MERCHANT BANKS AND ECONOMIC DEVELOPMENT: A CASE STUDY OF NAL MERCHANT BANK PLC

BY

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A PROJECT SUBMITTED TO THE POST GRADUATE SCHOOOL AHMADU BELLO UNIVERSITY, ZARIA IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MBA) OF AHMADU BELLO UNIVERSITY, ZARIA

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DECLARATION

I hereby declare that this project was written by me, and that it is a record of my own research work. It has not been previously presented in any applications for a Higher Degree.

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CERTIFICATION

THIS PROJECT REPORT ENTITLED: " MERCHANT BANKS AND ECONOMIC DEVELOPMENT: A CASE STUDY OF NAL MERCHANT BANK PLC, BY AHMED MUSA MUHAMMED, MEETS THE REGULATIONS GOVERNING THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MBA) OF AHMADU BELLO UNIVERSITY AND IS APPROVED FOR ITS CONTRIBUTION TO KNOWLEDGE AND LITERARY PRESENTATION.

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DEDICATION

This Research Project is dedicated to the sweet memory of my late parents MALAM MUSA JARKASA AND HAJIYA AISHATU MAMA. May ALLAH grant them eternal peace, Amen.

ACKNOWLEDGEMENT

I am grateful to ALLAH, the ALMIGHTY for the inspiration and strength He gave me to successfully undergo this course and also make this project a reality.

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I would not forget my wife, HUSNA for her support and prayers.

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I also express my gratitude to all those who directly or indirectly contributed to the success of this work. May Allah reward them all.

ABSTRACT

The language of business is money, and money is the business of financial institutions - key participants of the financial system. The most developed segment of the Nigerian financial systeem is **the** banking industry.

Thus, it is quite noticeable that despite the depressed economy, there has been a continuous increase in the number of banks day in day out.

For many years, most especially since the Structural Adjustment Programme (SAP) came into being, the fad-banks did more than keeping peoples money safe. The banks turned into traders, dealers in foreign exchange and in the process rocking millions of naira as profit.

Despite SAP, the banking industry become a goldmine. Everything they dabbled turned into money. The speed and manner with which same become apparently profitable raised brawls and for the fact that the deeper you dig, the more you find. One is therefore tempted to investigte the role of merchant banks in the development of the Nigerian economy, since they are one of the vital instruments for transforming the economy into a viable, productive and profitable one.

The sudden upsurge in merchant banks should not come as a surprise with the structure of Nigerian economy changing so rapidly, and with the pace of industrialization gathering breath and taking momentum there is the inevitable need for wholesale banking; venture capital tax financing, equipment leasing, and for medium and long term financing activities that are outside the traditional domain of commercial banks.

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CHAPTER ONE

1.0 INTRODUCTION

The banking industry in Nigeria has developed along the lines of the economy of the country in the last few decades. However, the history of banking in Nigeria could be traced back to 1894, when the British Bank for West Africa (BBWA) started operations.

Between 1894 and 1970, a number of banks were granted licenses to operate as commercial banks, some of these banks failed after few years of operation. The few that survived then suffered from inadequate capital to meet the demands of their customers. The establishment of new banks was geared towards breaking the monopoly of few expatriate banks in operation then, but they (new banks) lacked expertise.

The introduction of new banks was however, not without credits. Apart from generating competition in the banking industry, they helped in facilitating easy trade among indigenous businessmen.

Merchant Banking (a sub-sector of the banking industry), which we are concerned with in this context is an activity which has existed for

about four decades. It can however, be said that it's growth and development started less than two decades ago. This institution together with other financial institutions, the Central Bank of Nigeria, and the Federal Ministry of Finance make up the Nigerian Financial System.

Services provided by merchant banks have basically being classified into two, the banking and corporate finance services. The former includes: acceptances, loans and advances, deposits, equipment leasing, and foreign exchange services. While the latter include: project finance, issuing house services, investment and financial advisory services.

Although the concept of merchant banking has been in existence for more than 39 years in Nigeria, the meaning of the terms is still shrouded in obscurity. Some people refer to them as being just a "glorified bureau de change".

In spite of this, the merchant banking sector in Nigeria has continually played important role in the development of the country's economy.

Also, it has continued to thrive despite the various threats by the

innovations and improvement in the levels of technology going on in this segment of the banking sector in Nigeria.

1.1 STATEMENT OF PROBLEM

The Nigerian Financial System is still highly under-developed. The myth stems from the difficulty in given precise and generally accepted description of what constitutes merchant banking activities in Nigeria and in drawing clear line of distinction between activities of merchant banks and those of commercial banks.

It is in view of the above, that the researcher wishes to investigate the role of the merchant banks in the economic development of Nigeria, which will give insights as to what merchant banks constitute.

1.2 PURPOSE OF THE STUDY

The Nigerian financial sector has grown over the years to meet the ever increasing needs of customers, owners and regulators as well as that of the economy. Generally, the Nigerian financial system like any other financial system in the world mobilises financial resources from surplus units to finance deficit units of the economy.

Banks can be described as the lubricant used to oil the other sectors

expected to provide both banking and corporate finance services ... aid the growth and development of industries and in turn the economy as a whole.

It is in the light of the above that the researcher picks up merchant banks, a sub-sector of the banking sector with the aim of describing the role they have played and are playing in the development of the Nigerian economy.

Also to highlight problems faced by merchant banks and to make appropriate recommendations where necessary.

1.3 SIGNIFICANCE OF THE STUDY

A healthy economy is virtually dependent on efficient transfer of funds from savers to firms and individuals who need capital.

Banks as major players in the transfer of financial resources are indeed very important in the economic development of any nation. NAL Merchant Bank Plc, offers a comprehensive range of wholesale banking services which among others include: financing advisory services, investment

management, debt factoring and host of others.

This study will be of benefit to bankers, economists, prospective investors, financial analysts, students and other researchers. It will benefit them because they are the principal actors and stakeholders of the financial system and given the fact the study will exposit the role merchant banks in economic development of the country, the observations, suggestions, recommendations will improve the literature thereon and by extension benefit the stakeholders.

1.4 SCOPE OF THE STUDY

This study entitled the Merchant Banks and Economic Development in Nigeria (A case study of NAL Merchant Bank Plc), with the role of merchant banks as core component of the research is very wide. Accordingly, this research is limited to NAL Merchant Bank Plc, as a case study.

1.5 RESEARCH METHODOLOGY

This is an empirical research attempting to evaluate the role of merchant banks in the economic development of Nigeria with particular reference to NAL Merchant Bank Plc. The data was collected from primary

and secondary sources. Some staff of the NAL Merchant Banks were interviewed and relevant material from both CBN and other sources were consulted.

1.6 LIMITATIONS OF THE STUDY

In the course of carrying out this study, the researcher faced several limitations. These include time, finance and unavailability of data.

The time for carrying out the research was too short, as it was combined with other academic work. Furthermore due to high cost of transportation the researcher was greatly constrained to travel extensively to search for more relevant data. Also some data (recent and past) were not readily available. And where they were available, there was censorship by the Bank Management. Nevertheless, the researcher has explored all the necessary contacts to ensure that the needed information is secured.

1.7 DEFINITION OF TERMS

MERCHANT BANK:

A Merchant Bank according to the banking decree 1969 (amended 1979), "is a wholesale bank which engages in medium and long term financing, equipment leasing, debt factoring, investment

management, issue and acceptance of bills and the management of unit trusts". (1)

ECONOMIC DEVELOPMENT:

It is not equivalent to total development of a society, it is only a part of general development. It is nothing less than the upward movement of the entire social system.

ACCEPTANCE HOUSE:

Means any persons in Nigeria who transacts banking business and whose business mainly constitutes granting acceptance facilities.

BOND:

A security issued by a government or its agency, or private company as a means of raising money. Most bonds carry a fixed interest rate and are redeemable.

DEBENTURE:

Is a document setting out the terms of a loan, usually to a company. The terms is also used for loan itself or for each unit of the loan.

CAPITAL MARKET:

Is the market for equity and long term loan capital and demand is made by industries, government etc, which require long term funds for fixed investment. The supply is presented by the stock exchange and savers and saving institutions such as banks, insurance companies and pension funds.

LEASING:

This is a relationship through which the possession, the right to use and the right of control over an asset is transferred from its bona-fide owner to a user in consideration for periodic rental payments.

PROJECT FINANCING:

This is the arrangement from variety of sources of finance which will be required to appraise, set up and begin to operate a large capital project.

LOAN SYNDICATION:

This can be regarded as a process whereby institutions share risks

and handle a number of large loans.

SECURITIES:

Any income-yielding document by which the claim of holders in specified property are secured. They could be bonds, debentures, shares and stocks.

UNIT TRUST:

This is a method of investment whereby money subscribed by any people is pooled in a fund, the investment and management of which is subject to legal provision of a trust deed. The fund is invested in securities on behalf of the subscribers by a management company. Usually the management company and the trustee are independent of each other.

INDUSTRIAL FINANCE:

This is the raising of capital for firms through bank issues, loans and advances for the purpose of working capital, expansion of facilities, procurement of plant and equipment.

TERM LOANS:

This is a loan transaction which must have final maturity exceeding one year, which may or may not be secured and which usually specifies monthly, quarterly, semi-annually or annual repayment. It is evidence by a note or notes embodying the terms and conditions of the loan, or is subject to formal agreement between the borrower and the lender.

FINANCIAL INSTITUTION:

This is an institution that uses it's funds chiefly to purchase financial assets (deposits, loans, bonds) as opposed to tangible property.

LETTER OF CREDIT:

This is a document authorising a bank to pay the bearer a specified sum of money. It is a useful means of settlement of foreign trade transaction.

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CHAPTER TWO

LITERATURE REVIEW

2.1 CONCEPT OF MERCHANT BANKING

A common and prominent feature of most economies of the world today is the presence of Merchant Banks, otherwise known as Acceptance Houses in the United Kingdom and Investment Banks in the United States of America.

Despite the long history, the concept of merchant banking over the years lacks, generally acceptable definition. As Adewunmi (1985)[1] puts it, "in spite of the fact that these institutions have existed in the United Kingdom for over two hundred years in some form, the average educated man today does not know what merchant banking is all about. The few who claimed to know what it is all about and possibly able to describe it are often in capable of providing a precise instructive and generally acceptable definition".

Sir Edward Reild (1963)[2] described the term merchant bank as one

that, "is sometimes applied to banks who are not merchants, sometimes merchants who are not banks, and sometimes to houses who are neither merchants nor banks".

As Bank of America's John Luccnesi puts it, "merchant banking is like being in love - different for everybody. No two people experience in the same way. But when you see it, feel it - you know"[3].

J.E.H. Collins views merchant banking thus: "I am .... quite sure that merchant banking is by it's very nature a business based primarily on skills, a successful merchant bank is an association of men and women above average ability who make available to a variety of clients a wide range of fee-rewarding financial services"[4].

Simeon Ibi Ajayi and Oladeji O. Ojo (1984)[5], in their book, "Money and Banking Analysis and policy in Nigeria Context", defined a merchant bank as a "wholesale banker whose deposits are usually in large amounts. Such deposits are fixed for a particular period and of course, they earn interest. A merchant bank is essentially a wholesale banker and they hold little or no cash reserves. A merchant bank obtains it's funds apart from share capital of banks and corporations (public and private)and utilise it's

funds by accepting bills of exchange and finance trade".

The difficulty in the definition stems from the fact that only recently, have attempts been made to define the institution (merchant banks) legally.

In 1969, attempts were made in United Kingdom and Nigeria to define merchant banks by specifying what they can do and can not do.

Another problem was the way these institutions vary within the same country, and between countries, in their sizes, shapes and functions. And also the extent to which they specialise in one or more major activities varies almost endlessly.

The need to determine the operation of merchant banks in Nigeria and to draw a clear line of distinction between merchant and commercial banks necessitated the legislation in 1969 that provided for the definition.

Section 41 (1) of the Banking Decree of 1969 defined a "Bank" as "any person(s) who is on banking business and includes a commercial bank, an acceptance house, discount house and financial institutions". Sub-section 1(e) defined "Merchant Banking" as "any person in Nigeria who is

engaged in wholesale banking, equipment leasing, debt factoring, issuing house services, project financing, issue and acceptance of bills and the management of unit trusts"[6].

For the purpose of this research work, the following definition will be adopted as a working definition.

A merchant bank is a wholesale bank licensed under the Banking Decree of 1969 (as amended 1979) that engage in both medium and long term activities, foreign exchange services, issuing house services, equipment leasing, investment management and financial advisory services.

2.2 EVOLUTION OF MERCHANT BANKING IN NIGERIA

Merchant banking is a relatively new aspect of financial development in Nigeria and due to the non-availability of existing literature about the industry, only little is known about the genesis of merchant banking.

However the emergence of it in Nigeria could be traced to the early 1960's, when two institutions - Philip Hill (Nigeria) Limited and Nigeria Acceptance Limited (NAL) began offering wholesale banking services technically called Merchant Banking. The former was registered on the 14th

September, 1960 while the latter was registered on the 25th November, 1960. The two firms merged in 1969 to form NAL Merchant Bank Limited.

NAL Merchant Bank operated alone until later in 1973 when it was joined by the United Dominion Trust (UTD)which was the result of the reconstruction of the United Dominion Corporation (Nigeria) Limited; a wholly owned subsidiary of UDT International, which in turn was a wholly owned subsidiary of United Dominion Trust Limited. Prior to this, the corporation which was incorporated in 1960 had engaged in hire purchase business in Nigeria. The name of the bank was changed in 1977 to Nigerian Merchant Bank Limited now distressed.

Two other merchant banks, ICON Limited (Merchant Banker) and Chase Merchant Bank (Nigeria) Limited commenced operation in 1975. Chase Merchant Bank (Nigeria) Limited started as a joint venture between Chase Manhattan N.A. and the Federal Government. ICON on the other hand, was born out of the reconstruction and reorganisation of ICON Securities Limited wholly owned subsidiary of Nigeria Industrial Development Bank (NIDB).

Earlier in 1974, two merchant banks had appeared at the scene, they

were First National City Bank of New York and First National Bank of Chicago Limited later renamed International Merchant Bank Nigeria Limited.

In 1979, Nigerian - American Bank owned by Bank of Boston, and some private Nigeria individuals was established. Three years later, two merchant banks, Merchant Banking Corporation Limited and Indo - Nigerian Merchant Bank were granted licensed and they commenced operation. Within the same year (1982), three new merchant banks emerged on the scene, these were; Merchant Bank of Africa (Nigeria) Limited and ABC Merchant Limited. The banks were carefully followed by several others.

The rapid growth and development in the merchant banking industry can be attributed to some major developments. One of these was the Indigenisation Decree of 1972, which gave impetus to the establishment of merchant banks in Nigeria.

Another reason responsible for this rapid development was the significant financial implications of the second and third National Plan for 1970-1971 and 1975 -1980 period respectively.

These plans brought to the banking industry various opportunities in

financing imports, exports and infrastructure developments.

Furthermore, the oil boom era of the 1970's and it's associated activities in the country which have on the one hand, made available greater financial resources, and on the other hand, opened up an increasing number of profitable investment opportunities to which the mobilsed resources can be channelled by institutions such as merchant banks.

With the relaxation of the monetary and fiscal policies of the Military Government by the civilian government that came to power in 1979, another opportunity was created for the influx of new merchant banks.

The number of licensed merchant banks rose from 12 in 1960 to 49 in 1986, and to 51 in 1997. Today due to the distress in the banking sector only 40 are in operation (see appendix 4).

2.3 MERCHANT BANKS AND ECONOMIC DEVELOPMENT

As mentioned earlier, Merchant Banking is a recent development in Nigerian financial system. In view of this very little has been written on it.

Ogundipe (1979)[7] wrote an elaborate article in the Bullion Title

"merchant banks and Nigeria's economic growth". He made a lot of observations on the activities of merchant banks that are almost parallel to the views earlier presented. But as far as the functions they perform, merchant banks do not seem to be indispensable. They appear to do nothing that cannot be done by other banks and investment institutions.

However, a distinguishing characteristics is made as regards their skill especially in arranging large loans through issues of bond placed locally and loan syndication.

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Okadigbo (1980)[8] in his book "Nigeria's Financial System Structure and Growth" devoted a chapter to the treatment of the activities of merchant banks in Nigeria between 1970-1978. Though he asserted that not much can be said about merchant banking business in the country prior to 1975 but the period after, ushered in due recognition to merchant banking operations and the functions they performed hitherto in the economic development of the country. He also examined the impact of the Banking Decree of 1969 and he concluded with the notion that the decree impaired the efficient operation of the merchant banking industry in Nigeria.

Nwankwo (1981)[9] in his book "the Nigerian Financial System" talked

a bit on the activities of merchant banks in Nigeria. He traced a brief history, development and operation of merchant banks in Nigeria and how they have measured below Federal Government guidelines serves as good foundation for assessing their impact in financing industries in Nigeria.

Olulusi (1989)[10] in a lecture title "Role of Banks in Nigerian Economic Development" said that, merchant banks have played a credible role in financial and social responsibilities to their staff, customers and the society in general. The banks offer financing services by providing medium or long term finance for purchase of industrial machinery or plant or export financing, provides bridging finance repayable from a known source for few days or several months and providing instalment credit and leasing. For example, the Equipment Leasing Association of Nigeria (ELAN) comprising mainly merchant banks, plays a prominent role in both financial and operating lease in Nigeria. Thus, the merchant banks have contributed immensely to the expansion of productivity in Nigeria particularly in agriculture and industrial finance.

Magaji (1996)[11] in his book titled, "An Introduction to Modern Banking in Nigeria" said that merchant banks were originally known to have specialised in financing international trade and giving advice to their clients

on investments. Also they lend their names to exporters or lesser merchants through the use of a bill of exchange.

This bill especially when stamped by merchant banks acceptance; becomes easily discountable and are rediscountable by the exporter in need of funds leaving the merchant bank to be reimbursed with the proceed by their importer at maturity.

To him presently, merchant banks are accommodating the retail service of the commercial banks, while the latter are making effort to provide services on wholesale basis, thus, bridging the difference between them. However, he emphasized that it will be an error to assume that no difference exists between the two of them.

In the final analysis, it can be observed that indeed merchant banks have contributed greatly to the growth and development of Nigerian economy, in the course of performing the role expected of them as financial intermediaries.

2.4 REVIEW OF MERCHANT BANKING ACTIVITIES IN NIGERIA (1997)

According to the Central Bank Annual Report 1997, Merchant Banks continued to operate in an improved economic environment in 1997.

However, their share of banking activities remained small compared with that of commercial banks. Thus, their share of the banking system's total assets, deposit liabilities and credit were 17.1, 10.3 and 19.1 percent respectively, up from 16.4, 10.2 and 18.8 percent in 1996. Merchant banks accounted for 24.3 percent of the banking systems total capital and reserves, up from 23.5 percent in 1996. The improvement in capital is in order to meet the new minimum total requirement of N500.00 million, the same for commercial banks.

Total Assets of all merchant banks in 1997 amounted to N118,967.6 million, showing an increase of N28,988.3 million or 32.2 percent compared with the N10,066.3 million or 12.6 percent increase in 1996. Total investible funds available to the banks during the year under review was N31,450.3 million compared with N21,224.7 million in 1996. The funds were sources mainly from increase in deposit liabilities, (N6,404.0 million), capital accounts (N2,570.8 million), and "other" liabilities (N14,739.3 million). The funds were utilised to increase loans and advances to private (N18,369.7 million) acquire "other" assets (N7,713.4 million)and increase foreign asset holdings (N5,245.1 million) among other uses.

At N65,152.5 million, aggregate credit to the economy by the bank

increased by N15,191.1 millon or 30 percent. This was lower than the increase of 54.4 percent recorded in 1996. Claims on the private sector which constituted 90.8 percent of the total economy amounted to N59,144.9 million, reflecting an increase of N18,239.9 million or 44.6 percent. Loans and Advances (the major component of total credit) stood at N49,338.3 million, showing an increase of liquidity ratio of the bank, marginally from 38.4 percent in the proceeding year to 38.7 in 1997, compared with 30.0 percent minimum required. Loans to deposits ratio rose from 99.5 percent in 1996 to 109.1 percent in 1997.

2.5 FUNCTIONS OF MERCHANT BANKS

The functions of merchant banks can be classified under two headings namely, corporate banking and corporate finance services.

The corporate banking services divisions mobilises funds to finance short, medium and long term requirements of clients for working capital financing and investment in fixed assets. The services under this division includes:-

i. **Acceptance**

Merchant banks engage in acceptances thereby offering short term finance for external trade, which could be up to 3 months or offered on a revolving basis.

ii. **Deposits**

Merchant banks accepts large deposits from corporate institutions and other clients. This could be Current Account, Deposits or Call or Fixed-Term Deposits Account operated for both corporate and non-corporate clients. And, also it could be negotiable certificates of Deposits (NCD's) services provided for fellow bankers.

iii. **Equipment Leasing**

Merchant banks usually provide equipment on lease to users (lessee). By this arrangement, merchant banks generally provides 100% finance (as the owner) and conveys the equipment to users.

There are two basic types of leasing. These are financial lease and operating lease. Under the former, the lease contract is for a fixed period of time within which the lessor recoup the cost of the equipment plus profit. The lessee is responsible for the maintenance and insurance of the equipment.

In the case of the latter, the lessor maintains the equipment and insures it, he only lease the equipment periodically to several lessees and recoup his money from a number of lessees who make repayment passed to them. This arrangement is usually on short-term basis.

iv Foreign Exchange Services

As authorised dealers in foreign exchange services, merchant banks engage in purchase and sale of foreign exchange for commercial and other purpose on behalf of their clients. They also remit export proceeds abroad, and provide correspondent banking services. Furthermore, they liaise with the Central Bank of Nigeria (CBN) on behalf of their clients.

v. Loans and Advances

Merchant Banks provides bridging loans in form of short-term credit facilities to companies that need temporary financing pending the conclusion of a more permanent financial arrangement (long-term credit facilities).

vi. Loan Syndication

Merchant banks pioneered the concept of syndicating credit facilities

for clients in money market. Merchant banks have generally the stock of expertise and required experience to quickly lend and arrange loan syndication in association with a consortium of lenders.

On the other hand, corporate finance refers to all non-fund financial activities that are required to put firm's into proper and sound footing in terms of finance. It is therefore difficult to state the limits of corporate finance since the array of advice and assistance that can be rendered are many and vary. The services under this division can be classified thus:

i. Project Financing

ii. Issuing House Services

iii. Financial Advisory Services

i. <u>Project Financing</u>

Project financing embraces the various methods through which a new project is conceived and financed. It leads to construction of new projects and acquisition of capital assets where the lender's sole source of repayment is derived from successful operation of the assets. Apart from analysing the finance of such projects merchant banks also embark on project appraisal with the aim of determining the commercial viability and technical feasibility of the project. Such projects are usually huge for

example a refinery. They further determine the best way to finance the project.

ii. **Issuing House Services**

Merchant banks provides issuing house services to clients who wish to raise fund through private placement or through the stock exchange. It is a tiding and complex process for a company to go public, and requires the services of financial experts, accountants, lawyers, auditors and industrial engineers. Majority of the services required to go public are provided by merchant banks. They also intimate and advice clients on the relevant regulations and policies of the Nigerian Stock Exchange (NSE) and Securities and Exchange Commission (SEC).

Merchant banks provides financial advisory services to clients, businesses (whether small, medium or big), who require advisory services with regards to their size and peculiar corporate situation. Advise on how best to manage certain assets are also required by wealthy individuals. Advisory services could be in connection with mergers, debt rescheduling, and acquisition.

2.6 DISTINCTION BETWEEN MERCHANT AND COMMERCIAL BANKS

The activities of merchant and commercial banks are usually regulated by the same regulatory body the Central Bank of Nigeria (CBN).

However, there exists differences between them, as they both react to the various needs of their clients and customers. The main distinguishing features of the merchant and commercial banks according to the 1969 banking Act, can be summarised in the following table.

Merchant Banks	Commercial Banks
1. Wholesales banking Mobilises deposits and lend in large amounts mainly from and to institutional investors and firms. Deals with relatively small number of large accounts.	1. Retail Banking Mobilises deposits and lend in both small and large amounts from and to individuals and firms. Deal with a relatively large number of small accounts.
2. Branch Network Needs less branches as concentration is on industrialised and financial centres.	2. Branch Network Needs greater number of branches as their presence is needed everywhere.
3. Staff Needs fewer staff	3. Staff Needs many staff
4. Deposits Usually fixed and interest bearing.	4. Deposits May be fixed or demand with or without interest.
5. Loans Grant medium and long term loans and usually large sums.	5. Loans Grant short and medium term loans and usually small sums.
6. Cash Reserve Less need to be concerned about liquidity, because of "matching" principles application.	6. Cash Reserve Greater need for cash liquidity little application of "matching" principle, as rely on the law of large number.
7. Customers Special and concentrated.	7. Customers Of varied types, wide spread
8. Services Specialised in nature many in the international banking and finance areas.	8. Services More varied in nature. Mainly in the Domestic banking and finance area.
9. General Operation Relatively more flexible and dynamic	9. General Operation Relatively more conservative and less dynamic

2.7 CONTROL OF MERCHANT BANKS IN NIGERIA

Like other countries, in Nigeria, in addition to the statutory rules and regulations, merchant banks are subjected to a variety of control. These ranges from their own internal control systems and to the external controls administered by their bodies.

INTERNAL CONTROL

All merchant banks in the country operates branch network system, where a bank is managed by geographical area rather than by service line. This implies that the Head office deals with either regional/district/area office or with the branches directly. The Board of Directors which is the highest decision making body is usually appointed by shareholders or owners of equity during the Annual General Meeting (AGM). The Board appoints the management team, which comprises the Managing Director, Executive Director(s), the Secretary and other appointees. They are all responsible for the day to day running of the bank(s). The management team fills all other positions below their level by appointment.

Each staff knows exactly where they stand in the hierarchy, these arrangement is known as the Internal Structure and it is normally displayed on a chart for all staff to be guided accordingly.

External Control

Banking as a profession now is controlled by a number of organisations. They include:

1. BANKER COMMITTEE:

This committee is the supreme body on banking matters and issues in Nigeria. The body has the governor of the Central Bank as member. The committee is responsible for among others, the formulation of general banking policies for the country and finding solution to problems common to the banks and banking as a profession. The chairman presiding over the sitting of the committee often use moral suasion to convince members on certain government policies to be implemented in the country.

2. THE CLEARING HOUSE COMMITTEE:

This committee is charged with the responsibility of controlling all the clearing houses within the country. Usually clearing houses are located where Central Bank of Nigeria (CBN) branches exists. The committee can amend or introduce changes to the regulations affecting the day to day running of the clearing houses.

Merchant banks are presently not part of the clearing system, however, there are indication that they might be allowed to become members, now when they go through commercial banks for their clearing needs.

The instruments handled by clearing houses includes; cheques, drafts, bankers payments, dividend warrants and debt notes.

3. THE NIGERIAN INSTITUTE OF BANKER (NIB) OR CHARTERED INSTITUTE OF BANKERS (CIB)

The NIB was founded in November, 1963, by the Bankers Committee, the main function of the institute is the promotion of banking education and maintenance of discipline and professional ethics. The institute also advises the government on matters relating to banking. However, it is in the conduct of examination for award of Associate Membership of the institute that the institute is well known for.

The institute also has a disciplinary committee. NIB became chartered in 1990 and that led to the change of its name to Charted Institute of Bankers (CIB).

reciprocal basis with local and overseas insurance companies.

It has investments in such diverse areas as banking, tourism (hotels) manufacturing and publishing.

3. NEW NIGERIA DEVELOPMENT COMPANY LIMITED -10.3%

The New Nigeria Development Company Limited (NNDC), is a jointly owned development company of the governments of the Northern States.

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CHAPTER THREE

3.1 THE NAL MERCHANT BANK PLC

NAL Merchant Bank Plc (NAL), the pioneer merchant bank in Nigeria was established on the 25th November, 1960, as Nigerian Acceptances Limited, a wholly owned subsidiary of JOHN HOLT (Liverpool) limited to carry on among other things the business of banking in Nigeria. In July 1969, NAL merged its operation with those of Financial Holdings (Nigeria) Limited, then trading under the name of Philip Hill (Nigeria) Limited.

In November the same year, NAL became the first Nigerian Finance House to be granted a license under the Banking Act of 1969 to operate a merchant banking activities. And in order to enhance public perception of same, NAL changed its name from Nigerian Acceptances Limited to NAL Merchant Bank Limited in July, 1981. Subsequently, in April 1992 it became a Public Limited Company, following a resolution to that effect by the shareholders in March, 1992.

The Bank is primarily engaged in investment banking services and capital issues operations and services. It also provides wholesale banking

services including the granting of loans and advances, export financing, equipment leasing, opening of letters of credit, money market operations and other merchant banking activities.

NAL Merchant Bank Plc as the name suggests is a public limited company with diversified shareholders. However, notable institutions owned substantial part of the shares of the Bank thus enabling the organisation the benefit of their rich experience, support and assistance. These institutions are NNDC, NICON and John Holt Plc - who collectively owned 51% of the bank. Nigerian citizens and some associations including NAL employees owned the remaining 49%.

The Head office of NAL Merchant Bank Plc is in Lagos. The Bank has six area offices (branches) which are located in Abuja, Ibadan, Kaduna, Kano, Owerri and Port-Harcourt.

3.2 SCOPE OF OPERATIOS

NAL Merchant Bank Plc like it's counterparts in Nigeria is a wholesale banker. The Annual Report and Statement of Accounts of NAL Merchant Bank Plc, 1998 revealed that the bank offers a comprehensive range of wholesale banking services which include:

1. **CAPITAL MARKET**

Company floatation

Public and private Debt and Equity Issues

Stock Exchange Quotation

2. **FINANCIAL ADVISORY SERVICES**

Capital Reconstruction

Mergers and Acquisitions

Project Finance

Tax Planning

3. **INVESTMENT MANAGEMENT**

Investment Advisory Services

Mutual Funds

Personal and Corporate Trustee Services

Portfolio and Funds Management

Venture Capital

4. **INTERNATIONAL OPERATIONS**

Correspondent Banking

Documentary collections

Inward and outward Remittances

Letters of Credit

Performance Bid and Advances

Payment Guarantees

5. LENDING

Asset-Based Financing

Development Finance

Equipment Leasing

Expert financing and Development

Loan syndication

Long - Term Loans

Short and Medium - Term loans

6. TREASURY

Bankers Acceptances

Call Deposits

Commercial papers

Domiciliary Accounts

Foreign Exchange Transactions

Money Market and Funds Management

Time and Current Deposits.

The shares of NAL Merchant Bank Plc are quoted on the Nigerian Stock Exchange. Also, NAL Merchant Bank is a member of the Equipment Leasing Association of Nigeria (ELAN). The bank has established some subsidiary companies to handle some of the above mentioned specialised services and functions.

NAL is committed to building and fulfilling long-term relation with all its clients as well as ensuring that it operates clean business thus protecting the long earned goodwill and also remaining as a good corporate citizen.

REFERENCE

1. NAL Merchant Bank Annual Report and Account 1999

CHAPTER FOUR

4.0 PRESENTATION OF DATA AND ANALYSIS

The NAL Merchant Bank was founded in 1960 and over the years the Bank has found itself in a privilege and advantageous position not only in the financial circle but also among all classes of wholesale banking. It is no wonder that it easily performs the twin function of turning savers deposit into investment funds, and of providing the mechanism through which payments could flow to sustain economic growth and development.

The data to be presented on NAL Merchant Bank is basically on the scope of its operations.

4.1 COLLECTION OF THE DATA

Data are collected based on the secondary source outlined in chapter one above.

Accordingly, the data collected from NAL Merchant Bank will now be presented and analysed.

4.2 DATA PRESENTATION AND ANALYSIS

4.2.1 NAL AND CAPITAL MARKET OPERATIONS

As Issuing houses, Merchant Banks helps in raising long-term capital for industries. NAL like other merchant banks, has undertaken various public issues and private placements of shares for companies.

In September, 1994, NAL Merchant Bank Plc on behalf of standard chartered Africa Plc offered for sale 120,941,159 ordinary shares of 50 kobo each at N3.30 per share in First Bank of Nigeria Plc. (see appendix 2)

Also, of recent - in October 1998, NAL Merchant Bank on behalf of Nigerian Energy Sector Fund Plc offered for subscription and was authorised to receive applications for 2,500,000 energy investment notes of N1000 each at par (see appendix 3).

Besides placement, NAL also provides as well partial underwriting facilities for debt and equity issues managed by it or other issuing house(s). Furthermore, the bank participates in pricing of securities. Usually issuers want the lowest possible rate attached to their debt issues but at the same time investors want maximum yields. NAL strives to reconcile these conflicts by gauging markets accurately.

TABLE 4.1 NAL's Placements (1995 - 1999)

Year	Placement (N)'000	Change (N)'000	Change (%)
1994	90,264	-	-
1995	330,000	239,736	265.59
1996	397,665	67,665	20.5
1997	343,868	(53,797)	(13.52)
1998	711,364	367,496	106.87

Source: NAL Merchant Bank Annual Report and Accounts 1998.

The above table shows that NAL's placements rose from N90,264 million in 1994 to N330,000 million in 1995 representing an increase of N239,736 million or 265.59 percent. Also, it rose from N330,000 million in 1995 to N397,665 million in 1996, representing an increase of N67,665 million or 20.5%. However, placements decreased from N397,665 in 1996 to N34,868 million in 1997 showing a decrease of N53,797 million or 13.5 percent.

However, a tremendous increase was witnessed in 1998, as placements amounted to N711,364 million, showing increase of N367,496 million or 106.87 percent from the preceding year (1997).

The increase in placements in 1998 was as a result of the increase witnessed in placements with local banks. It amounted to N385,721 million as against N32,716 million in 1997.

4.2.2 NAL AND FINANCIAL ADVISORY SERVICES

NAL Merchant Bank provides financial advisory services in areas such as, project financing, mergers and acquisition, tax planning and capital reconstruction.

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Project financing: This embraces the various methods that NAL uses in financing the construction of new projects or ventures. For example, Laklin Textiles Industry Limited, Kano is one of the clients that relies on NAL's top-notch advice to help realise their growth objectives.

In the area of mergers and acquisition, NAL like other merchant banks has over the years provided advisory services which ensures success of mergers and acquisitions (for example, the lipton/lever brothers merger). They also provide advisory services on privatisation of public enterprises (being currently discussed) in Nigeria.

Another important service, is concerned with negotiation of buyer's and seller's credit backed by credit insurance institutions such as HERMES (Germany) and EXIMBANK (USA).

Furthermore, the bank provides company secretarial services by way of the production of the client's annual reports and preparation for and organisation of annual general meeting(s).

4.2.3 NAL AND INVESTMENT MANAGEMENT

Services provided under investment management are, investment advisory services, mutual funds, personal and corporate trustee services, portfolio and funds management, and venture capital.

NAL provides investment advisory services principally in two ways: Firstly, they assist institutional funds managers and trustee of staff pension, endowment and strategy. Secondly, it gives advice on management of both liquid resources (cash) and of a portfolio financial assets.

The bank provides venture capital for the financing of innovation. Every year thousands of investors (both small and large firms) seek capital to develop new ideas. Loans and advances are usually granted to such

investors. However, this a very risky venture because it is less risky to finance the expansion of existing production facility than an entirely new idea.

Through NAL's specialised investment advisory services the bank assist investors in the restructuring of their portfolio securities and on the movement of funds from one class of security to another.

4.2.4 NAL AND INTERNATIONAL OPERATIONS

Services offered under international operations of NAL includes; Correspondent Banking, Documentary Collections, Inward and Outward remittances, Letters of credit, Performance Bid and Advance and payment of Guarantees.

NAL Merchant Bank is a correspondent bank to overseas banks such as, Australia and New Zealand Banking group (London), City Bank (New York), United Bank for Africa Plc (New York), and MidLand Bank Plc (London). As a correspondent bank, NAL helps facilitates international transactions with foreign banks and their local customers in Nigeria.

Documentary and clean credits are provided to facilitates the handling of imports settlement.

Also clients are provided with various services of issuing and execution of all types of letters of credit through the network of correspondent banks world wide. Furthermore, they issue domestic letters of credit and handles back to back credit to facilitate export.

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Besides the above, NAL transfer funds through its world wide agency arrangement with correspondent banks for the payment of trade and non-trade transactions. The bank also provides guarantees on account of its corporate institutional clients. Usually all these activities or services are classified as acceptances and obtained from the confirmed credit and other obligations on behalf of customers and corresponding customer's liability thereon.

Table 4.2 NAL'S ACCEPTANCES 1994 - 1998

Year	Amount (N)'000	Change (N)'000	Change (%)
1994	336,619	--	-
1995	286,124	(50,495)	(15.00)
1996	583,928	297,804	104.08
1997	1,889,259	1,305,331	223.54
1998	779,749	1,109,510	(58.72)

Sources: NAL Merchant Bank Annual Report and Accounts, 1998.

The above table, shows that Acceptances decreased from N336,619 million in 1994 to N286,124 million in 1995, representing a decrease of N50,495 or 15.00 percent. It rose from N286,124 million in 1995 to N583,928 in 1996, representing an increase of N297,804 million or 104.08 percent. In 1997, a tremendous increase was witnessed as Acceptances amounted to N1,889,259 million, showing an increase of N1,305,331 million or 223.54 percent. However, in contrast, it amounted to N779,749 million in 1998, which shows a great decrease of N1,109,510 or 58.72 percent from the amount in 1997 (N1,889,259).

4.2.5 NAL AND LENDING

NAL's lending comprises: Asset -Based Financing, Equipment Term Loans, Short-Term and Medium Term Loans.

NAL and other merchant banks have over the years made available funds for development financing to their clients. A recent example, is the development finance obtained by Sitac (Nigeria) limited from NAL to expand its shoes factory in Kaduna.

Since the early 1970's, NAL has been involved in a number of equipment leasing contracts. Following the ambitious industrialisation

programme, which was the result of the post-war reconstruction and increased earnings from oil export as a result of the Arab-Israeli War (1973).

Currently, companies that enjoy equipment leasing from the bank include, SPIC and SPAN Industries Limited, Otta in Ogun State as shown in the the NAL's Annual Report 1996.

Similarly, NAL in conjunction with various banks have been involved in a number of loan syndication over the years. Notable is the N40 million investment agreement signed in April, 1990, by Afcot Nigeria Limited with *International Corporations and a consortium of banks led by* NAL Merchant Bank.

This is to enable the Afcot complete its edible oil plant, finance its 180 ton/day oil seed processing plant and the expansion of its cotton farm in the then Gongola State.

Besides the above mentioned, NAL has been granting Loans and Advances over the years to its customers and falls under short, medium or *long-term category.*

Table 4.3 NAL'S ADVANCES UNDER LEASE FINANCING (1994 - 1998)

Year	Amount (N)'000	Change (N)'000	Change (%)
1994	114,891	-	-
1995	109,430	(5,461)	(4.75)
1996	226,964	117,534	107.40
1997	611,894	384,930	169.59
1998	516,130	(95,764)	15.65

Source: NAL'S ANNUAL REPORT AND ACCOUNTS 1998

The table above shows that advances under lease financing amounted to N114,891 million in 1994 and N109,430 million in 1995, representing a decrease of N5,461 million or 4.75 percent. In 1996, it amounted to N226,954 million an increase of N117,534 million or 107.40 percent from the figure (N109,430 million) in 1995.

Another increase was witnessed in 1997 as it amounted to N611,894 million representing a rise of N384,930 million or N169.59 percent from the amount in 1997. However, it decreased by 15.65 percent or N95,764 million as it stood at N516,130 million in 1998 as against N611,894 million in 1997.

The decrease witnessed in 1998, was a result of the general economic down turn in the country.

Table 4.4 NAL'S LOANS AND ADVANCES (1994 - 1998)

Year	Amount (N)'000	Change (N)'000	Change (%)
1994	632,830	-	-
1995	825,962	193,132	30.51
1996	1,398,514	552,552	66.89
1997	1,831,892	433,378	30.98
1998	1,824,666	(7,226)	(0.39)

Source: NAL Merchant Bank Annual Report and Accounts 1998

Table 4.4, shows that NAL's loans and advances rose from N685,830 million in 1994 to N825,962 millon in 1995, representing an increase of N193,132 million or 30.51 percent. It also increased in 1996, as it rose from N825,962 million in 1995 to N1,398,514 million representing an increase of N552,552 million or 66.89 percent. It further increased to N1,831,892 in 1997 which shows an increased of N433,378 million or 30.98 percent considering the figure (N1,398,514 million) in 1996. There was a slight decrease in 1998 as loans and advances amounted to

N1,824,66 million representing decrease of N7,226 million or 0.39 percent when compared with the amount in 1997.

The decrease in 1998, is as a result of the inability of customers to service their existing loans, not to talk of requesting for new facilities. The demand for banking services is derived from the demand for the banks customer's products or services, therefore the dismal performance that characterised the real sector created the above mentioned difficulty for customers of the bank.

4.2.6 NAL AND TREASURY

NAL's services under treasury include; Bankers' Acceptances, Call Deposits, Commercial Papers, Domiciliary Accounts, Foreign Exchange Transactions, Money Market and Funds Management, and Time and Current Deposits.

NAL and other merchant banks as Bankers' Acceptance, accepts deposits on various tenors at competitive interest rate from various customers including individuals, manufacturing companies, insurance companies, banks and public institutions as well as other corporate entities.

They issue and market negotiable certificates of deposits (NCD's) which may be discounted by any holder before maturity. These instruments have gained investors recognition for their high quality and that is why international merchant bank (IMB) volume of discountable traded or issued in 1990 was in excess of 445 million.

NAL assists companies to raise funds from the money market at short notice to finance specific short term, self liquidating transactions for working capital and to provide bridging finance by issuing and marketing commercial papers and bankers' acceptances on behalf of such companies.

Merchant banks also provide, treasury advisory services, they often keep their customers updated on National and International Economic Indicators and trends and possible impact on their business operations in the foreign exchange market.

Generally speaking, merchant banks are the prime participants in the foreign exchange transactions. The main thrust of merchant banks foreign exchange activities is the provision of foreign exchange to clients operating in the preferred sector of the economy in line with government's effort to revamp the Nigerian economy.

They procure foreign exchange for and from corporate and individual client at market prevailing rates. Currencies like dollar, pound sterling, swiss france etc. may be made in form of travellers cheques, foreign bank notes, drafts and approved retention from foreign proceeds.

NAL and other merchant banks also manage exchange balances in domiciliary accounts on behalf of clients in high yielding money market instruments in major world financial centres with a view to realising optimal returns.

Table 4.5 NAL'S DEPOSIT (1994 - 1998)

Year	Amount (N)'000	Change (N)'000	Change (%)
1994	1,311,055	-	-
1995	2,460,558	1,149,503	86.67
1996	3,423,672	963,114	39.14
1997	4,258,105	834,433	24.37
1998	3,699,101	(559,004)	(13.12)

Source: NAL Merchant Bank Plc Annual Report and Accounts 1998.

The above table, shows that NAL's deposit rose from N1,311.055 million in 1994 to N2,460,558 million in 1995 representing an increase of N1,149,503 million or 86.67 percent. In 1996 it increased by N963,114 million or 39.14 percent as it stood at N3,423,672 million as against N2,460,558 million in 1995.

Another increase was witnessed in 1997 as total deposits amounted to N4,258,105 million representing an increase of N834,443 million or 24.37 percent over the amount in 1996 (N3,423,672 million). However, there was a decrease in 1998, as deposit stood at N3,699,101 million as against N4,258,105 million 1997, showing a decrease of N559,004 million or 13.12 percent.

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4.3 FINDINGS

The researcher observed that generally there was a reduction in operation of NAL Merchant Bank Plc in the year 1998 compared with that of 1997. In most areas of operation increases were witnessed in the first three years 1994, 1995 and 1996, of the period under reviews. According to Alhaji I. Yerima Abdullahi (Chairman NAL Merchant Bank). "The constant shortage of petroleum products, perennial problems of intermittent electricity supply, inadequate telecommunications services, lack of portable

water and other infrastructural problems have continued to serve as serious obstacles to the attainment of overall economic growth and development". This explains the reason for a general reduction in operations of NAL Merchant Bank since the demand for banking services depends on the demand for customer's products and services.

4.4 PROBLEMS OF MERCHANT BANKS (HIGHLIGHTS)

1. **Instability in Economic Policies:**

   The frequent changes in policies of the federal government on the banking sector in particular and the economy in general often cause the merchant bank a great deal of problems as they have to ensure compliance.

2. **Low demand for banking services:**

   Due to low purchasing power on the part of consumers and the public at large, the demand for manufactured goods and services of companies have greatly reduced and as such the demand for banking services by manufacturers and other industrialists have greatly reduced.

3. **Competition:**

Due to the competition among merchant banks and within the banking sector as a whole, the merchant banks have had to evolve new ways of carrying an business in order to survive the stiff competition.

4. **Cost of Operation:**

The cost of operation has continually being on the increase due to constant shortage of petroleum products, inadequate telecommunications services etc. They have always had to cope with these and many more problems.

5. Another problem is that of low capacity utilisation in the industrial sector which has led to the increasing problem of the productive sector of the economy.

6. The inability of debtors to service their existing loans, has resulted to low interest income from operations and also it has led to an increase in non-performing loans.

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CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

The study is a performance evaluation of the role of merchant banks in the development of Nigerian Economy.

It is aimed at assessing the extent to which merchant banks have been able to meet the desires of the individuals, corporate bodies and the government in a bid to satisfy their capital needs and investment drive.

The project is divided into five chapters. Chapter one contains the general introduction, purpose, scope, significance and limitation of the study. Also it contains the research methodology and definition of terminologies.

In chapter two, the review of related literature was dealt with, i.e other peoples write ups on the topic. Also the concept of merchant banking, evaluation of merchant banks in Nigeria, distinction between merchant and commercial banks and the control of merchant banks were contained therein.

In the third chapter, the history and scope of operation of NAL Merchant Bank were discussed.

In the fourth chapter, the data from the bank (NAL) were presented and analysed. Also findings were reported and the problems of merchant banks highlighted.

The last chapter contains the Summary of the whole work, conclusion made and appropriate recommendations are also made. Bibliography followed and the chapter was summed up with the appendices.

5.2 Conclusion

The operations and laudable services of merchant Banks in Nigeria have enable them to fill the gap between the have's and the have not's, i.e, they mobilise financial resources from surplus area to finance deficit area of the economy.

No doubt, NAL and other merchant banks have made tremendous and credit worthy contributions to the general development of Nigeria's economic system and in particular, the development and transformation of our financial environment.

From the available data presented and analysed in the study, it shows that NAL has been able to increase the sizes of financial claims in issues in Nigeria and thus help in widening the country's financial infrastructure. Also it has introduced variety to financial services available to enterprises and entrepreneurs in Nigeria.

It is important to mention here, that over the years merchant banks have been criticised severely for their inability to meet Central Bank guidelines with regards to sectoral allocations of their loans and advances. Also the maturity and repayment patterns of their loans advances do not go well for the economy.

In spite of the above criticism, merchant banks have made alot of contribution to the development of Nigeria's economy. Probably it could have done better if it had a conducive operating environment devoid of nagging problems of inflation, unemployment and lack of infrastructure etc.

5.3 Recommendation

In order to ensure continued survival, profitability, success and the attainment of set objectives of NAL Merchant Bank, as well as that of other merchant banks, the researcher hereby makes the following recommendations:

1. All the merchant banks should be well equipped with state-of-the-art infrastructure in terms of electronics and automation of banking services. This will enable them enter into the next millennium well poised to meet the challenges there from.

2. The banks should employ well educated, skilled and professionally qualified staff who will work with total commitment and minimum supervision to fulfill the aspiration of not only the employers but that of the customers and the Nation.

3. Merchant Banks should ensure that they provide safe and secure facilities for deposits, sound investment choice, timely, efficient and optimum finances for agricultural and manufacturing businesses through project finance, etc.

4. All the merchant banks should gather enough financial muscle to be able to stand healthy competition which may be posed by foreign banks in the event of globalisation.

5. NAL and other merchant banks should endeavour to bring down the incidence of non-performing loans as low as possible. This could be done or achieved through proper evaluation of credit applications and

analysis of loan proposal. The Central Bank of Nigeria (CBN) should develop stable monetary and fiscal policies despite the fact that the economic environment is dynamic. This is because when policies are changed year in year out, the banks finds it difficult to plan their operations.

6. Equipment leasing activities should be increased and banks should ensure that these equipment are properly utilised by the beneficiaries of such equipment lease financing. The banks should also increase loans and advances to customers. However, it is important that the banks monitor the use of such fund to ensure that they are not mismanaged by the customers.

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7. Merchant Banks need more than just the adoption of functions; they should evolve new functions coupled with adoption of better and developed strategies of performing older functions. They need a new business concept that is relevant to the Nigerian economy.

8. For merchant banks to contribute more significantly, meaningfully and appropriately to Nigerian economic development, the industry should move steadily and determinably out of commercial banking (routine

lending and deposit mobilisation) into the proper merchant banking arena where a high proportion of the business consists of fee-rewarding activities (project financing, leasing etc.)

9. Merchant Bank should be more highly profitable as to attract increased investment from both domestic and foreign investors. This can be achieved by staffing banks with competent and properly motivated professionals.

10. To survive the stiff competition posed by newly established merchant banks, old banks should embark on a more serious advertisement and new marketing strategies should be evolved.

11. There should be rationalisation of resource - inputs to survive the challenges in their operational environment.

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Appendix XI

MERCHANT BANKS AND HEAD OFFICE ADDRESSES

...ribank International Limited
(Merchant Bankers)
Plot PC 1261, Adeola Hopewell Street,
P.O. 12809, Victoria Island, Lagos.
...el: 2616090, 2616089, 2614644

Centre Point Merchant Bank Limited
Seventh House, 54, Marina
P.O. Box 1271, Lagos.
Tel: 2662599, 2662634–7, 2662622

Comet Merchant Bank Limited
Plot 18, Ajose Adeogun Street,
P.O. Box 75369, Victoria Island, Lagos.
Tel: 2622472-81. Fax: 2622497

Deccon Merchant Bank Limited
18A, Oko-Awo Close,
P.O. Box 72981, Victoria Island, Lagos.
Tel: 2619206-8, 2613132

FBN (Merchant Bankers) Limited
9/11, Macarthy Street, Onikan,
P.M.B. 12715, Lagos.
Tel: 2664057, 2663907, 2660890-9

Fidelity Union Merchant Bank Ltd
62/66, Broad Street, Lagos.
Tel: 2601960-9

First City Merchant Bank Limited
Finance Towers,
17A, Tinubu Street,
P.O. Box 9117, Lagos.
Tel: 2659944-51, 2664503, 2660112

First Interstate Merchant Bank Ltd
4, Davies Street, Lagos.
Tel: 2667183, 2667952, 2665568

Fountain Trust Merchant Bank Ltd
16/11, Adeola Hopewell Street,
P.O. Box 70987, Victoria Island, Lagos.
Tel: 2614207, 2617568-9, 2618676

Hallmark Merchant Bank Limited
12, Berkley Street, Onikan, Lagos.
Tel: 2617870, 615814

Indo-Nigeria Merchant Bank Ltd
42, Adeola Hopewell Street,
Victoria Island, Lagos.
Tel: 2610051-3, 2610083, 2610085

Industrial Bank Limited
(Merchant Bankers) Plot 1637,
Adetokunbo Ademola Street,
Victoria Island, Lagos.
Tel: 2613000, 2612204, 2614850

International Merchant Bank Plc
The IMB Plaza, 1, Akin Adesola Street,
Victoria Island, Lagos.
Tel: 2613000, 2612204, 2613052.
Fax: 2619191, 2616732.

Investment Banking & Trust
Company Ltd
Wesley House, 21/22, Marina, Lagos.
Tel: 2600200-9, 2687084.
Fax: 2614146

Lead Merchant Bank Limited
1, Oladele Olashore Street,
Victoria Island, Lagos.
Tel: 2620430-9. Fax: 2614563

Liberty Merchant Bank Limited
33, Bishop Oluwole Street,
Victoria Island, Lagos.
Tel: 2616872, 2616087, 2619209,
2619168. Fax: 2616818

MERCHANT BANKS AND HEAD OFFICE ADDRESSES

Manufacturers Merchant Bank Plc.
2, Adeyemo Alakija Street,
P.O. Box 74502, Victoria Island, Lagos.
Tel: 2619229, 2618648

Marina International Bank Plc.
(Merchant Bankers)
1, Amodu Ojikutu Street,
P.O. Box 74853, Victoria Island, Lagos.
Tel: 614315, 614671-2, 617043
Fax: 2618578, 2618229

Merchant Bank of Africa Nigeria Ltd
St. Nicholas House,
Catholic Mission Street,
P.O. Box 53611, Falomo, Ikoyi, Lagos.
Tel: 2601300-9, 2633174, 2633167

Merchant Bank of Commerce Limited
Ahmadu Tijani Street, Victoria Island,
Lagos. Tel: 2665280

Merchant Banking Corporation Ltd
16, Keffi Street, P.O. Box 53789,
S.W. Ikoyi, Lagos.
Tel: 2690261-9, 2690270

Metropolitan Merchant Bank Ltd
4/6, Ajose Adeogun Street,
Victoria Island, Lagos. Tel: 2610041

Midas Merchant Bank Limited
72, Awolowo Road,
P.O. Box 54996, Ikoyi, Lagos.
Tel: 2690359-78.

NAL Merchant Bank Plc.
20, Marina, P.O. Box 2432, Lagos.
Tel: 2663222, 2632[illegible]4, 2615343

Nationwide Merchant Bank
Limited
24, Keffi Street, S.W. Ikoyi, Lagos.
Tel: 2603610-9

New Africa Merchant Bank Plc.
Ahmed Talib House,
18/19, Ahmadu Bello Way, Kaduna.

New World Merchant Bank Limited
Waterfront Plaza,
Ozumba Mbadiwe Street,
Victoria Island, Lagos.
Tel: 2668332, 2660612, 2661896

Nigbel Merchant Bank Limited
77, Awolowo Road, P.O. Box 52463,
Falomo, Ikoyi, Lagos.
Tel: 2681300, 2687119, 2687017

Nigeria-American Merchant Bank
Limited
10/12, Macarthy Street,
PMB 12759, Lagos.
Tel: 2631710, 2631712, 2630435

Nigeria Intercontinental
Merchant Bank Ltd.
Plot 995C, Danmole Street,
Victoria Island, Lagos.
Tel: 2601600-7, 2632989, 2632990

Nigeria Merchant Bank Plc
Eunie House,
27/29, Adeyemo Alakija Street,
PMB 80102, Victoria Island, Lagos.
Tel: 2620040-9

Pacific Merchant Bank Limited
Plot 1704, Adetokunbo Ademola St.,
Victoria Island, Lagos.
Tel: 2622439-48. Fax: 2613302

Peak Merchant Bank Limited
12, Adetokunbo Ademola Street,
Victoria Island, Lagos.
Tel: 2610663, 2601440-9.
Fax: 261565

Prudent Merchant Bank Limited
Ebani House, 149/153, Broad Street,
P.O. Box 9779, Lagos.

RIMS Merchant Bank Limited
Kingsway Building,
51, Marina, Lagos.
Tel: 2662105, 2662119, 2662143

Societe Bancaire Nigeria Limited
(Merchant Bankers)

Stanbic Merchant Bank of Nigeria
Limited
188, Awolowo Road,
P.O. Box 54746 Falomo, Ikoyi, Lagos.
Tel: 2690402-9

Talumah Merchant Bank Limited
186, Awolowo Road,
P.O. Box 55279, Ikoyi, Lagos.
Tel: 2[illegible]0320-9

UBN Merchant Bank Limited
1, Davies Street, Off Marina, Lagos.
Tel: 01-2663787, 2667313.

Victory Merchant Bank Limited
7, Oyin Jolayemi Street,
P.O. Box [illegible]9569, Victoria Island, Lagos.

OFFER FOR SALE

Appendix IC

FBN Bank
ESTABLISHED 1894

FIRST BANK OF NIGERIA PLC

RC 6290

NAL Merchant Bank Plc

on behalf of

Standard Chartered Africa PLC

Offer for Sale

120,047,125

475709

Ordinary shares of 50k each

AT N3.30 PER SHARE

in

FIRST BANK OF NIGERIA PLC

PAYABLE IN FULL ON APPLICATION

Issuing House:

NAL

NAL Merchant Bank Plc

RC 2997

THIS PROSPECTUS AND THE SECURITIES WHICH IT OFFERS HAVE BEEN APPROVED AND REGISTERED [illegible] AND EXCHANGE COMMISSION IS A CIVIL AND CRIMINAL OFFENCE UNDER THE SECURITIES AND EXCHANGE COMMISSION [illegible] NIGERIA, 1990 AND THE COMPANIES AND ALLIED MATTERS ACT, CAP 59 LAWS OF THE FEDERATION [illegible] CONTAINS FALSE OR MISLEADING INFORMATION [illegible] APPROVAL AND REGISTRATION OF THIS PROSPECTUS AND SECURITIES THAT IT [illegible] RELIEVE THE PARTIES FROM ANY LIABILITY ARISING [illegible] THE ACTS FOR FALSE AND MISLEADING [illegible] OF A MATERIAL [illegible]

THIS PROSPECTUS [illegible]

Appendix III

The OFFER

A copy of this Prospectus along with the documents specified herein, have been cleared by the Trustees and delivered to the Commission *for registration.*

This abridged Prospectus is issued in compliance with the provisions under S. 550 of the Companies and Allied Matters Decree No. 1, 1990, with exemption granted under S. 553 of the same Decree, the Rules and Regulations of the Commission and the Listing Requirements of The Nigerian Stock Exchange ("The Exchange") and contains the particulars in compliance with the requirements of the Commission for the purpose of giving information to the public with regard to the Offer for Subscription by Nigeria Energy Sector Fund PLC of the first tranche of 2,500,000 Energy Investment Notes ("the Notes") in the Nigeria Energy Sector Fund.

An application has been made to the Council of The Exchange for the admission of the 2,500,000 Energy Investment Notes being offered for subscription to the Daily Official List of The Exchange. The Energy Investment Notes will qualify as securities in which trustees can invest under the Trustee Investments Act Cap 440, 1990, and also as securities in which pension and provident funds can invest.

The Directors of Nigeria Energy Sector Fund PLC individually and collectively accept full responsibility for the accuracy of the information given and confirm, having made all reasonable enquiries, that to the best of their knowledge, information and belief, there are no material facts, the omission of which would make any material statement herein misleading, deceptive or untrue.

NIGERIA ENERGY SECTOR FUND PLC

NAL MERCHANT BANK PLC
RC No. 2392

on behalf of

NESFP
NIGERIA ENERGY SECTOR FUND PLC
RC No.333595

Offers for Subscription
and is authorised to receive applications for

2,500,000 ENERGY INVESTMENT NOTES OF N1,000.00 EACH AT PAR
Being the First Tranche Total of 10,000,000 Energy Investment Notes

in the
NIGERIA ENERGY SECTOR FUND
at N1,000.00 or US$12.00 per Note

Payable in Full on Application

***Indebtedness:** As at the date of this Prospectus, neither the Sponsor nor the Fund is indebted to any individual or corporate entity.*

The Application Lists for the 2,500,000 Energy Investment Notes now being offered will open on Monday 26th October, 1998 and close on any day within 35 business days of the Opening Date when accepted subscriptions to the Offer shall equal 2,500,000 Energy Investment Notes. Otherwise, the Closing Date shall be the date coinciding with the day when accepted subscriptions shall equal N625.00 million or its US Dollar equivalent.

Appendix

Five-Year Summary

For The Year Ended 31st March, 1999

	1999 N'000	1998 N'000	1997 N'000	1996 N'000	1995 N'000
ASSETS EMPLOYED					
Cash and short term funds	4,006,421	3,220,096	3,610,603	3,893,285	3,723,143
Placements	1,286,472	711,364	343,868	397,665	330,000
Investments	1,365,350	969,135	644,194	599,215	426,827
Loans and advances	2,096,140	1,824,666	1,831,892	1,398,514	825,962
Advances under finance leases	463,780	516,130	611,894	266,964	109,430
Other assets	397,006	330,188	1,369,591	960,730	3,171,923
Fixed assets	482,199	384,705	221,127	151,898	127,985
	10,097,368	7,956,284	8,633,169	7,668,271	8,715,270
FINANCED BY					
Share capital	531,563	354,375	141,750	141,750	94,500
Reserves	1,825,727	1,863,386	2,017,360	1,790,067	1,763,960
Deposits	5,098,688	3,699,101	4,258,105	3,423,672	2,460,558
Other liabilities	2,114,340	1,515,260	1,563,842	1,653,854	3,613,384
Deferred taxation	527,050	524,162	652,112	658,928	782,868
	10,097,368	7,956,284	8,633,169	7,668,271	8,715,270
Confirmed credits and other Obligations on behalf of customers And corresponding customers' Liabilities thereon	2,401,418	779,749	1,889,259	583,928	286,124
PROFIT AND LOSS ACCOUNT					
Gross income	1,743,006	1,566,993	1,420,474	1,216,068	830,352
Interest expense	(490,091)	(362,746)	(439,182)	(516,728)	(323,455)
Operating expenses	(543,607)	(525,747)	(424,088)	(420,394)	(307,904)
Provision for losses	(168,595)	(254,053)	(124,385)	(28,848)	(19,420)
Profit before taxation	540,713	424,447	432,819	250,098	179,573
Taxation	(55,518)	(61,267)	(43,161)	(47,066)	(38,240)
Profit after taxation	485,195	363,180	389,658	203,032	141,333
Dividend	(212,625)	(70,875)	(113,400)	(113,400)	(75,600)
Transfer to Reserves	272,570	292,305	276,258	89,632	65,733
Earnings Per Share (adjusted)	46k	34k	55k	29k	20k
Dividend Per Share (adjusted)	20k	7k	16k	16k	11k