FINANCIAL ASSESSMENT OF VIABLE COMMERCIAL BANKS IN NIGERIA, A STUDY OF AFRIBANK NIGERIA PLC AND FIRST BANK NIGERIA PLC

BY

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A ***RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF BUSINESS ADMINISTRATION, AHMADU BELLO UNIVERSITY, ZARIA IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE MASTERS DEGREE IN BUSINESS ADMINISTRATION (MBA)***

DECLARATION

I hereby declare that this work has been written by me and that it is the record of my own research work. It has not been previously presented in my quest for a higher degree.

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CERTIFICATION

The project report/work entitled "**FINANCIAL ASSESSMENT OF VIABLE COMMERCIAL BANKS IN NIGERIA, A STUDY OF AFRIBANK NIGERIA PLC AND FIRST BANK NIGERIA PLC** by Ibrahim A KURE meets the regulation governing the award of the degree of Masters of Business Administration (MBA) of Ahmadu Bello University, Zaria and is approved for its contribution to knowledge and literary presentation.

Chairman Supervisor Committee — Date: 06/09/2000

Signature of External Examiner — Date

Signature of H.O.D Bus Admin — Date: 9/9/00

24 JUL 2004

Signature of Dean Post Graduate School — Date
ABU Zaria

PROF. M. A. CHADO

DEDICATION

This project is dedicated to my late father Alhaji Abdullahi Kure, Hajiya Azumi Kure, my wife Adama Kure and children Halima, Fatima, Abdullahi and Sa'ada Kure.

ACKNOWLEDGEMENT

I am grateful to Allah for making it possible for me to write this project. I thank my wife and children for bearing with me while I was shuttling round to collect materials and write this project. My appreciation goes to my supervisor, Larai Shafi'i for understanding my problems and being patient enough while going through my work. My big appreciation goes to Squadron Leader Saidu Suleiman for his big encouragement in getting this paper through. Finally, I acknowledge the support of all my colleagues and friends. I say a big thank you to all of them.

ABSTRACT

This investigation is an attempt to assess the performance of viable Nigerian Banks with a particular reference to AFRIBANK NIG. PLC and FIRST BANK NIG PLC. The study revealed that these Banks are liquid and healthy financially. The project gives an in depth accounts of the financial analysis of their performance over the span of five years (1993 - 97). Their areas of strengths and weaknesses were highlighted with a check-list of recommendations on how to improve on the performance so far in order to remain in the industry and even lead other banks.

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GROUP FIVE YEAR FINANCIAL SUMMARY

(In Millions)	1997 N'm	1996 N'm	1995 N'm	1994 N'm	1993 N'm
ASSETS:					
Cash and short-term funds	12,713	8,547	9,219	4,664	3,593
Investments	6,067	6,427	5,423	5,954	4,564
Loans and advances, net	13,602	9,927	6,143	2,658	2,024
Advances under finance lease	43	-	-	-	1
Other assets	4,119	4,322	3,920	2,332	1,914
Equipment on lease	107	144	138	41	54
Fixed assets	1,935	1,502	1,198	764	620
Total assets	38,586	30,869	26,041	16,413	12,770
LIABILITIES:					
Deposits and other accounts	29,663	21,215	18,087	10,977	8,477
Other liabilities	5,957	6,962	5,432	4,182	3,197
Tax payable	72	52	207	152	142
Debenture stock	15	30	46	61	61
	35,707	28,259	23,772	15,372	11,877
Net assets	2879	2,610	2,269	1,041	893
SHAREHOLDERS FUNDS:					
Share capital	552	331	281	281	225
Share premium	203	203	-	-	
Reserve for bonus issue	-	221	-	-	56
Statutory reserve	589	519	480	332	238
Debenture redemption reserve	51	41	30	20	10
General reserve	1,484	1,295	1,478	408	364
	2,879	2,610	2,269	1,041	893
Contingent liabilities	7,935	6,729	6,010	2,164	2,396
Gross earnings	5,469	5,128	4,556	3,038	2,613
Profit before taxation (and extra - ordinary item)	457	48	838	379	426
Taxation	(81)	15	(199)	(117)	(121)
Extra-ordinary item	(63)	-	-	-	-
Profit after taxation (and extra - ordinary item)	313	63	639	262	305
Dividend	110	133	141	96	68
Earnings per share (Adjusted)	34k	6k	58k	24k	28k
Dividend per share (Adjusted)	10k	12k	13k	9k	6k
Net assets per share (Adjusted)	261k	236k	205k	94k	81k

GROUP FIVE-YEAR FINANCIAL SUMMARY FIRST BANK

	Period ended March 31,	Year ended December 31,			
ASSETS	1998	1996	1995	1994	1993
	N'm.	N'm.	N'm.	N'm.	N'm.
Cash, bank balances and bills discounted	55,176	50,042	40,897	25,002	19,296
Investments	227	230	151	91	67
Loans and advances	28,429	17,053	12,666	6,164	3,235
Other assets	12,776	5,122	6,135	4,277	2,673
Equipment on lease	878	570	345	69	32
Fixed assets	4,932	4,252	3,678	1,228	883
TOTAL ASSETS	102,418	77,269	63,872	36,831	26,186
LIABILITIES					
Deposits	70,697	58,214	43,464	25,022	17,864
Taxation	959	356	342	486	464
Dividend	1,169	437	467	241	161
Other liabilities	19,131	11,244	13,335	8,872	5,984
	91,956	70,251	57,608	34,621	24,473
SHAREHOLDERS' FUNDS	9,897	6,759	6,059	2,049	1,616
MINORITY INTERESTS	565	259	205	161	97
	102,418	77,269	63,872	36,831	26,186
Gross earnings	15,518	10,995	8,980	5,914	5,390
Profit before taxation	2,835	1,385	1,238	1,179	1,196
Profit after taxation	2,027	1,202	1,009	756	741
Profit attributable to shareholders	1,876	1,120	937	675	678
Dividends:					
- Ordinary shares	1,041	377	377	215	151
Return on shareholders' funds	19%	16%	15%	33%	42%
Earnings per ordinary share					
- actual	180k	166k	174k	157k	315k
- adjusted	180k	108k	90k	65k	65k
Dividend per ordinary share					
- actual	100k	56k	70k	50k	70k
- adjusted	100k	36k	36k	21k	15k
Dividend cover (times)	1.8	2.97	2.50	3.10	4.50

NOTES:

Earnings and dividend per share are based on profit after taxation and 1,040,616,251 ordinary shares of 50k each.

CHAPTER ONE

INTRODUCTION

1.1 PREAMBLE

For four years (1993 - 1997), the popular concept in the minds of most Nigerians especially those who have something to do with banking is the issue of distress. Majority of these people had problems understanding what is meant by a bank being distressed and its financial implications. Consequently, different interpretations, not far-fetched from the real meaning, were being marshalled out by members of the public. When a bank is said to be distressed, it could mean that the top management team was weak and not up and doing. Such banks may have had a management that was corrupt, demanding (The Nigerian Banking Norm) ten per cent "Kick-back" on each credit facility extended to a customer thus, ending up having lots of bad and/or doubtful debts. The distress could also be based on frauds, forgeries and embezzlement on the part of all categories of bank staff.

This issue of distress has not been totally wiped out from our financial institutions. While some banks have crashed as a result of this unhealthy financial situation, some banks such as those under investigation are viable and were able to strive stronger in the financial market. The assessment of their performance is the thrust of this study. The problem of distress that showed its ugly face in the financial institution of Nigeria can be attributed mainly to the changing economic environment and regulatory measure which accompanied the Structural Adjustment Programme coupled with mismanagement and maladministration within the banking sector. These factors had major adverse impact on many industrial borrowers and projects which subsequently resulted in substantial increase in banks bad debts.

This problem was clearly manifested in 1989 when public funds were withdrawn from commercial and merchant banks and many of the banks had to seek financial support from CBN and Nigerian Deposit Insurance Corporation (NDIC)[1]. This development was not surprising since the major merchant banks did not have adequate capitalisation or access to stable retail deposits to support the deteriorating long term assets on their books. They therefore, depended essentially on the Government deposits and short-term borrowings from the interbank market sources which dried up or became very expensive following the withdrawal of parastatal funds. The introduction of stabilisation securities in 1992 had the same impact on such banks which were yet to fully recover from the problems of 1989. The problems of these of banks can be said to include mismatch of assets and liabilities, illiquidity, poor capitalization and declining profitability as a result of high level of non-performing assets and high cost of funds. This has resulted in current difficulties in meeting maturing obligations.

The problems of the second and third categories of banks (state and private banks) is to a large extent similar. The problems are those of weak management control, lending to projects owned by shareholders, diversion of funds and fraud. Due to the above problems, these banks lacked credible information system and are real bankruptcy candidates.

Originally, the Nigerian financial system (like any other countries) is mostly characterized by the strength of the commercial banks. They are the most important economic institution in modern economic life and therefore required to play a crucial role in the mobilization of financial resources for the attainment of economic development

The introduction of Structural Adjustment Programme (SAP) in 1986 and the attendant deregulation of the financial sector led to the phenomenal growth in the banking sector in 1993. The number of commercial and merchant banks rose from

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[1] NDIC. Annual Reports and Statement of Account for Year Ended Dec 31, 1991

mere 42 in 1986 to 120, made up of 66 commercial banks and 54 merchant banks having an aggregate offices of 2,397 located throughout the country. In addition to this astronomical increase in the banking sector was the non-banking institutions which also grew to over 600 by 1992.

The wave of this increase made the financial regulatory bodies to strengthen the regulatory framework by the promulgation of the CBN Decree 1991, the Bank and Other Financial Institution (BOFID), 1991, the Company and Allied Matter Act, 1990, the Nigerian Deposit Insurance Corporation Decree 1988 and recently the Failed Bank (Recovery of Debts) and Financial Malpractices in Banks Decree 1994. Many of these banks who obtained their capitals from shareholders and other financial institutions could not survive this development due to competition, unethical procedures, mismanagement and other negative practices which eventually led to their insolvency. This eroded shareholders funds and investment in such banks. Despite the galloping economic environment over the years that led to the collapse of some of these banks, AFRI BANK PLC and FIRST BANK PLC stand out. The highlight of the good performance of these two banks is the major core of study in this investigation.

The subsequent chapters of this study will attempt to find out what the performance of these two banks has been like and the need to continuously be monitoring the performance level of the bank with a veiw to unravealing the performance picture in order not to fall into the same shoes as the distressed banks. This will be carried out through a methodology, data presentation and analysis. Finally, a summary, conclusion and recommendations will constitute the last chapter of this work.

1.2 STATEMENT OF PROBLEM

Financial distress in Nigerian Financial System assumed a very high proportion about 2 - 3 years ago[2]. This was as a result of the phenomenal growth of banks

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[2] Banking Supervisor, Financial Sector Destress, 1994

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following the introduction of the Structural Adjustment Programme. This gave a false impression that banking sector was besieged by all types of investors who have surplus funds to throw about. Inexperienced hands assumed very senior positions in some banks. The entry of these categories of personnel coupled with their activities prepared fertile ground for viral infection of financial distress. Most of the victims (customers/shareholders) were caught unawareness because there was no periodic information on the financial health of the bank. Where such information was available, vital aspect was not made public which have false impression of the health of the bank.

Today, the shareholders of distressed banks have been put into financial difficulty which they were not prepared due to the recklessness of the management of the distressed banks. Some of the affected staff of the distress banks are either laid off or made idle. This has added to the already existing problem of unemployment in the country. Lack of complete and periodic information on the health of the non-distressed banks made it difficult for many customers or shareholders to choose the banks to invest their resources. Some have even been reported to have withdrawn their monies in large sums from the banks uncertainty and to avoid the experience from the distressed banks. They are said to still entertain some fears, as they are no longer sure of the safety of their deposits at these banks.

1.3 OBJECTIVES OF THE STUDY

The objectives of the research project are:

i. To examine the trend of development in the Afribank and FBN.

ii. To examine the performance of the two banks.

iii To examine other possible causes for their non classification as distressed by the Nigerian government apart from (i) and (ii)

iv. To make recommendations based on the findings.

1.4 SIGNIFICANCE OF THE STUDY

The significance of this study lies in the fact that commercial banks in Nigeria like any in other parts of the world are required to play a crucial role in mobilisation of financial resources for economic development. Such functions include serving as intermediary institutions between the surplus and deficit units of the economy, saving, mobilization, provision of financial resources to meet the borrowing needs of surplus spending unit in the economy, provision of sound payments and advisory services to business investors.

Financial distress impairs the growth of banks and other organisatins. Consequently it inhibits their financial roles to the economy. This study is also significant since it is designed to assess the performance of two selected viable banks.

1.5 SCOPE OF STUDY

This research work on Financial Performance Assessment of viable Nigerian Banks (A Study of AFRI BANK PLC and FIRST BANK PLC) will assess the financial progress of these banks by examining their development, structure and performances from 1993-97. To achieve this, attempt will be made to analyse their performance using financial ratios and profit and loss accounts sources and applications of funds statement over 5 years. Having established their performance and the various opinions expressed, conclusion and recommendations will be made.

1.6 RESEARCH METHODOLOGY

Data were extracted from CBN, annual reports and statement of accounts, the Nigerian Stock Exchange (Fact Books) and NDIC annual reports on banks. Data were also obtained from Afribank Plc and First Bank of Nigeria Plc such as the annual reports and statement of account of the two banks. In addition, sample of opinion of respondents within the banks investigated were collated.

1.7 LIMITATIONS OF STUDY

In the course of this study, there was a limitation to the information/data obtained. This is because the work depended heavily on the data collected from CBN, NDIC, NSE, AFRI BANK PLC, FIRST BANK PLC and the Nigerian dailies. The information on 1999 performance could not be obtained. So the work relies heavily on secondary data.

1.8 DEFINITION OF TERMS

1.8.1 Assets of the Bank:

This is the cash at hand or tradable instruments held, inventories, building, furniture, fittings, electronic gadgets, equipment etc made up of fixed and current assets.

1.8.2. Bank:

This is a financial institution which renders economic and financial services such as acceptance of Term/Current/Savings, deposits, granting of loans, issuance of overdrafts, letters of credit, Travellers Cheques, Bankers pay order, Money Order, Remittances etc.

1.8.3. Central Bank of Nigeria (CBN).

This is the apex regulatory authority of the financial system of Nigeria.

1.8.4. Commercial Bank:

These group of Banks perform three basic functions which include acceptable of deposits, granting of loans and the operation of the payment and settlements mechanism in the financial system.

1.8.5. **Financial Distress:**

Financial distress in a Bank is a state of illiquidity or insolvent i.e. an unhealthy financial state.

1.8.6. **Illiquidity.**

This is a state in bank when it can no longer meet up with its financial obligations as at when due.

1.8.7. **Non-distressed Bank.**

This refers to a healthy state of a bank. Under this condition, the bank is liquid and solvent.

1.8.8. **Insolvency:**

This is a situation in a bank when the value of its realisable assets is less than its total liabilities, i.e. A case of negative net worth.

1.8.9. **Liabilities of the Bank:**

This refers to all its financial obligations that are supposed to be met either in the short term or in the long term. For example, depositors money.

1.8.10. **Letters of Credit (L/C).**

This is an undertaking by a bank accepting to redeem the liability of its customer on an import contract if the importer fails to make payment on maturity date and in accordance with the terms of the credit purported in the L/C. It can be revocable or irrevocable.

1.8.11. **Merchant Bank:**

This is a wholesale bank in that it caters for the needs of the corporate and institutional customers.

1.8.12. Nigerian Deposit Insurance Corporation (NDIC).

This is a complementary regulatory and supervisory institution in the CBN. It was established to provide deposit insurance and related services for banks in order to promote confidence in the banking industry.

1.9 CHAPTER PREVIEW

The subsequent chapters of this study will attempt to find out what the performance of these banks has been like and the need to continuously be monitoring the performance levels of these banks. This is with a view to unrevealing the performance picture in order not to fall into the same shoes as the distressed banks. This will be carried out through a methodology, data presentation and analysis. Finally, a summary, conclusion and recommendation will constitute the last chapter of this work.

CHAPTER TWO

LITERATURE REVIEW AND THEORETICAL FRAMEWORK

2.A LITERATURE REVIEW

A bank is financial institution which renders economic and financial services such as acceptance of term/current savings, deposits, granting of loans, issuance of overdrafts, letter of credits, travellers cheques, bankers pay orders, money order remittance.[3] Financial crisis in the Banking industry led to distress. What then is a financial crisis? According to Schwartz (1965) the key elements or links in the process referred to as a financial crisis are:

1. A wide spread of change in expectations associated with fear of change in the economic environment. Such change in expectations was often triggered in the past by some real events such as war, harvest of bank failures, monetary events such as fear that a particular country would leave the gold standard.

2. Fear of insolvency of some financial institutions. Insolvency could stem from mismanagement, lack of foresight, fragile debt structure and also from a system wide shortage of liquidity.

3. An attempt to convert real as well as liquid financial assets into money, which in turn would raise interest rates and lower asset prices leading to liquidity crisis.

4. Threats to the solvency of otherwise viable commercial banks and other financial institutions because of a decline in the value of their portfolio as a consequence of the forced scale of assets.

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[3] Schwartz, Monetary History of United States, University Press 1965.

5. Bank runs precipitated by such threats to solvency. Runs on particular banks in turn could lead to general banking panic. Where the public at large, fearful of suffering severe losses on their deposits should all banks fail, or of paying premium on currency in the event of a suspension of payment, attempts to convert deposits into currency.

6. A reduction in money supply produced in turn by banking panics. The public's deposit currency ratios falls and the banks reduce deposit - reserve ratio (by reducing their loans) in an attempt to improve their liquidity positions. In addition, bank failures themselves destroy deposits.

7. Both real economic activity and the price level fall as a result of the fall in the money supply or a fall in velocity caused by hoarding.

8. A decline in profit and networths, and a rise in bankruptcy follows.

9. A debt crisis produced by both decline in asset prices associated with liquidation and the decline in the price level. The possibility exists of a (fisherian) debt by the decline in price reduces the valve of loan collateral and networths of firms, households and banks leading to widespread and failure in the money supply.

Goldsmith (1982) on the other hand defines financial crisis as a sharp, brief, ultracydical deterioration of all or most of a group financial indicator's short-term interest rates, asset (stock, real estate, land) prices, commercial insolvency and failures of financial institutions.

Bananke (1983) makes the distinction between a banking crisis involving a run on commercial banks and bank failures and a debt crisis precipitated by a decline in the price of assets. Each type of crisis has serious effect on the economy. Distress in a

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bank therefore is the state of insolvency and / or bankruptcy (an unhealthy financial state).

In Nigeria the bank contribute in no small measure to the macro economic objectives of rapid transformation of the Nigerian economy. Transforming the economy implies a movement from a given level of development to a desired level of development. Nigerian banks in particular play significant roles in:-

(i) Provision of payment mechanism essential to create credit habit and higher level of transactions.

(ii) Acting as a bridge between the surplus and deficit areas in the Nigerian economy.

Development according to Myrdal, is not just a substantial increase in the output of an economy but a total upward movement of a society as evidenced by the attainment of some or most of the things which the society regards as the ideals of modernisation. Sustained rise in the level of productivity, improved knowledge and institutions, social and economic equality and removal of undesirable conditions which perpetuate underdevelopment are some indices of ideals of modernisation. Available resources of mineral wealth capital (financial and material). The quality and quantity of manpower and enterpreneurial skills are some important ingredients of rapid economic development. Capital is the most important ingredient as it expedites production process, permits a roundabout method of production leading to a freer use of capital equipment. Banks are particularly important in economic development because of their role in capital accumulation and capital widening.[4]

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[4] Nwankwo, CO, Bank Management; Principles and Practice. Oxford, Malthaise Publishing (UK) 1991.

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2B THEORITICAL FRAMEWORK

The first banking activity was established in Nigeria in 1892 by African Banking Corporation followed by the First Bank in 1894 which was incorporated as "Bank of British West Africa (IBBWA)". Union Bank was established in 1917 as Barclays Bank (Dominion Colonial and Overseas).

The activities of these early banks were focussed on the transactions of the colonial masters in their shipping of raw materials from their colonial territories to their home countries.

There was no legislation or regulatory body guiding the activities of the early banks. The absence of legislation and body directing the operations and establishment of banks led to proliferation of banks by individuals who have little or no orientation to banking activities. This period is usually referred to as "Free Banking Era" because of emergence and collapse of many banks.

Information from 1969 edition of CBN's Economic and Financial Review has it that out of the 28 banks floated between 1892 and 1952, 21 or 75% of them collapsed after operating for two or three years. Banks like First Bank 1894, Union Bank 1917, National Bank of Nigeria 1933, WEMA Bank 1945, African Continental Bank 1947, survived the crash of the fifties.

While the foreign banks' survival is attributed to their foreign connections, regional Governments in their bid to overcome the type of services rendered by the foreign banks gave maximum support to the regional banks. Their ambition was to break the monopoly of foreign banks over the financial system and to promote national and regional development through their credit liberalization to Nigerian entrepreneurs.

The establishment of the Central Bank of Nigeria (CBN) in 1958 and the enactment of first banking legislation in 1958 known as Banking Ordinance marked the beginning of a serious attempt to put sanity to the industry, marking the end of the "Free Banking Era". The CBN was also charged with fixing the minimum re-discount rate,

minimum liquidity ratio and the use of open market operations to regulate the financial system.

The establishment of CBN in 1958 precipitated far reaching changes in the banking industry between 1960 - 1970. This period witnessed the establishment of "Nigeria Industry and Development Bank" (NIDB) in 1964. The establishment of NIDB was meant to act as a catalyst to national development through mobilization of resources for financing of long term loans for long term projects with soft conditions, as opposed to strict lending conditions of the existing commercial banks. Then came the establishment of the first merchant bank, NAL Merchant Bank in the country in 1969 formerly known as Nigerian Acceptances Limited. The same year (1969) AfriBank was incorporated.

Finally, came the third phase of banking development in Nigeria referred to as "Roaring Eighties" because of the upsurge in the number of commercial and merchant banks. Profit-making as the main aim of floating a bank could be perceived. The 1988 compilation of "The Top 100 companies in Nigeria" by THIS WEEK Magazine (No 101), showed First Bank, Union Bank and UBA as occupying the first, fourth and the eighth positions respectively among the companies with the highest turn-over in terms of income generated from invoiced sales/services rendered to third parties. In the same order in the promotion of local enterprise and self-reliance suffers, hence promoting foreign interest than indigenous interests thereby practicing segregation at the home front.

Banks in their effort to protect the interests of their share holders and depositors have been too rigid in their demand for collateral before approving loans. It was to soften this stance of banks on securities that the Central Bank recently gave approval for banks' equity participation in industries.

2B.1 REGULATORY AGENCIES

The Nigerian monetary authorities comprise of the Central Bank of Nigeria (CBN), the Nigerian Deposits Insurance Corporation (NDIC), The Federal Ministry of Finance (FMF) and the 24 Nigerian Securities and Exchange Commission (NSEC). The first two primarily responsible for monetary regulations will be focused.

THE CENTRAL BANK OF NIGERIA

(i) The CBN is statutorily charged with the prudential regulation of the banking system in order to ensure monetary stability, a sound and healthy banking and financial system, protect depositors effectively, develop banking habit, the financial system and manpower for the banking industry. Another aspect of prudential regulation covers limit to permissible business, risk concentration, capital and liquidity adequacy and statutory returns, while monetary aspects of the regulation include controls over lending generally, structure of lending, interest rates, reserve requirements and foreign exchange. Normally the CBN employs compliance and that adequate management control system is in place with the necessary early warning systems to ensure management and control. To achieve these, Section 38 of the Central Bank of Nigeria Decree No24 of 1991 states that: The Bank shall:

(a) Promote and maintain adequate and reasonable financial service to the public.

b. Ensure high standards of conduct and management throughout the banking system. To reinforce this, powers were prescribed for the CBN in Section 39 of the same decree. These powers include the powers to specify critical ratios, to call for information from banks and to inspect the books of any bank under Section 39 (5) (9). This is "to require that all

applications to any bank for loans exceeding such amount as the CBN may specify shall be submitted by the bank to the CBN for approval".

The regulatory powers of the CBN were amplified under the Banks and Other Financial Institutions Decree 25 (BOFID) of 1991. The powers considered are such that if meticulously applied can achieve the following:

1. Ensure safety to depositors fund.

2. Control bank charges.

3. Scrutinise entry and exit and avoid under capitalisation

4. Control expansion and channel funds to productive sectors.

5. Ensure equitable spatial distribution or financial services.

6. Regulate conduct of directors and employees of licensed banks.

7. Ensure healthy competition.

8. Ensure sensitivity to macro economic objectives and facilitate social responsiveness.

The CBN has powers for the revocation, with approval of the president of Nigeria, of license granted to a bank if such bank:

(a) Ceases to carry on in Nigeria the type of banking business for which the license was issued for a continuous period of 6 months or a commutative of 6 months within a period of 12 months.

(b) Goes into liquidation or it wound up or otherwise dissolved.

(c) Fail to fulfill or comply with any condition subject to which the license was granted.

(d) Has insufficient assets to meet its liabilities.

(e) Fails to comply with any obligation imposed upon it by or under the Central Bank of Nigeria Decree of 1991.

(ii) NIGERIAN DEPOSIT INSURANCE CORPORATION

The NDIC on the other hand was established in 1988 with regulatory powers to protect depositors against bank failures and thereby strengthen the financial system. This is aimed at promoting public confidence in the banking system. The corporation is empowered to examine the books and affairs of insured banks and other deposit- taking financial institutions.

However, these regulations and the deposit insurance cannot be a substitute for effective management. As quoted by Nwankwo (1991), the Governor of the Bank of England emphasised that "while supervisors and regulators must use their full array of power and techniques to see that financial institutions conduct their business properly and competitively, they cannot usurp the roles of management or the responsibility of Boards of Directors" .. He also noted that while Bank of England can materially help to reduce the likelihood of failures, they cannot replace the need for skilled and judgment in taking market risks.

In addition, he started that while deposit insurance can insure depositors against the risk of loss from individual bank's mismanagement, it cannot insure the safely of the financial system. He further noted that in a generalised financial crisis, the NDIC, as the institutions that insures, can obtain currency only from the Central Bank. The role of the CBN is therefore not to prevent insolvency, it is rather to help minimise the risks bank take and to ensure that the failure of an individual bank or a few institutions does not threaten the systematic stability of the financial system. Beside, while the CBN has not much leaverage over banks beyond the imposition of monetary penalties. It has no cease and desist powers over banks as in the U S A.

The NDIC in its 1901 annual report and statement of account reported inter alia "The financial condition of insured banks is of interest to the NDIC, the monetary authorities, and the general banking public. While the public is concerned with t he safely of their deposits, the NDIC and the monetary authorities are concerned about t he

stability, safely and soundness of the banking system and its overall effects on the economy as a whole. Another major source of concern for the NDIC is its insurance obligations to depositors in the event of a bank failure.

In assessing the financial condition of banks, two major problems are usually of serious concern to regulators and supervisors. These problems are illiquidity and insolvency. Illiquidity occurs in a bank when it could no longer meet its liabilities at the mature for payment. It is insolvent when the value of its realisable assets is less than the total value of its liabilities and vice versa for liquid and solvent banks such as the two under investigation.

So when assessing the financial condition of a bank, it is customary to evaluate its capital adequacy, its asset quality, its level of earnings and the adequacy of its liquidity. The NDIC in 1991 reported that experience has shown in Nigeria that ownership structure and type of banks are important parameters in explaining the financial condition of a bank. From the above NDIC reports, analysing the multitude of parameters marshalled out as being responsible for the declining financial conditions of some banks in Nigeria, one can identify two major parameters that should be of primary concern to the Nigerian monetary authorities in their bid to achieve their objective in the banking system These are:

a. Ownership Structure (which in effect influence the second)

b. The Quality of Management (and staff)

Bello (1993) observed that in addition to having safe and sound operations, adequate capital, asset bases, high level of earnings and liquidity including good internal check and control system, they must also have high quality and honest professionals who will not singularly, collectively or in connivance with members of the public, defraud the banks.[5]

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[5] Bello K. "Checking Banking Financial Malpractices", Business Times Vol 18 No 23 Jun 7, 1993.

Still in support of the above observations, Nwaolai (1993) attributed the collapsing service rendered in the Nigerian banking industry to poor management. He noted that many banks did not employ experienced and exposed staff who could render meaningful services.[6] He said that many banks employed mediocres and appointed inexperienced managers who could not manage the business effectively. He further noted that worse still, some of these managers were people who studied courses not related to banking. He then remarked that, some managers were not bothered about the progress of banks but were after their big salaries adding that, CBN was supposed to regulate the calibre of bank management staff but unfortunately, the apex bank has not done this effectively. He finally cautioned that if the situation persisted, many banks might fold up (including the already distressed banks) or have their licenses withdrawn by the CBN as they might no longer meet statutory operating requirements.

Oladipo (1993) noted that the situation in the banking industry was caused by disregard for and in some cases unethical application of banking rules, incompetent management, non application of the prudential guidelines and execution of new projects without clearance from CBN. Other reasons include extension of loans and advances without collateral, failure to identify dormant accounts, and lack of effective debt recovery machinery.

As part of efforts by CBN and NDIC to arrest the financial crisis in the country in the first quarters of 1995, a new Transitional Board (TSB) was constituted to replace the Interim Management Board (IMB). The TSB was part of an enhanced framework for supervisory intervention in the six state government owned distressed banks earlier acquired by CBN.

In the second quarter of 1995, the CBN revoked the license of the Republic Bank Limited. This was as a result of the worsening financial condition of the bank and the erosion of its capital base as well as the dissipation of depositor's funds.

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[6] Nwaolai C. "Banking System For Overhauling", Sep 20, 1993.

During the third and fourth quarter of 1995, the CBN in conjunction with NDIC assumed control and management of 18 distressed of banks. These included Lobi Bank and Allied Bank. The management of these ailing banks were dissolved and new ones were constituted to manage their affairs. The shareholders were given 30 days to recapitalise their banks. However, none of the affected banks was able to meet this requirement and so the CBN acquired six out of the eighteen for a nominal fee.

During the 1996/97 period, the Federal Government inaugurated special tribunals under the failed Banks (Recover of Debts) and Financial Mal-practices in Bank Decree No 18 of 1994. A total of 5 special tribunals were inaugurated. With the tribunals in place, many bank debtors paid the debt owned their various banks.

2C. CAUSES OF UNVIABILITY OF BANKS

Inspite of the regulation and supervision of CBN and NDIC to ensure viability in the banking industry, many banks have become unviable. Several factors including fraud and forgeries, environment, inadequate capital, illiquidity, insolvency, lack of experienced and skilled staff, ownership structure and most importantly poor management were responsible for unviability and thus distress in some banks.

2C.1 POOR MANAGEMENT

a. Non - Participating Board of Directors.

The success or failure of an organisation begins in the boardroom where members take major long-range decisions geared towards the profitable growth of the organisation. This presupposes that board members should be experienced and knowledgeable in the business or in the smooth running of a corporate enterprise. Where board members lack the requisite knowledge or are political appointees or even appointed to several boards, they will either be absentee

members. Even when present, they are unlikely to participate fully and effectively. This could result in poor decision being taken or a decision not taken at all due to lack of quorum.

b. One - man Rule.

In the one-man rule, the chief executive takes all the decisions, whether strategic or routine. He neither consults for advice, reactions and contrary views nor delegates to his subordinates. He allows no discussions on important issues but only calling meetings to confirm decision he has already taken. Such chief executive is on the road to destroying the organisation because in time he will make fatal errors of judgment which will cost the organisation dearly.

c. Unbalanced Top Management Team.

Top management team should be balanced in both depth and breadth. Management depth is characterised by a substantial member of experienced highly knowledgeable senior managers who are capable of steering the organisation through waters in time of crisis. Management breadth is the existence of managers with a broad spectrum of skills in all functional areas of business. Unbalanced top management could result in having a one track mind and completely oblivious to other events in its environment. The top management would be unable to do much because it lacks the requisite skills and managerial exposure for handling such events.

d. Combined Chairman - Chief Executive.

There is inherent danger in one person combining the positions of the chairman and chief executive. It leaves no room for checks on the executive. The same man can decide what is to be included in the agenda of a board

meeting for discussion. As chairman, he can pilot meetings towards his own decisions.

e. Weak Finance Function.

If the finance and accounting functions of an organisation are deficient, then that organisation is headed for collapse. Such organisation will face inadequate financial controls, poor asset valuation and costing systems and inadequate cash flow forecasts.

2C.2 INADEQUATE CAPITAL BASE

If a bank must enjoy the confidence of its depositors it must have a strong capital base as evidence of its strength. It is important that a bank operate profitably for the shareholders fund to increase. In very many instances, the adjusted capital of most of the distressed banks is negative to the extend that even fixed assets could be seen to have been financed from depositors fund. The only way is for such bank to be recapitalised as it is technically insolvent.

TABLE 1: CAPITAL REQUIREMENT AND SHAREHOLDERS FUND

Banks	No of Banks		Shareholders fund N'000		Capital Requirement N'000	
	1994	1995	1994	1995	1994	1995
Merchant Banks	51	51	(2,278.1)	(4,869.1)	4,392.7	11,672.7
Commercial Banks	65	64	(1,593.0)	(3,922.0)	2,289.7	27,162.3
Industrial	116	115	(3,871.1)	(8,791.1)	6,682.4	30,835.0

Source: NDIC 1995 Annual Report and statement of Account.

From Table 1, the trend of gross under capitalisation reported in 1994 continued in 1995. The adjusted shareholders fund deteriorated further from negative of N3,871.1

million in 1994 to negative of N8,791.1 million in 1995. The implication of this is that not much funds will be available for investors to use on investment that will yield positive growth to the economy. Also, the capital shortfalls was known to depositors. Therefore, their confidence to deposit money in such banks was eroded.

2C.3 FRAUD AND FORGERIES

Fraud is another serious problem that banks have to cope with. The fraud ranges from outright theft by way of credits that the manager or approving authority knows will fail. Examined in this report are cases of frauds as against Sections 39 and 40 of NDIC Decree of 1988. Data on reported cases of 1995 are compared to those of 1994 in an effort to show the trend in the malpractices.

TABLE 2

RETURNS OF COMMERCIAL BANKS ON FRAUD AND FORGERIES

Quarter	Year	No of Banks Rendering Returns	No of Banks with Fraud Cases	Amount Involved N'm	Actual / Expected N'm	Proportion of Actual/ Expected loss to Amount Involved %
1st	1995	51	30	312.90	52.60	16.81
	1994	47	33	426.30	66.82	15.67
2nd	1995	35	29	175.30	39.95	20.50
	1994	46	36	227.51	27.41	12.04
3rd	1995	40	36	240.77	62.74	26.05
	1994	56	38	556.60	48.84	8.77
4th	1995	47	32	277.31	75.09	27.09
	1994	49	45	1445.30	740.48	52.23
Total	1995	-	-	1006.28	220.68	22.49
	1994	-	-	2,655.71	883.55	33.26

Source: NDIC 1995 Annual Report and Statement of Accounts.

Data on Table 2 shows the amount involved in frauds and forgeries together with actual/expected loss and the number of commercial banks involved. The data shows the total amount involved for 1994 stood at N1,006.28 million compared to N2,655.71 million in 1994. The total actual/expected loss in 1995 was N226.38 million as against

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N883.35 million in 1994. In the first quater of 1995 51 banks rendered returns with 30 reported fraud cases. This is against 47 banks in 1994 with 33 fraud cases. There was generally a significant decline and actual/expected losses reported in 1995. This decline could be attributed to the efforts of the implementation of the decree on failed banks in 1995.

CHAPTER THREE

TOOLS OF FINANCIAL ASSESSMENT

3.0 INTRODUCTION

Someone in every firm, regardless of his title, must put together, review, analysis interpret, and plan the financial requirements and consequences of total operations. Financial assessment provides the best guide for future resource allocation by the firm. It permits and recommends investment where the opportunity is greatest. It provides relatively uniform yardsticks for judging most of the enterprise's operations and projects. Modern financial management is concerned primarily with the commitment of funds to various uses in the business. It serves to maximise the profitability of the firm within the limits of prudent risk exposure.

3A FINANCIAL RATIOS

Financial ratio analysis may be used to keep close control over a product or process as well as for broader planning purposes. In the former case, the emphasis is on the preciseness of the ratios and on comparison between particular rather than general items. The financial manager will, of course, be familiar with the specialized ratios applicable to the industry in which his firm operates. By expressing the figures in financial statements as percentages of a common base, shifts in the relative size of the different components may be readily observed. At a glance, management can determine the trend in profit margins, growth or shrinkage in particular items of expense, and the comparative importance of non operating income. Performance ratios are used to assess the firms profitability while liquidity ratios are used to assess solvency and cash flows.

3A.1 INCOME STATEMENT RATIOS

Ratios calculated from income statement data are used to evaluate a company's operating characteristics.

a. Gross profit margins to net sales. This ratio shows the percentage of sales represented by gross profit.

$$\frac{\text{Net sales - Cost of goods sold}}{\text{Net sales}}$$

For profitable operations, the gross margin ratio must more than cover the portion of sales absorbed by all other expenses.

b. Operation ratio. It is ordinarily calculated by adding operating expenses to the cost of goods sold and expressing the sum as a percentage of net sales.

$$\frac{\text{Net sales - (cost of goods sold + operation exp)}}{\text{Net sales}}$$

For purpose of internal analysis, it is useful in detecting areas of difficulty.

c. Net income to sales. The ratio is determined by dividing net income by sales. Management is often interested in knowing the percentage of sales and revenue flowing to the owners of the business. It casts light on the importance of non operating activities.

3A.2 BALANCE SHEET RATIOS

Balance sheet ratios indicate the financial condition of a firm. They are directed to provide a gauge of the adequacy of the working capital structure.

a. Current ratio. This is calculated by dividing current assets by current liabilities.

$$\frac{\textbf{Current assets}}{\textbf{Current liabilities}}$$

It is regarded as one of the primary tests of a company's financial condition. It has been traditionally held that a company's current assets must be at least twice its current liabilities to avoid financial concern. The present tendency is to determine acceptable standards by prevailing conditions within the industry in which the company operates.

b. Quick ratio. This is termed the acid test or liquidity ratio. It is determined by dividing cash, marketable investments and account receivable by current liabilities. The quick ratio is a sterner test of financial strength than the current ratio. The traditional standard provides for a minimum ratio or 1 to 1 implying that current liabilities maybe cleared by liquidating quick assets.

The balance sheet will indicate the assets, liabilities, and capitals and reserves of the organisation as at a given period.

3B FUNDS FLOW STATEMENTS

Each year, in addition to profit and loss account and a Balance sheet, most business produce funds flow statement. The statement shows in some details the causes of change in cash and cash equivalents between last year's balance sheet and this year's. Funds may be defined as cash or working capital. Effective management is essential for the success of a business. A cash-flow budget provides the essential foundation for effective cash management with the time necessary to avoid or fill these gaps before they develop. Actual accounting enables a business evaluate its financial performance by properly matching its revenues and expenses when they occur.

Sourcing of funds may be through short - term, intermediate term, long - term, government and off - book financing.

3B.1 **Sales Forecast**. Every cash budget must begin with a sales forecast. The sale forecast provides the basis for projecting the firm's cash receipts.

3B.2 **Projecting Cash Receipts**. The primary source of cash flow into a business comes from the accounts receivable, rather than sales. The business may supplement the cash flow from sales with burrowed funds. However, the cash-flow budget is a necessary precedent that helps anticipate the need for that supplement.

3B.3 **Projecting Cash Expenditures.** The sales forecast also provides the starting point for anticipating a firm's cash expenditure. Typically, most business expenditures fall into one of the three predictable categories. Payment for purchases, payment for operation expenses, and debt payments.

3B.4 **Interrelating Receipts and Disbursements**. The cash-flow budgeting process interrelates the projections for the cash receipts and cash expenditures and measures the net effect those flows will have an the company's cash reserves each month. This identifies the net increase or decrease in cash the company can expect each month.

3B.5 **Filling in the Gaps**. Filling in the gaps interrelates the firm's cash reserves with the projected monthly inflows and outflows of cash. This identifies any potential cash-flow problems a business might have. Of course, no problem exists so long as the net cash outflow in any month doesn't drain a firm's cash reserves below some practical operating minimum. However, if any monthly drain drops those reserves below that minimum, the company must seek external financing to fill in the cash shortage. A business might reduce or eliminate the need to borrow by arranging a

better balance between the timing of its cash receipts and disbursements. That balance might develop from an effort to accelerate collections from customers or from processing payments more efficiently. Also, a business might find it beneficial to delay disbursements or utilize float to reduce the size of its minimum cash operating balance.

3C PROFIT AND LOSS ACCOUNT (P&L)

The P&L account is a summary statement of the revenues and costs of the organisation and resulting profit or loss for a past period. Profit and Loss account must be published annually. Although for internal management purposes, P&L accounts are often prepared on a monthly basis. The P&L account shows what happened in the period covered and is based on a number of accounting conventions such as realisation, accruals, conservatism or prudence, going concern, consistency and business entity.

a. Realisation - Profit is deemed to be earned at the time of sales not at the time of payment.

b. Accruals. Revenues and cost are recognised and included in financial statements as they are earned or incurred not as they are received or paid.

c. Conservation or Prudence. Known liabilities are provided for in current statements but gains and profits are only included when they have been realised.

d. Going concern. It is assumed that the business will continue in operational existence for the foreseeable future.

e. Consistency. They should be consistent accounting treatment.

The profit and loss account will indicate the income and will cover such items as interest earnings and expenses, overheads, provision for bad and doubtful accounts, profit before and after taxation, and profit attributable to ordinary shareholders.

CHAPTER FOUR

4.0 HISTORICAL DEVELOPMENT AND STRUCTURE OF AFRI AND FIRST BANKS NIGERIA PLC

4.1 AFRI BANK NIGERIA PLC

The bank was incorporated on 30th May 1969 with its Headquarters located in Lagos. The bank was listed on the Nigeria Stock Exchange on 29th October, 1993, twenty four years after it was incorporated. The nature of business is commercial banking and it has an eleven-man board of directors including a chairman and managing director.

The appointment of the members of the board of directors was confined to the geographical ownership structure of the bank. This includes a German and a French national. The initial pioneer staff were few but the number increased when the bank extended its services to some parts of the country. The total number of employees as at 31 December 1998 stands at 3,808.

The Subsidiaries/Associates of the bank includes:

Afribank International Limited (Merchant Bank)

Afribank Insurance Broker Co.

Afribank Estate Company Limited

Afribank Trustees and Securities Ltd

Afri-Nigeria Finance B.V

4.1.1 CAPITAL STRUCTURE

As at 31 December 1998, the capital structure shows an authorised capital of N600,000,000.00 and a paid-up of N552,083,083,000.00

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4.1.2 STRUCTURE OF THE BANK

The Bank being a profit-oriented organisation has a simple organisational chart. At the top is the Board of Directors headed by a chairman. The day-to-day running of the Bank is conducted by the Managing Director (MD) who is also a member of the Board of Directors. The Board is made up of eleven members drawn from the ownership structure. Next to the Board of Directors (BOD) is the executive management. This is made up of the Executives of the Bank, following in the chain are the General Managers and Assistant General Managers of the various branches at the bank headquarters. The head office is made up of the following departments: Legal, Personnel/Administration, Accounting, Advance, Training, Property/Estate, Inspection, and Research and Development. The Bank has a network of branches at South, Eastern, Central and Northern parts of Nigeria. The Bank has been liquid and solvent financially (The Nigerian Stock Exchange Fact Book 1998).

4.2 CAUSES OF LIQUIDITY AND SOLVENCY IN BANKS

4.2.1 AFRIBANK PLC

International Limited (Merchant Bankers) which is wholly owned subsidiary of Afribank floated a subsidiary Company AIL Securities Ltd in 1997. This brings to five the number of wholly owned subsidiaries of the Group. The latest subsidiary is engaged in stock banking and will form the needed synergy for service delivery in the capital market.

During the year also, the Bank joined the consortium of nineteen banks that are floating what is regarded as the biggest smart card scheme in the world. The pilot project for the scheme took off in late August 1998. A national roll-out has commenced thereafter.

To remain competitive and relevant in the ever-innovative banking scene, Afribank embarked on a massive re-engineering and connectivity project that positioned the Bank properly for the challenges of the next millennium.

The re-engineering programme already been concluded in selected branches throughout the network has resulted in improved customer service. In addition, waiting time in the bank's banking halls for basic services has reduced tremendously which tends to attract more investors or customers to the Bank. Also a microwave link has been set up within the Lagos metropolis for the bank branches. This link will enable the Bank offer real time banking within Lagos. Infact before the 1998 operating year ran out, the bank has successfully linked the major branches throughout the bank's network of 137 branches accounting for about 80% of the bank's operations.

In response to growing consumer needs, the bank has concluded arrangements to establish an international money transfer scheme. This comprehensive International Funds Transfer is being packaged with exceptional security and efficiency. Early in 1997, the UNDP appointed Afribank as the main bank for its nationwide micro credit scheme. Already, the UNDP and Afribank have done preparatory work on the scheme which took off in 1998. Returns from this product is said to be very encouraging. In the same vein, the FEAP with strong Federal Government Support has taken - off. Afribank is amongst the five banks chosen for administration and disbursement of credit facilities to small and medium scale enterprises.

The Bank has also restructured its research and training units with a view to commercialising their services which will increase the earnings of the Bank. Furthermore, a new communication policy has been worked out for the bank which ensures that stakeholders are more adequately in formed of happenings within the bank thereby waving-off fears, and lack of confidence in the performance of the bank.

The new Head Office building is completed, its occupation will result in substantial savings in costs arising from renting office space while at the same time

enhancing efficiency in administration by bringing all Head Office Departments under the same roof.

The Bank came first in the International Trade Fair it participated in Kaduna, Enugu and Lagos amongst other banks.

The quality of Staff has always been recognised as the major factor responsible for the bank's performance. In line with this, in 1998, manpower development was given greater support. A total of 3326 or 78% of the work force benefited from training both within and outside the Bank.

To further encourage and motivate staff to be more dedicated to total quality services, the outstanding performance of 1037 members of staff were rewarded through promotions in 1997. This represents 24.50% of the work force. The Bank management has also been constantly monitoring the morale of staff, the environment in which they work and their motivation with a view to further strengthening their commitment to the highest standard of professionalism.

4.3 FIRST BANK PLC

First Bank of Nigeria, for over a century, has distinguished itself as a leading banking institution and a major contributor to the economic advancement and development of Nigeria. The bank was founded in 1894 by a shipping magnate from Liverpool, Sir Alfred Jones, and commenced as a small bank in the office of Elder Dempstan and Company in Lagos.

It was incorporated as a limited liability company in London on March 31, 1894, with Head office in Liverpool and started business under the corporate name of the Bank of British West Africa (BBWA). With a paid-up capital of 12,000 pound sterling, it commenced business upon absorbing its predecessor, the African Banking Corporation, which was established earlier in 1892. This signalled the origin of the pre-eminent position which the Bank was to establish in the Banking industry in West Africa. In the early years of the Bank, it recorded an impressive growth and worked

closely with the colonial government in performing the traditional function of a Central Bank, such as the issue of a specie in the West African sub-region.

To justify its West African Coverage, a branch was opened in Accra Gold Coast (Now Ghana) in 1896 and another in Freetown Sierra Leone in 1898, which marked the genesis of the Bank's international banking operations. The branch of the Bank in Nigeria was opened in the old Calabar in 1900 and two years later, t he services of the Bank were extended to Northern Nigeria. With a branch network of 301 in 1997 spread throughout the Federation, including the London branch, the Bank maintains the largest network of branches in the industry.

4.3.1 GROWTH AND CUSTOMERS NEEDS

To Satisfy the needs of its customers, First Bank as presently configured has diversified into a whole range of banking activities and services including commercial, merchant and international banking.

Over the years, the bank has experienced phenomenal growth. With a share capital of ₦55.6 million in 1980, the Bank's share capital grew to ₦5.2 Billion by March 1998. The Bank's total asset base was ₦95.22 billion while its deposit base stood at ₦66.20 billion as at March 1998. At the inception of the Bank's operation in 1984, it had a staff of six comprising three Europeans and three Africans. Today, the bank is fully Nigerianised in response to the aspiration and yearnings of the Nigerian people and Government, as well as the Bank's determination to identify with the aspiration of the country in its march towards national development.

To reposition the Bank and to take advantage of opportunities in the changing environment, the Bank undertook several restructuring exercises. Also in 1995, the Bank introduced a decentralised structure with 5 regional administrations. This was fine tuned in 1992 to enhance the Bank's operational efficiency. In 1996, the Bank introduced t he FBN Century II project to revolutionalise its operations in line with the dynamics of the market.

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As a measure of the confidence the public has in the Bank, its offer for sale of over 120 million shares in 1994 was subscribed and that of 200 million shares in 1997 was over subscribed by 14.70%. The Bank has 242,128 individuals and institutional share holders in all parts of the country. Its leadership position in the private sector is derived from its consistent record as a successful financial institution. The Bank has demonstrated its commitment to its customers and the development of the economy by diversification of its loan and credit facilities to various sectors of the economy.

The organisational developments within the Bank that account for its good performance include:

a. Century II project: Since the completion of this project, the benefits of the Branch re-engineering exercise has begun to manifest in more efficient service delivery to the customers.

b. Computerisation: The Bank expanded its computerisation activities in order to provide effective and efficient customer-based service.

c. Premises: Office complexes have been developed at the major branches thereby reducing cost of rent.

d. Staff: The Bank staff strength decreased by 2,125 or (19.48%) from the 10,910 employees in 1996 thus bringing the total number of staff to 8,785. This reduction which cuts across all categories of staff in the Bank was largely due to the early retirement incentive package embraced by the staff. In recognition of the contributions of members of staff in the overall performance of the Bank, a total of 2,011 members of staff were promoted to various grades during the year. This represents 22.89% of the Bank's staff strength and is made up of 551 supervisors and clerical staff, 1430 officers and 30 management staff.

e. Training Development: The success story of the Bank is also attributed to its training and development policy. The Bank continued to intensify efforts at

maintaining a cream of highly competent workforce capable of facing up to the dynamic demand of the industry through training and re-training. Staff are trained in house locally and overseas.

f. Debt Recovery: A total debt recovery of N469 million was achieved during the 1998 year. In achieving this feat, the Nigeria Deposit Insurance Corporation (NDIC) assisted the Bank to recover N174.7 million out of a claim of gross debt of ₦1.112 billion from Federal/State Government and their parastatals. Despite the present economic depression in the country, the Bank has taken necessary steps to ensure improved performance. These include renegotiated settlement of debts and enhanced incentive to Debt Recovery Agents to complement staff's commendable efforts.

g. Treasury and Funds Management: As part of the bank commitment in providing the Nigerian banking industry and the entire economy with valuable services, the Bank introduced a Local Correspondent Banking Scheme during the year. The scheme is aimed at maximising the strategic strength of the Bank to boost its revenue potentials by providing needy banks in the industry and customers with satellite banking services through the Bank's wide branch network.

h. First Trustees Nigerian Limited: First Trustees Nigeria Limited, a wholly owned subsidiary of First. Bank increased the number of its clients on pension/fund management by three. Consequently the value of its pension/fund portfolio increased from N2.9 billion in 1996 to N4.2 billion in March 1998. Its gross earnings therefore increased from N22.7 million to ₦26.3 million in the same period.

i. **Product Development:**

(i) **Improved Automated Teller Machine (ATM) Services**: ATM has been offered for over seven years by the Bank in Lagos and Port Harcourt for shell Petroleum Company limited. The ATM does not only dispense cash, it offers other services like balance inquiry, mini statement of account, cheque book requisition etc.

(ii) **Western Union Money Transfer Service**: The Western Union Money Transfer Service has made giant strides since its debut into the Nigerian financial marked in February, 1996. Despite the incursion of competitors into the market the Western Union Money Transfer still enjoys tremendous patronage. This service provides succour to relatives and friends in Nigeria and other Nationals as the service provides the "trusted solution to receiving money from abroad in minutes". Also it provides very strong support to the Nigerian economy, with the foreign exchange inflow generated.

(iii) **Smart Card**: The Bank is one of the 19 banks in the Smart card consortium. First Bank has an advantage of having in place Automated Teller Machines. This is expected to give an edge over other participating banks in the smart card consortium. This enhances the achievement of the Bank's overall objectives to the various stakeholders.

(iv) **African Export-Import Bank (AFREXIM BANK), Cairo.**
First Bank owns equity investment in AFREXIM Bank, a subsidiary of the African Development Bank (ADB). This serves as a source of offshore funds for financing business activities.

(v) **Expansion**: The Bank has a network of branches all over Nigeria. The Bank in recognition of its role in the Nigerian economy was appointed by a the Petroleum (Special) Trust Fund, as one of the seven participating banks to handle the National Health and Education Rehabilitation Programme (NHERP). It is also appointed by the Family Economic Advancement Programmed (FEAP) as one of the five participating banks to disburse the funds of FEAP to beneficiaries.

4.3.2 LIQUIDITY AND SOLVENCY

First Bank is liquid and solvent, therefore has never been on the list of distressed banks. The Bank first changed its name from Bank of British West Africa to Bank of West Africa in 1957. Secondly, the Bank was incorporated locally in 1969 as the Standard Bank of Nigeria Limited and in line with Companies Decree of 1968. Thereafter, active participation of Nigerians in the management of the bank became a matter of corporate policy. FBN PLC got listed on the Nigeria Stock Exchange in March 1979 and won the Nigerian Stock Exchange (NSE) President Award seven times as the bank with the best financial report in the banking sector.

Changes in the name of the bank occurred in 1979 and 1991 to First Bank of Nigeria Limited and First of Nigeria Plc respectively. The nature of business is commercial banking and it has a fifteen-man board of directors including a chairman and a managing director who are all Nigerians.

The appointment of the members of the Board of Directors cuts across the geographical spread of the ownership structure.

The initial pioneer staff were few but the number increased to 10,910 in 1996 with the expansion of the bank. This has been reduced to 8,785 employed as at 31 December 1998.

The Subsidiaries/Associates of the bank includes:

SULAIM IBRAHIM LIBRARY

First Trustees Limited

FBN Merchant Bankers Limited

First Nominees Limited

First Dependent Limited

Kakawa Discount House Limited

4.3.3 CAPITAL STRUCTURE

As at 31 December 1998, the capital structure shows an authorised capital of N1 billion and a paid-up of N336.2 million

4.3.4 STRUCTURE OF THE BANK

The Bank has 242,128 individuals and institutional shareholders in all parts of the country as at 31 December 1998.

The organisational structure of the Bank is characterised by a Board of Director (BOD) at the top headed by a chairman. The day-to-day running of the bank is conducted by the MD who is also a member of the BOD.

The Board is made up of fifteen members drawn from the ownership structure. Next to the BOD is the executive management. This is made up of the executives of the bank following in the chain are the General Managers and Assistant General Managers for the various branches at the Bank headquarters. The head office is made up of Legal, Personnel/Administration, accounting, Training, Property/Estate, Inspection and Research and Development. The bank has a network of branches all over Nigeria (First Bank Annual Report 1998).

CHAPTER FIVE

5.0. DATA PRESENTATION AND ANALYSIS

5.1. INTRODUCTION

The firm's creditors are primarily interested in both short - term liquidity of the firm and the ability of the firm to service its debt over the long run. Existing creditors want to assure themselves that the firm is liquid and that it will be able to make its interest and principal payments when due. Prospective creditors are concerned with determining whether the firm can support the additional debts that would result if they extended credit to the firm.

A secondary interest of the present and prospective creditor is the firm's profitability, he wants to assure himself that the firm is healthy and will continue to be successful. Trade creditors (Short-term creditors) are interested in the fact that the firm should be able to meet claims over a very short period of time.

Their analysis will therefore confine to the evaluation of the firm's liquidity position. The suppliers of long term debt on the other hand, are interested in the firm's long-term solvency and survival. They analyse the firms profitability over time, its ability to generate cash to be able to pay interest and return their claim and the relationship between various sources of funds (Capital structure relationship). Long term creditors do not only analyse the historical financial statements, but require the firm to supply projected or proforma financial statements to make analysis about the firm's future solvency and profitability.

The firms management is supposed to be concerned with all aspects of the firm's financial situation. Since it is aware of the types of things evaluated by owners and creditors, it attempts to operate in a manner that will result in ratios which will be considered favourable by both parties.

It is the overall responsibility of the management to see that the resources of the firm are used most effectively and efficiently, and that the firm's financial condition is

sound. If the firm is successful, its credit worthiness should be unimpaired. In order words, the firms ability to raise money through either the sale of stock or the issuance of debt (bonds) should be maintained at a reasonable high level. A collateral objective of the firms management is to use ratio from period to period. Any unexpected change are examined in order to isolate developing problems.

Financial analysis, which is employed in this work in order to assess the performance of the banks, provides the manager with the tools necessary to continuously check the pulse of the firm in order to implement corrective measures and make necessary adjustments as soon as symptoms of future problems are found.

Ratio analysis involves comparison for a useful interpretation of the financial statements. To ensure that comparison was made with some standards, the following standards of comparison are used:

i. Ratio calculated from the past financial statements of the same firm.

ii. Ratio developed using the proforma financial statement of the same firm.

iii. Ratios of some selected firm especially the most progressive and successful at the same point in time were seriously adhered to.

There are two basic ways in which financial ratios are used namely:

1. In a cross-sectional approach.

2. In time -series analysis.

The cross-sectional approach involves the comparison of different firms financial ratios at the same point in time. The typical business firm is interested in how well it has performed in relation to its competitors. (Matthur 1979).

If the competitors are also cooperating, then their financial statements should be available for analysis. Often the firms performance will be compared to that of the

industry leader. This comparison may allow the firm to uncover major operating differences, which if changed, will increase its efficiency.

On the other hand, time series analysis which is the type employed in this investigation is done when the financial analyst measures a firm's performance over time. Comparison of the firm's current performance to past performance utilising ratio analysis which allow the firm to determine whether it is progressing as planned. Developing trends, can be seen by using multi-year comparison, a knowledge of these trends should assist the firm in planning future operations.

The theory behind time series analysis is that the firm must be evaluated in relation to its past performance, any developing trends must be isolated, and appropriate action must be taken to direct the firm towards its immediate and long term goals.

Time series analysis is often helpful in checking the reasonableness of a firm's project financial statements. A comparison of current and past ratios to those resulting from an analysis of proforma statements may reveal discrepancies or over optimism in the proforma statements.

In calculating and analysing the ratios, a group of ratios rather than one ratio was employed. In addition, the data in the financial statements being compared were developed in the same way. The estimation of performance of the two banks was made using ratio analysis calculated from the five year financial summaries of the banks provided by the Nigerian Stock Exchange fact book for various years and other data collected from the NDIC, CBN and the banks studied. The standard formulae used to arrived at the ratios are as presented in appendix one.

The results of the ratios analysis and graph of the profit and loss accounts of the two banks for five years are presented on Tables 1 and 2 and Figures 1 and 2 respectively.

5.2 RATIO RESULTS ANALYSIS OF: AFRIBANK NIGERIA PLC 1993 - 1997

a. CURRENT RATIO (CR)

The current ratio is the most commonly used measure of short-term solvency, since it indicates the extend to which the claims of short-term creditors are covered by assets that are expected to be converted to cash in a period roughly corresponding to the maturity of the claims. The evaluation of current ratio for Afribank for the years 1993 -1997, shows a fair and consistent ratios of about 1 (Table 3 on page 45). This indicates that the firm is fairly liquid enough. It should be noted that this is a first line test of liquidity.

b. DEBT RATIO (DR)

The debt ratio measures the proportion of total assets provided by the firms creditors. The debt ratio of this bank shows a high ratio of about 90% for the years between 1993 to 1997. This favoured the owners of the bank because this enables high gearing to either magnify earnings or raise new equity thereby giving up some degree of control. This is in contrast to the creditors preference for low debt ratio since the lower the ratio, the greater the cushion against creditors losses in the event of liquidation.

Furthermore, high debt ratio brings in the danger of encouraging irresponsibility on the part of the owners. In fact the stake of the owners can become so small that speculative activity, if it is successful, will yield a substantial percentage return to the owner. While if unsuccessful, however, only a moderate loss is incurred by the owners because the investment is small. It should also be noted that the higher the ratio, the more financial leverage they will have.

c. DEBT EQUITY RATIO (DER)

This ratio shows the relationship between the long-term funds provided by creditors and those provided by the firms owners. It is commonly used, to measure the degree of financial leverage of the firm. From the DER analysis of this for the periods 1993 to 1997, it shows a fairly high DER. This fluctuates around 14, 13 and 12 over the years. This implies that the bank has large amounts of fixed assets and stable cash flows which gives the bank a good performance health.

d. DEBT TO TOTAL CAPITALIZATION (DTTC)

This commonly used ratio has the same objective as the Debt Ratio. It measures the percentage of the firm's long-term funds supplied by its creditors. The firm's long-term funds are referred to as its total capitalization. They include both long term debt and the stockholder's equity. The result also shows high ratio which means more of the creditors funds are used with the same consequences as earlier explained.

5.2.1 PROFITABILITY RATIOS

There are a large number of profitability ratios. Each relates the returns of the firm to either its sales, its assets or its equity. As a group, these measures allow the analyst to evaluate the firm's earnings with respect to a given level of sales, certain level of assets, or the owner's investment. Attention is paid to the firms profitability since in order to stay in existence it must be profitable. Without profit, a firm could not attract outside capital, moreover, existing creditors and owners would become concerned about the company's future and attempt to recover their funds. Creditors, owners and most importantly, management pay close attention to boosting firm's profits due to the great

importance placed on the earnings of the firm in the market place. The profitability ratios employed here includes:

a. NET PROFIT MARGIN (NPM)

This measures the percentage of each sales Naira remaining after all expenses, including taxes have been settled. The higher the firms net profit margin, the better.

The NPM of Afribank examined from 1993 to 1997 followed the same pattern of progression. This shows a very poor performance in 1996. This could be as a result of relatively low bank service or sales prices or a high over head cost or both.

b. RETURN ON INVESTMENT (ROI)

The return on investment, which is often called the firm's return on total assets, measures the overall effectiveness of management in generating profit with its available assets. The higher the firm's return on investment the better. Returns on total assets for the bank for the period 1993 - 97 was low especially in 1996 when it was zero. This is not healthy for the bank. These low ratios could probably stem from the low profit margin on earnings and from the low turnover of the total assets during the period especially in 1996.

c. FIXED ASSETS TURNOVER (FAT)

The bank's fixed assets turnover has been fairly good between 1993-95 and since then the rate has dropped. This implies that the bank does not use its fixed assets to a high percentage of capacity.

d. TOTAL ASSETS TURNOVER (TAT)

The TAT examined from 1993 to 97 shows a gradual decline. This implies that the bank is not generating sufficient volume of business for the size of its asset investment.

5.2.2 ACTIVITY RATIO

GROSS PROFIT MARGIN (GPM)

This indicates the percentage of each sales Naira remaining after the firm has paid for its goods. For the period of 1993 to 1997 examined and ratio analysis carried out, the GPM in 1993 was 0.16 and picked up gradually in 1997. High GPM gives the bank a better financial health or position and lower relative cost of merchandise sold and vice versa.

TABLE 3

FIVE YEARS (1993 - 1997)
RATIO ANALYSIS OF THE FINANCIAL SUMMARY OF AFRIBANK NIGERIA PLC

S/NO	FINANCIAL RATIOS	1993	1994	1995	1996	1997
1	*Current Ratio* (CR)	1.08	1.07	1.09	1.09	1.08
2	Debt Ratio (DR)	0.93	0.94	0.91	0.92	0.93
3	Debt Equity Ratio (DER)	13.3	14.77	10.48	10.83	12.4
4	Debt to Total Capitalisation (DTTC)	0.93	0.94	0.91	0.92	0.93
5	Gross Profit Margin (GPM)	0.16	0.12	0.18	0.01	0.08
6	Net Profit Margin (NPM)	0.12	0.09	0.14	0.01	0.06
7	Return on Investment (ROI)	0.02	0.02	0.02	0	0.01
8	Fixed Asset Turnover (FAT)	4.21	3.98	3.98	3.41	2.83
9	Total Asset Turnover (TAT)	0.2	0.19	0.19	0.17	0.14

5.3 FIRST BANK NIGERIA PLC 1993 -1997

RESULTS ANALYSIS

a. CURRENT RATIO:

The current ratios analysis of First Bank plc for the period 1993 -97 showed a steady improvement, that is ratio of 1.07 in 1993 to 1.11 in 1997. This

implies that the Bank's current ratio has been improving as indicated in (Table 4) on page 48.

b. **DEBT RATIO:**

The debt ratio of First Bank Nig Plc is similar to that of Afribank Nig Plc for the period examined 1993-97. The ratio is high up to 90%, this implies that money of the creditors is being used. This is in contrast to the creditors preference for low debt ratio since the lower the ratio, the greater the cushion against creditors losses in the event of liquidation. The implication of this outcome is similar to the explanation made for Debt Ration under Afribank Nig Plc. It was relatively stable from 1993 to 1994, dropped slightly between 1995 and 1996 and picked up in 1997. This fluctuating situation could be as a result of overhead cost, earning among other factors.

c. **NET PROFIT MARGIN (NPM)**

The NPM shows the same pattern with GPM which generally shows a sign of unhealthiness at one time or the other. This could be as a result of low cost of services or high overhead cost or both.

d. **RETURN ON INVESTMENT (ROI)**

Generally from the analysis of ROI of this bank made, it was observed that though ROI was not too high but it was consistent for the period of 1993 - 97 examined. Low profit margin on services and low turnover of total asset could account for low ROI.

e. **DEBT EQUITY RATIO (DER)**

The DER were high from 1993 - 94 but this has dropped between 1995-97. This implies that in terms of performance, the first two years (193-94),

the bank had large amount of fixed assets and stable cash flow which consequently led to fairly high ratios as against 1995-1997 when probably the Bank was less capital intensive which led to the low ratios. The DER for the last 3 years has not been too good.

f. DEBT TO TOTAL CAPITALIZATION

Similar situation exist as found in DER and the ratio to total capitalization as evidenced from the ratio values. The degree of performance is as applicable in DER.

g. GROSS PROFIT MARGINS (GPM)

The results, of the ratio analysis of GPM of this Bank shows a fluctuating situation. The GPM had steadily decreased between 1993 to 1996. It however, started rising in 1997. This gives the bank a better financial health.

h. FIXED ASSETS TURN OVER (FAT)

The Bank's fixed assets turnover has been high from 1993 to 1994 but has dropped slightly since then. This could probably be due to lack of use of fixed assets to their percentage capacity.

i. TOTAL ASSETS TURNOVER (TAT)

The same trend as observed in FAT of this Bank also exist in TAT. This could be due to lack of sufficient volume generation for the size of the asset investment of the bank.

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TABLE 4

FIVE YEARS (1993 - 1997)
RATIO ANALYSIS OF THE FINANCIAL SUMMARY OF FIRST BANK NIGERIA PLC

S/NO	FINANCIAL RATIOS	1993	1994	1995	1996	1997
1	Current Ratio (CR)	1.07	1.06	1.11	1.1	1.11
2	Debt Ratio (DR)	0.93	0.94	0.9	0.91	0.9
3	Debt Equity Ratio (DER)	15.14	16.89	9.51	10.39	9.3
4	Debt to Total Capitalisation (DTTC)	0.94	0.94	0.91	0.91	0.9
5	Gross Profit Margin (GPM)	0.22	0.2	0.14	0.13	0.18
6	Net Profit Margin (NPM)	0.14	0.13	0.11	0.11	0.13
7	Return on Investment (ROI)	0.03	0.02	0.02	0.02	0.02
8	Fixed Asset Turnover (FAT)	6.1	4.82	2.44	2.59	3.15
9	Total Asset Turnover (TAT)	0.21	0.16	0.04	0.14	0.15

Source: First Bank NIG PLC Financial Report 1993-97

5.4 PROFIT AND LOSS ANALYSIS

5.4.1. AFRI BANK NIGERIA PLC

In addition to the ratio analysis assessment of the bank, the profit and loss statements of account of the bank was also examined and presented in Fig 1...

The results showed that the bank, in spite of the general lull in economic activities in 1997, performed reasonably well. The Group's consolidated gross earnings showed an increase of 6.6% from N5.128 billion in 1996 to N5.470 billion in 1997. The Group's Total Assets increased from N30.869 billion in 1996 to N38.586 billion in 1997 representing an increase of 25%. The total assets growth for the Bank maintained a similar trend as it increased by 22.9% from N26.763 billion in 1996 to N33.435 billion in 1997. However, the Bank's Gross Earnings declined marginally by 1.6% from N4.619 billion in 1996 to N4.547 billion in 1997.

In addition, despite the fierce competition for deposit, the Bank's deposit base increased significantly during the year, 1997. The Bank's deposit Mix had remained very favourable. An increase in total deposits by 39.8% from N1.215 billion in 1996 to N29.663 billion 1997 was also recorded. Within the same period, the Bank's Total Deposit equally increased from N18.445 billion in 1996 to N26.459 billion in 1997

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representing an increase of 40.2%. This achievement shows depositor's confidence on the safety of their funds and the reliability of Afribank.

Also apart from the portfolio cleaning exercise, the Bank increased modestly the Bank's provision for bad and doubtful debt by 5.7% from N307.422 million to N235.664 million. This is to keep to accounting standards and banking prudence.

Despite the substantial allowances made, the Bank's profit before tax increased by 102 percent against the figure achieved a year earlier. It grew from 159.18 million in 1996 year end to 231.38 million in 31 December, 1997.

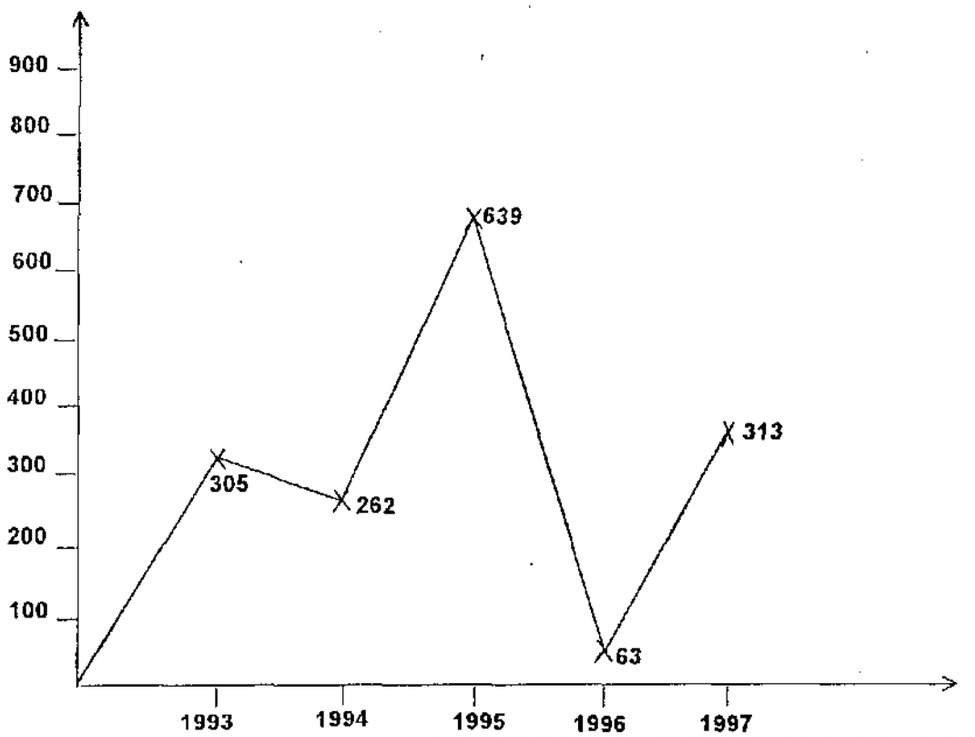


Fig 1. Profit and Loss Summary 1993-97 AFTER TAX OF AFRIBANK NIG PLC (N ,000,000)

Source: Afribank Financial Report 1993-97.

The Bank's profit on (ordinary activities) After Tax stood at N269,92 million in 1997 compared to N219.92 million in 1997 compared to N219.514 m in 1996, representing an increase of 23.25% in the Bank Profit Level compared to 1996.

Also, the Profit After Tax (PAT) for the Group as illustrated in Fig 1----- showed a commendable increase of 392% increase from N63.587 million in 1996 to N312.855 million in 1997. With this performance, the Bank's Net Asset per share increased from N2.3 in 1996 to N3.03 in 1997. The has also met the CBN requirements on minimum capitalization well ahead of the deadline set by the monetary authorities.

5.4.2 FIRST BANK NIGERIA PLC

From the ratio analysis and profit and loss statements of the bank examined, a highly commendable performance despite the low ratios recorded in some of the variables of ratio analysis. Gross earnings increased from N10.03 billion to N13.808 in 1997 which represent a percentage increase of 37.7, while profit before tax double that of the year 1996 from N1.16 billion to 2.32 billion. Profit after tax totalled 1.65 billion in 1997/98 as against the N996.86 million achieved in 1996 representing an increase of 67%. When the results of the Bank's subsidiary FBN (Merchant Bankers) limited, are included, the Group's profit before tax stood at N2.84 billion while profit after tax was N2.03 billion Fig 2. The total assets of the bank grew from N72.81 billion in 1996 to N95.22 billion in 1997/98 representing an increase of 30.8% shareholders funds of the

Bank rose to N9.24 billion from N6.4 billion for 1996. This is a sign of confidence the shareholders and creditors have for the bank. A sum of N1.04 billion is observed to be set aside for dividends payment.

This accordingly translates into a dividend payment of 100 kobo per share. This shows that with an improved capital shareholders can confidently look forward event to improved relearns in future.

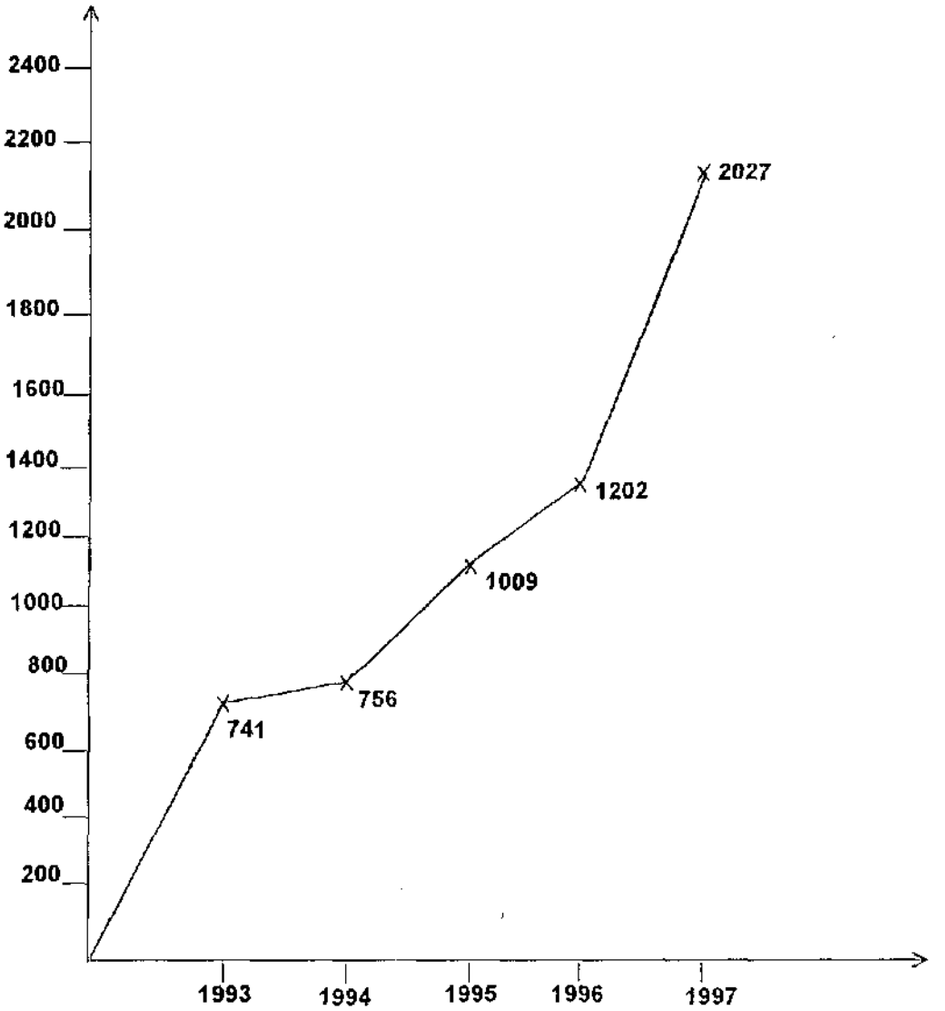


fig 2. **Profit and Loss Summary 1993-97** AFTER TAX OF FIRST BANK NIG PLC (N,000,000)

Source: First Bank Financial Report 1993-97.

CHAPTER SIX

SUMMARY, CONCLUSION AND RECOMMENDATION

6.1 SUMMARY

Deliberate attempt was made to examine viable banks in the banking industry with a particular attention on AFRIBANK NIGERIA PLC and FIRST BANK NIGERIA PLC. This is due to the imperative need of x-raying the financial health of our banks to rebuild confidence in the banks by creditors, shareholders and owners.

The work was carried out in six divisions. The first focused attention on introduction, statement of problem, objective of study significance of study, scope and Research methodology, in addition to limitation of study and definition of terms.

The second division which form the chapter two discussed literature review, definitions, historical development of Banking industry in Nigeria with a highlight on causes of liquidity and solvency in these banks. The third part focused on funds flow statement. The fourth part of the work made up the chapter four. This section paid attention to historical development of AFRIBANK NIG PLC and FIRST BANK NIG PLC while chapter five is devoted to data presentation and analysis with a focus on the financial report and profit and loss accounts of the two banks.

Finally, the work was summarised with a concluding remarks and recommendation.

6.2 CONCLUSION

This study has taken a look at the performance of some viable banks in Nigeria with particular reference to AFRIBANK NIG PLC and FIRST BANK NIG PLC. The past financial records of the two banks show a relative good performance and therefore do not fall into the category of distressed bank in Nigeria. This performance is no doubt credited to the human factors with the two banks i.e Board members, Management team and other bank staff including the owners, shareholders and creditors. This takes us back to the early 1930s at the famous University of Chicago

(Graduate school) when a professor of Banking asserted that "bad and doubtful loans do not make themselves, but that, it is the loans officers or Managers (human factors) who make these bad debts or doubtful loans". If the human factors of the two banks did not come about the health of the banks, then the story might have been different from what it is today in these two banks.

On the whole, the ratios summary, profit and loss accounts examined and analysed give a reasonable picture of the banks areas of weaknesses and strengths.

Some of the ratios summaries show low performance. This might not be the true picture of the banks examined because all the ratios calculated for these two banks were not compared to any other standard ratio in addition to the fact that a single ratio does not generally provide sufficient yardstick or judge the overall performance of the banks. So to avoid wrong inferences, the profit and loss accounts were also examined and these gave a fair picture of the performance of the two banks.

The banks liquidity position is satisfactory and the two banks have made a steady improvement over the years.

6.3 RECOMMENDATIONS

Having examined the financial performance of these two banks in Nigeria and came out with some findings and conclusions. There is the need to make some recommendations to the operators of these banks. It is hoped that these recommendations would be taken into consideration in adjusting their monetary and corporate policies and future cooperate policy formulation. Even though these recommendations may not be a panacea for any future ills, but they would go a long - way to strengthen the banks and to succeed in business.

The recommendations are made under three main subdivisions namely production, personnel and corporate resources and finance and accounting.

a. SERVICE PRODUCTION

In the area of production the banks should ensure that

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The recommendations are made under three main subdivisions namely production, personnel and corporate resources and finance and accounting.

a. SERVICE PRODUCTION

In the area of production the banks should ensure that

i. The cost of production is reduced in order to improve profit margin.

ii. The banks should ensure they attain the capacity to satisfy the customers demand.

iii. Efficient and effective facilities must be put in place to enhance good output.

iv. The need to strategically expand can not be over emphasised as this increase the member of creditors and shareholders and invariably the earnings of the bank.

v. Efficient and effective inventory control system should be in place for constant checks and balances.

vi. Efficient and effective quality service and maintenance of policies would enhance the realization of corporate objectives.

b. **CORPORATE RESOURCES AND PERSONNEL**

i. To improve the total asset turnover, there is the need to increase service/sales and if necessary, some assets should be disposed off, or both steps should be taken.

ii. There is the need to ensure good corporate image and prestige in order to attract potential investors.

iii. The banks should ensure effective organisational structure that respect experience, skill, qualification and natural gift for total quality output.

iv. Strategic and effective management and information systems should be put in place to give the bank the right direction and the desire communication network for maximum output.

v. High quality and skilled employees should be employed for total quality output.

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vi. A balanced functional experience and track record of top management is recommended.

vii. The banks should maintain effective and cordial relations with unions and personnel relations with policies.

viii. The banks should ensure efficient and effective market research system to locate customer, develop new product/service and to lead in the industry.

c. **FINANCE AND ACCOUNTING**

i. The banks are to ensure total financial resources and strength.

ii. Efficient and effective/optimal capital structure should be in place.

iii. There should be good relations with shareholders and creditors in order to build confidence in them and to encourage to Invest or attract potential investors or creditors or shareholders in order to increase the bank's earnings.

iv. The banks should always ensures that they are in advantageous tax status.

v. Their is the need for efficient and effective financial planning, working capital and budgeting procedures.

vi. Efficient and effective accounting system for costs, budget and profit planning should be in place and religiously practiced.

In addition to the bank's current practices, there is need for proper planning, strategic focus, formulating appropriate policies, reading market/customer signals correctly and ensuring the prompt and timely execution of strategic plans. Also, monitoring the performance of plans through a well thought out systematic feedback mechanism in order to take corrective action when deviations occur and dedicated, experienced and skilled staff are recommended. If they are adhered to, these banks will go a long way not only to

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consolidate their present position but will strengthen the performance in the near future thereby building more confidence, faith in them by their creditors, shareholders and owners which could lead to future leadership in the industry.

The Government on her part should as a matter of deliberate policy create an enabling environment for the banks to strive. These include areas of political, economic and social stabilities.

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APPENDIX 1

FORMULAE FOR CALCULATING FINANCIAL RATIOS

1.	Current Ratio (CR)	=	Current Assets / Current Liabilities
2.	Debt Ratio (DR)	=	Total Liabilities / Total Assets
3.	Debt Equity Ratio (DER)	=	Long Term Debts / Stockholders Equity
4.	Debt to Total Capitalization (DTC)	=	Long Term Debts / Total Capitalization
5.	Gross Profit Margin (GPM)	=	Gross Profits / Sales or Earnings
6.	Net Profit Margins (NPM)	=	Net Profit After Taxes / Sales or Earnings
7.	Return on Investments (or Return on Total Assets)	=	Net Profit After Taxes / Total Assets
8.	Fixed Assets Turnover	=	Sales or Earnings / Net Fixed Assets
9.	Total Assets Turnover	=	Sales or Earnings / Total Assets

APPENDIX 2

The following questions were asked some selected customers, creditors and owners of the two banks.

1. Why did you choose to operate your account with this bank?

2. What is your opinion about the performance of the bank?

3. Do you intend to continue your transactions with the bank? Why?

4. How did you assess the performance of the bank compared to other banks around?