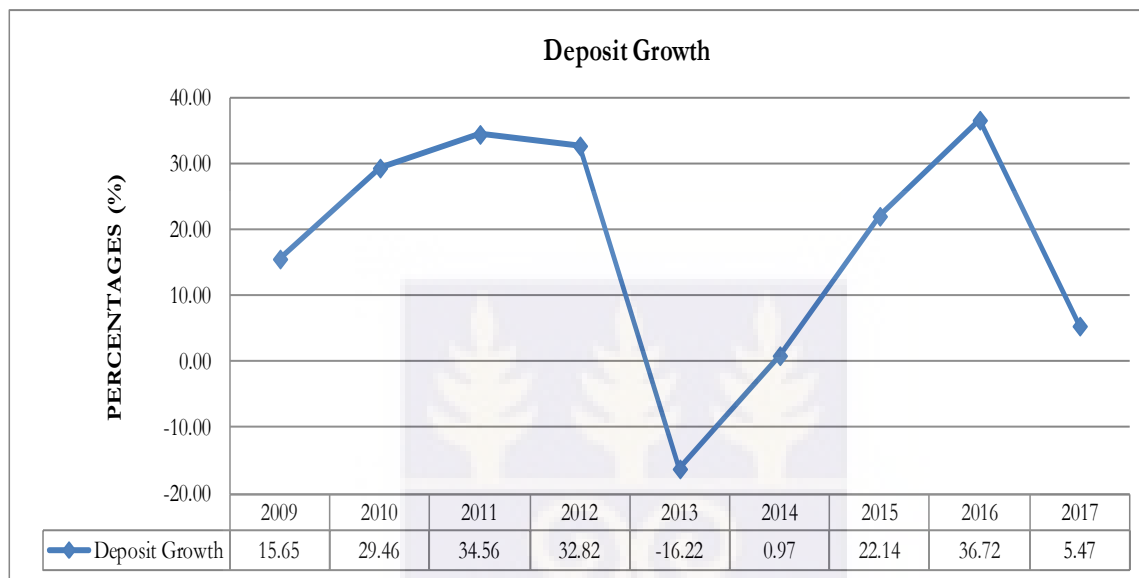
Source: Researcher's Calculations, 2019.

Based on Figure 4.16 above, it can be observed that between the year 2009 and 2012 (representing the pre-acquisition period), Total Asset Growth decreased significantly from 79.40 in 2009 to 15.78 in 2010. After which, it remained slightly stable in 2011 recording a Total Asset Growth of 20.40; before falling slightly in 2012 to record an 18.84 Total Asset Growth. The years 2014 to 2017 (representing the post-acquisition period), saw a slight increase in Total Asset Growth from 18.92 in 2014 to 23.81 in 2015 as well as a further increase in the year 2016 and a significant fall in the following year 2017 representing a Total Asset Growth of 26.82 and -3.38 respectively.

Operating Income Growth on the hand witnessed a significant increase from 17.78 in 2009 to 56.74 in 2010. After which, it fell significantly in 2011 recording an Operating Income Growth of 27.88; before falling sharply in 2012 to record a -1.99 Operating Income Growth. The years 2014 to 2017 (representing the post-acquisition period), saw a significant decrease in Operating Income Growth from 31.52 in 2014 to 12.52 in 2015 as well as a sharp decline in the year 2016

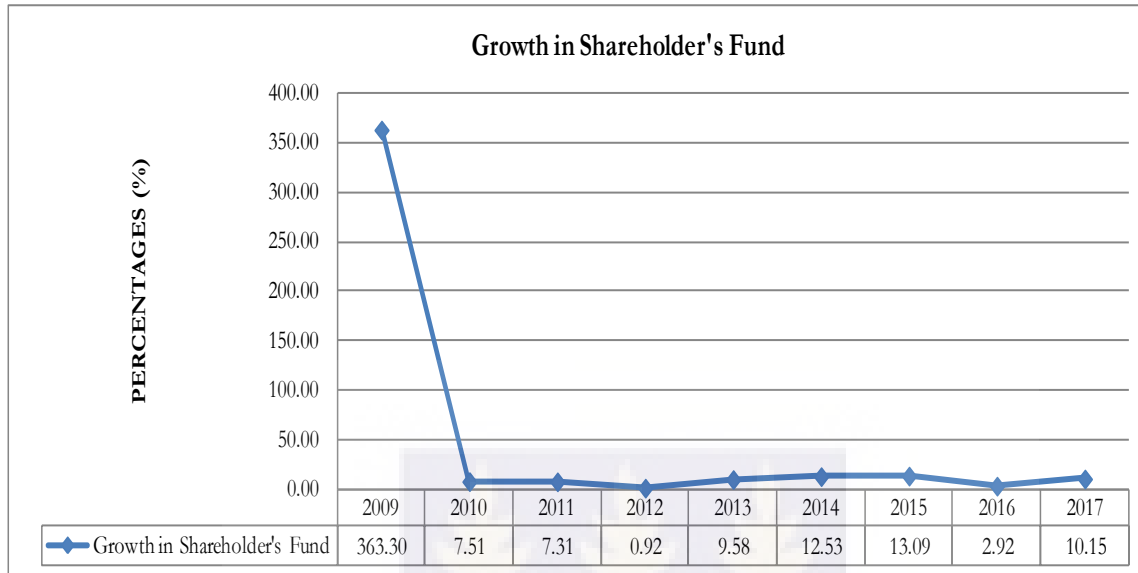
and a slight rise in the following year 2017 representing an Operating Income Growth of 4.43 and 7.65 respectively.

Figure 4.17: Deposit Growth.



Source: Researcher’s Calculations, 2019.

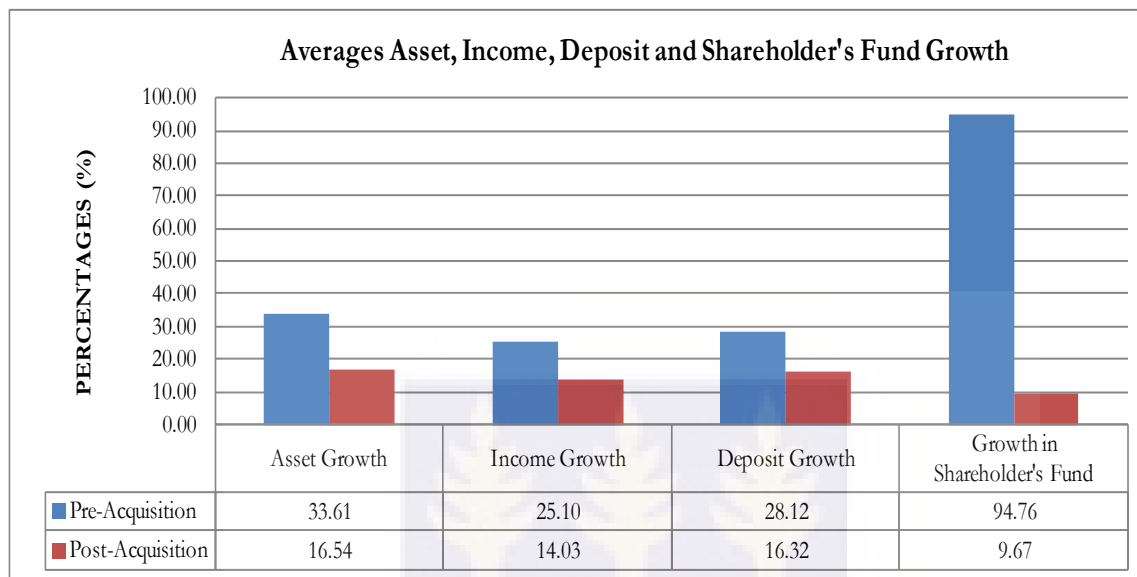
Based on Figure 4.17 above, it can be observed that between the year 2009 and 2012 (representing the pre-acquisition period), Deposit Growth increased significantly from 15.65 in 2009 to 29.46 in 2010. After which, it remained slightly stable in 2011 recording a Deposit Growth of 34.56; before falling slightly in 2012 to record a 32.82 Deposit Growth. The years 2014 to 2017 (representing the post-acquisition period), saw a significant increase in Deposit Growth from 0.97 in 2014 to 22.14 in 2015 as well as a further increase in the year 2016 and a significant fall in the following year 2017 representing a Deposit Growth of 36.72 and 5.47 respectively.

Figure 4.18: Growth in Shareholder's Fund.

Source: Researcher's Calculations, 2019.

Based on Figure 4.18 above, it can be observed that between the year 2009 and 2012 (representing the pre-acquisition period), Growth in Shareholder's Fund decreased significantly from 363.30 in 2009 (this massive growth was as a result of the injection of fresh capital) to 7.51 in 2010. After which, it remained slightly stable in 2011 recording a Growth in Shareholder's Fund of 7.31; before falling significantly in 2012 to record a 0.92 Growth in Shareholder's Fund. The years 2014 to 2017 (representing the post-acquisition period), saw a slight increase in Growth in Shareholder's Fund from 12.53 in 2014 to 13.09 in 2015 as well as a sharp decrease in the year 2016 and a significant rise in the following year 2017 representing a Growth in Shareholder's Fund of 2.92 and 10.15 respectively.

Figure 4.19: Averages of Operating Income Growth, Total Asset Growth, Deposit Growth and Growth in Shareholder’s Fund.

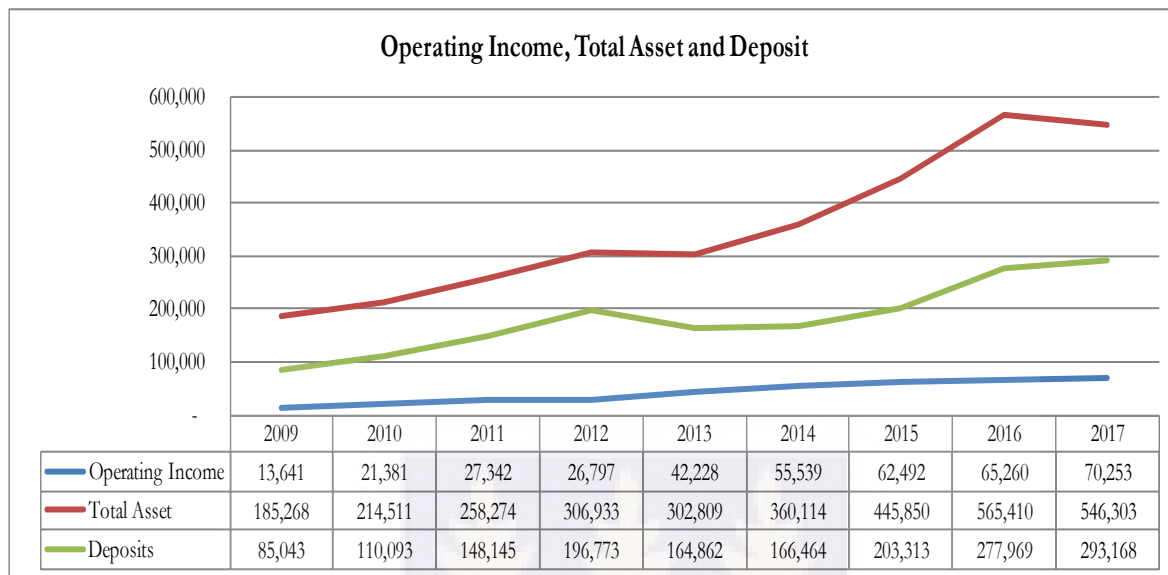


Source: Researcher’s Calculations, 2019.

Based on Figure 4.19 above, it can be observed that for each of the Growth ratios, the pre-acquisition period shows an improvement in the performance of the bank relative to the post-acquisition period. It can also be seen that the bank recorded a pre-acquisition Total Asset Growth of 33.61 relative to the post-acquisition Total Asset Growth of 16.54. Operating Income Growth on the hand, witnessed a pre-acquisition Operating Income Growth of 25.10 relative to the post-acquisition Operating Income Growth of 14.03.

Furthermore, Deposit Growth showed a pre-acquisition Deposit Growth of 28.12 relative to the post-acquisition Deposit Growth of 16.32; whereas Growth in Shareholder’s Fund revealed a pre-acquisition Growth in Shareholder’s Fund of 94.76 relative to the post-acquisition Growth in Shareholder’s Fund of 9.67.

Figure 4.20: Operating Income, Total Asset and.



Source: Financial Statements of International Commercial Bank and FBN Bank Ghana Limited (in thousands of Ghana Cedi)

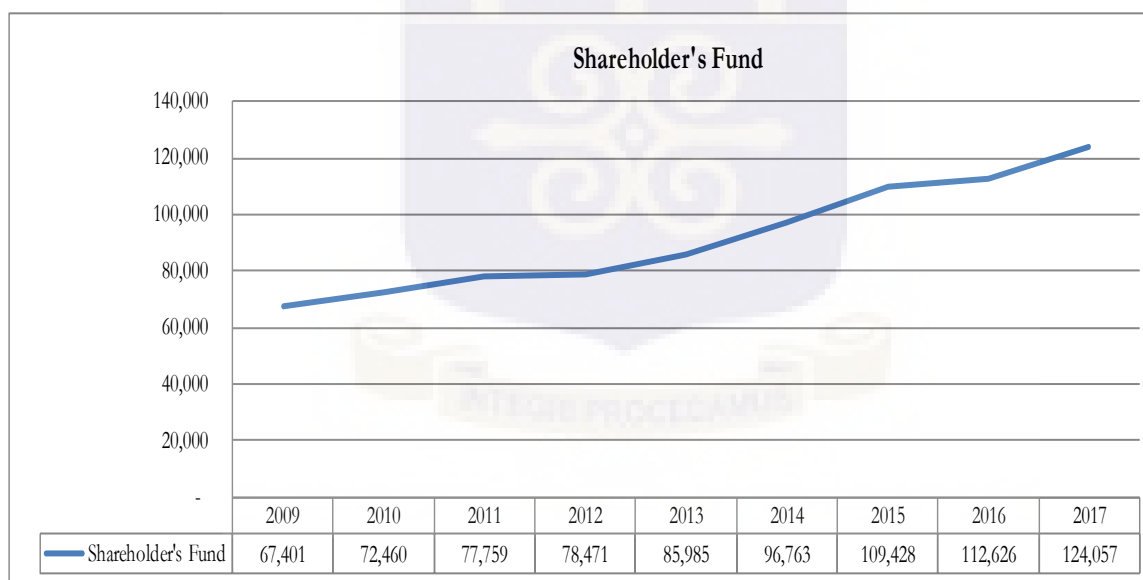
Based on Figure 4.20 above, it can be observed that between the year 2009 and 2012 (representing the pre-acquisition period), Operating Income increased significantly from 13,641 in 2009 to 21,381 in 2010. After which, it remained slightly stable in 2011 recording an Operating Income of 27,342; before falling slightly in 2012 to record a 26,797 Operating Income. The years 2014 to 2017 (representing the post-acquisition period), saw a significant increase in Operating Income from 55,539 in 2014 to 62,492 in 2015 as well as a further increase in the year 2016 and 2017 representing an Operating Income of 65,260 and 70,253 respectively.

Total Asset on the hand witnessed a significant increase from 185,268 in 2009 to 214,511 in 2010. After which, it rose significantly in 2011 recording a Total Asset of 258,274; before rising sharply in 2012 to record a 306,933 Total Asset. The years 2014 to 2017 (representing the post-acquisition period), saw a significant increase in Total Asset from 360,114 in 2014 to 445,850 in

2015 as well as a sharp rise in the year 2016 and a slight decrease in the following year 2017 representing a Total Asset of 565,410 and 546,303 respectively.

Lastly, Deposit revealed a significant increase from 85,043 in 2009 to 110,093 in 2010. After which, it rose significantly in 2011 recording a Deposit of 148,145; before rising sharply in 2012 to record a 196,773 Deposit. The years 2014 to 2017 (representing the post-acquisition period), saw a significant increase in Deposit from 166,464 in 2014 to 203,313 in 2015 as well as a sharp rise in the year 2016 and a significant increase in the following year 2017 representing a Deposit of 277,969 and 293,168 respectively.

Figure 4.21: Shareholder’s Fund.

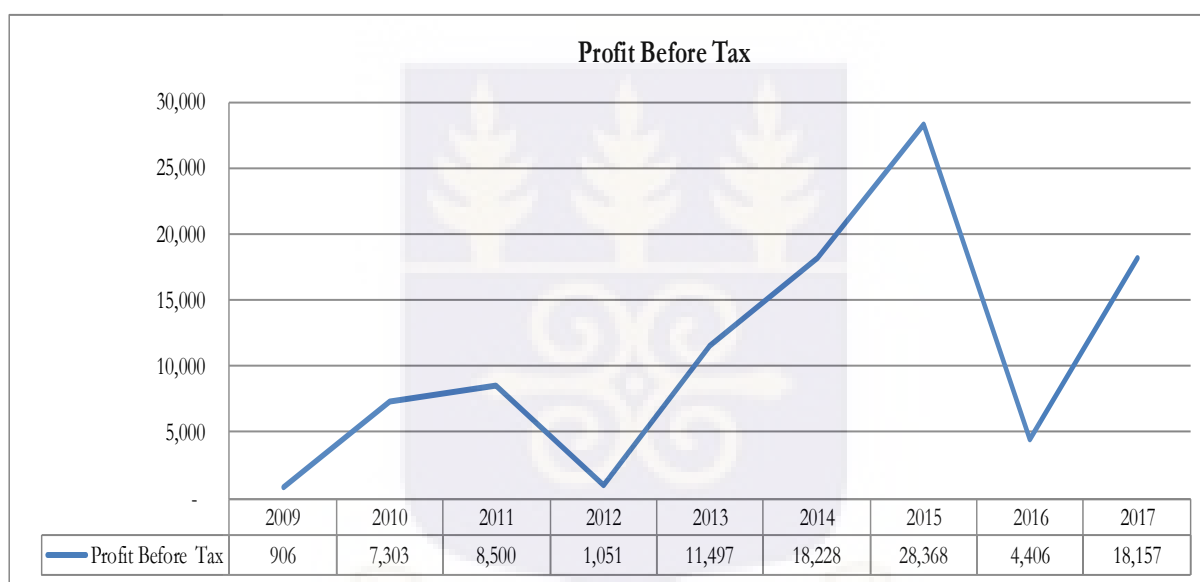


Source: Financial Statements of International Commercial Bank and FBN Bank Ghana Limited (in thousands of Ghana Cedi)

Based on Figure 4.21 above, it can be observed that between the year 2009 and 2012 (representing the pre-acquisition period), Shareholder’s Fund increased significantly from 67,401 in 2009 to 72,460 in 2010. After which, it remained slightly stable in 2011 recording a

Shareholder’s Fund of 77,759; before rising further in 2012 to record a 78,471 Shareholder’s Fund. The years 2014 to 2017 (representing the post-acquisition period), saw an increase in Shareholder’s Fund from 96,763 in 2014 to 109,428 in 2015 as well as a slight increase in the year 2016 and a significant rise in the following year 2017 representing a Shareholder’s Fund of 112,626 and 124,057 respectively.

Figure 4.22: Profit Before Tax..



Source: Financial Statements of International Commercial Bank and FBN Bank Ghana Limited (in thousands of Ghana Cedi)

Based on Figure 4.22 above, it can be observed that between the year 2009 and 2012 (representing the pre-acquisition period), Profit Before Tax increased significantly from 906 in 2009 to 7,303 in 2010. After which, it remained slightly stable in 2011 recording a Profit Before Tax of 8,500; before falling significantly in 2012 to record a 1,051 Profit Before Tax. The years 2014 to 2017 (representing the post-acquisition period), saw a significant increase in Profit Before Tax from 18,228 in 2014 to 28,368 in 2015 as well as a significant decrease in the year

2016 and a significant rise in the following year 2017 representing a Profit Before Tax of 4,406 and 18,157 respectively.



CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter of the research covers the summary of the entire study from the leading chapters of the research, including conclusions which were drawn from the findings based on the data collected, as well as recommendations.

5.1 Summary

The study was undertaken to assess the effect of mergers and acquisitions on banks' financial performance in the Ghanaian banking industry via a case study of FBN Bank Ghana Limited and International Commercial Bank.

Basically, the objectives of the study were to

- Evaluate the financial performance of FBN Bank after acquiring of International Commercial Bank.
- Analyze the financial performance of International Commercial Bank before acquisition by FBN Bank Ghana Limited.
- Examine the effect of Mergers and Acquisitions on Banks Financial Performance in the Ghanaian Banking Industry.

In reviewing the empirical literature about the study, various articles, magazines and publications in relation to the study were reviewed. The theoretical literature was based on the concept of mergers and acquisitions and theories associated with them.

Purposive sampling was employed in gathering of data using the financial statements of these banks. The data was analyzed based on information gathered; and presented in the form of graphs and tables as well as a narrative interpretation.

5.2 Conclusion

The following conclusions were drawn from the analyzed data which was gathered from the study. It was discovered that

- “For each of the profitability ratios, the average post-acquisition period showed a growth in the performance of the bank relative to the average pre-acquisition period. It was observed that the bank recorded an average pre-acquisition Net Profit Margin of 13.14 relative to the average post-acquisition Net Profit Margin of 21.31. Return on Capital Employed on the hand, witnessed an average pre-acquisition Return on Capital Employed of 6.33 relative to the average post-acquisition Return on Capital Employed of 16.69; whereas, Return on Asset showed an average pre-acquisition Return on Asset of 2.06 relative to the average post-acquisition Return on Asset of 4.26”.
- “For the Expense ratio, the average post-acquisition period shows a growth in the performance of the bank relative to the average pre-acquisition period. It is observed that the bank documented an average pre-acquisition Expense to Income Ratio of 81.05 relative to the average post-acquisition Expense to Income Ratio of 72.30”.
- “For each of the liquidity ratios, the average post-acquisition period shows a growth in the performance of the bank relative to the average pre-acquisition period. It is observed that the bank documented an average pre-acquisition Capital Adequacy Ratio of 49.15 relative to the average post-acquisition Capital Adequacy Ratio of 36.04. Non-Performing Loan Ratio on the hand, witnessed an average pre-acquisition Non-Performing Loan Ratio of 26.95 relative to the

average post-acquisition Non-Performing Loan Ratio of 6.53. Loan to Deposit Ratio also, revealed an average pre-acquisition Loan to Deposit Ratio of 50.43 relative to the average post-acquisition Loan to Deposit Ratio of 52.30”.

- “For the investment ratio, the average post-acquisition period shows a growth in the performance of the bank relative to the average pre-acquisition period. It can be observed that the bank recorded average pre-acquisition Earnings per Share of 0.06 relative to the average post-acquisition Earnings per Share of 0.18”.

- “For the Solvency ratio, the average post-acquisition period shows a growth in the performance of the bank relative to the average pre-acquisition period. It can be observed that the bank recorded average pre-acquisition Interest Coverage Ratio of 45.41 relative to the average post-acquisition Interest Coverage Ratio of 96.51. Debt Ratio also, revealed an average pre-acquisition Debt Ratio of 68.54 relative to the average post-acquisition Loan to Deposit Ratio of 76.49”.

- “For each of the Growth ratios, the average pre-acquisition period shows a growth in the performance of the bank relative to the average post-acquisition period. Again, one observation made is that the bank recorded an average pre-acquisition Total Asset Growth of 33.61 relative to the average post-acquisition Total Asset Growth of 16.54. Operating Income Growth on the hand, witnessed an average pre-acquisition Operating Income Growth of 25.10 relative to the average post-acquisition Operating Income Growth of 14.03. Furthermore, Deposit Growth showed an average pre-acquisition Deposit Growth of 28.12 relative to the average post-acquisition Deposit Growth of 16.32; whereas Growth in Shareholder’s Fund revealed an average pre-acquisition Growth in Shareholder’s Fund of 94.76 relative to the average post-acquisition Growth in Shareholder’s Fund of 9.67”.

Lastly, based on the fact that it can be deduced from the research that “the average post-acquisition performance of the bank was a massive improvement on the average pre-acquisition performance of the bank, it will be fair to conclude that there was significant improvement in the financial performance of International Commercial Bank after acquisition by FBN Bank Ghana Limited. Therefore, mergers and acquisitions tend to improve the financial performance of banks in the Ghanaian Banking sector”.

5.3 Recommendations

On the basis of the findings of this research, the following suggestions are recommended:

- Due to the fact that in terms of the Average Growth Ratios, FBN Bank Ghana Limited was trailing behind International Commercial Bank, there will be the need for FBN Bank Ghana Limited to take a closer look at what is causing the bank to underperform in these areas and device innovative ways of boosting these growth ratios.
- Finally, given the fact that FBN Bank Ghana Limited has performed better than International Commercial Bank with regards to the other ratios such as profitability, expense, solvency, liquidity and investment, there will be the need for FBN Bank Ghana Limited to continue on the current path they are on with regards to these ratios in order to continue achieving positive results.

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APPENDIX

Table A.1: Selected items from the financial statements of International Commercial Bank (2009 to 2012) as well as FBN Bank Ghana Limited (2014 to 2017) for each of the periods before and after acquisition:

Items extract from Income Statement and Balance Sheet from 2009 - 2017									
	2009	2010	2011	2012	2013	2014	2015	2016	2017
Items	GH¢ '000	GH¢ '000	GH¢ '000	GH¢ '000	GH¢ '000	GH¢ '000	GH¢ '000	GH¢ '000	GH¢ '000
Profit Before Tax	906	7,303	8,500	1,051	11,497	18,228	28,368	4,406	18,157
Operating Income	13,641	21,381	27,342	26,797	42,228	55,539	62,492	65,260	70,253
Shareholder's Fund	67,401	72,460	77,759	78,471	85,985	96,763	109,428	112,626	124,057
Total Asset	185,268	214,511	258,274	306,933	302,809	360,114	445,850	565,410	546,303
Total Liabilities	117,867	142,051	180,515	228,462	216,824	263,351	336,421	452,784	422,246
Loan and Advances	33,825	47,274	84,562	121,840	119,849	155,756	120,742	93,149	66,706
Deposits	85,043	110,093	148,145	196,773	164,862	166,464	203,313	277,969	293,168
Interest Expense	12,035	10,584	8,746	13,230	16,167	14,141	15,733	21,885	32,035
Total Expenses	12,735	14,078	18,842	25,746	30,731	37,311	34,124	60,854	52,098

Source: Financial Statements of International Commercial Bank and FBN Bank Ghana Limited