J Economics, 2(1): 57-65 (2011)
PRINT: ISSN 0976-5239 ONLINE: ISSN 2456-6594
DOI: 10.31901/24566594.2011/02.01.06

Effects of the Consolidation of the Banking Industry on the Nigerian Capital Market

Donwa Pat* and Odia James**

Department of Accounting, University of Benin, P.M.B 1154 , Benin City 300001, Nigeria
Telephone: 234-8056157977; E-mail: pdonwa@yahoo.com

KEYWORDS Consolidation.Capital Market. Banks. Banking Industry

ABSTRACT The paper investigates the impact of the consolidation of the banking industry on the Nigerian Capital Market between 2004 and 2008 using primary (questionnaires) and secondary data from the Nigerian Stock Exchange. When the data was analyzed with the chi-square test and ANOVA, it was found that bank consolidation affected significantly the primary market as most of the banks had to go to the capital market to raise the required amount by issuing securities. The secondary market was negatively affected initially due to fall in bank stock prices. However, as market confidence rekindled and the consolidation deepened with realistic prospects, the secondary market also revived. Bank consolidation has increased public awareness and operations of the Nigerian capital market just as the capital market has continued to be an easy and cheap source of funds for banks in the post- consolidation era. Also, the consolidation of the Nigerian Banking sector has positively impacted on the market capitalization and the all-share Index of the Nigerian Stock Exchange. Based on the findings, it is recommended that the bank and capital market regulatory authorities should continue to monitor and institute reforms program that will better reposition the banking industry as a major player in the Nigerian Capital Market and the economy.

INTRODUCTION

The banking system plays a fundamental role in the growth and development of any economy. In fact, the health of the banking system of a nation determines the well-being of the economy (Osaze 2000). The Nigerian banking sector has undergone remarkable changes since 1892, when the African Banking Corporation (ABC) was set up to today's era of consolidation. The Nigerian financial system has also gone through eras such as Free-Banking Era (1982-1952), emergence of Banking Regulation or Pre-Central Banking (1952-1958), Era of Consolidation Growth following establishment of the Central Bank of Nigeria or Era of Banking Legislation (1959-70), Era of indigenization (1970-1976), Post-Okigbo Era (1977-1986), Era of Dereguation (1986-2005) and Era of Bank Consolidation (2006 till date) (Nwankwo 1990).

Since inception, the changes in the banking industry have been influenced by the need for sounder banking industry, globalization of operations, technological innovation and the adoption of supervisory and prudential requirements that conform to international standards and the need to make Nigerian banks Basel Accord I and II compliant. The reasons which prompted the reform program in the banking sector were due to the weak capital base of the banks, weak corporate governance, gross insider abuse, sharp practices, overdependence on public sector deposits, insolvency and internally focused competition.

The recent consolidation in the banking industry by the Central Bank of Nigeria (CBN) through the recapitalization to ₦25 billion is monumental. It created a remarkable transformation not only in ensuring more diversified, strong and reliable banks but also enhancing banks' liquidity position and their ability to assume risks. Moreover, it recreated the Nigerian Capital Market by stimulating activities in both the primary and secondary market through increase in aggregate market capitalization, new issues of bank stocks and increased inflow of Foreign Direct Investment (FDI) into the market (Ebi 2006; Salako 2006).

The objective of this paper is to consider the effects of the bank consolidation exercise in 2005 on the Nigerian capital market in terms of creating public awareness on the activities of the Nigeria Stock Exchange and improving the performance indices of the stock market. The rest of the paper is organized into four sections. Section two is the review of literature on banking in Nigeria. The next is the section on the methodology and formulated hypotheses Section four shows the result including the analyzing of data and test of the hypotheses. The last section is the conclusion and suggested recommendations.

Corresponding Author:
Odia James**
Telephone: 234-8056580011;
E-mail: odiajames@yahoo.com

Review of Literatures

Evolution of the Banking System and the Capital Market in Nigeria: The history of Nigerian Banking system dates back to 1892 when the African Banking Corporation (ABC) was established. The operations of ABC were later acquired by British Bank for West Africa (BBWA) in 1894. The Anglo-African Bank was established in 1902. In 1916, it was joined by the colonial bank which became Barclay Bank DCO in 1925. The Anglo-African Bank was changed to Bank of Nigeria in 1902. Later, BBWA became Standard Bank and eventually First Bank. Another expatriate bank, the British and French Bank, now United Bank for Africa (UBA) arrived in 1949.

The belief that the expatriate banks were discriminating against Nigerians led to the establishment of National Bank of Nigeria in 1933. Agbonmagbe Bank was set up in 1945, Africa Continental Bank in 1947 and the Merchant Bank in 1952. The United African Company (UAC), a trading company was also prominent during these periods in offering trade credits to customers. Other non-bank financial intermediaries in existence at that time include: the Post Office Savings Bank, Lagos Building Society (which later became the Federal Mortgage Bank of Nigeria), Federal and Regional Loans Boards, Co-operative Societies and other thrift institutions. The period between 1892 and 1952 was the free banking period. It was characterized by wildcat banking, rapid establishment of indigenous banks and the quick collapse due to gross undercapitalization, bad management, persistent stealing, illiquidity, imprudent tendency and absence of any kind of banking legislation to guide operations and orderly development (Nwankwo 1990; Ovuakporie 1994). These inadequacies were pointed out by the Paton Commission which recommended the need for minimum capital requirement and bank ordinance for banks.

In the period of 1952-1958, the Banking Ordinance of 1952 was in operation. This was the first attempt at bank regulation in Nigeria. The Ordinance provided for licensing requirements, procedures, standards for banking business, prudential guidelines and supervision etc. By 1955 when the Ordinance became operational, all the mushroom banks had collapsed except Agbonmagbe Bank, ACB and Merchant Bank because they were financially sponsored and supported by the Western and Eastern Regional Governments; and the National Bank of Nigeria. Only these banks survived the banking boom of the late 1940s and early 1950s.

The Ordinance while preventing undercapitalized banks from operating was unable to check the malpractices in banking and also unable to develop the banking system. It did not provide a reserve force and lender of last resort or where to fall back during liquidity crisis for indigenous banks. These inadequacies culminated in the enactment of the Central Bank of Nigeria (CBN) Act in 1958.

The CBN was charged with the functions of promotion and development of the financial market, bankers' bank, currency issue and distribution, promotion of special schemes and funds for industrial development, supervision of finance houses etc. The CBN commenced business on 1st July, 1959. The CBN Act No. 24 of 1991 replaced and superseded the 1958 Act.

The period from 1960 to 1986 was marked with enactment of various Acts, emergence of the securities markets and instruments, and several development policies of the financial and non-financial sector. In April 1960, the CBN issued the first Nigerian Treasury Bill to provide avenue for short-term liquid funds in Nigeria. Udegbunam (2003) argued that prior to August 1987 the Nigerian financial sector was characterized by a complex system of regulation and controls. According to him, the purpose was to provide a safe and congenial environment for an economy laden with poorly developed financial market.

The Lagos Stock Exchange was established on September 15, 1960 by the Lagos Stock Exchange Act of 1960, following the recommendation of the Barback Committee of 1957. It opened for business on June 5, 1961, with 19 listed securities comprising of 3 equities, 6 Federal Government bonds and 10 industrial loans. The Lagos Stock Exchange was changed to the Nigerian Stock Exchange in 1977 by the Indigenization Decree of 1977 following the recommendation of the Industrial Enterprises Panel (Adeosun Panel) of 1975. The Capital Issues Committee (CIC) Decree was promulgated in 1975. But in April, 1978, the Securities and Exchange Commission (SEC) Decree replaced the CIC and made SEC the apex monitoring institution of the Nigerian capital market. This was based on the recommendation of the Okigbo Committee (or the Financial System Review Committee).

In 1968, the Companies Decree was enacted. This was followed by the Banking Act of 1969. The Banking Act, apart from further adjusting the capital requirements for the banks, provided for capital deposit ratio and increased the capital-loan ratio. It also put the CBN supervisory function under the Federal Ministry of Finance, which also had power to issue licence to banks (Nwankwo 1990; Udegbunam 2003).

The period of deregulation and liberalization of the financial sector witnessed another significant era in the banking industry. In fact, Iyoha (2003) remarked that financial deregulation was greeted with innovations, deregulated interest rates, fierce competitions and expansion in size and number of banking and non-banking institutions. The increased competition led to greater risk-taking by banks which consequently resulted in the insolvency, failure and distress of many banks in the 1990s. There were 8 reported distressed banks in 1991, 16 in 1992, 38 in 1993, 55 in 1994, 60 in 1996 and 43 in 1997. The Nigerian Deposit Insurance Corporation (NDIC) Act No. 22 of 1988 established the NDIC as an additional regulatory agency to help in ensuring safety, soundness and confidence in the deregulated banking sector. The NDIC was to sanitize the banking sector by stemming the tide of bank distresses.

The CBN issued a set of prudential guidelines in 1990. This specifically mandated banks to make adequate provisions for loan losses arising from bad and doubtful debts. The Banks and Other Financial Institutions Act (BOFIA) No 25 of 1991 vests the CBN with the sole authority of licensing banks, determining their maximum capital requirements and sanction any bank which fail to comply with the provisions of the Act. Following the realization that the ordinary courts were unable to cope with the numerous criminal and debt recovery cases arising from the failure of many banks in the 1990s.The Failed Bank Decree No 22 of 1994 was promulgated to recover debts owed to failed banks as well as to punish erring bank officials to serve as deterrent to others.

The Nigerian Investment Promotion Decree of 1995 further deregulated investments in the capital market and permitted foreigners to invest in almost all sectors of the Nigerian economy. The Odife Panel of 1996 in the review of the Nigerian capital market brought about major reforms through its many recommendations notable among which was the enactment of the Investment and Securities Act of 1999 (Osaze 2000).

According to Al Faki (2006), other recent developments in the Nigerian stock market include:

(i) The Automated Trading System (ATS), introduced in 1997, gives all brokers equal access to information available for the purchase and sale of securities.
(ii) The Central Securities Clearing System (CSCS) commenced full operation on 14th April, 1999. The ATS and CSCS have facilitated T+3 settlement cycle in the Nigerian capital market. The CBN is considering reducing settlement cycle to T+2.
(iii) Remote Trading was introduced in late 2004.
(iv) On-line Trading where Abuja, Kano, Port Harcourt branches are linked on-line to Lagos.
(v) Trade Alert to help protect the securities market and stop unauthorized trade before they take place.
(vi) A code of corporate governance for public companies was introduced in 2003,

The bank consolidation which has brought great transformation to the banking industry in Nigeria was introduced by the Central Bank of Nigeria (CBN) on 6 July 2004.

Growth of the Nigerian Banks and their Capital Base: In 1952 the Bank Ordinance fixed the minimum capital requirement for commercial banks as: indigenous banks at ₦25,000 and expatriate banks at ₦200,000. These were increased to cater for the increasing banking activities and capital adequacy of banks in 1958 as indigenous banks (₦500,000) and expatriate banks (₦400,000). The new capital levels were meant to develop the system and forestall the bank collapse which was prominent in the late 1940s and early 1950s. It was also to prevent bank undercapitalization.

In 1962, the minimum capital base for the indigenous banks was further increased by CBN to ₦600, 000 while that for expatriate banks was still ₦400, 000. It must be recalled that after the establishment of the Central Bank of Nigeria in 1958 and Nigeria Independence in

1960, the environment was being cleared up for the full operations of Nigerian banks. However, following the Banking Acts of 1969, a new capital base for expatriate bank was raised to ₦1, 500, 000 from the previous ₦400, 000 fixed in 1962.

From the late 1970s the minimum capital base for banks began to hover in millions. For instance, it was ₦10million from 1977 to 1988 but increased to ₦20million in 1989 and ₦50million in 1992. At the same time, the capital base for merchant banks was ₦2million in 1979. This was increased to ₦6million in 1985 and ₦12million in 1989. By 1997, a uniform ₦500million minimum capital base was introduced to allow for a level playing field for both types of banks.

The 1990s is very significant in the Nigerian banking industry. The Nigerian banking industry expanded due to the financial deregulation and liberalization of the industry. But the 1990s were also marked with many distresses in the sector because of the abuses and sharp practices in the system. In 2000, the minimum capital was moved to ₦1billion for new banks while the existing banks were expected to meet this level by December 2002. ₦2billion minimum paid up capital was introduced for new banks in 2001. By June 2004, the CBN introduced ₦25billion as capital base for banks in Nigeria because the previous ₦2billion bank capital requirement became grossly inadequate to meet the emerging domestic and global realities in the new financial system.

Nigerian banks were mandated to meet the capital benchmark by 31 December, 2005, or be considered as unfit to operate as a banking institution in Nigeria after that date.

Consolidation of the Banking Industry and the Impacts on the Capital Market: The consolidation of the banking industry in Nigeria started in 2004 when the CBN mandated all commercial banks to meet the ₦25 billion minimum paid-up capital by 31st December, 2005. Basically, banks used various mechanisms to comply e.g. mergers and acquisition, initial public offerings (IPOs), foreign equity participation, group consolidation etc. (Orji 2005).

Almost all the banks went to the capital market to raise funds in order to meet the new capital base. Soludo (2006) reports that about $650 million were invested in the banking sector in 2005. Al Faki (2006) puts the figure that was raised from the capital market by the banks to meet the minimum capital requirement of ₦25billion as over ₦406.4 billion. Out of the ₦198.19 billion worth of securities raised in 2004, ₦128.58 billion was for the banking sector. In 2005, banks' new issues were worth ₦517.6 billion. This amount represented about 75% of the total new issues value of ₦692.86 billion.

The banking sector continues to dominate the Nigerian Stock Exchange accounting for over 97% of turnover, having 10 out of the top most capitalized stock and also contributing 6 out of the 10 most capitalized companies (Salako 2006). In the meantime, shares of the banking sub-sector account for about 80% of the volume of shares traded on the NSE almost on daily basis (ThisDay 2007).

The market capitalization of the Nigerian Stock Exchange was about ₦1, 359 billion by 2003 and ₦2, 113 billion in 2004; ₦2, 900 billion in 2005 and ₦5, 120 billion in 2006 (NSE 2006). It increased significantly during the period of the banking consolidation, recording about 142% increase between 2004 and 2006.The All-share index is a numerical value used to measure changes in prices of shares in the NSE. All-share index of the Nigerian Stock Exchange was 33,189.3 in 2006 as against 23,844.5 in 2004, about 39% rise within the period. There was about 91% rise in shares traded from 19.2 billion shares in 2004 to 36.7 billion shares in 2006.Similarly, the value of shares traded rose by 108.2% in the same period. However, the Nigerian capital market has been seriously affected by the global financial crisis. For instance, there was about 28% fall in the market capitalization from ₦ 13.3 trillion in 2007 to ₦ 9.56 trillion in 2008. Similarly, all-share index declined from 57,990 in 2007 to 31,451 in 2008 and total new issues fell from ₦ 2.4 trillion to ₦ 2.2 trillion within the same period (See Table 1).

Benefits of the Banking Consolidation: Some of the benefits of the consolidation of the banking industry include availability of funds for the small and medium scale enterprises, opportunity for Nigerian banks to explore other regional and international markets, reduction in capital flight, massive and continuous innovations in the banking sector, externally-focused competition and restoration of confidence in the Nigerian banking sector etc. Izedonmi

Table 1: Performance indices of the Nigerian Stock Exchange

Year	*Market capitalization (Nm)*	*All-share index*	*Total equity listing*	*Total new issues (Nm)*	*Volume of shares traded (billions)*	*Value of shares traded (Nm)*	*Banking sector market capitalization (Nm)*
1997	281,887	6441	182	10,876	1.3	11,072	Na
1998	262,517	5673	186	15,018	2.1	13,572	Na
1999	300,041	5266	195	12,039	3.9	14,027	54.6
2000	472,290	8111	195	17,208	5	28,155	135.053
2001	662,561	10,963	194	37,198	6	57,637	200.4
2002	7664,976	12,138	195	61,284	7	60,089	Na
2003	1,359,274	20,129	200	180,080	13	120,703	218.
2004	2,112,550	23,845	207	195,418	19.	225,821	469.
2005	2,900,062	24086	214	552,782	27	262,930	964.
2006	5,120,000	33,190	202	1,489,625	37	470,253	1,980.000
2007	13,300,000	57,990	212	2,400,000	138	2,100,000	5,148,000
2008	9,560,000	31,451	213	2,200,000	193	2,376,000	5,654.000

Source: NSE Fact Book of various years Na – Not Available

(2005) has argued that the consolidation of Nigerian banks was to make them Basel Accord II compliant by 2007. Basel II emphasized the need for banks to have a higher level of capital base which is proportional to their risk exposure. Since the consolidation, many banks have gone to the capital market to raise additional capital for various purposes such as expansion, enhancement of operational efficiency through investment in ICT.

Okoro (2006) remarked that "never in the country's history has anything near the inflow of off-shore investment of over $500 million through the banking sector been registered in one year". Equally, the bond and repurchase market are expected to kick off due to the growth in the banking sector (Teriba 2004). Ifeacho (2005) argued that the Nigerian capital market had suddenly become the preferred source of raising funds by banks in the wake of the consolidation policy, thereby boosting the market capitalization in tremendous leaps. Again, while consolidation increased attention in the primary market, activities in the secondary market became lull initially because of new issues offered by banks (Atufe 2005). Because of the immense contribution of the capital market in the bank recapitalization, the activities of Nigerian capital market has created more awareness of the opportunities to the investing public and listed companies.

METHODOLOGY AND HYPOTHESES

The study considers a historical analysis of the Nigerian banking sector since its inception in 1892 till its consolidation in December 2005. The Nigerian capital market since its inception in 1960 is also considered. Besides some of the vital regulations, ordinances, acts, decrees, prudential guidelines which have impacted significantly upon the development of banks and capital market in Nigeria are also explored. Specifically, the effects of the consolidation of 89 banks into the initial 25 banks on the Nigerian capital market form the main thrust of this paper. Now, there are 24 banks after Stanbic bank and IBTC merged into Stanbic-IBTC bank.

The sources of data include both primary and secondary data. A questionnaire was used to collect the primary data from the management staff of selected banks, shareholders, staff of the Nigerian Stock Exchange (NSE) and Securities and Exchange Commission (SEC), portfolio managers and the investing public. A total of 100 questionnaires were distributed out of which 96 were returned and used for analysis of the data. The Likert-scale questionnaire (strongly agree to strongly disagree) was adopted in the questionnaire to give respondents greater scope in their choice or response. The secondary data - market capitalization and the all-share index of the Nigerian Stock for 2004 to 2008 was collected from the NSE Fact Book. The hypotheses were tested using the Chi-Square test (χ^2) and the Analysis of Variance (ANOVA) or the F-test. The chi-square test was to test the first two hypotheses which were based on the responses from the administered questionnaires. The ANOVA was used to find out if there was significant difference before, during and after the banking consolidation and the stock market index of market capitalization and if the all-share index has improved as a result of the banking consolidation in Nigeria.

Hypotheses

1 Consolidation of the Nigerian banking industry has improved capital market awareness among the investing public.
2 Consolidation of the banks has improved stock trading activities in the Nigerian capital market.
3 There is significant difference in the market capitalization of the Nigerian Stock Exchange before, during and after the bank consolidation.
4 Consolidation in the banking sector has significantly improved the All-share index of the Nigerian Stock Exchange.

RESULTS AND DISUSSION

Discussion of Responses from Questionnaire

It is discovered from Table 2 that bank consolidation had revitalized bond market on the Nigerian Stock Exchange. In fact, 72% of the respondents agreed while 12% disagreed with this proposition. The banking sector of the Nigerian Stock Exchange remains the most active sector with the highest number of deals; volume of transactions traded and market capitalization. Similarly, 80% of the respondents also believed that the consolidation of the Nigerian banking sector has revealed the potentials of the Nigerian capital market. Nigerian capital market has continued to provide support and funds to many banks in their expansion and development programs even in the post- consolidation era. There is also strong support (about 92%) that bank consolidation has increased public awareness of the Nigerian capital market. At 5% level of significance, the calculated χ^2 value of 57.83 at 4 degree of freedom is greater than the critical value of 9.48. Hence, hypothesis 1 is supported (see appendix 2a).

Again, 92% of the respondents agreed that

Table 2: Responses to the questionnaire

	Questions in the questionnaire	*Strongly agree (SA)*	*Agree (A)*	*Undecided (U)*	*Disagree (D)*	*Strongly disagree (SD)*
1	Consolidation of banks has improved the operating and capital market awareness.	54%	38%	8%	-	-
2	Consolidation of banks has improved the operating and financing activities in the Nigerian Capital Market.	38%	33%	6%	13%	10%
3	Consolidation has improved the competitive strength of Nigerian Banks in the global financial market.	29%	31%	8%	17%	15%
4	Consolidation of banks will help to reduce bank distress in Nigeria.	54%	38%	-	4%	4%
5	Bank consolidation has revealed great potential of Nigerian capital market to mobilize domestic capital.	50%	30%	-	11%	9%
6	The consolidation has increased risk rating of Nigerian Banks.	38%	50%	-	6%	6%
7	Consolidation has revitalized the bond market in the Nigerian Stock Exchange (NSE).	24%	48%	12%	6%	6%
8	Consolidation has improved and reactivated the underwriting of securities in the NSE.	42%	29%	4%	17%	8%
9	Bank consolidation has led to stricter code of corporate governance for listed companies in the NSE.	31%	31%	8%	16%	13%
10	The Nigerian Capital Market has become a key source for raising capital by banks even after consolidation.	39%	31%	10%	8%	12%

bank consolidation will reduce distresses in the Nigerian banking sector. This was against 8% which disagreed. Bank consolidation is also believed to have improved the volume of underwriting in the Nigerian capital market. 71% of the respondents believed that there had been improvements in security underwriting due to bank consolidation. However, 25% of the respondents held contrary opinion. At 5% level of significance the calculated c^2 value of 19.71 at 4 degree of freedom is greater than the critical value of 9.48.Hence, hypothesis 2 is supported (see appendix 2b).

Eighty- eight percent of the respondents also agreed that bank consolidation had increased the risk/credit rating of Nigerian banks while 12% of the respondents disagreed. Bank consolidation is believed by 60% respondents to have improved the competitive strength of Nigerian banks to conduct business in the global financial markets. Also, respondents were of the opinion that stricter code of corporate governance for listed companies in the Nigerian Stock Exchange had evolved following bank consolidation.

Test of Hypotheses 3 and 4

The one-way analysis of variance test was used to investigate whether there is significant difference in the market capitalization and the all-share index before, during and after the banking industry consolidation in Nigeria. The results of the ANOVA test of Hypotheses 3 and 4 using the data in appendix 1 reveal that the consolidation of the Nigerian banking industry had impacted positively and significantly on the stock market performance indices of the market capitalization and the all-share index.

From Table 3, the calculated F* is 143.91 is greater than the critical F** value of 2.53 at 5% significant level. Hence, the alternative hypothesis which says that there is significant difference in the market capitalization before, during and after the bank consolidation is accepted. Therefore, bank consolidation has positively affected and significantly improved the market capitalization of the Nigerian Stock Exchange.

At $P < 0.05$, given the calculated F* Value of 52.72 is greater than critical F** Value of 5.39, hypothesis 4 which posits that consolidation in the banking sector has significantly improved the all-share is accepted. Therefore, we conclude that the consolidation of banks has significantly improved the all-share index of the Nigerian Stock Exchange (Table 4).

Table 3: Banks consolidation and the market capitalization of the Nigerian Stock Exchange

Source	*Degree of Freedom (DF)*	*Sum of Square*	*Mean Square*	*F* ratio*	*Critical F***	*Decision*
Between	4	564.11	141.03	143.91	2.53	Signi-
Within	55	53.70	0.98			ficant
Total	59	22.874				

Table 4: Consolidation of Nigerian banks and the all-share index of the Nigerian Stock Exchange

Source	*Degree of freedom (DF)*	*Sum of squares*	*Mean squares*	*F* ratio*	*Critical F***	*Decision*
Between	4	8,574.89	2,143.72	52.72	2.53	Signi-
Within	55	2236.38	40.66			ficant
Total	32	343.76				

CONCLUSION

One of the greatest things to happen to the Nigerian banking industry over its 115 years of existence could be its consolidation in 2005, which has not only opened up the trading opportunities in the Nigerian capital market to individuals and corporate investors, but also increased public awareness about the operations and activities of the Nigerian Stock Exchange. It has also become a veritable source for banks to raise funds even in the post-consolidation era for various purposes. Bank consolidation has brought immense transformation to the banking sector and it has helped to reposition Nigerian banks in the global financial market.

Moreover, following the banking consolidation, the Nigerian Stock Exchange experienced significant increase in the market capitalization and all-share index performance indices. Similarly, there were significant impacts of the consolidation in terms of increased stock trading activities in the frequency of trading, number of deals etc. particularly in the banking sector. Nevertheless, there is yet to be remarkable improvement in the number of companies listed on the Nigerian Stock Exchange. Only some of the existing listed companies are currently exploiting the opportunities prevalent in the

Nigerian capital market. We hope the move to further soften the listing requirements will motivate Nigerian companies to seek quotation on the Nigerian Stock Exchange in order to reap the numerous benefits in the capital market.

RECOMMENDATIONS

For the consolidation of the banking industry in Nigeria to make lasting impact on the Nigerian capital market, the following policy prescriptions or recommendations are put forward. First, the regulatory authorities of the capital market in Nigeria such as the SEC and NSE must continue to make concerted effort towards cushioning the effects of the global financial meltdown on the Nigerian Stock Exchange which has significantly affected its performance. This will help to restore investors' confidence and revival in the market. Also, while the current reform by the CBN to sanitize the banking industry is welcome; it has to be carefully implemented to ensure banks are better position to perform their strategic roles in the Nigerian capital market and the economy. Banks must also channel the funds raised from the market into profitable investment ventures that will maximize the shareholders' capital and increase the value of the banks.

REFERENCES

Alufe F 2005. A Review of Nigerian Capital Market. A Year of Mega Offers. *Financial Standard.*

Al Faki M 2006. The Nigerian Capital Market and Socio-economic Development. *Public Lecture Presented at the 4th Distinguished Faculty of Social Sciences*, University of Benin on 26 July, 2006.

Dike C 2005. The Nigerian Stock Market: 43 Years After. *BusinessDay*, Vol. 4. October 3 2005, P. 5C.

Ebi NE 1996. Financial Services Industry: Catalyst for Economic Growth. *BusinessDay*, Vol. 5, May 5 1996, P. 7.

Ituwe CE 1996. *Bank Management: Today and Tomorrow.* Lagos. Genmuni Tech Ltd.

Iyoha MA 2003. An overview of leading issues in the structure and development of the Nigerian economy since 1960. In: M A Iyoha, C O Itsede (Eds.): *Nigerian Economy Structure, Growth and Development*. Benin City: Mindex Publishing, pp. 7-10.

Izedonmi FI 2005. Bank recapitalization and merger option: response call to Basel I & II Accords. *The New Accountant*, 1: 23 -31.

Nwankwo GO 1990. *Prudential Regulation of Nigerian Banking*. Lagos: University of Lagos Press.

Okoro K 2006. The Post Consolidation Landscape: Banking Sector Report. *Business Day*, 5: 18-19.

Orji NA 2005. Bank Consolidation and the Capital Market Challenges to Judicial Officials. *Business Day,* Vol. 4, August 10, pp. 6B.

Osaze BE 2000. *The Nigerian Capital Market in the African and Global Financial System*. Benin City: Bofic Consulting Group Ltd.

Ovuakporie V 1994. *Bank Frauds, Causes and Preventions: An Empirical Analysis*. Ibadan: Alt Books, pp. xi-xxv.

Salako T 2005. Consolidating the Banking Stocks. *Financial Standard*, Vol. 6, January 30, P. 35.

Soludo CC 2006. Can Nigeria be the China of Africa? *Lecture Delivered at the University of Benin Founders' Day*, November 2006, P.14.

Teriba A 2004. Rethinking Financial Strength. *Financial Standard* ,Vol. 3, Sept. 20, P.24. **This Day 2007. *The Lagos Stock Market, 14-21 January, Week Market News*. Vol. II, No. 4293. January 22, P. 77.

Udegbunam RI 2003. Monetary and financial policy. In: MA Iyoha, CO Itsede (Eds.): *Nigerian Economic Structure, Growth and Development*, Benin City: Mindex Publishing, pp. 253-279.

APPENDIX

Appendix 1: Market capitalization of the Nigerian stock exchange (month-end values)

Month	*2004 ₦'tn*	*2005 ₦'tn*	*2006 ₦'tn*	*2007 ₦'tn*	*2008 ₦'tn*
January	1.635	1.909	2.572	4.976	10.680
February	1.927	1.883	2.575	5.510	12.503
March	1.635	1.655	2.572	6.150	12.126
April	1.833	1.690	2.612	6.746	11.491
May	1.977	1.780	2.804	7.383	11.614
June	1.065	1.870	2.857	7.818	10.920
July	1.919	1.951	2.963	8.263	10.641
August	1.866	2.077	2.889	7.820	9.744
September	1.687	2.363	3.829	8.021	9.837
October	1.823	2.579	4.085	8.047	7.969
November	1.926	2.453	3.938	8.991	7.306
December	1.925	2.524	4.227	10.180	6.957

All-share index of the Nigerian stock exchange (month-end values)

Month	*2004*	*2005*	*2006*	*2007*	*2008*
January	22,712	23,629	23,679	36,785	58,571
February	24,797	23,024	23,842	40,731	65,652
March	24,797	23,587	23,336	43,456	63,017
April	25,792	20,895	24,745	47,124	59,440
May	27,730	21,435	25,219	49,930	58,929
June	30,703	21,622	26,617	51,330	55,949
July	27,063	21,911	35,068	53,021	53,111
August	23,774	22,935	33,096	50,291	47,789
September	22,739	24,635	33,565	50,229	46,216
October	23,463	25,873	32,644	50,201	36,326
November	23,270	24,355	31,633	54,190	33,026
December	23,844	24,085	33,189	57,990	31,451

Applying the chi-square test at 5% level of significance and 4 df, the critical χ^2 was 9.48 while the calculated χ^2 was 57.83. Therefore, hypothesis one is supported. This reveals that consolidation of the Nigerian banking industry has increased public awareness of the Nigerian capital market among investing public.

At 5% level of significance and 4 df, the critical χ^2 was 9.48 while the calculated χ^2 was 19.71. Therefore, hypothesis 2 is supported. We can conclude that the trading activities have received a massive boost from the banking consolidation as more life was brought to the Nigerian Stock Exchange.

Appendix 2a: Test of Hypotheses I

H_1: Consolidation of Nigerian banking industry has improved capital market awareness among the investing public.

Criterion variable	*Degree of freedom (df)*	*Calculation (χ^2) Value*	*Critical (χ^2) Value*	*Decision*
Consolidation of banks has increased capital market awareness	4	57.83	9.48	Significant

Ñ < 0.05

Appendix 2b: Test of Hypotheses 2

H_2:Consolidation of the Banks has improved the stock trading activities in the Nigerian Capital market.

	Degree of freedom (df)	*Calculated χ^2*	*Critical χ^2*	*Decision*
Bank consolidation has improved the stock trading activities in the Nigerian capital market.	4	19.71	9.48	Significant

P< 0.05