RISK MANAGEMENT IN CCMMERCIAL BANKS:
(A Case Study of National Bank of Nigeria limited)

BY

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Being the project submitted to Post-Graduate School of A.B.U. Zaria. as a partial fulfilment for the award of Master in Business Administration (M.B.A.).

OCTOBER, 1987

D E C L A R A T I O N

I hereby declare that this Project, for the award of Master in Business Administration of the Ahmadu Bello University Zaria is the product of my Research findings. This particular work relates to Risk Management in National Bank of Nigeria Limited.

All sources of information collected for the write-up are clearly acknowledged by means of references and I should be held responsible for any error of ommission or commission in this project.

EMMANUEL ZUBERU

D E D I C A T I O N

This work is dedicated to my parents who inspired in me the desire to learn.

C E R T I F I C A T I O N

This project report entitled "Risk Management in National Bank of Nigeria" by Emmanuel Zuberu meets the regulations governing the award of degree of Masters in Business Administration of Ahmadu Bello University, and is approved for its contribution to knowledge and literary presentation.

T. A. BANKANO (ESQ) — Chairman, Supervisory Committee — 7/12/1987 — Date

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ACKNOWLEDGEMENTS

This study has been successful through the guidance and meticulous supervision of my project supervisor, Mr. Ishaya Dankano. His encouragement, friendliness and understanding were sources of inspiration to me. I sincerely acknowledge his effort.

My thanks go to Mr. John Ayuba, the M.B.A. Course Coordinator who also advised me on how I can beat time in order to submit the project and graduate together with my colleagues

My special thanks go to my Parents and my wife who have been beside me with prayers and financial support since my element school to this level.

I also extend my thanks to Mr. and Mrs. Akin Akano who took me as a brother. It was on their advice that I decided to undergo the Masters Degree Programme which I never intended to undertake.

I would not forget to acknowledge the kindness of Mr. I.I. Oni, the District Manager for National Bank, Kano, who was always ready to help whenever I went to him during the programme.

Finally, to all other contributors, directly or indirectly including, Mr. Michael Fatai, who helped in writing, Vincent Ole, Florence Aregundade and Jummai Abdul, and also the typist who did a lot of job to minimize typing error.

God bless you all.

E. O. Zuberu.

ABSTRACT

Cash is a, key asset **in transacting the business of** the **organisation but it is not the only medium of exchange in our economic system. Credit is one other medium of transacting** business **in modern time.**

This study is **therefore primarily concerned with the** management of Risk ajid **in particular advances, loans and** acoounts receivable in National **"Bank of Nigeria** (N.B.N).

The Bank's problem has been **that of fund, mismanagement "' had** debts situations **in** most of **its branches. In an attempt to overcome and resolve this unfortunate situation, the** research tried to examine **the systems through which the profit could be maximised and bad debts or losses be minimised. It succeeded in identifying some of the bank's shortcomings.**

The research was **able to come out with some positive** recommendations that could lead to **a better management of risk in Commercial Banks in Nigeria in general and National Bank in particular.**

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CHAPTER ONE

INTRODUCTION

1.1 Historical Background

In the most general terms, almost all businesses are exposed to one form of risk or another. In case of banks it is multi-dimensional.

This is because the risks associated with businesses in other sectors are transmitted to banks by nature of their operation, the term "RISK" has been used here, what does it mean?

Conventionally, we talk about risk when we know the possible event that can occur, but does not know the actual one that will occur. An example is gambling. In finance literature, risk is defined as the viariability from the expected returns.[1] It is the interest of this paper to identify the various risks in banking business and discusss how these risks are managed and controlled.

1.2 Types of Risks[2]

The major income earning activity of banks is lending. The risk inherent in this lending operation is called credit risk. This type of risk is always there as long as the banks continue to give credit to their customers.

What makes lending risky, among other things is customers' default. In an extreme case, the principal and the

interest are never paid and the bank resorts to sale of collateral security (usually at a loss) offered by customer.

When there is default, it translates into bad-debt which is ultimately written off. If you examine Annual Reports and statement of accounts of banks, you will se provision for doubtful-debts and bad debts written off. Since credit activity involves risk, the banks are compensated for the risk they take by charging interest.

To manage credit risk, banks usually analyse the credit requirements of customers. In lending, this is done by making good feasibility study based on valid testable assumptions. At times, there are symptoms one can notice showing that the customer is having some financial problem or otherwise, then bank can come to the aid of the customer by looking into his operations and advising him accordingly. In this way, loss will be prevented or reduced.

1.2.1 Fraud Risk

This arises from the fraudulent acts of bank employees and some outsiders. Banks deal on money and near money instruments. Consequently, the employees are in a close contact with these instruments and so the likelihood of stealing money is very high compared to other industries.

By the peculiar nature of banking business fraud is every where dense and hence fraud risk increases in the same manner. The relevant activities that constitute to fraud risk are well known and shall be discussed in the analysis and solutions.

1.2.2 Market Risk

This is the risk generated by market forces and these forces could be economic and financial. Trading on the stock exchange is a market risk. The prices of shares traded on the exchange fluctuates and hence there can be gain or lose in the market.

Investing in other securities brings inflation risk into play. Inflation is very pervasive and all embracing type of risk.

1.2.3 Interest Rate

This is subset of market risk and it is associated with changes in interest rate and this affect cost as well as income.

In general, those securities that have high risk equally have high interest rate and vice-versa. Banks place premium on the structure and changes in interest rates. In estimating the return on funds invested, there is provision for inflation. Market risk can be reduced by carefully combining in a portfolio of assets: high risk/high return investment and low risk/low return ones.

Liquidity Risk:- This is the risk associated with the inability of the Bank to meet the customer's withdrawals from their deposits with the bank. It also include the risk of not being able to provide for the legitimate credit needs of the community in particular and the country in general.

In the management of funds by the commercial banks, the emphasis is on maintaining adequate cash to meet transactionary obligations. This becomes primary to ensure the confidence of the monetary authority and the public in the activities of the Banks. The monetary authority wants to ensure an equitable dealings between the Banks and their customers.

Nevertheless, it is of fact that the more liquidity a Bank is, the less profitable as less money will be available for investment by the Bank.

1.2.4 Risk of Loss of Confidence

This arises when there are operating errors and inefficiencies on the part of banks. A bank that does not want to lend to a legitimate customer is taking the risk of loss of confidence. When there is loss of confidence in the bank has been eroded, shift their patronage to other banks.

To reduce this risk, banks are expected to be technically competent and efficient in their operations. In addition to this, banks do engage in public relations actively to win the general confidence and trust of the members of the public.

1.2.4 Foreign Exchange Risk

This exists because of international financial transaction

destruction of currency through fire or flood. This could be avoided by taking a necessary preventive care of the building in which banking businesses are being carried out. To prevent theft also, the bank may need to be careful in every day-to-day operations.

1.2.7 Distributing Risk[3]

Distributing of risk is another term for risk management which refers particularly to the treatment of losses that are likely to arise, caused by unexpected events on a business transaction or venture. There are four major stages in risk management. They are risk identification, risk analysis, decision, and action.

There are three principal methods of action often employed in the treatment of risk which has been accepted as worthwhile, that is after the decision stage.

The methods are prevention, transfer, and off-setting of losses. If we may take vault cash of banks for include defalcation pilferage, theft, deterioration, and destruction e.g. by fire or termites.

Prevention is one of the most important methods of treating the chain of risk elements that dangle over a bank's cash. One needs to employ a combination of measures to effect proper prevention of the series of risk. Keeping accurate records of cash received and cash paid by the cashier may prevent

defalcation and pilferage but not very completely. There would be need for regular and surprise checks on the cashier's physical cash and records too. The other risk elements would require other measures to achieve their prevention.

1.2.8 Credit Standards

A firm's credit standards are normally influenced by the "four C's" of credit namely: Character, Capacity, Conditions and Collateral. Character and capacity refers to the customer's willingness and ability to pay. These two factors are of considerable importance because every credit transaction implies of promise to pay, and whether the customer is in a position to pay his obligations as they fall due. Condition refers to the prevailing Economic conditions; while Collateral is the assets offered by the customer as a pledge for security of the credit extended.

The levels of receivables are likely to be high if the credit standards of the firm are relatively loose; and if the standards are relatively tight, the receivables levels will be relatively low. In theory, a firm should lower its credit standards to the extent that the benefits exceeds the associated costs.

1.2.9 Off-setting of Loss

This is commonly employed by the bank to off-setting a loss i.e. bad-debts. Commercial Banks should create provision

for bad and doubtful debt Accounts where funds are set aside for the purpose of writing off bad debts that actualise on loan accounts. This is done to minimise the risk through risk strict investigation of the prospective borrower's identity, character, ability to pay or credit worthiness, past history and banking policy on credit on one hand, and the other hand transferring part of the risk to insurance companies.

1.3 Research Problem

Since the research is on a very sensitive and risky aspect of the banking function, one cannot claim that the study was very thorough and all embracing. The obvious difficulty encountered by the researcher was the unwillingness of the bank officials to reveal vital information which they regarded as "SECRET". The officials felt that by revealing all the necessary information to the researcher in terms of theft prevention was a danger to the bank premises and also the officials.

Time factor was also a great barrier in conducting the research. The researcher had very limited time at his disposal within which to carry out the study.

Inadequacy of funds was another major constraint. Ideally Ideally, the researcher should visit most of the branches with the view of finding out the difficulties encountered in managing risk and how effective this has been. However, despite of these difficulties the researcher had tried his best to

see how risk could be reduced if his research work is adherently followed.

1.4 Research Objectives

The research is aimed towards achieving the following objectives:

a) To identify the causes of risk in commercial banks, especially in developing countries like Nigeria.

b) To examine how risk can be avoided or at least minimised in the commercial banks and create opportunities for profit making ans survival of the bank.

It has been identified that risk in any commercial bank can be caused by any of the following factors:

Lending money out without proper arrangement with the customer who should give enough securities that may make the collection of the money back be possible at any time the bank wants it.

The researcher also discovered where there is no proper administration within the bank, fraud can easily be committed by the officials.

In another observation the researcher also identified, theft, fire and flood constitute a serious danger to banking activities.

From researches, it has been discovered that certain actions can be taken to prevent such risks. All these shall be found out by the researcher in course of his study.

1.5 Significance of the Study

By the time the researcher might have completed his work, he should have been able to identify the major problems within and outside the bank that make risk management ineffective and also the way which solution could be found.

To show the significance of risk in the bank the National Bank has made as a mandate for every senior member of management to do one thing or other to prevent bank from any type of danger.

To ensure effective management of loans and overdrafts, the advances department is being created by National Bank and being manned and controlled by branch managers in case of a small branch and a full advanced Manager in a big branch. The researcher was being motivated to examine how improvement can be brought to this department and increase the profit for the bank.

1.6 Scope and Limitation

Risk management may come by through the following: Overdraft, Loan, bills negotiated and bills discounted. All these involve payment of money in one form or another to the customer. Stealing, fraud, fire and flood also constitute risk to the bank. Other factors that may cause risk is the transactions

which the banks may be requested to undertake on behalf of customers, to which the usual advances considerations are applied include: establishing documentary letters of credit, issuing cashing credits. This study mainly concentrated only on risk management. It covers bank lending, taking care of banking premises and internal control of staff members to prevent fraud of any kind.

1.7 Hypothesis

The following are the hypothesis to be tested by this study:

1) The ineffective risk management in the Commercial Banks is caused by bad administration and Government policy.

2) Bad debts is the cause of commercial banks' failure to make super profit in recent years.

During the course of study, the researcher should find out the genuinness of the above two hypothetical statements.

1.8 Research Methodology

1.8.1 Introduction

This is an empirical study based on the published financial statements of National Bank of Nigeria Limited, magazines and newspapers.

The methodology and sources of information for this study

has been divided into samples.

1) The collection of necessary and relevant data;

2) Choice of sample; and

3) Questionnaire.

1.8.2 Collection of Data

For collection of necessary and relevant data a letter of was addressed to the National Bank of Nigeria, Kano District, requesting the Bank to supply the relevant financial statements along with other documents to the researcher. Thus personal visits were made to the Bank on several occasions to get these documents.

1.8.3 Sample Selection

Financial statements and statement from Central Bank of Nigeria (CBN) which were thoroughly studied and well analysed for the purpose of analysis. visit were made to some selected Commercial Banks in order to be able to compare and contrast the different methods by which risks can be managed in Commercial Banks in Nigeria.

1.8.4 Questionnaire

Copies of Questionnaire were sent to the workers of National Banks and some other Commercial Banks in Kano. There was also an oral interview between the researcher and some

officials of the bank.

Finally, the researcher was able to get appointment with the bank before he finished his project, and this helped him greatly in getting some vital information without any consultation with any Bank officials.

FOOTNOTES

1. James Varn Horn – Financial Management and Policy. (5th Edition).

2. Business Times – Management of Risks in Commercial Banks. (September 14, 1987, pages 9 – 10).

3. Ituwe, C.E. – Bank Management (Problems and Solutions).

CHAPTER TWO

REVIEW OF LITERATURE

2.1 Introduction

In the course of literature review the researcher decides to bring together various schools of thought on risk management in the financial institutions, especially Banks.

Bank being a place where money transaction is taking place, it is always a focus of attention to every body in the society.

2.2 Classification of Risk

The risk that Banks are involved could be categorised into two types:

a) Internal Risk,
b) External Risk.

The internal risk involves the following:

a) Fraud
   Stealing
   Misappropriation
b) The External risk involves the followings:- Flood, Fire disaster, Receivables and Robberies.

Since our main purpose is to find out risk could be managed properly and maximise profits in the banking activities, we shall pay more attention to the management of receivables and how bad debt could be reduced.

2.3 Various Views on the Subject

2.3.1 The conventional method of analysing credit applicants

is a ratio or index relating two pieces of financial data to each other. Horrigan (1968)[1] emphasized that the the analys s and interpretation of various ratios should given an experienced and skilled analyst a better understanding of the financial condition and performance of the firm than he would obtain from analysis of the financial data alone. This analyst can compare the ratios of one firm with those of similar firms or with the industrial averages at the same point in time. Such comparisons give insight into the relative financial condition and performance of the bank. Those ratios include liquidity ratios, leverage ratios including liquidity ratios, profitability ratios. The liquidity ratios measure the firm's ability to meet current obligations; leverage ratios show the proportion of debt and equity in financing the firm's assets, activity ratios reflect the firm's efficiency in utilising its assets; and profitability ratios measure the overall performance and effectiveness of the firm.

2.3.2 The work of Okigbo (1984)[2] should be considered. In the course of the lecture he delivered on Risk Management, he categorises Risks into five which are as follows:

1) Liquidity risk
2) Interest rate risk
3) Portfolio risk
4) Market rate risk
5) Rural development risk.

Notably, the introduction of the policy that commercial banks should deposit with the Central Bank of Nigeria cash deposits with respect to letters of credit has gone a long way to reduce the liquidity of the banks. Its recent abolition in the revised 1984[3] Budget when Bank's liquidity dried up is a welcome relief and boast investment in manufacturing industry. However, as long as any bank recovers at least 75% of its loans and advances and with the active intelligent participation in the Money Market, the risks attendant to liquidity malaise would be reduced. Liquidity problems often lead to bank failure.

Pius Okigbo also tried to explain how interest rate risk could be managed. The interest rate risk involves the mismatch of the maturity and the rate of profits of the asset portfolio and the liabilities the banks encounter in funding these assets. Interest rate risk is related to sum total of the risks associated with the management of interest income and interest expense. Bank lending is the economic mainstay of all commercial banks. In conclusion he went further to say that a number of information exist in advanced countries, efforts should be made to develop such sources in Nigeria as that will facilitate the effective management of credit.

Market risk is a risk involved in market forces upon availability of funds. The market forces influence the creation of liquidity risk. In Nigeria these forces relate to political,

economic and financial developments. In Nigeria the commercial banks guage the influence of money and capital markets. Credit and debt management have not been sufficiently geared towards strengthening anti-inflationary measures decreed by the management

2.3.3 There is also another article by Asabia (1981)[4] in which he examines the general performance of Commercial Banks employing such factors as equity structure, gearing and profitability ratio employed in the articles were profit (before and after tax) on total assets, profit on equity, profit per share and dividends & per share. The article assess each bank performance without pinpointing the bad debt they have incured. This is what the researcher hope to do in the study.

2.3.4 A.A. Ewugi (1986)[5] in the article titled "Lending Decision by Commercial Banks" he spelt out how lending can lead a bank into debt by failing to pay back the loan at the scheduled time. He argues as follows:- Project financing in terms of lending plays a vital role in facilitating business enterprises of any kind. Also positive returns in form of interest from such loans and advances do significantly contribute to the revenue base of commercial banks that provide the loans, hence bank lending is an important economic factor of a country. A lending decision automatically implies a credit decision. This aspect of banking services is fraught with risks include non-payment of the principal amount loaned and other risks may be economic and political in nature.

In the process of credit proposition, profitability, safety and suitability of the credit must be considered. It also explains why banks prefer to give out loans to projects that will generate their repayments.

2.4 How to Reduce Risk in the Bank

To reduce risk the following were scrutinised:-

2.4.1 Credit Analysis:

The fact is that the attendant risks inherent in granting credit facilities conflicting with the "safe" philosophy of the commercial bank approach to lending proposals. A sound credit appraisal is therefore normally undertaken to eliminate (or reduce) such risks. The following question could be asked:-

1) What is to be done with the money?
2) Plans for repayment
3) Banks' position in the event of defaults of repayment plans.

The bank must know qualitative aspects of the applicant such as the character, capital, competence etc. so as to form an opinion about him.

2.4.2 Financial Statements:

Profit and loss accounts, balance sheets and statements and uses of funds in case of funds in case of entities which are commercial in nature.

2.4.3 Securities:

It is right or interesting in a property given to a creditor by a debtor so that in the event of the debtor failing to pay his debts as and when due, the creditor may reimbuse himself for the debts out of the property charged. Banks try to be risk-averse, it follows that the surest way to get loan is to provide security.

A banker, when handling the issue of securities has some specific questions in mind:-

i) Whether the security charged is the one whose value is an ascertainable or stable;

ii) Whether it is readily marketable or reliable;

iii) Whether it is acceptable for the advance in proportion to the loans.

iv) Whether it is readily available to be transferred to the bankers.

v) Whether the securities are adequate cover for the loan.

For the purpose of avoiding risk or reducing risk not all securities are acceptable for a bank advance. According to E.P. Doyle (1978)[9] the following factors are the main elements in creating a good advance:

a) Integrity and reliability of the borrowers

b) The nature of the proposition; its purpose, duration and amount.

c) The borrower's ability to apply the advance: evidence mainly by past performance.

d) The repayment programme: including bank interest.

e) The securities like landed property, Insurance Guarantee, Quoted shares/stock in the stock market and shops or business premises.

f) The borrower's value to the bank, bearing in mind his connections with other important customers.

2.5 Evaluation of Credit Applicant

In another literature James Vanhorn (1980)[6] gave the followings as means to evaluate the credit Applicant:

2.5.1 Financial Statement:

This will enable the bank to assess the individual customer to avoid risk taking. The financial statement contain summarised information of the firm's financial affairs organised systematically. They are the means to present the firm's financial position to owners, creditors and general public.

2.5.2 Credit Rating and Report:

This is another way of evaluating an applicant. Dun and Bradstreet, Inc. is perhaps the best known and most comprehensive of these agencies. It gives credit analysts an indication of a particular size, ranging from "high" to "limited". The credit reports contain a brief history of the company and its principal officers, the nature of the business, certain financial information and a trade checking suppliers as to the length of

their experience with the company and as to whether payments are discount, prompt or past due.

2.5.3 Bank Checking:

Another source of information for the firm is a credit check through a bank. Many banks have large credit departments that undertake, as a service, credit checks for their customers. By calling or writing the banks of account of the company being checked, a firm's bank is able to obtain information as to the average cash balance carried, loan accomodations, experience, and sometimes financial information. Because banks generally are more willing to share information with other banks than with a direct inquirer, it usually is best for the firm to initiate the credit check through its own bank rather than to inquire directly.

Pandy (1979)[7] has this to say about good lending: "Another important recommendation of the Committee relates to the approach to be followed by commercial banks in lending credit to borrowers. The Committee felt that the main function of a banker as a lender should be to supplement the borrower's resources to carry an acceptable level of current assets. This implies:

a) the level of current assets must be reasonable and based on norms;

b) a part of the fund requirements for carrying current assets must be found from term funds comprising owned funds and term borrowings including other non-current liabilities.

management is distribution of risk, that is to treat losses that are likely to arise, caused by unexpected events on a business transaction or venture. There are four major stages in risk management. They are risk identification, risk analysis, decision and action.

There are three principal methods of action often employed in the treatment of risk which has been accepted as worthwhile that is after the decision stage. The methods are prevention, transfer, and off-setting of losses. If we may take vault cash of banks for illustration, we can easily identify the risk in its storage and handling to include defalcation, pilferage, theft; determination, destruction, e.g. by fire, flood or termites. Prevention is one of the most important methods of treating the chain of risk elements that dangle over a bank's cash. One needs to employ a combination of measures to effect proper prevention of the series of risk. Keeping accurate records of cash received and cash paid by the cashier may prevent defalcation and pilferage but not very completely. There would be need for regular and surprise checks on the cashier's physical cash and records too. The other risk elements would require other measures to achieve their prevention.

There would be the need to ensure that the safe has good locking system, that the two or more keys are not controlled by one officer, that the officers concerned do not expose their key to the other persons including their colleagues in-charge of the other unit of key to the safe, and that every officer securely

locks and removes his copy of the key immediately after operating the safe. The bank may also have to fix the safe into a permanent structure to prevent it from being carried away even though locked. Where a bank fails to prevent loss of cash through theft, pilferage, fire etc., the loss could be substantial and even recurrent, if it is not detected and halted in good time.

Banking experience the world over has proved that theft, pilferage, and shortage of cash cannot be completely prevented for all time.

For this reason bank has to employ the transfer method in combination with the above precautions. Thus, they insure their vault cash and cash-in-transit at a premium with reputable insurance companies. The risk of bad debts on loans granted by banks is also treated by the transfer method. In the event of the insured risk happening, the insurer compensates the bank concerned for the loss. In the case of each shortage, pilferage, and bad debt the insurance company may go ahead to claim against the bank official responsible for the loss, if the circumstances are considered dubious.

The third method of treating risk, which is off-setting a loss, is commonly employed by banks on bad debts. For this reason, banks create provision for bad and doubtful debt accoun accounts where funds are set aside for the purpose of writing off bad debts, that actualise on loan accounts. This is done

usually in addition to preventing, or better put in this instance, minimising the risk through strict investigation of the prospective borrower's identity, character and credit worthiness in one hand and on the other hand transferring part of the risk to insurance companies as stated above.

Despite the differences of opinion as to how risk could be managed, there is however a general concession that a bank should manage its risk in such a way that profit can be maximised and risk minimised. Thus, an efficient and effective risk management helps for the survival of the business and its expansion and growth. Well managed risk means profitable and survival business.

FOOTNOTES

1. Horrigan (1968) – Ratios Analysis.
2. Pius Okigbo – Risk Management in Bank, NIM, Dec. 1984.
3. Budget Speech, (1984).
4. Asabia – Bank Management in 1990 – NIN, Dec. 1984.
5. A.A. Ewugi – Journals of Institute of Bankers.
6. Van Horn – Financial Management & Policy (5th Edition).
7. C.E. Ituwe – Bank Management in Nigeria.
8. E.P. Doyle – Practice of Banking, (1978).

CHAPTER THREE

THE DEVELOPMENT OF NATIONAL BANK

3.1 The Founding Fathers of the Bank

The National Bank was founded on February 11, 1933 by the following people: Dr. Akinola Maja, Mr. Latunder Johnson, Chief Akintunde Adesingbin, Alhaji Hamza Adisa Subair, Chief Akinremi Halloway, Chief Doherty and Isaac Ogunlana.

3.2 Objectives of the Founders

The objectives of forming the bank could be summarised as follows:-

a) To see that every Nigerian who is likely to benefit from loans, advances and overdrafts is encouraged by the bank.

b) To help small time as well as big time businessmen to hold their own in the commercial field.

c) To help Nigerians to establish industries and own properties.

d) To operate and help in a way which would give Nigerians confidence to dare both in commercial and in the industrial fields.

3.3 The Growth of the Bank

On the 7th April, 1933 the bank was issued with a certificate of incorporation. The founding of this Bank, the National Bank

was significant in that it marked the beginning of successful efforts by Africans to establish banking institutions of their own.

The Bank started at an inauspicious period. The failures of the two earlier attempt led by Tete Ausah to establish indigenous banks had dampened the enthusiasm of some African supporters. Apart from this, there was the hostility of the foreign banks and firms to the new venture. They scorned at the new efforts and adopted an attitude of "wait and see". In addition, the Bank stated during the period of the Great Depression which affected every part of the world but whose effects were more devastating to primary producing countries such as Nigeria. The Depression led to retrenchment in the civil service and in the private sector and Africans on whom the Bank had to depend for its survival were the worst victims of this development. The founding fathers were fully aware of these almost insurmountable obstacles in their path. In a reference to the situation a year later (1934)[2], Dr. Akinola Maja in an address to the Bank's shareholders stated: "When the decision (to found the bank) became known to the public, many and varied were the criticisms levelled at the Directors. Some considering the present depression, characterised the decision as rush, to say the least of it. While others impated a selfish motive; but others again were fair-minded enough to see in it the intense desire of a few Africans to have organised institutions of their own in modern lines".

After dismissing the accusation of selfish motive by pointing out that all the founders were professional men who had made good in their various professions, he continued; "Desperate Disease, they say requires desperate cure; and is not our condition today desperate enough to stimulate desperate efforts? Time was when educated Africans traded side by side with European merchants on the marina and illiterate traders held sway along Balogun Street. Time was when Africans were heads of government departments .... unless we mean to deceive ourselves, we must admit that we have lost ground and are losing ground daily. Ought we not to make some efforts to retrive our position? And how best can we do that then by cooperative and organised efforts? This ladies and gentlemen is the motive, the powerful motive, behind the momentous decision to open another native bank" on 24th July 1936, in the annual address to the shareholders Dr. Maja reverted to the same theme by saying; "When we started operating three years ago, we were afraid of failure, for the reason that the prospect was very gloomy. We felt, however that we should go forward". It is therefore obvious that despite the inauspicious period and the gloomy prediction of many, the founders were determined to forege ahead and succeed. They were passionately committed to the path they had chosen and were convinced that no sacrifice was too great to reach their goal. Their dedication to the country and race was almost unparalleled.

Because of the factors outlined above, the Bank started in a modest way. The first set of furniture was donated by some of

the founders. For example, Dr. Akinola Maja & Mr. Latunde Johnson donated chairs and table. Theophilus Adebayo Doherty, a safe and Mr. Akintunde Adesigbin also donated a safe while Mr. Hamzat Adisa Subair donated a typewriter. The Bank started with a nominal capital of £10,000 at £1 per share and with a paid up capital of £500. It rented for its operation a premises No. 61 Broad Street at £3 per month. Naturally, the first Board of Directors was made up of some of the Founding Fathers – Dr. Akinola Maja (Chairman), Theophilus Adebayo Doherty, Mr. Akin Adesigbin & Mr. Alfred Latunde Johnson. The Bank appointed one of its members – Hamzat Adisa Subair as Manager/ Secretary. This in itself contributed to its success. Mr. Subair was a trained Accountant and so he was able to bring to bear on the running of the Bank the desired professional knowledge and competence. Besides, he was himself, as already noted, one of the founders and a shareholder and so patriotism, skill and self-interest became merged into one in him and these factors any enterprises. It was Mr. Subair with a staff of 8 along with the Board that were to successfully pioneer the activities of the Bank in its early years.

In September of 1933 the same year in which the bank started, a private company, the mutual Aids Society was incorporated as an adjunct to the Bank. The society was formed to carry on the business of money lending and was therefore registered under the money lenders ordinance. It was charged with the responsibility of carrying out the Bank's loan business,

particularly in the area of speculative lending. It was therefore possible to recover loans owed to the Bank without legally involving the Bank, since series of court actions was always needed to recover debts. This was certainly an ingenious device because though speculative lending is risky, it also offers greater profitability provided the debts can be recovered and with the society, such debts were recovered without involving the Bank. This helped to protect the Bank's name and reputation while yielding at the same time, profitable returns.

3.4 The Problems Confronted by the Banks

The early years as would be expected were difficult years. The founders had to work hard to cultivate the confidence of fellow Nigerians whose enthusiasm had been some what dampened by this the directors opened accounts with the Bank and transferfed substantial portions of their own new bank. This gesture served as an encouragement to other Nigerians. Then, they went all out to persuade a number of well to do and respectable Nigerians to buy shares or open account with the Bank. And by patience and perseverance, their efforts gradually began to yield results. Those who were approached and became shareholders included Mr. St. Mathew - Daniel, Mr. E.B. Macaulay, Mr. Bank-Anthony, Mr. C.B. Olumiyiwa, Mr. Moshalewa Thomas, Mr. Akinwande Thomas, Mr. O. Faderin to name a few. This of course, did not end the Bank's teething problems. During the early years the Bank was engaging basically in money lending

rather than in real banking activities. According to oral evidence collected from the late Dr. Maja by the author, Sir Donald Cameran, the then Governor of Nigeria summoned the Directors of the Bank to complain about this and urged on them the need to move very quickly into proper banking operations. The Directors were able to persuade the Governor that Banking was but money lending on a higher scale and assured him that the bank would soon begin to operate fully as a bank once the foundation had been properly laid.

The next problem faced by the Bank was the opposition of the foreign banks and companies operating in the country. We have already noted that at first, the activities of the bank were watched with scorn by the aliens and their institutions. They believed that, like its two predecessors, the new bank would soon cease to exist. But they were proved wrong. After finding out that this particular bank was determined to survive, they changed their attitude from that of wait and see to active hostility. For example, to discourage people from patronising the bank and thereby bring about its collapse, foreign firms began to refuse to accept cheques issued by and/or drawn on the National Bank. But the Bank had a ready answer. To counter this measure, the Directors of the Bank persuaded those wealthy and respectable Nigerians who had been persuaded to patronise the bank to tender cheques drawn upon the Bank on as many occasions as possible. And since it would be an insult to request men of such

distinction and respectability to pay cash instead of cheques, the firms and the banks had no choice but to begin to accept these cheques. In this way, the bank began to acquire the recognition of these firms and halted their efforts at destroying it.

To encourage greater patronage of the bank by fellow Nigerians, the Bank began to advertise itself deliberately exploiting the nationalist sentiment which was rapidly developing during this period. There were many of such advertisement but the one in the tribune of February 20, 1952 is typical of such.

By a concerted and well-planned process of discrimination the African merchants were gradually eliminated from the position of middlemen between the European firms and African consumer and in their place was substituted the alien immigrants. The Africans according to plan, became small retail traders and civil servants. This economic strangulation could not have been possible if the Africans had had a strong financial institution of their own. PATRONISE THE NATIONAL BANK OF NIGERIA and retrive your lost birthright.

Such advertisements yielded results. The number of share-holders were present at the annual shareholders' meeting. This included Dr. Nnamdi Azikiwe who became a shareholder in 1938.

The Bank was never tired of finding new ways of ensuring successful operations and in this regard their knowledge of the soceity provied a great advantage. In 1936 the Bank began a

practise which was to prove beneficial to itself and to thousand of Nigerians who were small wage-earners. It started what became known as the Christmas and Ileya (Greater Beiram Festival) Funds. The Bank was aware that there were thousands of Nigerians who were not able to afford the huge expenses of that accompanied these festivals and yet were desirous of celebrating them with proper pomp and pageantry. The aim of the fund was to make it possible for such Nigerians to save towards the festivals with little or no inconvenience. Each customer was allowed to deposit as little as one shilling (10k) at a time. Although it involved a great deal of administrative work, the Bank was already to undertake this for the benefit of the country and itself. This scheme became very popular and very successful. Apart from , helping the small wage-earners and encouraging many hitherto unused to banking institutions to become regular users of banks the scheme helped to destroy the old habits of keeping money in dug-out holes in the house. It also helped to raise the level of deposits in the Bank. By 1944, eight years after its inception, the total deposit under this fund amounted to £8,000 - a great sum of money judged by the standard of the time.

3.5 The Strategies used by the Bank

Throughtout its early years the Bank strove to ensure success. For example, the directors refused to engage in too risky a venture. In addition, they were each paid a modest sum of £100 per annum and despite the modest profit made during the first year

of operations (April - November 1933) - £125.10 and in the subsequent years, no dividend was declared until 1939. Instead profits made were capitalised. This helped to raise the paid-up capital of the Bank.

Furthermore, a reserve fund was built up from its early years. In addition, the Bank constantly ensured a high cash ratio. As a result of these prudent measures the Bank began to grow steadily and consolidate itself with increasing growth and confidence the Bank moved from money lending into real banking business and was beginning to engage in mortgage financing and to grant overdraft facilities to its customers; thus fulfilling the dream of its founders. By 1939 its paid-up capital was £4,707 and the reserves £1,000 while the deposit and other accounts amounted to £10,299. The Bank had certainly found its feet.

Although compared to the foreign bank as a source of finance its impact on the economy was very limited, nevertheless, the fact of its survival is very significant as far as Nigerians were concerned. First an indigenous bank had found its feet and had finally succeeded in breaking up the monopoly of foreign banking institution second an opportunity hitherto to undreamt of was now open to Africans in general and African traders and businessmen in particular. All that was needed was to build on the foundation that had so far been laid. The period of the second world war and strengthen the Bank, thus assuring it a place - an important place in the banking world of Nigeria.

In 1943 (after ten years of the bank existence) a branch was opened in Kano in the far North. This is the first branch outside Western Region. In 1953 the Chairman of the bank was able to make this statement in his annual report "The past year has witnessed boom, both in the volume of the Bank's business and in its scope of activities and steps have been taken to re-organise the Head Office with a view to promoting greater efficiency and securing better supervision and control". On June 30, 1954, the Chairman commented as follows: "Our first Balance Sheet twenty-one years ago shows a total sum of £5,443:3s:4d (N10,886.64) as compared with £3,143,243:13s:10d (N6,286,487.40k) this year". In addition to the boom brought by the Korean War, benefits came from support given to it by the Western Region government as from 1952.

In addition to enabling Nigerians venture into and make their marks, in the fields of commerce and industry, National Bank carried its pioneering crusade into other areas of business endeavour. We will now consider briefly some of the institutions so created.

a) <u>The Nigerian General Insurance Company Limited</u>

In their characteristic foresignt the Banks founders established the Nigerian General Insurance Company Limited. This company which was incorporated on 21st April 1951, is the first indigenous insurance company in Nigeria. Its nominal share capital was £100,000 (N200,000). The shares were N2.00 each and 50,220 of the 100,000 shares were fully paid by 1957, of the

₦100,440.00 and the balance was paid by thirteen other share-holders.

b) The Bank also established an Insurance Brokerage Company in association with a London based firm of Insurance Brokers - Glanvill Enthoven Limited on a 50/50 ownership basis. This company is the first Insurance Broking Company of its kind in Nigeria and is still one of the largest. The Bank divested itself of its shares in the company by transfer to Odu'a Investment Company, in view of the provision of the Insurance Act 1974 which required all insurance broking firms to register as unlimited liability institutions.

As a further step in the reconstruction of the Bank, the Board decided on capital re-organisation, in 1962/63 after the Western Nigeria Marketing Board had taken over the Bank the total amount shares was ₦6,361,434.00. The Marketing Board, on behalf of the Western Region, held 3,000,000 of theirs, leaving 180,717 held by others. By 1966/67 the Board held 3,113,502 shares because some shareholders had sold their shares to the Board. This meant that the Board held 98% of the total number of shares while others held about 2%. In that year the capital which was £3,250,000 was re-organised as follows:

i) 5,000,000 Founders Share at 1s (10k) each = £250,000.00 (₦500,000.00)

ii) 1,000,000 'A' Ordinary Shares of £1 (₦2) each = £1,000,000.00 (₦2,000,000.00).

iii) 2,000,000 'B' Ordinary Shares of £1 (₦2) each = £2,000,000.00 (₦4,000,000.00).

iv) The 'B' Ordinary Shares: This class was to participate in the distributable profits of the Bank before the other classes and was to carry 25% of the voting rights.

The 'A' Ordinary Shares: This class was to participate in the distributable profits of the Bank after 'B' Ordinare Shareholders dividends shall have been satisfied in full and share carry 25% of the total voting rights.

Founders Shares: This class would be entitled to the whole or decided percentage of the residence of the profits. By 1986 the Bank was having eighty-two (82) branches both in Nigeria and overseas countries with five District Offices (that is Area Offices). The District Offices are: Kano, Lagos, Ilorin, Akure, Ibadan and Benin. These District Offices are in turn answerable to the head office which is located at 82/86 Broad Street, Lagos.

3.6 The Branch Lending Limit

These limits represent the maximum facilities which may be granted to individual customers or groups of connected customers without prior reference to an Area or controlling office. In other words, the lending powers of each of the branches are delegated to by their various District Offices and Branch Managers are advised in writing of the limits applicable in the time being. Lending powers are further delegated to other members of the branch management (that is the Assistant Managers and Accountant) and these officials are advised in writing of the limits of their authority. No other branch officials have authority to grant

advances facilities.

Generally speaking, these limits are in two parts: the secured and unsecured lending limit.

The secured lending limit is applicable only to facilities wholly covered by extendable security in full effective order. Partly secured facilities may be marked within the branch lending limit provided that the portion not covered by extendable security does not exceed the unsecured lending limit. The secured lending limit may be considered as double in respect of facilities wholly covered by pledged cash or credit balances, except where:

a) security is in foreign currency;

b) security is pledged by a third party; and

c) a minimum balance less than facility is stipulated.

The unsecured branch lending limit on the other hand is applicable to all other facilities with the exception of the followings:

1) Facilities repayable for more than two years. Branches may exceptionally grant within their discretionary limits loans, repyable for not more than three years, provided that such loans are repayable on demand and are wholly covered by readily reliable security, i.e. cash, treasury bills, quoted shares or first class bank guarantee.

In large urban areas, fully effective Legal Mortgage over property may be considered as reliable security only when

authorised by the District Managers.

2) Facilities where the right to call for payment on demand has not been retained.

3) Facilities to a company, firm or individual, known to be operating and transacting the greater part of their business in the area serviced by another branch of the bank.

4) Contractors Account: Unless wholly covered by extended security. Accounts maintained by the branch staff or their wives. It is necessary for both husband and wife to maintain accounts in the same branch if they live in the same town.

5) Classified debts; that is outstanding debts. Where accounts are connected for advances purposes, the total facilities granted on all such accounts must fall within the branch lending limit, otherwise the Area Office or controlling office must sanction all the facilities. Accounts are considered connected when there is more than one account in respect of which reliance is placed on the same name, for example;

a) A customer with facilities or is responsible for facilities on one or more other accounts.

b) A customer not having facilities in his own name and guaranteeing each other.

d) Where a partnership takes facilities and an individual partner takes another facility or is responsible for other facilities on another account either as partner or guarantor.

When such accounts are independently secured or when reliance, is not placed on the connecting guarantee, branches may disregard the connection, but this also is a matter for decision by the appropriate area or controlling office.

Where facilities are taken at two or more branches by the same customer(s) of one or more connected accounts, one branch assume responsibility for all the facilities and is designated the controlling branch. The discretionary limits of the other branch(s) will not be applicable to such accounts, which must be controlled in accordance with limits and other directives received from the controlling branch. For example, if customer 'A' has facilities in both Samaru and Zaria branches, the Zaria branch may be designated as the controlling branch, and consequently the Samaru discretionary limit is not applicalbe to customer 'A's account. Rather the account is controlled in accordance with the directives and limits from the Zaria controlling branch. For example, if customer 'A' has facilities in both Samaru and Zaria branches, the Zaria branch may be designated as the controlling branch, and consequently the Samaru discretionary limit is not applicable to customer 'A's account. Rather the account is controlled in accordance with the directives and limits from the Zaria controlling branch.

When allocating limits or sub-limits to another branch, the controlling branch must ensure that such allocation cannot be construed as a letter of credit, guarantee or indemnity. The following class must also be incorporated into the advice:

"This advise is purely an internal arrangement between our two branches and is not a letter of credit, a guarantee or an indemnity".[1]

The advise of allocation of limit must in addition include:

1) Whether facility is secured or unsecured;

2) The classification of the facility for purpose of return to District Office;

3) The rate of interest, ledger fees etc. applicable;

4) Any special instruction as to the control or manner of operation of the account;

5) Whether renewal proposal or statistics is required and thedata for submission.

3.6.1

Branches are authorised to grant excesses; but this should not be interpreted by managers as increasing the branch lending limit.[2] Limits marked are of course, intended to be observed and excesses should be exceptional. If excesses become frequent, it may be that the agreed arrangements are not in line with customers requirement and considerations are given to an increase or re-arrangements of limits. Such re-arrangement need not necessarily be communicated to the customer concerned.

Excesses comprise any form of irregularity or deviation from authorised arrangements; for example;

a) Amount of total facilities in excess of limit marked.

b) Amount of any one facilities in excess of limit marked even though total facilities are within

overall limit.

c) Shortfall of specified security.

d) Security specified uncomplete or not perfected.

e) Loan repayments not up-to-date.

f) Specified arrangements (e.g. regular reversion to credit) not observed.

The authority to grant excesses does not apply to accounts in the classified debt category.

g) Facilities in excess of branch unsecured lending limit pending perfection of stipulated security.

h) Payment against uncleared effects; where without such effects facility would exceed limit marked.

i) Limit marked has expired.

Before a branch can grant excesses the prior authority of its District Office is required. A branch is however authorised to grant excesses without reporting to District Office subject to all the followings:

1) The excesses is considered fully justified.

2) The excesses is of purely temporary nature.

3) The amount normally operates within branch lending limit, and excess is not more than fifteen percent.

Any excess granted by a branch must be reported to Area Office, on the excess report form. (Refer to Appendix 1 for specimen). Where the amount of the excess is relatively large, or

where owing to special circumstances it is felt that the District Office should be advised immediately, the reporting is done by telegram or telephone with prompt confirmation on the excess report form. In deciding whether an excess warrants prompt reporting consideration is taken of all aspects of the position; e.g. the amount, circumstances, security, financial standing of the customer, etc. Managers also consider the period which mail advice may take to reach the District Offict. In fact, at times a staff of the branch is asked to deliver the excess report form.

The report on the excess report form is concise sufficiently informative to enable the District Office to make a proper assessment of the position.

In particular, the reason for the excess and the source anticipated date of adjustements must be as precise as possible.

Since security is the bank's cushion in case of default, it is always reported in full where the value is subjected to variation (e.g. Goods under the bank's control). In addition the turnover and range of balances of the account on which the excess is reported is shown for the previous calendar month.

3.6.2 The Collection Procedures

When the normal credit period granted to the customer is o over and he has not made the payments, a polite letter reminding the customer is sent. This is followed by letters that are progressively strong worded. If the facility still remain

outstanding, the bank's debt collectors are instructed to make personal calls on the customers. Where there are no debt collectors (particularly in the branches) any representative of the bank, preferably the branch manager, should act on behalf of the bank. Should all efforts fail, and the amount involved is substantial, the account is handed over to the legal department who would initiate legal action.

As the collection process can be expensive in terms of both out of pocket expenditure and goodwill, the bank naturally must weigh the cost and benefits involved. Should the cost-out-weigh the benefits, the collection effort is relaxed and the amount is considered a classified debt. Classified debts are debts that the bank has no hope of recovering.

3.6.3 Securities Acceptable for Advances[7]

Security is an insurance against loss through insolvency or inability of customer to repay. Even though the bank may be willing to lend unsecured, it prefers to obtain security, in anticipation of failure.

Only the followings are regarded as extendable securities by the bank:

1) Cash:- Here, a lion over the credit balances is created with minimum balances stipulated. The borrower is not allowed to withdraw his account below the stipulated balance.

2) Treasury Bills: These are means of short term (usually ninety days) borrowing by the government. They are securities

entitling the holder to a stated amount to be paid by the government at a specified date.

3) Quoted Shares with suitable margin:- Quoted shares refers to those shares that are listed on the stock exchange market. Since they are quoted on the stock exchange, their values are easily ascertained.

4) Goods (e.g. merchandise, raw materials produced), under the bank's control with suitable margin and fully insured with the bank's interest noted.

5) Negotiable shipping documents in respect of readily marketable goods with suitable margin.

6) Legal Mortgage: Over property for which solicitors certificate of goods title held, stamped, registered and fully insured with the banks interest noted. The extendable value is that for which the mortgage is stamped. No value is extended for leasehold properties where the lease has less than seven years to run.

7) Guarantee by the first class bank, covered by any necessary exchange control approved in the country of origin.

8) Trade Bills on good names; well spread and for a tenure of ninety days.

9) Mortage assignment of life policy; of which the extendable value is the current surrender value.

3.6.4 Mortgage as Securities

A Mortgage is the transfer of an interest in an asset from the mortgager to the mortgagee as security for a debt or other obligation. Facilities against equitable mortgages on short term leases are granted only in carefully seleeted cases; where full reliance can be placed on the customer to obtain lodge and mortgage the new lease to the bank. Legal Mortgages on the other hand are preferable as securities; and standard printed forms of legal mortgage have been drawn up by the bank's legal advisers. Irrespective of the type of mortgage it is necessary that managers examine the documents of title. All the necessary formalities such as stamping, searching, registering etc. must be undertaken by solicitors.

When the bank is offered land or buildings as security for advance, the first matter the manager normally ascertain is their value. If this is satisfactory, he will decide whether to take a legal or equitable mortgage and he will satisfy himself that the customer has a good title to the property.

Valuation of properties calls for technical knowledge, but with the application of both general and local knowledge, bfanch managers are expected to be able to assess realisable values of properties and land.

Debentures as securities:- A debenture is a written acknowledgement of an indebtedness. The bank has a standard form of floating debenture, but in special cases where this is not appropriate, debentures must be drawn up by the solicitors

to conform with the particular type of banking facility agreed upon with the customer. It is drawn in favour of the bank and is expressed to be payable on demand; and interest is stipulated at a fixed or fluctuating rate.

A floating charge is not taken over land and buildings as no charge is effective over land unless it has been registered at the land registry. Where a flating charge only is taken, no value can be extended against it without the prior agreement of the District Office. And where reliance is placed on a floating charge, frequent i.e. not less than monthly inspection of customers stock is made to ensure that the security offered is not being run down.

The conditions under which the money secured shall become payable include written demand by the bank, the commencement of voluntary or compulsory winding up, cessation of business by the company appointment of a receiver and the alteration or attempted alteration of the company's Memorandum and Articles of Association in a manner prejudicial to the bank.

Guarantees As Securities:- A guarantee is an undertaking by one person (called the guarantor) given to a banker (the creditor), to be answerable for the debt of another person (the debtor), to the banker upon default of the debtor. The bank has its own guarantee forms and the guarantor is given the opportunity of reading the forms before appending his signature. The forms

must be clearly understood by the guarantor and must be signed and witnessed at the branch.

Sometimes, important companies prefer to give their undertaking by way of a letter or to relate the guarantee to a specified facility, rather than using the bank's guarantee forms. In such situations, approval must be obtained from the District Office.

It is the requirement of the bank that any guarantee issued on behalf of a customer must:

a) Be for a defined amount.

b) Have a fixed expiry date not more than one year after the date of issue unless prior approval of District Office has been obtained.

c) State clearly the latest date by which a claim thereunder must be received by the bank and the branch at which the claim must be delivered.

d) Stipulated that the guarantee is to be returned to the branch after expiry or on settlement of the liability.

e) Be so expressed that it is payable without any condition other than a simple demand in writing or against clearly specified documentary evidence from the beneficiary.

f) Be free from ambiquity; any condition incorporated must be capable of fulfilment by the bank without difficulty.

g) The guarantor must be handed a copy of the guarantee and his acknowledgement obtained for it. It is however not necessary for a limited company to sign an acknowledgement but they must be provided with a copy of the guarantee for their records.

3.6.5 Stocks and Shares as Securities

A share is a right which a member of a company has to a certain proportion of the capital; the capital being the total fund contributed by the members.

The acceptability of any type of shares as securities depends mainly upon whether they are quoted on a stock exchange and have a ready market for sale. Quoted shares are usually very acceptable and are commonly deposited as securities. They are shares of public companies which are quoted on the stock exchange and thus valuation can easily be obtained from either the stock exchange daily official list, Business Times, or from stock brokers. Unquoted shares are usually undesirable as securities because:-

a) Valuation is extremely difficult, as the bank will have to work out a price from the breakdown value of the company's assets from its balance sheets and accounts, or the past dividends paid by the company.

b) Transfer will usually be restricted by the company's articles; consequently the articles require careful study to ascertain whether this is any restriction on the share being transferred to the bank's nominee company; or selling the shares.

Thuss, quoted shares are preferable as securities to the unquoted ones. However, unquoted shares often have great value and the bank sometimes is willing to accept them under equitable mortgage, relying upon the depositor's integrity the shares being mainly regarded as evidence of means.

Insurance Policies as Securities:- These policies could be life, fire, burglary, all risk etc. A contract by which the insurer, in consideration of a certain premium, either in gross sum, or by annual payments undertakes to pay the person for whose ss benefit the insurance is made, a certain sum of money or a unity on the death of the person whose life is insured, sometimes the amount is made payable either at death, or at the expiration of a stated number of years, which ever shall first happen ."[3]

When a life policy is offered as a security, a careful examination of its terms and conditions is made. The bank must satisfy itself that:

a) The Insurance Company is reputable.

b) The proceeds are payable in Naira.

c) The policy has attained a surrender value.

d) The policy contains no onerous clauses which are likely to prejudice the security e.g. suicide, restrictive travel etc.

e) The age of the assured has been admitted.

The assignment of the policy is then completed by executing a legal mortgage under seal; and the policy is retained with the mortgage. Notice of assignment must also be given to the Insurance Company and the duplicate copy is returned duly signed as an acknowledgement. Simultaneously, the company will be asked:-

a) Whether it has notice of any prior assignment over the policy.

b) To confirm the premiums are paid to date.

c) To supply the current surrender value. The effects of giving such a notice:-

a) Enables the bank to sue in own name.

b) Bind the Company to pay the bank.

c) Ensures priority for the bank over subsequent assignees , from the date of registration.

d) Enables the bank to acquire priority over earlier assignee who have not given notice to the Insurance Company; provided the bank is not under actual or constructive of the earlier assignment on a final note, any type of policy accepted in support of of facility must be studied to ensure that no terms, conditions, or restrictive clauses it contains render it unacceptable as security and the legal and beneficial interest vest in the intending mortgager(s) alone and it is free of all encumbraces.

FOOTNOTES

1. Memorandum and Articles of Association of National Bank of Nigeria Ltd., (11th Feb., 1983).

2. The Minutes of the First Annual General Meeting.

3. Meeting of the National Bank of Nigeria Ltd., held on 20th July, 1934.

4. Minutes of the 3rd Annual General Meeting of the Shareholders of the Bank, July 24, 1936.

5. How it all began, "Daily Times", 1961.

6. Minutes of the Meeting of Board of Directors held on 28th May, 1953.

7. Minutes of the 30th Annual Meeting of Shareholders held on 24th October, 1970.

CHAPTER FOUR

MANAGING BANK PROFIT AND LIQUIDITY

4.1 Introduction

On presentation of a published account of a bank, peoples' area of interest in the account is bound to differ. The probable first reaction of a shareholder is to find out how much profit the bank has made, before he subsequently settles doen to question the accuracy of the figures and the likely dividend therefrom. On the other hand, the examiner is most likely to first check off the liquidity position of the bank and other operating ratios and observances, as demanded by the Central Bank of Nigeria (CNB).[1]

The bank management would normally attach (perhaps an equally vital importance to both elements because of the significant role of either of the two in the day-to-day operational, growth, and survival needs of its establishment. Banking in Nigeria, as in the world over, is not without its records of problems on the part of individual banks in their effort to attain both vital objectives of making profit and also maintaining an adequate level of liquidity. Our motive in this chapter therefore is to try to identify the vital problems and to find practical methods of dealing with the problems, in bank management efforts to attain both objectives.

4.2 Characteristics of Profit and Liquidity Management

Bank Profit: The most import single factor that influences

the profit margin of a bank is interest rates. Frequent fluctuations as well as occasional but erratic changes in interest rates make significant impact on profit risk of banks.

While profit provides funds for distribution as dividend, current earning is the first cushion against which losses may fall and be contained. It is the first line of defence against adverse circumstances in business cycle. The distinction being made here between profit and current earning is that the latter refers to retained profit - that is after deducting tax and dividend from the year's profit.

Profit is important in increasing equity capital both through capitalisation of reserve, and through being a source of attraction to investors. Profit increases net-worth which in turn provides a cushion for dividends in times of low profit or loss.

A steady profit growth increases borrowing capacity since a prospective lender primarily looks into it as the primary source of repayment. In this way and otherwise, it is a source of liquidity. One final point about profit is that its making involves movement in cash fund. We mean that the inflow of revenue and outflow of expenditure are all movement conducted in cash fund.

Although what comes out at the end of the channel called profit is expressed in financial terms, it is rarely stored in the form of vault cash. What we observe to happen is that as profit comes out of individual and since of transactions, it immediately finds its way into the store houses of some of the bank's assets.

Its entry into the store house of any particular asset immediately increases the store value of that asset. Specifically, a bank's profit in any year may beheld or indeed scattered among various assets some of which may be less liquid than others.

4.3 Bank Liquidity

Every bank asset contains some elements of liquidity, although the measure of liquidity content varies from one assets to the other, since it is determined by the nature and quality of the asset within a given economic circumstance.

Liquidity value of bank assets increases with their speed and easiness in converting to cash - without much loss of value. Hence cash is the most liquid of bank assets. The greater the ratio of assets which convert easily to cash, to the total asset value of the bank, the higher the liquidity potential of the bank.

Liquidity is vital to successful bank operations in as much as it enables a bank to meet the demands that its liabilities make on its operating funds. Banks held an excess of specified liquid assets over prescribed ratio, because the ratio basket only holds unusable minimum in order to be able to meet the bank's operational needs.

Liquidity is primarily important to a bank for its survival as a going concern. Through the confidence guaranteed among the bank's customers by its sound liquid position, there follows growth and ultimate perpetuity of the bank. On the other hand, profit is a primary contributor to corporate growth. It also

guarantees the bank's stability and pertetuity.

We cannot agree less that the objectives of survival, stability and perpetuity are crucial for any bank management team, the attainment of which will remain illusory, without an objective and vigorous pursuit of a management set of philosophy that is conceived against the background of an agreed time-table.

4.4 Profit Management

At this juncture we shall consider the sources and some management techniques for making profit. In order to facilitate our discussion, we have to take ourselves back to one basic factor namley, that banking is fundamentally a profit-oriented service industry. Banks levy charges for their service. The most important single source of bank revenue is interest charges on loans and advances, especially as loans and advances often constitute upwards of 50 percent of a bank's assets. Bank usually carry a large portion of their investment portfolio in the form of interest earning government securities and commercial bills.

This is yet another source of bank revenue. Another important source is service and administrative charges. This is in connection with bank charges for money transmission, foreign exchange transactions and servicing of bonds and guarantees.

The diagram below is designed to illustrate the source and course flow of bank revenue. The diagram looks like a downward growing tree. It clearly shows bank customers as the fountain

of all bank revenue, and this underscores the service function of the industry as mentioned earlier.

The diagram shows the three main source of bank revenue namely:-

a) Interest on loans and advances

b) Service charges

c) Investment earnings

each flowing out into its own seperate collection box. The flow movement contimues seperately from each box into the Revenue Pool.

From this Pool flows out the following through their several outlets; staff salaries, interest paid on deposits, and overhead cost. What is left of the revenue pool, after these leakages, flows into a small collection box, gross profit. The two prominent leakages from this latter box, depreciation of assets and provision for bad debts are not items of expenditure. They are provisions made to safeguard likely shortfalls in the value of specified assets. After these provisions, what is left gathers into yet a smaller box - net profit. From this box money is taken out to pay corporation tax and for distribution to shareholders as dividends. The remaining is called retained profit which we earlier referred to as current earnings.

In order to maintain or increase profit a bank's management team may want to do some or all the following:

i) Increase revenue,
ii) Reduce cost,
iii) Distributor risk.

4.5 Bank Liquidity

Its Course of Flow:

What are a bank's sources of liquidity? When and how do liquidity "leakages" take place? What management actions are required to conserve or increase a bank's level of liquidity? These are some of the fundamental questions to which we have to address our minds.

There are three main sources of bank liquidity. They are liquid assets, liquid liabilities and operating flow. Diagram 3 below is designed to illustrate their course of flow.

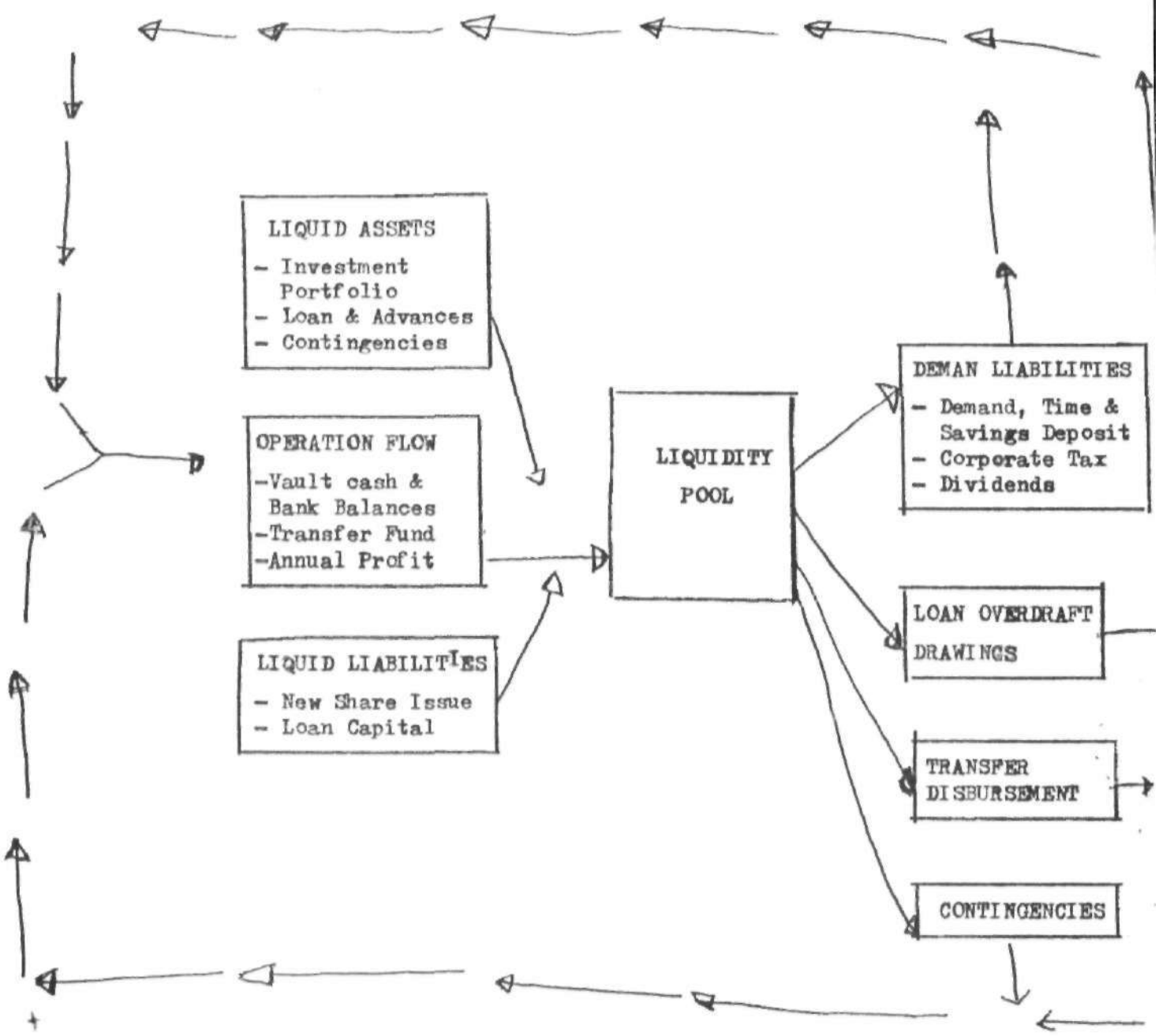
The three solid arrows shooting out one from each of the boxes on the left-hand side of the diagram are seen to converge into a large box at the centre - Liquidity Pool box. Four other solid arrows shoot out severally from this box into four seperate boxes. Each of the four boxes on the right-hand side of the diagram represents a specified liquidity outlet. The top box shows demand, time and savings deposits, corporation tax, and dividend as the components of the unit of outlet designated, demand liabilities. The next boox shows loan and overdraft drawings as the second outlet. Loan and overdraft drawings have been seperated from the demand liabilities box, in order to

distinguish and highlight them as an important liquidity outlet by themselves alone. The third outlet called transfer disbursement is shown in the next box. At the bottom of the line is another box for the fourth outlet called contingencies.

The four broken arrows which lead out from the four boxes of outlets into the operating flow box, on the left-hand side of the diagram, are provided to illustrate possible recycling of funds into the operating flow system, and ultimately into the liquidity pool. Recycling of funds refers to renewal of deposits e.g. fresh deposits aris ng from paid dividends, discharged obligations on corporation tax, loan repayments, transfers and matured contingencies.

The exclusion of vault cash and bank balance from liquid assets box is a matter of choice. Their inclusion in the operating flow is meant to emphasise the primary function of the two items, namely in providing operational funds (or working balance) for the day-to-day business requirement of banks.

Diagram 3: **BANK LIQUIDITY SYSTEM**



SOURCE: National Bank Handbook

Transfer fund devices its high liquidity, content from the fact that it is received and held in the form of cash or inter-bank balances until disbursement. The continuous flow of bank business which involves the transfer of fund gives banks an additional advantages for a steady supply of liquidity from this source. Bank transfer fund falls into two classes. One class is fund meant for beneficiaries within the country. The other class which is considerably larger than the former is made up of fund meant for beneficiaries outside this country. These two classes are called domestic and foreign money transmission respectively.

The other class of transfer fund is largely bank customers' remittances for imports into the country. This class is far less volatile than the former. The process and conditions for transfers to foreign countries through the Central Bank of Nigeria make this other class of transfer fund remain within the liquidity system of the remitting banks for an average of three months. However, a good part of this class has been forced to shed its liquidity value to the remitting banks since 1978. This was as a result of a new statutory requirement on all banks to lodge with the Central Bank of Nigeria all deposits they receive in connection with letters of credit. Such lodgement with Central Bank of Nigeria (CBN) is also excluded from the computation of the statutory liquidity ratio of the banks.

Bank profit is primarily made in cash and this is what gives it an ostensibly high liquidity attribute. Closely allied to this fact is that, as in the case of transfer fund, bank profit

mentioned earlier.

They derived their high degree of liquidity from the Central Bank of Nigeria's facility for their immediate redemption when presented by the holding banks.

Another liquid asset is marketable securities and equity participation securities. The items engrossed as marketable securities include certificates of deposit, development stock, and some commercial bills which are not first class rating. Certificates of deposit are a recent introduction in the Nigerian financial market. Federal government development stocks which are of short maturity may as well rank side by side with the earlier mentioned Federal Government securities both in their ability change hands easily in the market, and in being redeemed by the Central Bank of Nigeria without much loss of value to the holding bank. Equity participation securities have the highest liquidity risk in our list so far. This is because of their exposure to the vagaries of the stock exchange market from which the other mentioned liquid assets are insulated.

4.8 Liquid Liabilities

Liquid liabilities consist of new share issue, and loan

capital. New share issue is used here to the exclusion of script or bonus share issues which do not, by their nature, attract new capital fund to any business. We are here left with all the other classes and types of equity shares or preference shares, cumulative or non-cumulative preference shares, and so on. Loan capital refers to all types of long term loans whether they are supported with debenture or otherwise.

4.9 Liquidity Risk Management

The title of this section implies the art of formulating and carefully implementing some management policies, with the aim of striking and holding the balance between the supply and demand, forces in a bank's liquidity system. Liquidity risk management does not consist of holding a static level of liquid assets in a religious observance of the statutory requirement.[2] It involves planning for and advancing the forces of supply to meet the changing levels of demand on the bank's liquidity. This demands on the part of the management team a working knowledge of the quality and character of the supply forces, as well as of the demand forces which we named above, and illustrated in diagram 3.

One common factor on both sides is that both forces are dynamic, and the state of dynamism exhibited on either side is largely influenced by changes in the economic mood of the immediate environment. There are occasion, too, when the forces are caught up in the widening ripples of an economic change which orginated from a rather distant centre. Another common factor to the two

sets of forces is that they do not have fixed terms. We mean terms of maturity.

On the demand liability side, for example, we can identify demand deposit as being highly volatile. Its rate turnover,is far higher than say in savings deposit or time deposit. True to situation, its rapidity of turnover fluctuates according to the economic activities and the type of industry for which each demand deposit account is operated. Similarly, in our rating of liquidity risk among bank sources of liquidity we have noticed wide variations in their rates of turnover, and also in their terms of maturity.

This means that no effective liquidity risk management can be achieved without evolving a scheme for placing the supply forces of bank liquidity against the demand forces, with due regard to their maturity dates. One of the best ways to achieve an effective matching of the two forces is through a cash flow forecast. Projected cash flow which is the other name for cash flow forecast forms an important part of our discussion in the succeeding chapter entitled - Bank Corporate Planning.

In managing the liquidity risk of a bank, some other fundamental principles have to be borne in mind. There is need to keep the liquid assets of the bank at a level above the statutory requirement. This is because the statutory minimum cannot be mobilised for the purpose of meeting the changing levels of need occasioned by normal business operation. Again, since the more liquid assets are prone to low profit yield, a state of stock piling

liquid assets in excess of operational needs impairs profitabi profitability. Therefore most judicious use is called for in connection with funds which are realised from maturing investment assets. This involves having to balance the bank's liquidity needs against the attractions of high profit.

Here we must mentioned that timing is the most vital factor in every investment decision, for satisfying the need for profit and the need for maintaining an adequate level of liquidity in a bank's system at any time. Timing as used here is not limited to the point in time when funds are committed to any particular investment. It also means giving due consideration to the maturity date of every new investment, in such a way as to take advantage both of a good rate of return and of the possible availability of liquidity from the given investment source. All these are to be done with an eye on the anticipated level of demand on the bank's liquidity during and at the end of the envisaged investment period.

The performance and prospects of a bank's assets should be under regular surveillance to avoid having to adopt panicky measures which are aimed at beating unforeseen dangerous drops in levels of liquidity. There should be proper and regular appraisal of the contributions of liquid assets, and operating flow to the health of the bank's liquidity system. One must not neglect to tap from the third source - new share issue and loan capital, in good time, because delayed action may impair a bank's ability to attract new capital funds from the market for it needs.

Another tool often employed by banks in matching their anticipated liquidity inflow with its outflow over a given period is the Rate-Sensitive Assets/Liabilities Analysis. Much as this tool may like the projected cash flow mentioned above, they are by no way the same, and neither is one a substitute for the other. A projected cash flow anticipates liquidity inflow from all sources and outflow through all known outlets. On the other hand rate-sensitive assets/liabilities analysis is only concerned with matching the anticipated inflow liquid funds and outflowing liquid funds which are linked to interest rates. Examples of such sources and outlets include government securities, loans and overdrafts, and all types of deposit accounts except demand deposit.

A rate-sensitive assets/liabilities analysis is also useful in the preparation of a bank's profit plan.

It needs to be mentioned here that in the Nigerian experience so far, the degree of sensitivity of the relevant assets and liabilities of banks to charges in interest rates is rather low. Their apparent insensitivity have arisen from many factors. First, the Nigerian market is still under-developed and the predominant presence of the Federal government through the Central Bank's participation in the market as distinct from regulating it to say the least,[3] has not helped the development of the market. The Central Bank fixed rates which essentially constitute the users' cost of fund are far from being realistic, in the light of the prevailing return on investment. The effect is that the demand

for investment funds have been rendered interest inelastic. In spite of it all, rate-sensitive assets/liabilities analysis can still play an important role in the planning and management of bank liquidity and profit in Nigeria. Table below is an illustration of how the tool may be used in a bank's liquidity plan.

Rate-Senstive Assets/Liabilities Analysis (Maturity Spread of Rate-Sensitive Assets/Liabilities of National Bank of Nigeria)

	Days	Days	Days	Days	Days	Days	Longer Days
Assets:	₦950m	₦480m	₦600m	₦600m	₦700m	₦920	450
Liabilities:	₦520m	₦650m	₦550m	₦690	500m	850	500
Gap:[1]	430m	(170m)	50	(90)	200	70	(50)
Cumulative:[2]	430	310	220	420	490	260	440

Note:[1] Rate-sensitive Gap is the difference between the rate-sensitive assets of a given period and the rate-sensitive liabilities of the same period.

Cumulative is the build-up of the gap from the beginning of the projected period uptill the end of a given plan interval. The relevant figure is obtained by adding the current gap to the preceding cumulative.

It would be seen from the above table that a surplus gap signifieds that, in the absence of cumulative surplus carfied over from earlier periods, the liquid assets of the particular period is sufficient by itself alone to accommodate the demand of liquid liabilities of the same period. It would also be seen, as the case of 2 - 30 days maturity in the above table, that National Bank has

to fall back on the cumulative from the earlier periods to be able to adequately meet the demands of liquid liabilities which mature during the current period. An important management action at this point is to decide what to do with cumulative fund. How much of it is to be re-invested? On what assets and for how long? How much of it is to be held as idle cash? The right answer will depend on the anticipated pressure from the bank's total demand liabilities during the ensueing period.

4.10 The State of Illiquidity

A state of illiquidity sets into a bank when the demand of forces of its liquidity exceed the supply forces. By this we simply mean that illiquidity in a bank signifies a state in which the current obligations of the bank exceeds its liquid resources. It also describes a state in which current obligations (that is, demand liabilities) fall due for payment before there is time enough to tap the liquid resources (that is, the available resources of liquidity at the bank's disposal). In fact, most cases of illiquidity are a combination of these two situations. The latter problem than any other course, is like what one may observe in a game of soccer between a good team and a poor one. In such a game, even though both teams often appears to out-number the poor team while in action. In the case of illiquidity, the rate of demand on liquidity exceeds the rate of supply in the bank's operating system.

The failure of one bank due to problems of illiquidity is

not usually confined to the particular bank. Its occurence threatens public confidence in the banking system with likelihood of series of run on other banks, if the situation is not promptly corrected. Such is very unhealthy to national economy. Much as a bank need not stock the whole deposit it receives from its customers in the strongroom, there is need to for a continuous and adequate level of inflowing fund as well as for balancing the varying levels of liquidity for its operational needs against the need for profitability. It seems here that we cannot justifiably close this section without considering what necessary actions are likely to salvage a bank already in a state of illiquidity, or at least, ameliorate its problems. Management measures open for such a bank include the following which are only illustrative rather than being exhaustive:-

i) Synchronising the bank's cash flow system.

ii) Re-appraising the bank's lending portfoilo realistically.

iii) Utilising available opportunities in the property market.

iv) Tapping resources from the capital market, and

v) Attracting the intervention of the monetary authority.

i) Synchronising the cash flow system demands a thorough re-examination of the bank's cash flow system with a view to identifying and remedying blockages and unhealthy leakages in the pipeline. This certainly includes ensuring that no branches or banking districts are over stocking cash, while the head office account with the Central Bank of Nigeria is continuously running out of funds, or while some other banking districts are short of

cash fund. Branch banks must exercise discipline in keeping within their head office approved cash levels and in transferring any surplus accordingly. It may also be necessary to re-order the expansion priorities of the affected bank. Here emphasis should bear on the quick or significant contribution to a bank's profit or liquidity. Attracting and holding new deposits in the form of very liquid assets will help to ease the situation. The outflow of funds through unnecessary running cost or through paying out huge dividends should be checked. However, the curtailment of dividends should be done with caution because the measure will usually raise eye-brows in the capital market.

ii) Re-appraising the lending portfolio must start from assessing the relative contribution of the loan portfolio to illiquid situation. Have loan repayments been regular and in keeping with planned expectations? Has the bank consciously or inadvertently exceeded its planned level of loans, and by how much? In the light of the findings, should the bank continue with more lending ..... by how much more, and in what areas? What measures are to be taken to step up repayment and bring it to normalcy or planned expectations? Whatever actions are considered necessary and apt must be taken with due regard to proper timing and method, because bank credit management usually requires care due to its delicacy and sensitive nature.

iii) Where there is a well developed property market (not yet in Nigeria), the bank may consider selling and leasing back a few of its fixed assets. The sales proceed will provide immediate liquid cash, while rent payments, in relatively small bits, are

spread out over many years to come. This will certainly reduce the profit performances by the additional rental fees in the subsequent years, which in this case becomes a necessary cost for survival.

iv) The capital market offers two options at a time. The bank may raise additional share capital by issuing new shares. If the bank's shares are not quoted, as is largely the case today, the shareholders should contribute more capital fund to ease the situation.[4] The bank may also pledge some of its fixed assets for some medium or long term loan capital. Again the success of either of the two options depends largely on the timing of action. Much delay in deciding action will normally give chance for fear, in the financial market, as to the future of the bank concerned and thereby deter prospective investors to the bank's disadvantage.

v) Attracting the intervention of monetary authorities is another important curative measure for combating illiquidity in a bank. Here monetary authorities refer to the Federal Ministry of Finance and the Central Bank of Nigeria. Where a bank has been complying with the Central Bank of Nigeria in requesting for timely intervention of the minister. In fact, intervention has to be provided not only to avert the chain consequences on other banks and the economy but as a necessary compensation for conforming. More usually, intervention would be by way of loan by the Central Bank of Nigeria on the approval of the Federal Ministry of Finance. The amount, terms of repayment and

interest rate approved will depend on the gravity of the situation. Such intervention may also include releasing some funds of the particular bank which was held by the Central Bank in special accounts. Such as special deposit with Central Bank held cash reserve, etc.

The above five major options need to be chosen and tried in that order. Far from it. The root causes of the state of illiquidity and its severity will determine the choice and the mix to be administered, in accordance with the good judgement of the management team of the bank. It must be emphasized that we have largely assumed the existence of a well developed money and capital market in discussing the above remedies for illiquidity. This implies that in our own given situation, bank illiquidity will be much more difficult to combat than envisaged above. Finally, even in the presence of a well developed financial market, it is far more easier to prevent illiquidity in a bank through conscientious application of sound principles of financial management than to combat it when it has set in.

4.11 Conclusion

In concluding this discourse on the management of bank profit and bank liquidity, we have to remind ourselves that, no matter whatever attributes they may have in common, bank profit and bank liquidity are completely two different elements. However, we have seen that the two elements do interact in a bank's operating system. Bank profit is made in cash (which is the most liquid

asset of a bank). In other words, bank profit primarily swells bank liqudity. On the other hand bank profit's contribution to bank liquidity very often changes from its primary cash nature to some other assets. In most cases, conscious management measures are taken to temporarily store bank profit in some liquid assets such as vault cash, inter-bank balances, government securities and first-class bills. The purpose is to facilitate the process of converting the profit generated asset to cash, in order to easily meet the bank's obligations for corporation tax, declared dividend, and deposit liabilities. Only the barest minimum is allowed into the bank's lending portfolio. However, when bank profit is stored in a less liquid asset, such as a fixed asset, its contribution to the bank's liquidity level is thereby obliterated.

We may summarise the contributions of bank profit to bank liquidity in the following arithematical form:

Net Profit
+ Depreciation
+ Provision for Bad Debts
- Annual loss (if any)
- Actual Bad Debts for the year
- Dividend and Corporation Tax paid
- Portion of Profit committed to Fixed Asset.

4.11.1 -Net Contribution of Profit to Liability

On a final note, we like to ask whether profit making is a guarantee against bank illiquidity. In the light of the above, formula for bank profit's contribution to its liquidity level, we

can determine its relative contribution and the degree of its effectiveness in the prevention or cure of illiquidity in banks. In the first place, bank profit makes diminishing contribution to a bank's level of liquidity because, corporation tax may attract financial penalty for the bank, while non-payment of dividend may prevent a good deal for the bank's new share issue when used as a measure to combat illiquidity. Unless under conscientious management effort, portions of a bank's profit pass into various store houses some of which are not very liquid assets. Those passed into the less liquid assets (especially fixed assets) limit the effective contribution of profit to a bank's liquidity. Besides, irrespective of the provision made for bad debts in a bank's lending portfolio, the portion of the portfolio which materialises as bad debts in a given year reduces profit's contribution to the liquidity level by an amount equal to the actualised bad debts. Finally, we may have to note that profit, which this time should better be viewed in its mangled form, is only one out of many contributors of liquidity. This is to say that, on the whole, profit making cannot, by itself alone, prevent illiquidity or be a cure to it in a bank.

Profit making and keeping a good level of liquidity are both essential for public confidence and patronage. Both elements are crucial to the survival and growth of a bank. The life and health of a bank cannot be ensured in the absence of the two elements - profit and liquidity. The critical challenge to the successive managements of any bank is to continually keep both in a balance, in every investment policy decision and implementation.

FOOTNOTES

1. Central Bank of Nigeria, Annual Report.

2. Derek French & Heather Sawari: Dictionary of Management. (London 1977, pgs. 329 - 330).

3. Central Bank of Nigeria: Annual Report.

4. As of now (1982) only four out of twenty Commercial Banks are quoted on the Nigeria Stock Exchange namely: First Bank, Mercantile Bank, Union Bank and United Bank for Africa.

CHAPTER FIVE

METHOD OF MANAGING AND CONTROLLING LOANS AND ADVANCES

5.1 General Controls

The examination and approval of a customer's proposition is only one aspect of a lending banker's functions. The other just as important is to control the facility after it has been granted to ensure:

a) Stipulated conditions are complied with.

b) The facilities are used for the purpose for which they were granted.

c) Any adverse trends or deterioration in customer's business or prospect are quickly noted.

Thus, efficient and effective control of advances requires good office organisation reliable up-to-date branch records, keeping up-to-date information daily records, and keeping in touch with customers and their affairs.

5.2 Specific Control Measure

The following are some of the measures used by National Bank to ensure efficient control of the facilities:-

1) Market Trends:- Branch Managers ensure that they have personal knowledge of the trends in the market. They also have discussions with other customers in the same line of business as this provides useful information about the market situations, thereby, enabling them (Managers) to take action appropriate to the situation.

2) Customers financial position:- Managers obtain audited balance sheet and final accounts annually and compare them with the previous years figures to see whether the financial position of the customer is improving or not. If the accounts are not audited, the statement of affairs for at least every six months is obtained.

3) Conduct of account:- The loan accounts are scrutinized monthly by inspectors to ensure that repayments are up-to-date. Also scrutinized on monthly basis are the statistical record car cards to ensure that the statistics for that month is correct. Overdraft record sheets are also scrutinized but on a daily balances. While vouchers are examined at random (at least one section daily) by each member of management so as to identify diversion of funds to purposes not approved by the bank.

4) Security:- The renewal of insurance policies, payments of rates, taxes and general rents etc. are entered in a seperate dairy and followed up. As for guarantees, they are refreshed every two years and reports renewed twice for annum.

5) Records: Branches maintain up-to-date and at all times:

a) Advances Information Card:- This contains all the necessary information partaining to the facility; such as, the type of facility granted (whether loan or overdraft), the date granted, the expiry date, the amount and the position of the account as at the time the facility was granted. Other information found on this card include the borrowing power of the customer, and the manner in which he/she has been conducting his/her account.

It also contains the customer's balance sheet (whether audited or not), as well as the date, type and valuation of the security extended. Most importantly, it contains the agreement reached between the bank and the customer.

b) Statistical Record Record:- (Refer to Appendix 5 for specimen). These cards are maintained for all current account except:-

i) Personal salary red accounts.

ii) Loan accounts reducing within terms of arrangements.

iii) Secondary accounts, e.g. wages, imprest etc.

iv) Dormant accounts, i.e. accounts that have not been operated for a long period.

v) Remittance accounts.

They reveal the conduct of the customer's account, whether satisfactorily conducted or not, as at the end of every month and quarter; the quarters are November, February, May and August. By the help of this record, the Manager can at a glance know the best and worst position of the customer's accounts not only during the month but also during the quarter. He can also know easily the turnover as well as the numbers of days the current account was in credit.

c) Overdraft Record Sheets - (Refer to Appendix 6 for spe specimen):- They are compiled daily from ledger sheets for the purpose of calculating interest. The interest is calculated monthly but based on daily balances.

d) Customers file - maintained for all borrowing customers for correspondence purposes.

e) Government Gazettes - This is scrutinized carefully and regularly for notices affecting borrowing customers.

5.3 Advances on Salaried Account

In some branches authority is given to designated officials by the Manager to grant small temporary overdrafts against salaries being received subject to Head Office directives from time to time. Manager set a guiding limit within which you must operate. All points on payment of cheques must be observed and in addition the following points must be considered:-

Is the customer overdrawing frequently?

Is the customer overdrawing at an earlier date each month?

How permanent is customer's employment and how long has he been in his present job?

Is salary direct to the Bank by his employers?
Is salary stable?

How long has the customer maintained the account?

Were his introductory references good?

How many times have his cheque been dishonoured for insufficient funds?

5.3.1 Action to be taken - Approval of Facility

1) Endorse terms and conditions attaching to the approved facilities. This is then filled in the customer's file. The customer must be informed accordingly.

2) Complete the details on the relevant transfer, payment

authority or other forms required for later possession of the security.

3) Ensure compliance with the terms and conditions.

4) Explain carefully to the customer in the presence of an executive of the bank the consequences if the terms are not complied with and realisation of the security, therefore, becomes necessary.

5) Do not allow any drawings on the advance until the security has been perfected and other terms met in full.

6) Allow no excess on the limits approved without approval from the approving authority (DM & H/O).

7) Monitor strictly the disbursement and utilisation of the facility.

8) Send regulard reports to Head Office.

5.3.2 Control of Overdraft Limit

This is the Manager's responsibility.

Efficient control requires:-

1) Good Office Organisation,

e.g. - Uncleared Effects marked on Ledger Cards.
- All cheques refer on time
- Ledgers posted accurately.

2) Reliable up-to-date branch records - current position of customer and account must be up-to-date e.g. Any Status Enquiring from other banks, any bills outstanding or letter of credit issued

and of security - e.g. Bills.

Note:- Where a customer has several facilities it is advisable to keep a record in the line below:-

	O/D	D/C	TOTAL	SECURITY
	5,000	5,000	10,000	
25/4/13	4,000	4,000	8,000	20,000

3) Value of security to be reviewed at intervals and updated figure related to lending.

4) Manager must pay due regard to the operation of the account, trend of the market in which the customer is interested and the progress of the business to guard against the bank being being taken by surprise by any adverse development.

5) Manager must ensure that there is no diversion of fund by the customer to another line without the Bank's consent and he needs the cooperation of the staff in this respect.

6) Manager should notify customer by phone or letter as soon as the account reaches its limit, drawing his attention to the figure and requesting him to pay into the account to reduce the level.

7) If no effective action taken by customer to reduce balance, he should be invited for interview and proposal for reducing the total and effecting full repayment to be obtained.

5.4 Deterioration in an Account

A particular common cause of deterioration in an account is diversion of funds for other purposes; e.g. funds lent to finance

increased stocks invested in fixed assets. As soon as such diversion is noted, Managers are expected to take urgent corrective action as appropriate to the case. If it is also observed that there is deterioration in the position of a guarantor on whom reliance is placed for the safety of an advance, he/she is quickly followed up and action taken to get the advance repaid or covered by alternative security.

Below are some of the indications that all may not be well with customer's affairs.

1) Increased facilities not leading to increased credit turnover.

2) Fall in debit turnover with or without increased in average borrowings.

3) Development of "hard core" i.e. failure to revert to credit or low debit figures as arranged.

4) Fall in credit turnover indicating reduced sales.

5) Frequent Excesses over limits, particularly where prior arrangements have not been made.

6) Lodgements into account to meet cheques as presented.

7) Failure to meet bills commitments as they fall due.

8) "Cross firing" or "kite flying". "Cross Firing" is where one person draws a bill or cheque upon another, and the later at the same time draws a bill or cheque upon the former. "Kite Flying" on the other hand, is raising money by accommodation bills.

9) Unusually large cash withdrawals where customer's business

does not entail subsential cash transactions.

10) Large cheque payments to parties with whom customer would not be expected to have business relationship.

11) Failure to meet loan repayments when due.

12) Deterioration in balance sheet surplus or liquidity.

Immediately any of the above is noticed, it means all may not be well with customers affairs, and managers are expected to take corrective action appropriate to the situation. All outstanding debts that the bank has no hope of recovering are designated "classified debts", and branches are expected to report such debts to their Area Offices for necessary action.

5.5 Reporting of Classified Debts to District Offices

These debts are divided into three categories for reporting purposes.

Category A:- Debts falling under this category are reported to District Office on form ADV/6 (Refer to Appendix 7 for specimen). For any amount up to fifty thousand Naira (₦50,000), the form is filled in duplicate, while in triplicate for amount about that figure. The reporting is done immediately recovery of any outstanding liability by a customer to the bank is considered in any degree doubtful or likely to be unduly protracted, even though ultimate loss to the bank is not expected and provision not considered necessary.

Category B:- Debts in this category are reported to District

Office by a letter in triplicate under private and confidential cover. The reporting is done immediately any amount is placed on a special suspense account as a result of fraud, forgery, defalcation, mistake or negligence etc. on the part of the bank or its employees, or as a result of loss of cash etc. by robbery, theft, fire, or while in transit even though the loss may be covered by insurance.

Category C:- Here, the debts are reported to District Office by a letter in the same manner as category 'B' immediately it is considered that provision should be made for any contingent or potential liability. These include:-

1) Claim against the bank which could involve a loss or a possibility thereof.
2) Any legal action taken against the bank.
3) Where it is likely that irrecoverable legal expenses will be incured.

Apart from such immediate reports, branches make a general report on all classified debts at the end of every financial year (September) to their various Area Offices.

The report states the names of all classified debtors, their outstanding amount and interest, as well as the securities held in respect of each debtor. Remarks are also made on important changes in their current position and security since last review. The date after which the bank would be unable to enter or execute judgement against a debtor is also indicated. Such a report is to

enable the bank take necessary action against the debtors.

5.6 Repayment of Classified Debts

Branch Managers are required to personally scrutinise all classified debts at least quarterly to ensure that everything possible is being done to achieve recovery. Efforts are relaxed only by authority from District Office where:-

1) Prospects of recovery are so remote as not to justify further time or expense.

2) Amount is negligible and efforts to recover would be disporportionate to the amount.

Thus, utmost efforts is maintained to obtain repayments and/or reductions. On no account is a branch allowed to remove any outstanding debt from the classified debt category before payment is achieved in full without prior approval from the Area Office.

For accounts written off/down, branches are required to maintain a careful record and although efforts would have been relaxed in these circumstances, branches must remain alert to opportunities that may occur for recovery.

5.7 Writing Off Small Debts

All debts not exceeding twenty Naira which branch managers consider entirely irrecoverable are not placed in the classified debt category and consequently not reported to the District Office. Such debts are written off to the debit of profit and loss account

and entitled "Debts written off by the Branch". Where the debt is caused by charges on the account, e.g. interest ledger fees, etc., the debt is written off by reversing the entry to the debit of the appropriate profit and loss Account.

The authority to write off debts does not however extend to classified debts which have been written down to two Naira or less, nor to those under category B. Application may be made to the District Office by letter for Authority to write off debts of up to one hundred Naira on similar terms to the above. No debt can be written off without the consent of the Head of Office, Lagos.

All branches are required to maintain proper records of accounts written off, in case details are requested for by the Inland Revenue Authorities. Any subsequent recoveries of such debts are credited to commission Received Account.

5.8 Overdrafts - Dormant Accounts

If any small overdraft of less than ₦5.00 (five Naira) has been dormant for 12 months or more, apart from any debt charges, and if at least one recovery letter has been written to the debtor without result, the balance should be written off to the debit of commission Account.

2) These small written-offs can conveniently be made once a half-year, early in March and September, and should be advised in a special letter to the Chief Credit Controller, in each case studying the name, account number and balance with copies to the Chief Banking Operations and the District Manager.

3) A copy of the letter to the Chief Credit Controller should be attached to the debit voucher to Commission Account, and the voucher must be signed by the Current Account Officer and counter-signed by the Manager.

4) A special file must be kept by the Accountant of all such accounts written off, and must include copies ofththe related correspondence.

5.9 Inland Bills Purchased (IBPs)

These are bills in Naira and drawn on other places in Nigeria, which the Branch Manager decides can be purchased from customers, before the proceeds have been realised. Branch Managers must send a monthly return to Head Office, in accordance with standing instructions, of outstanding IBPs. The return should give explanations, in the remarks' column if any IBPs are over-due and must state what action the branch has taken in the matter. Where an IBP has been unpaid and has been debited back to the customer's current account (to which should be added over-due interest) and any unauthorised overdraft has resulted, the branch's monthly overdraft return should contain a full explanation for the excess overdraft thus created customers requests for purchase of their Inland Documentary/Clean demand or issuance bills other than cheques and bank drafts should first be referred to the District Manager.

5.10 Demand Loans

a) A demand loan account is an advance for a fixed amount and no debits to the account may be made subsequent to the initial advance except for interest and other bank charges. A fresh loan account must be opened for every new advance granted.

b) A seperate account for each demand loan should be kept in the demand loan ledger and should be written up from the relative documents. The name and address of the borrower and the guarantors, if any, the rate of interest to be charged, full description of the security, and the margin to be maintained must be recorded.

c) The demand loan ledger will be posted from the relative vouchers and must be checked and initialled by an authorised official. At least once a month the total outstandings will be agreed by the Manager or Accountant with the balance in the General Ledger.

5.11 Fore Closure

If it is decided to call up the advance the following procedure will be put into force:

a) District Manager or Head Office will be informed.

b) Subject to the terms of the mortgage and to any instructions received from Head Office or the District Manager, a demand shall be made to the customer to pay his indebtedness within, say 30 days, failing which the security will be realised

and recourse made to him for any balance then still due.

c) This demand shall be sent by registered post to the customer.

d) If the demand is not complied with Head Office instructions, or the advice of the Bank's Solicitors, must be followed on the further steps to be taken including the realisation of the security.

of impending problems. Thus, ratio analysis presented in this fashion is susceptible to faulty interpretation and is potentially confusing for instance, an applicant with a poor profitability record may be regarded as a potential bankrupt, but because of his above average liquidity, the situation may not be considered serious.

Fifthly, some Managers lack the necessary knowledge and mature judgement in assessing the realisable values of property and land offered as security.

Sixthly, Rate-Sensitive Assets/Liabilities Analysis is not perfect enough to be used for analysing liquidity risk management in Banking.

Seventhly, over 80 percent of bank borrowers in this country are personal account customers. A good number in this category are petty traders and artisans, while the rest are largely professionals and civil servants. To a very large extent, the only reliable and most readily available record to the Manager in connection with any members of this group, who form over 80 percent of borrowing customers, is the bank statement of account. Because of this, there is acute dearth of records among the borrowing customers to aid the lending bank's proper assessment of prospective borrowers' propositions.

Eighthly, a good number of bank loans are made bad from the start as a result of poor assessment of the borrowers' credit worthiness. Another large number become bad due to mismanagement

and mal-administration of customers' credit facilities by bank practitioners themselves. Another set of loans are made bad by the happening of certain unforeseen or unavoidable incidents such as death of account owner, fire, theft, shipwreck and other economic and natural hazards.

Inefficient management and financial control systems of the bank, more than 70 percent of the bank loans in number amounting to over 85 percent in value have to be approved in the Head Office. This leads to over congestion of applications in the Head Office of the bank, unduly delayed applications, unnecessary lobbying and pressure from customers, and of course poor assessment of customers' credit worthiness. Customers whose applications are approved in the long last especially after the need for the fund is past are bound to divert the fund more usually to unplanned projects for fear that the bank will not quick to their aid in the future if they do not accept and hold the loan to themselves "in wait". This system denies Branch Managers discretionary lending powers or it limits to lend to reliable customers in their localities.

6.2 Recommendations

Based on this study, certain recommendations are necessary as a guide to a better management of Risks in Commercial Banks. These recommendations are:-

Credit Policy:- The bank should follow a relatively stringent credit policy. That is to say, only those customers with proven

credit worthiness should be given loans and advances. The practice of lending to customers on an unsecured basis should as much as possible be discouraged. Lending on unsecured basis should only be in respect of token overdrafts in the lower three figures, and it should be granted to only salary fed accounts, based on the standing of the customer.

Collection Policy:- It is recommended that the bank adopt a more aggressive collection policy. Branch Managers should not relax efforts in their bid to recover outstanding debts from customers unless they are sure that the cost involved far outweigh the benefits. They should ensure to send timely reminders consistently to the defaulting customers. In some cases telephone contacts and the use of senior officers to carry out personal visits to the defaulters can equally be useful.

It is also important that statment of Accounts be unfailingly sent to customers on time to enable them know their outstandings and make provision for same accordingly.[1] Most of the time, the customers account turnover is computed to determine the liquidity of the account, before deciding the fate of an overdraft application. As a supplementary source of information the manager may pay visits to the workshop, market stall or factory of the applicant.

The computed turnover is only and historical figure which requires critical review and projection of the result. The critical review exercise should lead the assessor to identify and discount:

i) the total value of all dishonoured cheques (which may have been paid in, in order to inflate the account turnover unduly).

ii) large cheque or draft lodgements which by their source show no business relevance to the account,

iii) recent huge cash lodgements that are not in consonance with the operating habit of the account - the manner in which such strange lodgements are withdrawn may confirm an intention to work-up the account turnover with borrowed money, in order to attract bank overdraft.

However, rushed conclusions may be harmful. The assessor should therefore aid himself in the task by asking questions that are capable of eliciting information which may refute or justify his opinions and conjectures. For instance, a sudden upward swing in the account may be realistic - corresponding with the peak seasons, auction sales, or the like.

Other events such as fire, burglary, storm, sickness and death can lead to variances between the live overdraft and the projected cash-flow. This brings us to the other important factor of quality of an overdraft - safety of funds. The happening of any of the listed events have closed many small businesses and have tended to set back many big ones. They are a danger to the safety of bank's funds in customers' businesses, and have often led to bad debts. Due consideration should be given to the following:- Is the factory, workshop or market stall insured

against fire, tornado, and burglary? Are goods in transit (if need be) insured? Is the borrowing small business man's life insured? It is much better for the lending bank to handle the payment of premiums on such policies in order to avoid lapsing of policies. The bank concerned will need the borrowing customer's written authority to debit the premium payments direct to his account. All these safeguards together with the character and competence of the borrowing customer make for safety of funds. They also contribute, albeit indirectly, to the health of an overdraft account.

Another determinant of quality of ovedraft is the availability of good security. A good security is one that . marketable and must have a reasonable margin between its estimated market value and the operating limit of the overdraft it supports.

The Federal Government should open up more offices of the Nigerian Stock Exchange and securities in all State Capitals. Banks should also go all out to encourage eligible private companies to go public. These measures will go a long way to increase the available stock market securities and allow for wider distribution of holdings among bank customers.

We have said earlier in the discussion that certain causes of the high incidence of bad debts in Nigerian banks are organisational and technical in nature. Excess lending which is a factor of bad debts comes within the above description. Excess lending occurs at two levels in a bank. It may be at the

functional level or at the corporate level. Every year the Central Bank of Nigeria under its monetary directives to commercial banks, among other things, stipulates a maximum percentage rise, by which commercial banks must not exceed the previous year's level of their total lending portfolios, in terms of amount loaned, not in terms of number of borrowers. In 1980 the limit of increase allowed was 30 percent except for the small banks which were allowed 40 percent increase or alternatively, portfolios amounting to 70 percent of their respective total deposit liabilities, whichever was greater. If at the end of the year a bank that was allowed a limit increase of 30 percent had an increase of 37 percent over the previous year's lending portfolio, the amount represented by the extra 7 percent increase is an excess lending at the corporate level. Secondly, a bank's liquidity level at any given time has a limit or loan portfolio that it can convenient sustain. Any amount of loan in the portfolio which is in excess of this prudential lim limit is an excess lending at the corporate level. When a lending officer gives out loans above his discretionary limit or above the limits approved by his superior or head office for individual accounts, that extra sum is an excess lending at the functional level. Both corporate and functional excess lendings are manifestations of undisciplined and inefficient financial control systems.

For any control system to succeed, it has to build in some devices such as these:

i) The system should set ceilings over excess lending which officers must not exceed, in respect of individual customers and in the overall portfolio under such officers' care.

ii) Requests for excesses outside the specified limits must be referred to the Head Office for consideration.

iii) The system should make it mandatory for every lending officer to report promptly in specified details, each creation of excess lending in his portfolio.

iv) The system should provide the form and intervals of subsequent position reporting on individual excess loan and the overall excess too.

v) The main Head Office should respond to every position report by returning objective opinion remarks, recovery directives and the like to the particular lending officers concerned.

Generally, Banks should have well defined areas of authority and measures of responsibility for every category of officer who has something to do with the creation, management and recovery of loans and overdrafts.

There is a need for given officers opportunity for specialisation in specific areas of lending sectors and activities. Officers will thus be put in position to appreciate and be further seasoned in the art of financial management at the respective levels.

For the purpose of corruption, the following remedies could be carried out:

a) The bank managements should come all out to assume responsibility and and initiative for eradicating corruption from their respective establishments. In the first place, the top management and bank directors must be of transparent honesty and devoid of double standards and double dealings. They must keep themselves open for examination and to criticism, even from their subordinates. Mutual distrust and indiscipline among the the junior and senior operators should be discouraged. All branch Managers should get themselves consumed with pure desires for professional excellence and personal integrity. This will gradually kill the desire to run the race with their customers.

In order to encourage the cultivation and sustenance of the zeal for professional excellence among bank personnel, banks must develop adequately oriented staff development and training programmes. Bank must spell out to its own staff what they consider corrupt practices. Bank must mount vigorous anti-corruption campaigns through their various anti-corruption campaigns through their various staff training programmes, case study, the use of posters on banking premises.

6.3 Limitations of the Study

Since the study has much to do with cash and profit, one cannot claim that the study was very thorough and all embracing The unwillingness of the bank officials to reveal some vital information on their total assets and the number of customers owing them as a result of what is called "Bank Secrecy",[3] it is

not possible to treat the topic thoroughly. The researcher also was denied the real security system of the bank as the officials felt that it is a strategy that must be revealed to the outsiders.

Time and financial factors also formed a greater barrier in carrying out a comprehensive work on our Commercial Banks.

This study is just one of the ways in which risk could be managed in our financial institutions, there are many other ways.

6.4 Conclusions

The researcher has tried to examine the management of risk in National Bank of Nigeria Limited, and to show that an efficient risk management depends on prompt repayment of loans, adequate provision to check losses, low rate of arrearages, collection and default cost; efficient and up-to-date records. The researcher has also noted that as the management of receivables involves costs, they must be controlled to remain within an acceptable limit. These costs include the credit administration expenses and bad-debt losses. Bank lending is an art and the human factors, who practise it are subject to mistake mistakes and failures, no matter how strict or tight the financial control exercised in the chosen system may be.

Finally, there should be a grim determination on how to eradicate one vice or the other from our banking operations.

FOOTNOTES

1. National Bank of Nigeria: Staff Training Handbook.
2. National Bank Manual of Procedure.
3. Doyle - Practice of Banking.

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NATIONAL BANK OF NIGERIA LIMITED

A MEMBER OF THE ODU'A GROUP OF COMPANIES

BALANCE SHEET AS AT 31ST MARCH, 1987

1986 N'000	LIABILITIES	N'000	1987 N'000
	SHARE CAPITAL	Authorised	Issued and Fully Paid
500	10,000,000 Cumulative Redeemable Preference Shares of 5k each	1,000	500
4,000	7,000,000 "A" Ordinary Shares of N1 each	4,000	4,000
25,500	12,500,000 "B" Ordinary Shares of N2 each	25,000	25,500
30,000		30,000	30,000
	RESERVES		
2,386	Statutory Reserve		2,980
3,000	General Reserve		3,000
1,279	Profit and Loss Account		1,373
21,186	SHAREHOLDERS' FUNDS		41,853
10,000	LONG TERM LOAN		10,000
864,440	CUSTOMERS' DEPOSIT AND OTHER ACCOUNTS (including interest to be paid thereon)		1,001,718
30,236	LIABILITY FOR CONTINGENCIES AND OTHER OBLIGATIONS ARISING FROM DISCOUNTED BILLS AND COLLECTIONS		2,044
	PROPOSED PAYMENT FOR THE YEAR TO: DIVIDEND: ORDINARY SHARES; PREFERENCE SHARES; TRANSFER TO GENERAL RESERVE	CHAIRMAN'S RECOMMENDATION	
936,840			1,053,671

1986 N'000	CURRENT ASSETS		1987 N'000
37,897	Cash		76,618
	Balances with and cheques in course of collection on other Banks —		
20,493	In Nigeria	27,843	
22,606	Abroad	74,527	102,370
13,370	Money at Call and Short Notice		11,866
188	Bills Discounted		869
5,872	Bankers Unit Fund		5,872
78,340	Government Treasury Bills/Certificate		21,334
1,000	Negotiable Certificates of Deposit		1,000
13,373	Cash Reserve Deposit		13,241
	Investment at cost		
15,540	(Market Value ₦12,836,890 (1986—₦10,572,490))		15,540
3,715	Trade Investment at Cost		4,022
	Loans and advances to customers and other		
632,046	Accounts less provision for bad and doubtful debts		721,172
	FIXED ASSETS		
52,735	Land and buildings and other fixed assets at cost less depreciation		73,460
	CUSTOMERS LIABILITY FOR CONTINGENT		
30,236	CREDITS AND OTHER OBLIGATIONS		2,044
936,840			1,053,671

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 1987

1986 N'000		1987 N'000
	Net Profit before Tax and Provision for Bad and Doubtful Debts	
2,189		3,854
1,279	Balance brought forward from previous year	1,279
3,468		5,133
971	Provision for Bad and Doubtful Debts	3,854
1,497	Taxation	760
41	National Economic Recovery Fund Contribution	
1,279	Balance carried Forward	1,373
3,968		5,133

REPORT OF THE AUDITORS TO THE MEMBERS OF NATIONAL BANK OF NIGERIA LIMITED

We have examined the accounts of National Bank of Nigeria Limited for the year ended 31st March, 1987 which [illegible] and in our opinion, which is to the best of our knowledge and belief, was considered necessary for the purposes of our audit.

We have also examined the books of the Bank and certain branches and have received returns adopted for our audit from branches not visited by us. Our examination of the head office accounts and returns was carried out in accordance with the requirements of the Companies and Securities Decree 1968.

During the year ended 31st March, 1987 the Bank complied with Section 15 (1) (a) and (b) and (2) of the Banking Act, 1969. The exceptions have been reported to the Central Bank of Nigeria.

In our opinion, proper books of accounts have been kept by the Bank and Head Office and at each of its branches. The assets of the Bank have been properly valued and adequate provision has been made for any losses or diminution in the value thereof. The accounts, which are in agreement with the books and with the information and explanations we obtained, give the information required by the Banking Act, 1969 in the manner so required and also give a true and fair view of the state of affairs of the Bank as at 31st March, 1987 and of its profit and source and application of funds for the year then ended.

To the best of our information and from our examination of the books and records, no contravention of the Productivity, Prices and Incomes Board's policy guidelines has come to our notice in respect of the year ended 31st March, 1987.

PRICE WATERHOUSE,
Chartered Accountants

AKINTOLA WILLIAMS & CO.,
Chartered Accountants

Lagos, Nigeria,
19th May, 1987.

BOARD OF DIRECTORS: Dr. T. Ayo Ogunlewe, OFR (Chairman), High Chief Fola Gorsi FCA (Managing), Mr. C. T. A. Milton Job, CBE (Executive Director), Mr. James Modupe Apelogun, Mr. Bello Sule Attahiru, Mr. Adetokunbo Abiodun Bello, Mr. Israel Olaseinde Ogunsoye, Dr. Theresa Olumide Okoloco-Cole, Mr. Bayo Adigun Gbadamosi, Mr. Timothy Ajanaku Taiwo Odu.

LOANS AND ADVANCES

... of the main sources of Bank's Revenue is from the granting of loans ... advances.

A. For advances a bank raises funds from 3 main sources:-

-	Current Account deposits	-	Cheap Source
-	Savings Account	-	Expensive Source
-	Time Deposits Accounts	-	" "

B. Main Methods of Lending are:

(i) Overdraft i.e. where a customer is allowed to draw amounts over and above the credit balance on his current account.

(ii) Loan: i.e. where a separate account is created, repayable at agreed instalments and intervals.

(iii) Bills Negotiated & Bills Discounted: This is where cheques or bills of exchange are purchased at an amount lower than their face value.

(iv) Other transactions requiring landing considerations are:-

Guarantees, Indemnities, Performance Bonds, Bid Bonds, Establishing Documentary Letters of Credits where 100% cash margin is not obtained and cheques cashing facilities.

C. Consideration of a Proposition for loans or advances:-

The important points to bear in mind are:-

(i) Character, Ability and Experience of Customer:

How long has the individual or company been known to us and how reliable? What is the customer's experience in the line of business for which facility is required? Alternatively what other sources of expertise are readily available to the applicant.

(ii) Purpose of the Facility:-

This must be evident and satisfactory from the Bankers aspect:-

(a) The first question is whether it complies with:

(i) Government's directives (CBN guidelines);

(ii) Exchange Control Regulations;

(iii) Bank's Lending Policy and

(iv) Objects of the applicant (if a limited Liability Company). If it is not stated in the company's Memorandum & Articles of Association, then a resolution of the Board is necessary.

(b) The second question is what is the facility to be used for?

(i) Working capital - (Overdraft)
(ii) Seasonal Purposes
(iii) Bridgeovers - Short-Term
(iv) Fixed Assets - May be too long customer items
(v) Long-term Loan finance (Medium and Long)

(iii) Amount Involved:

Will it be sufficient for the purpose? Is it reasonable in relation to the customer's own resources? Is it such that the bank can afford and the customer can manage? Has proper feasibility report been prepared? Has a proper Cash Flow been worked out?

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(b) The second question is what is the facility to be used for?
(i) Working capital – (overdraft)
(ii) Personal Needs
(iii) Bridgeovers – Short-Term
(iv) Fixed Assets – to be long customer items
(v) ... on Loan Finance (Medium and Long)

(iii) Amount Required:

Will it be adequate for the purpose? Is it reasonable in relation to the customer's resources? Is it such that the bank can afford and the customer can manage? Has proper feasibility report been prepared? ... a proper cash flow been worked out?

(iv) Duration:

Overdraft are generally repayable on demand. If the purpose is for purchase of a capital item, financing has to be by way of medium or long term loans repayable at agreed rates and period.

(v) Source of Repayment:

Is it self-liquidating? Is the repayment within the individual's capability? Do we receive income direct? If from profits, does the past profits or projected profits show an ability on the part of the applicant to meet the repayments? Had interest been considered? Is it by assignment of proceeds, if a contract job.

(vi) Profitability of the facility both to the bank and the customer:

This is why we are in business. What is the expected earnings on the facility to the Bank? What rate of interest or commission are we likely to charge? Is the customer likely to benefit?

(vii) Legal Capacity to Borrow:

Is it within the borrowing powers, if a company to borrow the amount requested for? Is the borrower an illiterate i.e. a person who is not able to read and write English Language? (Document must be read over and explained to the illiterate in his own language before a Magistrate who will witness the signing of the document).

(viii) Security:

This is the last but by no means the least of the consideration in granting of facilities. It is bad banking practice to lend money mainly against security. Security is required only as the last resort. It is only to make a good lending safer.

(a) Features of good security:

Easy and cheap to acquire;
It does not become a liability to the Bank;
Easy to value;
Easy to control (taking possession is not inhibited);
Constant and increasing in value;
Easy to realise;
Not previously encumbered (i.e. free from all encumbrances).

(b) Types of Securities:

(i) Mortgages of developed landed property (subject to consent of the state government concerned being obtained plus 3 years tax clearance certificate);

(ii) Assignment of Life Policy;

(iii) Assignment of Shares;

(iv) Guarantee;

(v) Pledged of goods (Lien);

(vi) hypothecation of goods;

(vii) Assignment of Good Debts;

(viii) Lien on Credit balance (fixed deposits/saving balances, for example).

Advances on Salaried Account:-

In some branches authority is given to designated officials by the Manager to grant small temporary overdrafts against salaries being received subject to Head Office directives from time to time. Manager sets a guiding limit within which you must operate. All points on payment of cheques must be observed and in addition the following points must be considered:-

Is the customer overdrawing frequently?
Is the customer overdrawing at an earlier date each month?
How permanent is customer's employment and how long has he been in his present job?
Is salary paid direct to the Bank by his employers?
Is salary stable?
How long has the customer maintained the account?
Were his introductory references good?
How many times have his cheque been dishonoured for insufficient funds?

2. Action to be taken - Approval of Facility

(1) Endorse terms and conditions attaching to the approved facilities. This is then filled in the customer's file. The customer must be informed accordingly.

(2) Complete the details on the relevant transfer, payment authority or other forms required for later possession of the security.

(3) Ensure compliance with the terms and conditions.

(4) Explain carefully to the customer in the presence of an executive of the bank the consequences if the terms are not complied with and realisation of the security, therefore, becomes necessary.

(5) Don't allow any drawings on the advance until the security has been perfected and other terms met in full.

(6) Allow no excess on the limits approved without approval from the approving authority (BM and R/O).

(7) Monitor strictly the disbursement and utilisation of the facility.

(8) Send regular reports to Head Office.

Control of Overdraft Limit

This is the Manager's responsibility

Efficient control requires:-

(1) Good Office Organisation

e.g. - Uncleared Effects marked on Ledger Cards
- All cheques refer on time
- Ledgers posted accurately

(2) Keep the up-to-date branch records - current position of customer and account must be up to date e.g. Any status Enquiries from other banks, any bills outstanding or letter of credit issued and of security - e.g. Bills.

Note: Where a customer has several facilities it is advisable to keep a record in the line below:-

	O/D	C/C	TOTAL	SECURITY
	5,000	5,000	10,000	
25/4/73	5,000	3,000	8,000	20,000

(3) Value of security to be reviewed at intervals and updated figure related to lending.

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(4) Manager must pay due regard to the operation of the account, trend of the market in which the customer is interested and the progress of the business to guard against the bank being taken by surprise by any adverse development.

(5) Manager must ensure that there is no diversion of fund by customer to another line without the Bank's consent and he needs the co-operation of the staff in this respect.

(6) Manager should notify customer by phone or letter as soon as the account reaches its limit, drawing his attention to the figure and requesting him to pay into the account to reduce the level.

(7) If no effective action taken by customer to reduce balance, he should be invited for interview and proposal for reducing the total and effecting full repayment to be obtained.

Appendix III

Commercial Manager's Advance Copy

NATIONAL BANK OF NIGERIA LIMITED

A Member of the Odu'a Group of Companies

FACILITIES FORM 2

BRANCH _____

DATE _____

APPLICATION FOR PERSONAL LOAN/OVERDRAFT

1. Full Name (Mr./Mrs./Miss etc.) _____

2. Occupation/Trade/Profession: _____

_____

3. Number of years of experience in (2) _____

4. Present residential address: _____
(state number, street, village/town)

5. State how long you have been at this address: _____

6. Previous residential address, if any: _____
(state number, street, village/town)

7. Business Address: 1. _____
(state number, street, village/town)

2. _____
(postal address, if different from above)

3. _____
(state how long you have been in this address).

4. _____
(previous postal address, if any)

8. Amount Required: _____

9. Duration of Facility: _____

10. Purpose: _____
(state clearly)

_____

11. Terms of Repayment: _____

_____

12. Security Offered: _____

_____

(i) If Guaranteed, state Names, Addresses and Income Per Annum of the guarantors:

(a) _____

_____

(b) _____

_____

(ii) If Immovable property give details and particulars:

(a) Tittle of Security _____

_____

(b) Where is property situated:_____

_____

(c) Present market value:_____

(d) Forced sale value:_____

13. Information Regarding Bank Accounts:

Name of Account	Name of Bank	Branch	Account No	Date Account Opened	Present Balance Cr./Dr.
Personal Current A/c.					
Business Current A/c.					
Savings Account					
Deposit Account					

14. Full particulars of Landed Property:

Location (address etc.)	Extent of Land (e.g 50 x 100 ft or 2 acres)	Full description of property (developed/ undeveloped residential business	Free-hold or Lease-hold (if Lease-hold state unexpired term)	Purchase Price	Present estimated value	Mortgages encumbrances, if any (give full particulars

15. Life Policies

Name of Company	Amount (face value)	Year of Issue	Type of policy (e.g. whole life/Endowment etc.) and No.	Annual Premium	Surrender Value	Beneficiary (indicate age, and relationship)

16. Shares in companies, (Stating whether quoted or unquoted) Investment or other assets:

(Please give full details)

17. If engaged in trade: 1. Total value of stock-in-trade:_____

2. Annual volume of trade:_____

18. List below all your debts to Banks, finance companies, lending institutions, individuals, hire purchase and others.

To whom indebted (Name & Address)	Original Amount	Present unpaid Balance	Amount due per month	Amount of payments overdue	Security given, if any

19. Summary of Income and Expenditure

Monthly Income From		Monthly Expenditure	
(a) Own Salary		(a) House Keeping (e.g. food etc.)	
(b) Spouse's Salary, if any		(b) Education (e.g. school fees books etc.)	
(c) Other Sources Specify e.g. Agriculture		(c) Rent	
		(d) Insurance premium	
Trade		(e) Instalment payments: (in respect of existing bank loans)	
Rents			
		(f) Instalment payment in respect of loans from other lending institutions	
		(g) Interest on private mortgage	
		(h) Car maintenance, if owning car	
		(i) Rates, if any	
		(j) Other expenses not already specified	
TOTAL		TOTAL	

20 **Are you obliged as a borrower/guarantor to any bank, finance Company, lending Institutions or others?** If so, give full particulars:

_____

21. Have you now or ever had any judgements, writs, actions or any other legal proceedings against you? If so, give full particulars:

_____

In submitting the foregoing statement I, _____

_____

hereby affirm that the information above set forth is in all respects true, accurate and complete and is made with the intent that it be relied upon by the National Bank of Nigeria Limited in extending credit to me. I further affirm, that the statement of the undersigned correctly reflects my financial position on the date hereof and that I have not knowingly withheld any information that might affect the credit risks. I agree to immediately notify the Bank in writing of any material change in my financial condition, whether application for further credit is made or not and in the absence of such written notice it is expressly agreed that the National Bank of Nigeria Limited in granting new, or continuing existing credit may rely on this statement as having the same force and effect as if delivered upon the date additional credit is requested or existing credit extended or continued. I expressly authorise the National Bank of Nigeria Limited to obtain from my employer or from any other sources such information as may be desired in connection with this application and each such source is hereby authorised to provide the National Bank of Nigeria Limited with such information as may be requested, and I further agree that this application shall be and remain the property of the National Bank of Nigeria Limited whether or not any facility is granted me.

SIGNED at _____ on this _____ day of _____ 19____

_____
(Signature of Applicant).

NATIONAL BANK OF NIGERIA LIMITED

A Member of the Odu'a Group of Companies

FACILITIES FORM 4

Branch .....

Date .....

GUARANTOR'S STATEMENT

Name of Applicant for Loan/Overdraft .....

.....

I ..... hereby inform you that I have
(name in full)

agreed to act as guarantor in connection with a Loan/Overdraft of ₦.....(in words) ..... requested by .....

I make the following statement with a full knowledge of the liability to be assumed by me.

To assist you in assessing my suitability for the above purpose, I hereby furnish the following details about myself .....

.....

1. Residential address .....
2. Business address .....
3. Name of employer/Business .....
4. Address .....
5. Present position .....
6. Number of years in present position .....
7. Salary per month .....
8. Other income per month (state sources) .....

.....

.....

9. Information regarding Bank accounts:

Nature of Account	Name of Bank	Address	A/C Number

FACILITIES FORM 4

NATIONAL BANK OF NIGERIA LIMITED

ANNEXURE III

MANAGER'S REMARKS & RECOMMENDATIONS:

BRANCH MANAGER'S SIGNATURE

Date .....

DISTRICT MANAGER'S REMARKS & RECOMMENDATIONS

DISTRICT MANAGER'S SIGNATURE

Date .....

CHIEF CREDIT CONTROLLER'S REMARKS AND RECOMMENDATIONS:

CHIEF CREDIT CONTROLLER'S SIGNATURE

Date .....

10. Land and Property owned by me (guarantor)

Location	Extent and Description (e.g. 50 x 100 feet or 2 acres developed/undeveloped Residential/Business)	Purchase Price	Present Estimated Price	Mortgages Encumbrances if any
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....

11. Shares in companies, investments or other assets .....

.....

12. Existing debts owed by me (guarantor)

Name of Lender	Original Amount & Date	Amount Now Outstanding	Security Given if any
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....

13. Existing debts guaranteed by me (guarantor)

Name of Borrower	Name of Lender	Original Amount & Date	Amount now outstanding
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....

14. I have been/I have never been a borrower or guarantor in any branch of this Bank (If so, give details)

.....

15. I have/I have not had any judgement debt against me (If so, give particulars)

.....

I affirm on my honour that each of the statements given above is true and correct.

....

(Date) (Signature)

PROCESSING FORMAT - (PERSONAL)

APPLICATION FOR LOAN/OVERDRAFT FACILITY OF

R _____ BY _____

OF _____

1. PARTICULARS OF APPLICANT:

(i) Name of applicant: .....

(ii) Occupation .....

(iii) Connection with the bank since .....

(iv) Summary of customer's account:.....

(a) Turnover for 6 months:.....

(b) Bank's earnings on the account with the past 12 months:

(i) C. O. T. .....

(ii) Interest .....

(iii) Other charges .....

Total:-

(V) Financial highlights as at:.....
as in the statement of affairs

(a) Fixed assets .....

(b) Current assets .....

(c) Less Current Liabilities

(d) Working capital (if any) (b) - (c)

(e) Net Work (a) - (c)

(f) Financed by:-

(i) Share capital fully paid.....

(ii) Reserce (if any).....

(iii) Profit & Loss (if any) .....

(iv) Directors Loans or other loans (if any) .....

(V1) Existing facility (if any) as at .....

NAME OF LENDER	AMOUNT & TYPE OF FACILITY	DATE GRANTED	EXPIRY DATE	SECURITY HELD	BAL. AS AT

2. Amount & Type of facility required:	Loan	O/Draft	Total
(a) Existing facility (if any)			
(b) Additional facility			
(c) Total:-			

3. Purpose of facility:-

4. Sector of facility:

5. Proposed duration:

6. Terms of repayment:

7. Security offered:

(i) Nature of security

(ii) Title No. of security

(iii) Letter of Consent

(iv) Search report

(v) Sworn affidavit (if necessary)

8. VALUATION REPORT ON THE SECURITY:

ADDRESS OF PROPERTY	PROFESSIONAL VALUATION BY	BRANCH MANAGER'S VALUATION

9. BRANCH MANAGER'S REMARKS AND RECOMMENDATION:

BRANCH MANAGER'S SIGNATURE

...../3.

10. DISTRICT MANAGER'S REMARKS AND RECOMMENDATION:

DISTRICT MANAGER'S SIGNATURE

11. COMMERCIAL MANAGER'S REMARKS AND RECOMMENDATION:

COMMERCIAL MANAGER'S SIGNATURE

NATIONAL BANK OF NIGERIA LIMITED

.....BRANCH
(To be completed by Branch Manager)

ADVANCES PROPOSAL TREATMENT FORM

FACILITIES FORM 4

HEADINGS & ADDRESS IN CAPITALS

NAME.....
(State whether Public or Private)

ADDRESS .....

.....

OCCUPATION .....

Date established or age.....

Connection since .....

ACCOUNT NO .....

Proposal No .....

DATE .....

To Expire .....

Fresh - Increase - Decrease

Renewal - with Rearrangement

A. TYPE OF EXISTING FACILITY	LIMIT NOW AND EXPIRY DATE	CURRENT POSITION	SECURITY HELD AND SECURITY FORCED SALE VALUE
TOTAL	N	TOTAL	

B. TYPE OF FACILITY REQUIRED	LIMIT WANTED	PROPOSED SECURITY AND SECURITY FORCED SALE VALUE
TOTAL		

C. TURNOVER (LAST 6 MONTHS)	AVERAGE BALANCE (LAST 6 MONTHS)	RANGE WITHIN LAST 6 MONTHS HIGHEST DR. or LOWEST CR. LOWEST DR. or HIGHEST CR.

D. OTHER BANKERS WITH WHOM FACILITIES ARE ENJOYED
(i) Name(s) and Address(es) of Bankers .....
.....
.....
(ii) Amount(s) of Facilities Enjoyed .....

SECURITIES

To be fully detailed and valued - Unless otherwise stated, all securities must be completely charged, without limitation, available as cover for all facilities, with all statutory requirements complied with.

(a) Guarantees:

State date and guarantors to the bank.

(Give any information on Guarantors on Annexure 1)

(b) Mortgages

Address of Properties 1.

2.

3.

4.

Nature of Mortgage (legal/equitable):

Amount of Mortgage :

Area of Land :

Particulars of building :

Purpose of which building is used

and the state of repairs :

In whose name is it registered?

Freehold or Leasehold (number of years to run and rent)

Valuation -

By customers:

By the Branch Manager stating when seen and valued

In customer's Balance Sheet

(c) INSURANCE

Amount of Policy:

Risks covered:

Bank's interest noted

(d) DEBENTURES

Specify date, amount, whether a general charge or on floating assets only

If general charge is held, give details of properties under mortgages alone.

(e) OTHER SECURITIES:

Proposal Form dated.....

In Name of .....

1. Give any relevant information on customer's background and position in community mentioning any important connections, etc.

.....

.....

.....

2. Particulars of connected account(s), if any (State Present Balances on: Current, Loan, Savings and Fixed Deposit accounts).

.....

Where Applicant is a member of a Group of Companies full information must be obtained from him and Branches where the Associated Companies keep their accounts. Only the Branch of the Bank where the Group keeps its main account should submit applications to Head Office, incorporating all the relevant information from other Branches.

3. (i) State briefly past experience of the account, indicating whether it has been satisfactorily conducted if not, why?

(ii) Have you had to dishonour cheques for other than technical reasons?

(iii) Have earlier engagements with us been regularly met. Yes ☐ or No ☐

(iv) Confirm that the opening of the customers' account is legally in order.

4. Details of earnings over last twelve months:-

RATE:

.....C.O.T.....₦.....

.....Other Commission.....₦.....

.....Interest Received .....₦.....

.....Exchanged.....₦.....

TOTAL ₦ ==========

5. Borrowing Powers:- Is borrowing within the borrowing powers of the Company and its Directors?

.....

.....

6. (a) Is there any Documentary Bills Business with N.B.N.? Yes ☐ or No ☐

(b) If so, indicate the total value of Bills Received (i) Under L/Cs.
(ii) for Collection

(c) Show the value of unpaid outstanding Bills under b(i) & b (ii)

7. Particulars of Guarantees and Indemnities issued by the Bank

(a) outstanding:-

.....

(b) Issued & Redeemed in the past 12 months

.....

Exchange Control Regulations. We confirm that the permission of the Exchange Control Authorities for the facilities requested is *held/not required (*delete which not applicable) (E.C. Memo 21 Refers).

NOTE:

Any additional information must be shown on a separate sheet and attached to this form.

8. REPAYMENT PROGRAMME:

What definite arrangements have been made with applicant for reduction or repayment?

If none explain why?

From what source will repayment be made?

9. GENERAL REMARKS:

(a) What is the purpose of the facility?

(b) For what period is accommodation required?

(c) Has the account been conducted regularly?

(d) Are bills drawn on applicant and are they met regularly on maturity?

(e) Have you had to dishonour bills or cheques for other than technical reasons? Give particulars:

(f) Have earlier engagements with us been regularly met?

(g) If a limited company, confirm that you have checked in the Memorandum and Articles of Association that the proposed arrangement is within the borrowing powers of the Directors and that the purpose conforms with the objects of the company.

(h) What is the paid Up Capital?

(i) Confirm that you have checked that the Opening of the Account is legally in order.

(j) Any more comments - social technical knowledge of customer?

(k) DO YOU RECOMMEND?

I hereby certify that the particulars set out above are to the best of my knowledge and belief correct in every detail and that I saw the property/ies as mentioned in the above Schedule on the..... 19.... and am of the opinion that it can readily be sold for ₦.....
.....

BRANCH MANAGER'S SIGNATURE