DISTRESS IN THE BANKING INDUSTRY:
THE CASE OF NIGERIA UNIVERSAL BANK LIMITED

By

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Being A Thesis Presented to the Post-Graduate School, Ahmadu Bello University, Zaria, in Partial Fulfilment of the Requirement for the Award of Master of Business Administration (MBA)

Department of Business Administration
Faculty of Administration
Ahmadu Bello University
Zaria

December, 1997

A Thesis submitted to the Post-graduate School, Ahmadu Bello University, in partial fulfilment of the requirement for the award of;

Masters of Business Administration
(M.B.A)

By

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d. Low earnings resulting from huge operational losses; and

e. Weak management as reflected by poor credit quality, inadequate internal controls, high rate of frauds and forgeries, etc.

These criteria agree with the CAMEL rating system which is widely used by regulatory authorities to determine the state of health of financial institutions. The problem with this rating system is that while some variables like capital adequacy, liquidity, and earnings efficiency are easy to measure, others like management competence and asset quality are hard to measure with precision.

2.3 Consequences and Implications of Bank Failure

Afolabi (1991:8) emphasises that failure has multi-dimensional effects. The first direct effect is on the depositor who may lose his money in part or in full. Even when the deposit is small and is recoverable from the National Deposit Insurance Corporation (NDIC) there will be considerable delay. The liquidity of the deposit is thus impaired. Afolabi is quoted as saying "Another resultant effect of such failure is that, it discourages and inhibits monetization of the economy. The negative effects of the failure usually go beyond the industry. It is the economy that bears the burnt". Afolabi further argues that, bank failure results in loss of confidence by depositors who make mass withdrawals of their funds, leaving the industry

This Thesis has been carefully read and found acceptable as having satisfied one of the conditions for the award of Master of Business Administration (MBA) Ahmadu Bello University Zaria

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DECLARATION

I hereby declare that this dissertation has been carried out solely by me and that it is a record of my own research effort.

ABBAS, AMINU	----------	7-9-2000
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DEDICATION

This work is dedicated to my father, Alhaji Abbas Maude, U.A.C. Judge, Kaduna High Court and My Late beloved mother, Hajia Hadiza.

CERTIFICATION

This dissertation entitled "Distress in the Banking Industry: The case of NUB Ltd" by Aminu Abbas meets the regulations governing the award of the degree of MASTER OF BUSINESS ADMINISTRATION (MBA) of Ahmadu Bello University, Zaria and is approved for its contribution to knowledge and literary presentation.

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ACKNOWLEDGEMENT

I am grateful to Almighty Allah, Subhanahu Wa Ta'alah. I am ever indebted to him for his bountiful blessings.

My special appreciation goes to my supervisor, Prof. Sheikh Ahmed Abdullahi for encouraging me and providing me with innumerable assistance in the course of this study. I am particularly grateful for his advice and assistance on quality, which I hope has been reflected in this work.

I am also grateful to all lecturers in the Department of Business Administration for their assistance and guidance toward successful completion of the thesis. Special thanks go the staff of Central Bank of Nigeria (CBN): Research Department, Research library and Banking Operation for sparing their time for me (inspite of their busy schedules) and helping me with literature required for this study.

My special thanks also go to Prof. David Iornem, Director-General Institute of Management Consultants for his assis tance with his "30 reasons why Banks got distressed" write up. As a full member of the Institute, I was opportuned to have a face-face discussion with the Professor.

Finally, I thank all those people, including my family, who have assisted me in this study directly or indirectly whose names are too numerous to mention here.

May Almighty Allah guide and guard them in all their undertakings (Amin).

ABSTRACT

This particular research is aimed at diagonising the causes of, and assessing the consequencies and implication of Distress in the Nigerian Banking Industry on the individual , corporate bodies, the government, the society and the economy as a whole. The study also covers the issue as it affects one of the commercial banks, Nigeria Universal Bank Ltd. (NUB) within the period under review ie. 1991-1996. Infact NUB Ltd. had been chosen a study-case because of the fact that it was state-owned and the bank had been run profitably since from inception, upto the year 1995, when together with other 16 commercial banks, was categorised as distressed by the regulatory authorities-CBN and NDIC.

This study therefore is aimed at diagnosing the factors that contributed to NUB's distressed situation-both internally and externally, and to offer recommendations on how the banks could be revived and hence prevented from total collapse; recommendations that should be useful to the government, the owners, the individual customers, the corporate customers, the regulatory authorities and the General Public.

The techniques adopted in this project were examination of NUB's record and documents covering the period under review and structured questionnaires to obtain the general opinion of the overall clientele of the Bank.

Data included NUB's five-years financial summary and the bank's five year historical financial analysis.

Problems encountered in carrying out the research included non-availability of data from other distresse banks which were afraid of being textually exposed to lose marketability or confidence and most of distressed

banks offices were closed and nobody to have contact with. Most of the data were obtained from the Central Bank (CBN) and the NDIC. Even the above mentioned data available for NUB Ltd was obtained from NAL Merchant Bank Plc-which presently serve as the issuing house for NUB in respect of the sale of its (NUB's) shares to new investors.

The Findings of this research include the grouping of the overall cause of NUB's distressed situation into 2 viz:-

1. Poor management on the part of NUB, which mirrors virtually all institutional factors as frauds and forgeries, absence of effective internal control system and poor credit administration.

2. Weakness in the Supervisory Machineries of regulatory bodies like the Central Bank of Nigeria (CBN), Nigerian Deposit Insurance Corporation (NDIC) and the Chartered Institute of Bankers of Nigeria (CIBN).

Other findings include the fact that the consequencies and implications of the distress of Nigerian banking industry have had an over-whelming effect on customers who lost their deposits and lost confidence on the general banking business, and as a result many banks are out of business due to bank- run on their deposits. Bank employees from distressed banks (NUB inclusive) have now become unemployed and many have lost their self respect of honesty in the society. Many of the banks' staff and directors and even defaulting customers are presently detained in the nation's various prisons serving trials of fraud, misappropriation of public funds entrusted on them, under the well-known *failed Bank Tribunal*

TABLE OF CONTENTS

Title		i-ii
Approval		iii
Declaration		iv
Dedication		v
Certification		vi
Acknowledgement		vii
Abstract		viii- ix
Table of Contents		x- xii
List of Tables		xiii
Chapter one:	**INTRODUCTION**	
1.0	Introduction	1-3
1.1	Statement of the Problem	3
1.2	Aims and Objectives of the study	4
1.3	Scope and Limitation of the Study	4
1.4	Research Methodology	4-5
Chapter Two:	**LITERATURE REVIEW**	
2.0	Introduction	6
2.1	Historical Background of Banking Industry	6-9
2.2.	Definition and Measures of Distress	10-11
2.3	Consequences and Implications of Bank Failure	11-13
2.4	Causes of Distress in Banks	13-18
2.5	Distress Resolution Options	18-21

Chapter Three: **NIGERIA UNIVERSAL BANKS LTD A CASE STUDY**

3.0	Introduction	22
3.1	Distress in the Banking Industry in Nigeria A historical Background	23-27
3.2	History of Nigeria Universal Bank Ltd.	27-28
3.3	History of Management of NUB Ltd.	28-32
3.4	Organisational Structures/Functions of NUB Ltd.	32-38
3.5	The Issue of Distress in NUB: Causes, Consequences and Implications	39-50
3.6	Revival Strategies	50-52

Chapter Four: **PRESENTATION AND ANALYSIS OF DATA**

4.0	Introduction	53
4.1	Number of Distressed Banks in Nigeria	53-54
4.2	Frauds and Forgeries in Nigerian Banking Industry	55-58
4.3	Number of Staff by Rank, involved in Frauds	58-60
4.4	Quality of Assets of Banks in Nigeria	61-63
4.5	NUB's Historical Financial Analysis for Five years	64-68
4.6	Public Perception of Distress in Banks	68-71
4.7	Major Findings	71

Chapter Five: **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

5.0	Summary	72-73
5.1	Conclusion	73-74
5.2	Recommendations	75-81
	Bibliography	82-86
	Appendix	87-92

LIST OF TABLES

TABLES		PAGE
3a	Commercial and Merchant Banks in Operation in Nigeria 1892-1993	25
3b	Number of Financial Institutions in Operation in Nigeria 1892-1993	27
4a	Number of Distressed Banks by Ownership Category: 1990-1994	55
4b	Frauds in Nigerian Commercial and Merchant Banks 1991-1993	58
4c	Number of Bank Staff involved in Frauds: 1991-1993	60
4d	Quality of Assets of Banks in Nigeria: Loans and Advances: 1990-1994	62
4e	Classified Loans and Advances: 1990-1994	63
4f	Proportion of Classified Loans to Total Loans and Advances: 1990-1994	63
4g	NUB's Five years Financial Summary	65
4h	NUB's Five year Historical Financial Analysis	67

CHAPTER ONE

1.0 Introduction

There is no gainsaying that Banking is based on confidence and this explains why both corporate and individual customers can entrust their millions of Naira to banks and literally go to sleep with the understanding that their money can be withdrawn on demand.

Banking business is such that, under normal circumstances, people are willing to leave their savings with the banks with the understanding that all the depositors may neither call their savings with the banks nor call for their saving at the same time. The banker is therefore a trader in money, borrowing from depositors at a lower rate and lending to deficit spending units (DSUs) at a higher rate. This spread, fee-based commissions and other charges provide the bank with income with which to meet running costs, perform their statutory obligations, remunerate their investors and make worth-while accreditation to capital.

The importance of banks in the economy of any nation can not be over-emphasised. Banks occupy critical condition in a complex financial system that supplies the money and credit needs of the economy. Apart from promoting payment mechanism or channel for mobilising savings and ensuring their allocation to productive investment, empirical evidence suggests a positive correlation between economic growth, banks assets and economic developments (Alashi, 1991). However, the ability of banks to promote growth and development depends on the extent to which financial transactions

are carried out with trust and confidence and least risk (Jimoh, 1993:14). This requires safe and sound banking practice. Where banks indulge in unsafe and unsound banking practices the confidence which the public reposes in them may be threatened. Particularly public confidence and trust in the system may be shaken by failures, with adverse consequences on banking system and development process. Even a temporary decline in confidence can lead to bank-run, and make financial intermediation difficult. As a result output suffers because of a sub-optimal capital stock and limited opportunity for inter-temporal substitution (Hardy and Lahiri, 1992).

This study addresses the consequeces and implications of distress in the Nigerian Banking Industry to the investors, individuals, banks and the economy and also proffers solution on how to avert the damage and precaution against re-occurrences. The study, though covers a case study of one of the distressed banks, Nigeria Universal Banks Ltd. (NUB), more or less has a perspective of the general issue of bank distress in the Nigerian Banking Industry. The case study is treated in chapter 3 only, while the remaining chapters treat the distress syndrome case as it affects the entire Nigeria Banking Industry vis-a-vis the Nigerian economy.

The case study has been chosen as a topic to write, by the researcher in the light of the fact that the researcher himself had an experience of up to about a decade with one of the distressed bank i.e. the CASE BANK, mentioned above.

Hence, part and in fact a greater part of the data on the case study, is primary and first hand information sort-of, and part of it is sheer observation

and experimentation while the remaining part is Documentation. Very little analysis of data would depend on questionnaire/interviews from the personnel of NUB Ltd., including the Management. Greater part of these would come from customers, the general Public and well-wishers for the bank, so as to understand the extent of the implication of the distress in NUB Ltd., towards her customers, the general public, individuals and the state government and infact the overall external environments.

1.1 Statement of the problem

The last few years have been both traumatic and revolutionary for the Nigerian banking industry. Accustomed to steady profits and little or no problems since 1959, when the Central Bank of Nigeria (CBN) was established, the industry has, in recent years, produced the largest number of technically insolvent and under-capitalised banks currently the magnitude of distress in the Nigerian Banking Industry has reached an unprecedented level thereby making it an issue of concern to the government, the regulatory authorities, the bankers, and the general public.

This study attempts to answer the following questions: What is the situation created by distress in the banking sector in Nigeria? What are its consequences and implications on the investors, individuals and the economy? What are the likely effects of continuous distress on the future of Nigerian society? and what are the likely remedies against anticipated future occurrences of distress.

1.2 Aims and objectives of the study

Realising that the previous strategies to eliminate distress have not fully achieved the desired results in terms of stabilising the banking sector, this study is designed to look into problems that distress has caused in the banking system in the nation's economy and highlight some of the damages that banks have suffered especially in the area of under capitalisation that negatively affects the smooth running of operations.

Specifically, the study is designed to assess the consequences and implications of distress situation on the industrialists and other individuals, and also to offer credible recommendations on how to effectively and comprehensively eliminate distress in the banking industry.

1.3 Scope and Limitation of the Study

This study covers the period between 1991 to 1996. The study focuses on the consequences and implication of distress in the banking sector and only one bank, that is Nigeria Universal Bank (NUB) Ltd. is chosen for the study.

1.4 Research Methodology

Sources of data for this study were seminar papers, documents, periodicals, journals magazines, newspapers, government gazettes, unpublished materials, CBN bulletins and extract from official reports and other relevant materials.

A structural interview was used to get opinions of individuals, industrialists, business tycoons, bankers etc.

For simplicity, simple percentages and descriptive method of statistical analyses were used to analyse and describe the data.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

Attempt is made in this chapter to survey documentary literature on the definition, measures, causes, consequences and implication of Bank distress and distress resolution options.

2.1 Historical background of Banking Industry

A brief survey of the background of banking industry will be appropriate at this point to throw light on the chain of events and developments which culminated in the current crisis.

Banking business started in Nigeria over a century ago with the incorporation of the African Banking Corporation 1892, which in 1894 sold into the bank of British West Africa (now First Bank of Nigeria). This was followed by the establishment of the Domino Colonial and Overseas Bank (now Union Bank of Nigeria). The British and French Bank (now United Bank for Africa), followed later in 1948. Between 1914 and 1958 several indigenous banks entered and quitted the industry in quick succession. It was not until 1933 that the first indigenous bank, the National Bank of Nigeria, successfully joined the industry, followed by the Agbomagbe Bank. Two years later African Continental Bank was established.

Between 1959 and 1962, 8 new banks were established followed by a period of consolidation till 1970. partly as a result of the Civil War and also due to successive increases in minimum capital requirements. The period

1970 to 1976 was however characterised by a resurgence in the industry especially the merchant banking sector and the licensing of state government-owned banks. As at 1976 there were 21 banks (comprising 15 commercial banks and 6 merchant banks). By 1986, the figures had increased to 41 (comprising to 29 commercial banks and 12 merchant banks). Between 1986 and 1992 the number of banks established increased dramatically from 41 to 120 (comprising 66 commercial banks and 54 merchant banks). The radical transformation of the industry was accentuated by the liberalisation of banking licensing and the potential which existed in the industry for super-normal profits from foreign currency (0jo, 1994:12).

Alashi (1991:25) pointed out that in recent times, the monetary authorities have come out with more regulatory policies in the banking industry. He added that, this has become necessary in view of the importance and role of banking in the development process of our economy.

The weight of evidence is that banks through their roles of intermediation, contribute significantly to real economic development. Empirical evidence also suggests that there is a positive correlation between economy, real growth of output, investment, bank asset and money supply.

Alashi (1992:25) Further states that very importantly too, finance can retard economic development, if it is repressed, and can stimulate it if promoted, that is through liberalisation.

Nwankwo (1991:25) argues that, it is because banks are vulnerable to financial collapse that, they are usually made the object of extensive prudential regulation designed both to minimise the risks and the cost of failure.

Dale (1984:25) emphasises that a stable financial system is therefore sina-qua-non for the development of a country.

Alashi (1991:25) categorically states that, the stability of the Nigerian Banking Industry has been affected by the increasing number of technically insolvent and undercapitalised banks.

The NDIC Annual Report, 1989, identifies seven banks as being in distressed condition. By 1990 the number had increased to nine. The poor state of the Financial condition of our banks has been blamed mainly on rampant fraud and forgeries in the system and the increasing incidence of bad and doubtful debts. These canker worms have been caused substantially by poor loan policy, weak management, poor internal control system and weak loan recovery systems. At the same time, the Nigerian Banking Industry has been saddled with too much liquidity and this has made the realisation that Government macro-economic objectives were very difficult to achieve.

Afolabi (1994:11) empahsises that bank failure, though undesirable, is neither new in Nigeria nor peculiar to Nigeria. We have already talked about bank failure in Nigeria in 1940 and early 50's. In 1961, the licence of one Merchant Bank was revoked and the bank went to Court to challenge the revocation. The ruling of Supreme Court was that bank license is a privilege and not a right and as such could be revoked in accordance with the provision of the banking ordinance. Aolabi argues further that, the rate of bank failure is rather staggering among unit banks in the United States. Between 1928 and 1932, the U.S. saw the collapse of 9000 of its 27,000 banking institutions and a third of aggregate deposit was lost. On March 5, 1993, President Roosevelt

has to proclaim a four-day bank holiday to end the run on the banks and restore confidence in the economy. Despite all sophisticated regulatory measures bank failure still occurs today in the United States.

In the early 1820's banking in Britain was in a crisis. This crisis reached its peak in 1825 when 73 of the country's principal banks failed and during the decade 70-79, conditions in the British banking system were structurally altered by what is now tagged "the big bag". Resignation of key personnel in some banks affected the fortune and confidence of those banks and the Bank of England had to arrange confidential supports for those troubled banks. But it avoided committing its own funds or establishing any formal rescue machinery, but in 1984 the Bank of England had to take a formal decision to arrest the collapse of Johnson Mathey Bank. In the same year, in Germany, reform measures were needed and were arranged to rescue a leading banking institution. Bank failure therefore appears to be normal business result of consequences. After all, the frame work provided by regulatory authorities to prevent it had failed.

Ekundayo emphasises further that the liquidation of banks would have a serious effect on a large number of people by throwing them into the already congested labour market. He opines further, that distress problem will pose a serious deterioration in the financial conditions of the banks culminating in the total erosion of the capital base and dissipation of the depositors funds.

2.2 Definition and Measures of Distress

Benson (1986), defines a distressed financial institution as one with severe financial, operational and managerial weakness which have rendered it either illiquid or insolvent. Technically, distress connotes a situation where a bank's networth is negative. Federal Reserve Bank of Chicago has described systemic distress as a sharp reduction in the value of financial institutions, sets, resulting in apparent or real insolvency of many financial institutions accompanied by some runs and possibly the collapse of some institutions. Distress in banking industry will, therefore occur when a fairly reasonable proportion of banks in the system are unable to meet their obligations to their customers, as well as their owners and the economy as a whole, as a result of their financial, operational and managerial conditions which have rendered them either illiquid or insolvent. When the problem is endemic it posses great concern to the regulatory authorities, because of the threat to the stability of the entire system with attendant negative impacts on the nation's payment system mobilisation, financial intermediation process and depositor's confidence generally (Balino, 1991:39).

Ebhodagbe (1993:39) categories bank as distressed if it depicts poor condition in all or most of the following performance criteria.

a. Gross under-capitalisation in relation to the level of operation;

b. High level of classified loans and advances;

c. Illiquidity reflected in the inability to meet customer's cash withdrawals;

d. Low earnings resulting from huge operational losses; and

e. Weak management as reflected by poor credit quality, inadequate internal controls, high rate of frauds and forgeries, etc.

These criteria agree with the CAMEL rating system which is widely used by regulatory authorities to determine the state of health of financial institutions. The problem with this rating system is that while some variables like capital adequacy, liquidity, and earnings efficiency are easy to measure, others like management competence and asset quality are hard to measure with precision.

2.3 Consequences and Implications of Bank Failure

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with the liquidity problems and shortage of loanable funds, and this leads to a bank-run on even the viable banks.

John Ebhodagbe (1994:54) in NDIC Quarterly Report Vol. 1, No. 4, gives the summary of danger of distress on the banking sector in Nigeria. He emphasised that the greatest havoc bank distress has caused in the sector is the erosion of public confidence, especially if the distress is badly managed. Bank is built on trust and confidence, but once these are betrayed, they do not return easily. As a result, banks would no longer be able to play their role of financial intermediation. Thus the loss of public confidence. Secondly, it leads to bank-run with erosion of public confidence and the fear that banking industry would be threatened with failure.

Thirdly, we have demonetizations problems: Following the loss of confidence and bank-runs, there would be massive portfolio shifts to saver assets such as foreign currency, treasury bills and treasury certificates and non-monetary assets. Consequently there will be capital flight from the banks. In addition, it has effects on the banking culture. Equally related to the demonetizations is the negative implication on the banking culture. Already the banking habit in the country is very poor and bank distress and failure would only exacerbate the situation. For the first time, currency outside banks exceeded the demand deposits components as it accounted for 52.6% of money supply at the end of 1994.

Furthermore, it has effects on payment system. The payment system would be precarious as the link between the real and the financial sector, including intermediation bottlenecks would inhibit the intermediation role of

13

banks and the development of the country. Also it has effects on the bank credit market.

John Ebhodagbe (1994:54), argues that bank would be incapacitated from extending new lending. As a result, the healthy ones would similarly be constrained from granting credit for fear of such facility becoming delinquent. Also argued by John were its effects on investment in banking system. Investment in the banking sector has been considered lucrative. With banking failures, however, investors lose their investments. For that reason investing publics would not be encouraged to make further investment in the banking industry generally. Resultant effects on the banking sector itself is low profitability for the remaining banks as loss would jeopardise the patronage and earnings. John emphasises that the global effect is that the foreign countries would perceive the Nigerian banking system with suspicion as they would be afraid that off shore funds would be locked and lost. In the banking sector, the international community would not feel confident to transact business with Nigerian banks in fear of losses. Opening letter of credit through Nigerian banks may not be possible and international payments could be disrupted. Furthermore, foreign investment would fall and capital flight out of the country would escalate.

2.4 Causes of Distress in Banks

Explanation of firms' financial difficulties can be grouped under three headings: Macro-economic conditions, industrial and financial policy and

debtor and creditor behaviour. Macro-economic conditions, directed creditor programmes, and interest rate controls are the principal factors behind banks portfolio problems but are not the only ones. An important factor is the insufficient thought given by many governments to the ways in which concentration of risk, the quality of information flows, adequacy of Legal environment, and the nature of regulatory codes could affect financial efficiency. Inadequate attention to these issues has permitted borrowers and lenders to behave in ways that have contributed to bank losses (Long an Even house, 1989:40).

According to Balino (1991:40), the diversity of experience with distress running across country differences in Macro economic conditions, the regulatory frame work, the intensity of the crisis make it difficult to generalise and develop stylised description or standardised prescriptions.

Nevertheless, Long and Even House (1989:26), and Snock (1989) have traced the causes of distress in banking in less developed countries to inadequate supporting legal structures and accounting systems, weakness in supervision and weak management.

This complies with the view of Oguma, CBN Governor, in his address at the 1993 Annual Dinner of the Chartered Institute of Bankers of Nigeria "The Problems of distressed institutions are traceable to poor quality of assets, poor earning, illiquidity and, of course, poor management. The rapid proliferation of Financial intermediaries has exacerbated the shortage of qualified personnel resulting in a deterioration of banking and supervisory standards. The functioning of the new regulatory framework has

also been constrained by enforcement problems and poor infrastructural facilities, especially communication. Another problem of financial sector which is currently assuming an alarming proportion is fraud. Although it's high incidence is largely a reflection of the moral decadence in the wider society, the inadequencies of financial sector management and infrastructure are also major contributory factors".

In an attempt to analyse distress which Japan shares with some developing countries, some researchers have identified causes of distress to include Macro-economic shocks/instability, financial reforms, changes in prudential regulations and how the authorities of the affected countries responded to the crisis. For example, it was discovered that in the case of countries like Agentina, Chile, Malaysia, Thailand and Uraguay, the crisis period were closely associated with periods of strong reduction in real output, down turn in investment, adverse external shocks and balance of payment difficulties. Whilst the effects of the overall macro-economic problems on financial distress are of varying degrees, what has been established is that it is difficult to separate distress in financial services industry of a country from the severity of the recessions witnessed by the economy (IMF,1991).

To redress such recessions, monetary authorities have had to adopt wide ranging reforms of the financial system. Nevertheless, during the period of financial sector reforms, the following factors may cause or aggravate financial distress. First, the liberalised entry posture of any reform progamme which agrees with the practice to source funds usually

through higher interest rates and new products, could encourage excessive risk-taking unless adequate prudential supervision/regulation is put in place. Deregulation is also accompanied by rapid growth of financial institutions such that many of them are manned by unqualified and incompetent personel. In addition deregulation often changes the structure depicting concentration of power in financial system with interlocking ownership and lending patterns. Such environment, have been described as particularly vulnerable to failures. The CBN/NDIC diagnostic study of financial services industry found out that bad loans arising from related party transaction was a major cause of the financial distress in the industry.

Deregulation may also lead institution with vulnerable liability structures to engage in distress borrowing. Distress borrowing typically leads to strong liquidity problems of individual financial institution thereby aggravating the financial crises of the financial system. Where sequencing of financial reforms does not accord the required priority to the existence of an appropriate supervisory/regulatory apparatus to match the likely developments in the system under deregulation, distress in the system may quickly occur.

Detailed discussions of other possible causes of distress have been well treated by many authors (World Bank, 1993; Ebhodagbe, 1994; among others). In the case of Nigeria, while some of the above factors have been identified as possible causes of distress in the system, there is no consensus on the effect of the regulatory factor. Decree No. 24 of 1994 vests CBN with the necessary legal responsibility for ensuring a stable and financial system.

Against the background of this statutory duty, the existence of distress at the prevailing levels is, in part, a reflection of the ineffectiveness of CBN and other regulatory bodies. Such is the stand of most institutions, especially, the distressed ones who have been consistent in blaming the CBN for what they regard as inconsistent and monetary policies such as the use of capability on the part of the CBN to timely identify problem banks and take prompt corrective measures. The CBN, on the other hand, has always absorbed itself of blames, insisting that the affected banks were victims of institutional factors like inept management, board room in-fighting, greed and unprofessional practices, among others (Ologun,1994, Ebhodagbe,1994). Going by the argument of Snock (1989), that, weak management is probably the single most important reason for bank failures in developing countries, the bank will not be able to control its risks and is likely to make wrong decisions that lead to losses. It is also characterised by adequacy of internal supervision and control, as a result of lack of experienced staff, poorly designed procedures and rapid expansion.

The evaluation of bank management is, therefore, an important task of bank supervisors and regulators. Supervisory authorities should be able to enforce their recommendations to improve management, and ultimately to remove incompetent managers, including members of Board of Directors. While independence from government is not a necessary condition and certainly not a sufficient condition for the accomplishment of these objectives, it can make a significant contribution. A strong and effective Central Bank will need both instrument and policy autonomy. It must also be

borne in mind that there are no such things as absolute independence. As a practical matter, the effective degree of independence and public acceptance will depend on how well a Central Bank defines and performs its role overtime (Erb,1989;44).

2.5 Distress Resolution Options

Available literature has identified two broad measures for resolving financial distress namely: Short-run and Long-run measures. Short-run measures or emergency measures aim at stabilising the financial system as rapidly as possible. Long-run measures seek to arrest the system's deterioration and introduce financial prudence and enhance the systems capacity to mobilise depositors and allocate credit to the private sector.

According to World Bank, four key issues need to be addressed when formulating an exit policy for a distressed financial system.

What portion of an insolvent bank will survive after regulatory intervention?

- What happens to share holders?
- What happens to depositor?
- What is the scope of the resolution programme?

Alashi (1991:45) lists the policy consideration for the adoption of any resolution to include:-

- The need to maintain public confidence and stability in the banking sector;

- The need to achieve equity for all categories of depositors;
- The need to ensure least cost advantage for
  Both government and tax payers;
- The need to minimise disruption in banking activities.

Measures often adopted in the short-run include availing distressed banks of lender of last resort and special credit facilities, imposition of holding actions and intervention by the apex banking institution in the management of ailing banks to help restore confidence. The Central aim of such intervention would not be to protect bank managers or banks, but rather to keep the financial system as a whole in shape (Long and Even house, 1989:45). When the problem is that of insolvency, long term measures will need to be taken. Long term measures that may be used include outright liquidation, sale, merger, recapitalisation, and take-over by the government with the aim of turning the institutions around and then selling the clean institution through competitive bidding. Since the earning potentials of the underlying assets of most distressed banks are weak, they leave us with the options of liquidation, recapitalisation and direct intervention in management of the affected banks. Liquidation has already been used with some degree of success.

Intervention, on the other hand, consists of across-the board relief, case-by-case restructuring or a combination of the two. Case-by case restructuring as favoured by Nigerian monetary authorities requires manpower, skill and time as the authorities must make management level decisions concerning the fate of individual institutions. The CBN and NDIC during the first quarter of 1995 constituted the Transitional Supervisory Board (TBS) to supervise the affairs of

the six distressed banks in the system. The new Board, which replaces the interim management Board, would oversee the affairs of the six distresses banks as well as work out the most appropriate strategies for addressing their problem. This arrangement applies to state-owned banks acquired by the CBN in May 1993 (NDIC, 1995).

Other categories of banks whose management have been taken over by the regulatory authorities and are being managed by them as growing concern increases for purpose of sanitising them for eventual resale or re-capitalization. A total of 5 banks (3 merchant and 2 commercial) have so far been liquidated. As is the experience of other countries, the government has chosen to close few small private banks while hoping that the big state-owned banks will successfully be refurbished for sale. This is however contrary to the recommendations of the World Bank, that "based on transparent and effective criteria for appraising each banks solvency position, the vast majority of currently insolvent banks should be liquidated, with only few deemed worth-while for restructuring". Should the authorities decide to restructure all insolvent banks on a stand-alone basis scarce supervisory resources will be diverted from the large number of under-capitalised solvent banks where returns from regulatory intervention are greatest.

To minimise flight to quality of solvent but under-capitalised banks, policy makers should provide temporary liquidity support in exchange for a credible agreement from the bank to raise additional capital and implement other corrective actions. Liquidating banks is politically difficult, particularly when

the banks are public or the major defaulters are public enterprises, but experiences show that delay is costly and losses mount with time.

CHAPTER THREE

NIGERIA UNIVERSAL BANK LTD: A CASE STUDY

Introduction

Nigeria Universal Bank Ltd. (NUB) is a commercial bank jointly owned by the two states i.e. Kaduna and Katsina States and it is among the Nigerian banks categorised as distressed by the regulatory authorities in 1995.

NUB was being profitably run after its inception but became distressed a few years ago due to largely some bad credit risk decisions which later affected its entire operations. The bad credit risk decisions, fraudulent practices of some of the Bank's Branch Managers and some internal control lapses resulted in perennial losses which eroded the shareholders' funds of the Bank. These adverse developments coupled with political considerations in the appointment of key managerial staff brought the operation of the bank to almost a halt and the Central Bank of Nigeria (CBN) and the Nigeria Deposit Insurance Corporation (NDIC) had to step in so as to stop the trend and protect the interest of the Bank's Depositors.

The case study addresses the causes, consequences and implications of distress in Nigeria Universal Bank Ltd. in details and recommendations on how to arrest the situation are presented.

3.1 Distress in the Banking Industry in Nigeria: A Historical Background

The Nigerian Deposit Insurance Corporation was established in 1988 after a World Bank Mission assessment of financial conditions of Nigerian Banks. The mission submitted that due to embezzlement of Depositors funds, frauds and forgeries in banking system occurred:-

"Using adjusted shareholders' funds data, it appears that eight banks are technically insolvent. It should be emphasised that other banks also might be technically insolvent if they were required to reverse accrued interest on non-performing assets".

It is therefore obvious that all was not well with banks in 1988 and a deposit insurance institution should have commenced operations much earlier than 1988. Since 1988 when the NDIC was established, the factors that had made its establishment inevitable, have further justified its establishment. For example, the upsurge in the number of banks operating in Nigeria escalated from 50 in 1987 and 66 in 1988 to reach 119 in 1991, with corresponding growth in branch offices, total deposits and total assets (see Table 3a). Consequently the degree of competition in the banking industry has increased tremendously since the NDIC came into operation. This has had adverse repercussion for depositors risk-taking and the safety of their deposits.

By 1st December, 1992, the number of banks operating in Nigeria was 122 with a total of 2,541 branches and 1,479 other financial institutions (see Table 3b). All these combined to make the financial system more robust and highly competitive. The Fiduciary Responsibilities, imposed on financial

institutions as is obtained in banks and Other Financial Institution Decree (BOFID) were circumvented by officials to the detriment of depositors.

A lot of Financial Institutions (and some banks) found it difficult to comply with all the Fiduciary Responsibilities and the result was the beginning of Distress in the Nigerian banking industry.

By 1995, 51 banks were classified as distressed, in addition to 42 banks so classified in 1994. Also 18 banks were placed under management control by the Central Bank of Nigeria (CBN) due to terminal nature of their distress. In order to arrest the situation, Government employed severe regulatory measures, debt recovery strategies and stringent code of ethics for banks.

However by 1995, the right of Depositors were no longer safe in Nigeria as some banks and financial institutions have through unethical practices squandered funds entrusted in their care. The subsequent promulgation of the Failed Banks Tribunal leading to the arrest and conviction of corrupt bank officials had little remedial effect on depositors who were at best given only negligible percentage of their deposit after liquidation.

Table 3a-

Commercial and Merchant Bank in Operation in Nigeria : 1892-1993

YEAR	NUMBER OF COMMERCIAL BANKS	NUMBER OF MERCHANT BANKS	TOTAL NUMBER
1892	1		1
1917	2		2
1933	3		3
1937	4		4
1945	5		5
1953	6		6
1959	8		8
1960	9	1	10
1961	13	1	14
1962	17	1	18
1971	17	1	18
1972	17	1	18
1973	17	2	19
1974	17	3	20
1975	17	5	22
1976	18	5	23
1977	19	5	24
1979	20	6	26
1982	22	8	30
1983	25	10	35

1984	27	11	38
1985	28	12	40
1986	29	12	41
1987	33	16	49
1988	41	24	65
1989	47	34	81
1990	56	48	104
1991	65	54	119
1992	66	54	120
1993*	67	55	122

*February 1993

Source: The Central; Bank of Nigeria

TABLE 3b

Number of Financial Institutions in Operation in Nigeria : 1991 and 1992

INSTITUTION	1991	1992
Commercial Banks	66	67
Merchant Banks	54	55
Mortgage Institutions	23	145
Finance Houses*	n.a	618
Bureaux-de-Change	106	109
People's Banks (Branches)	172	206

*A total of 48 are licensed while 570 were given approval - in - principle to operate as at January, 1993

Source : The Central Bank of Nigeria

3.2 History of Nigerian Universal Bank Ltd.

The bank, Nigeria Universal Bank Ltd., was incorporated as a limited liability company bearing the name of North Central Co-operative Bank in August, 1972 when it was solely owned by the North Central State with its headquaters in Kaduna. It was licensed under the Banking act of 1969, to carry on banking business in Nigeria in October, 1972, and accordingly commenced formal operations in November, 1974. On the change of the name of North

Central State to Kaduna State during the State creation exercise of 1976, the name of the bank was changed in May, 1976 to Kaduna Co-operative Bank Ltd. In appreciation of the need for the Bank to acquire a more national outlook and expand its operations beyond the boundaries of its owner states, the name of the bank was changed in June 1987 to Nigeria Universal Bank Ltd. The bank had a paid up share capital of N50 million wholly owned by the Katsina and Kaduna states governments in the proportion of 53% and 47% respectively.

The bank operated through a network of 27 branches spread over Kaduna, Kano and Lagos States and Federal capital territory, Abuja. There were even plans to open more branches in the other viable locations across the country.

The Bank offered the range of commercial and retail banking services. Whilst the core operations remained retail banking activities the bank had as part of its strategic repositioning diversified its operations into such areas as corporate finance and investment banking activities with a view to broadening its earning base. The Bank's service covered retail banking services, corporate finance, services, treasury investment services, and international operations.

3.3 History of Management of NUB Ltd.

The first management team of Nigeria Universal Bank Ltd., of 1974, the year the Bank commenced operation formally, was headed by MR. WEBSTER (ACIB), a Briton. The decision to bring in an expatriate as a pioneer Chief Executive of the Bank was basically, to make a good start. Mr. Webster, was

the Chief Executive but worked as the General Manager since there was nothing like the office of the Managing Director at that initial stage.

Other members of the Management team include Alh. Mohammed Kutugi (ACIB) and Alh. Abdulkadir Balareba Musa (ACA) as Assistant General manager and Chief Accountant respectively.

After Mr. Webster has finished his assignment Alh. Ibrahim Makarfi took over as General Manager/Chairman for the Bank, who came in as a political appointee. This has qualified Makarfi to be the first Executive Chairman of NUB.

Next Chief Executive and General Manager for NUB Ltd., after the tenure of Makarfi was Kutugi who tenured up to the year 1985 when he handed over to Alh. Aliyu Kakangi, who was fished out from First Bank of Nigeria Ltd. (FBN). Alh. Kakangi was the first chief Executive of NUB Ltd., who worked as the Managing Director. He was therefore the first Managing Director of Nigeria Universal Bank Ltd., but not the first Chief Executive of the Bank.

He had Alh. Aliyu Matazu (Dip Banking) as his General Manager. During Aliyu Kakangi's tenure, there was a drain of professionals in the management and as a result of this, a lot of experienced but unqualified staff of the Bank were upgraded into the management cadre, and could be one of the causes of the distress syndrome of the Bank, as this might have affected effective and proper tactical decision-making and forecasting.

During Alh. Kakangi's tenure of office, the owner-state Governments (Kaduna and Katsina) invited a management Consultant from Pakistan, MR. HUSSEN, in 1989 to study the Bank and submit his recommendations. Hussein,

after a 30 day-survey of the Bank's operations and functions, submitted his report which was unfavourable to all the management staff with the exception of two management staff only. The Consultant recommended that appointments of all (minus the two) management staff of the Bank be terminated, with immediate effect, for lack of qualifications. The two staff were Ahmed Makarfi (MSc. Accounting) and Shehu Yahaya (ACA). But the rest including the Managing Director, Kakangi were on the list. The recommendation was rejected by the Board because of Nepoti m and Favouritism. Earlier on, Management feared this would happen and so the welfare package the Bank management approved for Mr. Hussien was the same with Nigeria's CBN Governor by then. Hussien rejected the package and claimed that he was after achieving his mission, and not material gains and that was the end of it, he went back to his home country, Pakistan. Alhaji Kakangi served for eight years as the Managing Director, and in January, 1993, handed over to a new man entirely. He was Alh. Umar Abdu Dankama. Alh. Dankama (MSc Accounting/Financing) was a Senior Manager with Nigeria Merchant Bank, Ltd.(NMB); had then completed his 2-year assignment as a technical partner, from Bauchi State's Inland Bank Plc as their Chief Executive. He was brought in then on political grounds by the two Civilian Governors of the owner-state governments; Kaduna and Katsina States under NRC, to according to them 'put things in order in NUB'.

Alh. Dankama brought about what this dissertation referred to as 'Management shakes' at NUB, whereby he introduced new and unprecedented offices of the Executive Director (Operations) and Executive Director (Finance and Administration). He took the advantage of poor or lack of qualification of

the management team he inherited and employed a large percentage of new management team from outside to replace the offices, and fill the vacuum he fished out on arrival. A lot of new faces of management staff frequented the Bank's Headquarters at Kaduna, almost weekly during his tenure of office.

Conflicts arose within the bank among the management staff, frequent noctural meetings occurred in relation to disagreement with the new Managing Director's line of action. There was no board for about a period representing two third of his 10-month tenure of office and hence he acted single-handedly within the period.

After exactly ten month, Alh. U.A Dankama was removed from office for in-house Board conflicts. Alh. Usman Abubakar, Executive Director (Operations) took over in the last quarters of 1993 and this was the "thespian" Managing Director. That is, he was the Managing Director that made the Bank become distressed proper. It was during his tenure that the Bank got technically distressed. He was accused of financial mismanagement which led to the Bank's crisis and subsequent dis ress and take-over by regulatory authorities i.e. CBN/NDC.

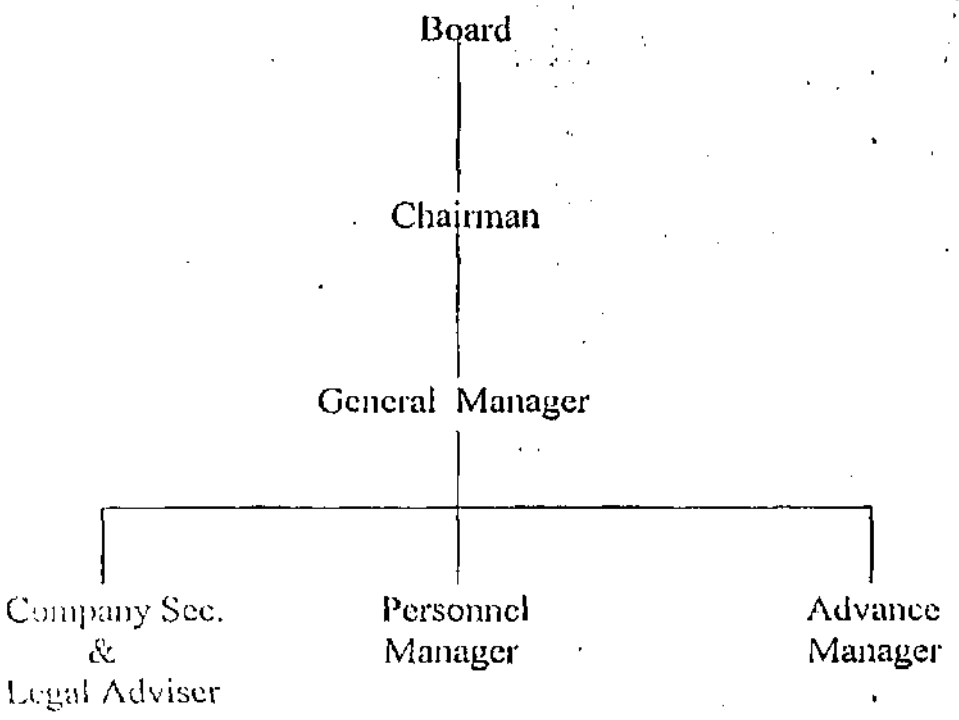
When Abubakar become the Managing Director, his former office of Executive Director (Operations) automatically became vacant, and so an outsider, Alh. Badamasi Ahmed Atiku from Bank of the North Ltd. was brought in for the seat.

On removal and eventual arrest of Abubakar, the NDIC nominated B.A Atiku to the next Executive Head to work hand in hand with two Executive Directors each from CBN and NDIC.

3.4 Organisation Structure and Function Of NUB

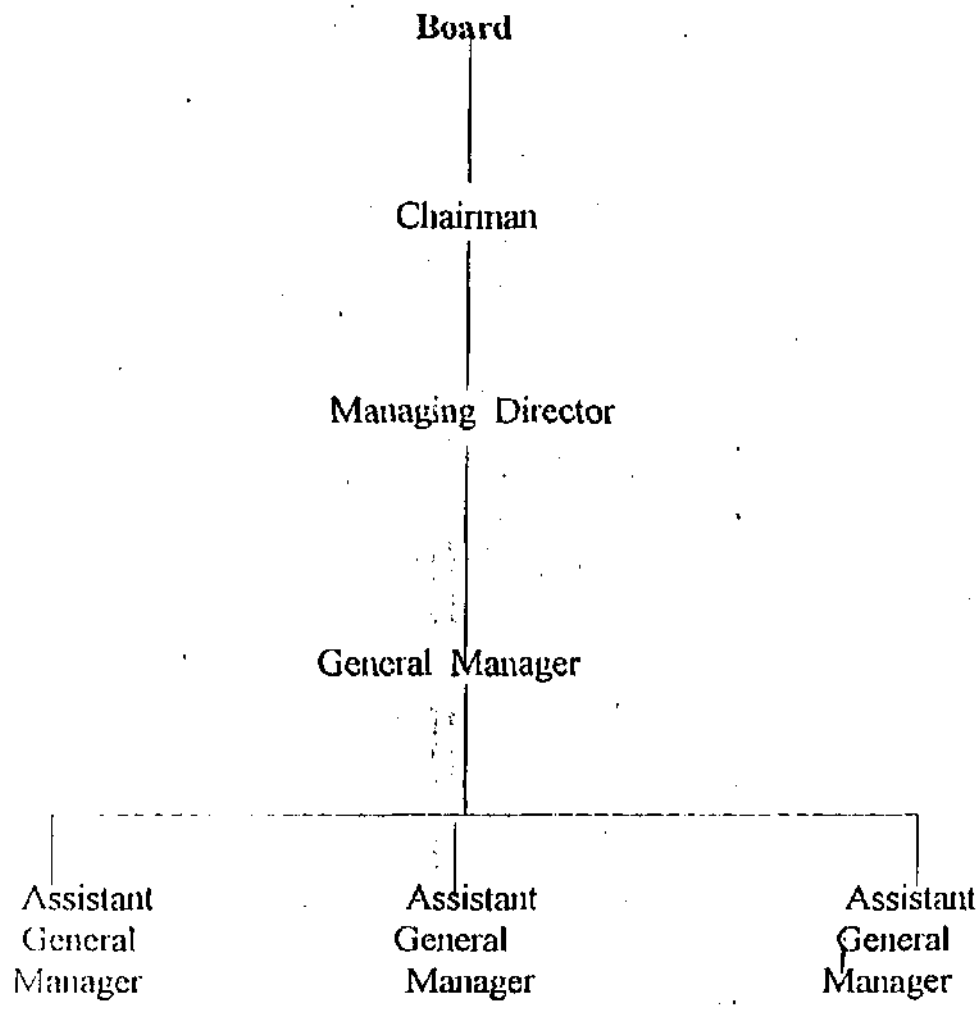
The Nigeria Universal Bank's organisational structure followed a pattern of transformation since from the time of Webster i.e. from the beginning down to the present management by the NDIC. The structure kept on expanding due to the increasedneed to broaden the organisational goal and objectives to match with time and ultimately satisfy the seemingly increasing clientele of the Bank.Fig 3e - 3f show stages of development in the transformation of the organisational structure of NUB Ltd. since inception.

Fig 3c. **NUB's Organisational Chart during Webster**



SOURCE: Inspection Department, NUB Ltd.

Fig. 3d **NUB's Organisational Chart during Kakangi**

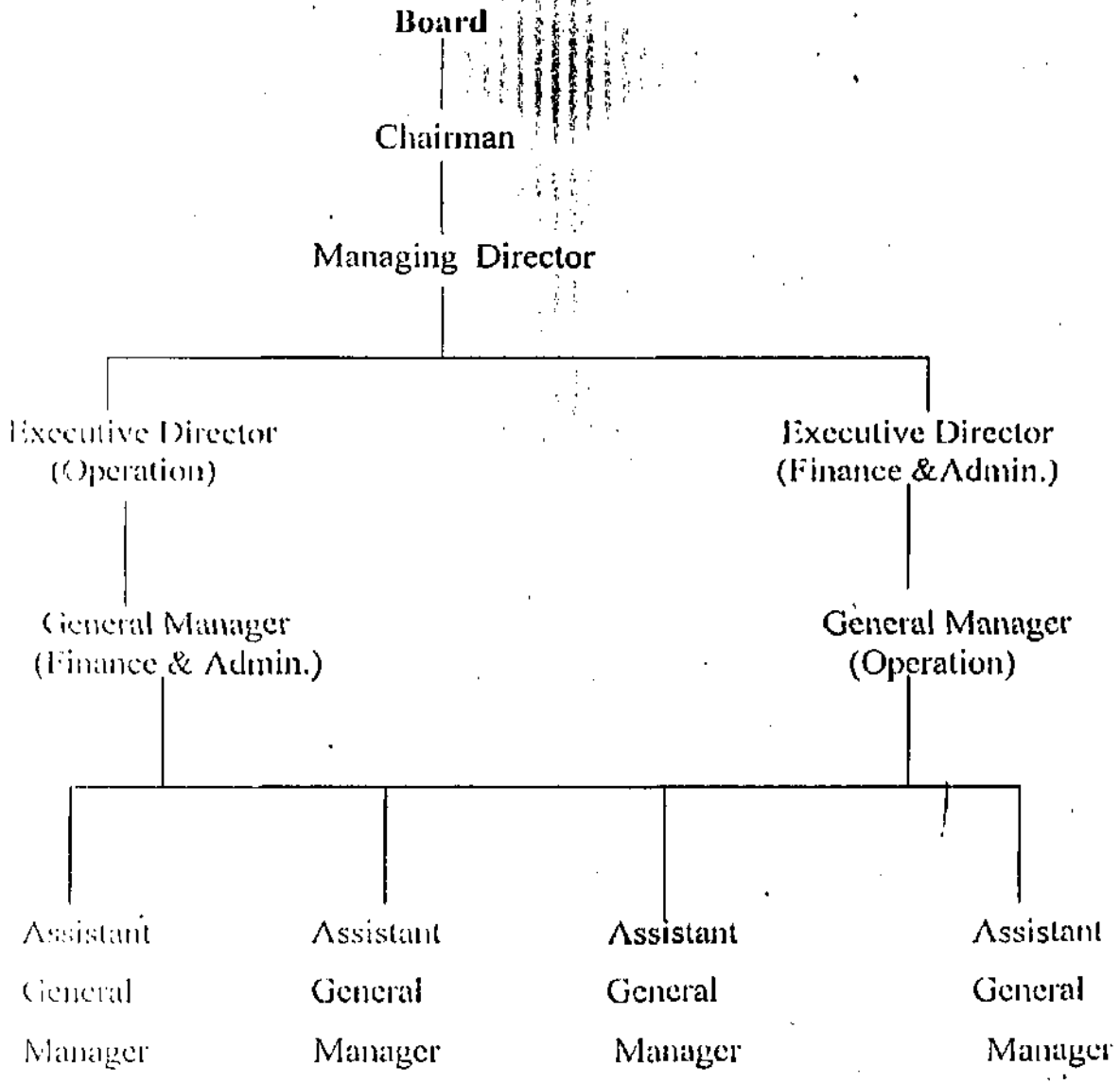


SOURCE: Inspection Department NUB Ltd.

It is to be noted that it was during Alh. Kakangi that the Bank started having the office of Managing Director for a Chief Executive. Also it was during this time that the Bank had its first General Manager who was not Chief Executive. All the past General Managers (three of them) have been Chief

Executives of the bank during their tenures of office. It was also during this period that the Bank started having the offices of AGM's.

Fig. 3e **NUB's Organisational Chart during Dankama.**



SOURCE: Inspection Department NUB Ltd.

It can be seen from Fig. 3e that Alh. Dankama's organisational structure was the most appropriate structure for any Bank, NUB inclusive. Alh. Dankama, having been a qualified Accountant and experienced banker from Nigeria Merchant Bank Ltd. did his homework well and brought out his organisational structure (Fig. 3e). The introduction of the Offices of two Executive Directors for the Bank coupled with the employment of qualified and professional personnel to fill the vacuum created by the former administration had an adverse effect on the profitability of the bank. The Managing Director had created many departments for the bank that hitherto were not existing and these include:- Corporate Planning DEPT., Risk Asset Management, Corporate Lending Department, Corporate Affairs Dept., Property Dept., and Budget Monitoring Dept. He has also expanded the Department of International Banking and transferred it to Lagos, where he claims that, since 90% of all business transactions carried out in Nigeria is found in Lagos, the department should be in Lagos and not Kaduna.

Apart from the ushering in of the two Executive Directors, a harmful of new management staff were employed from other banks/financial institutions at higher conditions of service than what obtains in their former organisations, to head the newly created departments. All these signify higher cost for Nigeria Universal Bank Ltd.

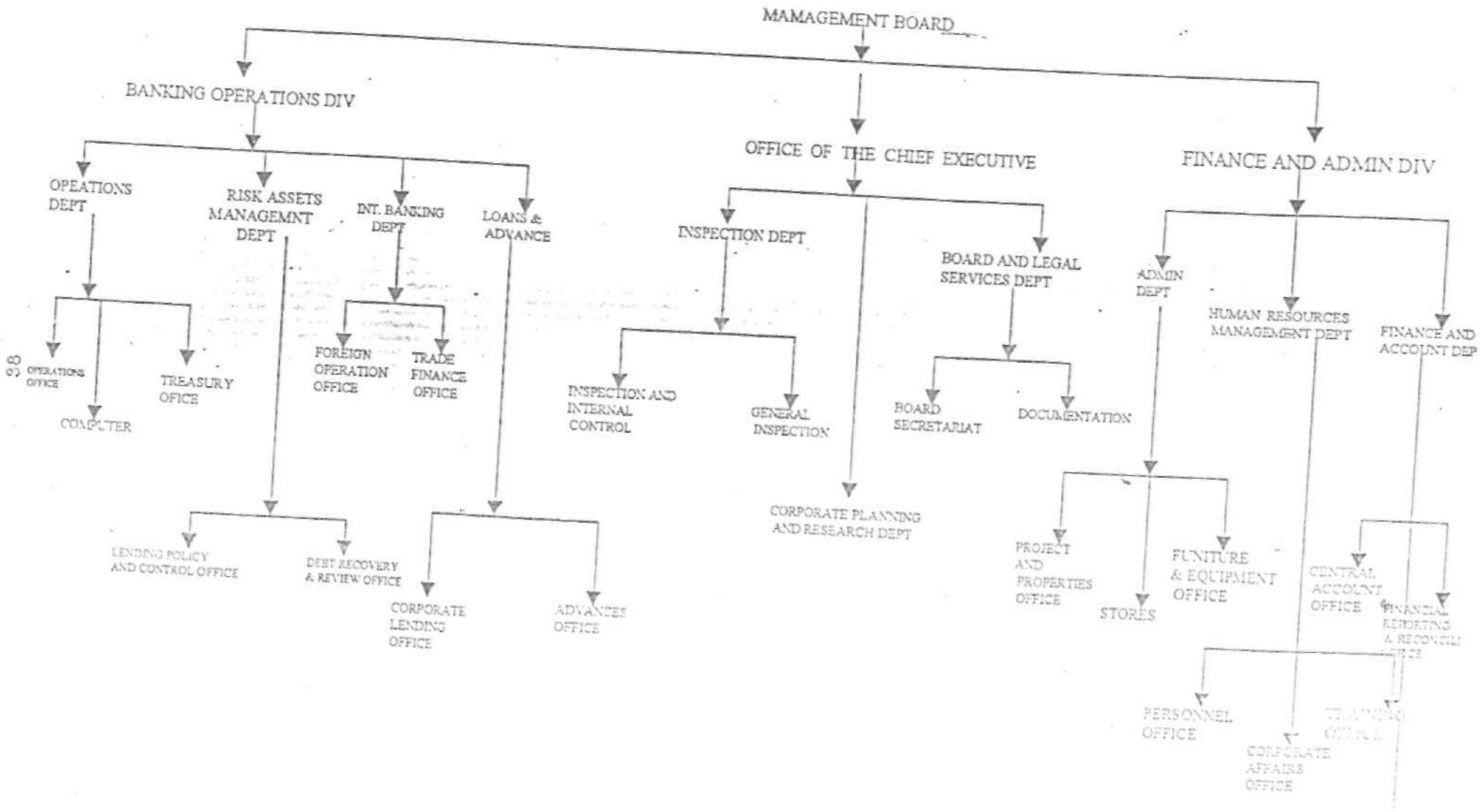
Another consequential implication of Alh. Dankama's organisational structure is that there were political interference in the affairs of the bank from the Two State Governments in respect of employment and other matters. Emphasis were made on political decisions rather than business considerations.

Alh. Dankama left the bank in 1993 but his organisational structure operated up to 1995 the year the bank became distressed.

Fig. 3f Represents organisation chart of Nigeria Universal Bank in full as planned and presented by Alh. Umar Dankama in the year 1993.

FIG 3f

ORGANISATION CHART OF NIGERIA UNIVERSAL BANK IN FULL
AS PLANNED BY UMAR ABDU DANKAMA (OPERATED UP TO 1995)



3.5 The Issues of Distress in NUB Ltd.

Causes, consequences and implications

In as much as there are varied causes of distress syndrome in the Nigerian Banking Industry, there are technically varied causes leading to the distress of Nigeria Universal Bank Limited which are going to be examined.

Firstly, the Research examines the causes as percentage contributions to the distressed state of the bank contributed by each of the following parties viz:-

- The Board of Directors of NUB Ltd.,
- The Management Staff of NUB Ltd.,
- The Non-Managerial Staff of NUB Ltd.,
- The Customers of NUB Ltd.,
- The Owner-State Governments of NUB Ltd., i.e.
  The Kaduna and Katsina State Governments
- The Regulatory Authorities i.e. the CBN and NDIC.

In other words, we are going to see how each of the parties mentioned above has contributed to the distress of Nigeria Universal Bank Ltd., since the Research believe that the distress issue of Nigeria Universal Bank Ltd., is a collective responsibility.

It has been already seen in this chapter that, the management of Nigeria Universal Bank Ltd., in the period between late '80's and early '90's consisted of only experienced, but unqualified and unprofessional bankers with dwarfed foresight leading to improper tactical decision-making. This could prove dangerous for any profitable Bank like NUB Ltd., and it really proved so, as we are going to verify soon.

No wonder the person who led the Bank to its present position of distress is **Alh. Usman Abubakar.** Alh. Abubakar (now in detention) is a product of the Management in question, and because of his "established" lack of foresight, has thus contributed to the distress of NUB Ltd., by bringing about what Professor David Iornem of the Institute of Management Consultants referred to as "Low Deposit with CBN" as being one of the causes of distress in Nigerian banking industry. Abubakar, during his tenure of office, allowed frequent debit increases in NUB's Central Bank of Nigeria Account so that his Bank fully participated in Foreign Exchange Bidding. This happened so much so that NUB's deposits became increased to a level were it could not support its operations (Refer to Table 3d) (Abubakar was the MD from 1993 Ending - 1995). Consequently Abubakar decided to over lend and mostly the lending was unsecured, and the Bank's Networth position became negative (verify in Table 3d).

However, this particular cause of distress attributed to as many distressed banks in Nigeria as possible during the Babangida Regime, where commercial and merchant banks' forex demand requests were mostly approved for Foreign Exchange Bidding. It was during this period that we had, in Nigeria, many one branched banks situated in Lagos that depended only on the Forex bidding and were profitable. This has later on brought about negative effects to the overall economy of the country leading to most Nigerian banks becoming distressed. NUB Ltd., was not an exception to these negative effects.

In-house management conflicts could be another cause of distress in NUB Ltd. Naturally, stability is required in any organisational set-up for the accomplishment of organisational goals and objective. Without stability the functional mechanisms of an organisation would not operate.

NUB's management conflicts are as old as the Bank, NUB itself. Conflicts started right from the onset of the Bank's take-up i.e. during the days of the Pioneer Chief Executive, Mr. Webster, but they were not as pronounced and as technical as during the controversial ten-month period this dissertation refers to as "Management Shake" period brought about by Managing Director U.A. Dankama.

In the words of Mr. Webster,"Balarabe Musa is a brilliant accountant, but not a good administrator".

This comment is a clear indication that there used to be conflicts in NUB between Webster and his Chief Accountant, Abdulkadir Balarebe Musa. However, the most implicative conflicts that occurred in NUB over the years among the Management were those during the "Management Shake" period where the then Managing Director, U.A Dankama and his Executive Director, Usman Abubakar were the thespians.

These conflict that accompanied, the short-lived, ten-month period of Managing Director, UAD mostly occurred as a result of operational changes within the Banking system brought about single-handedly by the then Boardless Executive-reign-of-power exercise by Alh. UAD., since in the first two-third stay of his dramatic 10-month tenure of office, there was no Board of Directors.

He acted single-handedly and executed these operational changes for the Bank which were not acceptable to his Executive Director (Operations), Alh. Abubakar and his followers or faction. This brought about serious instability up to the time when a Board of Directors was constituted.

Later in the year 1993, the In-house conflicts between UAD and Abubakar extended to the newly constituted Board and this has created two factions also in the Board. Conflicts continued to frequent both Management and Board and eventually UAD was removed finally for in-house Board conflicts in October 1993.

There was no stability for the whole of the year 1993 among the Management and Board of Directors of Nigeria Universal Bank Ltd., even after the exit of UAD., and hence the Bank's focus was not profitably sound, but everything was based on in-house politics. This instability at this crucial period (1995) had contributed to the Bank's becoming distressed. It should be noted that the Bank started to become distressed in 1993 when its Networth become negative for the first time, but became distressed in 1995 when the NDIC officially declared it distressed together with other sixteen depressed Banks within the country.

An area whereby the Management of NUB contributed to the distressed state of Bank is that it encouraged Nepotism and favouritism in running the affairs of the bank staff wise. There were many reported cases of fraud and dubiousness among some staff and this were brought to the notice of the Management, but because these staff were related to some of the management staff no disciplinary measures were taken against them, or where they were

taken there were delays and favours in the verdicts and this has accelerated the frequency of fraud and forgeries by similar parties for a long period.

The Board of Directors of NUB Ltd., contributed a lot in making the Bank become distressed. The Board of any bank has the power to intervene where necessary and restore stability. The Board of NUB had the power to effect changes in the management of NUB when the need arose, but it never did so, and hence, as far as this research is concerned the successive Boards of Directors of NUB Ltd., within the period under review (1991-1996) were ineffective and irresponsible as far as their duty was concerned.

The Board should have mediated with the owner-State Governments that appointed them, to give them feedbacks on the profitability or otherwise of the Bank, and advised them on next lines of actions over the years. The Boards in most cases were passive. Instead of the Board controlling the Management, it was vise-versa, even though at this juncture it is to be noted that the composition of the Board of Directors of an organisation should be examined first, before a justifiable conclusion of their responsibilities towards accomplishments of goals and objectives is made. This would be thoroughly discussed under the contribution of cause of distress of NUB by the Owner State Governments.

The staff of NUB Ltd., comprising the non-managerial staff also has a hand in making the Bank distressed.

Many a times, there were many reported cases of frauds involving staff, some branch managers (now detained) who have connived with some customers of the bank and stole away large sum of Bank's Deposits. These unscrupulous members of staff in the course of their unwanted, unethical act, were able to extend their fraudulent behaviour to the customers they invited to connive with.

Some of the staff of NUB Ltd., during the period:- 1994-1995 under tl administration of thespian Managing Director, Usman Abubakar, have reall acted against the ethics of banking profession, and this has greatly affected NUI in which there was erosion of customers' confidence on the Bank. Man customers, because of these unethical acts practiced by some staff of the Banl decided to close their Accounts.

There was a situation whereby a customer with a demand of N10 Millior with the bank came to withdraw and found out that the money was missing in his Account. When he inquired he was only told the money was transferred t a merchant Bank, and this was carried out without his consent; not even his knowledge. The only explanation the officer who committed the offence made was that the money was 'sleeping' in demand deposit and thus yielding no returns for the customer. That was why the staff decided to transfer the funds to a merchant bank where it would generate interests.

When the customer complained to the MD of the Bank (Abubakar) nothing was done to the said staff; not even a re-posting was made against the staff and the staff continued to stay as the operations manager.

Another example of unethical act committed by the same staff in the previous example is that, during the same period as above the staff in question established his own Community Bank in Kaduna and approved for him self an unauthorised overdraft facility amounting to Millions of Naira as Capital outlay. He was able to do this through the personal accounts of several customers of the Bank, thus putting them on liability side. Most of the customers were illiterates and were ignorant of the financial and legal implications of what they did and some of them did this unknowingly.

Still the Management at that time did not bring the staff who committe the two cited offences to book, even though the two cases were officiall reported to the Management by the In-house Inspection Department.

These two example are a clear indication of how NUB looked like durin the MD (Abubakar) as far as Code of Ethical Professional Conduct in bankin was concerned. This has contributed a lot to the present situation of distress th bank finds itself.

The Owner State Governments (Kaduna and Katsina State Governments are guilty of constantly changing the Boards of Directors of NUB at the flimzies of excuses. This has affected the profitability of the bank.

The composition of past Boards of Directors of NUB portrays lack o exposure and expertise in business circles among the Board members. Most o the Board members appointed were retired civil servants of former North-Centra State and former Kaduna State Governments. With the exception of the Board o Directors during the UAD regime that comprised of seasoned banker industrialists and business tycoons, most of the members of past Boards o Directors of NUB consisted of retired civil servants with minimal business focus.

Some customers of NUB contributed to its distress since there were reported cases where they connived with the staff of the bank to steal money. There was a serious fraud that occurred in one of the branches of NUB based in Lagos where customers stole millions of Naira with the help of the staff.

Nevertheless, the simple fact that there were an uncountable number of defaulters at NUB among its customers suffices to prove the above assertion. Over N660 million worth unsecured loans and advances were given out to its customers by the Managing Director alone as at 1995. Most of the customers

who collected the overdrafts were greedy and defaulted intentionally and this was very costly for the bank and the customers themselves.

The regulatory authorities (CBN and NDIC) are not left behind in contributing their quota to the causes of distress of NUB Ltd. Their supervisory machinery is faulty towards diagnosing the problems of the operation of the bank. There was no year that the CBN or NDIC did not audit the Bank and report their findings to their Headquarters. Some bank Managers in Nigeria already alleged that CBN officials prefer situations where banks break their (CBN) rules as they use such situations to threaten and extort bribes from the banks concerned. CBN officials involved in this shaddy affairs end up writing flowery reports on the banks though such may be false.

NUB Ltd. was one of such banks CBN officials would have wanted to audit by the year 1994 and 1995, which they did.

There were confirmed cases whereby NUB Ltd., flouted CBN policies like failure to render returns regularly. As returns were not rendered timely, CBN was not in a position to know when and if the Bank was heading for trouble. Also there were cases of abuse of sectoral allocation where NUB was abusing the sectoral allocation requirements specified by CBN. Most of the returns prepared by NUB and sent to CBN monthly were fake returns and did not reflect the true picture of the bank's financial position. The Chief Accountant, after preparing the consolidated Returns used to take them to the Managing Director (Abubakar), who normally tampered with the returns to suit his likings so as not raise eyebrows at the CBN. There were a lot of other cases that were later discovered by CBN/NDIC officials.

Now if those cases discovered had been reported to CBN Headquarters, disciplinary measures would have been taken against the default staff and

necessary corrections made and NUB Ltd. could possibly have not been distressed. Unfortunately, the cases were not reported, instead flowery and favourable reports have been reported all along by the chains of CBN/NDIC officials that have been parading the Bank yearly. This was their contribution in making the Bank becoming distressed.

Another area where CBN officials contributed was in one of the fraud cases reported to have taken place in one of the Bank's branches in Lagos. Some six officials of CBN Lagos together with three officials of CBN Kaduna connived with the NUB Lagos Branch Manager and his customer, and stole away over N400 Million through fictitious transfers from CBN to the account of the customer. (The Branch Manager, the Customer and some of the CBN Officials now detained; the rest escaped).

In addition, the sum of N362 Million belonging to NUB have been stolen by some top officials of CBN as one of the nation's Newspapers, "The Lagacy" Vol. 2 No. 2, Jan., 5-11, 1998, puts it, "Already, The legacy has established that some top officials of the Central Bank of Nigeria, CBN, were deeply involved in the theft as they were reported to have stolen N362 Million belonging to the NUB as unverified claims".

Above were the CBN's contribution to the distress of NUB Ltd. Of great importance is the Accounting Concept "Going Concern" or "continuity assumption" in the explanation of the causes of distress of NUB Ltd. The generality of the staff of NUB, because of the above assumption, thought that the Bank would not collapse. They thought that the bank would continue to operate at least long enough to carry out its existing plans and commitments, towards achieving organisational goals and objectives. No one expected that it would fail or become distressed considering its past performances. This could have been one of the reasons why the staff including the management staff acted in the most unwanted, unethical manner that warranted its sudden collapse.

There are many consequences and implication to the distressed syndrom that the Nigeria Universal Bank Ltd. found itself. As a result of the bank becoming distressed, there was erosion of confidence on the part of customer which resulted in the closure of accounts of the Bank's seemingly large clientel This implied a serious bank-run on the Bank and many customers both co operate and individuals withdraw their money from the Bank.

This has attracted the interest of the regulatory bodies - the CBN and th NDIC, who had to step in so as to stop the trend and protect the interest of th Bank's depositors. The Board and the management were consequently dissolve and both the CBN and NDIC, on the advent of their intervention appointed an Interim Management Board to oversee the day-day affairs of the bank. Clearing activities and other normal commercial banking activities of the Bank have stopped, but all the fixed assets and other instruments of operations whose values have continued to increase, were in good conditions and have been under the continuous surveillance of the management staff seconded by the regulatory authorities.

On account of the foregoing negative developments, a rationalisation programme was embarked upon which led to the closure of some branches and the disengagement of the services of some management and non-managerial staff of the Bank. Most of the staff are roaming about in the labour market while very few of them are lucky to have been employed in some other banks or government parastatals.

The Managing Director and nine other staff were arrested and are now being tried at the Failed Bank Tribunal. As one of the country's Newspapers (The Legacy, Vol. 2, No. 2, Jan. 5 - 11, 1998) reported "The former Managing Director of NUB Ltd., Alhaji Usman Abubakar is being tried at the Lagos Zone I

of the Failed Bank Tribunal presided over by Justice Edokpayi". The Lega further gathered that "the former Managing Director, being tried for stealing N1.2 Billion is a well connected man who is also believed to circulate widely high places. His subordinates too, among themselves, succeeded in stealing N(Million before they were caught in the act after successfully bringing the Bank i its knees".

Since Nigeria Universal Bank Ltd. is a State owned Bank (Kaduna an Katsina States) its branches were rural, located within Local Governmer Headquarters of both Kaduna and Katsina States. The most controversi implication here is that branches have now been rationalised and the inhabitant of these areas have thereby been deprived of the banking services they used t enjoy over the years. If the Bank did not get distressed, this would not hav happened, and this now is a serious "back-to-square-one" phenomenon as far a inculcating banking habits among the rural populace as envisaged by CBN' forced rural banking scheme is concerned. This has, no doubt, rendered th purpose of CBN's Rural Banking Programme to be defeated particularly i Kaduna and Katsina States.

Another serious implication of NUB's distress is that even if the Bank wants to pick up again and come back to business within the industry, it has to increase its statutory deposit from N50 Million to N500 Million, which is the newly approved statutory deposit by the Federal Government of Nigeria as stipulated in the CBN's Fiscal Policy of 1997. The Bank's illiquidity, coupled with its bank-run as a result of erosion of confidence on the part of its customers combined together to make it very difficult for the Bank to recapitalise. It should be noted here that if banks and financial institutions in Nigeria did not get

distressed within the industry, the statutory deposit requirements would not hav been reviewed by the Federal Government.

3.6 Revival Strategies.

One of the Revival Strategies which the Nigeria Universal Bank has take which became effective was the aggressive Recovery Measures which enable the bank to recover up to the amount exceeding N1.2 Billion from its numerou defaulting customers. It really took the Bank up to three years to recover such a amount. Another interesting thing to note as far as NUB is concerned, is tha NUB has, by now, paid all its depositors their money pledged in the Bank. The Bank has even got a deposit of N 68.6 Million after settling all its depositors The party that the Bank is still owing is the Central Bank of Nigeria, CBN, which happened as a result of NUB's over-request of hard currency (within the period under review) to engage in Foreign Exchange Bidding (already discussed).

Revival Strategies and Emerging Ownership Pattern.

In order to prevent the Bank from eventual liquidation, a core of prospective investors from both Kaduna and Katsina States constituted themselves into a group ("The Group") for the purpose of identifying some plausible avenues through which NUB could be salvaged. The Group, in conjunction with the staff of the regulatory authorities currently working in the Bank and the investment companies of both
Kaduna and Katsina States worked out a revival programme involving discussions with the following bodies:-.

i The Government of both Kaduna and Katsina States which constitute the erstwhile owners of the Bank but whose equity capital in the Bank has been eroded;

ii The regulatory authorities, that is the CBN and NDIC; and

iii NAL Merchant Bank Plc. for the purpose of getting it to enter into a Technical Management Agreement which will culminate in NAL managing NUB.

The discussions between the Group and the above institutions yielded t following positive results:-

i The two Governments of Kaduna and Katsina States have agreed withdraw substantially from ownership/equity participation;

ii NDIC granted the Bank the following forbearances:-

a A partial waiver of the bank's overdrawn account at the CBN up to a maximum of 40%;

b The treatment of the outstanding balance after the waiver in any of the following options:

- Conversion of the balance to equity; or
- Conversion of the balance to Long-term Loan at 3% interest with a maximum tenure of 10 years; or
- Swapping of the balance with fixed assets of the Bank o mutually agreed price between the investors and the CBN.

c The relaxation of prudential requirements to permit the treatment of loan stock as supplementary qualifying capital (i.e. Tier II Capital) in computing the recapitalisation requirements of the Bank subject to a maximum forbearance of up to 10 years.

d The Honourable Minister of Finance has granted the Bank an extension of time to 31st March, 1998, to finalise its recapitalisation programmes.

iii NAL accepted to act as the Issuing House/Financial Advisers of NUB Ltd., in connection with the Offer for raising the sum of N500 Million required for the recapitalisation of the Bank. NAL is, at the same time, considering the Technical Management proposal and will take a decision on this in due course.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

4.0 Introduction

This chapter presents and analyses the data collected in order to establish the findings made in the process of the research.

Below we present, in tabular forms, the data collected for analytical purposes.

4.1 Number of Distressed Banks.

An examination of Banks adjudged financially distressed in 1991 by the Nigeria Deposit Insurance Corporation (NDIC) reveals that ownership category is one of the major variables that could be used to explain the degree of financial distress. Table 4(a) below presents the number of banks by ownership category at the end of 1991, as well as those that were financially distressed.

The Table shows that seven out of eight banks that were financially distressed were either owned or controlled by State Governments. Recent events have shown that privately owned banks have higher risk of failure given that all the three merchants' banks whose operating licences have so far been revoked were privately owned. Control and Management of insolvent state owned banks have however been taken over by CBN and NDIC for restructuring.

TABLE 4(a)

Number of Distressed Banks by Ownership Category 1990-1994.

OWNERSHIP CATEGORY	NO. OF BANKS	% OF TOTAL	NUMBER DISTRESSED
State Government owned Commercial Banks	25	21	7
Federal Government owned Commercial Banks	8	7	-
Privately owned Commercial Banks	32	27	1
Federal and State owned Merchant Banks	8	7	-
Privately-owned Merchant Banks	46	38	-
TOTAL	119	100	8

SOURCE: NDIC Annual Report and Statement of Account 1991

4.2 Frauds and Foregeries in the Nigerian Banking Industry

The incidence of Frauds and Forgeries have been cited as one of the major causes of Financial distress in banks . (Oguma, 1993:7), (Iornem, 1995) (and many others). Many of the distressed banks in Nigeria today had suffered a great deal from frauds and insider credit abuse. The extent of frauds in banks, rather than abate, has continued to escalate. It is therefore necessary that attention is paid to this nefarious international phenomenon as fraudstars become more sophisticated and daring in their approach.

By its single definition, fraud is a criminal deception. But broadly speaking, fraud has been described (Chizea, 1991) as any premeditated act of criminal deceit, trickery, or falsification by a person or group of persons with the intention of altering facts in order to obtain undue personal monetary advantage. Fraud usually involves the perpetration of some forgery or falsification of documents or the illegal authorisation of signature.

In the banking industry, fraud covers a wide range of deceitful activities (Afolabi, 1994) from outright theft, forgery or account manipulation to constructive theft by way of credits that the manager or the approving authority knows will fail. Frauds result in huge financial institutions and their customers, depletion of shareholder's funds and capital base as well as loss of confidence in Financial Institutions.

The prominent types of frauds identified by NDIC in 1994 include presentation of forged cheques, unauthorised overdrafts, granting of unauthorised loans, suppression of cash vouchers/cheques, posting of fictitious credits, and conversion of bank's money into personal use. Apart from eroding the capital of

the affected banks, the prevalence of frauds in industry has had the less sal effects of shaking customer's confidence in banks.

The distressed syndrome ravaging the financial system has been a lo the economy in many ways, the direct result of the distress condition of economy. It is a well-known fact that the Nigerian Economy has been in a of collapse since early '80's. As a result, business has contracted to the fractio what they used to be. High level of unemployment has become a key featu the economy. The Naira has been massively devalued and prices have gone It was only a matter of time, therefore, the pervasive economic distress syndr manifested in the banking industry in the form of financial distress. It is difficult therefore for banks to be healthy in a situation where a large numbe their key customers have financial problems. Many business organisations individuals have lost huge sums of money because of technical insolvency of banks mostly through perpetration of frauds and forgeries.

Available data would be presented in Table 4(b) and 4(c) and analy made there from all within the research period of 1991-1996.

TABLE 4(b)

Frauds in Nigerian Commercial and Merchant Banks

YEAR	AMOUNT INVOLVED		ACTUAL/EXPECTED LOSS	
	COMMERCIAL	MERCHANT	COMMERCIAL	MERCHANT
1991	360.194	28.318	25.498	1.180
1992	351.93	59.82	64.80	8.31
1993	1376.30	41.92	241.01	5.37
TOTAL	2088.428	130.058	331.308	14.86

SOURCE: NDIC Annual Reports (Various issues). Culled from "The Nigerian Bankers"- Journal of the Chartered Institute of Bankers of Nigeria. July-Dec. 1994

It can be seen clearly from Table 4(b) that the sum of N2.2 Billion wa involved in bank frauds in 3 years, 1991-1993, out of which commercial bank accounted for about 94.1 percent. The actual/expected loss to the bankin system within the same period totaled about N0.3 billion with commercial bank accounting for about 95.7 percent. It is obvious from the above analysis that th bulk of bank frauds was being perpetrated in commercial banks probably becaus of their large branch network and the low quality of employees when compare with the merchant banking sub-sector.

4.3 Number of Staff by Rank involved in Frauds and Forgeries

Bank staff involved in frauds and forgeries were either being terminate dismissed or retired. Table 4(c) shows the Rank and number of staff involved i fraud in the years 1991-1993.

TABLE 4(c)

Number of Bank Staff involved in Frauds

S/N	RANKS	NUMBER		
		1991	1992	19
1	Supervisor and Managers	66	132	1
2	Officers Accounts & Exec. Asst.	60	66	5
3	Clerks and Cashiers	236	156	1
4	Typist, Technicians & Stenographers	47	9	3
5	Messengers, Drivers & Cleaners, Stewards & Security Guards	51	54	6
6	Temporary Staff	24	-	5
7	Uncategorised Staff*	30	19	4
	TOTAL	514	436	51

Source: NDIC Annual Report (Various issues). culled from "The Nigerian Banker"- Journal of the Chartered Institute of Bankers of Nigeria, July-Dec. 1994

A total of 517 staff of banks were dismissed, retired or had the appointments terminated because of their involvement in frauds and forgeri during 1993 as against 436 in 1992 (See Table 4c). In 1991, 514 members staff of the affected banks were involved in fraudulent activities. Table 4 further shows that greater amount per staff was involved in 1993 than in earli years. The amount involved per staff during the 3-year period (1991-1993) a N0.8million, N0.9million and N2.7 million respectively (computed from Table 4b and 4c).

Table 4c also indicates that, taking an examination of the percentag distribution of staff, by rank, involved in Frauds and Forgeries over the 3-yea period (1991-1993) we can see that clerks and cashiers were mostly involve within this period, as this category accounted for 39.8 percent of the total numbe of staff retired or dismissed on the ground of fraud. Followed by supervisors an managers which accounted for 21.5 percent and the category of officers Accountants and Executive Secretaries took the 3rd position by accounting fo 12.5 percent of the total number of staff who lost their jobs because o involvement in frauds and forgeries in Banks within the stipulated period. The last among the seven categories was Temporary Staff which accounted for just about 2 percent and this is clear as temporary staff are not normally fully accepted within the system.

4.4 Quality of Assets of Banks in Nigeria

The quality of assets in the Banking Industry is measured by relating the proportion of classified loans and advances granted by the banks According to Nyong (1994:8), the asset quality base on quality of the assets held by a bank relies heavily upon the classification of the bank's credits into loss, doubtful and sub-standard categoriation.

These categorisations are based on the likelihood of the bank actually absorbing a loss on a credit. The ratio of classified loan and advances granted by banks is, therefore, indicative of the quality of assets of banking industry. The smaller the ratio the better the perceived asset quality of any bank. Tables 4(d) to 4(f) shows the assets quality of insured banks within the period 1990 -1994

TABLE 4(d)

Quality of Assets of Banks in Nigeria: loans and advances

1990-1994

CATEGORY	1990	1991	1992	1993	1994
Commercial Banks with State participation.	6847	7563	9038	16181	21091
Non-State owned Commercial Banks	14362	17491	20321	44162	67346
Merchant Banks	5743	7825	12082	20073	20633
All Banks (Total)	26952	32879	41436	80416	109070
Distressed Banks	6495	5380	N/A	N/A	N/A

TABLE 4(e)

Classified Loans and Advances (N Million)

Error! Bookmark not defined.CATEGORY	1990	1991	1992	1993	1994
Commercial Banks with State participation	4715	5014	6167	9164	12707
Non-State Owned Commercial Banks	6079	5657	8232	14183	21043
Merchant Banks	1111	2146	4417	9511	13183
All Banks (Total)	11905	12817	18816	32858	46933
Distressed Banks	4660	4113	N/A	N/A	N/A

TABLE 4(f)

Proportion of Classified Loans to Total Loans and Advances (%)

Error! Bookmark not defined.CATEGORY	1990	1991	1992	1993	1994
Commercial Banks with State participation	69	63	68	57	60
Non-State Owned Commercial Banks	42	32	41	32	31
Merchant Banks	19	27	37	47	64
All Banks (Total)	44	39	45	41	43
Distressed Banks	78	77	N/A	N/A	N/A

SOURCE: NDIC Annual Report and Statement of Accounts - 1991-1994

As shown on Tables 4(d) and 4(e) above, total loans and advances in 199 were about 27 Billion while total classified loans and advances stood at N11. Billion representing a ratio of classified loans and advances of 44 percent for th industry. As expected, the classified loan ratio for distressed banks was as hig as 78 percent in 1990 worsening further to 77 percent in 1991. The volume c loans and advances increased dramatically from N26.95 million in 1990 t N109.07 million in 1994. In the same vein, the volume of classified loans an advances rose from N11,905 million to N46,933 million in 1994. The proportion of classified loan improved slightly to 39 percent in 1991 only to relapse to 4 percent in 1992, before edging up to 41 percent in 1993 and then increased agai to 43 percent in 1994. The improvements recorded in 1991 and 1993 wa attributed to reduction in ratio of unperforming loans of state owned and non state owned commercial banks, some of which were restricted from granting new loans. Commercial banks continued to deteriorate through the period under review, from 19 percent in 1991 to 64 percent in 1994.

The NDIC in its 1994 Annual Report has attributed the high rate of classified loans to the economic down-turn which resulted in many borrowers being unable to service their loans. High interest rates, insider dealings, unethical practices and the unwillingness of wealthy borrowers to pay, further compounded the loan problem with adverse effects on the banks.

4.5 NUB's five-year Historical Financial Analysis

It is necessary to look at a Five-year historical financial analysis of Nigeria Universal Bank Ltd., to enable us analyse the Bank's profitability, Liquidity and Solvency in relation to its distress conditions of 1995. The Five-year period chosen (1991-1996) is exactly the scope of this dissertation.

Table 4g represents Five-year Financial Summary showing P & L Account for various years and Table 4h represents Five year historical financial analysis of the Bank showing the Bank's key financial indicators from 1991 to March, 1996.

Table 4g

NUB's Five-year Financial Summary
Profit and Loss Account for the year ended 31st December,

	1992 #000	1993 #000	1994 #000	1995 #000	1996 #000
Gross Earnings	168,737	416,623	403,216	610,373	122,855
Int. Expenses	56,678	199,026	150,688	98,990	21,842
Loan Loss Expenses	54,212	358,360	215,401	405,021	—
Operating Expenses	43,202	100,961	126,433	226,808	120,883
Profit before Tax	11,443	(241,724)	(89,306)	(120,446)	(19,870)
Taxation	(771)	(1,608)	(870)	(2,536)	-
Profit/Loss after Taxation	10,672	(243,332)	(90,176)	(122,982)	(19,870)

SOURCE: NAL Merchant Bank Plc. Extracted from Audited accounts of the Bank In respect of the Five-year period.

Table 4h

NUB's Five-year Historical Financial Analysis

Below are the highlights of the Bank's key financial indicators from 1991 to M 1996.

	Audited 31/12/91 #000	Audited 31/12/92 #000	Audited 1/12/93 #000	Audited 31/12/94 #000	Audited 31/12/95 #000	Audited 31/03/96 #000
Gross Earnings	80,014	168,737	416,623	403,216	810,373	-
Profit before Taxation	715	11,443	(241,724)	(89,306)	(120,446)	-
Net Income	347	10,672	243,332)	(90,176)	(122,982)	-
Loan & Advances	231,721	330,301	352,795	625,540	548,594	1,215,932
Provision for Bad Debt	44,193	98,405	432,810	500,324	698,674	796,932
Total Assets	427,822	958,632	945,752	1,406,862	1,166,425	839,383
Deposits	326,680	447,178	712,976	909,216	512,702	306,516
Total Liabilities	398,757	889,895	1,120,347	1,671,633	1,554,178	1,151,496
Net worth	29,065	68,737	(174,595)	(264,771)	(387,753)	(312,113)
Loan to Deposits	71%	74%	49%	69%	107%	337%
Networth to Total Assets	7%	7%	(18%)	(19%)	(33%)	37%
Networth to Deposits	9%	15%	(25%)	(29%)	(76%)	87%
Networth to Total Liabilities	7%	8%	(16%)	(16%)	(25%)	27%

SOURCE: NAL Merchant Bank Plc.

Extracted from audited accounts of the Bank in respect of Five-year period and CBN's Audited inspection of First Quarter of 1996.

Nigeria Universal Bank has been run profitably since inception (1974) up to the year 1992 which was the transitional period into the Bank's conflicting "Management Shakes" and Reshufflements. The year 1992 had an after-tax profit of N10.7m (Table 4g), and the preceding year 1991 had an after-tax profit of N0.35m (Table 4h). The Bank started running into Loss in the following year (after 1992 i.e. 1993). It cab be seen from Tabke 4g that the Bank had an after-tax loss of N243.3m being its first ever-recorded loss since inception.

Similarly in1994, 1995 and 1996, the bank recorded losses of N90.2m, N122.9m and N19.8m respectively.

At this juncture, it is the interest of the research to find out the factors attributed to this change of trend in the Bank's profitability. Why is it that the year 1992 became the last profitable year in the financial history of Nigeria Universal Bank?

The year 1992 was the last year in the tenure of Alh. Aliyu Kakangi's administration, and Alh. Aliyu Kakangi managed the bank for exactly eight years (1985-1992) and the bank have been run profitably during his tenure, but in fact, he ran the bank at a much lower cost since his management team constituted of experienced, but unqualified, non-professional personnel.

By January 1993, Alh. Kakangi was removed on political grounds, and a new Managing Director, U.A. Dankama was ushered in by two Owner State Governments. On taking over, Alh. Dankama introduced the new and unprecedented offices of two Executive Directors to depute him; created a handful of new departments for the Bank, employed many seasoned bankers

from other financial institutions and banks and made a lot of reshufflements. These changes meant higher cost for the bank and had negatively affected the Bank's profitability for that particular year 1993 and the years ahead.

However, it is noteworthy that, the Bank's Deposits position has improved from the year 1992 to the year 1993. The bank had a total Deposit of N447m as at December 1992, but this has increased to N713m by December 1993 (in just 12 calender months) representing a 60% increase (see Table 4h). This achievement could be attributed to Alh. U.A. Dankama's administration in relation to his improved marketing strategies. It was in 1993 the department of marketing and treasury services were introduced and many staff were sent on training to Financial Institutions Training Centre, Lagos and thus this achievement is related to Alh. U.A. Dankama's new marketing focus for the Bank.

From the same Table 4h, it can be ascertained that the Deposit increased to N909m in 1994 but started to drop to N513 by 1995 and dropped back to N360m by 1996 very closed to the position of 1991 (N327m). This was as a result of the fact that the charismatic, dynamic and well-focused Managing Director, Alh. U. A. Dankama was not given the chance to continue with the good homework he has initiated. He worked only for ten calender months and was removed for in-house Board conflicts. Most of his executive assignments have been reversed for political and selfish reasons by the Managing Director who took over. Already this new M.D. Alh. Usman Abubakar has been under frequent Management conflicts with Alh. U.A. Dankama which has been thoroughly discussed under "The Issue of Distress in NUB: causes consequences and implication" previously in this dissertation.

The bone of contention here is that, had it been that Managing Director U.A Dankama had been given enough chance to continue with what he has started, for say 3 - 5 years, the Bank's Deposit Base would have improved significantly. Now, with this achieved, coupled with the set-up of his new management personnel who were seasoned and experienced bankers, mostly of merchant banking background like himself Dankama, this would have eventually been profitable the Bank. Naturally, this would have been costly and unprofitable in the short-run, its success would have been achieved only in the long-run, and in fact, this explanation accounts for the negative Net Income for the bank from 1993, the year Managing Director U.A Dankama started (See page 4h).

From the same Table, it would be verified that the Bank's Networth Position for the years 1991 and 1992 were N29m and N68.7m respectively and these were favourable for the Bank. But from 1993 the Networth Position started becoming negative and continued in negative up to the year 1996, and this was as a result of the fact that in these years (1993-1996), total liabilities for the Bank were higher than total assets (Table 4h). The Negative position of the Bank's Networth in these years has further affected other Net-worth-related financial indicators like Networth to Total Assets, Networth to Deposit and Networth to Total Liabilities, which were also negative within these years. In fact this has indicated that the Bank became distressed since the year 1993 even though it was officially declared distressed by the regulatory authorities in 1995. This is because the Bank's Networth position started to become negative in that particular year as we have seen, and technically, distress connotes a situation where a bank's Networth in negative. The loan to Deposit Position ranged between 71% in 1991, 49% in 1993, 69% in 1997, 107% in 1995 and

rose sharply to 337% as at March 1996 mainly because of the Bank's shrunk Deposit base that particular year as compared with its outstanding portfolio. No sooner has the Bank been declared distressed in 1995 than its customers lost confidence on the bank and this has caused a serious bank-run on the bank by massive withdrawals of Deposits and consequently the bank became under capitalised and this immediately brought a halt to the smooth running of the operations of the bank. This fact has been one of the most serious implications of bank distress that is affecting the overall economy of the country.

4.6 Public Perception of Distress in Banks

This section discusses the results of interviews conducted on randomly selected individuals and entrepreneurs within Kaduna and Sokoto States. Majority of these interviewed in their offices, business centres, homes, market etc, are customers to some of the distressed banks, especially the case bank - The distressed N.U.B Ltd. The category of those interviewed ranges from civil servants, teachers, bankers down to business tycoons. Majority of the people interviewed complained bitterly about the unfortunate situation in the banking industry. Many of them said that they lost huge amount of money in the distressed banks ranging from thousands to millions of Naira. The effort to recover the money from the banks was met with little success, and as a result of this, their financial position have been negatively affected.

Most of the respondents said that as a result of the loss of their money, their situation became so difficult that they can now hardly meet their obligations to their households, creditors and business associates, so much

that they have become indebted.

Some of the depositors interviewed stated that, the confidence they have in Nigerian banks has been seriously eroded because of the financial calamities that befell them during the distress scourge. Majority of the businessmen complained that a huge sum of their deposits were trapped in the banks, and efforts to recover them proved abortive due to the protocol involved in collecting the money. As a result, some of them said, they have had to sell or pledge some of their assets, such as houses, to pay their debts and survive with the little they can muster elsewhere. Many of them complained that since this financial mishap of distress occurred, they have not been able to stabilise their financial positions. They claimed that most of their businesses have become paralysed as a result of the distress in the banking industry.

On the implication on the banking sector, many of the respondents vowed not to deposit their money in the bank any more. They preferred to keep their money at home. This attitude has led to reduction of customers in the banks.

The positive effect of distress in banks on the economy, as some of bank executives interviewed claimed, is that it has distinguished the weak banks from the strong ones. As a result, they said, customers now go to banks that are sound and safe, especially those banks with solid asset base.

Finally, majority of the people interviewed cautioned that the future implication the distress syndrome will have on the economy of Nigeria, is that, with the erosion of confidence in the banking sector and with people now keeping their money at home where it is open to hazard of armed robbery.

the money they should have saved with the banks, so that it can be lent out for investment, becomes stagnated in their houses, yielding nothing in the way of the country's economic growth.

4.7 Major Finding

From the data collected and analysed, it can be seen that the consequences of the distress syndrome in the banking industry can not be over emphasised. It affect other sector of the economy especially industrial sector, which is very sensitive to economy. The negative effects on the industrial sector has retarded economic growth of the country. It has been confirmed from the research that the bank distress has worsened the condition of its victims, because many of them are either 'koboless' or jobless; majority of the affected people sold their properties to survive and it has also increased the rate of crime in the country as some victim resort to armed robbery, "419" and prostitution to make ends meet. This, in fact, is socio-economic aspect of the problem posed by the distress syndrome in Nigeria to the generality of the people in the country.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.0 Summary

From the research conducted, it has been identified that it is not possible to be precise about the effects of bank failure. Nevertheless, available literature has identified a long list of problem of the distress in Nigeria. Bank failure has multi-dimensional effects. The direct effects on the depositors who may lose their money in part or in full is obvious. Even when deposit is small and recoverable from NDIC, there will be considerable delay.

The negative effects of failure usually goes beyond the industry. It is the economy that bears the brand. When confidence is lost, depositors withdraw their funds leaving the industry with liquidity problems and this leads to bank-run on even the viable ones. It may still take sometimes for the customers to use market discipline to keep inside abuses in check. The market is no doubt inundated with misery of financial distress. It is therefore likely that savers are going to get better options in choosing between banks. Given the panic behaviour which arises from the absence of authentic official information on the list of distressed banks, even healthy ones are bound to suffer capital flight since some customers are already apathetic.

Now that the government is using indirect monetary techniques to control the economy, for it to be effective, a sound financial system is needed to be put in place. With the unfortunate incidence in banking industry, the system becomes ineffective with the attendant effects on macro-economic instability.

It has been identified from the study that banks suffer from liquidity problems due to bank-run. Investment in the sector falls short of expectation. Many of the banks staff have been dismissed for various offences committed. People now perceive the sector as being unsafe for keeping their money.

The result of the field survey conducted indicates that customers have now decided to keep their money at home, and this can expose them to the danger of armed robbery. Also the money kept at home becomes stagnated and this leads to instability in the way. Of course, depositors will suffer serious hardship as a result of their money that is trapped in the affected banks. Some businessman that are affected have closed down their factories and sold away their assets to survive. The negative effects of bank failure goes beyond the industry. It is the economy than bears the brunt.

However, one positive effects of the implication of distress problems is that it assists the General Public and Customers in identifying the weak banks out of the strong ones in guiding the customers where to deposit their money.

In the nearest future, if appropriate measures are not taken, a lot of people including international community will lose confidence and this will paralyze the banking sector and create serious havoc on the economy.

5.1 Conclusion

The search for lasting solutions to the problems of distress in the Nigerian Banking Industry continues, to engage the attention of most well-meaning Nigerians. Several propositions have already been made for the resolution of the crisis. This research endeavours is yet another effort in that direction. If it has succeeded in any measure in addressing the problem, then our aim has been realized.

Most solutions already proposed appear suspect because they are often tainted by self-interest depending on the proposals expected burden of loss from the distress resolution. Owners of the affected banks favours open liquidity support while their customers want 100% bail-out. Ordinary citizens, on the other hand, resent any diversion of tax payers' money to distressed resolution, while the government is eager to evolve an effective strategy that will not upset the banking habit in Nigeria.

An agreement on the right strategy for distressed resolution would be difficult without a consensus of the causes of financial difficulty in banks. The study has found that institutional factors were more to blame for the current problem in the industry. The owners are therefore to initiate effective micro-level policies to ensure survival. Where they prove ineffective, the government must not hesitate to bring down the full force of law on them. Directors of distressed banks should be investigated for fraudulent trading and graft, while their customers should be allowed to bear the loss mandated by law. Public funds should as much as practicable be sparred, in view of the prevailing high level of government deficit financing. It is expected that a combination of these strategies will not only address the current crises but also enthrone the use of market decline to serve as a check on the excesses of bank directors and managers.

Further research is still required in this area of study, especially, in the area of investigating the socio-political implications of the various distress resolution strategies and their suitability for the Nigerian environment. Evolvement of early warnings, model and signals should continue to attract the attention of researchers to enhance their predictive power and ease of application.

5.2 Recommendation

Having gone this far, it is proper at this point to articulate some recommendations on how to remedy the current state of distress in the country's banking industry. These recommendations are grouped under the following categories:

a) Promoting Accountability and Efficient Management in Banks:-

The problem of poor management which mirrors virtually all other institutional factors as fraud and forgeries, absence of effective internal control system and poor credit administration should be tackled as an integral element of distress resolution strategy. For the restructuring of problematic banks to succeed, operational control has to shift from old management to new management. The introduction of performance-based controls could be used to improve the management of state-owned banks. Management leasing could also be administered to improve the performance of private banks.

The importance of effective internal control can never be over-emphasised. The circle of corruption involving bank owners and their workers needs to be broken. Every bank should adopt effective internal control system capable of preventing frauds especially in high places. The present culture of secrecy in handling frauds and defalcations need to be changed.

b. Improvement of Macro Economic Policy Frame Work

Macro-economic policies must be stable and consistent and should be designed to promote increased productivity in the real sectors. Fiscal policy should promote transparency and accountability. Conscious efforts should be made to eschew unplanned deficit financing and extra budgetary expenditures,

Policies, that would encourage savings should be put in place in order to make the financial sector more vibrant.

It is important to note that the fortunes of the Nigerian economy are intricately interwoven with the fortunes of the nation's banks. Conscious efforts should therefore, be made by government to improve the industrial climate of the country. A purposeful package of incentives would be needed to attract investment to the manufacturing sector. It is expected that improvement in industrial capacity utilisation would generate some economies of scale, which would translate to lower per-unit prices of goods. This reduces inflation and encourages savings.

c. Overhauling the Legal Frame-Work

The effectiveness of the regulatory and supervisory authorities is dependent on the establishment of an effective legal framework with clearly defined responsibilities. There is need to overhaul the Banks and other financial institution's Decree (BOFID) of 1991, to make for greater efficiency. In this regard, BOFID, should be amended such that CBN will be given the power to deal decisively with the resolution of all bank-related problems, without recourse to financial approval from the political authorities.

The need for legislation which facilitates the recovery of debts owned to distressed banks should be emphasised. Such a legislation is expected to review the protection of limited liability of bank director known to have contributed to the distress in the banks. The promulgation of the failed banks (Recovery of Debts) and Financial Malpractice's in banks Decree of 1994 is no doubt a step in the right direction. However, the scope of the decree needs to be expanded in order to enhance the chances of recovery of more problem loans.

d. Evolving a Stable Political System

It seems to be generally agreed that a democratic government is ideal because it enhances transparency and system of accountability and good governance. Effort should therefore be made to evolve a stable and workable polity in Nigeria devoid of intrigues, house trading and hostility.

There is need to define clearly the place of the Central Bank of Nigeria (CBN) in the financial arrangements, the CBN is largely seen as an agent of the Federal Government. This, the Federal Government has progressively subverted the CBN's primary mandate of sustaining monetary and financial system's stability, as the CBN has been successfully tainted by the government's fiscal irresponsibility. The mandatory roles of the CBN in fiscal deficit financing and underwriting of primary issues of government securities make it impossible for CBN to either conduct a rational monetary policy or to discipline a way - ward Federal Government.

e. Political Commitment

There is need for strong political commitment and leadership for remedying the distress in the financial system. This will require the recognition of the policy-making body at the highest level that bank distress is an urgent national priority that demands immediate attention. There will always be a temptation not to take action because of political pressure from those who would bear the inevitable distribution of losses arising from financial distress and its resolution. However, the experience in Nigeria of delayed action tends to make matters worse and make final resolution even more costly.

In addition to the above recommendations, the following roles are also envisaged for the various parties involved in the industry:-

i. Regulatory and Supervisory Authorities;

Regulatory authorities should adopt a more proactive attitude to deal with distress. They should act with firmness and fairness. They should not only strive for excellence, but must also adopt effective restructuring policies without necessarily awaiting help from government or the regulators.

ii. Share Holders:

Shareholders should eschew incessant interference in the affairs of their banks. They should not only strive for excellence but must also adopt effective restructuring policies without necessarily awaiting help from the government or regulators. Shareholders are expected to make good their indebtedness to their companies to enable them perform their statutory roles.

iii. Customers

Customers have inadvertently contributed to the poor financial state of some banks through their gullibility and unquenchable appetite for high interest income. To redress the distress in the financial system, customers are expected to pay closer attention to what is happening to the banks where their monies are. By so doing they can use market discipline to cause the replacement of week and inefficient bank managers. They must also be prepared to bear part of the burdens of loss arising from the uninsured part of deposits. They should also be willing to convert part of their deposit to equities and long term soft loans as their contribution to the restructuring of their banks.

f. Recommendations on Nigeria Universal Bank (N.U.B.) Limited.

After considering all possible causes, consequences and implications of the distress of Nigeria Universal Bank (N.U.B.) Ltd., the study recommends the following measures, to be taken so as to revive the bank and thereby prevent it from total collapse.

(i) First and Formost , the Bank must engage in an aggressive Debt Recovery Exercise so that it recovers the money loaned out to its defaulters unethically and the money stolen by its staff and CBN officials. This would make the bank to at least stand up from its lying position and then start to think on how to move forward.

ii. The Owner State Governments, must as a matter of fact, pay more attention to the survival of their Bank. The choice of the Board members should be reviewed, so that a team of porfessional, seasoned, qualified and responsible members are elected. Feedbacks to Owner State Governments should be frequently supplied from time to time, as this would throw more light on how the Bank is progressing. The Owner State Governments should refrain from being passive as in the past years (pre-distress years).

iii. The choice of Management team should reflect the banking era. Gone are the days when unqualified, unprofessional, unexposed bankers were running banking institutions. Now under the present dispensation, seasoned and professional bankers are what obtains in banks and financial institutions' tactical management.

iv. With (iii) obtained, it would be easier for the Bank to institute the Code of Ethical professional conduct in Banking, among the generality of the staff of

the Bank, to the extent that all those unethical acts committed by the staff of NUB as discussed before, would now become a history.

v. The equity structure of the Bank should be reviewed. The equity percentage shares used to be:- Katsina State - 53% and Kaduna State 47% Under the new dispensation, new interested, investors both corporate and individuals should be invited. The Equity of the owner-State Governments should not exceed 20% each, leaving 60% to the new investors. This would make the Bank to be more profitable, since non-governmental shareholders would not fold their arms and watch their Bank collapse again. There would be accountability, and the politics that have been intruding in the running affairs of the Bank in the pre-distress period would cease to exist.

vi. There should be a Technical Management Partnership Agreement between the Bank and any of the existing Merchant Banks in Nigeria. This would enhance efficiency and effectiveness in the overall business of the bank, which would eventually lead to profitability. Most of state-owned banks in Nigeria that proved to be profitable owe their success to such technical Management Agreements. Examples of such banks are Bauchi State's Inland Bank of Nigeria Plc., Kano State's Tropical Commercial Bank Plc., Sokoto State's Gamji Bank of Nigeria Plc. and Niger State's Inter-city Bank Plc.

vii. In order to remove Nepotism and favouritism within the bank staff-wise, the management must see to it that entry into the bank must be strictly on Merit consideration. There should be standardised mechanism to check all entries to the Bank as and when due, based on merit performance. This should also extend to the personnel development procedures within the bank, both with the same purpose of arriving at expected outputs for the Bank.

viii Aggressive Marketing Strategies have to be put in place to get new prospective customers and also bring the old ones back. Apparently, there are a lot of former customers of the Bank that do show their interest and intention to resurface if the Bank picks up again, and this shows that the Bank maintains an automatic goodwill among the generality of its customers/clients.

ix The Bank has a great task ahead considering the banking era we are in now, the era of automation and computer technology. Most of the existing banks in Nigeria now, which are profitable and solid have already gone computerized under network. For example, African International Bank Ltd. has spent over =N= 200 million to establish the Phoenix Computer Technology which is currently being installed to serve its numerous customers within the country, Thus, the new owners of NUB Ltd. should tighten their belt well to be able to face the competition inherent in this our new era of Banking through Internet Technology.

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APPENDIX 1

Faculty of Administration,
Department of Business Administration,
Ahmadu Bello University, Zaria.

Dear Sir/Madam,

I am a Post-Graduate student of the Ahmadu Bello University, Zaria undergoing a research on "Distress in the Banking Industry". The attached questionnaire is part of the study designed to gather information about Nigeria Universal Bank (NUB) Ltd. You are among the people selected. This is to request you to kindly fill in the required information on the attached questionaire.

Thank you.

Your's faithfully,
Aminu Abbas
(MBA Student)

Structured Interview for Customers.

Sample of Opinions of Individuals in Respect to Distress in the Banking Industry in Nigeria.

Section 'A'

1. What is your occupation? (Tick appropriately)

   a. Civil Servant b. Business Tycoon c. Farmer

   d. Others

2. Where do you save your money? (Tick)

   a. Bank b. Home

3. If in a Bank, which Bank?

   .....

4. How long have you been saving in that bank?

   .....

Section 'B'

5. Have you incurred any losses since then (1991-1996)?

   a. Yes b. No (Tick)

6. If Yes, how much loss have you incurred?

   =N= .....

7. Since that time, have you been able to recover the money from the affected bank?

   a. Yes b. No (Tick)

8. How did you manage to sustain your family during the period? (Tick)

   a. Asset Disposal b. Borrowing c. Others

9. Will you be interested in keeping your money in any of the Nigerian banks in the nearest future?

   a. Yes b. No (Tick)

10. Do you have confidence in the Nigerian Banking Sector since the distress syndrome?

    a. Yes b. No (Tick)

11. What is the nature of your business?

    .....

12. Did you save in any of the distressed banks in Nigeria between 1991 and 1995? If yes, How much? N.....

13. Did you incur any loss in any of the Banks?

    If yes, which Bank.....

a. Yes b. No (Tick)

22. Where do you think is safer to keep money now?

.....

APPENDIX II

Faculty of Administration
Department of Business Administration,
Ahmadu Bello University,
Zaria,
Nigeria, West Africa.

The Managing Director.
Nigeria Universal Bank, Ltd.,
Head Office,
Kaduna.

Dear Sir,

APPLICATION FOR DATA COLLECTION.

I wish to apply for collection of data from your organisation, Messrs Nigeria Universal bank, Ltd. I have just graduated from Ahmadu Bello University, Zaria, where I read Master of Business Administration (MBA). I am presently writing a Project/Thesis on "Distress in the Banking Industry". The Case of NUB Ltd.

I am a former staff of your organisation, and have chosen the topic particularly because of my experience with your organisation (almost 10 years) and I am highly interested in the progress of the Bank, being an indigene of one of the owner States.

If my request is approved, I would like the data to be submitted to Mal. Sagir S. Lawal of Inspection Department who would make arrangement to forward same to me at Sokoto.

The data include Balance Sheet for 1991 - 1996, Income Statement for 1991 - 1996, a copy of the current Organisational Chart, and any other relevant data that may be useful in the writing of the Project. Also some questionnaires would be presented to a number of staff to complete.

I count on you kind co-operation.

Thank you.

Yours faithfully,
Aminu Abbas.