KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

THE IMPACT OF MERGERS AND ACQUISITIONS IN THE BANKING INDUSTRY (A CASE STUDY OF FIDELITY BANK AND PROCREDIT SAVINGS AND LOANS)

BY

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A Thesis Submitted to the Department of Accounting and Finance, Kwame Nkrumah University of Science and Technology, College of Humanities and Social Sciences. In partial fulfilment of the requirement of the award of a degree of

MASTER OF BUSINESS ADMINISTRATION (FINANCE OPTION)

JANUARY, 2021

DECLARATION

I hereby declare that this submission is my own work and that to the best of my knowledge, it contains no material previously published or written by another person, nor material which to a substantial extent has been accepted for the award of any other degree or diploma at any institution including Kwame Nkrumah University of Science of Technology, except where due acknowledgement has been made in the thesis.

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DEDICATION

This work is dedicated to God Almighty for his guidance and protection throughout my life, and to my family and loved ones whose support and confidence in me have been a strong foundation for my growth and success, as well as a source of deep personal joy and fulfillment.

ACKNOWLEDGEMENT

I give God the ultimate recognition for the completion of my course of study, I would like to further acknowledge the considerable assistance of Professor Joseph Magnus Frimpong, my supervisor for his patience, kindness and counsel in completing this thesis.

I am also grateful to the financial controller and Finance officers at the finance department of Fidelity Bank Ghana Ltd for making time out of their busy schedules to give me the needed assistance

Notable mentions are extended to my lecturers, parents Mr and Mrs Odetsi, my Siblings especially Mrs Janet Odetsi Twum for her outstanding role in my schooling, family, friends and colleagues whose motivation and support aided in the completion of this undertaking.

ABSTRACT

Mergers and Acquisitions are considered as one of the routes by which companies expand their business and enter into new markets. Essentially these forms of expansion are external in nature in that they all have an element of foreign presence attached to them. These methods of expansion of business have the advantages of reducing risks as there is a new local knowledge or expertise which is added onto the company. There is potential for the acquired organisation to bring on board new knowledge and synergies to the total group which may be valuable in operating in the new market conditions. However, along with the advantages to the organisation there are also associated disadvantages which includes falling into debt due to the leveraged nature of the acquisition and higher risk of failure in the new consolidated firm. The problematic area in mergers and acquisitions has to do with the fact that most existing literature on the topic are relatively old therefore they used database that existed in the late 2000s. Most international companies focus on the worldwide effects of mergers and acquisition. The history of mergers and acquisition have revealed that almost two thirds of mergers and acquisitions taking place experience failure and feel disappointed based on their high expectations. In addition to the above background on Mergers and acquisitions, this study sought to bring to the fore, the effect of mergers and acquisitions on banks financial performance in the Ghanaian banking industry via a case study of Fidelity Bank Ghana Limited and Procredit Savings and Loans. The study identified the effects of mergers and acquisitions on the financial performance of Fidelity Bank Ghana Limited post-acquisition of Procredit Savings and Loans. Furthermore, it identified areas in which Fidelity Bank Ghana Limited underperformed and needed improvement. The study adopted the financial statements of Fidelity Bank Ghana in the collection of data for the study from which analysis were made. The study concluded with a finding that even though the acquisition of ProCredit brought about a downward trend in the performance of Fidelity Bank in two years after acquisition, it picked up again after the 3rd year. Conclusion and recommendations on how the positive effects of mergers and acquisitions on the financial performance of banks could be maximized

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CHAPTER ONE

1.1 Background of the Study

Banks play an important role in the socio economic development of the country, the central bank was mandated the responsibility of ensuring the stability of the financial system to enable worth creation, maintaining interest and base rates and financial stability.

Mergers and acquisitions are processes in which the owners of organization transfers partially or fully the operating and functional units of their organization to form new ones or are acquired by a different entity. Mergers and Acquisition in most cases are a form of investment as well as a process by which businesses are able to transform the financial performance of their companies. The desire for expansion and growth, coupled with the quest to become a market leader contributes to the need for most organization to combine with or acquire new companies.

The functions and responsibilities of the Central Bank as a Regulator are defined in Act 612 and Act 673 as follows:

1. To regulate, supervise and direct the banking system and credit system to ensure the smooth operation of a safe and sound banking system.
2. To appoint an officer designated as the head of Banking Supervision Department, who shall be appointed by the Board.
3. To consider and propose reforms of the laws relating to banking business

Consequently, the Central Bank exercises its mandate that:

- Depositors funds are safe

- The solvency, good quality assets, adequate liquidity and profitability of banks are maintained.
- Adherence to statutory and regulatory requirements is enforced
- Fair competition among banks
- The maintenance of an efficient payment system

Some banks and savings and Loans in Ghana faces challenges in raising the needed capital to meet the huge capital requirement of the banking industry because most of them do not have the needed support from external investors, this left them with the option of either finding a strategic investor or having to enter into merger and acquisition talks with stronger banks or banks that are equally facing similar challenges.

The Bank of Ghana has in the past years introduced many "reforms in the banking sector which have led to banks having to engage in mergers and acquisitions as an alternative of meeting these directives". One of the major reforms was the pegging of the minimum capital of banks at GH¢ 60 million in the year 2008. This was further increased after five years to GH¢ 120 million. This led to some universal banks exploring the option of mergers and acquisitions as an alternative to meeting this minimum capital directive. The Bank of Ghana cited the protection of depositors' funds as one of the reasons for carrying out this exercise. Banks which could not meet this minimum capital requirement were compelled to merge or get acquired by other banks. In this development, Fidelity bank successfully acquired 100% ownership of ProCredit Savings and Loans Company Limited in October 2014. The rationale behind the acquisition was to leverage the distribution network of ProCredit Ghana, and to enable Fidelity Bank enhance its SME offering by acquiring the strong SME platform, processes and credit methodology ProCredit was noted for.

1.2 Problem Statement

Even though mergers and acquisitions has become a new form of investment which has proven to be cost efficient, enhancing performance, strengthens business network and increases the market power of the company, the inability to get a standardized format to access the right price to transact the deal has become challenging, chances are that there would be overpricing or underpricing which will result in long term financial challenge for the new firm. These disadvantages associated with mergers and acquisition were further analysed by Scherer (1988) who also showed that most of the firms did not show enough improvement in long term profitability after their mergers and acquisitions in addition to the profitability of the combined firm decreasing significantly following the takeover. As a result of the above stated disadvantages associated with mergers and acquisition coupled with some positives referred to by Ikeda and Do (1983); when they concluded in their research after testing criteria such as efficiency, profitability, growth, research and development discovered that the financial performance in relation to profitability was higher during the post-merger period for the merged firm. The improvement in performance was attributed to increase in their asset productivity. The different views on the impact of mergers and acquisition on the performance of the banking industry have led to the conduct of a research to confirm the impact of mergers and acquisitions on the financial performance of banks a case study of Fidelity Bank and Procredit Savings and Loans Company.

1.3 Objectives of the Study

The main objective of this research is to find out the financial outcome of merger and acquisition companies in Ghana.

1. To identify the reasons, procedure and processes leading to the acquisition of Procredit by Fidelity Bank
2. Evaluate and compare the pre- and post-merger financial performance of Fidelity Bank
3. Analyze the post-merger and acquisition challenges of Fidelity Bank and Procredit Savings and Loans

1.4 Research Questions

The study explores to answer the following questions:

i. What was the Financial Performance of Fidelity Bank Ghana Limited after acquiring International Commercial Bank?

ii. To what extent have mergers and acquisitions impacted on the Financial Performance of Banks in the Ghanaian Banking Industry?

1.5 Purpose of Study

The purpose of this topic is to bring to the better understanding if possible, to the existing theories on the impact of mergers and acquisition in of companies in Ghana. This project intends to focus not only on the differences of Mergers and Acquisitions but also on its relative importance on the financial performance of the new firm. Also, on the post-merger and acquisition implication on the new consolidated company.

1.6 Significance of Study

The researcher expects that the findings of this study would make important information available to shareholders in their decision making of merging or acquiring another.

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

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

1.7 Research Scope

The study's scope was narrowed to two banks that were involved in a merger and acquisition process in Ghana {that is, Fidelity Bank Ghana Limited) acquisition of Procredit Savings and Loans). There have been several mergers and acquisitions that have taken place in the Ghanaian banking industry in the last few years. Outstanding among them are the mergers and acquisitions between "Ecobank Ghana Limited and The Trust Bank", "Fidelity Bank and Procredit Savings and Loan", "Access Bank and Intercontinental Bank", "Merchant Bank and Universal Merchant Bank (Fortis)". And in recent times, the consolidation of seven local banks (UniBank, Sovereign Bank, Beige Bank, Heritage Bank, Premium Bank, Royal Bank, Construction Bank) to form the Consolidated Bank Ghana Limited.

Other recent mergers and acquisitions include that of First National Bank (FNB) and GHL Bank, OmniBank and BSIC Bank and First Atlantic Bank and Energy Commercial Bank. The criteria used in selecting the banks for this study were that these merged or acquired banks should have operated for at least four (4) years after their merger or acquisition process was completed". Hence, the selection of these two banks that met the criteria used in this study

1.8 Research Limitation

The researcher intended "to conduct this research over a much longer period such as ten (10) years before and ten (10) after acquisition, so as to ascertain the true impact of mergers and acquisitions in the Ghanaian banking industry". However, this has not been possible since most mergers and acquisitions in Ghana are quite recent as at the time of conducting this study, such that the availability of published financial statements would be a challenge; hence, the use of the three-year financial statements (pre- acquisition from 2012 to 2014 and post-acquisition from 2016 to 2018) of "Fidelity Bank Ghana Ltd". Information available on the financial statements Fidelity Bank Ghana Limited compelled the researcher to limit her assessment of their financial performance to that of financial ratios such as return on capital employed, return on asset, "capital adequacy ratio", and "non-performing loan ratio", among others. The findings and recommendations made in this study would help banks within the country trying to explore the option of mergers and acquisitions to make an informed decision, despite the study's limitation

1.9 Organisation of the Study

The research study is organized and presented in five chapters as follows;

Chapter one consists of the background of the study, statement of the problem, purpose of the study, objectives of the study, significance of the study, limitation and organization of the study.

Chapter two presents a review of the related literature of the study

Chapter three also deals with the background of the banks, the corporate vision, mission, objectives and values

Chapter four takes an in-depth look at methodology which encompasses the instruments of data that were used, the analysis and presentation of data collected and discussions of findings.

Chapter five focuses on the summary of major findings, conclusions and recommendations of the study.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

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

2.1 Overview of Concepts

2.1.2 Definition of Merger and Acquisitions

Undoubtedly, Mergers and Acquisitions is an agreement mechanism requiring the consolidation into a different one between two or more established entities. Although the two words are used interchangeably, they have significant distinctions.

Mergers, on the other side, are when one corporation takes control and retains control of another business as two different companies pool resources and establish a single combined entity.

According to Sudarsanam (1995), the merger entails the "combination of two business entities to form a third entity to become joint owners of the new company with the owners of these companies." On the other side, DePamphilis (2011) defined mergers as the legal non-existence of one entity after the fusion of two or more entities. Mergers and acquisitions were identified by Anthony (2008) as a merger of two or more companies into one big company. Umar (2009), for his part, alluded to the merger as a deal between two entities in which securities are traded but with just one entity remaining.

DePamphilis (2008) described acquisition as the acquisition of the acquiring firm's controlling interest in the target firm. This, he said, "may involve the purchase of the assets of the target firm." Anthony (2008) further described acquisition as the purchasing by an acquiring entity of a target company. This can be by an aggressive or cooperative takeover.

2.1.3 Reasons for Mergers and Acquisitions

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

- Speculative
- Financial Necessity
- Political
- Management Failure

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

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

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

According to Roberts et al. (2011), management deficiencies can include mergers and acquisitions. In this, shareholders can penalize management by intervening in a merger or takeover in an effort to accomplish this aim in an attempt to reform the management team for not fulfilling their standards.

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

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

i. Cost Savings

ii. Revenue Enhancement

iii. Risk reduction

iv. New developments which impose high fixed costs

v. The advent of deregulation

vi. Globalization

vii. Financial stability

viii. Shareholders' pressure on management to improve profit margins and returns on investment

2.1.4 Types of Mergers and Acquisitions

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

• Vertical Integration

• Horizontal Integration

• Conglomeration

Moskovicz A (2018)

Roberts et al. (2010) identified vertical integration as a method of merger and acquisition where, in an effort to minimize manufacturing costs, the acquiring business either merges or acquires a strategic company within its supply chain. This method of merger and acquisition will be inside the supply chain of the purchasing company in the context of backward or forward incorporation.

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

DePamphilis (2011) described conglomeration as mergers and acquisitions in unrelated sectors that take place among unrelated companies. This suggests that the purchased goal business works in a market entirely separate from the acquisition company.

2.1.5 Processes involved in Mergers and Acquisition

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

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

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

Organizing for Acquisitions is the second step of the merger and acquisition procedure, as stated by Sudarsanam (2003). This entails the sector scanning for new focus companies. This may be achieved by accessing the strengths and vulnerabilities of these prospective target businesses and accessing whether such a merger or takeover would favor the purchasing company.

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

• Determine the value of the target firm

• Choose advisors to assist with the structuring and negotiations of the deal

• Gather intelligence about the target firm and analyze your findings

• Conduct Due diligence

• Negotiate for the position of senior management for both firms within the context of a post-merger deal

• Develop an appropriate bid and defense strategy within the regulatory regime

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

Sudarsanam (2003) referred to "Post-Acquisition Audit and Organizational Learning as the final stage in the merger and acquisition process." The primary objective of this stage is the auditing of the accounts of the combined or acquired entity in order to assess the merged or acquired organization's true financial status. It also includes educating the newly combined company's personnel to ensure that a clearer knowledge of how to operate the newly merged technologies is possible.

2.2 Theoretical Literature

2.2.1 Theories on Mergers and Acquisitions

There exist a number of theories explaining the rational and effects of mergers and acquisitions. Some of these theories include:

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

2.2.2 Bank Concentration Theory

The works of Boyd and Runkle (1993) and Demirguc-Kunt and Levine are credited with the Bank Focus principle (2000). This hypothesis also split bank concentration into the theories of Pro-Concentration and De-concentration.

Economies of size seem "to be the main driver of bank mergers and acquisitions," according to the Pro-Concentration hypothesis. According to them, bank concentration increases bank efficiency and profitability and decreases the fragility of the bank. Concentrating banks into a few major banks allows it far simpler for the regulator to track their operations. As claimed by Beck, Demirguc-Kunt and Levine, this contributes to successful corporate management and less pronounced chance of contagion (2003).

Proponents of this argument also claim that "the financial crisis is most likely to occur in a less concentrated banking industry than in a concentrated banking industry with few large banks."

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

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

Boyd and Runkle (1993) have claimed that "when banks are highly concentrated in the banking sector of any economy, it leads to bank fragility." According to them, this is attributed to the reality that, when policymakers suspect their collapse, these few big banks appear to attract subsidies that may contribute to serious macroeconomic repercussions. According to advocates of the theory of de-concentration, this subsidy contributes to a rise in the risk-taking practices of these major banks, thus raising the fragility of the banking system. In short, the advocates of the principle of De-concentration claim that having few major banks in every economy's banking sector is not the safest. That these major banks are deemed "too big to fail" transforms into "too big to discipline." They often appear to raise the fragility of the banking sector because of their expanded risk-taking practices as a consequence of the receiving of subsidies; and the point that certain major banks tend to make credit facilities inaccessible to small and medium-sized businesses, thus reducing the availability of credit within the economy, contributing to a decline in society's socio-economic well-being.

2.2.3 Eat - or - be- Eaten Theory

"Gorton, Kahl and Rosen (2005) proposed the Eat or Be Eaten theory." This hypothesis was intended to understand the cycles of mergers witnessed between the 1960s and the 1990s in the United States of America. It is an ideology focused on the beliefs of both neoclassical and behavioral philosophies.

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

• Managers will only allow a merger or an acquisition to occur if they want their firms to remain independent instead of been merged or acquired.

• In order for managers to significantly reduce their chances of being acquired, they will rather prefer acquiring another firm so as to eliminate the threat of acquisition outright.

• If a firm is large enough, it is capable of repelling threats of acquisition due to its sheer size rather than firms of smaller size. This is because larger firm acquisition is more difficult to fiancé than smaller ones.

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

This hypothesis further points out that "in the event that managers want to protect their interest at the expense of the shareholder, even if they expect the synergy to produce a negative effect, they end up making inefficient merger and acquisition decisions." In brief, the "Eat or Be Eaten" hypothesis is focused on the premise that mergers and acquisitions take place for the main intention of a business avoiding takeover at the detriment of shareholders by another company or management trying to maintain their self-interest.

2.2.4 Agency Theory

A typical agency problem exists where there is a conflict of interest between an agent (Management) and a principal (Shareholders) which occurs when the agent acts solely in his/her own interests. By this, mergers and acquisitions decisions can be made by managers due to the personal benefit they will derive from such an activity rather than the increase in the values of shareholder’s wealth even if these acts will not benefit shareholders.

In an effort to examine risk exchange as well as missing knowledge, Spence and Zeckhauser (1971), Rose (1973) and Arrow (1971) originated the agency hypothesis according to' Moe (1984).' Jensen and Meckling (1976) also expanded the research work undertaken by these individuals that had to do with contract problems, land rights, as well as shirking and control of team development.

Research by Thomsen (2008) believes that when it comes to the organization principle, both the founders of the corporation and the administrators of the enterprise are entirely reasonable. Conflicts of interest between the principal and the intermediary are claimed to occur. But rather than an irrational judgment, the disagreement between these two parties is claimed to be an opportunistic behavioral presumption.

2.2.5 Valuation Theory

"This theory is that mergers or acquisitions take place only when the acquiring company has information that allows the company to derive a benefit form that combines its assets with the target company." This type of acquisition will also occur where the purchasing corporation estimates that the equity price has undervalued the target company. But this statement is questioned as inconsistent with the principle of the competitive economy. This is because any public knowledge regarding a single business must be factored into the stock price according to the effective market principle.

2.2.6 Hubris Theory

To clarify the reasoning behind mergers and acquisitions, this hypothesis incorporates a psychological method. It assumes that the purchasing company's management appear to overestimate their potential to transform around the target firms' fortunes. Thus, because of their over-optimism, administrators of the purchasing organizations appear to make incorrect choices that are frequently overpriced, as Trautwein points out (1990).

The overconfidence of managers of the purchasing business also contributes to the overbid of the target company, according to Hayward and Hambrick (1997), Malmendier and Tate (2008) and Dong (2006); leading the winning bidder to have a bidding condition often referred to as the curse of the winner. The curse of this champion also contributes to disappointment when the purchasing corporation discovers later that they have overpaid for the target company.

This hypothesis also suggests that "during the announcement of a possible merger or acquisition of the target company, bid-acquiring company shareholders tend to incur initial losses from the share price of the stock of the target company, which tends to be a gain for the target company's shareholders."

According to Machiraju (2010), "the moment an acquiring company makes its intention clear to a target company for a possible merger or acquisition, the target company's share price tends to increase because of their shareholders' willingness to release their shares at a high premium proposed by the acquiring company to the acquiring company." This ends up "increasing the risk after merger or acquisition of failure."

2.3 Empirical Literature

Researchers have conducted certain longitudinal studies to evaluate "the effect of mergers and acquisitions on the financial performance of businesses." Different assumptions were made as to the real effect of corporations' mergers and acquisitions owing to the fact that these analyses were carried out on the basis of different regional areas and sectors. Below, some of these observations have been discussed:

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

Amegah (2012) published a report on the effects of mergers and acquisitions on the financial results of the purchasing company within the Ghanaian economy. His study focused on' Vodafone's takeover of Ghana Telecom.' Conclusions taken from this report found that "profitability, operating expenditure and financial leverage have decreased." In the other side, liquidity has been on the increase.

As a result, post-acquisition output increased in some areas and post-acquisition performance declined in other areas.

Whereas, Kumar and Bansal (2008) conducted a report on "the impact of merger and acquisition on corporate execution in India" by using monetary details, tables and distinctive proportions in carrying out their investigation into the relationship between merger and acquisition and financial output of companies; concluded that there was a certain amount of adva in most cases; Some of the gains they have highlighted are sales increases and better cost efficiency, contributing to a decrease in operational costs.

Kemal (2011) pointed out that before the merger, Royal Bank of Scotland (RBSfinancial)'s results in Pakistan had demonstrated adequate performance in terms of profitability, liquidity, assets utilization, debt, and cash flows.

Seidu (2008) noticed that during the three-year post-merger era, "the only benefit accrued from the merger was an improvement in the company's earnings per share and profit." His research was on "the impact on Guinness Ghana Breweries Limited's corporate financial performance of mergers and acquisitions."

The statement that "it is more financially efficient compared to the pre-merger and pre-acquisition periods of Okpanachi (2011) during the post-merger and post-acquisition periods was based on a comparative analysis of the impact of mergers and acquisitions on the financial efficiency of banks in Nigeria, while using the t-statistic and the Sociological Statistical Package"

CHAPTER THREE

METHODOLOGY

3.0 Introduction

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

3.1 Bank Profile

According to the Bank of Ghana website, on 1st October 2014 Fidelity Bank acquired from ProCredit Holding Germany (PCH) and the DOEN Foundation of the Netherlands, 100% of the voting shares of ProCredit Savings and Loans Company Limited ("ProCredit Ghana"), a non-bank financial institution that provided savings and lending services to its clients making it the first local bank to acquire a foreign subsidiary. The objective of the acquisition was to enable ProCredit transfer its strong SME processes and qualified staff to Fidelity Bank to enhance the Bank's services to Ghanaian businesses

3.1.1 Fidelity Bank

Fidelity Bank was issued with its universal banking license on June 28th 2006, making Fidelity Bank Ghana Limited, the 22nd bank to be licensed by the Bank of Ghana under the new Banking Act, 2004 (Act 673). The Bank is owned by Ghanaian individuals, other institutional investors and its senior executives. The Bank was formerly Fidelity Discount House, the leading discount house in Ghana. After operating profitably for 8 years, the business environment in the country attracted investors to the idea of establishing a bank. The acquisition consolidates the Bank's position as the 6th largest in terms of deposit. It also makes Fidelity Bank the 3rd largest bank in terms of branch network with 80 branches, 300 agencies and over 100 ATM's

3.1.2 Procredit Savings and Loans

Procredit is part of the Procredit international group of banks and financial institution, comprising 22 financial institution operating in transition economies. ProCredit Savings and Loans Company Limited started operation on the 2nd of July, 2002 after it obtained a non-bank financial institution license with registration number 97,519. under the name Sikaman savings and loans company.

In the 8 years of operation in Ghana, ProCredit SLC has and continues to offer excellent customer service and a wide range of banking products. In terms of credit operations, they focus on lending to very small, small and medium-sized enterprises. During the years leading to the acquisition of ProCredit, the then managing director Mrs Sarah Tsien Zetterli called on the Bank of Ghana and its regulators to tighten the entry requirements of microfinance instituitions to avoid the proliferation of the industry.

3.2 Research Approach/Design

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

3.3 Population

There has been several mergers and acquisitions of banks that have taken place in the Ghanaian banking industry over the years, to meet Bank of Ghana's requirements to recapitalize to the tune of GHS 60 million by the end of 2012. Notable among the mergers and acquisitions include Fidelity Bank and Pro Credit Savings and Loans, "Ecobank Ghana Limited and The Trust Bank", "Merchant Bank and Universal Merchant Bank (Fortis)", "Access Bank and Intercontinental Bank", the consolidation of seven local banks (UniBank, Sovereign Bank, Beige Bank, Heritage Bank, Premium Bank, Royal Bank, Construction Bank) to form the Consolidated Bank Ghana Limited, First National Bank (FNB) and GHL Bank, "Omni Bank and BSIC Bank, First Atlantic Bank and Energy Commercial Bank" and "First Bank of Nigeria and International Commercial Bank".

3.4 Sample Size

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

3.5 Sampling Technique

The sampling technique engaged in the selection of the sample was a purposive sampling method. This was because the researcher wanted to find out how the financial performance of a local bank within the Ghanaian banking industry after the acquisition of a foreign savings and loans in the country.

3.6 Justification for Sample

This sample was chosen on the basis of their operating countries previous to the merger. This was to give the thesis a distinct result from other experiments where there was a different banking history with all the combined firms. Until converting to a local Ghanaian bank, Fidelity Bank worked as a discount house operating profitable in Ghana, while ProCredit Savings and Loans Ghana, is a foreign subsidiary of ProCredit Holding Germany (PCH)

3.7 Data Source

The financial statements of "Fidelity Bank was used in gathering the relevant data needed for the study". The financial statements covered the periods 2012 to 2018 for Fidelity Bank Ghana Limited

3.8 Data Type

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

3.9 Data Analysis

The analysis of the data gathered from the financial statements of "Fidelity Bank, was done with the use of financial ratios and graphs. The analysis of the financial statements using the financial ratios covered a six (6) year period. These were three (3) years before and three (3) years after merger; with the merger year exclusive. "The study adopted six (6) types of financial ratios in order to accurately analyze the trend in the financial performance of our sampled bank before and after acquisition". The financial ratios used are as follows:

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

3.9.1 Profitability Ratios

"Profitability Ratios are financial ratios that are used by financial analysts to measure the ability of a firm to generate profit in relation to their revenues, assets, operating costs and shareholders' equity during a given period". The ratios used for the measure of the bank's profitability include

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

- Net Profit Margin

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

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

- Return on Capital Employed (ROCE)

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

- ROCE = $Earnings\ Before\ Interest\ and\ Tax\ (EBIT)/Capital\ Employe$

Return on Assets (ROA) "Return on Assets measures the proportion of the firm's profitability that was generated from its assets over a given period".

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

3.9.2 Expense Ratio

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

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

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

3.9.3 Liquidity Ratios

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

i. Loan to Deposit Ratio

ii. Capital Adequacy Ratio (CAR)

iii. Non-Performing Loan Ratio

- Loan to Deposit Ratio

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

Loan to Deposit Ratio = $Total\ Loans/Total\ Deposit$

- Capital Adequacy Ratio (CAR)

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

CAR = $(Tier\ 1\ Capital + Tier\ 2\ Capital)/Risk\ Weighted\ Asset$

- Non-Performing Loan Ratio

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

3.9.4 Investment Ratio

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

- Earnings per Share (EPS)

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

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

3.9.5 Solvency Ratios (Leverage Ratios)

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

i. Interest Coverage Ratio (ICR)

ii. Debt Ratio

- Interest Coverage Ratio (ICR)

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

ICR = $Earnings\ Before\ Interst\ and\ Taxes\ (EBIT)/Interest\ Expense$

- Debt Ratio

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

Debt Ratio = $Total\ Debt/Total\ Assets$

3.9.6 Growth Ratios

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

i. Operating Income Growth

ii. Total Asset Growth

iii. Deposit Growth

iv. Growth in Shareholders' Funds

- Operating Income Growth (OIG)

Operating Income Growth Ratio measures how a bank's income grew over a given period. OIG = $(Current\ Year\ Income - Previous\ Year\ Income) / Previous\ Year\ Income$

- Total Assets Growth (TAG)

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

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

- Deposit Growth

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

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

- Growth in Shareholder's Fund (GSF)

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

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

CHAPTER FOUR

DISCUSSION OF RESULTS

4.0 Introduction

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

4.2 Financial Performance of the Bank before and After Acquisition

The annual financial reports of Fidelity Bank Limited were used in the analysis of the bank's Pre-Acquisition and Post- Acquisition Performance. This was made up of financial statement for the period 2012 to 2014 (which represents a three-year financial statement before acquisition) and financial statement for the period 2016 to 2018 (which represents a three-year financial statement after acquisition). Data from the financial statement for the period 2015 represents the year of acquisition and integration of the banks operations. The comparison of the Pre-Acquisition and Post- Acquisition Performance of the bank is to determine whether or not there has been growth or a decline in the financial performance of the bank after acquisition.

Table 4.1: Selected ratios calculated based on the financial statement of Fidelity Bank (2012 to 2014) and (2016 to 2018) for each of the periods before and after acquisition.

Table 4.1 Ratios extract from Income Statement and Balance Sheet from 2012 - 2018

	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Ratios	%	%	%	%	%	%	%
Net Profit Margin	20.02	22.45	25.12	26.77	3.19	17.29	23.71
Return on Capital Employed	44.10	75.33	42.53	77.81	7.02	51.18	91.53
Expense to Income Ratio	58.17	55.89	53.78	51.19	56.73	58.56	44.36
Loan to Deposit Ratio	4.11	6.09	17.49	11.36	11.19	17.79	17.18
Return on Asset	2.75	3.70	3.72	5.00	0.45	2.52	3.45
Interest Income to Capital Employed	2.10	3.05	4.24	7.40	2.35	2.45	2.98
Interest Coverage Ratio	39.00	46.03	67.63	83.84	7.00	56.15	83.92
Non Performing Loans Ratio	3.80	4.86	2.46	4.19	9.12	16.28	12.16
Debt Ratio	90.95	90.89	87.26	87.75	88.18	90.07	90.14
Asset Growth	29.43	26.75	78.75	36.21	1.45	28.86	30.45
Income Growth	275.30	59.98	48.79	112.35	-78.18	191.51	50.70
Deposit Growth	22.62	23.33	31.07	68.96	3.25	23.95	3.53
Growth in Shareholders Fund	117.05	27.68	149.88	30.95	-2.10	8.28	29.46
Earnings Per Share	1.69	2.48	3.51	5.85	3.58	0.58	6.48

Source: Researcher's Calculations, 2020

Table 4.2: Averages of selected ratios calculated based on the financial statement of Fidelity Bank Ghana Limited (2012 to 2014) and (2016 to 2018) for each of the periods before and after acquisition:

Table 4.2 Averages of Ratios extract from Income Statement and Balance Sheet from 2012 – 2018

Ratios	Pre - Acquisition	Post-Acquisition	Difference in Mean
	%	%	%
Net Profit Margin	22.53	14.73	(7.80)
Return on Capital Employed	53.99	49.91	(4.08)
Expense to Income Ratio	55.94	53.22	(2.73)
Loan to Deposit Ratio	9.23	15.39	6.16
Return on Asset	3.39	2.14	(1.25)
Interest Income to Capital Employed	3.13	2.60	(0.53)
Interest Coverage Ratio	50.89	49.02	(1.86)
Non Performing Loans Ratio	3.71	12.52	8.81
Debt Ratio	89.70	89.46	(0.24)
Asset Growth	44.98	20.26	(24.72)
Income Growth	128.02	54.68	(73.35)
Deposit Growth	25.67	10.25	(15.43)
Growth in Shareholders Fund	98.21	11.88	(86.33)
Earnings Per Share	2.56	3.55	0.99

Source: Researcher’s Calculations, 2020

4.3 Discussion of Results

4.3.1 Profitability Ratio

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

• Net Profit margin

• Return on Capital Employed

• Return on Asset

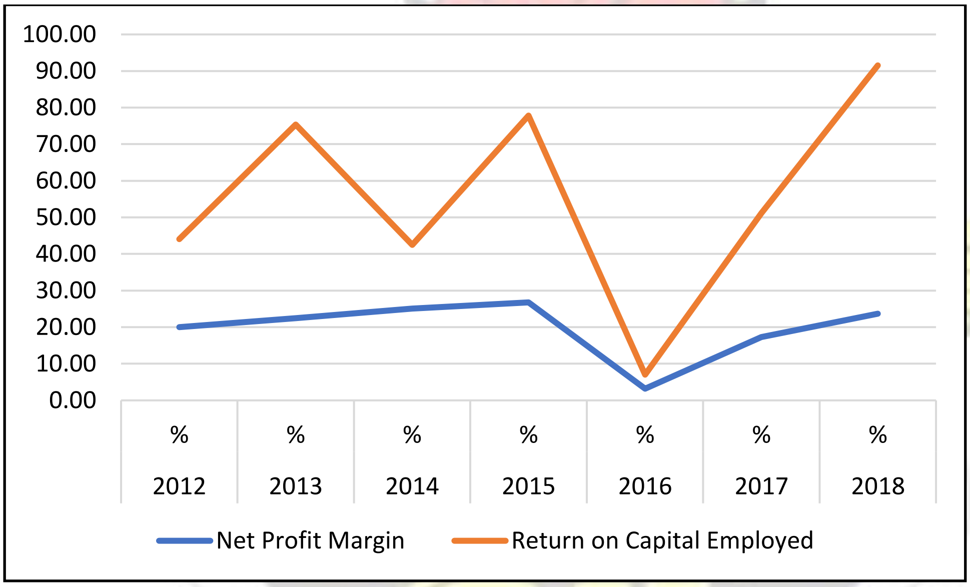

Figure 4.1: Net Profit Margin and Return on Capital Employed.

Based on Figure 4.1 above, it can be observed that between the year 2012 and 2014 (representing the pre-acquisition period), Net Profit Margin increased significantly from 20.02 in 2012 to 25.12 in 2014. After which, it remained slightly stable in 2015 recording a Net Profit Margin of 26.77; before falling sharply in 2016 to record a 3.19 Net Profit Margin.

The years 2016 to 2018 (representing the post-acquisition period), saw a significant increase in Net Profit Margin from **3.19 in 2016 through to 23.71 in 2018** indicating a sharp increase after the acquisition and merger of the two companies.

Return on Capital Employed on the hand, witnessed a significant increase from 44.10 in 2012 to 75.33 in 2013, declining in 2014 After which, it remained slightly stable in 2015 recording a Return on Capital Employed of 77.81

The years 2014 to 2018 (representing the post-acquisition period), saw a sharp decline in the year 2016 and a significant rise in the following year 2018 representing a Return on Capital Employed of 51.18 and 91.53 respectively.

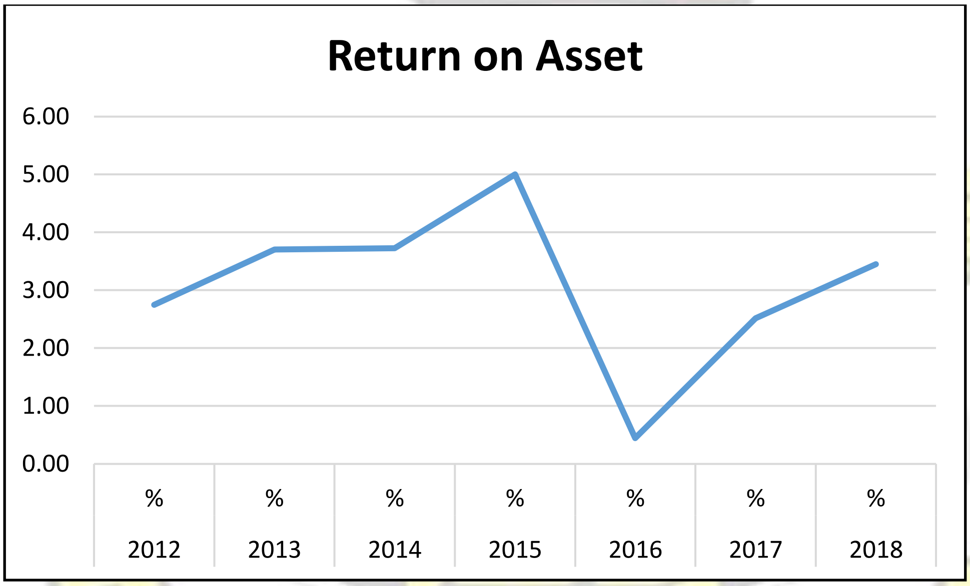

Figure 4.2: Return on Asset.

Based on Figure 4.2 above, it can be observed that between the year 2012 and 2014 (representing the pre-acquisition period), Return on Asset increased from 2.75 in 2012 to 3.70 in 2013. After which, it recorded a stable maintenance in 2014 recording a Return on asset of 3.72; before rising in 2015 to record a 5.0 Return on Asset.

The years 2016 to 2018 (representing the post-acquisition period), saw a decline in Return on Asset after acquisition to **0.45 in 2016** and an increase in Return on Asset in the following years 2017 and 2018 representing a Return on Asset of 2.52 and 3.45 respectively.

Based on table 4.3 above, it can be observed that for each of the profitability ratios the post-acquisition period shows a decline in the performance of the bank relative to the preacquisition period. It can be observed that the bank recorded a pre-acquisition Net Profit Margin of 22.53 as compared to the post-acquisition Net Profit Margin of 14.73. Return on Capital Employed on the hand, witnessed a pre-acquisition Return on Capital Employed of 53.99 relative to the post acquisition Return on Capital Employed of 49.91; whereas, Return on Asset showed a preacquisition Return on Asset of 3.39 relative to the post-acquisition Return on Asset of 2.14.

4.3.2 Expense Ratio

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

Based on Table 4.1 above, it can be observed that between the year 2012 and 2014 (representing the pre-acquisition period), Expense to Income Ratio remained slightly stable from 58.17 in 2012 to 55.89 in 2013. After which, it slightly decreased in 2014 recording an Expense to Income Ratio of 53.78

The years 2016 to 2018 (representing the post-acquisition period), saw a slight increase in Expense to Income Ratio from 56.73 in 2016 to 58.56 in 2017 as well as a sharp fall in the following year 2018 representing an Expense to Income Ratio of 44.36

Based on Table 4.2 above, it can be observed that for the Expense ratio, the post-acquisition period shows an improvement in the performance of the bank relative to the pre-acquisition period. It can be observed that the bank recorded a pre-acquisition Expense to Income Ratio of 55.94 relative to the post-acquisition Expense to Income Ratio of 53.22.

4.3.3 Liquidity Ratio

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

- Loan to Deposit Ratio
- Non-Performing Loan Ratio

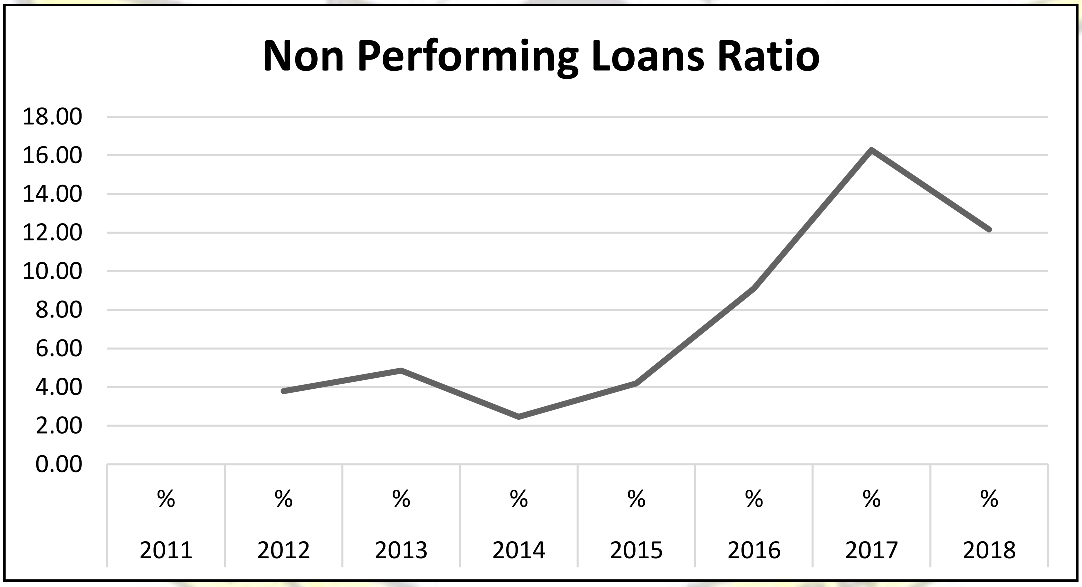

Figure 4.3: Non-Performing Loans.

It can be observed that Non-Performing Loan Ratio witnessed a slight increase from 3.8 in 2012 to 4.86 in 2013. After which, it fell significantly in 2014 recording a Non-Performing Loan Ratio of 2.46.

The years 2014 to 2017 (representing the post-acquisition period), saw a significant increase in Non-Performing Loan Ratio from 9.12 in 2016 to 16.28 in 2017 and a slight decrease in the following year 2018 representing a Non-Performing Loan Ratio of 12.16

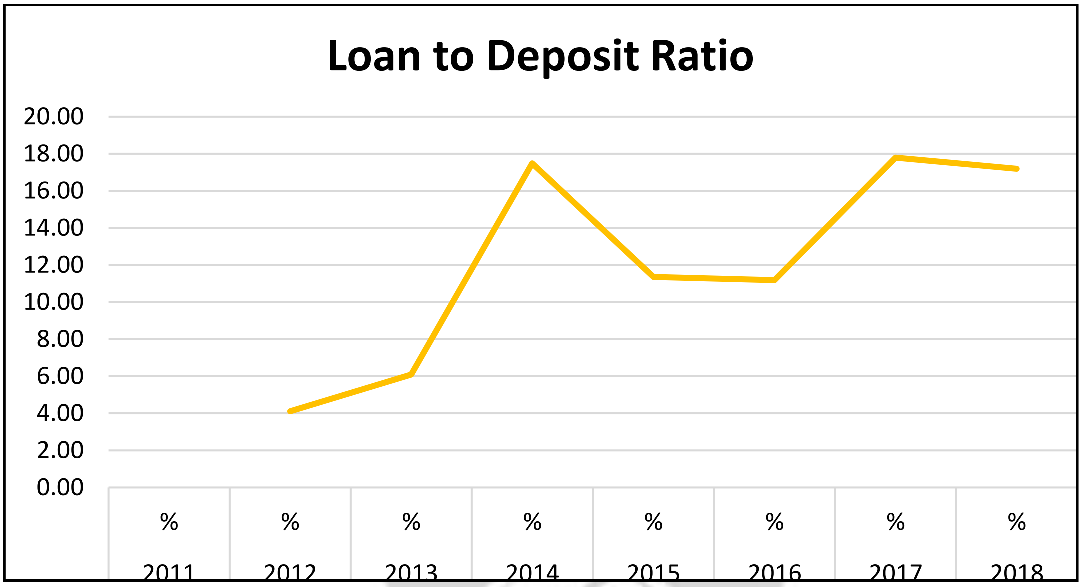

Figure 4.4: Loan to Deposit Ratio.

Based on Figure 4.4 above, it can be observed that between the year 2012 and 2014 (representing the pre-acquisition period), Loan to Deposit Ratio rose marginally from 4.11 in 2012 to 6.09 in 2013. After which, it significantly increased in 2014 recording a Loan to Deposit Ratio of 17.49;

The years 2016 to 2018 (representing the post-acquisition period), saw a significant increase in Loan to Deposit Ratio from 11.19 in 2016 to 17.79 in 2017 as well as a further stable decrease in the year 2018 representing a Loan to Deposit Ratio of 17.18

Based on table 4.2 above, it can be observed that for each of the liquidity ratios, the post-acquisition period varies to the performance of the bank relative to the preacquisition period. Non-Performing Loan Ratio, witnessed a pre-acquisition Non-

Performing Loan Ratio of 3.71 relative to an increase in the post-acquisition Non-Performing Loan Ratio of 13.89.

It can be observed that the bank recorded a pre-acquisition Loan to Deposit Ratio of 9.23 relative to the post-acquisition Loan to Deposit Ratio of 15.39

4.3.4 Investment Ratio

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

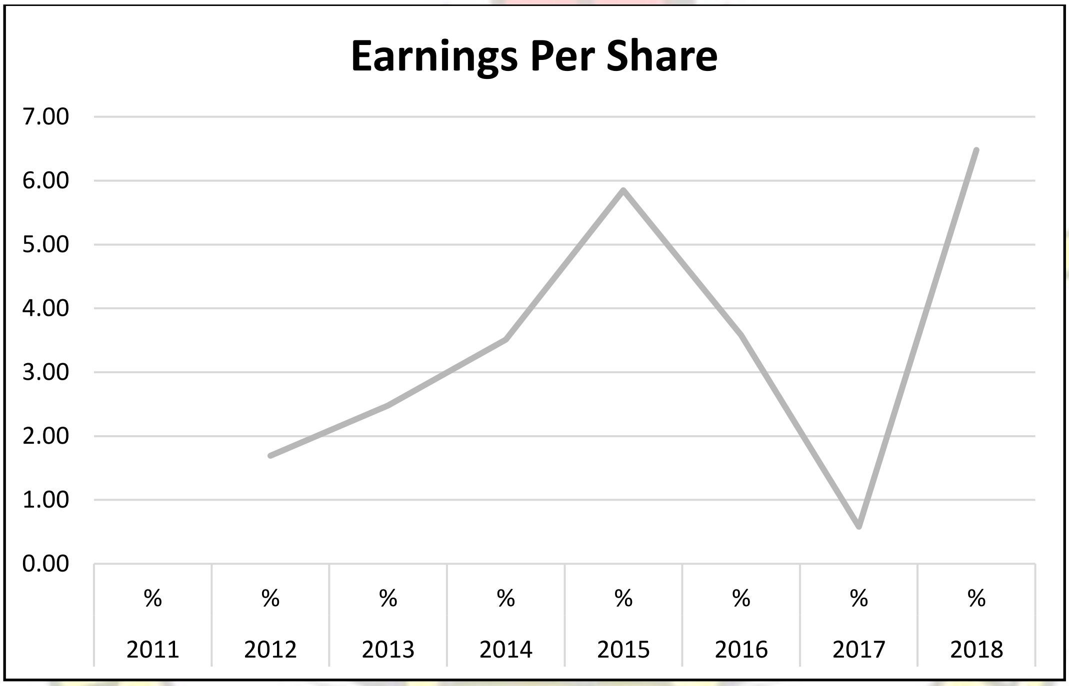

Figure 4.5: Earnings per Share.

Based on Figure 4.5 above, it can be observed that between the year 2012 and 2014 (representing the pre-acquisition period), Earnings per Share increased slightly from 1.69 in 2012 to 2.48 in 2013. After which, it further increased in 2014 recording an Earnings per Share of 3.51.

The years 2016 to 2018 (representing the post-acquisition period), saw a significant decrease in Earnings per Share from 3.58 in 2016 to 0.58 in 2017 as well and a significant rise in the following year 2018 representing an Earnings per Share of 6.48

Based on Table 4.2 above, it can be observed that for the Investment ratio, the post-acquisition period shows an improvement in the performance of the bank relative to the pre-acquisition period. It can further be observed that the bank had pre-acquisition Earnings per Share of 2.56 relative to the post-acquisition Earnings per Share of 3.55.

4.3.5 Solvency Ratio

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

- Interest Coverage Ratio (ICR)
- Debt Ratio

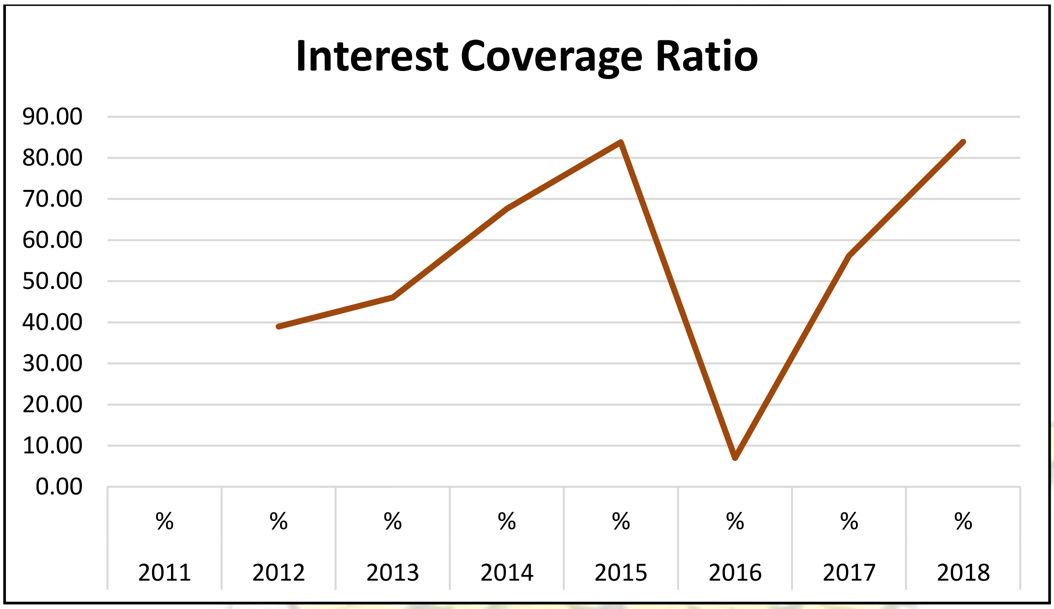

Figure 4.6: Interest Coverage Ratio.

Based on Figure 4.6 above, it can be observed that between the year 2012 and 2014 (representing the pre-acquisition period), Interest Coverage Ratio increased significantly from 39 in 2012 to 46.03 in 2013. After which, it further increased in 2014 recording an Interest Coverage Ratio of 67.63;

The years 2016 to 2018 (representing the post-acquisition period), saw a significant increase in Interest Coverage Ratio from 7 after consolidation in 2016 to 56.15 in 2017 and a significant rise in the following year 2018 representing an Interest Coverage Ratio 83.92.

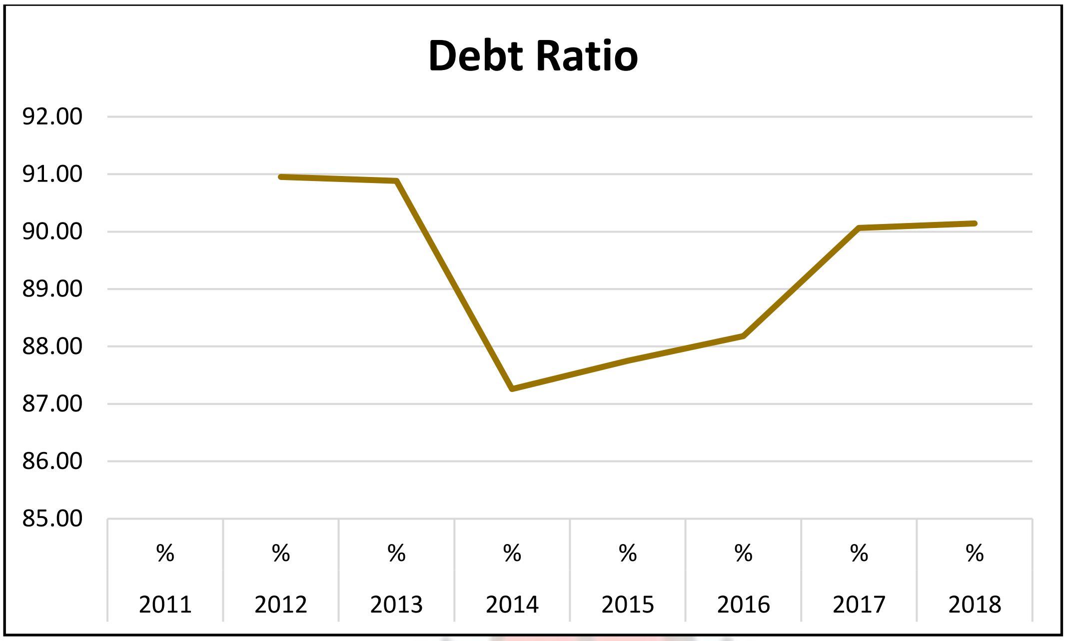

Figure 4.7: Debt Ratio.

Based on Figure 4.7 above, it can be observed that between the year 2012 and 2014 (representing the pre-acquisition period), Debt Ratio remained marginally stable from 90.95 in 2012 to 90.89 in 2013 before a slight fall in 2014 to record an 87.75 Debt Ratio.

The years 2016 to 2018 (representing the post-acquisition period), saw a slight increase in Debt Ratio from 88.18 in 2016 to 90.07 in 2017 and a slight stable movement in the following year 2018 representing a Debt Ratio of 90.14

Based on Table 4.2 above, it can be observed that for the Solvency ratio, the post-acquisition period shows a slight decrease in the performance of the bank relative to the pre-acquisition period. It can also be seen that the bank documented pre-acquisition Interest Coverage Ratio of 50.89 relative to the post-acquisition Interest Coverage Ratio of 49.02

Based on Table 4.2 above, it can be observed that for the Solvency ratio, the post-acquisition period shows a stable movement in the performance of the bank relative to the pre-acquisition period. One main observation that can be made is that the bank recorded pre-acquisition Debt Ratio of 89.7 relative to the post-acquisition Debt Ratio of 89.46.

4.3.6 Growth Ratio

The growth performance during the pre- and post-acquisition period was measured using the • Operating Income Growth

• Total Asset Growth

• Deposit Growth

• Growth in Shareholders' Funds

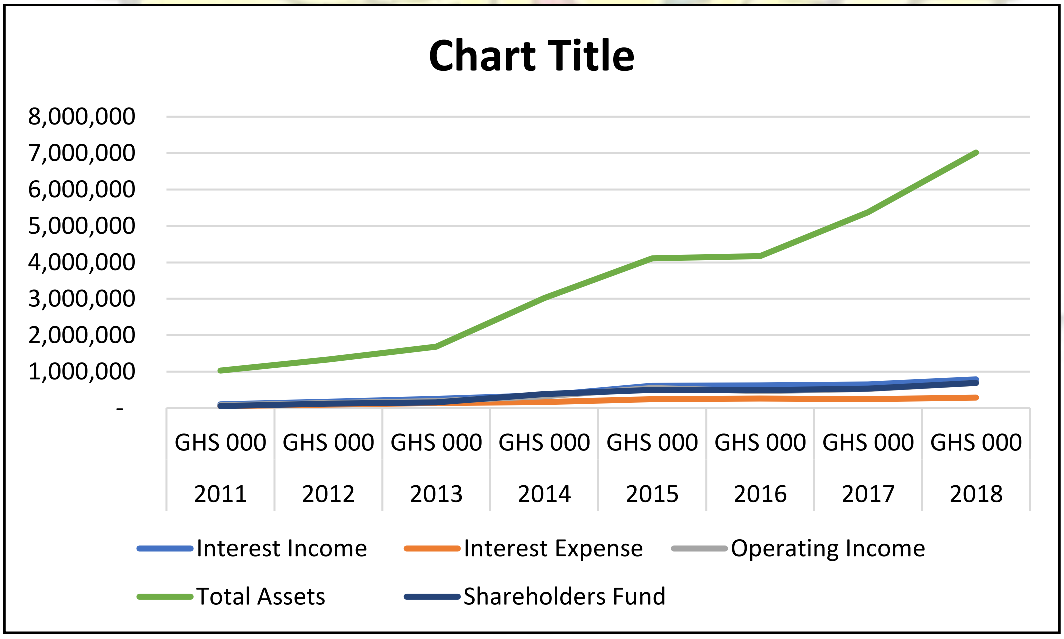

Figure 4.8: Operating Income Growth and Total Asset Growth.

Based on Figure 4.8 above, it can be observed that between the year 2012 and 2014 (representing the pre-acquisition period), Total Asset Growth decreased from 29.43 in 2012 to 26.75 in 2013, after which it increased significantly in 2014 to record an 78.75 Total Asset Growth.

The years 2016 to 2018 (representing the post-acquisition period), saw a significant increase in Total Asset Growth from 1.45 in 2016 to 28.86 in 2018 and a further increase in the following year 2018 representing a Total Asset Growth of 30.45

Operating Income Growth on the hand witnessed a significant decline from 275.30 in 2012 to 59.98 in 2013. After which, it fell in 2014 recording an Operating Income Growth of 48.79; The years 2016 to 2018 (representing the post-acquisition period), saw a significant increase in Operating Income Growth from -78.18 in 2016 to 191.51 in 2017 as well as a sharp decline in the year 2018 representing an Operating Income Growth of 50.70

Based on Figure 4.8 above, it can be observed that between the year 2012 and 2014 (representing the pre-acquisition period), Deposit Growth increased from 22.62 in 2012 to 23.33 in 2013. After which, it significantly increased in 2014 recording a Deposit Growth of 31.07.

The years 2016 to 2018 (representing the post-acquisition period), saw a significant increase in Deposit Growth from 3.25 in 2016 to 23.95 in 2017 and a significant fall in the following year 2018 representing a Deposit Growth of 3.53

Based on Figure 4.8 above, it can be observed that between the year 2012 and 2014 (representing the pre-acquisition period), Growth in Shareholder's Fund decreased significantly from 117.05 in 2012 (this massive growth was as a result of the injection of fresh capital) to 27.68 in 2013. After which, it rose significantly in 2014 to record a 149.88 Growth in Shareholder's Fund.

The years 2016 to 2018 (representing the post-acquisition period), saw a slight increase in Growth in Shareholder's Fund from -2.10 in 2016 to 8.28 in 2017 and a significant rise in the following year 2018 representing a Growth in Shareholder's Fund 29.46

Based on Table 4.2 above, it can be observed that for each of the Growth ratios, the preacquisition period shows an improvement in the performance of the bank relative to the post acquisition period. It can also be seen that the bank recorded a pre-acquisition Total Asset Growth of 44.98 relative to the post-acquisition Total Asset Growth of 20.26 Operating Income Growth on the hand, witnessed a pre-acquisition Operating Income Growth of 128.02 relative to the post-acquisition Operating Income Growth of 54.68. Furthermore, Deposit Growth showed a pre-acquisition Deposit Growth of 25.67 relative to the post-acquisition Deposit Growth of 10.25; whereas Growth in Shareholder's Fund revealed a pre-acquisition Growth in Shareholder's Fund of 98.21 relative to the post-acquisition Growth in Shareholder's Fund of 11.88.

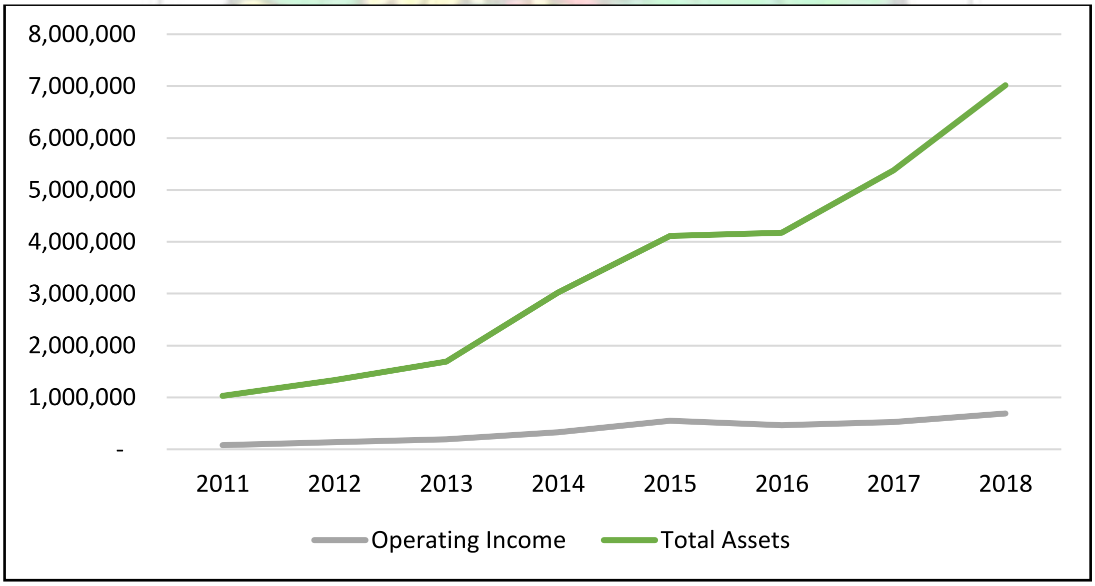

Figure 4.9: Operating Income and Total Asset

Based on Figure 4.9 above, it can be observed that between the year 2012 and 2014 (representing the pre-acquisition period), Operating Income increased from 138,245 in 2012 to 195,419 in 2013. After which, it increased significantly to 326,027 in 2014 Operating Income. The years 2016 to 2018 (representing the post-acquisition period), saw a significant increase in Operating Income from 461,208 in 2016 to 522,970 in 2017 as well as a further increase in the year 2018 representing an Operating Income of 690,446.

Total Asset on the hand witnessed an increase from 1,333,031 in 2012 to 1,689,670 in 2013. After which, it rose significantly in 2014 recording a Total Asset of 3,020,283; The years 2016 to 2018 (representing the postacquisition period), saw a significant increase in Total Asset from 4,173,602 in 2016 to 5,378,048 in 2017 as well as a sharp rise in the year 2018 representing a Total Asset of 7,015,823.

Lastly, Deposit revealed a significant increase from 1,099,437 in 2012 to 1,355,980 in 2013. After which, it rose in 2014 recording a Deposit of 1,777,313; The years 2016 to 2018 (representing the post-acquisition period), saw a significant increase in Deposit from 3,100,614 in 2016 to 3,843,312 in 2017 as well as a slight rise in the year 2018 and a significant increase in the following year 2018 representing a Deposit of 3,979,129

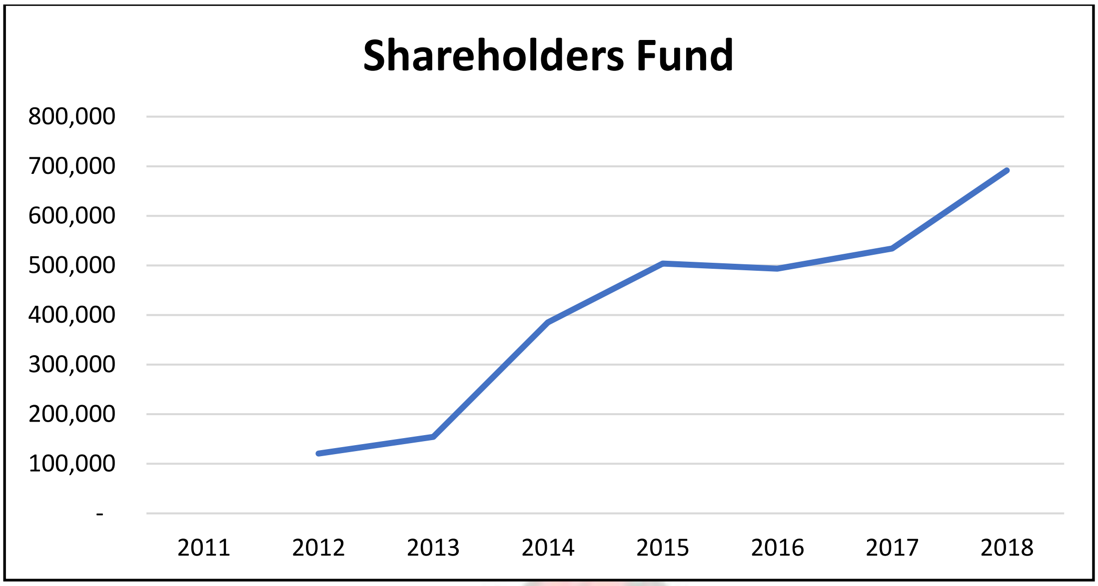

Figure 4.10: Shareholder's Fund.

Based on Figure 4.10 above, it can be observed that between the year 2012 and 2014 (representing the pre-acquisition period), Shareholder's Fund increased significantly from 120,612 in 2012 to 154,003 in 2013, before rising further in 2014 to record a 384,826 Shareholder's Fund.

The years 2016 to 2018 (representing the post-acquisition period), saw an increase in Shareholder's Fund from 493,347 in 2016 to 534,209 in 2017 and a significant rise in the following year 2018 representing a Shareholder's Fund of 691,605.

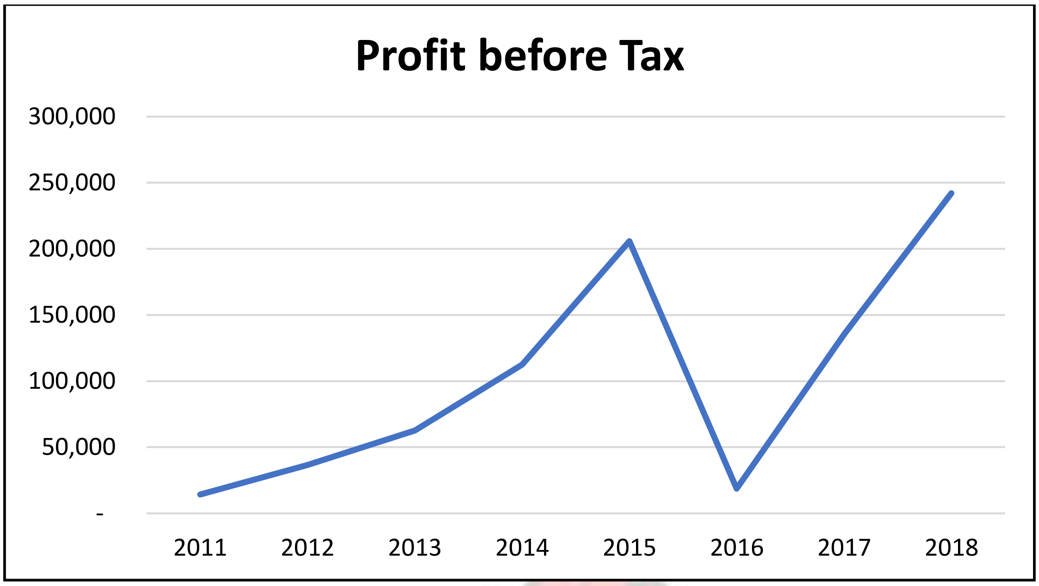

Figure 4.11: Profit before tax

Based on Figure 4.11 above, it can be observed that between the year 2012 and 2014 (representing the pre-acquisition period), Profit Before Tax increased significantly from 36,638 in 2012 to 62,579 in 2013. before increasing significantly in 2014 to record a 112,477 Profit Before Tax. The years 2016 to 2018 (representing the post-acquisition period), saw a significant increase in Profit Before Tax from 18,576 in 2016 to 135,359 in 2017 and a significant rise in the following year 2018 representing a Profit Before Tax of 242,090.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

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

5.1 Summary

The study was undertaken to access the effect of mergers and acquisitions on banks' financial performance in the Ghanaian banking industry via a case study of Fidelity Bank and Procredit Savings and Loans

Basically, the objectives of the study were to

- Evaluate the financial performance of Fidelity Bank after acquiring Procredit savings and Loans
- Examine the effect of Mergers and Acquisitions on Banks Financial Performance in the Ghanaian Banking Industry.

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

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

5.2 Conclusion

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

"For each of the profitability ratios, the average post-acquisition period showed a decline in the performance of the bank relative to the average pre-acquisition period. It was observed that the bank recorded an average pre-acquisition Net Profit Margin of 22.53 relative to the average post-acquisition Net Profit Margin of 14.73.

Return on Capital Employed on the hand, witnessed an average pre-acquisition Return on Capital Employed of 53.99 relative to the average post-acquisition

Return on Capital Employed of 49.91; whereas, Return on Asset showed an average pre-acquisition Return on Asset of 3.39 relative to the average post-acquisition Return on Asset of 2.14".

"For the Expense ratio, the average post-acquisition period showed a slight decline in the performance of the bank relative to the average pre-acquisition period. It is observed that the bank documented an average pre-acquisition Expense to Income Ratio of 55.94 relative to the average post-acquisition Expense to Income Ratio of 53.22".

• "For each of the liquidity ratios, the average post-acquisition period shows a slight growth in the performance of the bank relative to the average pre-acquisition period. It is observed that the bank documented an average pre-acquisition Non-Performing Loan Ratio, witnessed an average pre-acquisition Non-Performing Loan Ratio of 3.71 relative to the average post-acquisition Non-Performing Loan Ratio of 13.89. Loan to Deposit Ratio also, revealed an average pre-acquisition Loan to Deposit Ratio of 9.23 relative to the average postacquisition Loan to Deposit Ratio of 15.39".

• "For the investment ratio, the average post-acquisition period showed a growth in the performance of the bank relative to the average pre-acquisition period. It can be observed that the bank recorded average pre-acquisition Earnings per Share of 2.56 relative to the average postacquisition Earnings per Share of 3.55".

• "For the Solvency ratio, the average post-acquisition period showed a slight decline in the performance of the bank relative to the average pre-acquisition period. It can be observed that the bank recorded average pre-acquisition Interest Coverage Ratio of 50.89 relative to the average post-acquisition Interest Coverage Ratio of 49.02. Debt Ratio also, revealed an average preacquisition Debt Ratio of 89.70 relative to the average post-acquisition Loan to Deposit Ratio of 89.46".

• "For each of the Growth ratios, the average pre-acquisition period shows a decline in the performance of the bank relative to the average post-acquisition period. Again, one observation made is that the bank recorded an average pre-acquisition Total Asset Growth of 44.98 relative to the average post-acquisition Total Asset Growth of 20.26. Operating Income Growth on the hand, witnessed an average pre-acquisition Operating Income Growth of 128.02 relative to the average post-acquisition Operating Income Growth of 54.68. Furthermore, Deposit Growth showed an average pre-acquisition Deposit Growth of 25.67 relative to the average postacquisition Deposit Growth of 10.25; whereas Growth in Shareholder's Fund revealed an average pre-acquisition significant decline in Shareholder's Fund of 98.21 relative to the average post acquisition Growth in Shareholder's Fund of 11.88".

Lastly, based on the fact that it can be deduced from the research that "the average postacquisition performance of the bank was a marginal decline on the average pre-acquisition performance of the bank, it will be fair to conclude that there was some improvement in the financial performance of Fidelity Bank on certain ratio calculation.

5.3 Recommendations On the basis of the findings of this research

The following suggestions are recommended:

- Due to the fact that in terms of the Average Growth Ratios, Fidelity Bank Ghana Limited was trailing behind after acquisition, there will be the need for Fidelity Bank Ghana Limited to take a closer look at what is causing the bank to underperform in these areas and device innovative ways of boosting these growth ratios.
- With regards to the liquidity and investment ratios, fidelity bank saw an improvement after the acquisition of Procredit savings and loans making it one of the banks with the greatest number of branches.
- Finally, given the fact that Fidelity Bank Ghana Limited has underperformed after acquisition of Procredit with regards to the other ratios such as profitability, expense, solvency, there will be the need for Fidelity Bank Ghana Limited to re-examine the decline in these ratios and seek ways to continue achieving positive results before its merger with Procredit Savings and Loans

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APPENDIX

Table 1: Selected items from the financial statements of Fidelity Bank (2012 to 2018)

Items extract from Income Statement and Balance Sheet from 2012 - 2018							
	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
	GHS 000	GHS 000	GHS 000	GHS 000	GHS 000	GHS 000	GHS 000
Interest Income	174,320	253,345	352,566	615,075	621,513	649,126	788,985
Interest Expense	93,944	135,938	166,324	245,463	265,329	241,076	288,464
Operating Income	138,245	195,419	326,027	551,845	461,208	522,970	690,446
Profit before Tax	36,638	62,579	112,477	205,799	18,576	135,359	242,090
Profit after Tax	27,675	43,877	81,912	147,734	14,711	90,434	163,717
Total Assets	1,333,031	1,689,670	3,020,283	4,113,812	4,173,602	5,378,048	7,015,823
Shareholders Fund	120,612	154,003	384,826	503,943	493,347	534,209	691,605
Total Liabilities	1,212,419	1,535,667	2,635,457	3,609,869	3,680,255	4,843,839	6,324,218
Loan and Advances	45,204	82,591	310,827	341,096	346,849	683,797	1,731,390
Deposits	1,099,437	1,355,980	1,777,313	3,003,029	3,100,614	3,843,312	3,979,129