



**ASSESSING THE EFFECTS OF M&A's ON THE FINANCIAL
PERFORMANCE OF GHANAIAN BANKS**

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

I Vida Kwakye, do hereby declare that except for references cited, which have been duly acknowledged, this thesis titled “*Assessing the effects of M&A’s on the financial performance of Ghanaian banks*” is the product of my own research work in the Department of Finance, University of Ghana Business School, Legon, from August 2017 to July 2019. This thesis has not been published or submitted either in part or in whole anywhere for the award of a degree in any other University.

Vida Kwakye

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Student’s name

Signature

Date

CERTIFICATION

I, hereby, certify that this work has been duly supervised in accordance with procedures laid down by the University regarding research supervision.

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Date

DEDICATION

I dedicate this work to the Almighty God who made all grace available to me from the start of the course to the end. I also dedicate it to everyone who in one way or the other contributed to the successful completion of this study.

ACKNOWLEDGEMENT

I want to sincerely acknowledge the Almighty God for His direction and grace to complete this work without any difficulty. I also want to specially appreciate the extraordinary input of my Supervisor without whom, this work would not have seen the light of day. Further, my sincere gratitude goes to Mr. Seth Borquaye, Mr. and Mrs. Baah, Mr Eric Ansah, Benjamin Kwedjo Danso and all those whose prayers and financial support enabled me to successfully complete this programme. Finally, I want to acknowledge all friends and loved ones for their encouragement, patience, time and diverse support that cushioned me to complete this work. To you all, I am eternally grateful and may the good Lord replenish everything in multiple folds to you.

ABSTRACT

Firms or companies merge or acquire each other in order to create synergies. Mergers and acquisitions normally occur when firms or companies are facing financial challenges and want to either survive or sell the firm early to get a good price. This study sought to evaluate the impact of M&As on the financial performance of some selected Ghanaian banks namely GCB, Ecobank, Access and Republic banks. The researcher employed descriptive research design and relied mainly on secondary data. The collection of the secondary data was done with the Disclosure check List. The data was analyzed using eight financial ratios made up of both profitability and solvency ratios. The population of the study was the twenty-three (23) licensed universal banks in Ghana with the sample size of four. The findings of the study established that, M&As generally had positive impact on the financial performance of the four banks especially profitability but however, with GCB Bank Limited, the impact was negative. The researcher suggested these recommendations both to the banks and the banks' regulator which is the Bank of Ghana. To the banks, the researcher recommended that; the banks should ensure good corporate governance practices, especially their boards and strict compliance to the internal capital adequacy assessment process (ICAAP) to ensure prudent liquidity management. To the regulator, the researcher recommended that; the central bank or Bank of Ghana should tighten its supervision and monitoring as poor supervision was fingered as one major reason for the collapse of the banks.

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CHAPTER ONE

INTRODUCTION

1. 0. Background of the Study

Banks are central to the growth of the financial sector and economy of any country. Banks are financial intermediaries that accept deposits from surplus spending units and channel these in the form of loan products to deficit spending units in the economy (citifmonline.com/2015/06/19/the-changing-face-of-banking-in-ghana/).

Due to the sensitive nature of the banking sector, attempts have been made globally and locally to bring standardization and stability to it. Such attempts included the global adoption of the Basel Accords (I, II & III) and CAMEL rating model as well as local Banking Acts. These global regulations are to be enforced by central banks in addition to their local regulations. The implementation of these regulations have resulted in many mergers and acquisitions (M&As) across the world. These have become a worldwide occurrence of greater market share and survival (Kemal, 2011). Mergers and acquisitions have also become the most sought after strategy that firms use to achieve competitive advantage (Kumar & Bansal, 2008).

The investigation of mergers and acquisitions and how they affect financial performance have been conducted in various countries across the world. However, the major M&As actions occurred in the western nations especially in the USA. It is estimated that about 1500 M&As occurred in the nation's banking industry between 1993 and 1996. This was considered the largest occurrence during a period of three years (Botis, 2013). In Nigeria, eighty nine (89) banks were reduced significantly to twenty five (25) between 2004 and 2005. Kenya, India and others have all experienced major M&As in their banking sectors all in attempt to improve the sectors.

However, research findings on the subject are generally mixed. Some findings point to the positive and significant relationship between mergers and acquisitions and bank financial performance (Agyapong, 2015; Haruna et al., 2017; Nkrumah, 2016) while other findings also point to the negative effect M&A have on the profitability of firms (Oduro Marfo & Agyei Kwaku, 2015).

This study therefore seeks to evaluate how M&As impact the financial performance of some selected Ghanaian banks; Access Bank Ghana Limited, Ecobank Ghana Limited, Ghana Commercial Bank Limited (GCB), Republic Bank Ghana Limited and Consolidated Bank Ghana Limited (CBG) in Ghana covering the period of 2012 and 2018.

1. 1. The Banking Sector and M&As in Ghana

The banking sector had been under many challenges such as high non-performing loans, insolvency, inaccurate financial disclosures, poor corporate governance, and illiquidity which had the tendency to collapse the sector if something drastic was not done. Even though the Bank of Ghana had previously provided assistance to these ailing banks with liquidity, it decided to address the fundamental challenges in the sector. The Bank of Ghana therefore embarked on a comprehensive reform agenda, with the aim of tackling the problems to make the banking sector more resilient.

As part of this reform exercise, the banking licenses of seven (7) insolvent banks were revoked over the last sixteen months using the CAMEL parameters. Steps were taken to ensure that they exited the market in an orderly manner.

Furthermore, the Bank of Ghana on 11th September 2017 issued the Minimum Capital Directive (BG/GOV/SEC/2017/19) by which all universal banks were required to increase their minimum paid-up capital to GHC400 million by 31st December 2018.

Banks were required to comply with the new minimum paid-up capital requirement through a new capital injection, capitalization of income surplus or a combination of both.

This Minimum Capital Directive was part of regulatory measures aimed at strengthening and making the banking sector more resilient to shocks as well as to help reposition the banks to better support the growing needs of the Ghanaian economy. It was also the expectation of the Bank of Ghana that the recapitalization exercise would help promote consolidation in the banking industry through sustainable mergers and acquisitions along with stronger corporate governance structures and risk management systems and practices.

Following the recapitalization exercise that ended at the close of business on 31st December 2018, there are now twenty three (23) universal banks operating in Ghana. These banks have all met the new minimum paid-up capital of GHC400 million. A schedule of banks and how they have met the new requirement is indicated in the table below.

Table 1: Status of Banks as of 31st December, 2018

STATUS OF BANKS AS OF 31st DECEMBER, 2018		
CATEGORY	NO. OF BANKS	NAME OF BANKS

Banks that have met new minimum capital without a merger	16	Access Bank, Zenith Bank, Ecobank, UBA, Societe Generale, GT Bank, Fidelity Bank, Cal Bank, Barclays Bank, Consolidated Bank, Republic Bank, , GCB Bank, Stanbic Bank, FBN Bank, Standard Chartered Bank, and Bank of Africa
Banks that have merged	3	First National Bank / GHL Bank Limited, Energy Commercial Bank / First Atlantic Merchant Bank Limited and Bank Sahel Sahara Ghana / OmniBank.
Indigenous banks benefitting from the GAT initiative	5	ADB, NIB, OmniBank / BSIC, Universal Merchant Bank, and Prudential Bank
Banks Exiting on account of strategic reasons	1	Bank of Baroda

Source: *Bank of Ghana Press Release Update on Banking Sector Reforms 4th January, 2019.*

In all, nine (9) major M&As actions have occurred between 2012 and 2018. Access Bank acquired Intercontinental Bank, Ecobank acquired the Trust Bank Ghana and BPI was also acquired by UT Bank since they were unable to meet the minimum capital requirement of GHC120 million in 2012 (citifmonline.com/2015/06/19/the-changing-face-of-banking-in-ghana/).

UT Bank and Capital Bank in August 2017 were taken over by GCB under a Purchase and Assumption agreement.

In 2018 also, five banks (Beige Bank, Unibank, Sovereign Bank, Royal Bank and Construction Bank) were merged into one entity called the Consolidated Bank of Ghana Limited (CBG) due to severe liquidity challenges and two additional banks, Premium and Heritage Banks have been added to CBG when they were unable to meet GHC400 million capital requirement. The recapitalization exercise also saw three banks namely First National Bank/GHL Bank Limited, Energy Commercial Bank/First Atlantic Merchant Bank Limited and Bank Sahel Sahara Ghana/OmniBank Ghana Limited applying for a merger.

Finally, HFC has also been taken over by Republic Bank of Trinidad and Tobago in 2017 bringing the total number of M&A activities to nine (9). This has reduced the number of banks in the country from thirty-seven (37) in 2017 to twenty three (23) as at the end of 2018 (bog.gov.gh/supervision-a-regulation/register-of-licensed-institutions/bank)

1.2 Problem Statement

There is a wide debate about the effects of M&As on the participating firms. Weston et al. (2004) revealed that M&As creates synergies that inure to the interest of both the acquiring firm and the customers. Another study by Jenson (1986) held the view that M&As activities create agency problems, which then lead to less than anticipated results. Again in the case of reform induced M&A, it was even required further to prove whether the much anticipated benefits of mergers and acquisitions are actually realized and how soon the firm begin to see these benefits in their performance. Amal et al. (2004) argue that M&As had an adverse relationship between profitability and shareholders' capital of the acquiring firms. Management and shareholders hold different opinions as a result of the conflicting findings by the researchers on the subject. The

different findings have made it difficult for analysts to say with certainty whether merging two banks is a worthwhile undertaking (Straub, 2007).

This research work will therefore focus on M&As of some selected banks in Ghana and seek to evaluate their impact on the financial performance between the periods of 2012 and 2018.

1.3 General Objective

This study is guided by this main aim which is to evaluate the impact of M&As on the financial performance of some selected Ghanaian banks.

1.4 Specific Objectives

- To evaluate the impact of M&As on the value of shareholders with regard to the financial performance of Ghanaian banks.
- To investigate the effects of M&As on the profitability of Ghanaian banks.

1.5 Research Questions

- Does M&As have an impact on the value of shareholders with regard to the financial performance of Ghanaian banks?
- How will mergers or acquisitions affect the profitability of firms in Ghana?

1.6 Definition of Terms

Impact: Refers to having a direct effect on something

Merger: Refers to the situation whereby two firms (bigger and smaller) that are operating in the same industry agree to operate under one firm's name or a new name altogether

Acquisition: Refers to the situation whereby a larger firm in terms of assets takes over a smaller firm

Financial Performance: Refers the measures with which firms conduct their operations to attain their target objectives.

Return on Equity: It is a ratio that indicates how the management of the banks effectively and efficiently utilizes the funds invested by the shareholders to make profits

1.7 Significance of the study

This research will be of immense benefit to managers and shareholders of banks listed on the Ghana Stock Exchange (GSE), investors and financial consultants with an in-depth knowledge on the benefits of M&As that can affect the financial performance of companies.

The study in addition will provide adequate knowledge into the linkage between M&As and financial performance of banks. This will be of great value to the academia. The dynamic nature of business environment requires practitioners and managers of corporate institutions to be abreast with current knowledge and practices required.

This study will finally contribute to the immense knowledge and research at the University, which will guide future researches in similar filed.

1.8 The Scope of the Study

The study covered the four (4) selected Ghanaian banks that have been merged or acquired since 2012. The Greater Accra was selected as the study area because most of the banks have their head offices located in Accra.

The research was conducted between August 2018 and March, 2019 and the target population was the selected banks (merged/acquired) in Ghana.

This research work intends to assess the effects of M&As on the financial performance of some selected Ghanaian banks.

1.9 The Organization of the Study

The study was grouped into five (5) chapters. The chapter one comprise of the background of the study, the problem statement, the scope, the limitations, the relevance and the organization of the study.

Chapter two consists of the literature review specifically, the theoretical review and the empirical literature review.

Chapter three compose of the methodological techniques that will be used to collect the data needed for the study.

Chapter four made use of the different statistical tools in analyzing and presenting the data.

Finally, chapter five discussed the results, summary, conclusions and suggestions or recommendations by the researcher on the topic.

CHAPTER TWO

THE LITERATURE REVIEW

2.0 Introduction

This section discusses the overview of mergers and acquisitions, review a number of theories that necessitate mergers and acquisitions. Finally, it reviewed some studies conducted on the subject both in Ghana and abroad.

2.1 An overview of M&As

The terms merger and acquisition (M&As) collectively is when firms are consolidated with their assets through different financial undertakings. These undertakings or transactions may include consolidations as in the case of the Consolidated Bank of Ghana (CBG), mergers as in the case of First National Bank / GHL Bank Limited, Energy Commercial Bank / First Atlantic Merchant Bank Limited and Bank Sahel Sahara Ghana / OmniBank Ghana Limited or acquisitions with an example of GCB acquiring UT and Capital Banks. Mergers and acquisitions can also be in the forms of tender offers, acquisitions of management or asset purchase. The various forms of mergers and acquisitions are discussed below.

Merger: It refers to the situation in which two firms (bigger and smaller) that are operating at the same level of production agree to operate under one firm's name or a new name altogether. The bigger firm usually acquires the smaller one. This is done with the intention of achieving greater market share, economies of scale and profitability. Before a merger deal will go through, the respective boards of directors of the firms approve the deal and seek the consent of the

shareholders too. Many merger transactions have occurred in Ghana. Examples include, Access Bank and Intercontinental bank Ghana to form Access Bank Ghana, Ecobank and The Trust Bank Ghana to form Ecobank Ghana and Airtel and Tigo to form AirtelTigo.

Acquisition: It refers to the situation in which a larger firm in terms of assets takes over a smaller firm. This is also done to achieve greater market share and profitability. In an acquisition transaction, the smaller firm ceases to exist. The larger firm usually can acquire as many firms as it can. An example of acquisition undertaking in Ghana is the GCB acquisition of Capital and UT Banks.

Consolidation: It refers to the situation in which two or more firms come together to form a new firm. The shareholders of the firms normally approve the consolidation action thereby making them shareholders in the new firm. Sometimes, the state can combine smaller firms to enable the new firm better serve the customers. This was the case in the Consolidated Bank of Ghana (CBG) where the state through the Bank of Ghana 2018 integrated Unibank, Royal Bank, Construction Bank, Sovereign Bank, and Beige Bank as the CBG.

Tender Offer: It refers to the situation in which a firm decides to buy the shares of another firm and buy the shares directly from the shareholders without approaching the board of directors and management of the firm. Tender offers are classified as takeovers (hostile or friendly) depending on the level of agreement from the management and its board. If the latter agrees to the purchase, it is termed as a friendly takeover, but if the management with its board do not agree, then it is a hostile takeover. In hostile takeover, the acquiring usually induces the shareholders of the target firm with a price above (premium) the market price of the firm.

Acquisition of Assets: It refers to the situation in which a firm buys the assets of another firm. This type of transaction is very common during bankruptcies in which firms bid for the assets of the bankrupt firm. The firm that gets the bid eventually assumes the assets of the bankrupt firm upon liquidation.

Management Acquisition: It is a situation whereby the management of a firm acquires a majority stake in another firm without the knowledge of the shareholders. This type of deal is normally financed with debt, thereby making a private one.

2.1.1 Merger and Acquisition Distinguished

While merger and acquisition are often used together, they are very different by their definitions. Acquisition occurs when a company acquires all the assets of another company and the latter company ceases to exist (Amegah, 2012) while a merger occurs when two different firms which are usually of the same size integrate to form a new firm as illustrated in the combination of Airtel and Tigo to form AirtelTigo, acquisition on the other hand, occurs when a larger firm acquires a smaller firm thereby bringing its existence to an end. No new firm is formed as in the case of a merger. Acquisitions are often described as takeovers which can further be grouped as friendly or hostile. In the legal terms, a merger results in the integration of two firms into a new one which its corporate structure is entirely also new. This new corporate structure usually comprises of the shareholders of each firm. But in an acquisition, a larger firm, after taking over a smaller firm also becomes its management regarding its strategic direction. A clearer understanding of the difference lies in the business transaction. When the transaction is friendly, it is considered as a merger and when it is hostile, it is described as an acquisition.

However in the practical world, the friendly mergers do not often occur because it is rare to see two different Chief Executive Officers agree to relinquish their positions and benefits after the new firm has been created. Due to the rare occurrence of mergers and the negative connotation of acquisitions, the terms have become synonymous to each other.

2.2 Theoretical Literature Review

Firms or companies merge or acquire each other in order to create synergies (the value of the two firms is greater than the value one firm). Mergers and acquisitions normally occur when firms or companies are facing financial challenges and want to either survive or sell the firm early to get a good price. Due to the numerous benefits of M&As such as greater market and cost reduction, the firms struggling usually are under pressure to merge or allowed to be acquired. Theories have been propounded on the various reasons why firms engage in mergers and acquisitions. Three of the theories are discussed below:

2.2.1 Differential Theory of Efficiency

This theory says that, companies that are below the average efficiency as well as not performing according to their capacities or potentials are usually the target companies to be acquired (Weston et al., 2001). These companies are targeted by other companies in the same industry or operations. The acquiring companies normally have the expertise for evaluating the underperforming companies and the technical management to improve the acquired company's performance. The theory therefore is based on the assumption that, highly efficient companies will take over lesser efficient companies and achieve the returns by enhancing their efficiency. This is illustrated in the acquisition of UT and capital Banks by GCB. UT and Capital Banks were considered to be underperforming, which otherwise would have affected the banking sector, stimulating the need for their acquisition.

2.2.2 Diversification Theory

Another theory that has gained much relevance in the literature is the diversification theory. It postulates that, conglomerates engage in acquisitions to diversify certain parts of their business operations in new territories which increases their market share. It has also been seen as an effective strategy to stabilize future revenues, mitigate risks and bankruptcies. Finally, the diversification theory has been viewed as the best strategy to achieve greater competitive advantage as in the case of Fidelity Bank and ProCredit Ghana in 2014.

2.2.3 Bankruptcy Avoidance Theory

This theory has been viewed as a bankruptcy's alternative in the sense that shareholders usually prefer mergers in which they can still get something significant to bankruptcies in which the value of their shares loses value significantly or get nothing (Pastena and Roland, 1986). The theory however fails to consider agency problems because it is justified from the target's shareholders and the bidder stances. Studies have shown that managers of struggling firms normally will want to remain in their positions even if there were rescue packages. This is because they do not want to lose their positions and the benefits they have enjoyed for many years. This makes a lot of struggling companies not to agree to mergers or acquisitions. The managers have argued that, there are many benefits associated with the acquisition of struggling companies after their bankruptcies as most of their challenges are addressed by the receivers when they are sold (Walker, 1992). This reflects the case of HFC Bank and Republic Bank of Trinidad & Tobago during their initial stage of acquisition where SSNIT as the second majority shareholder was hesitant.

2.3 Empirical Literature Review

This section reviewed various studies that have been conducted on the subject both within Ghana and outside. It also discussed the relationships between bank performance, Return on Assets, Return on Equity and M&A.

Many research works have been conducted on the topic of mergers and acquisitions using different variables. Capron, (2002) argues that most of these research works rely on past available data which does not speak adequately to current issues. Below are some of the studies.

A study by (Moller, 2005) to determine how shareholders' influence affects payoffs from mergers and acquisitions concluded that, the overall abnormal return of the acquiring companies was 1.1% during the same time frame. However, few acquisitions resulted in huge losses to the shareholders during the same time frame. He finally concluded that, a positive return being abnormal was not possible. Chesang (2008) also carried out a study to evaluate the consequences of M&A restructuring on Kenyan banks' performance analyzed that merger restructurings had no consequence on the majority of the banks that were studied. However, liquidity and capital adequacy ratios showed a significant impact on the banks' performance that have either been merged or acquired. This was due to the legal effects of the ratios. Finally, the profitability ratios showed a decrease in the banks' performance. A study conducted by Taiwo & Musa (2014) to determine the effect of mergers and acquisitions on Nigerian banks' performance within a twelve (12) year timeframe from 2000 to 2011, six years pre and six years post. They used four banks as their sample and adopted the Paired sample T-test to test the significance of the hypotheses based on the variables – net profit margin, return on equity and return on assets. They established that M&A had significant effect on net profit margin and return on assets. The M&A however did not affect return on asset significantly. Another study Abdul-Majid et al., (2011) to understand the relationship between mergers and acquisitions and banks in Taiwan established that, mergers and

acquisitions did not affect the performance of the banks significantly. Finally, a study was conducted by Naba and Chen (2014) assess the effect of mergers and acquisitions on some selected West African Banks' performance established that mergers and acquisitions had positive effect on the banks' liquidity in the immediate term but investment indicators declined.

2.3.1 Mergers and Acquisitions & Financial Performance

Financial performance measures how firms conduct their operations to attain their target objectives. It also measures financial returns or profits in relation to how firms perform (Weston, 2001). A study was conducted by (Paul, 2001) to examine if M&A affect financial performance, argues that another method of evaluating the impact of M&A is to analyze the financial statements data collected. It can be done by analyzing the pre and post-merger or acquisition to be certain what occurred during post-merger or acquisition period. His research work focused on cash flows, profit margins, internal rate of return and others. Healy et al. (1992) conducted a study on the impact of profitability on merged or acquired firms and concluded that there was a positive impact. This was confirmed by Gugler et al. (2002) who established that there were higher levels of profit for the merged or acquired firms. However, there are studies that have contradictory findings. A study by (Ravenscraft and Scherer, 1989) established that a decrease in the profitability levels of the merged or acquired companies. The decrease was attributed to loss of control that was due to more complicated organizational structures and incompetent management. Ravenscraft and Scherer (1989) explained how doubtful they were toward the claim that M&A are averagely enhancing efficiency strategies. They established that, the impact of M&A could be adverse on companies and their industry.

2.3.2 Return on Equity & Financial Performance

The Return on Equity (ROE) indicates how the management of the banks effectively and efficiently utilizes the funds invested by the shareholders to make profits. Studies have shown that, the ROE is much desired because it indicates how effective and efficient the management is in using only the funds of the shareholders or equity to earn returns. Khalayleh, (2001) carried out a study to determine the linkage between financial performance indicators and banks of Jordan. He established that, the banks indicated a significant linkage between the Return on Equity ratio and the market share.

2.3.3 M&A and Value of Shareholders

The value of shareholders is often affected by the various motives that make mergers and acquisitions possible. These motives include larger market share and greater cost reduction (economies of scale). A study by (Brealey, 2006) argue that a decrease in the average production unit cost is based on a decreasing increasing output. He calls this as economies of scale. He further posits that, as the forces of demand and supply decrease, the market share increases. This enables firms to rise above the price wars and make use of innovations from technology.

Notwithstanding this, there are agency problems that make the firms pursue mergers or acquisitions because the managers intend to gain more than their shareholders (Berkovitch, 1993). Even though the agency problems promote competition, the problems cannot be avoided by the same competition. The reason behind the agency and how cash is flown easily greatly depreciates the shareholders' values (Jensen, 1998).

2.3.4 The Earnings per share

A study conducted by (Malik, 2004) to assess the association between the Earnings per Share (EPS) and the shareholders' value concluded that there was a significant association the EPS and the shareholders' value. He argues that, the EPS is used to forecast cash flows that will occur in the future which helps firms to determine the effect of selling shares by comparing the performance of the firms.

2.3.5 Impact of M&A on Profitability

The profitability of a bank refers to the net income of the bank normally computed as an indicator of the size of the bank. The financial indicators or ratios are often regarded as the most accepted techniques for measuring the profitability of the bank.

Financial ratios

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This section focuses on the various methodological instruments that were used to conduct the research. These include the research design, the population, the sample size and sampling technique. It also looked at how the data was collected, analyzed and presented.

3.1 The Research Design

This study made use of descriptive research survey. The descriptive research design enables a researcher to systematically collect data from a group of items or individuals which are under study with the aid of observations, questionnaires and interviews (Lavrakas, 2008). It is very useful when explaining or describing the properties of an occurrence in a particular circumstance (Kothari, 2008). This design method is also linked to quantitative research design which can help a researcher to establish the relationship between variables; dependent variable and the independent variable (Cooper and Schindler, 2011). This relationship therefore enabled the researcher to determine the associations between the variables and their causal effects. This study was therefore guided on how to determine the causal effect of mergers and acquisitions (independent variable) on bank performance (dependent variable).

3.2 Population

Population of this study was twenty-three (23) licensed universal banks in Ghana including all the banks that have either been merged or acquired within the period 2012 and 2017.

3.3 Sample Size and Sampling Technique

The researcher wishes to generalize the findings from the population using convenience sampling. This was used to select the four banks that have either been merged or acquired between 2012 and 2017. These banks are GCB, Access Bank, Ecobank and HFC Bank (now Republic Bank).

3.4 Data Source

Secondary data was the main source of data used in this study. This data was obtained from the annual audited financial statements from Ghana Stock Exchange and their respective websites. These financials comprises of the pre and post-merger or acquisition of the selected banks. The secondary data was most preferred due to easy access and which have also been analyzed by previous researchers (Mugenda and Mugenda, 2003).

3.5 Data Collection Method

The collection of the secondary data was done with the disclosure check list. This tool or instrument is most appropriate because it is able to observe, measure and quantify the data under investigation (Creswell, 2008). The researcher used this tool to collect the annual audited financial statements of the selected banks.

3.6 Data Analysis

The data collected was analyzed using different financial ratios. These included profitability and solvency ratios. They were chosen because they adequately measure banks' performance enabling them to be strategic in their decisions (Muhamad, 2014). They also enabled the

researcher to make proper comparisons of the selected banks during the pre and post-merger or acquisition periods.

The ratios to be used are below:

Profitability Ratios

Return on Assets

Return on Equity

Net Profit Margin

Earnings per Share

Solvency Ratios

Debt to Equity ratio

Debt to Assets ratio

Leverage ratio / Equity ratio

Equity Multiplier

These ratios or variables were used to determine if the banks perform well or poor during the pre and post period of the merger or acquisition. The ratios are discussed below.

1. Return on Assets (ROA) Ratio: It is a ratio that measures the net earnings or income made by the total assets a company has during a particular period by comparing the net income or earnings to the average total assets. It shows how a company or firm can prudently turn the capital used to purchase the assets into profits or earnings.

When the ratio is higher, it means the company or firm is making more profits on its assets and vice versa. It is calculated by dividing the net income by the total assets.

2. Return on Equity (ROE) Ratio: It is a ratio that measures the capacity of a company make profits from the capital invested by its shareholders. It is a ratio that also indicates how much a

cedi invested today in a company will yield in 5 or 10 years. Usually a 5 to 10 year period gives a proper picture of the growth of the company. The ROE is calculated as net income as a percentage of the shareholders' capital or equity.

3. Net Profit Margin Ratio: It is a ratio that determines what percentage of sales is made up of net earnings or income. It also indirectly determines how well the company manages its costs or expenses in relation to its sales. A higher ratio shows that the company is making more sales (generating more revenues) and vice versa. This is why companies are striving hard to achieve higher ratios. The companies are therefore either generating more revenues by maintaining their expenses constant or lowering their expenses and maintaining their revenues constant. The profit margin ratio is determined as net income divided by sales or revenues.

4. Equity Multiplier: It determines financial leverage of a company by using a ratio of total assets to shareholders' equity or capital of the company. A lower equity multiplier shows that the company has a lower financial leverage which means the company is using more equity than debt to finance the assets and vice versa.

5. Earnings per Share: It is a ratio that measures how much each a shareholder would get if all the earnings or profits are shared to the outstanding shares at the end of the year. It also a ratio that determines the amount of net earnings or income per the outstanding shares. It is also referred to as net income per share.

6. Debt to Equity Ratio: It is a ratio that compares the total debt or liabilities of a company to its shareholders' equity. It shows that company finances come both from its creditors and investors or shareholders in percentage term. A higher ratio shows that more debt financing is being used by the company than equity financing. Companies with higher ratios are considered more risky than companies with lower ratios. When the ratio is lower, it means the company is financially stable. However, a ratio of one (1) indicates that both the debtors and shareholders have equal stake in the company.

7. Debt to Assets Ratio: It is a ratio that determines how much the total assets in a company are financed with funds from either debtors or shareholders. It also shows what percentage of assets is financed with borrowings as compared to what percentage of assets is funded with shareholders capital. This ratio is what is used to normally assess the overall risk the company is prone to. A higher ratio means the company is more risky to invest in and loan to because it is more indebted. This would mean that, the company pays out more of its profits and interest payments than with the company lower ratio. It is advisable that companies strive for lower ratios. It is also called debt ratio.

8. Equity Ratio: It is a ratio that shows how much the total assets of the company are financed with the shareholders' capital by comparing the total equity to the total assets of the company. A higher ratio shows that the company is worth investing in because the company is being financed with shareholders' capital. When the ratio is higher, it also indicates to potential creditors / debtors that, the company is less risky.

3.7 Data Presentation

The data analyzed was presented with the use of statistical tools such as frequency tables and charts.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSIONS

4.0 Introduction

This section presents the analysis and findings of the secondary data collected. Statistical tools such as tables and charts were used to present the analyzed data and the findings. Trend analysis was also conducted on the analyzed data.

4.1 Financial Ratios on GCB Performance during the pre and post – Acquisition Periods

GCB Bank Limited is a locally owned bank established in 1953 as the bank of the then Gold Coast. In 2013, it rebranded itself from Ghana Commercial Bank (GCB) to GCB Bank Limited. In 2017, it acquired the then UT and Capital Banks. The two banks were not performing well and posed a serious threat to the financial sector. GCB Bank Limited was selected by Bank of Ghana to acquire the two banks because it was the second largest bank in terms of net profit and total assets (efficient performing bank).

The study seeks to establish the impact of merger and acquisition on the financial performance of Ghana Commercial Bank Limited when it acquired UT and Capital Banks in 2017. To do that, the researcher use eight financial ratios (profitability and solvency) to determine if GCB acquiring the two banks had positive or adverse impact on its performance. The analysis of the ratios during the pre and post-acquisition periods is below:

Table 2. Financial Ratios on GCB Pre & Post – Acquisition performance

Ratio	2016	2017	2018
Return on Assets	5.26	2.21	3.05
Return on Equity	31.34	17.52	22.54
Net Profit Margin	29.70	18.92	25..91
Equity Multiplier	5.96	7.93	7.40
EPS in pesewas	1.20	0.89	1.23
Debt to Equity	4.96	6.93	6.40
Debt to Asset	0.83	0.87	0.86
Equity Ratio	0.17	0.13	0.14

From the table, it can be observed that the Return on Assets (ROA) in 2016 when GCB has not yet acquired the two banks is 5.26. This ROA figure is higher than the 2017 and 2018 figures indicating that, GCB in 2016 was able to use its assets to generate much profit than it did in 2017 and 2018 respectively. Also, the 2018 ROA figure is slightly higher than the 2017 figure meaning that in 2018, the bank made more profit than in 2017.

The Return on Equity (ROE) figure in 2016 is 31 which is higher than all the ROE figures in 2017 and 2018 respectively. This means GCB in 2016 efficiently used its shareholders capital than in 2017 and 2018. Also, the ROE figure in 2018 is higher than the 2017 figure. This indicates that GCB in 2018 prudently utilized its shareholders than in 2017.

With regard to the Net Profit Margin also, GCB recorded a higher figure in 2016 than in 2017 and 2018. This means that GCB in 2016 made more sales and incurred less expenses as compared to 2017 and 2018. The less sales and higher expenses can be attributed to the

transactions costs involved in acquiring the two banks. Again, the 2018 figure is higher than the 2017 figure meaning the bank incurred more expenses immediately after the acquisition.

The Equity Multiplier figure in 2016 is lower than the figures in 2017 and 2018 respectively. The 2016 figure shows that GCB was using more equity than debt to finance its assets whereas the 2017 and 2018 figures which are slightly the same indicate that GCB in 2017 and 2018 relied more on debt to finance its assets.

The Earnings per Share figure in 2016 is lesser than the figures in 2018 as a bank and as a group. This means that, GCB shareholders in 2018 (post – acquisition) received higher returns than in 2016 (pre – acquisition).

In relation to the Debt to Equity ratio, the 2016 figure is less than the figures in 2017 and 2018 respectively. This means that GCB in 2016 relied more on equity financing and was more stable as compared to 2017 and 2018 in which it depended more on debt financing and looked risky.

The Debt to Asset ratio in 2016, 2017 and 2018 are almost the same. This indicates that, the overall risk profile of GCB in the pre and post – acquisition periods was stable.

Finally, the Equity ratio in 2016, 2017 and 2018 are also almost the same. This also shows that, GCB in the pre and post – acquisition periods was worth investing in because it depended on the same level of equity financing.

The financial ratios are illustrated and summarized in the graph below:

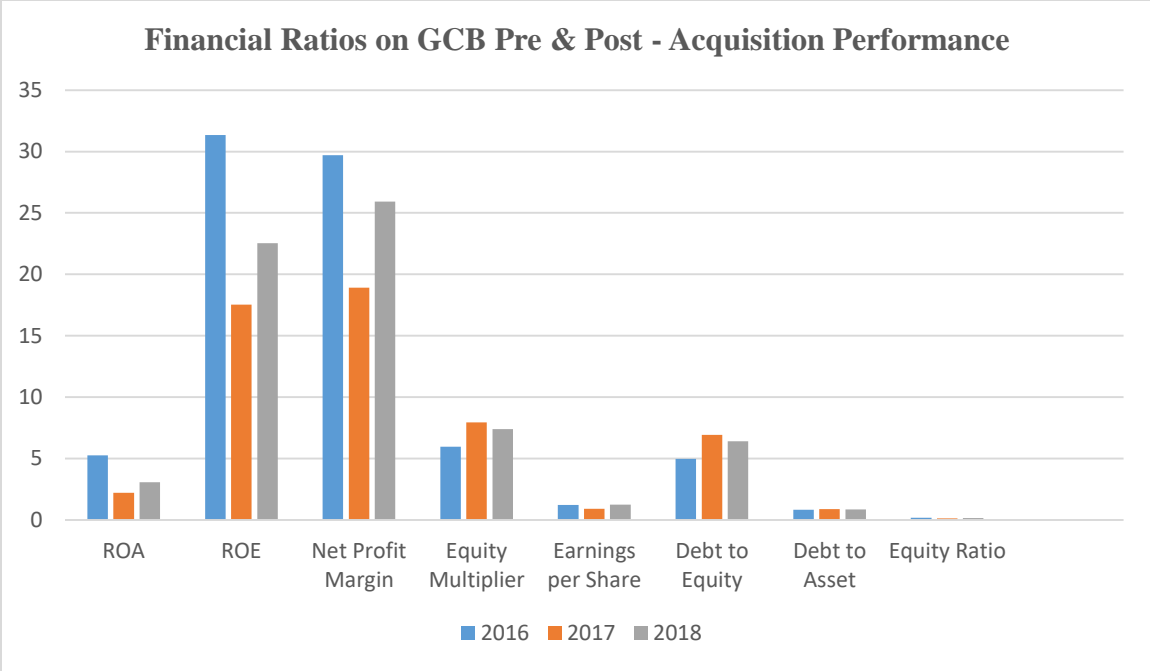


Fig 1: Financial Ratios on GCB Pre & Post – Acquisition performance

4.2 Financial Ratios on Access Bank Ghana performance during the pre and post – Acquisition periods

Access Bank Ghana Limited is a subsidiary of Access Bank Group located in Nigeria. It started operations on May, 2009. In 2012, Access Bank Ghana Limited acquired the then Intercontinental Bank Ghana Limited.

This study intends to examine the effect of merger and acquisition on the financial performance of Access Bank Ghana Limited when it acquired Intercontinental Bank Ghana in 2012. To do that, the researcher used eight financial ratios (profitability and solvency) to determine if Access Bank Ghana acquiring Intercontinental Bank Ghana had positive or adverse effect on its performance. The analysis of the ratios during the pre and post-acquisition period is below:

Table 3: Financial Ratios on Access Bank Ghana Pre & Post – Acquisition performance.

Ratio	2010	2011	2012	2013	2014	2015
Return on Assets	4.21	3.00	4.36	4.60	4.96	3.32
Return on Equity	9.55	8.56	20.39	21.06	29.29	22.35
Net Profit Margin	37.48	33.71	27.57	30.91	35.85	30.11
Equity Multiplier	2.27	2.85	4.67	4.58	5.90	6.74
EPS in pesewas	0.10	0.10	0.34	0.41	0.77	0.73
Debt to Equity	1.27	1.85	3.67	3.58	4.90	5.74
Debt to Asset	0.56	0.65	0.79	0.78	0.83	0.85
Equity Ratio	0.44	0.35	0.21	0.22	0.17	0.15

From the table, it can be seen that the Return on Assets (ROA) in 2011 when Access Bank Ghana has not yet acquired Intercontinental Bank was 3. This ROA figure is less than all the years' figures under consideration indicating that, Access Bank Ghana in 2011 was not much able to use its assets to generate much profit.

The ROA figures in 2013 and 2014 are higher than all with 2014 being the highest.

This means that in 2014 after the acquisition, the bank was efficient in using the assets to make profit than all the years under study. The 2010 ROA figure however is higher than the 2015 figure meaning the bank before the acquisition made more profit than in 2015 after the acquisition.

The Return on Equity (ROE) figures in the post – acquisition years are higher than the pre – acquisition years' figures. This means that, the bank after the acquisition was very prudent in

using its shareholders capital than before the acquisition. However, in the post – acquisition years, 2014 was the year the bank more prudently used the shareholders capital because it has the highest ROE figure. This prudent use of the shareholders capital means that, the shareholders after the acquisition had their value increased significantly than before the acquisition.

With regard to the Net Profit Margin, Access Bank Ghana recorded a higher figure in 2010 than all the years under study. This means that, Access Bank Ghana in 2010 made more sales and incurred less expenses as compared to the rest of the years under consideration. Also, apart from the 2014 figure, the pre – acquisition figures performed well as compared to the post –acquisition years. This can be attributed to the costs involved in acquiring the bank that made the bank to record higher expenses.

The Equity Multiplier figures in the post – acquisition years are higher than the pre – acquisition years' figures. This means that the bank in the post – acquisition years depended more debt to finance its assets than it did in the pre – acquisition years. It is also keen to see that the level of debt financing progressed steadily after the acquisition considering the years under study.

The Earnings per Share figures also in the post – acquisition years are higher than the pre – acquisition years' figures. This means that the bank in the post – acquisition years increased the shareholders culminating in higher dividends than in the pre – acquisition years. It is also important to take into consideration the progressive increases in the earnings per share after the acquisition.

In relation to the Debt to Equity ratio, the post – acquisition years' figures are higher than the pre – acquisition years' figures. This means that the bank after the acquisition relied more on debt to finance its assets than it did before the acquisition. The progressive higher figures in the post –

acquisition years is worthy of attention because it means that, the bank after the acquisition depended on debt financing and looked more risky.

The Debt to Asset ratio figures also in the post – acquisition years are higher than the pre – acquisition years’ figures. This means that the bank in the post – acquisition years looked more risky to invest in than in the pre –acquisition years. The higher progressive trend is also a key factor indicating that, after the acquisition, the bank looked more risky to invest in.

Finally, the Equity ratio figures in the pre – acquisition years are higher than the post – acquisition years’ figures. This also means that the bank in the pre – acquisition years was less risky because it relied more on equity financing.

The financial ratios are illustrated and summarized in the graph below:

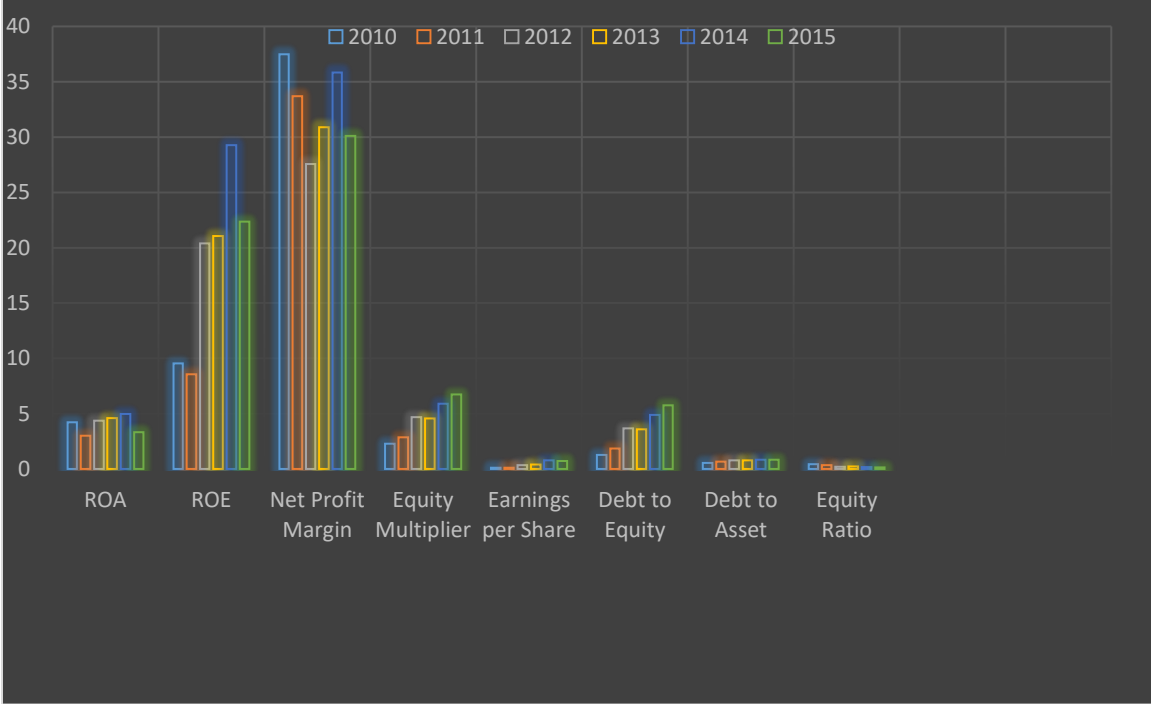


Figure 2: Financial Ratios on Access Bank Ghana Pre & Post – Acquisition performance

4.3 Financial Ratios on Ecobank Ghana Limited Performance during the pre and post – Acquisition Periods

Ecobank Bank Ghana Limited is a subsidiary of Ecobank Transactional Incorporated located in Togo. Ecobank Bank Ghana Limited began operation in 1990 and in 2012, it acquired the The Trust Bank (TTB). Ecobank Bank Ghana Limited over the years, have performed very well as its financial statements testify. It is the most profitability bank in Ghana and best performing financial stock on the Ghana Stock Exchange (GSE).

The study seeks to determine the impact of merger and acquisition on the financial performance of Ecobank Ghana Limited when it acquired The Trust Bank (TTB) in 2012. To do that, the researcher used eight financial ratios (profitability and solvency) to establish if Ecobank Ghana Limited acquiring The Trust Bank (TTB) had positive or adverse impact on its performance. The analysis of the ratios during the pre and post-acquisition periods is below:

Table: Financial Ratios on Ecobank Pre & Post – Acquisition performance.

Ratio	2009	2010	2011	2012	2013	2014	2015
Return on Assets	3.88	3.95	3.29	3.87	4.06	5.55	4.80
Return on Equity	26.22	26.41	27.95	29.06	33.98	40.10	36.11
Net Profit Margin	33.68	33.37	30.28	31.36	32.33	37.30	31.40
Equity Multiplier	6.75	6.68	8.48	7.51	8.37	7.22	7.52
EPS in pesewas	0.26	0.26	0.31	0.45	0.65	1.09	1.10
Debt to Equity	6.30	5.19	7.48	6.51	8.44	6.22	6.52
Debt to Asset	0.93	0.78	0.88	0.87	1.01	0.86	0.87
Equity Ratio	0.15	0.15	0.12	0.13	0.12	0.14	0.13

From the table, it can be observed that the Return on Assets (ROA) figures in the post – acquisition years are higher than the pre – acquisition years’ figures. This means that the bank in the post – acquisition years was more efficient in using the assets to generate profits than it did in the pre –acquisition years. In 2014 however, was the most efficient year for the bank after the acquisition.

The Return on Equity (ROE) figures also in the post – acquisition years are higher than the pre – acquisition years’ figures. This means that the bank in the post – acquisition years was more prudent in using its shareholders capital to generate higher returns than it did in the pre – acquisition years. Again, in 2014 was the most prudent year the shareholders had their value increased significantly.

With regard to the Net Profit Margin, the figures in the post – acquisition years are higher than the pre – acquisition years’ figures averagely.

This means that the bank in the post – acquisition years was more efficient in using the assets to generate more sales and incurred less expenses than it did in the pre –acquisition years. However, the 2010 and 2011 figures are more than the 2015 figure meaning

Ecobank Ghana Limited in 2015 did not record less sales and incurred more expenses. Again, 2014 was the most outstanding year in which the bank performed very well.

The Equity Multiplier figures in the post – acquisition years are higher than the pre – acquisition years’ figures. This means that the bank in the post – acquisition years depended more on debt to finance its assets than it did in the pre –acquisition years. However, the figures in both the pre and post – acquisition years are relatively the same indicating that before and after the acquisition, the bank had balanced capital structure financing.

The Earnings per Share figures in the post – acquisition years are higher than the pre – acquisition years' figures.

This means that the bank in the post – acquisition years increased the value of its shareholders than it did in the pre –acquisition years. This also means that, the shareholders in the post – acquisition years received higher dividends than they did in the pre- acquisition years.

In relation to the Debt to Equity ratio, the figures in the post – acquisition years are higher than the pre – acquisition years' figures. This means that the bank in the post – acquisition years was more depended on debt in financing its assets than it did in the pre –acquisition years. In 2013 however, the bank depended more on debt financing than any of the years because it is in that year the bank recorded the highest figure. It is also means that in 2013, the bank looked more risky than any of the years. The 2014 and 2015 figures are almost the same indicating that the bank in those years had balanced financing structure.

The Debt to Asset ratio figures in both the pre and post – acquisition years are relatively the same indicating that the bank was relatively at same risk level. However, in 2013 the bank recorded higher figure meaning that, the bank in 2013 was more risky to invest in than in all the years.

Finally, the Equity ratio figures in both the pre and post – acquisition years are relatively the same indicating that the bank had a balanced capital financing structure. This means that, Ecobank Ghana Limited in the pre and post – acquisition periods had a balanced capital structure in financing its assets.

The financial ratios are illustrated and summarized in the graph below:

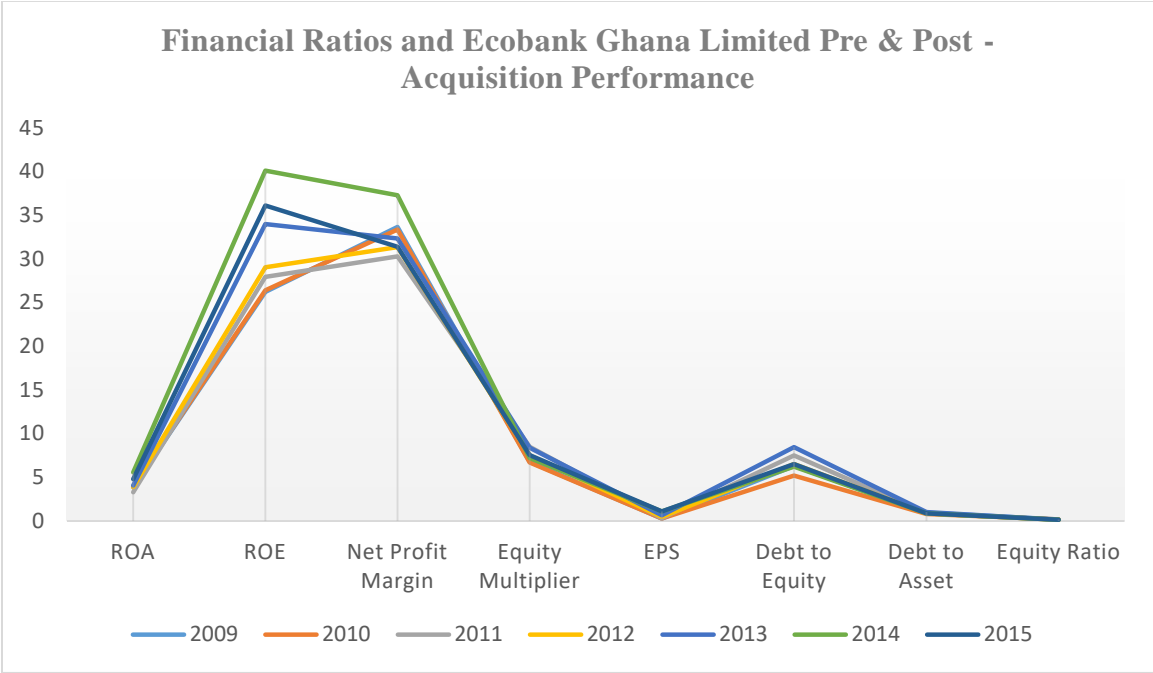


Figure 3: Financial Ratios on Ecobank Pre & Post – Acquisition performance

4.4 Financial Ratios on Republic Ghana Limited Performance during the pre and post – Acquisition periods

Republic Bank Ghana Limited is a subsidiary of Republic Bank Plc located in Trinidad and Tobago. Republic Bank Ghana Limited came to being after its parent bank acquired the then HFC Bank Limited in 2017. The study seeks to determine the impact of merger and acquisition on the financial performance of Republic Ghana Bank Limited from 2016 to 2018.

To do that, the researcher used eight financial ratios (profitability and solvency) to determine if Republic Ghana Bank Limited acquiring the HFC Bank had positive or adverse impact on its performance. The analysis of the ratios during the pre and post-acquisition period is below:

Table 5: Financial Ratios on Republic Pre & Post – Acquisition performance .

Ratio	2016	2017	2018
Return on Assets	-2.08	2.21	0.98
Return on Equity	-27.35	9.22	11.64
Net Profit Margin	-3.36	17.05	9.47
Equity Multiplier	13.15	4.16	11.89
EPS in pesewas	-0.1298	0.1279	0.0368
Debt to Equity	12.15	3.68	9.80
Debt to Asset	0.92	0.88	0.82
Equity Ratio	0.08	0.24	0.08

From the table, it can be seen that the then HFC Bank in 2016 recorded a loss which has impacted negatively on the Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin and Earnings per Share. HFC Bank in 2016 (pre – acquisition) recorded negative ROA of 2.08 and after it had been acquired by Republic Ghana Bank Limited recorded a positive ROA of 0.98.

The negative figure in 2016 indicated that, the then HFC Bank was inefficiently utilizing the assets of the bank as compared to the positive ROA in 2017 and 2018 respectively.

However, in 2017 the ROA figure shows that the bank after been acquired recorded a positive number indicating that the bank made profit.

Due to the loss the bank made in 2016, the Return on Equity (ROE) figure in 2016 is -27.35 which is less than all the ROE figures in 2017 and 2018. This negative ROE figure in 2016 (pre – acquisition) means that, the shareholders capital was not used prudently and therefore had their value decreased.

On the other hand, the positive ROE figure in 2018 (post – acquisition) indicates that, the shareholders of the bank in 2018 had their value increased because the bank efficiently utilized their capital to generate positive returns.

Also, the positive ROE figure of Republic Ghana Bank Limited in 2017 shows that the shareholders had their value increased in 2017.

With regard to the Net Profit Margin, Republic Bank Ghana Limited recorded a negative figure in 2016 than in 2017 and 2018. This means that Republic Ghana Bank Limited in 2016 made less sales and incurred more expenses as compared to 2017 and 2018. The Net Profit margin figures in 2017 is higher than the 2018 figure meaning that the bank immediately after the acquisition made more sales than in 2018.

The Equity Multiplier figure in 2016 (pre – acquisition) is higher than the figures in 2017 and 2018 respectively. The 2016 figure shows that Republic Bank Ghana Limited was using less equity than debt to finance its assets whereas the 2017 and 2018 figures show that in 2018, the bank used less of equity to finance its assets but in 2017, it used more debt to finance its assets.

The Earnings per Share figure in 2016 (pre – acquisition) is negative due to the loss the bank made in that year as compared to the positive figures in 2017 and 2018 respectively.

The negative figure in 2016 means that, the shareholders had their value decreased whereas in 2017 and 2018, their values increased respectively. It also means that in 2016, the shareholders did not receive dividends.

In relation to the Debt to Equity ratio, the 2016 (pre – acquisition) figure is higher than the figures in 2017 and 2018 respectively. This means that Republic Bank Ghana Limited in 2016 relied more on equity financing and was more stable as compared to 2017 and 2018 (post – acquisition) in which it depended more on debt financing and looked risky.

The Debt to Asset ratio in 2016, 2017 and 2018 are comparatively the same. This indicates that, the overall risk profile of Republic Ghana Bank Limited in the pre and post – acquisition periods was stable.

Finally, the Equity ratio in 2016 (pre – acquisition) and 2018 (post – acquisition) are the same indicating that Republic Bank Ghana Limited in the pre and post – acquisition periods was worth investing in because it depended on the same level of equity financing. The same can be said of the 2017 figures both as a bank and as a group.

The financial ratios are illustrated and summarized in the chart below:

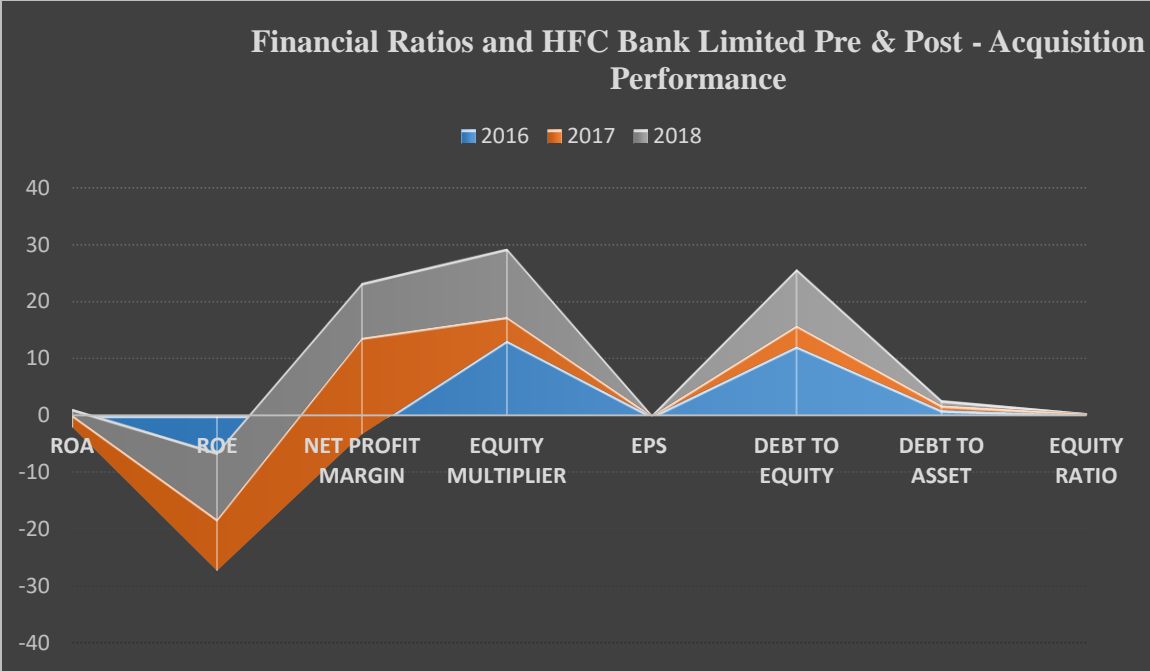


Figure 4: Financial Ratios on Republic Bank Ghana Pre & Post – Acquisition performance

4.5 Trend Analysis of the four Banks

Trend is a pattern or phenomenon recurring while Trend Analysis on the other hand is the method of gathering data in order to determine a trend. In research work, Trend analysis is a research design technique that involves the collection of data on a population. The data is subsequently analyzed to establish a particular trend in order to comprehend its occurrence over time. Trend analysis is usually used as a forecasting technique to predict a future occurrence. The understanding of how a trend occurs can help individuals and companies to be proactive and strategic in minimizing or preventing the occurrence of a particular negative trend. For instance, in the case of the four banks, a trend can be established to understand the impact of acquisition on their performance. Did the acquisition impact positively or negatively?

A Trend Analysis involves three techniques namely geographic, temporal and intuitive. These three techniques aid in the establishment and understanding of a trend.

A geographic Trend Analysis is the process of analyzing a trend within or across populations limited to their locations. The analysis is defined by the geography and is usually influenced by determinants such as culture. So in the case of the acquisition activities by the four banks, what was the prevailing culture such as technology, customer needs and expectations or performance?

With the temporal technique, it is used to analyze a trend within or across populations limited to specific time frames. The technique is very useful when predicting future events based on those of the past. In the case of the four banks, what time periods did the acquisitions occur and was the time periods favourable or unfavourable?

The intuitive technique also is used to determine a trend within or across populations premised on certain logical explanations, behavioural patterns or other factors by a researcher. This technique is very useful when establishing estimations not backed up by large amounts of data. It is mostly relied on the interpretation of the researcher.

The Trend Analysis of the four banks will basically be intuitive and premised on acquisition and performance. This will be done taking into consideration, the pre and post – acquisition periods of the banks. In the case of GCB and Republic Bank Ghana Limited, the analysis will be limited to a one year interval between the pre and post – acquisition periods because the acquisition transaction took place in 2017 and at the year this research is being conducted is 2019. In the case of other two banks, Ecobank Ghana and Access Bank Ghana, the analysis will be limited to a 3-year interval between the pre and post – acquisition periods because the acquisition activity

took place in 2012. This will enable the researcher to establish accurately the impact of the acquisition on the banks' performance. The interval could have been more than three years but Access Bank Ghana Limited began operations in 2009.

4.5.1 Trend Analysis of GCB Bank Limited

The researcher performed eight financial ratios to ascertain whether the acquisition impacted positively or otherwise on the performance of the bank. The pre – acquisition year is 2016 while the post – acquisition year is 2018.

The financial ratios performed on GCB Bank Limited indicate that in 2016, its ROA, ROE and net profit margin figures are higher than the 2017 and 2018 figures respectively. This means that in 2016, GCB Bank Limited was more efficient in utilizing its assets to generate much profits; was prudent in using its shareholders capital to add more value to their capital. It could also mean that GCB Bank Limited made much sales and incurred less expenses. The other ratios; equity multiplier, earnings per share, debt to equity and debt to asset in 2018 are higher than the 2016 figures.

This means that GCB Bank Limited in 2018, relied more on equity financing. The equity ratio in 2016 and 2018 are relatively the same, indicating same risk exposure. Since the ROA, ROE and net profit margin ratios are the main profitability ratios, we may conclude that GCB Bank Limited was more profitably as compared to 2018, which is post – acquisition. Nevertheless, as indicated earlier, a one year interval comparison cannot be sufficiently used as a reliable trend to conclude that acquisition has impacted negatively on GCB Bank Limited performance specifically, its profitability.

4.5.2 Trend Analysis of Republic Bank Ghana Limited

Due to the year of acquisition, a one year interval will be used to establish if the acquisition has impacted positively or adversely on the bank's performance. The pre – acquisition year is 2016 while the post – acquisition year is 2018.

The financial ratios performed on Republic Bank Ghana Limited show that in 2016, the ROA, ROE, Net Profit Margin and Earnings per Share figures are all negative due to the losses the HFC Bank made in 2016. This means that, HFC Bank in 2016, was very inefficient in using the assets of the bank to generate profit, incurred so much costs and had its shareholders value decreased. In contrast, the other ratios; Equity Multiplier, Debt to Equity and Debt to Asset in 2016 are higher than that of 2018, indicating the then HFC Bank in 2016 depended more on equity financing. The Equity ratios are the same indicating the same level of risk exposure.

It can be established as trend that the acquisition has impacted positively on the performance of the bank but the trend cannot be relied upon because it is only a year interval comparison. The poor performance can be attributed to the board room wrangling prior to the HFC Bank acquisition.

This prevented the management to efficiently and strategically utilize the bank's assets to generate profits.

4.5.3 Trend Analysis of Ecobank Bank Ghana Limited

Since the acquisition was done in 2012, the researcher will conduct a 3-year interval comparisons to determine a reliable trend between the pre and post – acquisition years. The pre –

acquisition years are 2009, 2010 and 2011 while the post – acquisition years are 2013, 2014 and 2015.

The financial ratios performed on the bank indicate that the post – acquisition years’ figures are higher than the pre – acquisition years. This means that the bank after the acquisition was more efficient in using its assets to make more profits, generated more sales and less costs, its shareholders value increased significantly, was less risky and very attractive to creditors. This can be attributed to its strong performance both as a bank and a listed stock. A reliable trend can be established that acquisition enables a bank to make more profits, increase its shareholders and reduce costs over time. This trend can be used to predict the enormous benefits of acquisition by the bank. Therefore the acquisition has impacted positively on the performance of the bank.

4.5.4 Trend Analysis of Access Bank Ghana Limited

The researcher will also use a 3-year interval to compare the pre – acquisition years’ figures to that of the post – acquisition figures. However, the pre – acquisition years will be only 2010 and 2011 because in 2009, the bank did not prepare its financial statements. The post – acquisition years will be 2013, 2014 and 2015.

The financial ratios performed on the bank show mixed results (trend) regarding the impact of acquisition on its performance.

While the ROA and ROE figures in the post – acquisition years are higher than the pre – acquisition years’ figures, the ROA and Net Profit Margin figures in 2015 are less than the 2010 figures. In fact, the only underlying difference between the pre – and post – acquisition years are

the Net Profit Margin and the Earnings per Share. While the Net Profit Margin figure in 2010 is higher than its counterparts in the post – acquisition years, the Earnings per Share in the post – acquisition years are higher than the pre – acquisition years’ figures. This means that the bank before the acquisition was able to reduce its costs and made more sales that it did after the acquisition. Also, the higher Earnings per Share figures after the acquisition indicated that, the shareholders received higher returns on their capital invested as compared to the pre – acquisition years. These are the only trends that can be used to predict future acquisition activity. The other mixed results show that, the bank’s financing strategy was not stable. In summary, it can be established that though the results are mixed, the post – acquisition years’ figures as a whole performed better than the figures in the pre – acquisition years indicating that acquisition has impacted positively on the performance of the banks.

The summary of the impact of the M&A on the four banks is indicated in the table below:

Table 6: Summary of the impact of the M&A on the four banks

BANK	POSITIVE IMPACT	NEGATIVE IMPACT
GCB Bank Limited	No	Yes
Republic Bank Ghana Limited	Yes	No
Ecobank Ghana Limited	Yes	No
Access Bank Ghana Limited	Yes	No

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents a summary of the entire research work, conclusions based on the objectives of the study and finally, recommendations premised on the analysis of the collected data and its findings on the impact of mergers and acquisitions on the performance of Ghanaian banks.

5.1 Summary of Major Findings

Mergers and acquisitions have been viewed as a means of achieving economies of scale, large market share and greater competition culminating in higher returns or profitability. The study therefore sought to determine the impact of mergers and acquisitions on the performance of some selected Ghanaian banks premised on two main objectives:

- To evaluate the impact of M&A on the value of shareholders with regard to the financial performance of Ghanaian banks.
- To investigate the effects of M&A on the profitability of Ghanaian banks.

In achieving these, the study selected GCB Bank Limited, Republic Bank Ghana Limited, Ecobank Ghana Limited and Access Bank Ghana Limited within a timeframe of 2012 and 2018. The study made use of eight financial ratios (profitability and solvency) and categorized the analysis on the pre and post – acquisition period intervals of the banks. For GCB Bank Limited and Republic Bank Ghana Limited, the interval is one year because the acquisition activity took place in 2017 while the other two banks acquisition occurred in 2012.

GCB Bank Limited

From table 1, it is observed that the Return on Assets (ROA) in 2016 when GCB has not yet acquired the two banks is 5.26. This ROA figure is higher than the 2017 and 2018 respectively figures indicating that, GCB in 2016 was able to use its assets to generate much profit than it did in 2017 and 2018 respectively. Also, the 2018 ROA figure is slightly higher than the 2017 figure meaning that in 2018, the bank made more profit than in 2017.

The Return on Equity (ROE) figure in 2016 is 31 which is higher than all the ROE figures in 2017 and 2018 respectively. This means GCB in 2016 efficiently used its shareholders capital than in 2017 and 2018. Also, the ROE figure in 2018 is higher than that of 2017. This indicates that GCB in 2018 prudently utilized its shareholders than in 2017.

With regard to the Net Profit Margin also, GCB recorded a higher figure in 2016 than in 2017 and 2018 respectively. This means that GCB in 2016 made more sales and incurred less expenses as compared to 2017 and 2018. This less sales and higher expenses can be attributed to the transactions costs involved in acquiring the two banks. Again, the 2018 figure is higher than the 2017 figure meaning the bank incurred much expenses immediately after the acquisition.

The Equity Multiplier figure in 2016 is less than the figures in 2017 and 2018 respectively. The 2016 figure shows that GCB was using more equity than debt to finance its assets whereas the 2017 and 2018 figures are slightly the same, an indication that GCB in 2017 and 2018 relied more on debt to finance its assets.

The Earnings per Share figure in 2016 is less than the figures in 2018 as a bank and as a group. This means that, GCB shareholders in 2018 (post – acquisition) received higher returns than in 2016 (pre – acquisition).

In relation to the Debt to Equity ratio, the 2016 figure is less than the figures in 2017 and 2018 respectively. This means that GCB in 2016 relied more on equity financing and was more stable as compared to 2017 and 2018 in which it depended more on debt financing which made it more risky.

The Debt to Asset ratio in 2016, 2017 and 2018 are almost the same. This indicates that, the overall risk profile of GCB in the pre and post – acquisition periods was stable.

Finally, the Equity ratio in 2016, 2017 and 2018 are also almost the same. This also shows that, GCB in the pre and post – acquisition periods was worth investing in because it depended on the same level of equity financing.

Republic Bank Limited

From table, it is seen that the then HFC Bank in 2016 recorded a loss which had impacted negatively on the Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin and Earnings per Share. HFC Bank in 2016 (pre – acquisition) recorded negative ROA of 2.08 and after that was acquired by Republic Bank Ghana Limited which recorded a positive ROA of 0.98.

The negative figure in 2016 indicates that, the then HFC Bank was inefficiently utilizing the assets of the bank as compared to the positive ROA in 2017 and 2018 respectively.

However, in 2017 the ROA figure shows that the bank after been acquired recorded a positive number indicating that the bank made profit.

Due to the loss the bank made in 2016, the Return on Equity (ROE) figure in 2016 is -27.35 which is less than all the ROE figures in 2017 and 2018 respectively.

This negative ROE figure in 2016 (pre – acquisition) means that, the shareholders capital was not used prudently and therefore had their value decreased.

On the other hand, the positive ROE figure in 2018 (post – acquisition) indicates that, the shareholders of the bank in 2018 had their value increased because the bank efficiently utilized their capital to generate positive returns.

Also, the positive ROE figure of Republic Ghana Bank Limited in 2017 shows that the shareholders had their value increased in 2017.

With regard to the Net Profit Margin, Republic Bank Ghana Limited recorded a negative figure in 2016 than in 2017 and 2018 respectively. This means that Republic Ghana Bank Limited in 2016 made less sales and incurred more expenses as compared to 2017 and 2018. The Net Profit margin figures in 2017 is higher than the 2018 figure meaning that the bank immediately after the acquisition made more sales than in 2018.

The Equity Multiplier figure in 2016 (pre – acquisition) is higher than the figures in 2017 and 2018 respectively. The 2016 figure shows that Republic Ghana Bank Limited was using less equity than debt to finance its assets whereas the 2017 and 2018 figures showed that in 2018, the bank used less of equity to finance its assets but in 2017, it used more debt to finance its assets.

The Earnings per Share figure in 2016 (pre – acquisition) is negative due to the loss the bank made in that year as compared to the positive figures in 2017 and 2018 respectively.

The negative figure in 2016 means that, the shareholders had their value decreased whereas in 2017 and 2018, their values increased respectively. It also means that in 2016, the shareholders did not receive dividends.

In relation to the Debt to Equity ratio, the 2016 (pre – acquisition) figure is higher than the figures in 2017 and 2018 respectively. This means that Republic Ghana Bank Limited in 2016 relied more on equity financing and was more stable as compared to 2017 and 2018 (post – acquisition) in which it depended more on debt financing making it more risky.

The Debt to Asset ratio in 2016, 2017 and 2018 are comparatively the same. This indicates that, the overall risk profile of Republic Bank Ghana Limited in the pre and post – acquisition periods was stable.

Finally, the Equity ratio in 2016 (pre – acquisition) and 2018 (post – acquisition) are the same indicating that Republic Ghana Bank Limited in the pre and post – acquisition periods was worth investing in because it depended on the same level of equity financing. The same can be said of the 2017 figures both as a bank and as a group.

Ecobank Ghana Limited

From table 3, it is observed that the Return on Assets (ROA) figures in the post – acquisition years are higher than the pre – acquisition years' figures. This means that the bank in the post – acquisition years was more efficient in using the assets to generate profits than it did in the pre – acquisition years. 2014 however, is the most efficient year for the bank after the acquisition.

The Return on Equity (ROE) figures also in the post – acquisition years are higher than the pre – acquisition years' figures. This means that the bank in the post – acquisition years was more

prudent in using its shareholders capital to generate higher returns than it did in the pre – acquisition years. Again, 2014 was the most prudent year the shareholders had their value increased significantly.

With regard to the Net Profit Margin, the figures in the post – acquisition years are higher than the pre – acquisition years' figures averagely.

This means that the bank in the post – acquisition years was more efficient in using the assets to generate more sales and incurred less expenses than it did in the pre –acquisition years. However, the 2010 and 2011 figures are than the 2015 figure meaning Ecobank Ghana Limited in 2015 did not recorded less sales and incurred most expenses. Again, 2014 was the most outstanding year in which the bank performed very well.

The Equity Multiplier figures in the post – acquisition years are higher than the pre – acquisition years' figures. This means that the bank in the post – acquisition years depended more on debt to finance its assets than it did in the pre –acquisition years. However, the figures in both the pre and post – acquisition years are relatively the same indicating that before and after the acquisition, the bank had balanced capital structure financing.

The Earnings per Share figures in the post – acquisition years are higher than the pre – acquisition years' figures. This means that the bank in the post – acquisition years increased the value of its shareholders than it did in the pre –acquisition years. This also means that, the shareholders in the post – acquisition years received higher dividends than they did in the pre-acquisition years.

In relation to the Debt to Equity ratio, the figures in the post – acquisition years are higher than the pre – acquisition years' figures. This means that the bank in the post – acquisition years was

more depended on debt in financing its assets than it did in the pre –acquisition years. In 2013 however, the bank depended more on debt financing than any of the years because it is in that year the bank records the highest figure. It is also means that in 2013, the bank looked more risky than any of the years. The 2014 and 2015 figures are almost the same indicating that the bank in those years had balanced financing structure.

The Debt to Asset ratio figures in both the pre and post – acquisition years are relatively the same indicating that the bank was relatively at same risk level. However, in 2013 the bank recorded a higher figure meaning that, the bank in 2013 was more risky to invest than in all the years.

Finally, the Equity ratio figures in both the pre and post – acquisition years are relatively the same indicating that the bank had a balanced capital financing structure. This means that, Ecobank Ghana Limited in the pre and post – acquisition periods had a balanced capital structure in financing its assets.

Access Bank Ghana Limited

From table 2, it is seen that the Return on Assets (ROA) in 2011 when Access Bank Ghana has not yet acquired Intercontinental Bank is 3. This ROA figure is lesser than all the years' figures under consideration indicating that, Access Bank Ghana in 2011 was not much able to use its assets to generate much profit.

The ROA figures in 2013 and 2014 are higher than all with 2014 being the highest.

This means that in 2014 after the acquisition, the bank was efficient in using the assets to make profit than all the years under study. The 2010 ROA figure however is higher than 2015 meaning the bank before the acquisition made more profit than in 2015 after the acquisition.

The Return on Equity (ROE) figures in the post – acquisition years are higher than the pre – acquisition years' figures. This means that, the bank after the acquisition was very prudent in using its shareholders capital than before the acquisition. However, in the post – acquisition years, 2014 was the year shareholders capital was used more prudently by the bank because it has the highest ROE figure. This prudent of the shareholders capital means that, the shareholders after the acquisition had their value increased significantly than before the acquisition.

With regard to the Net Profit Margin, Access Bank Ghana recorded a higher figure in 2010 than all the years under study. This means that, Access Bank Ghana in 2010 made more sales and incurred less expenses as compared to the rest of the years under consideration. Also, apart from the 2014 figure, the pre – acquisition figures performed well than the post –acquisition years. This can be attributed to the costs involved in acquiring the bank that made the bank record higher expenses.

The Equity Multiplier figures in the post – acquisition years are higher than the pre – acquisition years' figures. This means that the bank in the post – acquisition years depended on more debt to finance its assets than it did in the pre – acquisition years. It is also keen to see that the level of debt financing progressed steadily after the acquisition considering the years under study.

The Earnings per Share figures also in the post – acquisition years are higher than the pre – acquisition years' figures. This means that the bank in the post – acquisition years increased the

shareholders culminating in higher dividends than in the pre – acquisition years. It is also important to take into consideration the progressive increases in the earnings per share after the acquisition.

In relation to the Debt to Equity ratio, the post – acquisition years’ figures are higher than the pre – acquisition years’ figures. This means that the bank after the acquisition relied more on debt to finance its assets than it did in before the acquisition. The progressive higher figures in the post – acquisition years is worthy of attention because it means that, the bank after the acquisition depended on debt financing and looked more risky.

The Debt to Asset ratio figures also in the post – acquisition years are higher than the pre – acquisition years’ figures.

This means that the bank in the post – acquisition years looked more risky to invest than in the pre –acquisition years. The higher progressive trend is also a key factor indicating after the acquisition, the bank looked more risky to invest in.

Finally, the Equity ratio figures in the pre – acquisition years are higher than the post – acquisition years’ figures. This also means that the bank in the pre – acquisition years was less risky because it relied more on equity financing.

5.2 Conclusions

The conclusions are based on the summary of the findings.

GCB Bank Limited

The financial ratios performed on GCB Bank Limited indicate that in 2016, its ROA, ROE and Net Profit Margin figures are higher than the 2017 and 2018 figures respectively. This means that in 2016, GCB Bank Limited was more efficient in utilizing its assets to generate much profits, was prudent in using its shareholders capital to add more value to their capital and finally, it also means GCB Bank Limited made much sales and incurred less expenses. The other ratios; Equity Multiplier, Earnings per share, Debt to Equity and Debt to Asset in 2018 are higher than the 2016 figures. This means that GCB Bank Limited in 2018, relied more on equity financing. The Equity ratio in 2016 and 2018 are relatively the same indicating a relative equity financing and same risk exposure. Since the ROA, ROE and Net Profit Margin ratios are the main profitability ratios, it can be establish that GCB Bank Limited performed profitably in 2016 as compared to 2018, which is post – acquisition. Nevertheless, as indicated earlier, a one year interval comparison cannot be sufficiently used as a reliable trend to conclude that acquisition has impacted negatively on GCB Bank Limited performance specifically, its profitability.

Republic Bank Ghana Limited

The financial ratios performed on Republic Bank Ghana Limited showed that in 2016, the ROA, ROE, Net Profit Margin and Earnings per Share figures were all negative due to the loss the HFC Bank made in 2016. This means that, HFC Bank in 2016, was very inefficient in using the assets of the bank to generate profit, incurred so much costs and had its shareholders value decreased. In contrast, the other ratios; Equity Multiplier, Debt to Equity and Debt to Asset in 2016 are higher than the 2018 counterparts indicating the then HFC Bank in 2016 depended more equity financing. The Equity ratios are the same indicating the same level of risk exposure.

It can be established as trend that the acquisition has impacted positively on the performance of the bank but the trend cannot be relied upon because it is only just a year interval comparison. The poor performance can be attributed to the board room wrangling prior to the HFC Bank acquisition. This prevented the management to efficiently and strategically utilize the bank's assets to generate profits.

Ecobank Ghana Limited

The financial ratios performed on the bank indicate that the post – acquisition years’ figures are higher than the pre – acquisition years. This means that the bank after the acquisition was more efficient in using its assets to make more profits, generated more sales and less costs, its shareholders value increased significantly, looked less risky and very attractive to creditors. This can be attributed to its strong performance both as a bank and a listed stock. A reliable trend can be established that acquisition enables a bank to make more profits, increase its shareholders and reduce costs over time. This trend can be used to predict the enormous benefits of acquisition by the bank. Therefore the acquisition has impacted positively on the performance of the bank.

Access Bank Ghana Limited

The financial ratios performed on the bank showed mixed results (trend) regarding the impact of acquisition on its performance. While the ROA and ROE figures in the post – acquisition years are higher than the pre – acquisition years’ figures, the ROA and Net Profit Margin figures in 2015 are less than the 2010 figures. In fact, the only underlying difference between the pre – and post – acquisition years are the Net Profit Margin and the Earnings per Share. While the Net Profit Margin figure in 2010 is higher than its counterparts in the post – acquisition years, the Earnings per Share in the post – acquisition years are higher than the pre – acquisition years’ figures. This means that the bank before the acquisition was able to reduce its costs and made more sales that it did after the acquisition. Also, the higher Earnings per Share figures after the acquisition indicated that, the shareholders received higher returns on their capital invested as compared to the pre – acquisition years. These are the only trends that can be used to predict future acquisition activity. The other mixed results show that, the bank’s financing strategy was

not stable. In summary, it can be established that though the results are mixed, the post – acquisition years’ figures as a whole performed better than the figures in the pre – acquisition years indicating that acquisition has impacted positively on the performance of the banks.

5.3 Recommendations

From the conclusions made, this study suggests these recommendations both to the banks and the central bank for consideration:

To the Banks

- The banks should ensure good corporate governance practices especially the Boards and Management. This was one of the reasons adduced by the central bank for the collapse of UT and Capital banks. Capital bank’s management misappropriated funds intended to bail the bank out from its financial woes. UT bank on the other hand was involved in so many projects that it had virtually run out of liquidity to enable it be in operation. The Board and Management failed to supervise to the extent that in January 2016, it was delisted temporarily from the Ghana Stock Exchange for not publishing its financials.
- Appointment of competent, proven character and people of integrity to sensitive positions within the banks to ensure effective management and supervision. The capital bank and the other seven banks consolidated as CBG Limited collapsed largely due to the people at the helms of affairs. Poor credit policy adherence, conflict of interest and bank cartels were some of the major reasons for their collapse.

- Strict compliance to the Internal Capital Adequacy Assessment Process (ICAAP) to ensure prudent liquidity management. Most of the banks that collapsed were culprits to this as they suffered severe capital impairment and high non – performing loans.

To the Central Bank

- The central bank or Bank of Ghana should tighten its supervision and monitoring as poor supervision was fingered as one major reason for the collapse of the banks. The Bank of Ghana should enforce strictly its laws to maintain a robust and resilient banking sector. For instance, most of the collapsed banks did not comply with the Credit Reference Bureau.
- The Bank of Ghana should regularly conduct extensive stability risk assessment on the banks to prevent the resurgence of risky banks in the sector. The Bank of Ghana should not kowtow to political and social pressures to overlook such assessments.
- Finally, the Central bank must ensure very competent people are elected and appointed to the boards of the banks and the central bank itself to send positive and strong signals to the financial sector. The Bank of Ghana must not be seen to be reactive but rather proactive. Most of the banks that collapsed could have been avoided if the Central bank was just a little bit proactive. The collapse of the banks has brought severe economic hardships to a lot of people in the country. Some have even lost their lives all because the regulator failed to do its work well.

5.4 Limitation of the Study

The study was very limited with regard to the time period and sample of the banks that it studied. In the case of time period, one year was used as the interval between the pre and post – acquisition years for GCB Bank Limited and Republic Bank Ghana Limited because the acquisition transaction took place in 2017. This cannot be used sufficiently as a basis to conclude that, acquisition has had positive or negative impact on the performance of the banks. This is because acquisition involves a lot of transaction costs such as legal cost and therefore the acquirer needs more time to stabilize and grow. After the acquisition, the acquirer is just coming out of the wounds.

On the other hand, a sample of four banks is inadequate that can be used to generalize that acquisition has had positive or negative impact on the performance of the banks in the country. Since the bank sector is dominated by foreign banks, it could be more convincing if many foreign banks are studied. Also, the banks in the country are not of the same class and pedigree. This is because the banks are multinationals or local. They are older or younger and definitely much experienced and less experienced. Not to even talk of the different asset bases.

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