CREDIT MANAGEMENT

(A *Case* Study of Afribank Nig. Plc)

BY

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MASTER OF BUSINESS ADMINISTRATION (M.B.A)

DECLARATION

I hereby declare that this project titled "CREDIT MANAGEMENT (**A Case Study of Afribank Nigeria Plc**) for the award of Master of Business Administration of Ahmadu Bello University Zaria is the product of my research findings which has not been presented anywhere for the purpose of awarding a higher degree.

All sources of information and other writers views used in this write up have been duly acknowledged by means of references. I should therefore be held responsible for any error of commission or Ommission in this project.

VINCENT YAKUBU ABIYONG

DIGITIZED

DEDICATION

This thesis is dedicated to my late grandmother Mrs Theresa Bongya Abiyong, my wife Mrs. Deborah V. Abiyong and son Gideon (Alias Giddy).

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CERTIFICATION

This project entitled "CREDIT MANAGEMENT (A CASE STUDY OF AFRIBANK NIG. PLC) by Vincent Yakubu Abi yong, meets the regulation governing the award of the degree of Master of Business Administration (M.B.A) of Ahmadu Bello University, Zaria and is approved for its contribution to knowledge and literary presentation.

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ABSTRACT

The increasing competition in the Nigeria Banking industry necessitates that banks take higher degree of risks than they are hitherto accustomed to . But the degree of risk inherent in a banks credit portfolio has serious implication on its earnings, assets and corporate survival with its attendant multiplier effect on liquidity, profitability and capital base. The problem with which this study was concerned is that of identifying variables that constitute a banks credit management policy with a view to reducing if not totally eradicating the incidence of bad debts in a banks lending portfolio, the business of which forms more than 80% of commercial banks business activity.

The objective of the study was to identify credit management principles/policies, their effect and positive suggestions highlighting

(a) Credit assessment and appraisal tools

(b) Credit administration, monitoring and control

© Possible causes of bad and doubtful debts

(d) Management of bad debts

(e) Bad debts recovery strategies and procedures

Consequently, four hypothesis were stated for testing at 5% level of significance. These are:

1. That the existence of a comprehensive credit policy for a bank does not ensure effective credit portfolio management
2. That strict adherence to the basic guides to sound lending does not guarantee qualitative credit portfolio and profitability of the bank.
3. That proper credit administration monitoring and control is not a possible measure for the avoidance of bad and doubtful debts.
4. That bad debts cannot be recovered not withstanding the banks bad debts managements principle and recovery strategies.

The research sample was selected from a population of fifty (50) officers from the credit departments of the bank. The questionnaire was the instrument used for data collection which was subjected to chi-square test.

The result of the data analysis implied that the enumerated hypothesis do have a positive impact on the banks quality of credit portfolio.

CREDIT MANAGEMENT

INTRODUCTION:- The volatile business conditions of recent years have created problems of cash flow and interest charges never before encountered in the industrial post war economy. Banks have in many cases for the first time come to realize the need to manage their credit portfolio which forms the backbone of their profit horizon and thus ensuring their continued survival. Banks accept the fact that credit bookings represent investment in banking business on which the expected return is the profit to be earned only when payment of principal and interest is completed. At the same time this risk portfolio is subject to risks arising from the effect of exogenic and endogenic factors that come into play in business circles.

It is premised on the foregoing that we now see an increasing growth in the number of banks wishing to protect their investment by proper management and expertise. Hence Afribank is not an exception to protecting her investment in order to achieve her vision "To be Nigerians foremost financial services organization" and her mission of" providing world class quality financial services that meet the business needs of our select local and international clients using highly skilled professionals and modern technology. To always achieve superior performance thus providing outstanding returns to our stakeholders."

CREDIT MANAGEMENT

Modern definition of credit and description of the art of credit management invariably make use of the business terminology of the business school and Accountants of "cashflow" marketing tool" liquidity risk exposure" are terms often used to illustrate a basic truth which holds good in every period of human history i.e. those with surplus assets be they cash or goods will use "these assets to stimulate trade. This principle applies to banks who lend out surplus cash to those who need it expecting to be returned at an agreed period of time and at a cost (interest). Credit, thus is based on the believe that the borrower has a regular source of income which ensures his ability to pay in the future.

The fundamental nature of credit therefore is that there is an element of trust existing between the borrower and the lender. The very word "*Credit*' derives from the Latin word "***Credere***" which means to trust. Without this trust modern banking and indeed modern industrial community would have been impossible.

The need for credit management is stimulated by the need to find more effective ways of granting and controlling credit in the face of ever increasing levels of business failure, coupled with decreasing profit margins. Successful credit management

therefore requires the operation of tight financial controls coupled with a positive approach to the achievement of profitability.

Although credit management can be found in many business circles we shall be more concerned with credit management as it strictly affects the banking industry with specific reference to AFRIBANK NIGERIA PLC.

CHAPTER ONE

1.0 INTRODUCTION

Credit management is one of the essential preventive measures towards curbing the menace of bank distress which has become so rampant in the Nigerian economy. Many banks have gone distress because of he fact amongst other reasons that they did not manage their credit/risk portfolio very well. This has led to the revocation of licences by Central Bank of Nigeria of 26 commercial and merchant banks and about to be liquidated.

It is against this backdrop that I felt that for a bank like Afribank though rated among the Group (4) big banks viz (UBA, First Bank Plc, Union Bank Plc, Afribank Plc) our bank needs to ensure effective credit management in order to hedge herself from the distress syndrome now ravaging the banking industry to ensure its continuity as a going concern and returns for its stakeholders.

1.1 STATEMENT OF THE PROBLEM

The main function of commercial and merchant banks is to lend money received from depositors who have no immediate use of the fund to those who need them. Lending contributes the larger part of a banks profits. Associated with the larger contribution to profit is a proportionate contribution to the degree of risk which a bank takes generally on lending. For a better

appreciation of degree of risk, there is the need to state the nature and ownership of the objects which a bank lends as well as the nature of the relationship which exists between a bank and the depositors on the one hand and between the bank and the borrowers on the other hand.

A bank lends money which is a medium of exchange. This money belongs to its depositors. Banks also lend signatures which of course are not the signatures of the bank official but those of depositors since every signature so lent is backed up with the depositors money.

The bank and the depositors operate completely under different sets of rules from those which exists between itself and the borrowers. The law and the public are behind every depositor. Since every deposit is payable on demand the effect of non payment on every legitimate demand for such payment results in a total demand and by all depositors. On the other hand, the support given by the law to the bank in the recovery of any amount from a borrower is almost always , conditional with no support at all coming from the public. Essentially it becomes public business if a depositor cannot get his money on demand but the bank's business when the bank demands from the borrower. Unlike the depositor who is sure of getting his money back on demand and or when due, a lending banker is faced with three basic problems viz, delay in repayment

non repayment and refinancing the loss.

It is in a bid to avoid these three basic problems that it becomes necessary to manage loans before they become bad. Hence the need for this research paper.

1.2 PURPOSE OF THE STUDY

The purpose of this research paper is to highlight the following:-

(a) Depositors money is payable on demand

(b) Banks lend out depositors money to those who need funds for their business

© Lending is the backbone of banking activities such that lending contributes the larger part of the bank's profits

(d) Banks must be ready to carry the degree of risk associated with lending

(e) Banks should continuously find ways of reducing those risks to the barest maximum if not totally.

(f) Effective credit/loans management is necessary for the prevention of bad loans.

(g) Banks should ensure qualitative credit analysis before advancing loans.

(h) The loans must be effectively administered at the Branch levels to ensure that the risk portfolio becomes good.

(I) Necessary control measures must be put in place to avoid facility

accounts becoming bad.

(j) Effective monitoring must be done by the appropriate authorities to ensure healthy loan portfolio

(k) Adherence to the apex Bank guidelines must be religiously followed as this will also help in avoiding unnecessary penalties.

(l) Bad loans must be property managed to ensure that they become good

(m) Recovery strategies must be intensified by the bank to avoid the possibility of distress as was the case with 26 banks recently liquidated by the NDLC.

1.3 SCOPE OF THE STUDY

Credit management in Afribank Nigeria Plc begins from the date customers applications are received, the initial documentation that must be done, initial interview/questions session with the customer with a view to aiding the credit managers independent and unbiased analysis of the customer's credit request, the analysis proper of the customer application using various analytical tools provided by the banks Credit manual and supported by updated general credit memoranda issued form time to time by the bank's credit management committees, banking operations Department. These credit analysis tools include:-

a) Assessment of customer's operational statistics using the conventional form 1096 (including financial via the spread sheet)

b) Assessment of previous credit performance

c) for new projects, an independent appraisal of the project taking cognizance of the technical, financial, economic management legal and risk analysis to determine its viability

d) Consideration of external information on the business, sources from published financial statements, economic and political journals, the Apex bank (CBN) monetary and fiscal guidelines and status enquiry reports, visitation reports etc.

e) The study also includes a consideration of banking facilities available in Afribank acceptable securities for bank lending (as well as their documentation and realization) the study of the levels of credit decision making, disbursement, administrating and control until such a time the facility is fully repaid or the management of the facility from the stage of initial signs of going bad to the stage where it has fully gone bad and its full repayment using the various recovery strategies peculiar to the credit facility under review.

1:4 LIMITATIONS OF THE STUDY

Due to security as well as confidential reasons, the data and information obtained from the banks officers for the purpose of the study is not exhaustive as some virtual questions were surfacely answered if not totally ignored.

The scope of the study would have been widened by considering all commercial banks in Nigeria if not for time, financial constraint and lack of other banks data thus making the researcher to contend with Afribank Nigeria Plc as a case study.

1:5 HYPOTHESIS

For the purpose of this study we poised the following hypothesis:-

1. That the existence of a comprehensive credit policy for a bank does not ensure effective credit portfolio management
2. That strict adherence to the basic guides to sound lending does not guarantee qualitative credit portfolio and profitability of the bank.
3. That proper credit administration, monitoring and control is not a possible measure for the avoidance of bad and doubtful debts.
4. That bad debts cannot be recovered not withstanding the bank's bad debts managements principles and recovery strategies.

1.6 SIGNIFICANCE OF THE STUDY

A research is significant only when it is able to bring up some positive changes to its intended users. An important beneficiary of the study is the players/ operators in the banking industry who stand to benefit immensely from the implementation of recommendations highlighted by the study.

Another set of beneficiaries is the finance houses who are also co-lenders in the financial system, insurers whose policies have and are tendered as securities to monies lent to their policy holders would be interested in seeing that their customers do not form part of the banks list of bad debtors because of the financial consequences claims by banks would have on their loan assets Manager of portfolio of banks also stand to gain from the study.

Most importantly, the government who are discountenanced to bank distress in the banking industry and the financial system generally embrace the study. Other beneficiaries are publishers, the general public other researchers etc.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.0 INTRODUCTION

Credit according to Burt Edwards is derived from the Latin word "*CREDERE*" which means to trust which is the main word upon which modern banking and indeed the modern industrial community relationship hinges on.

Management according to Henry Fayol is to forecast, plan organise command, to co-ordinate and control. He views:- forecasting and planning as looking at the future and drawing up plan of action, organising in organisation structural terms; commanding as maintaining activity among personnel; co-ordinating as essentially a unifying activity and controlling as ensuring that things happen in accordance with established policies and practice .

It is a known fact that lending contributes the larger part of a banks profit. Associated with this is a proportionate degrees of risk a bank takes generally on lending. Money lent out is depositors money and this money must be made available on demand to its depositors. No wonder the Central Bank pegs Commercial Banks cash reserve ratio as at 1999 budget at 8%. The aim is to ensure that money is available to meet depositors demand. Unlike the depositor who is certain of getting his money on demand and or when due a

lending banker is faced with the tripple basic problems of:-

a) Delay in repayment which often involves renegotiation of terms and reduction or even outright waiving of the amount of unpaid interest with its attendant further delay in working out the repayment plan and time of realisation of security

b) Non repayment a situation where the borrower refuses to repay the bank resulting in long and costly litigation at the end of which the bank would bear the loss of both the capital and the unpaid interest.

c) Refinancing the loss where the bank can recover its money from interest on new loans which may not come for the asking as depositors are scarce and money market highly volatile

Bello (1996) averred that in the 1980's especially during the era of structural adjustment programme popularly known as SAP, the banking industry in Nigeria recorded phenomenal increase in the number of participants or new generation banks which is attributed to the liberalisation policy on banks licensing without a corresponding increase in the monitoring abilities of the regulating bodies namely, the Central Bank of Nigeria (CBN) and the Nigeria Deposit insurance corporation (NDIC). He stressed that lack of adequate capacity of the regulatory authorities to check, cross-check and gauge out the health of banks in Nigeria banking industry against the specified safety indices

indicators has manifested into the ever increasing volume of non performing credit risk portfolio leading to serious liquidity problems resulting in:-

i. Banks failure to meet depositors demand satisfactorily

ii. Loss of shareholders fund

iii. Serious boardroom, and shareholders squabble and conflicts

iv. Unprecedented incidents of frauds and insider abuses

v. Mass distress of banks with its attendant retrenchment and unemployment of peoples

vi. The general lull in the level of economic activities in the country.

However, Oladele (1988) believes that mere enhancing of the monitoring capacities of authorities is not just enough to effectively arrest the incessant incidents of bad and doubtful debts and its consequential distress vices.

Olashore (Ibid) also argued that the efficiency of banks credit portfolio management determines to a large extent the level of its profitability, the shareholders wealth and of course, its survival. He therefore advises operators in the banking industry to, as a matter of urgency and necessity, adopt a philosophy of sound or effective management of credit portfolio which involves to a large extent, proper documentation, proper credit analysis and appraisal, regular follow-up on existing facilities, pursuance of concrete

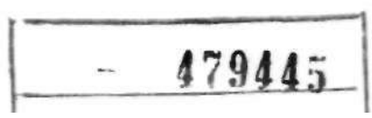
recovery strategies on bad loans and their management. He argued that the distress syndrome currently raking the Nigeria banking industry could be traced to poor credit booking and management which can only be addressed by bank's evolving a reliable credit management policy,

According to AJESULE in his paper, credit risk management is not a new phenomenon in bank lending all over the world as it fills the gap between theories expectations and actual positions of credit performance. According to him apart from the natural causes of deviations which remain uncontrollable to an extension, the borrower (existing or potential) has been considered an important source of worry to financial institutions for which Afribank is not an exception. This is because of the possibility of change of position by the borrowers such as typified by a wilful defaultee immediately after obtaining a facility in Nigeria today. Banks and other financial institutions do take their time more than ever before in initiating a relationship and identify only with technically feasible, financially viable and economically justified projects.

1 REASONS FOR LOANS/CREDIT MANAGEMENT

The establishment of the Fauled banks (recovery of debts) and financial malpractices in Banks Decree No. 18 of 1994, the introduction of the prudential guidelines of 1990 and the Nigeria Deposit Insurance Co-operation





fueled the banks' quest for only quality loan portfolio in a bid to minimize bad debts. The reasons for this if not for anything is with the idea of:-

(a) Remaining in good business while protecting the interest of the shareholder

(b) safeguard of depositors fund

(c) Optimizing returns on the funds employed in business while financing the cost of maintaining the deposit

(d) Increasing returns to shareholder and

(e) Playing the banks social responsibility to the country, with all the above

(f) Making the bank contribute to the economic and social development of the country.

(g) However, no matter how sound credit judgement is there still abounds areas of uncertainty which can still derail the beauty of the judgement as it is impossible to have a fully risk-free start-up project or going concern. The most profitable project/business today can be the least profitable tomorrow. A drastic change/shift in government policy can unfavorably distort all financial projections to the detriment of any project or business. The reverse can be the case. Hence the need for a concrete and reliable credit-management policy.

2.2 CREDIT MANAGEMENT POLICY/ADMINISTRATION IN THE NIGERIA BANKING SECTOR

Credit or lending policy is a document detailing the lending procedure/philosophy, objectives and modalities for the implementation/administration, monitoring and control and re-appraisal of lending activities in financial institutions (like Afribank) with a view to ensuring healthy loan portfolios with its attendant multiplier effect on the bank and the economy in general.

In the formulation of credit/lending policy, banks take into cognisance a number of factors namely internal and external constraints which when carefully considered at the maiden stage of booking a credit can deter the incidences of bad and doubtful credit portfolios in banks' assets.

The internal constraints are those poised by the organsiation itself which could include, the banks objectives and mission, management policy, asset base, liquidity etc.

The external constraints on the other hand are factors outside the organisations control and may include among others, government policy, CBN monetary and fiscal guidelines , macro-economic factors etc.

It is pertinent to note that there is no universal lending policy applicable to all lending financial institutions. This thus means that different financial institutions have their own peculiar credit/lending policies.

By and large, a credit/lending policy should according to Kwankwo (1990) comprise of three vital sections viz:

1. General objectives and procedures
2. Guidelines to credit investigation and analysis with a view to ascertaining the borrower's credit-worthiness, his ability to repay loans as agreed.
3. Machinery for loans/credit administration, monitoring and control.

In this regard there is therefore the need for banks to evolve a sound and articulated credit/lending policy.

Afribank's credit policy is embodied in her Credit Manual which embraces vital sections highlighted above in addition to other General Management Memos.

3 PRINCIPLES FOR SOUND LENDING

Banks generally provide avenues for savings to individuals, business

organisations, corporate bodies and government agencies who have funds that are not for immediate use. The bulk of such funds are therefore lent to needy customers in form of loans and advances. The process of such lending is made according to laid down rules and regulations. Application of such rules and regulations however requires careful consideration to enable both parties involved derive mutual benefits from the exercise. Comparing the lending principles with basic economic laws, Martlor (1992) argued that the rules should not be applied with rigidity. He then concluded that the principles must always be carefully weighted with an open mind. According to him, the three basic principles that serve as guides to bank lending are Safety, suitability and profitability.

Mather (1963) a banking author and expert in practical banking advocated these three basic principles which should serve as a general guide to lending bankers viz;

a. **SAFETY**: The safety of loans and advances is of paramount importance to a lending bank. There must be a reasonable assurance that the amount granted as loan can be repaid from proceeds generated from operations of the business/borrower. The source of repayment must not be in doubt. Hence banks place/lay emphasis on the

borrower's character, integrity and reliability. In support of this requirement is the issues of an acceptable collateral/security which the borrower must provide to serve as a fall back in case the unexpected happens in which case the expected source(s) of repayment fails.

b. **SUITABILITY**: It is necessary for the bank to ensure that the purpose of the loan is not in conflict with economic and monetary policy/guidelines spelt out by the overseeing authorities even when the safety requirements have been satisfied. In furtherance to this, the central Bank of Nigeria issue out fiscal and monetary policy guidelines on yearly basis to guide lending decisions depending on the economic, fiscal and monetary policies being pursued by the Federal Government

c. **PROFITABILITY**

Banksare not charitable organisations. They are therefore established like any other business ventures in order to make profit. This therefore means that loans and advances granted must be based on their ability to yield profit to the bank. What determines the amount of profit is the interest charged and the volume of loans granted. The regulation of interest rate is however, the reserved of the Central Bank of Nigeria (CBN) in order to protect the interest of the borrower and the bank

Apart from the above mentioned factors, other important considerations include the amount and duration of the loan past performance of the borrower, owners equity, integrity and capability to repay, all embodied in what most writers on credit refer to as the five (5) canons of bank lending which safeguard against wrong credit decisions with there attendant bad and doubtful debts consequences.

According to Iran (1972) credit information on potential borrowers form a vital part of the decision making process. It is complementary to the historical and investigational information on the borrower which if well carried out would, reduce the risk elements in lending propositions. Bankers should therefore not only give careful consideration to the basic tenets of lending but must be ready to go as far as sending status enquiries to other banks to obtain opinions on potential borrowers before taking a credit decision.

2.4 CREDIT AND RISK MANAGEMENT IN BANK LENDING

In order to ensure quality loan portfolio to guarantee share holder and depositors fund, profitability and continuity in business banks tend to limit the risk inherent lending decisions. This is because of the volatile nature of the businesses these days. Today bankers therefore draw on a combination of old

principles and new techniques in order to effectively manage credit risk. According to Casson (1977) consideration of the traditional principles of lending involves character, capability capital capacity and collateral of the borrower are still as valid as when they were proposed when individuals are involved. However problems may arise when dealing with faceless corporate entities. Hence emphasis must be placed on the evaluation of the corporate entity's management

2.4.1 TRADITIONAL APPROACHES TO CREDIT RISK ASSESSMENT

The traditional approaches to credit risk assessment are the financial statement analysis and credit information checks. While the financial assessment analysis addresses the questions of current and future capabilities of the firm, credit information checks address mostly the question of character and integrity of the borrower.

Sources of credit information include answers provided by the customer to questions asked, bank internal sources (account statements etc) trade sources, firms suppliers and competitors credit reporting agencies. Stock exchange agency, rating books, journals, company's registry search etc (Williams : 1966).

In Nigeria, the most commonly used sources are the bank references/status enquiries reference provided by the firms customers, the stock exchange, business journals and seminar papers credit risk management bureau etc. The aim of credit investigation is to build up as complete and reliable picture of a customer as possible.

According to Ryan (1982), the consideration facing bankers in the assessment of corporate funding proposals can be broken down into two separate but interrelated categorizes viz:

i. Credit assessment;

ii. Risk assessment.

Credit assessment and Risk assessment are so related that an attempt to separate the two may appear not justified, since the purpose of credit assessment is to determine the degree of credit risk, while risk assessment of a proposal is to determine its credit worthiness. Hence risk assessment is an end to credit assessment. It is however, convenient to treat the two categories differently for clarity of purpose.

2.4.2 CREDIT ASSESSMENT

Credit assessment is based on a corporation's financial statements and any

other supporting financial data, often called "financial statement analysis". The main statement used are the balance sheet, profit and loss account and the cash /funds flow statement which are historical (in case of an existing corporate body) or proforma in the case of a new project.

In the past, banker's approach to financial statements analysis especially with regard to balance sheet is to treat the firm as a gone concern (Mather L.C 1967). However, because banks are currently being pressurized to level on medium and large term basis, emphasis has shifted towards treating firms as 'going-concerns". Consequently, historical financial statements of balance sheet and income statements are being supplemented with the use of more current or at least up-to-date management accounting information and proforma statements. Thus, the popular use of sales and profit projection, cash flow projection budgets etc in assessing credit proposals.

The main tools of financial analysis are the financial ratios, statistics and the analysis of cash/funds flow statements. By far the most popular is the use of ratios whereby the past performance of a company provide an insight to future performance.

The performance of funds flow statement enables the appreciation of the

financing and investing activities of the firm. It enables the analyst to know whether cash is being generated from operation and their timings, long term financing, and or sale of fixed assets etc. It also indicates the use to which the funds generated are put (purchase of fixed assets, retirement of debts and payment of dividends or meeting short falls from unprofitable operations (Soyade, 1982).

Although many ratios can be computed from financial statements, It is important to ensure that those used are essential, individually significant, provide reasonable conclusions and reveal trends. Van Horne (1983: 889) Adekanye (1986) and Clohen et al (1987) are replete with various types of ratios suggested for various users of accounting information. However, it is generally accepted that four classes of ratios - liquidity, profitability, financial leverage and efficiency rations are important in credit analysis. No wonder Glem Munn's Encyclopedia of Banking and finance (1983) refers to them as "Credit Barometers".

Liquidity ratios indicate the ability of the firm to meet its obligations as at and when due and include the current ratio and Quick Assets or Acid Test ratio.

Profitability ratios reveal the firm's profitability and include Return on Assets and Return on Equity ratios.

Financial leverage ratios which are sometimes referred to as debt or solvency ratios indicate the extent of the firms total indebtedness to the outside world and include Debt Equity ratio, Capitalization etc.

Efficiency ratios on the other hand test management efficiency in terms of profitable usage of assets at their disposal, and include total assets turnover, inventory turnover etc.

It is however worthy of note that despite their wide acceptance as analytical tools, ratios have their limitations which must be taken cognisance of in assessing loan requests.

2.4.3 RISK ASSESSMENT

According to Mathor (1967) the test of a sound banker is to know when to accept risk, but is essential to first of all assess the risk with reasonable accuracy. Risk in credit assessment is associated with the probability of non-repayment of loan. Where lending is against future cash flow of a company, detailed analysis of risk associated with that particular company is required.

This is particularly true with project financing in which ease the lender has limited recourse to the sponsor in the event of project failure.

According to Ryan (1982), the type of considerations which should be taken into account when assessing the risk of a corporate borrower include the nature of the industry, the security offered, whether company premises is owned by the company or leased, the major sales outlets, and "management succession planning" policy of the company.

Das (1983) drew up eight broader categories of risk that must be weighed by the lending banker; these are the resource risk, completion risk, cost over-run risk, operating risk, marketing risk, political risk, financial risk and force majeure risk.

Resource risk is the likelihood that the resources (e.g. mineral) may not be of sufficient quality or may not be economically recoverable by proposed facilities. This is especially important for natural resources based projects. Completion risk is the probability that the project may not be completed and brought into operation as a result of setbacks in completing the infrastructure, labour difficulties or technical set backs.

Cost over-run risk is associated with risks caused by inflation, and inaccuracies in engineering and design studies. This arises from underestimation of capital requirements of the project. This risk is quite high in Nigeria due to high inflation rate and low level of technical expertise.

Operating risk arises from unexpectedly high operating costs. This may be as a result of inaccurate assessment of the production or recovery process, poor engineering to meet product quality and quantity specifications, low labour productivity, unexpectedly high equipment replacement, inflation, and changes in the parity of currencies for industries with high imported input content. The Structural Adjustment Programme in Nigeria has made operating Risk quite high for may industries.

Marketing risk arises as a result of incorrect assessment of outlets, technological obsolescence of product, and decreases in selling price or demand. With decreases in real disposable income of Nigerians, this risk is high for many companies presently.

Political risk is high for companies located in foreign countries. They run the risk of nationalization or outright expropriation. For domestic firms, political risk take the form of government interference in normal market forces, foreign exchange restrictions, currency inconvertibility, imposition of taxes,

withdrawal of licences or subsidies, and forced management. Since trade liberalization is one of the components of SAP, the government's current intention is to lower the political risk of doing business in Nigeria.

Financial risk is related to the ability of the firm to bear significant changes in financing cost due to changes in debt rate or interest rate or movement in exchange rate where foreign finance is involved. With the present deregulation of interest rate and adoption of "floating" exchange rate , firms in Nigeria are highly exposed to this risk. Moreso, many of imported materials.

Finally, force majeure risk is associated with intrusion of circumstances beyond the control of either the firm of lender; for example, natural disasters and strikes. In Nigeria, the agricultural sector is particularly amenable to this risk.

An unreasonable exposure of a company to any of the above risk categories may lead to company bankruptcy or failure. Any company that goes bankruptcy would certainly be unable to service its debts. Indeed, insolvency, the inability to meet obligations as they fall due, is shown en-route bankruptcy. Dyer (1981) considered eight factors that may lead to company failure. These are incorrect costing, stagnant management, over-trading, unsatisfactory contract, poor product or demand, poor market research, too much

diversification, megalomania and bad labour relations.

Dyer defines megalomania as a situation where a company is operated as if it were a personal possession of its Chairman or Managing Director. Many Nigerian companies may be considered guilty of poor market research, too much diversification and megalomania.

In lending situations it is important that the banker evaluate the above factors. It is obvious that due to the nature of risk creating factors, a full proof quantitative approach to risk analysis is impossible. A lot would depend on the judgement of the analyst. However, the past performance of companies can be used as a guide to the future. If the problem of risk assessment is approached in this fashion, the above risk creating factors would become automatically integrated into the analysis.

2.4 NEED FOR ADHERENCE TO GOOD LENDING POLICIES:

Adherence to good lending principles is essential for the avoidance of bad debts and to achieve this, an effective loan policy and credit administration need be formulated. It was the view of Institute of Bankers 26th International summer School (July, 1973) that in formulating a loan policy, the general factors to be taken into account by an individual bank should include:

a. Capital and reserve position

b. Desirable balance sheet gearing ratio

c. Structure of deposit and loan maturity profile

d. Earnings requirement

e. Economic conditions

f. Government directives and general monetary and fiscal climate

g. Nature of credit needs of customers

h. Management skills available

i. Competition.

Setting up an efficient administration for loan policies requires provision for formal structure for loan approval e.g. limits, adjustment of lending facilities to customer needs and establishment of loan administration offices in the management hierarchy. Credits need routine administration and this can be achieved through a routine review and control programme, supervision to ensure observance of conversant and allocation or responsibility for collection of loans in default. Bad debts destroy the assets of the bank and to avoid or minimize the incidence of bad debts, establishment of effective loan policy and loan administration is of utmost importance.

Black (1975) and Fama (1980) argue that when banking is competitive, the

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portfolio management and lending activities of bank are the type of pure financing decisions covered by the Modigliani - Miller (1958) theorems. In this view, banks are price takers in efficient financial markets, even in the commercial loan market. Banks bring together demands and suppliers of assets and act as repositories for the securities generated.

2.4.5 BORROWER'S OUTLOOK TOWARDS BANK LOANS:

Very often, bank loans are regarded by the borrowers as their own share of the national cake and they have no intention to repay (Nwankwo, 1980). Some recipient of agricultural loan have this misconception that the N100 Million agricultural guarantee scheme of the Central bank was actually money given to commercial banks by government to disburse to farmers. Occasionally, bank customers abscond with their loan and proceed to other banks and start fresh borrowing relationship. Unfortunately, they are protected by bank secrecy, the absence of a central intelligence agency and inadequate records. Costs of administering and recovering bad debts are enormous and increase the overall costs of the banks which affect the banks profitability and level of earnings available to shareholders.

Adewunmi and Osuntogun (1983) concluded that, loans and advances secured from a particular bank can be treated almost like a grant since with the

collusion of the staff or through inefficient book-keeping, the bank will not press claims when its advances are due for repayment. Such staff dishonesty in lending results in an increase in the proportion of bad debts that have to be provided for. Honestly, adequate staff training and experience are essential ingredients for minimizing incidence of bad debts. According to Bass (1981), bad debts are often regarded as the most important test of the credit manager's performance. Credit management does not end with taking the decision to grant credit. The lending cycle is complete only when the credit granted has been repaid.

In the view of McCarthy (1982), loans and investments provide income for satisfying liabilities of deposits and paying dividends to shareholders. Bank profits depend on a balanced portfolio of lending to credit worthy borrowers. And, useful lending policy is essential for bank solvency. When loans are not repaid as agreed, the bad debts destroy the assets of the banks and the value of liabilities could exceed the assets.

If this happens, the bank is said to be insolvent. This type of a situation invariably leads to bank failure.

Safety is the watchword of commercial bank lending (Kent,1982). Bankers

want to be reasonably sure that their loans are repaid and could go to the extent of lowering interest rate charged for better risk lending. This notwithstanding, even a well managed bank will have some of its loans become uncollectible in whole or in part. However, keeping losses to very minimal proportions of total loans is always the goal of any bank.

Commenting on the source of repayment of loans, Nowzard (1983) was of the view that the crucial question form the lender's point of view, is not so much whether or not a country or an individual will be able to meet its debt servicing obligation, but on the repayment of both the principal in most cases, according to him, is at best difficult and at worst, totally elusive.

2.4.6 NEED FOR GREATER CARE IN DEBT MANAGEMENT:

Debt management is not an easy task. Fratian (1983) believes that debt levels will not be reduced costlessly. He opines that a viable strategy, avoiding the pitfalls of deflation, renewed inflation, bail outs and socialization of loan losses will require contributions from debtors, lenders, national authorities and international organisations. Most writers on Rholwin (1984) and Mcginnic (1981) are of the view that bad commercial loans can wreck a bank's balance sheet. Therefore, commercial banks should have a foresight of this before lending.

In their own opinion, Stein and Zieglen (1984) state that, high credit losses and increased demand on the credit handling process must lead to a steady development of new steps for operational early warning procedures for credit management.

Falegan (1987) concluded that not only is good administration of a loan portfolio required but management must set its objectives before hands as to how it is going to lend and where. Control must be exercised over a bank total exposure and this must be monitored by management. Neglect of these fundamental principles may amount to bad banking. It is altruism that prevention is better than cure, but it is essential that commercial banks exercise pre-lending controls, once a facility has been granted by management. The actions left to a banker in post lending situation depend to a large extent, on the care with which condition and security have been respected before hand. To minimize bad debt and their effect on banks assets and profitability, there is the need to adhere to pro-and post-lending policies.

2.5 SUMMARY

Efforts have been made in this chapter to place the problem of this study within a theoretical frame work.

The studies reviewed, did not in a sufficient manner tell us that bad debt can be completely eradicated in bank lending. The study enumerated the various criteria for granting loans and credit risk assessment in bank lending. Credit assessment and risk assessment were dealt with in details .

It is however worthy of note that, the limitation of bad debts in commercial banks depends on the banks adherence to pre and post lending policies peculiar to each lending banker.

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CHAPTER THREE

CREDIT MANAGEMENT IN AFRIBANK NIGERIA PLC

3.0 PREAMBLE

In the preceding chapter the researcher brought into cognisance the general view of various writers on credit management in broad terms without specifically providing for peculiar credit management policies in various commercial banks. This chapter attempts to bring tolight credit/portfolio management policy as it affects Afribank Nigeria plc in particular.

3.1 INTRODUCTION

Afribank Nigeria Plc, formerly known as International Bank for West Africa Limited (IBWA) was granted licence to carry on banking business on 20th October, 1959 and began operations with the opening of a branch in Kano on 14th January 1960 and was incorporated as a private limited liability in 1960. Shortly afterwards another branch was opened in Apapa Lagos. Subsequently, in 1961 the Head Office of the Bank was established in 1961at 94 Broad street, Lagos .

The Bank was originally owned by the Bank Internationale Del. A Afrique Occidentale (BIAO) but with the promulgation of the Nigeria companies indigenisation

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Decree of 1968, the ownership structure changed to accommodate the interest of Nigerians in accordance with the provisions of the decree consequent upon which on May, 3oth 1969, BIAO, was incorporated as a limited liability company under the name "International Bank for West Africa (IBWA) the English equivalent of BIAO.

In 1976, the Federal Government of Nigeria acquired 50% of the banks shares 10% to staff under the staff trustee ownership scheme while BIAO retained 40% shareholding as technical partners. Presently the Federal Government has relinquished its 50% equity holding in the bank to the public in accordance with the Technical committee on privatization and commercialization recommendation. Afribank shares were first listed on the first tier market of the Nigeria stock exchange on 20th October 1993.

Since inception, Afribank Nigeria plc has grown tremendously over the years to meta morphose into a financial supermarket of five (5) Subsidiaries viz:-

(a) Afribank International limited (Merchant Banker)

(b) Afribank Estate Company Ltd.

(c) Afribank Insurance brokers

(d) IBWA finance Company Ltd. (Dublin)

(e) AIL Securities Ltd. established in 1997, a subsidiary engaged in

stockbroking

3.2 AFRIBANK VISION AND MISSION

Afribank Nigeria Plc like any other business enterprises has its own vision and mission which guide its management in evolving the various strategic plans for the company quoted from Afribank Quarterly Newsletter thus:-

" Our Vision to be Nigeria's foremost Financial Services Organisation:.

"Our Mission - To provide world-class quality financial service that meet the business needs of our select local and international clients using highly skilled professional, and modern technology" and " to always achieve superior performance thus providing outstanding returns to our shareholders.

According to the banks managing Director, Chief John Edozun the management planned to improve on the competitive positioning by developing and marketing new financial products as well as reviving operational procedures to enhance the efficiency and profitability of the bank. He articulated the new vision of the bank as that of a right-sized bank, highly profitable, solid in its operation and managed in ways that inspire the highest, level of customer confidence.

In order to achieve this, all the new products developed were promptly computerized before launching, some of which include Afribank Distributor's Exclusive Payment Transfer (ADEPT) and Afribank Cash Evacuation Scheme (ACES).

The third strategic plan had focused more on upgrading of customer services through information technology, re-engineering branch operations as well as effective relationship banking.

Hence the efforts made so far by management are aimed at realising the bank's vision and mission.

3.3 TYPES OF CREDIT FACILITIES PROVIDED BY AFRIBANK NIGERIA PLC.

Before considering the credit tools applied by Afribank Nigerian plc in ensuring sound credit portfolio it is pertinent to have an overview of the credit facilities available in Afribank. These include:-

a. Overdraft where by a customer is given a limit within which his account may be overdrawn. Overdrafts are granted for working capital purposes

b. Advances- short term loan extended for definite purposes for a period usually 30 - 180 days for settlement of school fees medical bill, bridging finance etc.

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c. Medium term loan- ranging from one (1) to seven (7) years and is granted for the purposes of financing investment, equipment financing purchase of share etc.

d. Long term loan- these are loans whose maturity spans from ten (10) years and above and are granted to finance projects such as oil exploration, equipment financing etc.

e. Receivable Financing

f. Bonds Guarantees and indemnities common types are:

   i. Bonds which fall under public works i.e bid or tender bonds, advance payment guarantee and performance bond.

   ii. Customs and exercise bonds

   iii. Bill of loading indemnities

g. Direct credit facilities, where by third party cheques are given value without having to wait for the completion of the normal clearing process up to the specific limit and to valued customers. This allows the customers to use funds embodied in a clearing instrument before they are cheque.

h. Short term working capital popular among which include:-

   (i) Documents against payments where by the banks makes payment on behalf of the customers after taking possessing of the shipping document.

when eventually established. Other subsequent memoranda are being issued out from time to time by management in tune with the dynamism involved in credit booking. It is therefore pertinent to consider the various stages involved by Afribank in ensuring that sound credit bookings are made.

3.5 CREDIT ASSESSMENT IN AFRIBANK NIGERIA PLC.

A good credit analysis/assessment considers the customer's history of levels of operation of account, I ine of business/credit type, type of customer, experience in the line of business needs and credit line, mode of repayment, cost benefit analysis, relationship with other banks, compliance with relevant laws of the land etc. Also a good loan management policy is concerned with effective monitoring, compliance with presidential guidelines and prompt vendition of returns. All the above have relevant controls already put in place and documented by the bank. The major and over-riding focus of control in credit is to properly manage the overall business risk and enhance profitability.

3.6 AFRIBANK RISK MANAGEMENT IN BANK LENDING (PRE DISBURSEMENT)

This is carried out through an objective and very comprehensive appraisal of the customer's application to the bank for financial assistance. It is with a view to identifying the various risk areas pertaining to a particular request

which vary from individual to individual and from industry to industry. The steps involved are categorized below:-

3.6.1 ASSESSMENT OF CUSTOMERS OPERATIONAL STATISTICS

After compiling the customers account statistical operation on the bank's conventional form 1096 (see Appendix 3 attached) the credit manager obtains statistics on the customers account to ascertain the banks earnings from the account, over three years, percentage, participation of the bank in the customer's turnover activity of the account, the days it takes the account to revert to credit (if it is an account with an existing credit relationship) the monthly average turnover etc. These information are to enable the credit manager/officer form an opinion on the loyalty of the customer to the bank, among others/fluctuations in credit lodgements over the period under review may be an indication of future trends on commencement of credit relationship (for new customers). On the other hand the credit manager takes note of some new accounts which could indicate impressive movements in their lodgement with a deliberate ploy, to lure the bank into a credit relationship that might turn bad.

3.6.2 FINANCIAL RATIO ANALYSIS

For incorporated companies that possess audited financial statements, financial

ratio analysis is undertaken to ascertain trends. The main tools of financial analysis are the balance sheet and the income statement. Financial analysis in Afribank is undertaken through the use of Afribank standard form of COMPARATIVE STATEMENTS OF FINANCIAL CONDITION which is sub divided into various sections each highlighting particular financial information to be later summarized into the financial summary section where financial analysis proper is undertaken (See appendix attached). In another parlance it is called the "SPREAD SHEET (see Appendix 4) where the information in the financial statement is first of all spread in such a way as to enable proper assessment of the company's financial and operational position for at least three (3) years using either the cross sectional or the time series technique (Foster, 1978).

A critical analysis of the customer's request should reveal trends most especially concerning the company's profitability, liquidity, Asset base, efficiency etc to be revealed and compared through ratios and industrial averages or standards

3.6.3 STATUS ENQUIRIES

In Afribank it is a policy that before commencing a credit relationship with the customer status enquiry reports must be received from other banks within the

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locality. This is to ascertain whether the customer not only operates an account with any of the banks but also whether the customer enjoys any facility for which a security earlier offered is now being tendered for another facility.

3.6.4 VISITATION REPORT ON PROPERTY PLEDGED AS SECURITY

Managers and their credit officers are advised to pay visits to property pledged as security and to write visitation reports on same with a view to ascertaining the physical existence and or similarity of such property being tendered as security for a proposed facility. The aim is to enable the bank have a good fall back in case repayment fails.

The inspection report must include the full address of the property pledged so as to ensure continuity in case of default.

3.6.5 ASSESSMENT OR PREVIOUS CREDIT PERFORMANCE

For an applicant that has enjoyed credit facilities from the bank, it will be essential to determine whether the repayments were made as at and when due. In Afribank it will a be part on the customers back if produce advance customer repays on due date as this will automatically qualify him/her for a renewal. Ditto applies to customers who stick to the original repayment schedule.

It also interests the bank to know whether previous facilities extended were judiciously utilized for the purpose they were intended

3.6.6 INDEPENDENT APPRAISAL OF THE PROJECT

An independent appraisal of the new project to be financed by Afribank Nigeria Plc usually takes into cognisance the following:-

i. **TECHNICAL APPRAISAL:-** In this case the feasibility studies of the project must be tested. In doing this attention is focused on all items peculiar to the technical operations of the project regarding the source of raw materials whether they are sourced locally or are to be imported with the ascertainment of the cost of materials to be used to produce a tonne of finished goods the supply agreement including sanitinisations the terms and conditions in the raw materials to ascertain how satisfactory they are .

On production technology, if technical partners are needed the cost of maintaining then must be estimated and included as part of direct cost in the management accounts. In the absence of a technical agreement a convincing explanation must be provided by the company.

Alternative sources of all required Machinery plant and equipments and

utilities must be disclosed. Financiers and cost of each item must be given on item by item basis and whether the items are in place. If not are the funds for financing them in place or how. A review of risks associated with the various agreements must be taken to ascertain whether they are threats to project performance and subsequent loan repayments

ii. **FINANCIAL ANALYSIS**

Here the total project investment cost must be estimated and the accompanying financing arrangement structured out the total cost of the project to implementation must be expressed in terms of total equity contribution and total bank and other external sources of fund. The aim is to determine the level of equity participation in the business. The higher the promoters commitment the higher the success chances of the project and the lower the risk level associated with management performances.

iii. **ECONOMIC ANALYSIS:-**This is concerned with parameters like, member of Nigerians and expertriates employed,gross value added per person, computation of economic rate of return (ERR) and capital input analysis etc.

The various parameters will inform the bank whether it is worth investing in the project or not.

iv. **MANAGEMENT TEAM:-** An analysis of the management will reveal the ownership structure of the project/company, whether it is a one-man show or not and if not the management team mix Nigeria and expatriate mix, the experience of the management team etc.

v. **LEGAL IMPLICATION:-** In minimising and management of risk-related areas in bank lending to put the bank at an advantage the underlisted is professionally handled by the credit officer/manager:-

- Application letter for financial assistance is passed through the branch and the mandate including the signature is verified.
- If mandate requires that application be accompanied by Board Resolution such must not only be obtained but authenticated
- Scrutnization of the memorandum and Articles of Association must be done to ensure that the purposes for which the facility is required is in the company's "object clause, the Directors, borrowing powers is not exceeded and that authorized and paid up capital are commensurate with amount sought as stipulated by the companies and allied maters Decree (CAMD) of 1990
- Response to status enquiries initiated by the bank on the company and its primary promoters/directors are received and found satisfactory.
- Whether security pledged is perfectible satisfactorily searched,

adequate and reliable.

vi. **DIRECT ANALYSIS:-** Areas covering foreign exchange risk, switching value risk, government policy risk, security risk, raw material analysis and marketing and or competition risks

3.6.7 YIELD CALCULATION

Yield calculation as a tool for credit analysis is only concerned with accounts with existing credit relationship. The main objective here is to determine how profitable an account is to the bank. Basically it is calculated by offsetting costs and earnings and looking at the net result.

The above tools for credit analysis among others are considered by the credit manager/officer in forming his opinion as whether to lend or not and subsequently forwarded to the deciding authority for final decision which may take another chain.

3.7 PROCEDURE FOR CREDIT DECISIONS

(a) CREDIT LIMITS

In Afribank Nigeria Plc. Credit limits of individuals/officer are reviewed from time to time according to the banks needs. These limits are personal and cannot be delegated. Appointment or posting to any

position in the bank does not automatically give the officer the right to exercise the authorized limit of the incumbent of that position.

Credit limits have to be approved by management and communicated in writing to the individual officer before the authority is exercised.

b. **LEVELS OF DECISION**

i. All facilities must be approved by at least two (2) signatories including final signature for applicable amount.

ii. All limits in excess of the regional Managers limit should be marked with the appropriate deciding Authority under the said column page of z of form 1096. Viz:-

a. Regional office

b. Regional Credit committee (RCC)

c. Head office annexes

d. Executive Credit committee (ECC)

e. Managing Director

f. Board of Directors

Each of the above levels of decision have limits approved for them and vary form time to time.

3.8. CREDIT ADMINISTRATION AND CONTROL

Credit administration is concerned with implementation of credit decision as authorised by the deciding authority. This involves advising and monitoring of all aspects of credit on day to day basis to ensure it is fully repaid. Credit control on the other hand involves a posterior monitoring of facilities to ensure that each credit is and remains satisfactory.

Control is exercised at branch, regional and head Office levels while administration is mainly done at the branch.

3.8.1 CREDIT ADMINISTRATION

Credit administration in Afribank Nigeria Plc as earlier mentioned is completely a reserve of the branches and include among other the following:-

3.8.1 (a) **DOCUMENTATION:** Each credit relationship begins with receipt of applications which must be recorded in a registered maintained by the credit department comprising of columns like, date received, customers name, type and amount of facility applied for and the deciding authority.

3.8.1 (b) **ADVISING FACILITIES:** When a customer's application for bank facility is approved it must be advised in writing (a letter of advice is a letter of offer one of the three ingredients of a contract) usually, the

letter of offer must include among others the following

i. Type of facilities (overdraft short term loans e.t.c)

ii. Amount of the facility

iii. Purpose for which facility is approved e.g for augmenting working capital etc.

iv. Terms of repayments

v. Date of expiry

vi. Conditions precedent to utilization of facilities.

vii. Other conditions and obligations. Usually, the customer's acceptance of our offer is signified on the duplicate copy of our offer letter so that there will be no doubt as to what he/she had accepted (See appendix 5)

3.8.2 **CREDIT FILES**

Credit files with customer's account (and index numbers where applicable)are opened for each customer. These files are maintained and should contain copies of all correspondences with the customers and original approved or rejected form 1096 as the case may be.A check list is also opened in order to monitor the perfection of securities and utilization of credits.

3.8.3 FOLLOW UP O F FACILITIES AND REPAYMENTS

The purpose of follow- up is to ensure that all that is required to done by the customers as a condition for the credit facility is done and that repayment is made as scheduled. Follow up is also aimed at identifying problems before they are too late. The follow - up exercise begins with obtaining acknowledgment and acceptance of offer. Follow- up also has to do with ensuring that the terms of the offer such as amount of facility, securities accepted repayment terms, and rate of interest are complied with as stipulated. In order to ensure that repayment is carried out as agreed (in the case of loans) a repayment schedule which the customer is made to sign is usually prepared.

Another way of following up facilities is by regular examination of customers reports such as posting journals and litigious reports and at month ends customer's statistical returns (CR 2), to check for such irregularities like evidence of over trading, kite flying ostentation living etc. . Through clearing cheques a lot of abuses and diversion of funds to other uses can be identified and promptly haulted.

3.8.4 DANGER SIGNALS

Some of the danger signs which a banker can identify by following up accounts of customers include.

i. Frequent and irregular request for excesses could portray that customer's stocks cannot be sold or that there is a planned speculation on some activities other than his known usual trade.

ii. Pressure for payment against uncleared effects is indicative of poor liquidity position, or that he wants to create an overdraft not formally bargained for .

iii. Customer might engage in window dressing of his account by paying in and withdrawing similar amounts just to create impression that he has good turn over when in fact there is no transaction going in the aim of which is to lure the bank into creating a credit relationship.

iv. Cross firing of cheques with another friend with the aim of balancing of overdrawn account irregularities can easily be identified through clearing instruments.

v. It is also easy to know when account ceases to swing from debit to credit and start to develop hard core as a result of diversion of funds into purchase of fixed assets or unsaleable stocks.

vi. Incessant return of unpaid cheques to suppliers of the e customer is indicative of over-trading which calls for caution.

3.8.5 FOLLOW UP ON SECURITIES

Each branch is to maintain securities register which contains particulars of all securities held. Individual security file is maintained for each credit customer. The security file must be kept, in a fire proof cabinet /safe. The security register has for each, customer details relating to his security recorded such as type, date submitted status, amount of registration, registration particulars of title documents and mortgage etc. All securities for credits are kept at the Regional offices with the branches retaining copies.

In order to ensure that securities are perfected as condition of approval, it is important that the security register be followed up by the branch manager and his credit officer regularly, by sending tracers to the lawyers, handling their perfection or legal department as the case may be.

3.9 CREDIT CONTROLS

Credit controls as we observed earlier is a posterior monitoring of credit facilities to ensure that the credit is and remains satisfactory in terms of quality and administration.

According to J.O Koleoso there cannot be a proper credit analysis and loan management without good knowledge of the various controls that have been

put in place by the bank and the regulatory authorities. The various relevant sources of control must be clearly understood and followed at the various levels of credit administration.

These are both internal and external sources of control

External sources include 1991 BOFID Decree, CBN monetary and fiscal policy, prudential guidelines of 1990 and general banking practice.

Internal sources include manual of procedure, organisational policy and related internal memoranda released from time to time.

To ensure compliance, with all relevant controls , the bank organises various training programmes for credit administration at various level as well as establishing both internal and external audit units for monitoring. Also there are various sanctions in place for a bank that fails to meet the requirement of the apex regulatory bodies (CBN, NDIC, etc).

The major and over-riding focus of control in credit is to properly manage the business risk and enhance profitability.

Some of the risks among others include, lending to non credit worthy customers, not lending credit worthy people, lending on incorrect terms, not

safeguarding collateral, not monitoring commitments/unused credit and not complying with legal and/or regulatory requirement etc.

All the risks and controls in place can be addressed under the following sections

3.9.1 Granting of Credit

2. Follow up of credit and classification
3. Security aspect of lending
4. Automation of engagement returns
5. Accounting and administration
6. Auditing through computer using CAAT tool.

3.9.2 GRANTING OF CREDIT

Before a facility is granted the credit appraisal must be based on sufficient information and compliance with procedures and decisions must be strictly applied within authorized limits.

The areas of control are:-

a) Ensure that the applicant's mandate for credit line is in order

b) Check if customer's relationship with the bank is cordial and sustained for a long period of time.

c) Check if operation of account is in conformity with the procedure, for instance are there instances of kite flying or cross firing of cheques?

d) Ensure that necessary inputs into credit appraisal were properly used, e.g. cash flow projections and audited accounts.

e) Ensure compliance with the memorandum and article of association for a corporate customer.

f) Ensure that status enquiries were sent to other banks and determine the status of related accounts within the Branch and Bank.

g) Ensure also that conditions of approval precedent to draw down of facilities were respected, and

h) Check and ensure that correct interest charges are fed into the computer using approved credit input form and credit creation form.

9.3 FOLLOW UP OF CREDIT AND CLASSIFICATION

There must be regular monitoring of the facility accounts through the preparation of continuous statistical returns and this must be filed in the customer's credit file. The following other areas are also of interest for control purposes:-

a) Check printout of litigious entries and ensure that a copy si promptly sent to the Regional Office.

b) Ensure that letter of offer and acceptance are properly executed and filed in the customers credit file.

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c) On a yearly basis, call for audited accounts and or management accounts of corporate customers for appraisal up-date.

d) Arrange occasional visits to the borrowing customer and keep a report of this in the credit file.

e) Ensure that accounts are properly classified to reflect current status

f) Ensure that the level of Bad and Doubtful accounts provisioning is in line with, prudential guidelines. Determine adequacy of provisioning.

g) Involve the Regional Legal Officer in recovery exercise

h) Speedily execute directives emanating from quarterly credit review

3.9.4 SECURITY ASPECT OF LENDING

The control here is concerned with determining the sufficiency and adequacy as well as perfection/safety of securities. Our areas of emphasis are:-

a) Confirm that the security proposed in form 1096 is actually held.

b) Does the value sufficiently cover the bank's exposure at any point in the life of the credit facility? Particularly find out the current value of shares and stock and determine adequacy against Bank's exposure.

c) Ensure a comprehensive record of details about the security. This should include visitation report showing location and description of property held.

d) obtain and file up ;;; professional valuations of securities used as collaterals for substantial credit facilities.

e) Channel the perfection of securities through the regional legal officer

f) The original security documents must be held at the Regional office in a dual controlled fire proof cabinet.

g) There must be mortgage protection insurance in place through Afribank Insurance brokers.

h) The following documents must be in place for lien on credit balances of savings and fixed deposits:-

Letter of set-off

ii. Passbook submitted,

iii. Memorandum of deposit signed in blank

iv. Authority to debit signed in blank.

Also, the relevant accounts must be blocked #n the computer with appropriate surveillance code.

i) Ensure that guarantees are backed up by tangible securities

j) For stocks and share certificates ensure the following are in place :-

k) Transfer form;

ii) Memorandum of deposit form;

iii) Consent to transfer form;

All must be completed and/or signed in blank and the customer's signature must be duly verified with the Registrars and Bank's interest noted with them.

l. For life policies, also the following must be ascertained

i) Reputation of the insurance company

ii) Obtain surrender value

iii) Faithful payment of premium

iv) Bank's interest noted on the policy

3.9.5 AUTOMATION OF ENGAGEMENT RETURN

The generation of all returns that are crucial to the effective supervision of branches lending was formerly manually done. The returns were in most cases inaccurate and hence unreliable. The objectives of automation of credit administration are to ensure timely and accurate generation of credit returns and to facilitate the effective supervision of branches lending activities.

The control aspect of this involves:-

a) Ensure proper completion of the approved credit input form of all existing facilities including proper links with provisioned accounts

b) Ensure that the following reports are generated at the end of the month and cross check the entire to ensure that they are correct:-

i. Engagement Returns

ii. Summary of Engagement

iii. Provision for Risk Assets/B & D

iv. Non Performing Credit

v) CBN Credit Report

Not e that Engagement Returns have 13 reports, four for each of the levels of approval and one other report.

Levels of Approval:-

i. Head office

ii. Regional Office

iii. Branch Manager

Each approval level has the following reports:-

- Non exceeded /Non expired
- Exceeded/Non expired
- Non exceeded /Expired
- Exceeded/Expired

Branch unauthorized credit (under Branch approval)

c) Where an account has no customer's index to allow linkage with provision accounts, create the customer newly and link it with the main account. This is important also for litigious report when the customer begins to make repayment.

3.9.6 ACCOUNT AND ADMINISTRATION

There is the need to ensure proper documentation and record keeping in all credit matters Your attention should focus on the following issues:-

a) Use date stamps for all receipts of credit application and ensure the processes are done within the bank's stipulated time frame.

b) Ensure that only one computer index number is applicable for various accounts owned by the customer in a branch.

c) Ensure that the credit input form has correct authorized signatories.

3.9.7 AUDITING THROUGH COMPUTER

Inspectorate Department is coming up with auditing the various data inputs for credit facilities. This is being made possible through the use of Computer Assisted Audit Technique (CAAT) tool known as Audit Command Language (ACL). For control purposes, the testing we are carrying out include compliance testing such as:-

1) Security position/State (NH,HP,HNP)

2) Level of provision comparing actual provision with expected provision (under and over provision)

3) Adequacy of security- comparing value of security with the outstanding credit balance and producing variance report.

4) Risk Class follow the procedure to determine the branch classification

and expected classification of facilities, to determine facilities which should have been classified B & D (D1, D2, D3 and E) but still classifed as active, (A,B, and C)

5. Excess facility - produces a report of over stepping of authorised limits
6. Expired Facilities produces a report of all expired facilities showing the number of days since they expired.

All computer generated outputs above shall be available to field inspectors for audit purposes. They are additional controls to ensure that branches operate within approved limits and procedures. Branch managers have henceforth been put on enquiry to provide explanations to all breaches of credit guidelines and this shall continue to form part of branch performance rating.

The above give an overall of the control aspect of lending. Below are the controls specifically done at the various levels of the bank.

3.9.8 CONTROL AT THE BRANCH LEVEL

At the branches managers have enough ways of controlling the credits extended to customers. These include:-

a) Analysis and comparision of financial statements regularly obtained from customers.

b) Study of the customer's operation of the account, whether overdraft or loan to ascertain whether repayment is regular or not (in case of loans)

or whether there are signs of deterioration

c) Securities (collaterals) are checked to ensure that all terms and conditions as stipulated are met and all perfection, renewals of insurance policies and payment to authorities are up to date.

d) Managers ensure that all records are kept up to date such as credit information cards, credit files risk cards etc.

e) Computer printouts are studied daily to see how customer is getting on with his business etc.

3.9.9 CONTROL AT THE REGIONAL OFFICE/HEAD OFFICE

The instrument of control at the regional office and head office are limited to statistics on 1096 and to reports/returns sent daily, monthly, and quarterly from the branches

These include:-

(a) **LITIGIOUS ENTRIES:** Which must be sent by branches to the regional office daily for scrutiny.

(b) **ENGAGEMENT RETURNS:-** These are sent to the regional and head offices for purposes of monitoring banks committment to each customer by various types of facilities and levels of approval s each month and to facilitate the compilation of Central Bank of Nigeria returns.

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© **DOUBTFUL DEBTORS RETURNS:-** Compiled, on quarterly basis classified in accordance with the 1990 presidential guidelines.

(d) **QUARTERLY CREDIT REVIEW:-** This is the most comprehensive credit control applied by the Head office (branches departments jointly with legal and control departments like the inspectorate and Risk Portfolio managements and the Regional office) to asses the status of credits outstanding and decide which accounts have improved, that need to be reclassified upwards and those that have deteriorated that need to be given lower classifications with interest to be reserved or principal to be provisioned. Credit reviews are ususally held at the begining of the last month in each quarter specifically at the Regional offices of branches.

The bank emphasises that each officer in charge of credit should clearly understand all the above contol procedures as the management will no longer tolerate any laxity or breach of procedure which results in avoidable loss to the bank. It must be noted, that the bank derives substantial part of its revenue from loans and advances and therefore, the importance of sound credit bookings and administration cannot be over emphasised.

CHAPTER FOUR

LOANS MANAGEMENT AND BAD DEBTS RECOVERY

INTRODUCTION

It is of interest to note that inspite of the spirited attempts by banks to ensure good and necessary credit administration, and the efforts of the regulatory authorities, as well as the presumed good intentions of the customer, loans, of course do go bad i.e become due but remain unpaid for a variety of reasons. The purpose of this chapter is to highlight the causes of bad debts, their earlier detection, and warning signs and the strategies for managing of bad debts/ loans until they are fully recovered.

4.1 CAUSES OF BAD DEBTS/PROBLEM LOANS

A problem loan can be defined as one where there has been default in the repayment schedule (agreement) in the case of loans and or one where credit lodgements fail to service interest charges resulting in undue delay in collection or which appears to be a potential loss.

The occurrence of this problem in the Nigerian financial sector has reached alarming proportions and has been considered as a major cause of the current distress in the system. It is therefore essential to understand the causual factors

involved in any bad debt in attempting to resolve it. This is where every care has been taken in granting the credit viz- appraisal, investigation, approval etc. and at the initial period the transaction appeard to be profitble .

Some erudite scholars have identified some major causes of bad debts:-

1. Lender error
2. Poor business practice
3. Adverse external developments
4. Frandulent practices.

4.1.1 **LENDER ERROR:-**

(a) This include faulty and inadequate loan interview, and analysis, where personal and other considerations in hibit the ability of the credit appraisor to ask detailed questions, and properly assess the borrower.

(b) There may also be poor financial analysis which could be due to either inexperience on the part of the credit officer or from unrealistic and misleading financial statements submitted by the borrower which is unfortunately prevalent in the Nigerian economy.

(c) Thirdly, the structuring of the loan may be wrong which could be due to the borrower's lack of understanding of his needs and the credit officer's

ignorance of the environment under which the borrower operates. All these may cause an inappropriate or unsufficient loan with a wrong repayment schedule to be granted.

(d) improper collateral may also be obtained especially with regard to liquidation in the event of default. Here the collateral might be wrongly valued and the ease of realisation not considered

(e) Other errors include inadequate documentation, where the borrower may take advantage of loop holes aimed at guerrying areas in the loan agreement to evade repayment

(f) Finally, there may be in adequate monitoring of the loan where insufficent care is taken to regularly monitor the condition of the borrower by the credit office/branch manager, on site inspection , regular checks.perusal of financial statement both internal and extrernal/ This is important in detecting potential problem loans at an early stage and implementing remedial measures.

4.1.2 **POOR BUSINESS PRACTICE:-** This include mis management- when management is inept and incapable of managing the company in a prudent and profitable manner.

Others are deficient sales and marketing strategies which have caused the business profits and income to decline especially where there is a seeming

inability to adopt to rapidly changing marketing conditions.

4.1.3 **FRADULENT PRACTICES:-** Lack of proper financial control leads to frauds, outright theft and other losses which could put even the most profitable company in insolvency.

4.1.4 **ADVERSE AND UNEXPECTED EXTERNAL DEVELOPMENT:-**

These include environmental conditions eg natural disasters (force majeur), economic factors, competition, stringent regulatory factors previously non-existent, change in government policy, change in technology, all of which may adversely affect the borrower's operations through increased costs, show down and shutdowns.

In order to avoid the controllable factors, Afribank has evolved a continuous training programme for its credit officers for which a handsome share of the banks profit is expended

4.2 **EARLY WARNING SIGNS /DETECTION OF BAD DEBTS**

As the lending environment continues to exihibit more stress with increasing risks and decreasing returns,the highly volatile economic and industrial conditions cause previously stabled situations to deteriorate in rapied fashion. It thus becomes important that potential problems are identified quickly most

especially in compliance with the prudential guidelines of 1990. The focus is to bring to lime light negative elements in any account which if allowed further lapse in time can deteriorate resulting in a bad loan situation or total loss. A number of indicators are available to identify loans which warrant review and early interventions.

Four categories of warning signs have been identified as follows:-

(1) Warning signs contained in financial statements

(2) Warning signs from contact with borrower

(3) Warning signs from third parties

(4) Warning signs from the bank (Internal)

4.2.1 SIGNS FROM FINANCIAL STATEMENTS

Irregular or late receipts of financial statements especially where this is in contravention of the loan agreement and where the borrower has been taken to task by the lender over this short coming without positive response.

(a) **RECEIVALE/DEBTORS:-** The analyst's focus will be on slow downs in collection period, increased account relevables, high levels of past due account receivables and increasing receivables from affiliate or subsidiary companies and apparent in ability to recover such receivables with extended credit periods to customers.

(b) **DEBT STOCK:-** Unexplanable and disproportionate increase in current debt levels and sustantial increase in long term debt. Presence of new debts, due to or from directors and shareholders of the company. Increased losses attributed to bad debts.

© **DISTRIBUTION OF ASSETS:-** Decreasing current assets as a percentage of totals assets. Declining liquidity/Working capital position. Rising levels of assets relative to sales and profits deternoration of cash and bank balances.

(d) **OPERATIONS:-** Slowdown in turnover period, considerable changes in trading patterns, decline in sales, increasing costs and declining profits. Rising overlaps relative to sales .

The financial statement analysis should be displayed for 3-5 years so as to enable identification of remarkable changes.

4.2.2 CONTACT WITH THE BORROWER

Signs that manifest from the lender include:-

(a) sudden change in attitude toward the bank manifested in hostile behaviour and remarkable, lack of co-operation in all matters relating to the loan

(b) Change in behavour and personal habit of top level officers and owners of the business and the absence of a visible management succession .

© Poor financial reporting control and s seeming inability to plan ahead. This includes inability to meet commitments as at and when due and constantg re-occurance of problems which have been reported solved.

(d) Sudden change in business lines including venturing into new product lines or franchise and the loss of major customers resulting from inability to perform, etc,

(e) Increasing inefficiences in the use of plant and machinery resulting from poor maintenance culture. Evidence of large and stale, inventories, speculative or fool handy behaviour in business practice.

(f) Recurrent labour problems, and poor human resource utilisation, evidence of large contract orders with penalty clauses for non fulfiment which will strain existing production capacity

4.2.3 CONTACT WITH THIRD PARTIES.

Formal and informal reports obtained from third parties also constitute an important souces of independent information on problem loans. This constitutes those, obtained from banks and trade suppliers and buyers. Report from comptitors and customers also from another source of information.

However , care must be taken in soliciting for this kind of information to avoid embarrasing either the borrower or the lender.

Significant signs to look at include

(a) Appearance of fresh lenders on the scene especially those with primary or secondary charges on the assets of the borrower.

(b) Delayed payments to creditors and breakdown in supplies due to suppliers refusal to allow further credit sales

© Cancellation of insurance policy due to inability to meet premium repayment etc.

4.2.4 SIGNS FROM THE BANKS

These include:-

(a) The customers difficulty in making enough cash available in the account to cover cheques leading to regular returning of cheques.

(b) Regular stoppage of cheques

© Low or non existent credit movement

(d) Borrower refusing to answer to invitations.

(e) Refusal of the borrower to call at the credit officer when he/she visits the branch.

(f) Refusal to execute all the necessary documents needed to perfect the security.

(g) inceasant requests for refinancing and extension/rescheduling of maturities and term loan repayments and or

(h) Pressure for payment against uncleared affects indicative of poor liquidity position

However, it is the duty of the credit officers to identify other signs of account deterioration which have caused the advanced classification of the facility. It then behoves on the credit manager to start issuing letter of warning, final letter of warning etc)

4.3 MANAGEMENT OF PROBLEM LOANS

According to writers on bad debt Management Norward (1983) Rowling (1984) and Mc Ginnie (1981) bad loan can wreck banks balance sheet and therefore banks should not only have this foresight before lending but must also plan to manage bad debts before they degenerate to loss risk assets. Hence Afribank in realisation of this has continued to train and retrain its credit officers on how to properly manage bad, or problem loans so that they don't become loss risk assets.

4.3.1 AFRIBANK LOAN MANAGEMENT STRATEGIES

In the management of problem loans the credit officer has been provided with options to follow depending on the nature of the facility. These include among others the following:

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1. To ensure that the security pledged (which is the bank's only fall back) is perfected for a more safer position in case the loan became immanagerable.
2. Another step is to understand the borrowers prevailing financial strength so that an arrangement could be reached whereby a certain percentage of any lodgement into the account is left to reduce the outstanding debit balance on the account whilethe balance is used by the customer to run his business to generate funds that will service the account.
3. If after analysing the problem the credit officer discovered that the borrower needs additional facility for effective servicing of the loan he should make proposal to head office through the Regional Manager for approval
4. The current outstanding balance can also be restructured into a term loan repayable over a determinable tenure within the financial resources of the borrower
5. Make the borrower to be willing to pay.
6. No further credit in terms of unauthorised should be granted the customer so as not to further increase the bad debt level on the account.
7. If all the above options failed then full recovery machinery like security realisation or court action should be embarked upon.

8. The outgoing branch Manager must make sure that he introduces the incoming Manager to the borrowers

4.3:2 INTEREST WAIVER

Interest waiver is one of the strategies of managing a bad loan in Afribank. Interest waiver is defined as a concession granted to a bad debtor to enable the debtor to repay the loan. When a bad debt customer applies for a waiver of the outstanding balance or loan to enable him pay back the loan and this is approved orgranted by the management of the bank we say that an interest waiver has been granted to the customer. Afribank practice is a situation where by the customer is asked to pay the loan principal and 50% ofthe accumulated interest as the case may be.

CONDITIONS

a. The account must have been 100% provisioned at least for the past two (2) years.

b. Granting the waiver is the best option tothe bank after considering other factors like cost of litigation, length of time and possibility of realisation of the security.

c. It must be approved by the authorised approving authority of the bank depending on the amount involved.

d. The customer must apply for it with reasons stated in his application and at the end the bank must communicate the customer of the outcome.

e. When approved, it must have a time frame within which the customer must pay or the waiver lapses.

4.3.3 LOAN RESTRUCTURING

Loan restructuring is closely related to interest waiver except that under loan restructing, the loan repayment is restructured to give the customer more time to pay back the loan. When a loan is restructured, it means that the former loan repayment schedules have been rearranged. In this situation, the customer can be given a new facility to assist him in his business and in so doing generate more funds to repay both the restructured loan and the new one.

CONDITIONS

a. The customer must apply to the bank stating his reason, which must be seen to be genuine and that he cannot continue to repay the loan under the present dispension.

b. It must not jeorpadise the banks position or be interpreted as nepotism by the regulating authorities

c. It must be approved by the management of the bank

d. The customer must be communicated with the outcome of his request (positive or negative).

e. It must bare a time frame the refusal of exercise right of which renders the restructuring as lapsed.

Where bad debts have been managed using the afformentioned strategies without any meaningul result, the next available alternative is to embark on strategies aimed at recovering the debts. This leads us to our strategies for recovery of bad debts.

4.4 BAD DEBTS RECOVERY STRATEGIES/PROCEDURES

Credits must be managed under a set of defined and realistic action plan, which must be in tune with the peculiar/related risk of each situation. Where bad debts management strategies fail to produce the desired result, the next option is to take necessary steps towards recovering the bad debts as a last resort. Bellow are the methods to adopt in the recovery of bad debts.

4.4.1 COVENTIONAL METHODS

(A) Visit the customer in the processs of the day to day running of the business and confirm what actually is going wrong and advise the customer to come and pay

(B) Where the customer fails to comply with (a) above, the next step is to inform the customer formally in writing of the situation in his account.

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The letters to be in stages include:-

(i) Letter of caution - for all DI classified debtors

(ii) Letter of warning - for all D2 classified debtors

(iii) Final letter of warning - for all D3 classified debtors

If the above letters fail to yield any meaningful result the bank can embark on the following

(C) Take legal action against the borrower in order to recover the debt

(D) Apply to the federal High Court for winding up of the company (if it is a registered company) and appoint a liquidator on condition that the bank has a first charge on the company's assets.

(E) With regards to guarantees and indemnities the bank can sue both the guarantor, indemnor and debtors severally.

(F) Liquidation of the collateral after obtaining a court order which could take the following forms:-

(i) Order to sell the property pledged.

(ii) Garnishee order to enable the bank get information on the financial standing of the debtor in another bank, other people or organisations.

(iii) Order to sale specified assets owned by the customer to recover the debt.

(iv) Order for attachment on moveable items in the customer's house,

e.g car furniture etc which can be confiscated and sold off to the public to recover the debt.

(G) Arbitration - whereby an agreement is reached between the two parties in which the arbitrator intervenes to settle the bank and the debtor on the recovery of the debts.

(H) Compromise settlement - which is a debt settlement where substantial debt forgiveness is involved. Here the "principal" or the "interest" amount has been partly or wholly written off by the lender or is likely to be done in the near future and also where the carrying and legal costs of pursuing the loan are being waived.

4.4.2 **NON CONVENTIONAL METHODS**

These include:-

(a) Use of the police or State security agents to harrass the borrower.

(b) Use of native intelligence as it affects individual debtors in the community.

(c) Threat to publish the name (s) of such debtor (s) especially those seeking to hold public offices

(d) Report such debtors to employers society and religious Leaders of where he/she belongs

(e) Use of female debt collectors particularly when male counterparts are

debtors .

(f) Use of debtor's elders, friends and relation that can influence him/her to settle the debt.

In a nuttshell the following are recommended as a guide to every lender to avoid the problem of bad debts

a. All loan agreement/offer letters should contain all applicable clauses clearly stated and written down. All conditions including origination, payment schedule, costs, collateral, convenants, and default clauses must be put into the agreement so as to enable the lender recover his money in the event of any problem.

b. As much as possible all areas of default must be examined prior to granting the facility.

c. The loan should be secured against easily realisable security. Adequate care should be taken to ensure that the collateral is marketable and ensure that there are no primary claims in such collateral.

d. The lender should strive to adequately monitor the business of the borrower and its financial position. The lender should always be in possession of current financial information from the borrower and also its status with its trade suppliers, competitors and other interested third parties.

(g) All bank accounts held by the borrower should not only be linked but closely monitored.

(h) Early warning signs of account becoming bad must be closely watched and appropriate action taken to redress any negative trends.

(i) Finally, at the onset of any signs of distress, corrective action should immediately be taken by the lender to prevent the situation from worsening.

CHAPTER FIVE

RESEARCH METHODOLOGY DATA COLLECTION PRESENTATION AND ANALYSIS

5.0 INTRODUCTION:

The main focus of this chapter is the discussion on the research methods used, sampling procedure ,research instrument and procedure used for data analysis. Attempts have also been made to present the analysis of data collected on four hypothesis formulated and the summary of findings.

5.1 THE RESEARCH SAMPLE

The population consisted of 50 credit officers selected at random from 50 main branches out of 135 branches of Afribank Nigeria plc.

5.2 RESEARCH INSTRUMENT

The research instrument used for this study is the "QUESTIONAIRE" which allows respondents to freely express their views without any inhibitions characteristic of the "INTERVIEW" research instrument for instance.

5.3 DATA COLLECTION THROUGH RESEARCH QUESTIONAIRE

In constructing the questionaire used for the study, the researcher made use of experts' contribution on credit management as contained in the theoritical

studies reviewed.

The questionaire consisted of two (2) sections the first of which required staff to supply some personal data (non-rated) while the second sought to elicit some information on credit Management in afribank Nigeria plc. Response to the items in the second section was on five point rating ranging from strongly disagreed to strongly agreed thus:-

1.	Strongly disagree	-	1 point
2.	Disagree	-	2 points
3.	Indifferent	-	3 points
4.	Agree	-	4 points
5.	Strongly agree	-	5 points

5.4 METHODS OF DATA ANALYSIS

Data collected through the use of questionaire were subjected to statistical analysis using the chi square test method which to the researches's believe would yield good results; The chi-square test is a rule which has been generally adopted, in the one degree off freedom situation that the expected frequency in all cells should be equal to or greater than five (5) (habeer and Runyom 1977; Holl, 1960). The expected frequency in each of the cells used is calculated to be 10; which is greater than the required minimum of 5. The

level of significance is set at 0.05. The chi square method measures discrepencies existing between observed and expected frequencies represented by the formula:-

$$\chi^2_e = \sum_{i=1}^{k} \frac{(0i - Ei)^2}{Ei}$$

Where Oi = Observed frequencies for cell;i

Ei= Expected frequencies for cell;i

Significance level=0.05=

X^2 0.95

X; chi square

K. Number of expected calculations

Also, to determine when an item was agreed upon by the generality of the respondants to the importance of credit management, each score was multiplied by the number of respondants accepting and the percentage of each rating is calculated. Measures taken to manage credit were then categorised as follows:-

less than 50% strongly agree and disagree = factor

above 60% strongly agree and disagree = not a factor.

5.5 DATA PRESENTATION AND ANALYSIS

The four hypotheses tested in the study are as follows:-

1. That the exisitence of a comprehensive credit policy for the bank does not ensure effective credit portfolio management.
2. That strict adherance to the basic guides to sound lending does not guarantee qualitative credit portfolio and profitability for the bank.
3. That proper credit administration, monitoring and control is not a possible measure for the avoidance of bad debts.
4. That bad loans cannot be recovered not withstanding the banks bad debts management principles and recovery strategies.

The chi-square method of statistical analysis was used in analysing the results from the questionaire.

5.6 TEST OF HYPOTHESIS

(a) HYPOTHESIS ONE

Hypothesis one states that the existence of a comprehensive credit policy for the bank does not ensure effective credit portfolio management. Six items of the questionaire dealt with this hypothesis i.e item 1 to 6. To test this hypothesis, chi-square was used.

TABLE I

	STRONGLY AGREE (5)	AGREE (4)	INDIFINENT (3)	DISAGREE (2)	STRONGLY DISAGREE (1)
Observed	16	21	9	2	2
Expected	10	10	10	10	10

$$X^2_c = \sum_{i=1}^{K} E\frac{(Oi - Ei)^2}{Ei}$$

$$= \frac{(16-10)^2}{10} + \frac{(24-10)^2}{10} + \frac{(9-10)^2}{10} + \frac{(2-10)^2}{10} + \frac{(2-10)^2}{10}$$

$$= 3.6 + 12.6 + 0.1 + 6.4 + 6.4$$

$$= X^2_c = 28.6$$

From the table $X^2 0.95 = 9.49$

source: Analysis of responses to questionaire (See Appendices 1 & II)

The chi-square shows that the existence of a comprehensive credit policy for the bank ensures effective credit management. Since 9.49 (value of chi square from the table) is less than 36.1(i.e value of chi-square calculated) we reject the null hypothesis which states that the existence of a comprehensive credit policy does not ensure effective credit management.

(b) **HYPOTHESIS TWO (2)**

Hypothesis two States that strick adherance to the basic guides to sound lending does not guarantee qualitative credit portfolio and

profitability for the bank. Four items of the questionaire dealt with this hypothesis which include items 7 to 10.

TABLE II

	STRONGLY AGREE (5)	AGREE (4)	INDIFFERENT (3)	STRONGLY DISAGREE (2)	DISAGREE (1)
Observed	17	16	6	7	4
Expected	10	10	10	10	10

$$X^2C = \frac{(Oi - Ei)}{Ei}$$

$$\frac{(17-10)^2}{10} + \frac{(16-10)^2}{10} + \frac{(6-10)^2}{10} + \frac{(7-10)^2}{10} + \frac{(4-10)^2}{10}$$

$$= 4.9 + 3.6 + 1.6 + 0.9 + 3.6$$

X^2 14.6

From the table X^2 0 95 = 9.49

Source Analysis of responses to questionaire(see Appendix I-II)

The chi- square shows that strict adherance to the basic guide for sound lending guarantees qualitative credit portfolio and profitability for the bank, Since 9.49 value chi- square from the table is less than the calculated chi sqaure value of 14.6. Thus we reject the null hypothesis and accept the alternative hypothesis which states that Strict adherance to the basic guides for sound lending guarantees qualitative credit portfolio and profitability for the bank

(c) **HYPOTHESIS THREE**

This hypothesis states that proper credit administration, monitoring and control is not a possible measure for the avoidance of bad debts. Items 12 to 25 of he questionnaire dealth with this particular hypothesis. Chi square test was used in testing the hypothesis yielding the following result:-

	STRONGLY AGREE (5)	AGREE (4)	INDIFFERENT (3)	STRONGLY DISAGREE (2)	DISAGREE (1)
Observed	16	20	6	5	3
Expected	10	10	10	10	10

$$X^2C = \frac{(0i - Ei)}{Ei}$$

$$\frac{(16 - 10)^2}{10} + \frac{(20 - 10)^2}{10} + \frac{(6-10)^2}{10} + \frac{(5-10)^2}{10} + \frac{(3-10)^2}{10}$$

$$3.6 + 10 + 1.6 + 2.5 + 4.9$$

$$X^2_c = 22.6$$

From the table $X^2\ 0.95 = 9.49$

Source analysis of responses to questionnaire (See Apendix I&II)

Since $9.49 < 22.6$ i.e value of chi-square from the table is less than the value of chi-square calculated we reject the null hypothesis which states that the proper credit administration monitoring and control is not a possible measure for the avoidance of bad debts.

(d) **HYPOTHESIS FOUR**

Hypothesis four States that problem/ bad loans cannot be recovered despite a banks bad debts management policy and recorvery strategies. Items 26 to 30 in the questionaire dealth with this hypothesis.Chi-square test used was to test it to give the following result:-

	STRONGLY AGREE (5)	AGREE (4)	INDIFFERENT (3)	STRONGLY DISAGREE (2)	DISAGREE (1)
Observed	17	22	6	3	2
Expected	10	10	10	10	10

$X^2 C = \frac{(0i - Ei)^2}{Ei}$

$\frac{(17-10)^2}{10} + \frac{(22-10)^2}{10} + \frac{(6-10)^2}{10} + \frac{(3-10)^2}{10} + \frac{(2-10)^2}{10}$

$4.9 + 14.4 + 1.6 + 4.9 + 6.4$

$X = 32.2$

Chi-Square from the table X20.95=9.49

Source: Analysis of responses to questionaire (see Appendix I&II)

The calculated chi-square of 32.2 is greater than the value of chi-square (x20.95<9.49) thus indicating that problem bad loans can be recorvered

with the proper application a banks bad debts management policy and recorvery Strategies. Hence we reject the null hypothesis.

5.7 SUMMARY OF FINDINGS

After the analysis of data collected, the research study discovered the following:-

1. Lending which is the main function of commercial banks in Nigeria contributes a substantial part of a banks bottom line.
2. That inview of (1) above in order to ensure a sound credit poort folio for the bank, a comprehensive credit management policy must be place.
3. That the banks credit management policy must not only be in place but must also be seen to be fully implemented and religiously followed.
4. That a good credit management policy must outline a banks lending procedure phlosophy objectives its implementation, administration, monitoring and control procedure.

(5) That the quality of a banks credit port folio depends on objectives credit analysis and appraisal / assessment using the banks acceptable

assesment tools and techniques.

(6) To minimize the incidence of bad debts in a banks credit port folio banks must adhere strictlyto both pre-lending and post-lending policies enshrined in the banks credit management policy.

(7) Credit administration monitoring and control if properly pursued at the appropriate levels of authority can reveal early warning signs of an account becoming bad and appropriate remedial action taken to prevent it from becoming bad and doubtful.

(8) That banks must be aware of those factors that make an account to be come bad and take appropriate remedial action to forestall their occurrence.

(9) That bad and doubtful debts can be managed using the appropriate bad debts management principle peculiar to their circumstances and could become good active and recoverable.

(10) That bad debts can be recovered using, conventional and non Conventional bad debts recovery strategies peculiar to the prevailing circumstances.

Consequently the respondents used for the study suggested the following measures to be considered by banks if a good credit management policy is to be implemented

1. Honest, highly skilled and trained staff must be employed and redeployed to various operational areas in the bank
2. Banks should establish an effective credit policy and administration
3. All well established principles of lending must be strictly adhered to
4. Banks should ensure the employment of competent credit managers to be trained on a continuous basis to keep them abreast of the dynamic lending environment.
5. Pre-lending and post lending policies of the bank must be strictly adhered to.
6. Banks should establish a debt recovery department at branch Area/regional and head office levels and to be properly supervised.
7. The establishment of commercial courts to speeden up bad debts recovery court cases which process is replete with court injunctions and delayed judgements in existing law courts.

CHAPTER SIX

DISCUSSION OF RESULTS, CONCLUSION AND RECOMMENDATIONS

6.0 **INTRODUCTION:-** This chapter summaries the entire study on CREDIT MANAGEMENT: Afribank as a case study. It discuses the results conclusion arrived at and the recommendations on the study.

6.1 RESULTS OF THE STUDY

Four non directional hypothesis were tested, In, testing the first, hypothesis which states that the existence of a comprehensive credit policy for the bank does not ensure effective credit portfolio management the data collected and tabulated in table I reveals that there is a significant difference between the value of ch-square from the table and the value of chi-square calculated thus revealing that the existence of a comprehensive credit policy ensures effective credit management with its attendant positive impact on the banks credit portfolio. Hypothesis two (2) states that strict adherance to the basic guides to sound lending guarantes qualitative credit portfolio and profitability for the bank since there is a significant difference in the value of chi-square tabulated and that calculated.

Also hypothesis three (3) which states that proper credit administration monitoring and control is not a possible measure for the avoidance of bad debts reveals the reverse since the value of chi-square calculated is greater than the value of chi-square from the table.

Finally, the result of hypothesis four (4) which states that problem/bad loans cannot be recovered despite a bank's bad debts management policy and recovery strategies, reveals that problem and bad loans can be recovered with the proper application of a bank's bad debts management policy and recovery strategies peculiar to the situation under review.

CONCLUSION

It is all truism that banks main busines is to lend money received from depositors and that lending contributes a larger part of commercial and merchant banks profit. However, accompanying lending contribution to bank profit is a proportionate degree of risk which banks do not only take but manage to ensure incident free and healthy credit portfolio. From the discussion on the measures to take in ensuring healthy loans port folio it is logical to conclude that the existence of a credit management policy, its implementation, the availability of the aparatus for implementation, administration monitoring and control, will reduce the incidence of & bad and

doubtful debts in a bank's credit portfolio. When loans are seen to be going bad appropriate remedial action should be taken towards averting the evil day. Where the loans have gone bad an application of any of the appropriate loans recovery strategies can ensure recovery of same or metamorphose a bad loan into one of the most active in the bank

RECOMMENDATION

Based on the results of findings of the study conducted in Afribank Nigeria Plc, I recommend the following which to my belief will assist in bettering the lot of banks in managing their credit portfolio with a view to achieving the attendant multplier effect on earnings healthy credit portfolio economic base and stability as follows:-

1. To ensure proper management of a bank's credit portfolio a credit management policy must be put in place.
2. Necessary aparatus for the full implementation, administration monitoring and control of a bank's credit policy must be put in place.
3. Pursuant to (2) above honest,highly skilled and trainned staff should be employed and deployed to various operational areas of the bank.
4. Selected credit management staff should be employed trained on continuous basis to take care of the credit aspect of banking inview of the dynamic nature of credit discipline.

5. Credit managers should adhere strictly to the basic guides for sound lending
6. Credit managers should work within the whims and caprices of pre lending and post lending policies of the bank.
7. Banks should ensure that credit administration, monitoring and control are strictly complied with at the appropriate levels of authority
8. Establishment of the internal control unit in branches, which partly oversees the monitoring of engagements in branches is strongly applauded and recommended for non compliant banks.
9. Credit managers should acquint themselves with the causes of bad debts, early warning signs of an account becoming bad and appriopriate remedial action to take towards redressing the adverse trend.
10. On accounts becoming bad credit managers should exhaust all available debts management strategies before they become irrecoverable.
11. Where bad debts management strategies fail to yield fruitful result credit officers should as a mattter of urgency adopt recovery strategies peculiar to the prevailing circumstances
12. Strict adherance to the Central Bank credit guidelines and other regulatory bodies (NDIC) will drastically reduce unnecessary penalties for non compliance
13. Banks should acquire insurance cover on customers deposits as offered

by the Nigeria Deposit Insurance Corporate (NDIC) as a way of hedging against liquidity resulting from bad credit bookings with its attendant distress syndrome.

14. Banks should establish and staff recovery departments at all levels of authority in ordr to ensure speedy recovery of debts owed.

Finally, banks should liase through their umbrella body in conjunction with the Nigeria institute of bankers and make a proposal tothe National Assembly calling for the establishment of commercial courts with the sole responsibility of handling recovery matters which currently suffer ripples of court injunctions from existing courts especially on security realisation.

APPENDIX 1

QUESTIONAIRE

This questionaire is aimed at collating information for the successful completion of a research study on the topic "CREDIT MANAGEMENT" with AFRIBANK NIGERIA PLC as a case study. I am therefore soliciting staff opinions on credit related matters in the questionaire. Note that information supplied will be used strictly for reasearch purposes only.

For the sake of simplicity the questionaire has been divided into two sections. Section A has to do with personal data while Section B raises issues related to the topic chosen for the research study.

Section A

Age:

Sex:

Educational Qualification:

Date you joined Afribank:

Rank

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Section B

The underlisted questions intend to elicit some information on the importance of credit management in your bank and its impact on the bank's: Credit portfolio. You are therefore required to rate each of them according to the under listed ratings:-

5 - strongly agree

4 - Agree

3 - indifferent

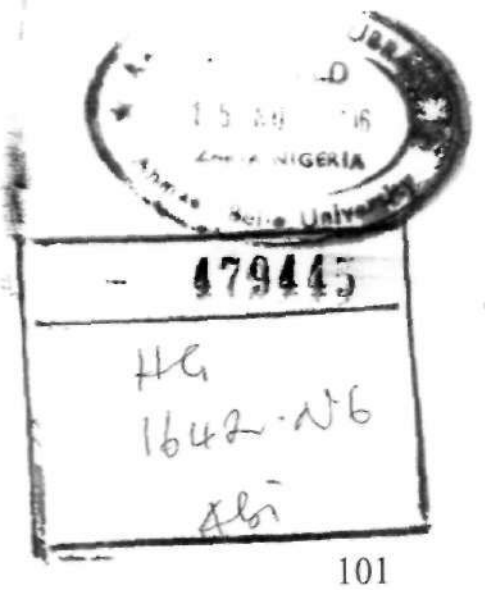
2 - Disagree

1 - strongly disagree

		5	4	3	2	1
1	lending is the main function of commercial and merchant banks in Nigeria					
2.	Lending contributes a substantial part of a banks profit					
3.	Objective credit assessment and appraisal is done through use of your banks acceptable assessment techniques and tools					
4.	The existence of a comprehensive credit policy in your bank ensures qualitative credit portfolio if religious followed					
5.	In addition to (4) above, the existence of a good credit management policy detailing a banks lending procedure philosophy, objectives credit administration, monitoring and control ensures qualitative lendings.					
6.	Afribank sound credit management policy has continually ensured a sound credit portfolio and its multiplier effect					
7.	Strict adherance to the three basic principles of lending (safety, suitability and profitability) quarantees quality credit portfolio					
8.	That a consideration of the five cannons of lending (character capability capital collateral) capacity are another necessary quide.					
9.	That the quality of a bank's credit is a direct function of objectives credit analysis appraisal and assessment using the principles enbodied in a bank's credit management policy					
10.	Minimization of bad loansportfolio in commercial banks depends solely on a banks adherance to both pre-lending and post lending policy enshrined in the banks credit policy.					

		5	4	3	2	1
11.	That despite a sound credit appraisal and assessment appropriate implementation of credit decision is a necessary antedote to creation of bad loans					
12.	The existence of a credit management policy without proper credit training adminsitration, monitoring and control cannot ensure a healthy credit portfolio.					
13.	Proper credit administration ensures they are fully utilised and repaid as at and when due.					
14.	Credit administration which is concerned with the implementations of the credit decisins is done only at the branch level in Afribank					
15.	Administration of credit should be the sole concern of both the branch and regional office					
16	credit administration in your bank is the responsibility of all levels of authority i.e branch region and Head office levels					
17.	Credit control which involves monitoring of credit facilties to ensure that each credit is and remains satisfactory is exercised at the branch level only					
18.	Credit control is exercised at the branch and the regional office levels only					
19.	Credit control is exercised at the branch regional and head office levels					
20.	Proper credit administration and control can unravel danger signs of accounts becoming bad and appropriate action taken to remedy the negative trend					
21.	Credit administration should also include follow - up on securities to ensure they are perfected and realisable in case the credit goes bad.					
22.	Bad debts arise as a result of both the borrower and banker's error					

	5	4	3	2	1
23. Bad debts arise as a result of poor business practice on the part of the borrower					
24. Fraudulent practices in the borrowers business can lead to facility becoming bad.					
25. Adverse and unexpected external development beyond the borrower's in control can make a facility bad					
26. Early detection of warning signs of an account becoming bad and remedial action taken to redress same could prevent an account becoming bad					
27. Problem loans can be managed to become good using appropriate bad loans management principles					
28. Bad debts can be recovered using available loan recovery strategies					
29. Conventional recovery strategies like legal action crystalisaiton of security etc applied for recovery of bad debts yield more positive result in Afribank					
30. Non-conventional bad debts recovery methods yield fruitful results					
31. Bad debts can be successfully recovered using both conventinal and non conventional methods					



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Type of Facilities Facilities Indix No Account No(s)	N.I. D.E.C	Limits Applied for by Customer & Date of Application	Interest Rate	Commission %	Limits Granted	Validity Granted

I.B.W.A. PARTICIPATION

	FINANCIAL YEAR			Period From.....To.....
	19.....	19.....	19.....	
Customer's Turnover				
Credit Movements				
% participation of IBWA				

FINAL DECISION:

Name

Signature

Date

N – NEW I – INCREASE D – DECREASE E – EXTENSION C – CANCELLATION

EXCHANGE CONTROL REGULATIONS : We confirm that the permission of the Exchange Control Authority for the facilites requested is not required/held expiring .....(Delete which is not applicable)

SECURITIES: For details use CR 4

TYPE	Value of Stamping N	Realisable Value N	H	TBC
TOTAL				

Branch Declaration: We hereby confirm that the information given here is correct to the best of our knowledge and belief and that unless clearly shown as "TBC" the Securities detailed herein are held by us in good order.

MANAGER'S NAME.....

SIGNATURE & DATE.....

479446

"H" = HELD

"TBC" TO BE CONSTITUTED

CONTINUOUS STATISTICAL RETURN

Staple Here

ACCOUNT NUMBER _____ BRANCH _____

NAME: _____ DATE: _____

YEAR: _____

MONTH	HIGHEST DEBIT OR LOWEST CREDIT	LOWEST DEBIT OR HIGHEST CREDIT	AV. MONTHLY DEBIT OR CREDIT BALANCE	TOTAL MONTHLY DEBIT ENTRIES	TOTAL MONTHLY CREDIT ENTRIES	OVERDRAFT TURNOVER IN DAYS	BALANCE END OF THE MONTH
JANUARY							
FEBRUARY							
MARCH							
APRIL							
MAY							
JUNE							
JULY							
AUGUST							
SEPTEMBER							
OCTOBER							
NOVEMBER							
DECEMBER							

NOTE: OVERDRAFT TURNOVER IN DAYS NOT REQUIRED WHERE ACCOUNT HAS NEVER GONE INTO DEBIT

AFRIBANK CR2 (5131A)

Printed by DAN PRINTERS
C. 33 Ori-Apata, Kaduna Tel: 062-2

ONTRACTS POSITION

DATE_____

ISTOMER'S NAME _____ BRANCH _____

Staple Here

. Please attach explanatory/notes where necessary

Description of Contract	Date of Award	Employer	Time/ Date of Completion	Contract Value	Mobilisation Advance Payment Received	Value of Permanent Work Completed	Stage Payments Due	Stage Payments Received	Retention Fee

CUSTOMER'S SIGNATURE

DATE

S PRINTERS P.O. BOX 000, KADUNA.

AFRIBANK CR7

DETAILS OF PROPERTIES HELD AS SECURITY

Customer's Name

A. Legal Mortgage: Branch

Property located at (Give full address)			
In the name of			
Estimated Forced sale value			
Date of last inspection			
By whom inspected name of officer			
Conditon: Good, Fair, Bad.			
State whether Freehold or Leasehold			
If leasehold state expiry date			
If leasehold, is landlord's consent obtained	Yes/No	Yes/No	Yes/No
Date on which ground rent is to be paid			
Are Title Deeds/C of O or Land Certificate in your possession?	Yes/No	Yes/No	Yes/No
If not explain			
State L/M particulars			
Amount for which stamped			
Date of registration of mortgage at Lands Registry			
Date of Registration at Companies Registry if applicable			
Has Governor's consent been obtained?	Yes/No	Yes/No	Yes/No
Name of Insurers			
Amount for which property was Insured			
Risks covered			
Date to which premium paid			
Is Bank's interest endorsed?	Yes/No	Yes/No	Yes/No
Is Policy in Possession?	Yes/No	Yes/No	Yes/No
If not, explain			
General Comments: Including description of the property construction and use			

N.B. Please note that each column relates to one property; use subsequent for additional properties

B. Debenture: Comprising

— First/Second Legal mortgage over property as in A. _____ Yes/No
— First/Second Floating Debenture over Fixed Assets (Full list to be in the file) Yes/No
— First/Second Floating Debenture over Current Assets Yes/No
— State basis of valuation _____
— Debenture stamped to cover ₦_____
— Date of registration at Companies Registry _____
— Date of registration at Lands Registry _____
— Is the Debenture shared with other Banks? Yes/No
— State name of banks(s) _____
— State total portions held by them _____

C. Savings Accounts, Deposit Accounts, Current Accounts

— What is the amount in the pass book ₦_____
— Do we hold the pass book Yes/No
— Do we hold a pre-signed authority to debit Form AFRIBANK 129 _____
— Where the account secured is not of the same right/degree with account that is securing, do we hold the latter's guarantee ADV6 Yes/No
— In what name is the pass book? _____
— State the Account No. _____
— Has letter of set off ADV 12A/B/12C been signed? Yes/No

D. Life Assurance Policies:

— Policy issued by:_____at_____ on _____
— Maturity date_____No. of Policy_____ _____
— Policy Amount ₦_____
— Date to which premium paid _____
— Life insured Yes/No
— Beneficiary's Name _____
— Has ADV 4 (as appropriate) been completed? Yes/No
— Is mortgage notified to Insurance Company? Yes/No
— Surrender value as at_____19_____ _____

E. Stock Exchange Securities:

— Held in the name of _____
— Has ADV 4 form been signed? Yes/No
— Has transfer forms been signed in blank? Yes/No
— Present market value as at_____19_____ ₦_____

F. Guarantees

— Name of Guarantor(s) _____
— Has Guarantee Form ADV 6A/B/C been signed? Yes/No
— Is guarantor our customer? Yes/No
— Give details of any other known Liabilities and quote. _____

KASHIM LIBRARY

G. Others

SECURITY MANAGER'S NAME _____
SIGNATURE _____
DATE _____
MANAGER'S NAME _____
SIGNATURE _____
DATE _____

DAN PRINTERS BOX 666 KADUNA.

COMPARATIVE STATEMENT OF FINANCIAL CONDITION

NAME Abs Textile Mills Ltd LOCATION Afs

AUDITOR AMOUNTS IN [illegible] CURRENCY Naira (₦)

Audited or Direct-Specify	Audited/Direct		Audited/Direct		Audited/Direct		Audited/Direct		Audited/Direct	
Unqualified; Qualified-Explain on page 4							Unqualified		Unqualified	
Date (Month, Day, Year)							31/12/72		31/12/72	
Description	Key	Amount	Key	Amount	Key	Amount	Key	Amount	Key	Amount
FINANCIAL SUMMARY										
NET SALES								13827		28890
NET INCOME								1024		5455
Net Income/Net Sales-%								7%		21%
WORKING CAPITAL								4916		5794
Current Ratio								2.7:1		1.2:1
Days Receivables (Incl. Bills Disc.)								15 days		19 days
Days Inventory (CGS Basis)								102 days		83 days
TANGIBLE NET WORTH								3477		7563
Leverage (Total Liab./Tang. Net Worth)								0.81		1.02
BALANCE SHEET										
1 ASSETS Cash								2534		5640
2 Marketable Securities Prepayments								—		4149
3 Receivables (Incl. Bills Discounted)	A		A		A		A	5771	A	12820
4 Inventory	B		B		B		B	7095	B	22251
5 Loans to Employees								1338		9351
6 Foreign Currency + Prov. for Int.								3671		12986
7 Prepaid Expenses + Other Debtors								2131		3959
8 TOTAL CURRENT ASSETS								17540		82762
9 Net Fixed Assets	C		C		C		C	25207	C	119583
10 Inv. and Adv.-Subs. and Affiliates										
11										
12										
13										
14 Intangibles										
15 TOTAL FIXED ASSETS								25207		119583
16 TOTAL ASSETS								42747		202345
17 LIABILITIES Short Term Debt-Banks (Incl. Bills Disc)	D		D		D		D	6017	D	27765
18 Accts. & Notes Payable-Trade								4155		5537
19 Accruals								3279		6159
20 Income Taxes								6746		10897
21 Dividends Payable								236		346
22 Deferred								5894		16344
23 Long Term Debt-Curr. Portion	D		D		D		D	583	D	—
24 TOTAL CURRENT LIABILITIES								28880		67048
25 Long Term Senior Debt	D		D		D		D		D	
26										
27 Long Term Subordinated Debt	D		D		D		D		D	
28 Provision for Gratuity								11467		35135
29 Deferred Reserves										
30										
31 TOTAL L.T. LIABILITIES & RESERVES								11467		35135
32 TOTAL LIABILITIES								40347		102183
33 NET WORTH Preferred Stock										
34 Common Stock								1471		36487
35 Capital Surplus										
36 Capital Reserves								536		6545
37 Legal Reserves										
38 Retained Earnings								2.993		63120
39										
40 TOTAL NET WORTH								2400		99862
41 TOTAL LIAB. & NET WORTH								42747		202345
42 Contingent Liabilities-(Excl. Bills Disc.)										
43										

Amounts In:	Date										
Currency:	No. of Months	12						1992		1993	

	Description	Key	Amount	% Sales	Amount	% Sales	Amount	% Sales	Amount	% Sales	Amount	Sales
	INCOME STATEMENT											
44	NET SALES											
45	Cost of Goods Sold											
46	Selling, Gen. and Admin. Expenses											
47												
48	Operating profit											
49	Depreciation											
50	Other Non-Cash Charges											
51												
52	Other Income											
53												
54	Other Expense											
55												
56	Interest Expense											
57	Financial Lease Expense											
58	Other Fixed Charges											
59												
60	Profit Before Income Tax											
61	Income Tax											
62	Extraordinary Income (Charges)											
63												
64	NET INCOME											
	BALANCE SHEET RECONCILIATION											
65	NET WORTH: OPENING NET WORTH											
66	PLUS: Net Income											
67	Sale of Equity											
68	Other: Specify											
69												
70	TOTAL ADDITIONS											
71	LESS: Dividends											
72	Other: Specify											
73												
74	TOTAL DEDUCTIONS											
75	Increase (Decrease) Net Worth											
76	ENDING NET WORTH											
77	FIXED ASSETS: Opening Net Fixed Assets											
78	LESS: Depreciation for Period											
79	Sub-Total											
80	Ending Net Fixed Assets											
81	Capital Expend. (Net of Sale of Assets)											
82	PLUS: Sale of Assets											
83	GROSS CAPITAL EXPENDITURES											

ANALYTICAL AND COMPARATIVE RATIOS

	Description	Key	Subject	Comp.	Subject	Comp.	Subject	Comp.	Subject	Comp.	Subject	Comp.
	OPERATING RATIOS											
84	Net Sales Growth Rate —%											
85	Net Income/Net Sales —%											
86	Net Income/Tang. Net Worth —%											
87	Net Fixed Assets (Less Land)/Net Sales —%											
	LIQUIDITY RATIOS											
88	Current Ratio											
89	Quick Asset Ratio											
90	Days Receivables (Incl. Bills Disc.)											
91	Days Inventory (CGS Basis)											
	LEVERAGE RATIOS											
92	Leverage (Total Liab./Tang. Net Worth)											
93	L.T. Leverage (L.T. Debt./Tang. Net Worth)											

AFRIBANK NIGERIA LIMITED

CR 1

COMPARATIVE STATEMENT OF FINANCIAL CONDITION

OPERATING/NON-OPERATING CASH GENERATION STATEMENT

NAME Afribank Nigeria Limited

AMOUNTS IN: '000	DATE									
CURRENCY: -N	NO. OF MONTHS									12

		Description	Key	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
94	NET OPERATING CASH GENERATION	Net Income										5455	
95		Depreciation										3822	
96		Other Non-Cash Charges										5	
97		GROSS OPERATING FUNDS GENERATION										5276	
98		LESS: Operating Cash Needs											
99		Inc./(Dec.) Req. Cash (% of Sales)											
100		Inc./(Dec.) Net Rec. (Incl. Bills Disc.) Net Receivables/Sales - %										7064	
101		Incl./(Dec.) Inventory Inv./Cost of Goods Sold - %										2224	
102		Incl./(Dec.) Prepaid Expenses Ppd. Exps./Total Oper. Exp. - %										528	
103		Foreign Travel										2015	
104		Purchase of Treasury										2245	
105		Unclaimed Dividend										1145	
106		TOTAL OPERATING NEEDS										22116	
107		PLUS: Operating Cash Sources											
108		Incl./(Dec.) Accruals Accts. Pay/Cost of Goods Sold - %										1382	
109		Incl./(Dec.) Accruals Accruals/Total Oper. Exp. - %										7210	
110		Incl./(Dec.)/Taxes Payable Taxes Pay./Prev. Inc. Tax - %										4151	
111		Capital Expenditure										110	
112													
113													
114		TOTAL OPERATING SOURCES										7853	
115		NET OPERATING CASH GENERATION										14263	
116	NON-OPER. CASH NEEDS	LESS: Non-Operating Cash Needs											
117		Capital Expenditures Capital Exp./Gross Plant - %										7629	
118		Dividends (% of Net Profit)										1949	
119		Red. Long Term Debt											
120		Red. Short Term Debt (and Bills Dis.)										582	
121		Inv. and Adv. Subs. and Affil.											
122		Retained Earnings											
123													
124													
125		TOTAL NON-OPERATING NEEDS										10157	
126	NON-OPER. CASH SOURCES	PLUS: Non-Operating Cash Sources											
127		Sale of Equity										1018	
128		Inc. Long Term Debt											
129		Inc. Short Term Debt (and Bills Dis.)										1948	
130		Sale of Assets										214	
131		Prov. for Gratuity										17648	
132		Share Premium										509	
133													
134													
135		TOTAL NON-OPER. SOURCES										20150	
136		NET INC./(DEC.) IN CASH AND MARKETABLE SECURITIES										(16894)	

Note: Line 115 should be equal to Line 97 minus 106 plus Line 114.
Line 136 should be equal to the net change in Lines 1 and 2 for the period, and is the total of Line 115 minus Line 125 Plus Line 135.

SUPPLEMENTARY COMPARATIVE STATEMENT OF FINANCIAL CONDITION

NAME Alfa Iron Lite Ltd

AMOUNTS IN: 000 | DATE | | | | 31/12/90 | 31/12/93
CURRENCY: Rs | NO. OF MONTHS | | | | 12 | 12

Key	Description	Amount	Amount	Amount	Amount	Amount
A	Receivables on Subject Bal. Sheet				5771	12820
	PLUS: Discounted Bills				—	—
	Sub-Total - Gross Receivables				5771	12820
	LESS: Allowance for Bad Debts				—	—
	TOTAL NET RECEIVABLES				5771	12820
B	Finished Goods				7242	6127
	Work in Process				4341	7878
	Raw Materials				10528	4963
	TOTAL INVENTORIES				22111	18968
C	Land					
	Buildings				4069	5487
	Machinery				13200	31658
	Construction in Process	Installation process			17091	93631
	Gross Fixed Assets				34360	130776
	LESS: Accumulated Depreciation				11611	15506
	NET FIXED ASSETS				22749	115270
D	DEBT SUMMARY*					

* List in order of maturity most current first.
Indicate nature of risk and rate if available.
Include bills discounted in debt summary.

HEAD OFFICE/REGISTERED FULL ADDRESS

DATE ACCOUNT OPENED

DATE OF INCORPORATION/REGISTRATION:

CAPITAL

AUTHORISED:

ACTIVITY:

ISSUED:

LEGAL FORM

PAID UP:

SECTOR:

CERTIFICATE NO:

NEPD:

AFFILIATE/SUBSIDIARIES

CLASSIFICATION:

DIRECTORS (Indicate Managing Director)	SHARE HOLDING (By names & percentages)

MEMORANDUM AND ARTICLES OF ASSOCIATION

i. Is borrowing within borrowing powers of the company?

ii. Are the borrowing powers of Directors in order?

iii. Is credit application in accordance with objectives of the Company?

OTHER BANKERS: (indicate Names only)

CONNECTED ACCOUNTS: If any with IBWA & Type of relationship which should include commitments given on behalf of companies.

Nasara Press Ltd. A.J. 26 Zaria Road. Kaduna Tel: 210833/211660

APPENDIX II

DETAILS OF THE ANALYSIS

Responses to the questionnaire items

Item	Strongly Agree (5)	Agree (4)	Indifferent (3)	Disagree (2)	Strongly Disagree (1)
1.	19`	21	5	2	3
2.	12	27	8	2	1
3.	20	17	7	4	2
4.	25	15	4	5	1
5.	13	14	6	11	6
6.	17	20	4	6	3
7.	16	23	6	3	2
8.	8	22	8	6	6
9.	17	22	6	3	2
10.	19	9	8	4	10
11.	17	26	1	2	4
12.	21	18	8	1	2
13.	14	22	8	4	2
14.	19	14	8	4	5
15.	21	21	6	1	1
16.	19	12	8	3	8
17.	16	27	3	2	2

Hypothesis 1: Existence of a comprehensive credit policy
Items 1 and 6 of the questionnaire.

	5	4	3	2	1
0	16	24	9	2	2
E	10	10	10	10	10
0-E	6	14	-1	-8	-8
$(0-E)^2$	36	196	1	64	64
$\frac{(0-E)^2}{E}$	3.6	19.6	0.1	6.4	6.4

$= \quad X^2_C = 36.1$

Hypothesis II: Strict adherence to Basic guide for sound lending
Item 7-10 of the questionnaire

	5	4	3	2	1
0	17	17	6	/	
E	10	10	10	10	10
0-E	7	7	-4	-3	-6
$(0-E)^2$	49	49	16	9	36
$\frac{(0-E)^2}{E}$	4.9	4.9	1.6	0.9	3.6

$= \quad X^2_C = 15.9$

Hypothesis III: Effective loan administration monitoring and control
Items 12 - 25 of the questionnaire

	5	4	3	2	1
0	16	20	6	5	3
E	10	10	10	10	10
0-E	6	10	-4	-5	-7
$(0-E)^2$	36	100	16	25	49
$\frac{(0-E)^2}{E}$	3.6	10	1.6	2.5	4.9

$= \quad X^2_C = 22.6$

Hypothesis IV:Effective debt management and recovery strategies
Items 9 of the questionnaire

	5	4	3	2	1
0	17	22	6	3	2
E	10	10	10	10	10
0-E	7	12	-4	-7	-8
$(0-E)^2$	49	144	16	49	64
$\frac{(0-E)^2}{E}$	4.9	14.4	1.6	4.9	6.4

LIBRARY

$= \quad X^2_c = 32.2$

Table V

Item	Strongly Agree (5)	Agree (4)	Indifferent (3)	Disagree (2)	Strongly Disagree (1)
11	19 (38%)	9 (18%)	8 (16%)	4 (8%)	10 (20%)
12	17 (34%)	26 (52%)	1 (2%)	2 (4%)	4 (3%)
13	21 (42%)	18 (36%)	8 (16%)	1 (2%)	2 (4%)
14	14 (28%)	22 (44%)	8 (16%)	4 (8%)	2 (4%)
15	19 (38%)	14 (28%)	8 (12%)	4 (8%)	5 (10%)
16	21 (42%)	21 (42%)	6 (12%)	1 (2%)	1 (2%)
17	19 (38%)	12 (24%)	8 (16%)	3 (6%)	8 (16%)
18	16 (32%)	27 (54%)	3 (6%)	2 (4%)	2 (4%)

APPENDIX 5

OUR REF:..... DATED:.....

The Managing Director
.....
.....
.....
.....

ATTENTION:.....

Dear Sir,

RE: BANKING FACILITIES

Further to your letter reference.....dated.....we are pleased to advise that the Executive Committee Credit has recommended the under-mentioned facilities to the Board of Directors for necessary consideration subject to the following terms and conditions :

1.0 i. ***Type of Facility*** : Overdraft /Renewal/Increase

ii ***Amount*** :

iii ***Purpose*** :

iv. ***Pricing*** :

v. ***Repayment*** :

vi. ***Security*** :

vii ***Expiry*** :

1.4 i. *Type of Facility* : *BANKERS ACCEPTANCE*

ii. *Amount* :

iii. *Purpose* :

iv. *Pricing* :

v. *Repayment* :

vi. *Security* :

vii. *Tenor* :

viii. *Expiry* :

1.5 i. *Type of Facility* : *DIRECT CREDIT/DRAFTS AND THIRD PARTY CHEQUES ONLY*

ii. *Amount* :

iii. *Purpose* :

iv. *Pricing* :

v. *Repayment* :

vi. *Security* :

vii. *Expiry* :

1.6 i. *Type of Facility* : ***Direct Credit (company cheques drawn on Afribank. (New).***

ii. *Amount* :

iii. *Purpose* :

iv. *Pricing* :

v. *Repayment* :

vi. *Security* :

vii. *Tenor* :

viii. *Expiry* :

2.0 ***CONDITIONS PRECEDENT TO THE UTILISATION OF THE APPROVED/ENHANCED LIMITS AND THE CONTINUED AVAILABILITY OF THE EXISTING FACILITIES:***

i. Unconditional Acceptance by the company's authorised signatories of this offer with all conditions therein within 30 days from the date of this letter.

ii. The company's Board Resolution under seal:

a) Authorising and accepting the facilities;

b) Authorising the assets of the company to be charged as Security for same.

iii. Insurance Policy covering all the company's assets with Afribank's interest duly noted and to be arranged by Afribank Insurance Brokers Company, 119, Broad Street, Lagos.

iv. Perfection of all security items.

3.0 ***OTHER CONDITIONS AND OBLIGATIONS:***

i) If at any point in time your current account is in excess of approved overdraft limit, the interest rate on such excess shall be the normal rate applicable to your facility plus 1.5% flat per month (now negotiable).

ii) Please note that all legal fees incurred by the Bank in the course of perfecting the securities relating to the above mentioned facilities will be borne by direct debiting of your current account without prior notice or recourse to you.

iii) If the facilities are not utilised within Three (3) months hereof, a commitment fee of 1% will be charged and we shall consider the offer to have lapsed and will not be committed to providing the funds as aforesaid.

iv) No failure or delay by the Bank in exercising any remedy, power or right herein shall operate as a waiver or impairment thereof nor shall it affect or impair any such remedies, powers or rights in respect of any other subsequent default.

v) All out of pocket expenses incurred in the process of packaging the facility, perfection of security and recovery in the event of default will be debited to your account.

vi) In the event that the Bank is made a party to an action instituted by a third party against the customer whether in connection with the facility or not the customer shall bear all expenses incurred by the Bank in the process of representing itself or appointing a legal practitioner to represent it and the expenses shall be charged to the account of the customer without reverting to the customer.

4.0 Interest rates are subject to prevailing market conditions and would be adjusted accordingly should the need arise for us to do so.

5.0 Without prejudice to the foregoing, please note that the Bank reserves the right to vary, alter and amend any of the terms and conditions stated above anytime should the need arise for us to do so.

6.0 If the terms and conditions of this facility are satisfactory and acceptable to you, kindly sign and return to us within 30 days, one copy of this offer as an indication of your acceptance of the offer and conditions therein or else this offer automatically lapses.

7.0 On acceptance of this offer, a processing fee of ..... will be charged.

8.0 At drawdown, a Management fee of ..... will be charged.

9.0 Once the approval of the board is obtained to this offer, we shall inform you of any other applicable terms and condition if need be.

$= \quad X^2_C = 32.2$

Table V

Item	Strongly Agree (5)	Agree (4)	Indifferent (3)	Disagree (2)	Strongly Disagree (1)
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iii ***Purpose*** :

iv. ***Pricing*** :

v. ***Repayment*** :

vi. ***Security*** :

vii ***Expiry*** :

10. ***REPRESENTATION AND WARRANTIES:***

That:

i. The customer has the power to accept this facility and has taken all necessary steps to authorise same upon the terms and conditions herein.

ii. The customer is not in default under any obligation in respect of any borrowed money from any other bank or instititution and that the acceptance of this facility will not be or result in a breach of or default under any provision of any other agreement to which the customer is a party.

iii. The customer has not and will not enter into any scheme of arrangement with creditors and will not seek protection from creditors in whatever way.

iv. All consents, licenses, approvals, authorisations of any governmental authority, bureau or agency, etc, required in connection with the execution, delivery, performance validity or enforceability of this facility shall be obtained by the customer and the original thereof delivered to the Bank and conditions contained therein or otherwise applicable thereto shall at the appropriate time be complied with or fulfilled. The cost of obtaining such approvals, etc, shall be borne by the customer.

11. ***CHANGE IN CIRCUMSTANCE:***

If the Bank shall have determined that the introduction of a change in any applicable law or government or other regulatory authority charged with the administration thereof or court of competent jurisdiction makes it apparent that it is unlawful or illegal for the borrower or the Bank to fund or maintain or perform their obligations as contemplated by the terms of this offer letter, the Bank shall forthwith be discharged and the commitment hereunder shall forthwith be cancelled and the borrower shall on the next succeeding payment date or such earlier date as may be required repay to the Bank the principal amount so disbursed together with accrued interest if any and any other amount due to the Bank.

Yours faithfully,

.....
AUTHORISED SIGNATORY

.....
AUTHORISED SIGNATORY

ACCEPTED FOR AND ON BEHALF OF.....

BY

SIGNATURE.....

NAME:.....

DESIGNATION:.....

DATE:.....

SIGNATURE.....

NAME:.....

DESIGNATION:.....

DATE:.....