TITLE

BANK LENDING AND CREDIT ADMINISTRATION IN MERCHANT BANKS

A CASE STUDY OF INTERNATIONAL MERCHANT BANK (IMB) PLC

BY

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BEING PROJECT PRESENTED TO THE POSTGRADUATE SCHOOL OF AHMADU BELLO UNIVERSITY, ZARIA, NIGERIA IN PARTIAL FULFILLMENT FOR THE AWARD OF MASTER IN BUSINESS ADMINISTRATION (MBA)

DEDICATION

This research work is dedicated to:

1. Almighty Allah, who created man from a small seed and for teaching him what he knows not.
2. My Mother Fatimah (Yakura) Zannah Ali and my Father Albishir Abdu (of Blessed Memory).
3. My Maternal Grandfather Zannah Ali (of Blessed Memory) and Maternal Grandmother Hajiya Fatimah (Dulo) of Blessed Memory.
4. My Brothers and Sisters:
   - Abubakar Sadiq
   - Fatimah (Kuburuku)
   - Shehu Usman
   - Hadiza (Dije)
   - Abdullahi (Baba)
   - Maria (of Blessed Memory)
   - Sanusi
   - Hafsat (Mai Sunan Hajiya)
   - Rakiya (Inna)
   - Jibrin
   - Amina (Ammi)
   - Haruna
   - Ali (Kotoko)
   - Ali (Zannah)
   - Tahar (of Blessed Memory)

DECLARATION

I hereby declare that this research work was independently carried out by me. And that all materials and ideas got from the various sources are duly acknowledged. And to the best of my knowledge, this work is original and has not been submitted to any institution for the award of a Degree or any Certificate before.

NAME: **WAZIRI ALBISHIR**

DATE: 31/07/98 SIGNATURE:

CERTIFICATION

This project entitled "**Bank Lending and Credit Administration in Merchant Banks - A case study of International Merchant Bank Plc** meets the requirements governing the award of Master of Business Administration (MBA) degree of Ahmadu Bello University, Zaria and is approved for its contribution to knowledge.

SUPERVISOR	18/11/98 DATE
EXTERNAL EXAMINER	DATE
HEAD OF DEPARTMENT	14/11/98 DATE
DEAN OF POST GRADUATE SCHOOL	25/05/99 DATE

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ABSTRACT

Bank lending and Credit Administration represents an important aspect of Bank Management activities. Without proper credit policy and management, the quality of risk assets that constitute significant portion of Bank assets will be jeopardised. For efficient lending and credit administration in Merchant Banks, certain techniques are employed.

Chapter One discussed the background of the study, problems of the study as well as the significance of the study. The methods in which the research was conducted, the scope and limitations of the research were also covered.

Literature Review and Theoretical Framework forms Chapter Two of the study. The legal environment for Bank lending in Nigeria as well as principles of good lending otherwise known as canons of lending were also highlighted. The techniques for determining the profitability of lending proposals, the peculiarities of equipment leasing and other forms of assets based lending, securities acceptable for Bank lending also forms part of the chapter. The perfection and documentation as well as enforcement and realisation of securities have also been discussed.

Chapters Three and Four covered Credit Policy formulation, analysis, documentation and management. The history, structure and operations of the Bank under study (International Merchant Bank Plc) were also discussed. The Credit Management structure of the Bank, classes of credit facilities extended by the Bank as well as credit analysis and presentation procedures were highlighted. The application of CBN prudential guidelines in problem loan identification and

management were also discussed. The study also encompasses credit reviews and portfolio management procedures of the Bank.

Finally, Summary, Conclusion and Recommendations were given towards more efficient Bank Lending and Credit Management, that could reduce non-performing credits of the Bank.

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CHAPTER ONE
INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The primary function of Banks is financial ***intermediation***, in which they ensure an effective linkage between the *surplus* and *deficit* sectors of the economy. On one hand, they make sure that the funds are not left idle, but attracted into the financial system by the offer of some form of compensation for fund owners. On the other hand, the funds attracted are not just for the sake of it, but for the purpose of providing the wherewithal for investment ideas that lack financing. In the final analysis Banks facilitate economic growth through financial intermediation.

In the process of providing this important linkage between the surplus and deficit sectors of the economy, Banks keep in view the "*Margin*" or "*Spread*" on transactions, and because Banks, like any other business organizations, want to make profit, they always strive to maintain a higher price on what they do with the funds than the price they pay for the deposits, the success of any Bank in terms of profitability depends on the extent to which it maintains transactions and/or relationship profitability on a continuous basis.

One of the key investment products or services of Banks are loans and advances known as ***credit***. In requesting for this service, Bank customers (existing and potential) normally submit proposals, in which the customer expectedly indicates the purpose, the amount of loan request, the duration, the repayment plan and a lot more information is provided for the Bank to facilitate a thorough appraisal of the proposal.

It is worthwhile to note that a Bank does not just make available the surplus funds to all and sundry on applications rather there are laid down rules, regulations and procedures governing credit extension and of course the retrieval of the funds from the debtors as and when due.

Thus, Bank Lending and Credit Administration encompasses credit analysis, presentation, approval, perfection and documentation of securities, disbursement, credit review, portfolio management, identification and management of problem loans and debt recovery. This study using ***International Merchant Bank Plc (IMB)*** as a case study is expected to cover all credit issues, principles and lending procedures and policies of the Bank under study.

1.2 STATEMENT OF THE PROBLEMS

Income from credit and corporate finance activities constitute greater part of a Bank's revenue and thus profit. The high risk involved in lending and volatility of loanable funds due to changes in *macro-economic* variables like interest rate, savings and level of investments which determines the volume of credit that can be extended by a Bank is also a major problem facing Banks. This research will expose the problems aforementioned in detail and further highlight how such problems can be handled in a professional manner by applying the principles of good lending, credit analysis and presentation.

1.3 SIGNIFICANCE OF THE STUDY

The study critically examines Bank Lending and Credit Administration procedures in Merchant Banks, using ***International Merchant Bank Plc (IMB)*** as a case study with the sole aim of identifying lapses discovered and recommend solutions. It is hoped that the study would be found useful for practicing

bankers, academicians and other interested parties as a source of reference on this very crucial aspect of banking.

1.4 SCOPE OF THE STUDY

The study would cover the following areas of Banking lending and Credit Administration in Merchant Banks using ***International Merchant Bank Plc (IMB)*** as a case study, viz: Credit management structure, Classes of credit facilities, Credit approval and disbursement, Credit documentation, Portfolio management, Credit review and prudential guidelines, Identification and management of problem loans and Credit returns to Central Bank of Nigeria.

1.5 RESEARCH METHODOLOGY

Two methods have been used in this study to collect and analyse data; these are ***observation*** and ***documentary*** sources. The study is mainly descriptive in nature. The documentary sources are based on reference to existing literature in textbooks, journals, seminar papers and other related publications on Bank Lending and Credit Administration. Substantial data on the study came from observation of credit systems and procedures of credit management of the organization under study (i.e. ***IMB Plc***).

Other sources of data include:

1) IMB Plc credit Policy
2) IMB Plc credit risk classification Manual
3) The CBN prudential Guidelines to licensed Banks
4) Sundry publications.

1.6 LIMITATIONS OF THE STUDY

The study is mainly restricted to credit policy, systems and procedures of the organization under study, without making comparative analysis of other credit systems and processes of other Banks. Another limitation of the research is the reliance on documentary sources of data and observation against other sources like questionnaires and interviews. Time constraint for the completion of the study is also another limiting factor.

CHAPTER TWO

LITERATURE REVIEW AND THEORETICAL FRAMEWORK

LEGAL ENVIRONMENT OF LENDING IN NIGERIA

This section would examine how lending has been or would be affected by the various provisions of Central Bank of Nigeria (CBN) Decree No.24 (1991), Banks and other Financial Institutions Decree (BOFID) No.25 (191) and Companies and Allied Matters Decree (CAMD) No.l (1990).

The CBN and BOFID are a twin Decrees in the sense that the intention and provision of the later is to be executed by the former through its appointed agents and functionaries.

The CAMD is also of relevance to institutional lending. BOFID from all its ramifications could not be said to have anticipated individual lenders judging particularly from the name the decree was given ***"Banks and other Financial*** *Institutions Decree".* Apart from nomenclature, various provisions in the said decree lend to our assertion particularly *Section 2(1)* which read thus: *"No person shall cany on any Banking business in Nigeria except it is a company incorporated in Nigeria and holds a valid Banking license issued under this decree".*

PROVISIONS IN *BOFID* AFFECTING LENDING

Of all the provisions of the decree the section that has direct implication **on** lending is *Section 20.* It provides thus:

(1) A Bank shall not, without the prior approval in writing of the Bank grant:

a). To any person any advance, loan or credit or give any financial guarantee or incur any other liability on behalf of any person so that the total value of the

advance, loan, credit facility, financial guarantee or any other liability in respect of the person is at any time more than twenty percent (20%) of the Shareholders fund unimpaired by losses or in the case of a Merchant Bank not more than fifty percent (50%) of its Shareholders fund unimpaired by losses and for the purpose of this paragraph all advances, loans or credit facilities extended to any person shall be aggregated and shall include all advances, loans or credit facilities extended to any subsidiaries of a corporate body or associates of any person;

Provided that the provisions of this paragraph shall not apply to transactions between Banks or between branches of a Bank or to the purchase of clean or documentary bills of exchange, telegraphic transfers or documents of title to goods the holder of which is entitled to payment for exports from Nigeria or to advance made against such bills, transfers or documents.

b) Any advance, loans or credit facilities against the security of its own share or any unsecured advances, loans or credit facilities unless authorised in accordance with the Banks rules and regulations and where any such rules and regulations require adequate security, such security shall be provided or as the case may require, deposited with the Bank; or

(2) A Bank shall not, without the prior approval in writing of the Bank;

a). Permit to be outstanding, unsecured advances or loans or unsecured credit facilities, of an aggregate amount in excess of ₦50,000.00;

i) To its Directors or any of them whether such advances, loans or credit facilities are obtained by its Directors jointly or severally.

ii) To any firm, partnership or private company in which it or, any one or more of its Directors is interested as Director, Partner, Manager or agent or any individual, firm, partnership or private company of which any of its Directors is a guarantor.

iii) To any public company or private company in which it or any one of

its Directors jointly or severally maintains shareholding of not less than five percent either directly or indirectly; or permit to be outstanding to its officers and employees, unsecured advances or loans or unsecured credit facilities, which in the aggregate amount for any one officer or employee exceeds one year's emoluments of such officer or employee.

b) *Permit to be outstanding to its officers and employees unsecured advances or loans or unsecured credit facilities which in the aggregate for any one officer or employee an amount which exceeds one year's emolument of such an officer or employee.*

c) *Engage, whether on its own account or on a commission basis, in the wholesale or retail trade, including the import or export trade, except in so far as may exceptionally be necessary in the course of the Banking operation and services of that Bank or in the course of the satisfaction of debt due to it; so however that nothing in this paragraph shall be construed as precluding a Bank from undertaking equipment leasing business or debt factoring, provided that the foregoing provisions of this paragraph shall not apply to a Bank in the circumstances permitted under Section 21 of this decree.*

d) *Without prejudice to the provisions of Section21 of this decree, acquire or hold any part of the share capital of any financial or commercial or other undertaking, except;*

i) *any shareholding approved by the Bank in any company set up for the purpose of promoting the development of money market or security market in Nigeria or of improving the financial machinery for financing economic development;*

ii) *any shareholding approved by the Bank pursuant to paragraph **(f)(i)** of sub-section (1) of this section, the aggregate value of which does not*

at any time exceed twenty per-centum of the sum of paid-up capital and statutory reserves of the Bank;

iii) any shareholding acquired by a Merchant Bank while managing an equity issue:

Provided that the aggregate value of such acquisition does not at any time exceed the sum of paid-up capital of that Merchant Bank or ten per-centum of its total assets, excluding contract items whichever is higher and that this paragraph shall not apply to any nominee company of a Bank which deals in stock and shares for or on behalf of the Banks customers or clients or majority interest acquired by a Merchant Bank in a company while managing an equity issue.

e) Remit, either in whole or in part, the debts owed to it by any of its Directors or past Directors;

f) Purchase, acquire or lease real estate except as may be necessary for the purpose of conducting its business including provisions for foreseeable future expansion or housing of its staff or other exceptional circumstances, where the agreement of the Bank is obtained;

g) Sell, dispose or lease out any real estate.

(3) Notwithstanding the foregoing provisions of this section, that a Bank may secure debt on any real or other property, and in default of repayment may acquire such property and exercise any power of sale, or as may be provided for in any instrument, or by law prescribed, immediately upon such default or soon thereafter as may be deemed proper.

(4) In paragraph (a) and (b) of ***section(2)*** *of this section, the expressions "****unsecured advances****", "****loans****" or "****unsecured credit facilities****" mean advances, loans or credit facilities made* ***without*** *security or in respect of any advances or credit facilities made with security any part thereof which at any time exceeds the market value of*

the assets constituting the security or, where the Bank is satisfied that there is no established market value, the value of the assets as determined on the basis of a valuation approved by the Bank.

*(5) In paragraph (a) and (e) of this sub-section, the expression "**Directors**" includes Director's wife, husband, father, mother, sister, son, daughter and their spouses.*

(6) All Directors of a Bank shall be liable jointly or severally to indemnify the Bank against any loss arising from any unsecured advances, loans or credit facilities under paragraph (a) of sub-section (2) of this section.

(7) Any Bank which, after commencement of this decree, enters into any transaction inconsistent with any of the provisions of sub-sections (1) and (2) of this section is guilty of an offence and liable on conviction to a fine of ₦1,000 for each day during which any such transaction continues.

With the above requirements particularly the meaning given to ***Director***, one hopes that the era of make-belief loan transactions will be a thing of the past and consequently reduce the much talked about incidence of ***bad*** and ***doubtful debts*** arising from lending businesses of Banks.

Apart from the above, since more often than not the decision and ability to lend depends greatly on liquidity position of the lender the provision of Decree 25 vide Section 21 now allows Banks to diversify their businesses by investing in other businesses through participation in equity directly or through its subsidiaries.

CBN DECREE (24) OF 1991 AND ITS RELATIONSHIP WITH LENDING

This decree essentially has further enhanced the power of the CBN particularly in its relationship with Banks and other Financial institutions. This assertion is fortified by the provisions which empowers the CBN to issue guidelines to any person and any institution that engages in the provision of financial services.

Importantly, the CBN has the following powers:

a) To require that all applications for loans exceeding such amount as it may specify, be submitted to the CBN for approval and that no such loans shall be made without such approval.

b) To fix a ceiling on the volume of loans, advances and discount outstanding at each Bank.

c) To fix a ceiling on the aggregate amount of loans, advances and discount granted by any Bank and outstanding at any time and to place a limit on the rate of increase in the aggregate amount of such loans etc within a specified future period of time.

Also of note is the all-powerful *Section 52* which provides thus: "*In furtherance of the provisions of paragraph (c) of Section 2 of this Decree, the Bank shall have to compile and circulate to all Banks in Nigeria, a list of debtors whose outstanding debts to any Bank had been classified by Bank examiners under the bad debt category*".

While the provision of *Section 28* determines or influences the volume of lending transactions a Bank can enter into, *Section 52* may have a lot of persuasive effect on who to lend money to, as it does not appear that a lender no matter how prudent it may be will lend to a debtor whose debt has been classified by the Apex Bank and same circulated to institutional lenders. The effect is that apart from the influence it may have on the decision to lend, the provision will serve to compliment the efforts of the players and the desired effect of the prudential guidelines as laid down by Central Bank of Nigeria and hopefully if implemented may serve as an effective debt recovery machinery particularly on those "*able but deliberately unwilling to perform loan defaulters*". This by implication will have direct impact on the liquidity position of Banks and invariably affect their ability to lend.

COMPANIES AND ALLIED MATTERS DECREE (CAMD) AND ITS EFFECT ON LENDING

The 1990 Decree has been described as a piece of revolutionary legislation because of the far reaching effect of some of its innovative provisions. The above stand has been taken because it appears to be the first home grown legislation in the matter of regulation of companies because of the stage it went through and the level of participation of the various sectors of the economy before it was eventually promulgated in January 1990. The decree has been praised for its comprehensiveness and it has now abolished or modified some rules e.g. doctrine of *ultra vires*, doctrine of constructive notice of registered documents, pre-incorporation contracts etc. In fact the decree has made Nigeria as elsewhere company law clearer and easily ascertainable.

The law in various ways by its provision has and will continue to have greater influence on lending or decision to lend particularly to an institutional borrower such as companies incorporated under the said Decree particularly when the effect of some of its provisions is *juxtaposed* and compared with that of the 1969 companies Decree.

Section 39 provides that:

1) *A company shall not carry on any business not authorised by its memorandum and shall not exceed the powers conferred upon it by its memorandum or this Decree.*
2) *A breach of sub-section (1) of this section, may be asserted in any proceedings under section 300 to 313 of this Decree or under sub-section (4) of this section.*
3) *Notwithstanding the provisions of sub-section (1) of this section, no act of a company and no conveyance or transfer of property to or by a company shall be invalid by reason of the fact that such act, conveyance or transfer was not done or*

made for the furtherance of any of the authorised business of the company or that the company was otherwise exceeding its objects or powers.

Also, of particular importance is *sub-section* 3 which provides that a company will not be allowed to escape liability for transactions entered into by its officers on the basis only that the said transaction was beyond its powers or was not such as anticipated by the provision of the object clause of the *Memorandum and Articles of Association.*

The implication of the said sub-section is that it reduces the onerous burden of lenders having to ascertain that an institutional borrower or an incorporated company has such powers under its memorandum or object clause not only to raise money for the particular project with which it has approached the Bank but also indeed powers to borrow. Hitherto, the lender must take steps to ensure that the company has as one of its objects the particular project and secondly must in fact be empowered to raise such funds by borrowing. In doing this the lender must by application approach the companies registry to conduct an investigation into the affairs of the borrowing company.

The burden is even heavier in view of the common law doctrine of constructive notice of registered documents as established in the case of *ROYAL BRITISH BANK vs TURQUAND*, the gist of which is that a person is deemed to have notice or imputed knowledge of all registered documents and its content provided that they are duly registered with the then company's registry notwithstanding the fact that the lender did not have the actual notice or knowledge of the documents or its contents. The above positions inform the practical reasons why Banks and institutional lenders instruct their solicitors to conduct search at the

point an institutional account is being opened for its customers.

Another development is the abolition of the doctrine of constructive notice by the Decree. *Section 68* provides thus: *"Except as mentioned in section 197 of this Decree, regarding particulars in the register of particulars of charges, a person shall not be deemed to have knowledge of the contents of the Memorandum and Articles of a company or of any other particulars, documents, or the contents of documents merely because such particulars or documents are registered by commission or referred to in any particulars or documents so registered, or are available for further inspection at an office of the company".*

Apart from *Sections 39 and 68* which appears to compliment each other's effect, *Section 27 (2)* made it compulsory that a certain percentage of the share capital of a company ;must be issued at the time of incorporation. The effect on lending is that even if the company is not a going concern at the time it approached a Bank for financial accommodation, the institutional lender can at least rely on the possibility of recovering part of whatever is the liability of the company through a winding up proceeding by insisting that the subscribers to the 25 percent shares be compelled as contributors to pay the amount representing the value of shares issued to them.

In summary the CBN, BOFI and CAM Decrees have by their different provisions and in different ways attempted to bring some security into the entire financial market. Whether or not the purpose will be achieved however, depends greatly on how the various players and functionaries particularly the Central Bank will be upright and forthcoming in ensuring that institutional lenders who of course are within its reach play the game as laid down by the various legislation.

2.2 CANONS OF LENDING

The process of assessing the risk in lending is termed "*credit analysis*". The credit risk must be evaluated against the direct benefits the Bank expects to derive from making the loan. The direct benefits are simply the interest rates and fees earned on the loan and possibly, the deposit balances required initially or maintenance of a relationship with the borrower that may provide the Bank with increased deposits and demand for a variety of Bank services, credit risks assessment can be divided into two parts:

1) ***Qualitative Risk Assessment*** is primarily to gather information on the borrower's record of financial responsibility and determining his or her true purpose for wanting to borrow funds. Identifying the risks, confronting the borrower's business under future industry and economic conditions, and estimating the degree of commitment the borrower will have regarding repayment.

2) ***Quantitative Risk Assessment*** consist of:

   a) The analysis of historical data.

   b) The projection of future financial results to evaluate the borrower's capacity for timely repayment of the loan.

   c) The borrower's ability to survive possible industry and economic changes.

The essence, therefore of all credit analysis can be captured in basic credit factors otherwise known as ***Canons of lending.*** The basic credit factors or canons of lending which commands some popularity amongst major Banks as a guide for bankers in analysing loan proposals are ***Character, Ability, Margin, Purpose, Amount, Repayment and Insurance/Security*** referred to as CAMPARIS.

CHARACTER

Judging the character of a potential borrower is an extremely difficult area but a vital one to get right. Some of the issues with regards to this character include:

1) How reliable is the customer's words as regards the details of the proposition and the promise of repayment?
2) Does the customer make exaggerated claims which are too optimistic or is more modest and reasonable approach adopted?
3) Is the customer's tract record good? Was there any previous borrowing, and if so, was it repaid without trouble?
4) If the customer is new, why are we being approached? Can Bank statements be seen to assess the conduct of the account?

ABILITY

This aspect relates to the borrower's ability in managing financial affairs and is similar to character as far as personal customers are concerned. However, further points in respect of business customer would include:

i) Is there a good spread of skill and experience among the Management team in, for example, production, marketing and finance?
ii) Does the Management team hold relevant professional qualifications?
iii) Are they committed to making the company successful?
iv) Where the finance is earmarked for a specific area of activity, do they have the necessary experience in that area?

MARGIN

Agreement should be reached at the onset with the borrower in respect of interest margin, commission and relevant fees. The interest margin will be a reflection of the risk involved in the lending whilst commission and other fees will be

determined by the amount and complexity of the work involved.

PURPOSE

The customer must specify the purpose of the loans and advances he/she is asking for which the lender will want to verify to his satisfaction. The purpose must be:

i) Legal (i.e. not obtaining a loan for illegal transaction)

ii) *Intra-vires* and not *Ultra-vires* the company and Directors.

If the purpose of the loans and advances is to satisfy the following:

a) Pay another loan from another Branch

b) Pay a dividend to Shareholders

c) Pay creditors

d) Pay a tax Bill

Care must be exercised in taking such advances as the trade of the business would not benefit it and repayment my be difficult.

Loans for the underlisted purposes should be reject:

i) Loan for illegal purpose(s) because it could subject the Bank to criminal prosecution and inability on the part of the customer to repay.

ii) Loans for speculative purposes like gambling.

iii) Loans for a reason outside the object clause of the company.

AMOUNT

The lending proposition should specify how much the customer intends to borrow. The lending officer should check to ensure that:

i) The customer is not asking for too much than he/she requires.

ii) The customer is not asking for less than he/she needs.

iii) The financial state of the customer is sufficient to serve as a buffer, when compared with the amount being requested from the Bank.

REPAYMENT

In order to check the likely ability of the customer to repay the advance, the Banker must do the following:

1) Calculate what the repayment with interest will be.
2) Look for evidence that the source of repayment is likely to be sufficient. The source of repayment must be clear from the onset.

INSURANCE/SECURITY

Security is normally required by Banks, more as an insurance against unknown events which may render the proposed loan repayment plan difficult or impracticable. A Banker should never lend money if he thinks he will probably have to realise the security. To enter into lending expecting to have to realise the security is a dangerous policy because:

1) Realising security is time consuming and expensive.
2) There may be adverse publicity affecting the Bank's reputation.
3) The customer's interest are rarely well secured.
4) There may be legal technicalities preventing successful realisation.

2.3 DETERMINING THE PROFITABILITY OF LENDING PROPOSALS

The view of profitability here is that the Bank relative to the service requested by the customer, and not necessarily the profitability of the company that is promoting the proposed project. Therefore, only the factors that Banks consider in ascertaining the profitability of lending proposals will be examined.

1). *PROJECT FEASIBILITY*

Under normal circumstances, Banks require their customers to submit feasibility studies along with their loan proposals. Any standard feasibility report contains the following sections:

a) Socio-economic background
b) Market analysis
c) Technical feasibility
d) Organization structure
e) Project cost
f) Project financing
g) Commercial viability
h) Cash flow analysis
i) Financial and other supporting schedules.

If the report covers every one of the listed sections, the second stage of the feasibility analysis will be the verification of all the assumptions, arguments, inferences and conclusions in the report. At this stage, extensive discussions will be held with the project promoters, resulting in a review (total or partial) of the general conclusions.

This could mean accepting the customer's projections, modifying them, or rebuilding the projections all over. Here is the point at which you bring to bear on the appraisal your knowledge of the customer's business, the industry it belongs and financial statement analysis. For the project to be accepted feasible, every risk implication must be identified, assessed and a programme worked out for the risks to be effectively mitigated.

2). MARKETABILITY OF THE PRODUCT

The market for the product needs to be evaluated. The reason is basically that the end result is to sell the output, and not just to generate the output. The bottomline will naturally be how much assurance we have of the product of the project getting to the market and getting sold to the customer.

The pertinent questions include:

a) Is the market readily available for the product or service, and in the desired volume?

b) Is the market well diversified, or concentrated?

c) What is the present or projected share of the market for the product?

d) What is the present or expected level of competition?

e) What are the expected changes in the above indices during the tenure of the loan request?

The information gathered in this process is key to making an accurate forecast of proposed profitability and the associated risks.

3). ENVIRONMENTAL FACTORS

The projects operating environment has significant effect on its profitability. The external environment may be categorised into ***proximity*** and ***remote*** environment. The proximity environment comprises the market, competitors and customers, in an arrangement where the competitors are considered as obstacles in the path of the project towards reaching its customers. The remote environment of any project comprises a host of factors, including:

a) The national economy

b) The political environment

c) The socio-cultural environment

d) The legal environment

e) The regulatory environment

f) The technological environment

The pertinent question is "***how do these factors affect the profit prospects of the project?***" Notice that profit itself is the difference between revenue and expenses, which immediately shows that we should be looking at the effects of the factors on either or both of the items defining profit, i.e.. revenue and costs. Apart from the effect of these factors on the project, the Bank itself is subject to certain environmental factors that affect its relationship with the project to be financed. These could be the Bank's own credit policies, the monetary and credit policy guidelines, other Central Bank of Nigeria's circulars, tax legislation etc.

4). *FINANCIAL ANALYSIS*

Financial analysis is one of the critical aspects of credit analysis and decision making, which comes in two stages of data collection and analysis of data. It forms the background on which additional historical and investigational qualitative information on the borrower is built. If the analysis is well conducted, it helps to identify the risk elements in a lending proposal and also indicate the possible areas for their mitigation. The sources of credit information may be classified into two as follows:

i) ***Published information***, such as annual audited report and accounts, reports coupled by rating agencies, stock market prices and trading volumes at the Stock Exchange.

ii) ***Unpublished information***, which is usually obtained from the oral interviews with the customer, the Bank's own records, records of other Banks and other third parties such as suppliers or trade creditors.

We can summarise the issues in **Ratio Analysis** following *Adedipe (1994)*, as follows:

a) A ratio by itself may be almost valueless;

b) Changes in ratios for different years can be exceedingly suggestive;

c) Changes or inconsistencies between trends indicated by different ratios are invaluable if they promote intelligent and searching enquiries;

d) Ratios generally contribute mostly to the lending Banker's armoury as ***mneumonics***, impressing upon his mind the kind of relationship between different items in the accounts which should be watched.

e) When several ratios, each in itself of a different evidential value, all point in the same direction, their combined verdict may be irresistible.

5) THE RISK ELEMENT

As earlier noted, every loan proposal has its inherent risks, which border on prospects of recovering the principal sum and interest as agreed in the loan agreement and covenant. To correctly identify and measure the risks, the credit analyst should have access to adequate information, which will be analysed in order to make a sound credit judgement. The risk that are usually encountered in credit analysis include:

i) Changes in demand pattern;

ii) Changes in government fiscal and monetary policies;

iii) Changes in the technology of production and distribution method;

iv) Changes in management or loss of major Shareholder(s)

v) Natural disasters;

vi) Exchange rate fluctuations;

vii) Loss of a major Supplier.

Globally, the risks in a credit analysis may be summarised as:

a) That the actual ratios may turn out to be at variance with projections;

b) That the project promoters, even when the project generates enough cashflows to be self-liquidating, may refuse to meet their repayment obligations on the facility.

It is for these considerations that it is required in lending operations that every loan should have two ways out - i.e. there must be, at least two unrelated repayment sources to any loan granted. The same risk elements underline the need for security, as a way of minimising the risk of lending.

Whether a loan proposal would be adjudged to be profitable or not depends on the pricing of the facility, and where the emphasis of the Bank is in the relationship with the customer concerned. The later refers to the choice between *transaction profitability* and *relationship profitability*.

After all has been said and done, a loan proposal is accepted as profitable if the project gives adequate assurance that it is not only self-liquidating, but will also generate additional returns to serve the interests of its promoters or shareholders. This should be the basis of any long-term lending relationship between a Bank and its credit customers.

2.4 PECULIARITIES OF EQUIPMENT LEASING AND OTHER FORMS OF ASSETS BASED LENDING (ABL)

Assets Based Lending *(ABL)* can simply be defined as "lending against a borrower's assets". Every lender lends because he is expected to be paid back and obtains security in case the borrower fails to meet his repayments obligations.

In this regard the following can be considered as some of the peculiarities of Assets Based Lending (ABL):

1) The loan is expected to be repaid with the proceeds from the completed underlying transaction as is the case in lease, warehouse, Local Purchase Order *(LPO)* and Real Estate facilities.

2) The lender or Banker look to the liquidation of the company or the collateral as the ultimate source of payback as is the case in warehouse and LPO financing.

3) ABL can also be looked at as a secondary source of payback for a facility granted on a cashflow basis as is the case in a lease facility.

4) ABL can also be considered for a facility based primarily on seasonal needs, and which is expected to be repaid out of the proceeds from a successful asset conversion as is the case for a warehouse financing for produce goods like cocoa.

Other peculiarities of Equipment Leasing and other forms of ABL will be highlighted in the discussion of each type of ABL. Basically, the peculiarities can be found in the peculiar structure of each type of ABL.

MAJOR CRITERIA TO CONSIDER IN AN *ABL* FACILITY

a) The credit analysis and credit enquiry should indicate that the borrower will continue as a viable going concern and will be able to service the facility granted it.

b) That should in case the borrower defaults, the lender or Bank should be adequately protected against loss by the liquidation value of its assets which is pledged as security. The lender must properly establish and maintain a secured claim against specifically pledged asset of sufficient value to repay the Bank if liquidation were necessary.

CHARACTERISTICS OF SECURITY IN AN *ABL* FACILITY

Collateral taken as security for an *ABL* just like in any form of borrowing should have the following characteristics:

a). Security ascertainable (to allow ample margin for protection)

b). Ready sale or realization (to allow immediate recovery of the facility amount possibly plus interest).

c). No *encumbrances* (i.e. prior loan or claims).

d). Cheap and easy transfer (to facilitate perfection and relinquishment of the collateral).

e). Safe and simple title (to ensure an indisputable interest in the collateral).

The above are also important factors to consider in granting an ABL facility.

TYPES OF ASSET BASED LENDING *(ABL)*

The following types of *ABL* will be discussed:

i). Equipment leasing

ii). Warehousing financing

iii). Trust receipts

iv). LPO financing

v). Real Estate financing.

1). *EQUIPMENT LEASING:*

A lease can simply be defined as a contract calling for the *lessee (user)* to pay the *lessor (owner)* an amount for the use of an asset. Leasing takes different forms, the five most important of which are:

i) Sale-and-leaseback

ii) Operating leases

iii) Financial or capital leases

iv) Leveraged lease

v) Syndicated lease.

i). ***Sale-And-Leaseback***: In this type of lease arrangement, a firm that owns land, building or equipment sells the property to a financial institution and simultaneously executes an agreement to lease the property back for a specified period under specific terms. The financial institution could be a Merchant Bank, Commercial Bank or a specialised leasing company. It should be noted that the seller *(lessee)*, immediately receives the purchase price put up by the buyer ***(lessor)*** and the seller ***(lessee)*** at the same time retains the use of the property in question.

ii). ***Operating Lease***: These type of leases call for the *lessor* to maintain and service the leased equipment, and the cost of maintenance is in-built into the lease payments. Examples of these include vehicles, air-conditioners, generators etc leased by *Holt Leasing* and photocopying machines, electric typewriters etc leased by *Rank Xerox* to *lessees* in Nigeria. Operating leases are usually not fully *amortized*, i.e. payments required under the lease contract are not sufficient to recover the full cost of the equipment. The lease contract is usually written for a period considerably less than the expected economic life of all costs either in subsequent renewal payments, through leases to other *lessees* or by sale of the leased equipment. Another feature in operating leases is that they usually contain a cancellation clause which gives the *lessees* the right to cancel the lease and return the equipment before the expiration of the basic lease agreement.

iii) ***Financial or Capital Leases***: This type of lease unlike operating lease do not provide for the maintenance of the equipment, they are not cancelable and are fully *amortized*, i.e. the *lessor* receives rental payments equal to the full price of the leased equipment plus a return on investment. One of the major distinction between *sale-and-leaseback* and *financial lease* is that in the case of the later, the leased equipment is new and the *lessor* buys it from a manufacturer or a distributor instead of from the *user-lessee.*

iv) ***Leveraged Lease***: This is a special form of lease involving three parties, that is, a *lender*, a *lessor*, and a *lessee*. The lender such as a Bank or Insurance Company, lends a portion say 80%, for the cash required for acquiring the asset.

The *lessor* acquires the asset with cash using the asset as security for the loan and leases it to the *lessee* on a non-cancelable basis. The *lessee* makes periodic lease payments to the *lessor*, who in turn makes payment on the loan to the *lender*. Usually, the *lessor* has no obligation for the debt to the *lender* other than transferring a portion of the receipts from the *lessee* to recover principal repayments and interest. In order to avoid default on the debt, the lease is arranged such that the rentals become due long before interest and principal payments date. If the *lessee* should default or the *lessor* requires lease rental payment, the *lender* can re-possess the leased asset. The *lessor* is usually entitled to deductions for tax purposes for depreciation on the asset, for interest expended on the loan from the *lender* and for any capital allowance. The lease is said to be ***leveraged*** because the *lessor*, who enjoys most of the risks and rewards of ownership, usually borrow most of the funds needed to acquire the asset.

v). ***Syndicated Lease***: This type of lease involves more than one *lessor* and it usually occurs when the value of the equipment to be leased is too high for one *lessor* to handle. The lead *lessor* or agent invites other *lessors* or agents to participate to finance discrete equipment out of many to be leased to the *lessee*. Each *lessor* claim capital allowances on the discrete equipment it has financed. It is also possible for the *lessors* to finance one single equipment jointly.

The Inland Revenue Department recognises this type of transaction for the purpose of claiming capital allowance. The *lessors* would be allowed to claim capital allowance on the proportion of the qualifying expenditure equal to the amount incurred by each of them in acquiring part of the asset.

2). ***WAREHOUSING FINANCING***:

These are the loans made by a Bank on the collateral of warehouse receipts, which are evidence of goods which are stored in a warehouse. Warehouse receipts give the Bank title to the goods until they have been sold and proceeds collected.

Procedure: The following are the procedure in a typical warehouse receipt financing:

a). The borrower/lender usually arranges for the storage of the goods in an independently controlled warehouse (for example the type owned by an *Alraine, Panalpina* etc), which will issue warehouse receipt for the goods in the storage.

b). Upon receipt of the warehouse receipt, the Bank advances to the borrower a specified percentage of the value of the goods

represented by the receipt. The lending margin is usually determined based on the Bank's evaluation of the quality of the merchandise and the financial strength of the borrower.

c). The goods are insured comprehensively noting the interest of the lender as the loss payee beneficiary.

d). Samples of the lender's authorised signatories are usually sent to the warehouse owners or the controllers.

e). On receipt of payment for any quantity of the goods in the warehouse, the Bank will authorise the release of the goods by getting their authorised signatories to sign the *release warrants* which are usually in triplicates, the Bank gives the original to the person collecting the goods, the duplicate is kept by the Bank while the triplicate is sent to the controller of the warehouse.

f). From time to time, a staff of the Bank takes inventory of the goods to ensure that no goods have been released without duly signed warrants and the quantity released are the same as those on the released warrants.

3). ***TRUST RECEIPTS:***

Trust receipts is an extension of warehouse financing. A trust receipts transaction occurs when it becomes necessary to release from a warehouse goods that have been assigned to the Bank as *collateral* for a loan before proceeds can be obtained and applied to the obligation secured by the warehouse receipt. For example, a cotton manufacturer who has pledged its stock of cotton yarn in a warehouse for a loan, may require the yarn for further processing into textile materials or may even need to deliver the goods to a buyer before payment in full can be received. In such cases, if

the Bank has complete trust in the integrity of the borrower. To effect this, the borrower signs a ***Trust Receipt*** in which he:

a). acknowledges receipt of the goods or the title documents *(warehouse receipts)* from the Bank;

b). recognises the Bank's security interest in the goods he is receiving;

c). states that he is acting as the Bank's trustee in processing or delivering the goods to the customer;

d). promises to remit the proceeds from the sale of these goods to the Bank in payment of the loan (or to return the goods to the Bank if they are not sold);

e). agrees to keep the goods fully insured against all insurable risks.

It is important to note that, the trust receipt is not a title document, but rather evidence of a security interest in the title document, which has now passed into the possession of the borrower.

4). ***LPO FINANCING***

LPO Financing is just like warehouse receipt financing in the sense that the Bank has a *lien* in the goods being financed and the sales proceeds are usually *domiciled* to the Bank financing the LPO.

The following steps are usually taken in an LPO financing:

a). Confirmation of the authenticity of LPO in writing which should be taken to the issuer's office by the Bank's staff.

b). Payment for goods should be made directly by the Bank to the vendor, the Bank should also ensure that the LPO issuer receives the goods.

c). Domiciliation agreement should be entered into plus additional

security where necessary.

d). Normal credit analysis should be carried out on both the LPO issuer and the LPO holder.

5). ***REAL ESTATE FINANCING***

Real Estate Financing especially for commercial purposes is also another form of *ABL* for the following reasons:

a). The property to be financed is usually the security for the loan.

b). The facility is usually serviced from the rent to be collected from the property to be developed. In this regard, apart from the usual credit analysis, the following issues should also be considered in *Real Estate Financing*:

i) The landed property to be developed should be located in a *prime site*, which can attract a very good rent.

ii) A very good *title* to the property should be established. The Bank should ensure that the Title Documents are in good order and they are adequately secured.

iii) The proposed rent to be collected should be more than adequate to service the facility.

iv) The tenure of the facility where possible, should not be more than five (5) years.

v) An independent Real Estate Agent should be employed to collect the rent on behalf of the Bank and also maintain the property.

vi) The property should be insured comprehensively noting the interest of the Bank as a loss payee beneficiary.

2.5 *SECURITIES FOR BANK LENDING*

Generally, the importance of a sound **security** or ***collateral*** security to lending Banks cannot be overemphasized in view of the stringent requirements of the Central Bank of Nigeria's (CBN) prudential guidelines to Banks. These guidelines first introduced in November 1990 to enhance the asset quality of Bank's credit portfolio as well as strengthen Bank's capital and funding base have now imposed tough lending requirements and penalties upon Banks in order to abate the growing incidence of defaults by customers. These guidelines have further been accorded legal *impetus* in the CBN and BOFI Decrees (1991) which provide maximum lending ratio, minimum capital ratio and minimum cash reserves respectively for Banks in order to prevent possible Bank failures.

In spite of the above legal provisions, it is however necessary to point out that Banks do not necessarily extend credit solely upon the adequacy of the security offered by the borrower. For example a Bank can lend to a top rated company without taking any security whatsoever - i.e. lending upon the high quality of the borrower's balance sheet, if a company or high quality net-worth, if an individual. Similarly, a Bank may be more interested in the definition and limitation of its credit risks when evaluating any lending transaction. In such a case the soundness of the proposal and the credit-worthiness of the borrower will be the determinant factors in shaping the Bank's decision to approve the credit.

TYPES AND FORMS OF LOAN SECURITIES

The type and form of a loan security will depend upon the type of credit facility - whether short-term, medium-term or long-term and whether it is a syndicated loan or a bilateral one.

The various types and forms of securities accepted by banks for lending are:-

(a) Pledges

(b) Lien

(c) Mortgages

(d) Charges

(e) Debentures

(f) Guarantees and Indemnities

(g) Shares

(h) Life Assurance Policies

(i) Letter of comfort

(j) Cash

(a) **PLEDGES**

The pledge is a written agreement whereby goods or chattels are delivered practically by the borrower to the creditor as security for loan. The pledge will redeliver the chattel or goods to the depositor once the debt is repaid or if unpaid after the stipulated period the lender can sell the pledged chattel or goods. Usually pledges are confined goods and chattels and to documents embodying title to goods and chattels, money or negotiable securities.

The right to these assets is vested in the holder of the document for the time being and can be transferred by delivery of the document with any necessary endorsement. Example of assets that can be pledged include instruments such as bills of exchange.

Negative pledge is also given by large companies, e.g. multinationals and top rated *blue chip* companies as collateral accepted by Banks. Here, no properties or goods are tendered as security, but a mere undertaking by the

borrowers that, they do not have any loan or credit facility and that subsequent loans or credit facilities must be brought to the notice of the lending Bank. Looking at the size of the balance sheet and unencumbered assets of such companies, Banks normally accept such negative pledges as collateral for lending.

(b) LIEN

A ***lien*** is generally described as right to detain the property of another until money owed the detainee has been paid. A lien differs from a pledge because it does not confer a right of sale on the ***lienee***. However, a Banker's lien which is a form of pledge exceptionally contains a power of sale. Closely related to a lien is the right of set-off. Although set-off devolved from equity, yet a Bank's right of set-off arose out of the debtor/creditor relationship between a Bank and its customer whereby the Bank can set-off amounts due to and from the customer in the ordinary course of business. Usually most Banks explicitly require all customers to execute a formal letter of set-off authorizing the Bank to combine all the customer's accounts and set-off the amount against the customer's indebtedness to the Bank.

(c) MORTGAGE

A ***mortgage*** may be defined as the transfer of ownership of the borrower's asset by way of security upon the express or implied condition that ownership will be re-transferred to the debtor on discharge of his obligation.

A legal mortgage of land can be created where the owner; the *mortgagor* grants an interest in the land to the mortgage for a period, subject to the

mortgagor's right of redemption whereby the interest in the land has to be reconveyed to the mortgagor upon repayment of the debt secured. On the other hand, an equitable mortgage can be created by the deposit of security documents including original Land Certificate or Certificate of Occupancy. The major advantage of legal mortgage over an equitable mortgage is that a legal mortage can upon the default of the mortgagor sell the mortgaged property without having to resort to court action, an equitable *mortgagee* requires a court order to enforce his mortgage.

Similarly, whereas a perfected legal mortgage confers an indefensible prior claim against any other lenders, the interest of an equitable mortgagee can be defeated by a prior equitable mortgagee's interest or even by a subsequent legal mortgagee's claim where he had no prior knowledge of the existing equitable mortgage. It is also necessary to highlight that under the provisions of the *Land Use Act, 1978*, a State Governor's written consent is required for the creation of every type of mortgage and for the sale of any mortgaged property.

d) CHARGE

R.M. Goode (1994) defined ***Charge*** as *"an agreement between creditor and debtor by which a particular asset or class of assets is appropriated to the satisfaction of the debt, so that the creditor is entitled to look to the asset and its proceeds to discharge the indebtedness, in priority to the claims of unsecured creditors and junior encumbrances. The charge does not transfer ownership to the creditor".*

Hypothecation is also a form of charge on goods or proceeds of goods which are not yet in possession of the lender. It confers neither ownership nor possession to the Bank.

e). **DEBENTURES**

A ***Debenture*** is a document that acknowledges the indebtedness of an incorporated company whose document is executed under seal and frequently includes a charge on the assets of the company. There are three main types of debentures i.e., the *floating debenture, mortgage debenture*, and the *fixed and floating debenture*. The floating debenture charges the floating assets of a company e.g. money, stock of raw materials, book debts and uncalled share capital which are continually changing. A mortgage debenture on the other hand confers a charge on the fixed assets of a company including land and building. A fixed and floating debenture charges all the fixed and floating assets of a company both present and future. Similarly, in the case of a syndicated loan, a *Debenture Trust Deed* is prepared to vest all the fixed and floating assets of a borrower in a ***Trustee*** in favour of all the lenders.

f). **GUARANTEES AND INDEMNITIES**

A ***Guarantee*** is a written promise by one person (called the guarantor or surety) to pay the debt of another (called the principal debtor) in the event of default. Thus a contract of guarantee entails secondary liability on the guarantor. *The guarantor is actually telling the Banker that, extend a credit facility to Mr.X, if he does not pay, I will repay*. On the other hand, ***Indemnity*** is an undertaking by one person to be primarily liable for debt of another or loss of property caused by the debtor. It is worthy to note that, in practice, most Bank guarantee forms are designed to cover both guarantee/indemnity.

g). **SHARES**

Shares or Stocks are commonly used as collateral for lending. Share Certificates are deposited with Banks accompanied by signed blank transfer

forms. However, in practice, such transfers have been rendered non-transferable upon default by the refusal of the Registrars to give effect to such transfer without a fresh and direct confirmation by the defaulting borrower authorizing such transfer. In such a case, the only viable way out is for the lending Bank to insist on such shares being directly transferred to its securities or stockholding affiliate or nominee company who will hold such shares in trust pending the repayment of the credit facility or default by the borrower.

h). **LIFE ASSURANCE POLICIES**

Life Assurance Policy is also an acceptable security for Bank loan. The Banker before accepting the Insurance Certificate must ensure that the Insurance Company issuing the certificate is duly registered. Bankers usually proceed to ensure that:

1. The Insurance Policy has acquired a *surrender value*. The general policy is that, there is no surrender value on a policy until two or three annual premiums have been paid. It is necessary to ascertain the surrender value from the Insurance Company before accepting the policy as a *Collateral*.
2. The *assured's* age is admitted by the Insurance Company. This is necessary because, in the event that the age of the assured is incorrectly stated, the Insurance Company reserves the right to adjust the sum assured. To further confirm the age, it is essential to obtain one of the following documents as a proof of the age:
   i) Birth Certificate
   ii) Sworn Declaration of Age
   iii) Passport

3. Premiums are paid on the due dates. A way of ensuring that premiums are regularly paid is to obtain *Standing Order* for the payments of premium from the policy holder/customer.

4. The Banker must ensure that the policy holder has insurable interest in the subject-matter of the insurance. In the following categories of Life Assurance, an insurable interest is presumed and there is no need for proof of interest:

   i) Insurance of an individual on his own life

   ii) Insurance by a woman on the life of her husband

   iii) Insurance by a man on the life of his wife.

5. The Banker should ensure that the beneficiary clause of the policy is amended to read that the sum payable will be paid to the assured, his administrators, executors and assignees in order to give the Bank valid title in the event of default.

i). **LETTER OF COMFORT**

Letter of Comfort is also accepted as a *collateral* for lending. This is a letter of awareness issued by a large multi-national from its Head Office in home country signifying that it sanctions a proposed borrowing request made by its local subsidiary. The local Bank takes cognisance of such letter of comfort based on the reputation and international standing of the issuing company. It must be noted that a letter of comfort is not a guarantee.

j). **CASH**

Bank cash Balances are also accepted as security for lending. A Cash collateral is very attractive and most secure form of security, and normally accepted when offered. However, it is always advisable for the Banker to satisfy himself that he understands the reason behind an offer of such security.

A Bank must be aware that there is always the danger of staff colluding with customers to draw from the pledged deposit. Steps must be taken to avoid this.

Two important characteristics of cash security should be noted. These are:

1. ***Risk Element***: No foreseeable repayment risk is involved when pure virgin cash is pledged to secure a borrowing. This is particularly true when, and if, the relationship of cash deposit to borrowing is one-to-one.
2. ***Realisation Problem***: Cash loans and set-offs involve only book transfers, and the Bank's position is immediately safeguarded upon default, without the Bank having to go through the usual disposal problems. However, despite the no risk advantage to the Bank of a cash pledge, it has not been used very much because of the obvious disadvantages to the beneficiaries of having to pay extra cost for no improvement in liquidity.

Cash pledges are usually a support for a guarantee, mostly among individual customers of Banks. It is sometimes used as support for a corporate guarantee where the guarantor does not possess any other acceptable form of security.

2.6 PERFECTION AND DOCUMENTATION OF SECURITIES

A security document must be legally perfected in order to preserve its validity against third parties. With regard to loan agreement, it must be stamped at flat rate at the Federal Stamp Duties Office after execution by the parties. A *floating debenture* should be stamped ***ad-valorem*** for the amount of the loan and then registered at the Corporate Affairs Commission where a Certificate of Registration

is issued. A mortgage debenture on the other hand after being stamped where the land charged is situated as well as at the Corporate Affairs Commission. The consent of the relevant State Governor is an essential prerequisite to the perfection of this security.

With regard to Legal Mortgages and Tripartite Legal Mortgages, these are stamped ***ad-valorem*** and then registered at the Land Registry. If the land belongs to a company then the documents must also be registered at the Corporate Affairs Commission. Similarly, the Governor's consent of the relevant State where the land is situated is required. With regard to all corporate borrowers, a certified true copy of their Board Resolution approving the borrowing as well as authorizing the granting of the security must be obtained by the Banker. In the case of an equitable mortgage, it is usual for a deposit of the title documents to be accompanied by a *Memorandum of Deposit* signed by the mortgagor, which specifies the terms upon which the deposit was made.

With regard to guarantees (individuals and companies alike) are expected to be dated and stamped at the time of execution. The guarantor or authorised signatories of a company should sign across the affixed stamp and should be witnessed by a Bank official. In the case of Guarantee under seal, it must be stamped at the Stamp Duties Office within 30 days from the date of execution.

Equitable of mortgage of shares entails deposit of Certificates with or without delivery of blank transfer form to the Banker. It is legal mortgage where shares are transferred to and registered in the name of the Bank or nominee. When shares transfer form is executed in blank by a borrower, it gives the Banker the liberty to later fill-up the blank and perfect the shares in favour of the Bank or

nominee.

With regards to debentures which is a security exclusive to incorporated companies, the following documents should be obtained:

a) *Memorandum and Articles of Association* of the company creating the debenture.

b) Resolution of Board of Directors of the company authorizing the creation of the charge.

c) Photocopy of the company's Certificate of Incorporation.

Bankers usually delay disbursement of funds to the borrowing company until all the necessary confirmation and searches are conducted and that there are no prior charges or encumbrances on the assets of the company. In the case of mortgage debenture, the deed must be registered both at the Corporate Affairs Commission and the Land Registry of the State where the landed property is situated.

With regards to Life Assurance Policy, the holder *(Assignor)* assigns the policy unto the Bank *(Assignee)*. This is usually done by preparation of *Deed of Assignment* with covenants indicating that, all money that may become payable under the policy will be in favour of the Bank by way of continuing security subject only to redemption of the credit by the *Assignor*.

2.7 ENFORCEMENT AND REALISATION OF SECURITIES

Banks usually demand tangible securities from the borrower(s) in order to be able to recoup themselves in case of an inability to pay the credit facility by the borrower, even though Banks do not necessarily lend upon the adequacy of the security offered by the borrower and/or it guarantor or sureties. It is therefore a

necessary additional safeguard for Bakers to ensure that, they are adequately covered by secured assets of the borrower valued for more than the amount of the credit facility.

Securities also referred to as *Collateral* range from legal mortgages on landed properties of the customer whether corporate or individual, to debenture on the assets of a company, which could be a floating debenture on all assets of the company or a mortgage debenture, a Bank can initiate enforcement action for the realisation of the security granted by the borrower once an event of default has occurred.

An event of default may occur where the borrower has missed the payment of over-due interest or principal loan instalment or where the borrower had breached any of the covenants stipulated in the agreement even where such a customer is current on its loan repayment obligations.

ENFORCEMENT ACTION WITHOUT RESORT TO COURT ACTION

Once a debtor company has defaulted, a lending Bank usually would want to recover its debt as quickly as possible and usually without resort to Court action and the attendant high cost of litigation. Usually the lending Bank may well find itself in competition with other creditors who are also looking for payment from the same debtor company. Where the Bank loan is secured by a perfected security in the form of a legal mortgage, the lending Bank is therefore empowered by the mortgage agreement to sell the mortgaged property without resorting to taking the debtor or mortgagor to Court. The lending Bank can therefore appoint a receiver to take immediate possession of the mortgaged property to recover all the income arising from it or for the purpose of selling, leasing or letting it, and

paying over the amounts realised to the lending Bank. Similarly, a lending Bank can appoint an ***Auctioneer*** to advertise and sell the mortgaged property on its behalf.

A lending Bank that holds a perfected floating or mortgage debenture over the assets of a debtor company is authorised by the provisions of the debenture to appoint a receiver or a receiver/manager without resort to Court action, to take over all the assets of the debtor company with a view to carrying on the business of the company as a going concern if that fails to sell the assets or the business.

In practice, what happens is that where a corporate debtor gets into financial crisis and cannot therefore, pay its debts as and when due, the lender Bank holding the debenture will appraise itself of the company's operations in order to determine whether the debtor company's business can be turned around by prudent management or whether the assets should be realised. Where the lending Bank decides that the debtor company's business cannot be profitably resuscitated, it will then appoint a receiver with the sole aim of Realising the assets of the company.

However, where the lending Bank perceives that the debtor company's business can be turned around, it will then appoint a receiver and manager to manage the business and collect its assets, usually, with a view to the eventual sale of the business as going concern for the benefit of the creditor Bank.

The company's properties covered by the floating charge of the debenture and over which it will crystalize upon enforcement, include land and building, stock in trade, book debts or accounts receivable, industrial property (such as patents,

trademarks, copyright) goodwill of the business and the benefit of pending contract.

ENFORCEMENT OF LOAN RECOVERY BY COURT ACTION

There are several types of Court proceedings that lending Banks can initiate against a defaulting company. The type of proceedings to be taken will however, depend on what type of credit facility was granted to the debtor and what type of security was obtained by the lending Bank from the borrower. Banks usually embark upon legal action, especially court actions against defaulting customers as a last resort after all other means must have failed to yield the desired results. According to *Omolaja Adeniji (1988)*, "Default in payment does not immediately bring down a court action upon the debtor's head. Banks are not keen on litigation, because the publicity is not good for business. Litigation is viewed as an ill-wind that blows no one any good. They would much rather pursue all possible avenues of appeal and persuasion by writing a letter of demand and following it up with monthly reminders, and by personal contacts where possible. The method of appeal and persuasion is usually continued over a fairly long period of time. It is only when this fails to bring about a favourable response that the debt is classified as bad one, which signifies that the lender now intends to explore coercive measures".

As stated above, there are different types of court proceedings that may be instituted against defaulting companies by lending Bank. The choice of proceedings to be adopted will however, depend on the performance record of the company concerned, the size of the loan amount outstanding and the type of security held by the Bank on the assets of the company. Some Banks proceed to obtain court judgement against defaulting corporate clients even when they hold

perfected legal mortgage and debentures on such companies' assets in order to pre-empt any delaying tactics by the defaulting customer claiming that the debt was not yet due for payment.

Nevertheless, it is necessary to stress that whereas in some cases securities in the form of legal mortgage or debenture demanded by the Bank are not perfected either through lack of Governor's consent or non-issuance or revocation of Certificate of Occupancy, the lending Bank concerned can only enforce repayment of its loan by taking court action against the defaulting company.

In the case of a straight-forward simple debt, the usual course of action is to instruct outside legal counsels to take out ***Writ of Summons*** in the High Court against the defaulting borrower. Usually, such cases are uncontested and the lending Bank can quietly obtain judgement in it favour. However, in order to ensue the repayment of the judgement debt, the Bank as a judgement creditor can apply under the ***Sheriff and Civil*** processes law for the attachment and sale of all moveable assets of the debtor to ensure full liquidation of the outstanding amount against the debtor.

To recover an unsecured debt by court action, the Banker must ensure that the account has not been left dormant for more than six (6) years after the last advance, otherwise the Banker cannot recover the debt, if the *Limitation Act* is pleaded, nor can the Banker recover interest which even within 6 years has in accordance with the ordinary practice of Bankers, has been added to the principal from time to time and become part of the principal sum due.

WINDING-UP PROCEEDINGS AGAINST AN INSOLVENT COMPANY

Where disputes appears complicated or where the security offered was not perfected, the Bank may opt for *winding-up proceedings* against the debtor company, perhaps, the most serious of all court proceedings available to lending Bank against the insolvent debtor is the commencement of winding-up proceedings under the provisions of the *Companies and Allied Matters Decree (1990)* against the defaulting company by the lending Bank at the relevant Federal High Court.

From the lending Banker's and other creditors' point of view, the presentation of *winding-up petition* against the defaulting company by the lending Bank can be effective. From the stand-point of the lending Bank, the most relevant provision is *Section 408 sub-section (d)* which provides as follows: *"A company may be wound up by the Court if..... the company is unable to pay its debts". Subsection 409* of the Decree also provides that *"A company shall be deemed to be unable to pay its debt if:*

a) a creditor, by assignment or otherwise, to whom the company is indebted in a sum exceeding ₦2,000 then due has served on the company, by leaving at its Registered office or Head Office, a demand under his hand requiring the company to pay the sum due, and the company has for three weeks thereafter neglected to pay the sum or to secure or compound for it to the reasonable satisfaction of the creditor; or

b) execution or other process issued on a judgement, decree or order of any court in favour of a creditor of the company is returned unsatisfied in whole or in part;

c) the court, after taking into account any contingent or prospective liability of the company is satisfied that the company is to pay its debts".

The major advantage of the winding-up petition against an insolvement company by the lender is the devastating effect it can have on the owners of the company. Usually, most businessmen attach great pride and sentiment to their ownership of corporate entities without attaching equally important attention to ensuring

proper performance of such companies's financial obligations to their Bankers and Creditors. To such carefree proprietors, the commencement of the winding-up proceedings jolts them to the sudden awareness that their dream company or group of companies would soon become extinct, and that to them must be avoided by all means.

In order to avoid the social embarrassment that goes with publication of the winding-up proceedings in the newspapers and gazettes which in turn will sound a clarion call on other unsuspecting creditors, such proprietorship will quickly rally round and even dispose off personal assets to repay part of the outstanding loan while pleading with the petitioning Bank to withdraw the winding-up petition.

It is also necessary to state that, the institution of a winding-up proceedings against a debtor company by a lending Bank does not bar such a lender from taking any other legal action in court against such a corporate debtor or its guarantors or sureties in the various State High Courts.

It is worthy to note that, under winding-up proceedings, the Court may appoint an official receiver who unlike the receiver appointed out of court under the provisions of a legal mortgage or debenture agreement is an agent of the court and not that a company and its creditors. The function of the official receiver is mainly to investigate and report on the company's business activities to the Court. Following the report of the official receiver, the court will then appoint a liquidator to take charge of the assets of the company, sell them and dispose off the proceeds according to the priority rules (i.e. Debenture holders, secured creditors, etc).

CHAPTER THREE

CREDIT POLICY FORMULATION AND ANALYSIS

3.1 HISTORY, OPERATIONS AND STRUCTURE OF IMB PLC

HISTORY: International Merchant Bank Plc (IMB) is among the oldest and leading Merchant Banks in Nigeria. With over twenty years of experience in Merchant Banking, it has grown to become a major force in the provision of excellent banking and other financial services to customers through a network of branches located in key commercial centres of the country.

The Bank commenced operations as 100% fully owned subsidiary of the ***First National Bank of Chicago (FNBC)*** in 1974 when it was incorporated as *First National Bank of Chicago Nigeria Limited.* ***FNBC*** was at the time, one of the top ten wholesale Banks in the United States of America with offices located in major money centres of the world.

In line with the prevailing indigenisation policy at the time, ***FNBC***, in 1976 relinquished 60% of its ownership in the Bank to the Federal Government with whom it became joint venture partners. Accordingly, the Bank changed its name to ***International Merchant Bank Nigeria Limited*** with technical management services provided by ***FNBC*** under the terms of an agreement that expired in 1982. This arrangement held until 1991 when ***FNBC*** divested its shares through a sale of its equity holding. The Bank became a *Public Limited Company (PLC)* in 1992 and currently has 10% of its shares in the hands of its employees.

IMB Plc has grown tremendously over the years in all the key indices for measuring Bank competitiveness. From a staff strength of 15 in 1974 when it

opened its office at *No.20, St. Gregory's Road in South-West, Ikoyi, Lagos,* the Bank has in its employment today more than 200 people distributed across the country in its offices located in *Lagos, Aba, Kano, Port-Harcourt, Kaduna and Abuja.* Acknowledged for its experience in the provision of full range of merchant banking services the Bank has, over the years, developed some of the best Bankers in the industry as evidenced by the more than 20 *Chief Executive Officers* "furnished" to the industry so far. The depth of the skill-base in the Bank remains a distinguishing hallmark that competitors acknowledge readily.

IMB Plc has been keenly involved in the growth and development of the banking industry. The Bank participates actively in the provision of the much-needed product and management skills to other Banks. For instance, it provided technical management services to some Banks and other financial institutions. This requires a level of commitment and responsibility that only Banks of ***IMB's*** stature and maturity can undertake.

With its Corporate Headquarters located at *No.1, Akin Adesola Street in Victoria Island, Lagos,* its unique building, strategically located by the Atlantic Ocean (*Bar Beach*), is a major architectural landmark of Corporate Lagos. This same thoughtfulness regarding form and function is also evident in the choice of branch locations throughout the country. The Bank continues to pursue those strategies identified as relevant for its continuing competitiveness and leadership in the industry. These strategies are expected to drive its future growth and consolidation.

OPERATIONS: The Bank provides full range of investment banking services to select clientele; products/services include working capital financing, export

financing, funds management services, capital market services, project advisory services, share registration etc.

FUNDS MANAGEMENT SERVICES: ***IMB's*** Funds Management services is a flexible investment programme designed to meet specific needs of highly discerning clientele. The focus is on organizations and high networth individuals who do not have immediate needs of funds in their possession, yet require to have a secure and safe depository of their funds, The objective is to give maximum returns on investments simultaneously with adequate capital preservation.
Customer's funds could be placed in any or hybrid of the following instruments:

1. Fixed Deposits
2. ***IMB*** Master Note
3. Special Current Accounts
4. Banker's Acceptance (BA)
5. Commercial Papers (CP).

INTERNATIONAL TREASURY SERVICES

IMB's International Treasury Group provides highly personalised and professional services in the strategic management of an international portfolio of foreign funds and in the sourcing of foreign exchange. The *International Treasury* has responsibility for ***FX*** dealings, *Domiciliary Accounts, International Funds Management and Correspondent Banking.* In addition to the efficient network of correspondent Banks and electronic banking capabilities hook the Bank into the international financial markets enabling timely investments, effect payment instructions promptly, establish Letters of Credit, effect currency conversions and other ***FX***-related transactions anywhere in the world.

CREDIT: The Credit Department has overall responsibilities for meeting the credit needs of all customers in addition to marketing other services and products offered by the Bank. Some of the key products and services offered to select clientele include the following:

a) Medium-term loans for new capital assets acquisition and expansion.

b) Short-term facilities including *Overdrafts, Advances, Bills discounting and Bankers Acceptances* for working capital purposes.

c) Stand-by facilities for Commercial Papers, Local Purchase Orders and Asset-based financing.

d) Issuance of guarantees and bonds of various maturities.

e) Equipment leasing.

f) Export financing and Advisory services

g) Trade finance facilities such as Letters of Credit *(L/C)*, Foreign Exchange *(FX)* etc.

h) Loan syndication/Project financing.

CORPORATE FINANCE

With traditional sources of business financing increasingly being replaced by capital market instruments, the capital market group is constantly looking for ways to structure transactions creatively to suit Clients' specific needs. The capital market activities covers the following areas:

- Equity issues *(Private and Public)*
- Venture Capital
- Debenture Stock issues
- Mergers and Acquisitions
- Brokerage and Dealing services

DOMESTIC OPERATIONS

The Domestic Operations Department houses the traditional banking services which are provided to support the activities of other Departments in the effort to achieve organizational goals. Such services include Cashiering, Cheque issuance, Funds transfer, Letter of Credit, Bills for Collection, Open Account transactions and Documentation for Treasury Products namely: Discountable Instruments, Domiciliary Accounts, Corporate and Inter-Bank Deposits and Placements.

SPECIALISED PRODUCTS

The Specialised Products Department renders Project Advisory services to customers who want to benefit from the Multilateral Institutions' assisted projects. These include projects funded by the World Bank, International Finance Corporation (IFC), African Development Bank (ADB), and the Commission of European Communities (CEC). The Department is involved in making contacts, establishment of the initial relationship, making proposals and drafting agreements in respect of projects to be supervised. The Bank generates income by charging service fees for loan monitoring and financial advice. All expenses incurred on call trips to project sites or on project supervision are reimbursable.

LEGAL DEPARTMENT

The Department provides overall Legal counselling for the Bank's business and operational activities, particularly in the structuring of new banking products and in the delivery of various specialised services to customers. To ensure that the Bank's business is conducted at all times in strict adherence with the applicable laws and guidelines, the Department interprets and analyses all related legislations, CBN guidelines and Court decisions as they are released, for officers of the Bank.

SPECIAL ASSETS DEPARTMENT

The Department has responsibility for managing the Non-performing Credit Portfolio of the Bank, and is also responsible for speedy recovery of sticky overdrafts, advances and Loans of Doubtful Value *(LDV)*. All credit facilities that are of doubtful value are transferred to the Department for effective monitoring and recovery. Quarterly watchlist meeting is being held to review all existing facilities and proper credit classification. The watchlist meeting assists in identifying the performance or otherwise of each account and decision on actions to be taken are made.

AUDIT AND LOAN REVIEW

The Audit Unit has bank-wide responsibility for evaluating existing internal controls, modifying them as procedures change, developing new internal control procedures for new products and generally maintaining and improving the administration and accounting controls of the Bank. Internal Audit responsibility includes:

- Checking compliance to internal control procedures
- Verification of Audit trails
- Periodic auditing of Branches/Departments
- Management Audit
- Audit Planning
- Spot checks and
- Inspection reports to Management.

The Loan Review Unit's main function is to assist Management in the formulation of the Bank's credit policy and the maintenance of high credit practices. The Unit continually evaluates the credit portfolio of the Bank to determine its risk composition according to established risk classification. The

Unit drives the problem loan recognition process through a Management Committee called the ***Senior Credit Committee.*** Watchlist meetings are held regularly and specific action plans are developed for individual watchlist credits.

REGISTRARS

The Department serves as In-house Registrars and General Registrars to other companies through which the Bank earns Registrar's fees for registration services rendered. Other functions of the Department include:

- Maintenance of share register, which shows names of shareholders and units held by each member.
- Processing of Share Transfers
- Payments of Dividend/Interest Warrants
- Issuance of Share/Stock Certificates.

FINANCE AND ACCOUNTS

The Department ensures the accurate reporting of all financial transactions, as well as the development and maintenance of adequate procedures and control. It provides the reporting link between the Bank and the Central Bank, affiliates and other regulatory bodies. The preparation, review, analysis and interpretation of the Bank's financial statements, and the compilation of basic accounting data for management use also fall within the mandate of the Department. As the custodian of customers accounting records, the Accounts Unit of the Department also attends to requests on customer records, in particular as they relate to the verification of signatories and confirmation of account balances. In its reconciliatory role, the Unit investigates outstanding items on accounts and makes exceptions reporting.

The Benefits Unit of the Department is charged with the responsibility for the implementation of personnel policies as they affect employee benefits. Specifically, it is responsible for the following:

- Payroll preparation and disbursement of approved allowances
- Employee loans appraisal, disbursement and recovery
- Compliance with voluntary and statutory deductions from payroll
- Liaising with Statutory Agencies, Internal Revenue, National Provident Fund etc.
- Making recommendations to Management on ways to improve the motivational content of benefits and to enhance their administration.

INFORMATION SYSTEM

The Department is the *interface* between technology/users or act as ***go-between*** by provision of computer services to all Branches and Departments. The Bank's effort are currently directed towards the development of a *Wide Area Network (WAN)* of computer systems covering the Head Office in Lagos and the Branches.

In line with these goals the Bank has installed *State-of-the Art* computer hardware which provides greatly expanded processing power to drive a network of terminals, personal computers, printers and other associated peripherals. The new banking package provides real time processing support for the Bank's Financial and Service Products, Foreign Exchange, Domiciliary Accounts, Documentary Credits, Loans, Deposits and Corporate Finance.

HUMAN RESOURCES MANAGEMENT/ADMINISTRATION

As the name implies, the function of the Department covers Personnel Management and General Administration duties. Specific duties include

Manpower planning, Recruitment and Selection, Transfers, Disciplinary matters, Performance Appraisal and Annual Increments/Promotions.

The Administration Unit is charged with the responsibility for maintenance, cleaning/sanitation, Insurance, Procurement, Utilities, Transportation and rendering security services to the Bank. The Training Unit is in-charge of manpower training and development through In-house/external Courses, Seminars, Workshops and Conferences to all categories of staff. The Archives Unit of the Department is the custodian to all Bank records stored in the archives and also renders micro-filming services to the Bank by processing/restoring accounting tickets and other important Bank documents.

STOCKBROKING/MARKETING, BUSINESS DEVELOPMENT AND FUNDING *(MBDF)*

The services provided by the Department include dealing in, and broking of quoted and unquoted securities, money market instruments, debt and equity securities. The Marketing, Business Development and Funding (MBDF) Unit has the responsibility for funds mobilisation, marketing of the Bank's products/services to selected groups of customers which fall within the clearly defined target market where risks are pre-determined within acceptance criteria. Such focused marketing has contributed immensely to the high quality of the Bank's assets and earnings.

STRUCTURE OF INTERNATIONAL MERCHANT BANK PLC (IMB)

The apex decision making body of the Bank is the ***Board of Directors (BOD).*** The Directors are elected to run the affairs of the Bank during the Annual General Meeting (AGM) held annually as contained in the Bank's *Article of Association* as well as the *Companies and Allied Matters Decree (CAMD) 1990.*

Next in the structure, is the ***Managing Director/Chief Executive*** who is the Head of the Management team. For efficiency and expediency, the organisation is divided into two divisions, namely, the Corporate Banking Division and the Banking Operations Division which are currently headed by General Mangers. The office of the Managing Director/Chief Executive directly supervises Audit and Loan Review, Legal/Special Assets and the Board Secretariat.

The ***General Manager (Corporate Banking Division)*** supervises Credit, Treasury, Specialised Products, Stockbroking and *MBDF* and HRM/Administration Departments. In addition, Kano, Kaduna and Abuja Branches are also reporting to the Head of Corporate Banking Division.

On the other hand, the ***General Manager (Banking Operations Division)*** supervises the following Departments, namely; Domestic Operation, Finance and Accounts, International Operations, Information Systems, Registrars and Corporate Finance as well as Port-Harcourt and Aba Branches. For detailed organisational structure of International Merchant Bank refer to *Appendix A*.

3.2 INTERNATIONAL MERCHANT BANK PLC CREDIT POLICY

International Merchant Bank's Credit Policy is flexible as it responds to the ever changing environment. The objective is to have a high quality diversified loan portfolio which will:

- generate profits which are commensurate with the risks and the Bank's target for return on assets and return on capital.
- enable the Bank to identify potential loans thus keeping non-performing assets and charge-offs to minimum; and
- adhere to directives concerning exposure to industries/sectors which

government has identified to be strategic as stipulated in Central Bank of Nigeria (CBN) Monetary and Credit Policy guidelines and circulars.

In order to achieve these objectives, it is necessary for the Bank to:

- identify target markets
- determine IMB's risk appetite and appropriate returns
- structure, package and develop products which meet client's requirements but minimises the Bank's risks.
- manage the loan portfolio effectively and efficiently.

The policies provide a basic guide for Relationship Managers, Branch Managers and Head Office personnel and against which the credit process is audited. It is the responsibility of all personnel involved in the credit process to be fully acquainted with IMB's Credit Policies, Nigerian Banking Regulations, and to be familiar with accounting and tax regulations. All personnel who are involved in the credit process must provide guidance and support to subordinates.

The Bank's reputation survives on its record of integrity, therefore an unauthorised disclosure of confidential information is a serious offence. It represents a breach of contract which may resort in proceedings against the Bank or the Bank employee involved. The need to maintain confidentiality applies to all employees of ***IMB Plc***.

Relationship between and ***IMB Plc*** and its Clients are confidential and therefore no information can be disclosed without the Client's approval. However exceptions are:

- enquiries by regulatory authorities and
- *subpoenas* from a competent Court of law.

In certain circumstances (e.g. a syndication, ***IMB*** may disclose information, but

where there is doubt, the view of the Bank's Legal Department and/or its Legal Counsel must be obtained. It is essential to share information within ***IMB*** which facilitates credit decisions.

3.3 CREDIT MANAGEMENT STRUCTURE

The credit process starts from the Relationship Officers who are responsible for identifying and managing all aspects of credit including Credit Analysis Form *(CAF)* and Credit Analysis Memorandum *(CAM)*. The next process in the structure is the review of *CAF/CAM* by the Branch Manger/HOD*(Credit)*, which is then forwarded to the General Manager *(Corporate Banking Div.)* for review and approval depending on the amount involved. Next in the structure is the Credit Strategic Committee *(CRESCO)* which is chaired by the General Manager*(Corporate Banking Div)*. The responsibilities of *CRESCO* include reviewing for referral to Executive Committee (EXCO), where appropriate:

- All credit process elements rated unsatisfactory by Audit and Loan Review
- Credit related systems and operational issues
- Issues affecting credit process efficiency and/or effectiveness
- Significant new watchlist credits
- The level of charge-offs and provisions recommended by the Relationship Officers.
- Approval and renewal of credit within the Committee's limit.

After the credit must have scaled through *CRESCO*, it goes to the Managing Director/Chief Executive for approval or noting depending on the amount involved.

Next in the hierarchy of the Credit Structure is the *EXCO*, which is responsible for reviewing and approving submission of all credit items which are to be

submitted to the Board Audit and Credit Committee *(BACC)*. Other credit responsibilities of the *EXCO* are:

- Establishing the Bank's Minimum Lending Rate *(MLR)* and Prime Lending Rate *(PRIME)*.
- Approving changes in *MLR* and *PRIME* in consonance with Government regulations.
- Establishing guidelines for pricing credit facilities.
- Approving all credits which are within its approval limit.
- Reviewing credit related systems and operational issues and their implementation.
- Approving target market definitions and Risk Acceptance Criteria for lending units.
- Reviewing and approving charge-offs on the recommendation of the *CRESCO*.
- Approving new financial products and credit product initiative.
- Approving the rating grid for credits and the process.

Next in the Credit Management structure is the Board Audit and Credit Committee *(BACC)*, which is a Standing Committee of the Board. The *BACC* exercises the Board's responsibilities on credit and credit related issues.

At the apex of the Credit Management Structure of ***IMB Plc*** is the Board of Directors *(BOD)*. Board Credit responsibilities include:

- Approving significant revisions to credit policies.
- Establishing portfolio distribution guidelines which must conform with Government regulations.
- Approving ***IMB's*** Credit Management Structure (reviewed from time to time).
- Establishing credit approval authorities including the level of delegation.

- Approving charge-offs, in excess of the limits delegated to the Executive Committee.
- Approving all credits in excess of the limits delegated to the Executive Committee.

For detailed credit approval limits for the various stages in the Credit Management Structure refer to *Appendix B.*

3.4 CLASSES OF CREDIT FACILITIES

Traditionally, Merchant banks otherwise known as Investment Banks are usually engaged in medium to long-term lending activities. To ensure proper matching of deposit liabilities (mostly short-term) and Loan/Advances and other investments, ***IMB Plc*** like any other Merchant Bank is also engaged into short-term lending, in addition to its traditional Merchant Banking activities. The various classes of credit facilities available to customers are:

1). *CURRENT LINES*: Current Line facilities are usually structured to allow drawings by way of overdrafts and short-term advances, which expire within 12 months from the date of approval. Current Line facility is usable at the option of the Bank - i.e. it can be withdrawn or called back at the Bank's discretion.

2). *TERM LOANS*: Include any non-revolving facility where the final maturity extends beyond one year from the date approved by ***IMB***. Covenants are generally required. Maturities in excess of 5 years require *EXCO* approval; maturities beyond 7 years are generally discouraged.

3). *OVERDRAFTS*: Overdrafts must be approved, extensions of credit and structured as Current Line facilities. Allowing a client to draw down against *Uncleared Effects (UE)* is an extension of credit and must be approved at the appropriate level. Drawings against *Uncleared Effects (UE)*

can only be authorised within the limit of an existing approved Current Line facility.

4). <u>*SYNDICATIONS*</u>: Syndicated loans are credit facilities extended by consortium of Banks. Such consortium lending are led by the Bank. ***IMB Plc*** also participates in syndications led by other Banks. Regardless of the origin of such credit opportunity the same standards of credit analysis, documentation, client contact and responsibility apply. The Credit Officer that would ordinarily manage direct extension of credit to the *obligor* must analyse, approve or present for approval all such syndications entered into. The same considerations apply when ***IMB*** originates or leads a loan syndication.

5). <u>*BANKER'S ACCEPTANCES (BA)*</u>: *Banker's Acceptances* are drafts that are accepted by Banks, and they are used in the financing of foreign and domestic trade. The credit worthiness of Banker's acceptance is judged relative to the Bank accepting the draft, not the drawer. The Bank accepts responsibility for repayment of the customer's obligation to any investor by stamping "***accepted***" on it. This stamping enhances the marketing of this bill between Banks or other investors.

The purchase of a *BA* represents the extension of Credit to a non-customer of ***IMB*** with secondary recourse to the issuing Bank. ***IMB*** prefers to deal directly with its credit customers so that proper analysis, and documentation of the credit can be done. Hence, ***IMB*** does not normally purchase *Bankers Acceptances*. The Bank issues *BA* from time to time in order to manage its balance sheet. The issue of such *BA* represents the sale of an existing loan asset. *BA's* are not used to create completely new credit exposure. ***IMB*** does not issue a **BA** for any customer unless within the limits of an existing approved facility.

6) *COMMERCIAL PAPERS (CPs)*: ***Commercial Papers*** consists of short-term unsecured ***Promissory notes*** issued by companies. Commercial Papers can be sold directly or through dealers. Other features of *CPs* include:

- Credit risk is that of issuing company
- Developed as means for cash rich corporations to finance others in times of cash shortfall.
- Usually held till maturity by investors, therefore not much traded. However, dealers are usually willing to buy back *CPs* sold through them.
- Priced at a discount usually payable upfront.
- Yield is higher than *Treasury Bills*, and the spread is a function of credit rating.
- Depending on market place, issuer could not be required to back-up the paper with a line of credit usually used to fund any repayment of outstanding *CP*.
- Maturities mostly in 90 days and 180 days (much shorter maturities are common in today's market).

In ***IMB Plc***, Commercial Papers are issued only on behalf of companies where credit classification is not lower than **B** and where the classification is not a function of collateral or guarantee. Where the rating is lower, the ***CP*** must be supported by a standby facility; preferably arranged by ***IMB***. Such a standby facility is subject to the normal credit approval policy of ***IMB***.

Although *CPs* are issued unsecured and do not carry direct credit exposure for ***IMB***, the Bank's reputation is put on the line each time a CP is issued. Hence the same standard of credit analysis is required for *CP* issues as with other credit facilities.

7) *LEASING FACILITIES*: A lease is a means by which a firm can acquire the economic use of an asset for a stated period of time. A lease facility is a risk asset like any other credit exposure. Regardless of its nature the same standards of credit analysis, documentation, Client contact and responsibility apply. A lease facility must be structured to allow the Bank to promptly and effectively repossess the asset leased in the event of a default by a customer.

In ***IMB Plc,*** the following forms of lease financing are extended to customers:

i) Direct Leasing

ii) Sale and Leaseback

iii) Leveraged Leasing

i) *DIRECT LEASING*: A company acquires the use of an asset it did not own previously. The Bank acquires the asset and in turn, leases it the *lessee*.

ii) *SALE AND LEASEBACK*: Under the *Sale and Leaseback* arrangement, a firm sells an asset it owns to the Bank, and the Bank leases it back to the firm. Usually the asset is sold at approximately its market value. The firm receives the sales price in cash and the economic use of the asset during the lease period. In turn, it contracts to make periodic lease rental payments and of course, gives up title to the asset. As a result the *lessor* (Bank) realises any residual value the asset might have at the end of the lease period.

iii) *LEVERAGED LEASING*: Under *Leveraged Leasing* there are three parties involved: the ***lessee***, the ***lessor*** (equity participant) and the ***lender***. From the standpoint of the lessee, there is no difference between a

leveraged lease and any other type of lease. The lessee contracts to make periodic payments over the basic lease period, and in turn, is entitled to the use of the asset over that period of time.

The role of the *lessor*, however, is changed. The lessor acquires the asset in keeping with the terms of the lease arrangement. This acquisition is financed in part by an equity investment by the lessor and long-term lender or lenders (in the case of *consortium or syndicated lease*). The loan is usually secured by a mortgage on the asset, as well as assignment of the lease and lease payments. The *lessor*, however, is the borrower. Leveraged leasing is used to finance the acquisition of assets requiring large capital outlay.

3.5 CREDIT ANALYSIS AND PRESENTATION

Credit Analysis is based on "*Credit Proposal*". A credit proposal is a documented request by a potential borrower raised on a financier or Banker for a credit facility, which may be granted or rejected on the basis of information set out on the *Credit Analysis Form (CAF)* and *Credit Analysis Memorandum (CAM)*.

The purpose of Credit Analysis is to identify the nature, magnitude and management requirements of risks that could prevent the timely repayment of a credit facility. The evaluation of all credit proposals are based on a written analysis of transaction; the client's financial situation, management, and competitive position; and degree of risk involved. While no essential elements should be omitted, brevity is desired.

CREDIT ANALYSIS FORM (CAF): In ***IMB Plc***, the details of each credit facility must be provided on a *CAF*. Each credit facility should have a separate *CAF*. The presentation of analysis converts data into an appropriately detailed

recommendation that identifies the risks, indicates how these risks will be managed, and proposes a specific credit facility. It records the analysis in a form that permits efficient approval, documentation, and both internal and external review. It formalizes the risk assessment, describes covenants or protective features that are to be part of the transaction and provides a basis for on-going management of the credit. A sample of *CAF* is included as *Appendix C*.

CREDIT ANALYSIS MEMORANDUM (CAM): A *CAM* is a detailed but focussed analysis, which contains the following sections:

1) *BORROWER*: Legal name and full identity of the borrower. The ownership and ownership structure of the ***obligor*** is briefly described.
2) ***FACILITY***: Summarises and identify the type of facility.
3) *BUSINESS*: A description of the business and business segments, if the company is diversified.
4) *MANAGEMENT/STRATEGY*: An assessment of management and the strategy of the Client. In other words, identify the strategy of the Client and say whether or not it is good for the credit.
5) *KEY CREDIT ISSUES/RISKS*: This section itemises and discuss the key credit issues on which the credit decision hinges.
6) *FINANCIAL ANALYSIS*: This is a detailed analysis of financial performance, position and cashflow of the Client. The analysis covers:
   - Income statement
   - Balance sheet
   - *Drexel Burnham Lambert (DBL) Cashflow*. A sample of *DBL* cashflow analysis is included as *Appendix D*.
7) *SENSITIVITY ANALYSIS*: This investigates the Client's ability to service its obligations in a timely manner under different economic scenarios

especially the downside risk analysis. This is critical element which examines the Client's ability to perform under adverse circumstances and enables the credit officer to identify circumstances which result in a downgrade of the risk classification and therefore trigger the appropriate steps to protect the Bank's position.

8) *ALTERNATIVE SOURCE OF REPAYMENT*: The *CAM* also indicates alternative source of repayment and assess the alternatives during adverse conditions. Collateral analysis includes a good description of the Collateral, its value, how the value was arrived at, and when the valuation was made. An analysis of the ***Collateral Margin*** should be made under this sub-heading. It is usually necessary to comment on the potential adverse changes in the value of the Collateral for the foreseeable future.

9) *CONCLUSIONS*: Summary of the principal conclusions arising from the analysis. Reasons should be given for the recommendations made.

The *CAM* also includes **Spread Sheet** in which the Client's financial statements are classified and summarised. The funds flow section of the spread sheet is designed to identify a company's sources and disposition of funds. Completing a *Spread Sheet* does not in itself constitute an analysis of credit. In particular, it is extremely important that the *CAM* includes an analysis of a company's cash flow as well as its balance sheet and income statement. A very effective way to look at a company's cash flow is to use ***Drexel Burnham Lambert's (DBL)*** total cashflow analysis. A sample of Spread Sheet as included in *Appendix E.*

DEAL MEMO: A deal memo is used when the Bank proposes to finance a particular transaction outside the existing credit relationship. Normally each of such a transaction will be unique and the credit package reflects the peculiarities of the transaction. Generally however, a ***deal memo*** includes:

- a brief description of the transaction;
- a statement as to how the transaction got to the Bank;
- key credit issues; which itemise all the principal risks associated with the transaction (including the risk of non-performance, diversion of funds, questionable legality etc) and how the risks will be managed;
- benefits of the deal to the Bank.

INDUSTRY ANALYSIS: The preparation of comprehensive industry studies greatly assist in managing a loan portfolio. Industry studies can be prepared for the Automobile, Pharmaceutical, Energy and Chemicals, Plastics, Real Estate and a host of other industries. The report resulting from a comprehensive industry study may be several pages long. It is not expected that, industry studies to be attached to each credit commitment submitted for approval. The *Credit Analysis Memorandum (CAM)* however, summarises the key characteristics of the industry relevant to the particular credit and their implications for that credit.

GUARANTEED CREDITS: Where a credit is guaranteed by a third party, the *CAM* includes the financial position and where appropriate, the profit performance of the guarantor, in order to demonstrate the ability of the guarantor to meet its obligations under the credit terms.

AUDITED FINANCIAL STATEMENTS: Audited Financial Statements are very important factor in the Bank's credit analysis. Therefore, financials must be audited by independent accounting firms acceptable to ***IMB Plc***. In addition, they must not be more than 9 months old. Audited Financial Statements may not be required in the case of mortgage loans advanced to individuals. Nevertheless, all the relevant financial information are obtained by the credit

officer and included in the *CAM*. ***IMB Plc*** extends fully cash backed facilities to some Clients where Audited Financial Statements are not available. In such cases, unaudited financial information may be obtained and included in a *Credit Analysis Memorandum*.

LEGAL LENDING LIMIT: ***IMB's*** **legal lending limit for credit exposure to a group of related *obligors*** is the sum of the Bank's paid-up capital plus statutory reserves. The Bank does not establish facilities, which in aggregate, exceed the legal lending limit. It is therefore, the responsibility of the Risk Manager to ensure that facilities to related *obligors* are presented on the *CAF* and that the aggregate does not exceed the Bank's legal lending limit. The Credit Officer aggregates facilities to all clients under **"common control"** - which is the ability to substantially influence Management policies arising from representation on the Board of Directors or by Management contract or otherwise.

The following are usually aggregated:

- Facilities to a holding company and its subsidiaries.
- Facilities to a group of clients owned or controlled by the same "family".

RISK RATING: ***IMB Plc*** uses risk ratings for all credit risks. Ratings for commercial loans range from **A** (minimal risk) to **G** (loss). Risk ratings are fully described in *Appendix F*.

Each credit package clearly states on the *CAF* and *CAM* the credit officer's risk rating.

Facilities are rated rather than Clients e.g. an overdraft to a Client may be rated **"B"** whereas a term loan to the same Client, **"C"**. The risk rating initially assigned by the Credit Officer as part of the credit analysis is affirmed or modified by the

approving officer. As the credit quality of a facility improves or deteriorates, the Credit Officer initiates risk rating changes. Every credit facility must be risk-rated by the Credit Officer when prposed. It is the responsibility of the Credit Officer to review those ratings continually but not less than annually. Rating reviews are conducted by Loan Review Unit at least bi-annually for significant "A" - "C" rated credits. If circumstances dictate that a facility rating should be changed, the Credit Officer must promptly communicate the revised rating to line management and Loan Review Unit and recommend appropriate credit management actions. Downgrades are initiated by the Credit Officer through a downgrade memorandum; a copy of which is forwarded to Loan Review Unit. The downgrade is effective with the issuance of the memorandum. Loan Review Unit also initiates downgrades and in this context, such rating is final. Upgrades requests are initiated by the Credit Officer, but must be concurred with by Loan Review Unit before being effective.

CREDIT APPROVAL: Credit approval authorities are delegated by the Board of Directors, based on the recommendation of *EXCO*. Credit Limits are specifically advised in writing to the specific individuals by the Managing Director/Chief Executive after approval by the Board. All approval authorities applicable to an Officer in a credit assignment, are specific to his/her job assignment, and are automatically cancelled when the individual changes to a new credit assignment. Approval authorities are not transferrable. ***IMB's*** detailed credit approval limits is included in *Appendix B*.

All credit exposure to Clients must be approved in accordance with these guidelines. Approval must be obtained before an oral or written commitment is given to a Client. The sponsor of a facility/line cannot approve it despite the

amount and risk being within the sponsor's approval authority. Each credit facility is a joint responsibility of **at least two (2)** Credit Officers. The first is the sponsor who writes and presents the credit package and the second is the approver, who makes an independent assessment upon which a decision is made. Depending on the amount of the facility, there may be several sponsors who recommend the credit to the final approver.

Once a facility is approved, its structure and the conditions governing its availability is communicated to the Client in writing. The ***Offer Letter*** is usually signed by the Credit Officer and one other approving authority in the lending unit. ***Proposal Letters*** should be similarly signed and the Credit Officer should ensure that they do not constitute unintended commitments on the part of ***IMB.***

When a facility expires, all prior authorities to extend credit based on that facility are terminated. There will be no disbursements under an expired facility. If a facility is terminated prior to the originally established expiration date, the relevant operating and reporting units must be notified. In rare circumstances when the request for approval of a proposed renewal of a facility rated "C" or better is not presented and considered before expiration, a temporary extension may be approved by the Head of the lending Division. This approval - to be made on an appropriate *CAF* - may extend the facility expiration for up to 90 days and no further extension will be approved for the same facility until it is presented and considered for renewal.

CHAPTER FOUR

CREDIT DOCUMENTATION AND MANAGEMENT

After credit presentation and approval, what follows next is credit documentation. It is worthy to note that, some documentation may be necessary even before credit analysis and presentation while others follow after approval. No matter how sound the appraisal of a facility is, if the mandate file is defective, the loan is illegal and unenforceable. Other documentation necessary before credit analysis includes: Credit Application, Financial Statements of the Borrower, Bankers Reports through credit checks, borrowing resolutions by institutional lenders, Valuation Reports etc. Post-approval documentation include: Evidence of perfection of security, Loan Agreements, Guarantee form, Deed of Legal Mortgages, Debenture Deeds etc.

4.1 DOCUMENTATION AND DISBURSEMENT

Great care must be taken over the documentation between Client and Bank. Correct documentation preserves the Bank's legal right which may be used against a Client during adverse conditions. The final approver up to the General Manager of the lending Division sign for "Complete Documentation" for credits requiring approval beyond his level.

It is the Credit Officer's responsibility to ensure that documentation is reviewed by the Bank's Legal Department/Legal Counsel. Credit Officers seek to standardise - through ***IMB's*** Legal Department - legal documentation. It is the responsibility of the Bank's Legal Department/Legal Counsel to review all documentation which is prepared by a Client, another Bank group or a party outside the Bank.

No disbursement shall be made until all document is lodged in acceptable form with the Bank. The Head of Legal Department shall sign the relevant *Loan Instruction Memo (LIM)* certifying the completeness of documentation before any disbursement is made. The approval of the Managing Director/Chief Executive **must** be obtained for any disbursements in excess of ₦500,000.00 where disbursements are to be made without complete documentation. A sample of *LIM* is included as *Appendix G.*

The Credit Officer ensures that documentation is complete and legally enforceable and the originals are kept in the Vault and copies held in credit files. Before actual disbursement takes place, it is the responsibility of the Manager in charge to independently verify that proper approvals are in place.

In ***IMB***, a major aspect of loan disbursement is adherence to internal credit approval process. Such approval must be well documented. Thereafter, all conditions precedent to drawdown must be reviewed by the Credit Officer. In the case of new customers, thorough scrutiny is essential before disbursement to safeguard the Bank's interest. Where there are problems regarding fulfillment of conditions precedent to drawdown, and a strong representation is made for early disbursement, such request could be considered on its own merit. Such request constitutes a waiver, and as such, approval must be sought appropriately.

In ***IMB Plc,*** Credit Administration Unit is responsible for loans administration and maintenance of credit files and other records relevant to credits. The credit files are security/confidential items and are therefore kept under lock and key to avoid possible tampering. The Credit file is divided into ten (10) sections namely;

1. Account data sheet
2. CAF and CAM
3. Loan documentation
4. Telex (if any)
5. Call Memorandum
6. Operations Memorandum
7. Correspondences
8. Past commitments (if any)
9. Credit enquiries
10. Newspaper Clippings

There are regular reviews of credit files to ensure that they are maintained in good order and records of their movement and use are maintained.

4.2 CREDIT REVIEW AND PORTFOLIO MANAGEMENT

Management of the credit process and maintenance of a reliably high quality credit process are the responsibility of the Line Management. The Loan Review Unit continually monitors portfolio and process quality. The Lending Division is responsible for supervising the portfolio under its administration to confirm that risk ratings are accurate, and facilities are used in consistence with approvals. Where circumstances dictate that risk rating be downgraded or the management of credits intensified, it is Management's responsibility to identify those credits, and develop and execute the appropriate action plans.

Proper portfolio management on continuous basis is essential to ensure high quality credit practices. Credit Officers must maintain regular contact with Clients to monitor the changing environment and its effects on the credit risks and opportunities. Credit Officers ensure that facilities are being used for their

stated purpose and if appropriate inspect inventory levels, condition of fixed assets and other security. Relationship plans are set-out to manage large and complex or difficult relationships more effectively, detailing the level of client contact, prospective business and general strategy of maintaining the relationship.

Credit references are usually obtained on new clients. Current financial information on clients is essential for proper portfolio management. Periodic collateral inspections and evaluations are made to verify adequacy of collateral margins. Physical inspection of the collateral is conducted on a regular basis to ensure both its existence and adequacy. Such inspections are performed at credit initiation, and at least annually thereafter. The more volatile the price movements of the collateral and the weaker the ***obligor's*** financial performance, the more frequent the evaluations should be. Collateral security is not normally released during the tenure of a facility, where a security has to be released in exceptional circumstances, the Credit Officer must ensure that the Bank is not disadvantaged and appropriate executive management's approval must be obtained. Release of security or collateral automatically changes the character of a facility from a secured to an unsecured facility and require re-approval. The views of the Legal Department must be obtained before any collateral is released.

Portfolio management is an important part of Credit Management. A major problem of lending is the unmitigated risk of loan diversion either by third party usage or to entirely unproductive ventures. As part of improvement of loan quality, therefore, Bank take steps to directly supervise loans. In the case of purchase of raw materials or plant and machinery, direct disbursements are made to suppliers. For warehouse financing, the Bank is involved in direct sale of the goods to ensure accurate and timely lodgements of proceeds into the *obligor's*

account with the Bank. Disbursement of some credit facilities are graduated. In such situations, before the next disbursement is approved, a physical evaluation of the progress made is necessary. Examples are factory construction, mortgage loans and installation of additional factory lines. Generally, Account officers pay periodic visits to customers as part of portfolio supervision. That way, value is added to client's operations which in turn assist the *obligor* in repaying the credit facility according to the stipulated terms.

4.3 PRUDENTIAL GUIDELINES, PROBLEM LOAN IDENTIFICATION AND MANAGEMENT

The prudential guidelines for ***licensed*** Banks was issued by the Central Bank of Nigeria *(CBN)* on November 7, 1990 to check the hitherto unencouraging credit portfolio of many Banks. Paper profits were declared by Banks without actually realising cash by accruing interests not earned as profits; thereby concealing the high rate of bad debts. The guidelines were issued as minimum requirements, Banks that already have stringent policies and practices on credit classification in place were implored to continue. The *CBN* prudential guidelines classified credit into:

- *PERFORMING CREDIT*: A facility is deemed to be performing if payments of both *principal* and *interest* are up to date in accordance with repayment terms.
- *NON-PERFORMING CREDIT*: A credit facility should be deemed as non-performing when any of the following conditions exists:
  a) Interest or principal is due and unpaid for 90 days or more;
  b) Interest payments equal 90 days interest or more have been capitalised, rescheduled or rolled over into a new loan.

The prudential guidelines further classified non-performing credit into three categories namely; *sub-standards, doubtful or lost* with different levels of provisions to make as under:

i) ***Sub-Standard Credits***: Credit facilities on which unpaid principal and/or interest remain outstanding for more than 90 days but less than 180 days - a provision of 10% should be made.

ii) ***Doubtful Credits***: Facilities on which unpaid principal and/or interest remain outstanding for at least 180 days but less than 360 days and are not secured by legal title to leased assets or perfected realisable collateral in the process of collection or realization - a provision of 50% should be made.

iii) ***Lost Credits***: Credit facilities on which unpaid principal and/or interest remain outstanding for 360 days or more and are not secured by legal title to leased assets or perfected realisable collateral in the process of collection or realization - a provision of 100% should be made.

All Banks are required to make at least 1% general provision on risk assets not provided for specifically.

PROBLEM LOAN IDENTIFICATION AND MANAGEMENT

As contained in the prudential guidelines, in ***IMB Plc,*** all non-performing credits are regarded as *problem loan.* The Bank always minimizes its exposure to problem loans and charge-offs. Any time there is a significant, adverse change in the financial or business condition of the client or if a client is not meeting its business plan, all credit facilities for that client are reviewed promptly and appropriate action taken.

Potential problems are identified, appropriately risk-rated on the watchlist in sufficient time to permit re-structure and improvement of the Bank's position. The watchlist report identifies credit facilities in the Bank rated "D" and below. It is the Bank's principal report for tracking sub-standard credits. Any credit exposure on which principal and/or interest is 90 days or more past due, is added to the watchlist until overdue amounts are repaid. Aggressive management of sub-standard credits to prevent further deterioration is a critical element of ***IMB's*** credit process. Problem credit exposure is undesirable business because of the extraordinary amount of Management attention required and the possibility of loss of principal and interest. Facilities are deleted from the watchlist when they are paid in full or upgraded to a "C" or better on improvement performance.

Relationships with facilities on the watchlist are usually reviewed to determine whether the Bank's strategy is to "***stay***" or "***leave***". Stay strategies are further refined to indicate the Bank's desire to maintain, reduce or increase exposure. A leave or stay/reduce decision acknowledges that the Bank sometimes forego profit opportunity in order to improve portfolio quality.

Watchlist credits are reviewed **Quarterly** by the Senior Credit Committee. It is the responsibility of the Credit Officer to prepare a loan watchlist report and present to the Senior Credit Committee. The format of the watchlist report is included as appendix H. Such reports are prepared thoughtfully and accurately to enable Management readily ascertain for each credit:

- The gross principal amount due
- The amount of any net charge-offs to date and projected loss potential (provisions)
- The amount of interest earned and not collected

- A record of risk rating changes
- The action plan

A key objective of problem loan management is to minimise non-performing assets and charge-offs. It is ***IMB's*** policy to charge off immediately any portion or all of an asset judged to have a very high chance of becoming uncollectable. Charge-offs do not cancel the obligor's indebtedness to the Bank. Therefore, charge-offs must never be communicated to the client. In view of the above, normal recovery efforts must be sustained to ensure realization of the outstanding balance against such sticky accounts.

4.4 CREDIT RETURNS TO CENTRAL BANK OF NIGERIA

The Banks and other Financial Institutions *(BOFI)* Decree require Banks to submit each month to CBN a report (by way of returns) on their Loans and Advances. These returns are also rendered quarterly. In ***IMB***, the following returns/report are rendered to meet regulatory requirements.

Monthly returns are:

MBR 300 - Report on Loans

MBR 500 - Report on total Credits granted

MBR 600 - Report on credit by Sector, Borrower and Interest rates

MBR 800 - Report on loans to Small-scale Enterprises, purchase of motor cars and share loans.

MBR 900 - Statement on Advances to government parastatals

Quarterly Returns are:

QBR 1100 - Report on total credit granted

QBR 1310 - Returns on non-performing credits

QBR 1410 - Returns on non-performing other Assets

QBR 1510 - Returns on off-balance sheet engagements

The monthly and quarterly reports/returns rendered to CBN are used to monitor the lending activities of Banks. It is also through such returns, the CBN ensure compliance to Monetary and Credit Policy guidelines as well as the prudential guidelines. Periodic on-site inspections are also conducted to verify the authenticity of such reports/returns.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY

The study is concerned with how Bank lending machinery works and how credit portfolio of Merchant Banks can be better managed towards risk minimization and profit maximization; lending activities constitute an important function of Banks. Therefore its Administration requires adequate knowledge and skills on credit management.

Proper credit management requires adequate knowledge of legislations that affect lending activities. That is to say, the Credit Manager, must be conversant with the legal lending environment. In this study, a review of sections/provisions that affect Bank lending in *Companies and Allied Matters (CAM) Decree (1990)*, *Central Bank of Nigeria (CBN) Decree (1991)* and *Banks and Other Financial Institutions (BOFI) Decree (1991)* were made. Principles of good lending, otherwise known as canons of lending which include; character, ability, margin, purpose, amount repayment and insurance/security are highlighted in the theoretical framework.

The study also highlighted how the profitability of lending proposals are determined, ranging from project feasibility, marketability of the product, analysis of environmental factors like the national economy, political environment, socio-cultural environment, etc. Analysis of the customer's financials also significantly assists in determining the profitability of the proposal, in addition to analysis of risks involved in the proposal that may border on changes in demand pattern, changes in fiscal and monetary policies, natural disasters, exchange rate fluctuations, and so on.

The research also covers some peculiarities of *Assets Based Lending (ABL)* including equipment leasing that requires special credit skills to manage such classes of credit. Various types of securities acceptable for Bank lending are also highlighted in the study ranging from *Pledges, Mortgages, Debentures, Guarantees and Indemnities to Letters of Comfort.* How such securities are legally perfected and documentations involved are also discussed in the study. In case of default, how the securities are enforced and realised towards the liquidation of the ***obligor's*** exposure to the Bank is also highlighted in the study.

Since the study is centred on ***International Merchant Bank (IMB) Plc*** as a case study, credit policy formulation and analysis of credit in the Bank are covered in the study encompassing the history, operations/services rendered by the Bank and organisational structure. The credit policy, credit management structure, classes of credit facilities and credit analysis and presentation procedures of the Bank under study are discussed in Chapter 3.

The research work also emphasized on credit documentation and management with a whole of Chapter 4 dedicated. Documentation and disbursement procedures of ***IMB Plc*** were highlighted. Periodic credit reviews and how the credit portfolio of the Bank under study is managed were also discussed. The application of the prudential guidelines in problem loan identification and how such problem loans are managed and credit returns rendered to the regulatory authorities are also covered in the study.

5.2 CONCLUSION

In conclusion, it has been established in the study that, a robust, coherent and concise credit policy must of necessity be put in place for a Bank to deliver

efficient credit and corporate finance services and to continue to be relevant in the market place. The principles of good lending must be taken into consideration, in appraising credit proposals from customers. The need for proper credit documentation before disbursement of approved facilities cannot be over-emphasized, as loopholes in documentation can automatically turn a good credit to a bad one and can make prospects of recovery difficult and enforcement/realization of securities in case of default even more complex and difficult.

As highlighted in the study, Banks mobilize funds from the surplus sector from Shareholders and depositors (both individual and corporate) and such surplus funds are lent to the deficit sector for a fee. In the process, Banks like any other profit-making organization strive to make a margin or spread to remain profitable. The business of funds mobilization and credit creation requires utmost degree of professionalism and skills necessary to manage such risk assets in a most efficient manner, to reduce the incidence of ***bad debts*** and decline in profits that could lead to loss of confidence by the general public and possible failure of the Bank.

Effective Bank Lending and Credit Administration is therefore necessary along with adequate credit policy. Implementation and adherence to guidelines and/or policies are necessary to maintain high quality credit portfolio and drastically minimise the incidence of ***bad debts.***

5.3 RECOMMENDATIONS

Having completely exhausted our study and brought to light several issues concerning ***Bank Lending and Credit Administration in Merchant Banks; A Case Study of International Merchant Bank Plc,*** various recommendations and steps

that could be taken towards proper credit portfolio management, that will minimise the incidence of ***bad debts*** are given as follows:

1). ***Credit Approval Limit:*** Credit approval limit should be more decentralised with Branch Managers/Heads of lending Units given powers to approve Credits with adequate supervision by the Executive Committee where necessary.

2). ***Timely Credit Documentation:*** Documentation on good Credit proposals should commence at the credit analysis stage so as to complete documentation shortly after credit approval. A situation where, good credits approved could not be disbursed because of incomplete documentation must be avoided, as delay in disbursement may turn a good credit to a bad one, since the viability of some business is dependent on timely payment for supplies; such delays usually distorts repayment proposals.

3). ***Legality of Credit Proposals:*** Banks must always take into consideration the legality of the credit request before approval, to remain good corporate citizens.

4). ***Spread Risk:*** Banks should always spread risk by lending to diverse industries or broad based customers against concentration of lending activities in very few industries which may seriously affect the quality of risk assets due to changes in government policies.

5). ***Training and Development:*** Credit proposal from Clients can only be adequately appraised by officers who possess the necessary skills and knowledge. In view of this, continuous training and development of the Bank's Credit Personnel should be pursued through local and overseas courses, seminars and workshops that will enhance the skill base of credit analysts or Risk Managers.

6). ***Complete Documentation:*** Documentation must be complete before disbursement. In other words, collateral security offered for the lending should be properly perfected where applicable. *Agreements, Deeds of Assignments* and *Guarantees* must also be in proper shape and well executed before disbursement, as without proper documentation, securities cannot be easily enforced and realised in the event of default.

7). ***Credit Rating Agency:*** Banks in conjunction with the regulatory authorities should establish a credit rating agency, to simplify the work of credit analysts and risk managers. Before granting credit to a new customer, a Bank will usually want to know the credit-worthiness through credit enquiries and credit classifications using several ratios. The ready availability of such information will shorten credit appraisal time of credit officers and make credit decisions faster.

8). ***Credit Bureau:*** The Central Bank of Nigeria should hasten the effective take-off of the Credit Bureau as it is empowered by the *CBN Decree 24 (1991)* to compile and circulate to all Banks in Nigeria, a list of debtors where outstanding debts to any Bank had been classified by Bank examiners under the *bad debt* category. Such list of bad debtors will assist

in no small measure in taking good credit decisions and avoid further credits to individuals and corporate organizations included in the list.

9). ***Speedy Disposal of Credit Litigations:*** Credit related litigations in regular courts and the ***Failed Banks (Recovery of Debts) and Financial Malpractices in Banks Tribunal*** must be disposed off very shortly. Situations where injunctions are obtained by customers to stop enforcement and realization of securities must be checked by the regulatory authorities. In view of the above, the review of existing legislations to check such abuses and delays in passing judgement is recommended.

10). ***Credit Relationship Management:*** Credit Officers and Risk Managers should continuously and closely monitor relationships with customers as account officers. Such relationship management through performance review, call to offices/business operational bases and constant dialogue are necessary for the maintenance of good quality credits.

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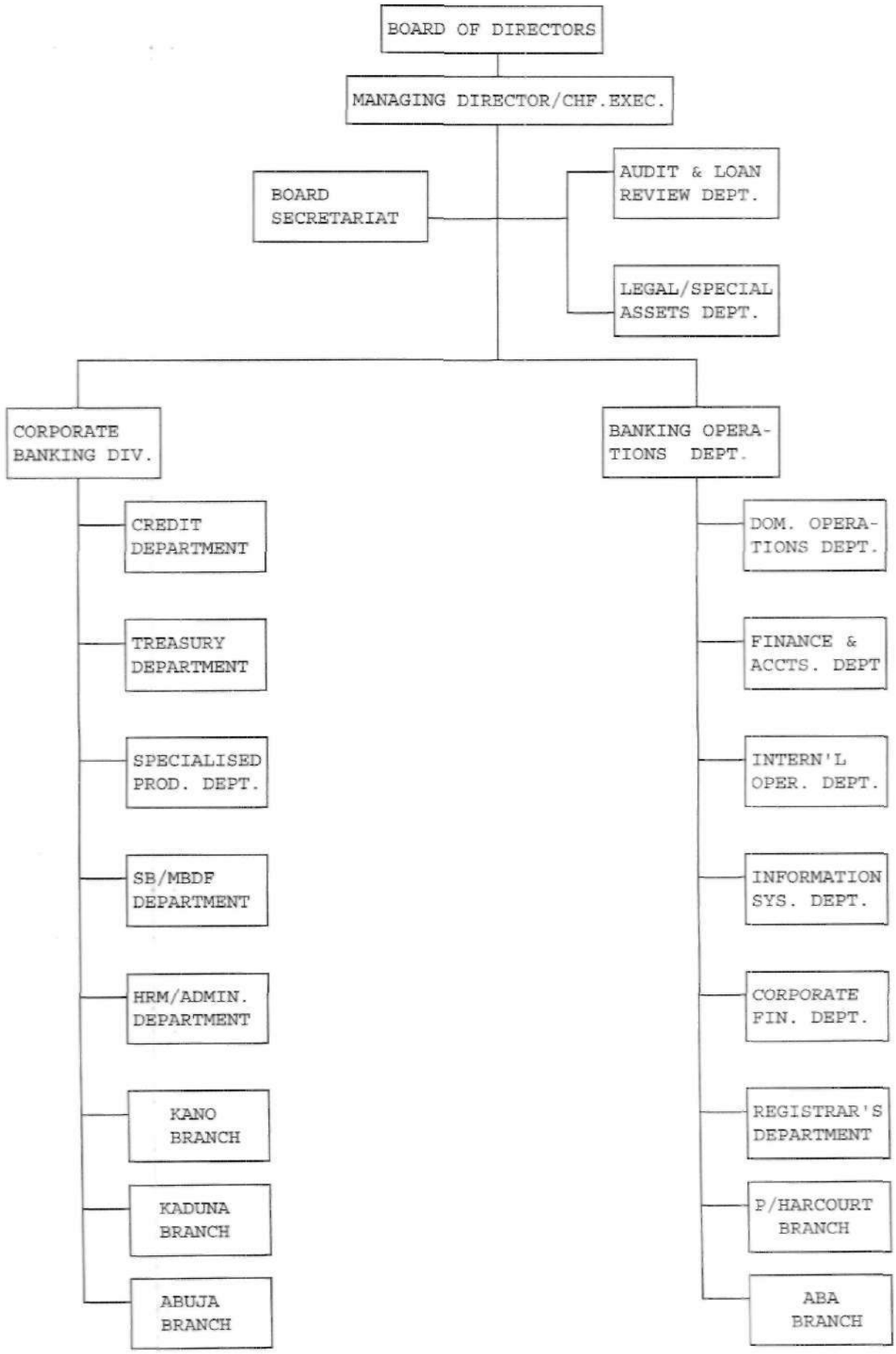
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APPENDIX A

ORGANIZATIONAL STRUCTURE (IMB PLC)



APPENDIX B

INTERNATIONAL MERCHANT BANK PLC

CREDIT APPROVAL LIMITS

RISK CLASSIFICATION APPROVERS		CREDIT CLASSIFICATION (LIMITS) ₦'000				
		"A"	"B"	"C"	"D"	(EFG)
1.	Manager	-	-	-	-	-
2.	Snr Manager/HOD, Credit	500	500	-	-	-
3.	Asst General Manager	1,000	500	-	-	-
4.	General Manager	2,000	1,000	500	-	-
5.	Credit Committee	4,000	2,000	1,000	-	-
6.	Executive Director	N/A	N/A	N/A	N/A	N/A
7.	Managing Director/CEO	10,000	10,000	5,000	5,000	5,000
8.	EXCO	15,000	15,000	15,000	15,000	15,000
9.	BACC	N/A	N/A	N/A	N/A	N/A
10.	BOARD	NO LIMIT	NO LIMIT	NO LIMIT	NO LIMIT	NO LIMIT

These credit limits apply to all forms of credit extension be it *direct, contingent, cash secured or implied credit support,* and also to *Foreign Exchange Settlement, Deposit placement* and other limits necessary to control credit risks.

These credit limits apply regardless of the tenure of the credit, as long as the credit meets the general parameters set by the Bank i.e. maximum tenor, amortisation, etc. However, all credits in excess of 5 years have to be presented to EXCO, regardless of amount.

APPENDIX C

IMB CREDIT APPROVAL FORM - **PRELIMINARY** ( )

- **FINAL** ( )

Unit: Date: Page _____ of _____

Obligator(s):
City, State:

Ownership Structure:

Business:

Management:

Facility:

Interest Rate:
Claim ( ) or Debit A/C ( )

Fees:

Purpose, Repayment and Unexpected Usage:

Amortisation:

Collateral:

Guarantees:

Comments:

Aggregate Commitment (₦'000)	Officer's Loan Class: ( ) Date	Director related ( ) Yes ( ) No
	Loan Review Classification ( ) Date	Subordinated Debt ( ) Yes ( ) No

APPROVED/RECOMMENDED BY:			**APPROVED BY:**		
NAME	INITIALS	DATE	NAME	INITIALS	DATE

This final commitment package consists of: CAF ( ) Spread Sheet ( ) Deal Memo ( )
CAM ( ) Industry Analysis ( ) CAS ( )

As of: _____

- AGGREGATE COMMITMENTS AND OUTSTANDINGS -				
Amount (₦'000)	Loan Class	Type of Facility	Obligor	Outstanding
Related Commitments				
Subordinated Debt				

Contingent Liabilities

Relationship Summary (₦'000's)	Loan Spread Income	Balance Income	Fee Income	Other Income	Total Income	ROA %
Last Year (19)						
YTD (19) Mos						

Relationship Comments:

Relationship Commenced:

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DREXEL BURNHAM LAMBERT CASH FLOW

DBL CASH FLOW

Net Income
Plus Depreciation and non-cash charges

Equals: Working Capital from Operations
Plus (less) change in:
Receiveables
Inventory
Accounts Payable
Taxes Payable
Others

Equals: Cash from Operating Cycle

Less Capital Expenditure

Equals: Cash available for dividends before investment and external financing

Less: Dividends at the current level

Equals: Cash available for investment and external financing

Plus: Disposition of Assets
Less: Purchase of new business

Equals: Cash before external financing
Plus (less) changes in:
Notes payable
Medium Term Debt
Equity Shares

Equals: Changes in Cash and Marketable Securities

The DBL cash flow gives a better definition of cash flow than traditional cash flow statements. Furthermore, it enables the Credit Officer to identify those companies that will be able to liquidate their borrowings and seperate them from those with increasing cash requirements. The later set of companies can only be expected to pay back current borrowings from additional future borrowings. In such cases, it will be necessary to consider whether such additional credit facilities will be available to the company in the future.

INTERNATIONAL MERCHANT BANK PLC

SPREAD SHEET

	NAME:	YEAR 1	YEAR 2	YEAR 3
1	Cash			
2	Govts., Mkt., Sec.			
3				
4	Notes Rec. Trade			
5	Accts. Rec. Trade			
6	All. for doubtful debts			
7	Net Receivables			
8	Inventory			
9	Life Insurance			
10	Other Current			
11	**CURRENT ASSETS**			
12	Rec. Affiliates			
13	Pre. & Def. Charges			
14	Due from Off. & Empl.			
15	Adv. & Inv. Affiliates			
16	Fixed Assets			
17	Less Acc. Deprn.			
18	Net Fixed Assets			
19				
20				
21	Other Assets			
22	Intangibles			
23	**TOTAL ASSETS**			

24	Notes Payable - Banks			
25	Notes Payable - Trade			
26	Accounts Payable			
27	Accruals			
28	Fed. & Other Taxes			
29	Due to Subsidiary			
30	Other Current: Dividends			
31	Cur. mat. Term Debt			
32	**CURRENT LIABILITIES**			
33	Unsub. Term Debt			
34	Sub. Term Debt			
36	Deferred Liabilities			
37	Minority Interest			
38	Capital Stock - Pref.			
39	Capital Stock - Common			
40	Capital Suplus			
41	Treasury Stock			
42	Capital			
43	Reserves			
44	Retained Earnings			
45	**NETWORTH**			
46	**TOTAL LIAB. & NETWORTH**			
47	Current Assets			
48	Current Liabilities			
49	**WORKING CAPITAL**			
50	Current Ratio			
51	Quick Ratio			
52	Eff. Tan. Networth			
53	Leverage			
54	Sales			
55	Net Profit			
56	Div/Withdrawals			
57	Inc/(Dec) Working Capital			
58	Inc/(Dec) Tang. Networth			
59	Cont. Liabilities			

101	Net Sales			
102	Cost of Sales			
103	Gross Profit on Sales			
104	Selling & Oper. Exp.			
105	General & Admin. Exp.			
106	**OPER. INCOME (LOSS)**			
107	Other Income			
108	Other Expenses (Fin. Charges)			
109				
110	Profit (Loss) before Taxes			
111	Income Tax (Refund)			
112	**DEFFERRED F.I.T. (Credit)**			
113	Income (Loss) bef.ext.ord. items			
114	Net Extraordinary Items			
115	**NET INCOME (LOSS)**			
116	Retained Earnings - Beg.			
117	Net Income (Loss)			
118	Dividends/Withdrawals			
119				
120	Prior period(s) adjust. - CR			
121	Prior period(s) adjust. - DR			
122	Stock Dividends			
123	Retained Earnings - End.			
124	Sources of Funds			
125	Net Income			
126	Depr. & Other non-cash charges			
127	Increase in Term debt			
128	Sale of Stock			
129	Sale of Fixed Assets			
130	Other Accounts - Net			
131	Surplus Adjustments			
132	Decrease in Working capital			
133	**TOTAL**			
134	Application of Funds			
135	Dividends Paid/Withdrawals			
136	Invested in Fixed Assets			
137	Reduction in Term Debt			
138	Purchase of Stock			
139	Net Loss			
140	Other Accounts - Net			
141	Surplus Adjustments			
142	Increase in Working Capital			
143	**TOTAL**			

144	% Gross Profit (103/101)			
145	% Sell. & Oper. Exp. (104/101)			
146	% Genl. & Admin. Exp. (105/101)			
147	% Profit before Tax (110/101)			
148	% Profit after Tax (115/101)			
149	% Return on Investment (115/45)			
150	Days Sales Outstanding (7/54)*365			
151	Inv. Turnover on Cost of Sales			
152	Cash Flow			
153	Inventory - Finished			
154	Inventory - Process			
155	Inventory - Raw			
156	Inventory - Other			
157	Reserve for Inventory Losses			
158	Net Inventory			
	Spread By			
	Date			

CREDIT RISK CLASSIFICATIONS

CLASS NAME	BRIEF DESCRIPTION	GUIDANCE
A. Minimal Risk	Excellent business credit superior assets quality, excellent liquidity and debt capacity and coverage and excellent management with depth.	Extremely low risk that the facility will not be retired as agreed (less than 1 in 1,000 probability). No reasonably foreseable vulnerability will impede repayment for agreed upon terms.
B. Modest Risk	Good business credits, very good asset quality and liquidity. Strong debt capacity and coverage, very good management in all positions.	Low risk that the facility will not be retired according to its terms (less than 1 in 500 probability). No reasonably foreseeable vulnerability will impede repayment as per agreed upon terms, but vulnerabilities could conceivably arise in the future.
C. Average Risk	Good business credit, asset quality and liquidity, strong debt capacity and coverage and good management in most positions.	Modest risk that the facility will not be retired as agreed (less than 1 in 250 probability); or significant risk that the facility will not be retired as agreed from the primary source of repayment (greater than 1 in 250 probability), but clearly identified alternative source of repayment exists. Very low risk of loss or non-performing status under realistic economic scenario.
D. Marginal Risk (Management attention required) Watch List	below average business credit. Marginally acceptable asset quality. Somewhat strained liquidity, limited debt capacity and coverage. Some management weakness. To be put on Watch List.	Marginal credit with significant risk that facility will not be retired as agreed (greater than 1 in 10 probability). No clearly identified alternative source of repayment, but low risk of loss of principal or interest under most probable scenario. Identified vulnerabilities should they occur, could result in a downgrade. Tight management for "D" critical conditions precedent to attaining its portfolio quality objectives. Unless a game plan can be developed wherein the facility in question can be managed up to a "C" rating within a reasonable period of time, our exposure should be managed down.

E. Sub-standard Risk (Watch List)	Below average business credit. Generally undesirable business constituting an undue and unwarranted credit risk. Normal repayment in jeopardy; no ultimate loss. While loss of principal and interest is not certain, current shortfalls in paying capacity of obligor and/or collateral cover may result in a partial loss of interest and/or principal. Consider reversal of interest and transfer of non-accrual basis. Consider rescheduling/ restructure and additional collateral support.	Weak credit with substantial risk that facility will not be retired according to its terms (greater than 1 in 10 probability). No clearly identified alternative source of repayment, but low risk of loss of principal and modest risk of non-performing status under most probable scenario - a consensual restructure is, however, probable. Identified vulnerabilities, should they occur, could result in a down grade.
F. Sub-standard Risk (LDV)	Loss of interest has occurred or is likely to occur and there is potential for a partial loss of principal. Collection in full is highly improbable. Non accrual status. Valuation of the loan will result in a provision.	Weak credit with substantial risk that facility will not be retired according to its terms. No clearly identified alternative source of repayment. High risk of loss of proncipal and high risk of non-performing status which could result in substantial write-offs.
G. Sub-standard	Collection of outstandings is so doubtful that the loan does not warrant classification as an active account of the Bank. Full write-off, even though partial recovery may be possible in future.	

NOTE:

A - C = Normal business risk. Account Officers can lend under prevailing lending programmes.

D = Management Attention Risk (Watch List) with the possibility reverting to non-accrual basis on some of the fast deteriorating accounts. Any new credit extension in this category is not to be encouraged but can be done on an EXCEPTION basis only.

E = Watch List credits to be treated on non-accrual basis. No credit extension in this category.

F - G = **LDV**. No credit extension in these categories. Acount should revert to non-accrual basis.

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LOAN INSTRUCTION MEMORANDUM

TO: LOANS & SECURITY/REPORTING	TYPE OF FACILITY:		
FROM:	AMOUNT:		
UNIT:	COMMENCEMENT DATE:		
OBLIGOR:	BORROWER: INDIGENOUS [ ] EXPATRIATE [ ]		
ADDRESS:	SECTOR: PREFERRED [ ] LESS PREFERRED [ ]		
PURPOSE:	SUB-SEDCTOR CODES:		
DRAWINGS:	SECURED [ ] UNSECURED [ ] GUARANTEED [ ] NOT GUARANTEED [ ]		
REPAYMENT SCHEDULE:	DOCUMENTATION REQUIRED:		
INTEREST RATE:		REQUIRED	IN PLACE
ACTUAL INTEREST RATE DISCOUNT RATE	LETTER OF AGREEMENT		
	PARTICIPATION AGREEMENT		
INTEREST PAYMENT: DR [ ] CLAIM [ ] ACCOUNT	MORTGAGE OVER		
	GUARANTEE OF		
	DEPOSIT OF COLLATERAL		
PREPAYMENTS: ALLOWED [ ] NOT ALLOWED [ ]	MEMO OF DEPOSIT COVERING		
IN ANY AMOUNT:.....	DEBENTURE COVERING		
IN MULTIPLE OF:.....	OFSHORE GUARNTEE OR STANBY L/C FROM:		
AMOUNTS IN EXCESS OF:.....	SUBORDINATION AGREEMENT		
	VALUATION REPORT		
COMMITMENT FEE:	INSURANCE POLICIES		
EXPIRATION OF COMMITMENT:	OTHERS		
GUARANTOR(s):	REMARKS		
PATICIPATIONN WITH:			
PARTICIPATION FEE:			
AGENT BANK FEE:			
LOAN OFFICER'S SIGNATURE:	DATE:		
LEGAL COUNSEL'S INITIALS:	DATE:		
MEMO RECEIVED BY:	DATE:		
LOAN SECURITY UNIT [ ] ACCOUNTS/REPORT UNIT [ ] INT. CONTROL [ ]			

APPENDIX H(1)

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PERFORMING LOAN WATCH LIST REPORT

BORROWER	CITY/STATE	RM: LRM:	CLASS: CLASS:	DATE: DATE:
BUSINESS		DATE PLACED ON WATCH LIST:		
RELATIONSHIP MANAGER & UNIT		EXTERNAL SOLICITOR		STAY/LEAVE

FACILITY TYPE	O U T S T A N D I N G S								
	AMOUNT	ACCRUAL	CASH BASIS	MEMO INT.	R E N T A L				
					NOT YET DUE	PAST DUE	PAST DUE SECURITY	CONTIN-GENT	MATU-RITY
1.									
2.									
3.									
TOTAL									///// /////

SYNDICATION:	TOTAL AMOUNT:	₦	
	TOTAL IMB PORTION:	₦	%
OTHER RELATED CREDITS		PRINCIPAL SHAREHOLDERS	

SITUTAION BACKGROUND

////////////////// ////////////////// ////////////////// ////////////////// //////////////////	PROVISION	RECOMMENDED PROVISION				
						TOTAL
DATE						

DESCRIPTION OF COLLATERAL (PERFECTED/NOT PERFECTED)

COLLATERAL VALUE IN LIQUIDATION

GUARANTORS/ESTIMATED AMOUNT COLLECTABLE UNDER GUARANTEE

OTHER PRINCIPAL CREDITORS/ATTITUDE OF OTHER CREDITORS

//////// //////// ////////	DATE	AUDIT QUAL/ UNQUAL	CURRENT ASSET	CURRENT LIABILI TIES	WORKING CAPITAL	FIXED ASSET	L.T. SNR DEBT	L.T. SUB DEBT	TOTAL DEBT	TANGI BLE WORTH	SALES	NET INC
LAST FINAN- CIAL YEAR												
YTD INTERIM												

IMB STRATEGY

DETAILED PLAN OF SPECIFIC ACTIONS INCLUDING DATES

Target Date Action Item

PERFORMANCE AGAINST LAST ACTION PLAN

//////////////////////	1Q	2Q	3Q	4Q	TOTAL
AMOUNT RECOVERED					

APPENDIX H(2)

WATCHLIST FORM FOR LOST ACCOUNTS

PERIOD: _____

CUSTOMER: ACCOUNT NUMBER:

ACCOUNT CLASSIFICATION: ACCOUNT OFFICER:

EXTERNAL SOLICITORS: DATE OF APPOINTMENTS:

PRINCIPAL SHAREHOLDERS:

ACCOUNT SUMMARY (₦'000)

ACTIVITY TYPE	AMOUNT	CASH BASIS	MEMO INT	NOT YET DUE	PAST DUE SECURITY	PAST DUE	PROVISION TO DATE

TOTAL OUTSTANDING ₦

TYPE OF SECURITY: (1) VALUE OF SECURITY:

(2)

(3)

PREVIOUS ACTION PLAN:

PERFORMANCE AGAINST PREVIOUS PLAN:

CURRENT ACTION PLAN:

TOTAL RECOVERIES/COLLECTIONS FOR THE QUARTER:

APPROVED BY:..... .....

DEPARTMENTAL HEAD/BRANCH MANAGER **DATE**