DISTRESS IN THE NIGERIAN BANKING INDUSTRY: A CASE STUDY OF ALLIED AND PROGRESS BANKS OF NIGERIA PLC

BY

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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.

Name of student S N SULEIMAN Sign ..... Date 30 Dec 97

Name of Supervisor S. A. Abdullahi Sign ..... Date 30/11/98

CERTIFICATION

The project entitled "Distress in the Nigerian banking Industry
(A case study of Allied and Progress Banks of Nigeria PLC) by SN Suleiman meets the regulation governing the award of the degree of Masters of Business Administration of Ahmadu Bello University and is approved for its contribution to knowledge and literary presentation.

Chairman Supervision Committee	Sign.....	Date.....
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Member Supervision Committee	Sign.....	Date.....
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DEDICATION

This project is dedicated to the memory of my Late Father Mallam Suleiman A. Abubakar. I wish he had been around to see what his offspring has achieved.

ACKNOWLEDGEMENTS

I am primarily grateful to Allah for his abundant mercies and grace that were sufficient for me throughout the course and also period of the project work.

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ABSTRACT

This study is an attempt to evaluate the distress situation in the Nigerian Banking industry with a particular reference to Allied and Progress Banks of Nigeria PLC.

The study revealed that these banks actually had poor financial performance before they eventually became distressed. This implies that the operators of the banking industry, the regulatory bodies and the owners either did not do what they are suppose to do or did it when it is too late.

The project gives an indept accounts of the financial analysis of their performance, other man-made causes of distress in the banking industry. The work is concluded with a check - list of survival options to reverse the distress situation with a particular attention on what the operators, owners and regulatory bodies should do to improve the situation and prevent future reoccurence. In addition, appropriate recommendations are made at the end of the study to remedy the anomalies.

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CHAPTER ONE

INTRODUCTION

1.1 PREAMBLE

The issue of distress in the financial system is one of the major problems facing the country at this time. This problem was followed with the sharp increase in prices after the introduction of the Structural Adjustment Programme in 1986, the subsequent rise of the Wonder Banks to cater for high nominal interest rate expectations and the increase in the number of financial institutions (Finance Houses, Mortgage Banks, specialised Banks and licensed Banks). In the absence of proper regulation and Supervision, the failure of the Wonder Banks, most of the Finance Houses and Mortgage Banks did not come as a surprise. Most of these institutions were running pyramid schemes meant only to benefit the owners and staff. The more recent problem is the distress among licensed Commercial and Merchant Banks.

The problems of major merchant banks with large exposure to industry can be attributed mainly to the changing economic environment and regulatory measures which accompanied the Structural Adjustment Programme. These measures had major adverse impact on many industrial borrowers and projects which subsequently resulted in substantial increase in banks bad debts portfolio. 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 Central Bank of Nigeria (CBN) and Nigerian Deposit Insurance Corporation (NDIC). 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 become very

expensive following the withdrawal of parastatal funds. The introduction of stabilisation securities in 1992 had the same impact on these banks which were yet to fully recover from the problems of 1989. Hence the current manifestation of distress in these financial institutions. The problems of this category of banks can be said to include mismatch of assets and liabilities, illiquidity, poor capitalisation 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 category of banks (state and private banks) is, to a large extend, 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 lack credible information system and are real bankruptcy candidates.

Originally, the Nigerians financial system, (like any other country's) is mostly characterised 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 mobilisation of financial resources for the attainment of economic development.

Prior to the inception of SAP in Nigeria in 1986, there was a relative stability in the financial system. Indeed since the banking debate of 1950 when 21 out of 25 indigenous banks failed, there had been no bank failures in Nigeria until recently. This development was partially blamed on the implementation of the structural adjustment programme and the attendant deregulation of the financial sector. The results of this was the manifestation of a phenomenal growth in the banking business by 1993 when the number of commercial and Merchant banks risen from 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 whole country. In addition to this astronomical increase in the banking sector, was the non banking financial institution which also grew to over 600 by 1992.

The wave of this increase made the financial regulatory bodies to strengthen the regulatory frame work by he promulgation of he CBN Degree 1991, the Banks 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 Bank Decree 1994.

Many of these banks who obtained their capitals from shareholders and other financial institution could not survive this development due to competition, unethical procedures, Mismanagement and other negative practices which eventually led to their insolvency thereby eroded shareholders funds and investment in such banks. Among these banks in this category are allied and Progress bank of Nigeria PLC which are the major focus of this study.

Available statistics on the returns of distressed banks indicate that as at March 1995, 48 of the 115 Commercial/Merchant banks were said to be distressed. At the end of the same year, the number of distressed banks rose to 51, an increase of 9 over the figure of 1994. This number represents 58.65 percent of the commercial/Merchant banks in the Nigerian Financial system.

In 1995, the CBN indicated its willingness to acquire 15 out of the 17 banks declared terminally distressed and the control of such banks had been assumed by CBN/NDIC while 6 commercial banks were sold out to interested buyers. The two commercial banks being studied were neither sold out or taken over by the CBN/NDIC but remained distressed.

The subsequent chapters of this study will attempt to find out the causes, their performance, failure with a view to come out with a survival options because a distressed bank could be revived.

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.

1.2 STATEMENT OF PROBLEM

Distress is one situation no - one wants to experience; but that is the reality of our times locally, nationally, and globally. The National distress in Nigeria has engendered the liquidation of her citizens morally, financially, economically, politically and commercially, such that the most obvious thing in the body politic is the dearth of good people both in action and in intentions. The reason is that our economy is monetized like the modernised economies. But the peculiarity of our position is that Naira is "imported" in reality because its performance is measured in sterling and dollar standards. The result is that when our European grandfathers sneeze distress, we woop depression.

Financial distress in Nigerian financial system has assumed a very high proportion. This was as a result of the phenomenal growth of banks following the introduction of the structural Adjustment Programme which gave a false impression that banking sector was besieged by all types of investors who have surplus funds to throw about. Not only did incompetent and inexperienced hands assumed very senior positions in some banks, people without clean credentials also joined the bandwagon. The entry of these categories of personnel coupled with their activities prepared fertile ground for viral infection of financial distress.

As at 1994, the number of distressed commercial and Merchant Banks rose to 49 from 35, showing that over 42% of the banks in the industry are unhealthy. It was estimated that the total assets of the 49 distressed banks stood at ₦68.26 billion constituting 22% of the total assets in the banking sub-sector. The two banks for this study were among the distressed banks.

Today, the staff and particularly the shareholders of these distressed banks have been put into financial difficulty due to the recklessness of the management of the affected banks. The staff are either staying idle or laid off. This has added to the already existing problem of unemployment in the country.

This consequently led to the sacking of the distressed banks and the taking over by the CBN in 1995. Other measures taken by the CBN was the sales of some

of the distressed banks. Unfortunately, despite these measures taken by the CBN, it was reported that customers have been unusually withdrawing huge sums of money running into millions of naira from their accounts. This simply implies that the public, even though knew that the CBN had taken over some distressed banks, they still entertained some fears, as they are no longer sure of the safety of their deposits at these banks. The other banks such as the two under investigation were not taken over by CBN so customers money or shareholders funds are trapped.

This project will determine the performance of these two banks before they finally crashed and look at some survival strategies with a view to suggesting survival options for the banks since they are not among those taken over or sold out by the CBN and to forestall future reoccurrence in non distressed banks.

1.3 OBJECTIVE OF THE STUDY:

The objectives of the research project are:

i, To examine the causes of distress in the two banks

ii, To examine the performance of the two banks before they became distressed.

iii, To recommend survival options for the two banks.

1.4 SIGNIFICANCE OF THE STUDY:

The significance of a research work of this nature lies in the fact that commercial banks in Nigeria like any in other parts of the globe are required to play a crucial role in the mobilisation of financial resources for economic development. Such functions include serving as intermediary institutions between the surplus and deficit units of the economy, savings mobilization, provision of financial resources to meet the borrowing needs of surplus spending units in the economy, provision of sound payments and advisory services to business investors. Since financial distress tends to impair the growth of the bank and consequently inhibits their financial roles to the economy. This study is significant since it is designed to

assess the situations in these two bank with the aim of recommending survival options to re-awake the banks.

1.5 SCOPE OF STUDY

This research work on Distress in the Nigerian Banking Industry: the Survival option; is a case study of Allied and Progress Banks of Nigeria PLC. The study assessed the problems of distress facing these two banks in Nigeria by examining their development, structure and performance for over five years before they became distressed. To achieve this, attempt was made to analyse their performance using financial ratios and profit and loss accounts over five years. In addition, a survey was conducted to respondents within the banking system to give their opinion on the likely causes of distress in the bank. Having established their performance which gradually led to their present condition and the various opinions expressed, a survival options were recommended to bring back the banks to a good financial track.

1.6 RESEARCH METHODOLOGY

Data were extracted from CBN Annual Report and Statement of accounts, the Nigerian Stock Exchange (Fact Books) and NDIC annual reports on banks. The extent of the analysis of this work was based on the available data only. In addition sample of opinion of respondents within the banks investigated were collated.

Descriptive analytical methodology was used to analyse the causes of bank distress. This analysis took a look at the following factors like: One -man rule, Non-participating Board of Directors, unbalanced top Management Team, Combined Chairman - Chief Executive, Weak Finance function, Fraud, Assets/Liability Management. Financial ratios, and Profit and loss accounts. The information or data obtained are subjected to analysis which are correctly interpreted before inferences are made. This research project also employed personal interview (inquiry data) to have a cross sectional views of the operators of the banking

industry as well as corporate customers and individuals customers. The work and findings are summarised in chapter four where the survival options and recommendations are made. In other words, the data used for the study were obtained from both primary and secondary sources.

1.7 LIMITATION OF STUDY

In the course of this work, there was a limitation to the information/data obtained. The work depended heavily on the data collected from CBN, NDIC NSE and Nigerian dailies. Recent information on the affected banks could not be reached. The banks were not ready to release any information or data because they are already in financial crisis which is not a plus on their part so the work rely heavily on secondary data.

1.8 DEFINITION OF TERMS

1.8.1. Assets of the bank:

This refers to cash at hand or tradable instruments held, inventories, buildings, furnitures, fittings, electronic gadgets, equipment etc. made up of fixed and current.

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, Travelers Cheques, Bankers pay orders, Money order, Remittances etc.

1.8.3 Central Bank of Nigeria (CBN):

This the Apex regulatory authority of he financial system of Nigeria. Statutorly, it promotes monetary stability and maintains sound financial system n Nigeria among other functions.

1.8.4 Commercial Banks:

These group of banks perform three basic functions which include acceptance 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 Holding Action:

This refers to the conditions prescribed y the CBN for the turn around of distressed banks.

1.8.7 Illiquidity:

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

1.8.8 Insolvency:

This is a situation in a bank when the value of its realisable assets is less than its total liabilities, ie a case of negative networth.

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 depositor's money.

1.8.10 **Letters of Credits 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 need of the corporate and institutional customers.

1.8.12 **Nigerian Deposit Insurance Corporation (NDIC):**

This 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.

1.8.13 **Terminal Distress:**

This a state of a bank when all the remedial actions applied by the regulatory authority for its turn around have failed.

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CHAPTER TWO

LITERATURE REVIEW

2.1 HISTORICAL DEVELOPMENT OF BANKING IN NIGERIA

Financial institutions in many developing nations of the world have been facing different types of problems and of recent, Nigeria has joined the league.

The history of modern banking in Nigeria dates back to 1894 when the Bank of British West Africa (now First Bank of Nigeria PLC) opened its branch office in Lagos. Other banks sprang up which include indigenous banking boom in 1933 to 1957. After which an unprecedented crash of banks in the early 1950's when almost all the indigenous commercial Banks folded up as a result of inadequate capital base, poor management, lack of patronage, staff competition from stronger expatriate banks, and unhealthy expansion.

However, when the Central Bank of Nigeria (CBN) came into being in 1958, subsequently all the existing banking institutions in the country were organised under the regulation and supervision of the bank. The CBN accomplished its responsibilities through the insurance of prudential and credit guidelines, and direct monitoring of compliance. Since then, the government had instituted various legislation and regulatory policies towards promoting monetary stability and a sound financial system in the country. The government is to maintain public confidence in the network of financial institutions operating in the financial system inorder to ensure free flow of funds through the financial intermediaries and indeed insulate the banking public from the hazards of bank failures.

In later years several indigeneous and foreign banks have opened one or more branches in Nigeria. The Banque del' Afrique Occidentale was licensed in 1958, the bank of America in 1960, the chase manthattan in 1961, and the bank of India and the Arab Bank in 1962. The most unusual aspect of the Nigerian banking system then has been the establishment of private indigenous banks, there has

been no parallel development in any other African country. However other African governments have formed commercial Banks in later years.

Among the indigenous banks registered are

DATE	BANK
7/4/33	National Bank of Nigeria
2/5/45	Agbonmagbe Bank
7/2/47	Nigerian Farmers & Commercial Bank
17/1/47	African Continental Bank
24/2/51	PAN Nigeria Bank
21/6/51	Standard Bank of Nigeria
8/8/51	Premier Bank
28/8/51	Nigerian Trust Bank
30/11/51	Afroseas Credit Bank
4/12/51	Onward Bank
23/1/52	Metropolite Bank of Nigeria
25/1/52	Merchant Bank
5/2/52	Union Bank of British Africa
14/5/52	West African Bank
6/12/58	Central Bank of Nigeria
15/12/58	Provincial Bank of Nigeria
30/5/67	Allied Bank of Nigeria
3/12/81	Progress Bank of Nigeria

Source: Newlyn Rowan (1960) Chp 2.

There are so many omitted on this list which implies that there was a spontaneous boom of bank establishment right from the 1950s till early 1990s. Consequently, like a bolt from the blue, the authorities were faced with an intolerable and chaotic banking situation which eventually led to the current trend in the financial system of

Nigeria. The situation was actually aggravated by the very late reaction of the government who at the eleventh hour recognised the need to further regulate banking business by specific regulation.

There have been traces of regulation on the Nigerian Banking industry right from colonial days. In 1948 for instance, Mr. G.D Paton of the Bank of England submitted a report on Banking in Nigeria upon which banking legislations were marshalled out. In 1958, new ordinance was enacted following the recommendation of Loynes.

In 1958, when the Central bank of Nigeria took off, the regulator and supervisory roles of the commercial banking system in Nigeria was shifted to it. Since then the CBN has been in charge and became fully operational after independence.

2.2 DEFINITION OF BANK AND DISTRESSED BANK

A bank 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 credits, travellers cheques, Bankers Pay Orders, Money Orders remittance etc.

Financial crisis in the Banking industry led to distress. Wthat then is a financial crisis? there are numerous and often conflicting approaches to the subject of financial crisis in literature which make it a difficult task.

However scanty literature exist on the subject. Among this is the definition of key elements of financial crisis by Schwartz (1965).

According to her the key elements or links in the process referred to as a financial crises are:

1. A wide spread of change in expectations associated with fear of change in the economic environment. Such a change in expectations was often triggered in the past by some real events such as a war, harvest of

bank failures, also by monetary events, such as the fear that a particular country would leave the gold standard.

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

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

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

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

6. A reduction in money supply produced inturn by, Banking panics. The public's deposit currency ratios falls and the banks reduce their 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 follow.

9. A debt crisis produced by both decline in asset prices associated with liquidation and the decline in the price level. The possibility exalts of a (fisherian) debt by the decline in prices reduces the value of loan collateral and networths of firms, households and banks, leading to widespread bankrupcies, further bank failures, and further in he money supply.

10. The whole process arrested at the outset by the timely intervention to some authority that lends freely at a penalty rate or engages in open market operations.

Goldsmith (1982) on he other hand defines financial crisis as a sharp, brief, ultracyclical deterioration of all or most of a group financial indicators short-term interest rates, asset (stock, real estate, land) prices, commercial insolvencies and failures of financial institution.

Benanke (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 effects on the economy. For example, financial crisis which occurred in United States was occasioned by the troubles of Baring Brothers in 1980. Spraque noted that it was the prompt action taken by the clearing house authorities, by issuing loan certificates to meet the needs of particular Bank experiencing runs, that prevented the spread of the panic. Spraque summarised one of two specifics for the proper treatment of a panic - the continuance of loans to solvent borrowers and the prompt payment by banks for every demand by depositors for cash.

Another class of events that is said to raise the prospect of domestic financial crisis is still impending - the impairment of the ability of many sovereign countries to make scheduled payments of their outstanding bank loans, short term loans extended to Governments and to private borrowers abroad n some cases

appear to be beyond their prospective capacity to repay. Acknowledgement of default on outstanding loans would require write-downs that would reduce capital of the banks involved and that would undoubtedly raise the cost to them of funds obtained in the open market. In defining distress Frank summarised the characteristics of distress into two:

i. inability to meet maturing obligations (insolvency)

ii Total liabilities exceeding the fair value of assets i.e real negative networth (Bankruptcy)

Distress in a bank therefore is the state of insolvency and or Bankruptcy (an unhealthy financial state).

2.3 REGULATORY AGENCIES

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

(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 limits 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 supervision and examination to ensure compliance and that adequate management control system is in place with the necessary early warning systems to ensure effective management and control.

To achieve all these, section 38 of the Central Bank of Nigeria Decree No 24 of 1991 States that: The Bank shall whenever necessary seek the corporation of and cooperate with other banks in Nigeria: To

(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) "to require that all application to any bank for loans exceeding such amount as the CBN may specify shall be submitted by the bank to the CBN for approval and no such loans shall be made without such approval" This power has infact never been exercised but it tells us how far the CBN can go to atleast in theory.

The regulatory powers of the CBN were amplified under the Banks and other financial institution 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 of 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.

Although the CBN has very wide powers, not until radical decisions as regards the control of banks financial and monetary activities. Infact the post SAP era was more or less a sort of laisez-faire as far as banking business was

concerned. The rapid surge in the number of banks during that time led to the financial crisis today. Even when the conduct in the market requires decisive steps, the CBN at times compromised rather than act for example, when the inter-bank rate was getting out of hand, instead of finding ways of curbing the excesses and prevent banks from too much profiting through mere money brokeage, the CBN itself started charging the excessive rates on account of licensed banks that went into red which gave tacit support for the rates.

One last option the CBN has in its power under the Banks and other financial institute decree which it refused to implement when necessary was revocation with approval of the president 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 continuos period of 6 months or a cumulative of 6 months with in a period of 12 months

(b) Goes into requidation or is wound up or otherwise dissolved.

(c) Fail to fulfil 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 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 powers 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 stated that while deposit insurance can ensure depositors against the risk of loss from individual bank's mismanagement, it cannot insure the safety of the financial system. He further noted that in a generalised financial crisis, the NDIC; as the institutions it insures, can obtain currency only from the Central Bank. The role of the CBN is therefore is not to prevent insolvencies, it is rather to help minimise the risks banks 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 leverage over banks beyond the imposition of monetary penalties. It has no cease and desist powers over banks as in the USA. Its guidelines are no more than wthat they are to guide the banks in their operations. While persistent and outrageous breaches may no doubt attract the wrath of the CBN, and while it can impose its terms and conditions ultimately when called upon to bail out a recalcitrant bank in distress, until that time arrives, it has no powers to compel any bank or discipline erring staff of banks which opt to pay the fine rather than comply.

The NDIC in its 1991 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 the safety of their deposits, the NDIC and the monetary authorities are concerned about the stability, safety 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 failures. In assessing the financial condition of banks, two major problems are usually of serious concern to regulators and supervisors. These problems are illiquiditly and

insolvency . While a bank is said to be illiquid when it could no more meet its liabilities as the mature for payments, a bank is said to be insolvent when the value of its realisable assets is less than the total value of its liabilities. So when assessing the financial condition of a bank, it is customary to evaluate its Capital Adequacy, its Assets quality, its level of earnings and the adequacy of its liquidity. The NDIC 1991 report added that experience has shown in Nigeria that ownership structure and type of bank 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 immediately identify two major remote 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).

These two parameters are "human" in nature. To add credibility to the above observations (In Bello,1993) it was also observed that in view of the very important role of banks as the heart of an economy, it is not only sufficient for them (banks) to have for 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 highly qualities and honest professionals who will not singularly, collectively or in connivance with member of the public, defraud the banks.

Still in support of the above observations, Nwaoai (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. 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 salary, adding that, CBN was supposed to regulate the calibre of banks management staff but unfortunately, the apex bank had 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.

Other reasons advanced by Oladipo (1993) for the situation in the banking industry apart from those mentioned above include disregard for and in some cases unethethical application of banking rules, incompetent management, non-application of the prudential guidelines, execution of new projects without clearance from CBN, extension of loans and advances without collaterals, failure to identify dormant accounts, and lack of effective debt recovery machinery. As part of the efforts by the regulatory authorities CBN and NDIC to arrest he situation, during the first quarter of 1995, a new transitional Board (TSB) was constituted to replace an earlier Interim Management Board (IMB) which was constituted in May 1993. The TSB was part of an enhanced frame work for supervisory intervention in the six state government owned distressed banks earlier acquired by the CBN. The TSB was charged with the responsibility of supervising the affairs of the banks. Infact the banks were advertised for sale during the year.

By the second quarter of 1995, for instance CBN revoked the license of the Republic Bank Limited and appointed the corporation as liquidator. The revocation order was made as a result of the worsening financial condition of the bank and by implication the erosion of its capital base as well as the dissipation of depositor's funds. The bank was unable to meet the conditions stipulated for the lifting of the suspension order, hence the closure.

During the third and fourth quarters of the same year, the CBN in conjunction with NDIC assumed control and Management of 18 distressed banks. Among the affected was progress bank. Later Allied bank joined the league. 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.

In the third quarter of 1995, the CBN, in accordance with the relevant provisions of section 33 of the Banks and other Financial Institutions (BOFI) Decree No 25 of 1991, removed the former Board of Directors of Savanah Bank PLC and appointed a TSB to oversee the affairs of the Bank. This was as a result of the longdrawn out crisis that had engulfed the bank since its 17th Annual General meeting held in Sept 1993. The TSB was changed with the responsibility of restoring stability to the bank, safeguards its assets, ascertain the true financial condition of the bank, project the interest of depositors as well as arrange for an extraordinary general meeting of shareholders to elect new directors as soon as practicable.

During the year 1996/97 the Federal Government demonstrated its readiness for a full implementation of the provisions of the failed banks (Recovery of Debts) and financial Malpractices in Banks. Decree No 18 of 1994 as five (5) special Tribunals were inaugurated with the chairmen sworn in several cases were taken to the tribunals during the year and they are being treated accordingly. Some monies have been recovered and the culprits are serving various jail terms in different parts of the country.

With the tribunals in place, and the observed strong commitment of the Federal Government to fully implement the decree, many bank's debtors paid the debts owned to their various banks during the year. This immediate effect of the implementation of the decree could therefore be seen in terms of quick recovery of substantial sums of otherwise bad debts by most banks. If the trend should continue, the size of non performing loans and advances in most of the banks would reduce considerably and the rising trend of distress could be arrested or minirnized.

2.4 CAUSES OF DISTRESS

Inspite of the regulation and supervision of CBN and NDIC and other issues raised in this work regarding the need for proper planning, honest guidelines, having a strategic focus, formulating appropriate policies, ensuring the prompt and timely execution of strategic plans and monitoring the performance of plans through a well thought out systematic feedback mechanism in order to take corrective action when deviation occur, many organisations such as the banking industry fails. The question is why? To fully understand how to deal with failure we must first know wthat causes it. The discussion relies on the classic work of John Argenti (1977) on the subject of corporate collapse. It is argued that several factors including fraud and forgeries, bad luck, unforeseen designs of nature, politics, economic environment, inadequate capital, illiquidity, insolvency, lack of experienced and skilled personnel, Ownership structure cause failure but the most important is poor management of corporate entity. Poor management manifests itself in five important ways:

a. **One-Man Rule:**

With one-man rule especially in the private, banking industry, the Chief executive takes all the decisions, whether strategic or routine. He neither consults for advice, reactions and contrary views nor delegates. He allows no discussions on important issues but only calling meeting to confirm decisions he has already taken. An autocrat, the chief executive is on the road to destroying the organisation because he will in time make fatal errors of judgement which will cost the organisation clearly in terms of recovery.

b. **Non-Participating Board of Directors:**

The Board of Directors are the policy-makers and even the Executive Directors who are to participate in the day-t0-day running of the banks. They have contributed enormously to the failure of most of these banks. The

boards have cared little, if at all about the health of heir respective banks. Some board members have been described a more or less "cow boys" busy making overseas trips and engaging the bank in "poorly recorded money movement". Loose management by the boards become the order of the day. Credit facilities were extended to friends of the boards members on complimentary cards. Ten percent or sometimes more kick backs were shared on the floors of boards of directors meeting hall to ensure a loan application sailing through. Such credit facilities, not surprisingly are never repaid; and eventually the banks become recalcitrant.

The success or failure of an organisation begins in the boardroom where members take major long-range policy 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. But where board members lack the requisite knowledge or are political appointees or are appointed to several boards, they will either be absentee members or when present at meetings are unlikely to participate fully and effectively. Even functional executive directors who may only participate in matters affecting their narrow personnel or functional interest would also be effectively non-participating members. In which case, either poor decisions are taken or not taken at all for lack of quorum or left to the Chief executive back to one-man rule again.

c. **Unbalanced Top Management Team:**

Every success-bound organisation should have a management team, particularly at the top: that is balanced in the sense of having both depth and breath. Management debt is characterised by a substantial number of experienced highly knowledgeable, senior managers who are capable of steering the organisation through stormy waters in times of crisis. Of course,

depth is also a balance between old and experienced and cautious managers and young, talented and aggressive managers. Management breath is the existence of Managers with a broad spectrum of skills in all functional areas of business: Managers who are versatile and flexible and can easily adapt to changing conditions both internal and external to the organisation. Where the top management team comprises of a small group of senior managers who are either all engineers or accountants, the organisation is headed for trouble because it will actually be steered like a horse with blinkers on, having a one track mind and completely oblivious to other events in its environment or unable to do much about them because it lacks the requisite skills and managerial exposure for handling such events.

The issue of rising trend in frauds and forgeries which may erode public confidence in the banking system. According to the 1992 NDIC Annual Report for instance, ₦73.1 million of the amount involved is the actual expected loss, showing a 173.98 percent rise above the 26.68 million lost to frauds and forgeries in 1991.

The NDIC, however, attributed the rising cases of frauds and forgeries to increasing sophistication of perpetrators and lowering of personnel quality in banks, among others. It was discovered that various categories of staff including supervisors, managers, accountants, officers, clerks, cashiers, messengers and drivers, etc were said to have been involved in forgeries and frauds. It does baffle an outsider to read that even bank drivers and messengers are involved in frauds and forgeries. All these frauds and forgeries have been possible because of the incompetence of the management team.

d. **Combined Chairman - Chief Executive:**

This seems to be a popular fad in the Nigerian corporate environment since the 1980s particularly among the transnational businesses like First City Merchant Bank, Lever Brothers as well as many other smaller enterprises. However, there is an inherent danger in this combination as it

leaves little room for checks on executive deviance. Where the offices of Chairman and managing director of an organisation are vested in one individual, the organisation is essentially back to the one - man rule situation! This is because he can decide wthat is to be included in the agenda of a board meeting for discussion. As a chairman, he can pilot meetings towards his own decisions, take major decisions on behalf of the board, manoeuvre his way by means of reward and deprivations to other members of the board and top management. Indeed, as chairman/managing director, the chief executive is responsible to no one in particular as the shareholders would have abdicated their responsibility to him.

e. Weak Finance Function:

Although an organisation whose other functions are weak would really be in trouble, if the finance and accounting functions are deficient then it is headed for collapse. Such deficiencies appear in the form of inadequate financial controls, poor asset valuation and costing systems and inadequate cash flow forecasts and when the finance function is adequate, if it is not represented on the board of directors then it is unlikely to serve as a necessary check on the activities and strategic decisions of the organisation or as an important information input to these decisions.

It is also argued that poor management as manifested in the distressed banks and the consequent points raised so far leads to.

i. Low worker morale, particularly among the top management as there is a general pictures of financial stringency unattractive offices and poor physical maintenance.

ii. Decline in product and service quality

iii. Tighter credit policies arising from cashflow problems.

iv. Longer debt repayment periods or frequent rescheduling

v. Greater resistence of Management to pay increases.

vi. Reduction in overtime work and allowances.

vii. Delays in capital expenditure approvals.

viii. Rising inventory or stock level due to poor sales or earnings.

ix. Increasing number of customer complaints arising from poor service or products.

x. Declining Market Share

xi Stock exchange reduction or mark down of the stock price.

2.5 OWNERSHIP CATEGORY AND DISTRESSED BANKS

An examination of banks adjudged by the NDIC as being financially distressed in 1991 revealed that ownership category was one of the parameters that could be used to explain the degree of financial distress. For instance Table 1 presents the number of banks by ownership category as at the end of 1991 as well as those that were financially distressed.

TABLE 1:

NUMBER OF DISTRESSED BANKS BY OWNERSHIP CATEGORY IN 1991

S/No	OWNERSHIP CATEGORY	NO OF BANKS	% OF TOTAL	NO OF DISTRESSED BANKS
1.	State-Government owned Commercial Banks	25	21	7
2.	Federal-Govt. owned Commercial Banks	8	7	-
3.	Privately-Owned Commercial Banks	32	27	1
4.	Fed/State Govts owned Merchant Banks	8	7	-
5.	Privately owned Merchant Banks	46	38	-
6.	Total	119	100	8
	Source: NDIC 1991 Annual Report & Statement of Accounts			

One can observe immediately from Table 1 that out of the eight distressed banks in 1991, seven of them were owned and controlled by state governments. Only one adjudged distressed is privately owned and controlled. These observations raised vital issue and that is: "Why ever allow state Governments to own and control banks, despite the many evidences that show that they can not control these banks effectively and efficiently, considering the roles of banks in our economy?" This thus necessitate an examination of state Government's involvement in Banking in Nigeria.

State Government's involvement in Banking:

Actually state government got involved in banking when of Eastern and Western Nigeria were established and licensed. These regional governments injected public funds into these banks to finance agriculture. The financial crises of the 1950's saw the collapse of many indigenous banks and depositors funds thrown down the rain. meanwhile there were only very few expatriate banks who had monpolised he Nigerian banking scene. These expatriate banks were accused of discriminatory policies and practices against Nigerian businessmen.

With the collapse of indigenous banks in the 1950s, public confidence in such banks had seriously been eroded. To restore the lost public confidence, regional governments had to be interested in banking with the understanding that since the country was preparing for its political independence in 1960, efforts must be intensified by Nigerians to achieve economic independence. In addition, the Nigerian nationalists recognised the pivotal role of banks in economic emancipation and development, hence the takeover and injection of needed additional capital into the surviving indigenous banks to sustain their operations and enhance their competitive competence against the expatriate banks. For example, it was during this period, that the National bank of Nigeria Limited and the Agbonmagbe Bank were acquired by the Western Nigerian Government. The era ushered in many regional (now states) governments, increased tempo of their

participation in Banking so much so that virtually every state government now has its own bank.

Ebhodaghe (1992) observed that unfortunately what started out as a blessing to indigenous banking has become its bane. These state governments who own and control these banks have now created insurmountable problems for themselves. For example the key management staff of the banks are usually appointed by the state government using criteria which placed little emphasis on merit and professionalism. Because of the insecured nature of their appointments, Self-serving practices, indiscipline and god fatherism have all worked against the overall long-term interests of the banks. Ahmed (1991) noted that despite the impressive growth in the deposit base of these banks, they (the banks) were not free from the problems which hampered the operations of some of them in the previous years. He stated that for example, frauds and forgeries, boardroom quarrels and inept management continued to bedevil some of the banks.

Ebhodaghe (1992), adds that in addition to appointing and removing at will, the directors and the key management staff of the state - owned banks, the owner state governments interfere in the day -to-day management of the banks. Highly placed government officials are said to have directed bank credit to favoured custorners, friends and relatives without such people going through the normal credit analysis processes and sometimes such credit facilities are not collaterised, hence the huge bad and doubtful debts as also observed by Ahmed (1991). To substantiate these assertions, Nweruh (193), Chief J.O. Irukwu, the Chairman of he cooperative and Commerce Banks (CCB) Interim Management Board, during one of the bank's customers forum held n Enugu in 1993 July, stated that the problem of the bank was particularly the crippling syndrome of undue interference by the state governments (Owners of the bank).

They however noted in addition to the above, the problem of state government owned banks was that they (state governments) either borrowed excessively from the banks without repaying or frequently changed the

management to bring in their candidates. In other words, there were reckless interferences of the state governments in the daily affairs of the banks now adjudged distressed. Also, the owner state governments take loans for themselves and their parastatal companies in multiples of their equity capital in the banks. Such loans are nearly serviced with the result that the banks are saddled with huge non-performing loan portfolios. The problem of non-performing loans has been brought to the fore in recent times following the financial crisis that have plagued many of the state government owned banks. This has given rise to these banks being adjudged distressed and taken over by the CBN.

For instance table II shows the ownership structure of the six state-government owned distressed banks as at 1991 which has been taken over by CBN; while Table III indicates the various states indebted to the "Distressed banks". The figures presented indicate that PAN African Bank Limited, is 100 percent owned by the Rivers state Government whose total indebtedness to distressed banks as at Jun 30 1991 stood at ₦36,317,800 worth of non forming facilities (see Table III). The worst hit is the African Continental Bank PLC (ACB) with ownership structure of state governments participants at 65.3% made up of Abia, Anambra, Enugu and Imo state Governments owning 46.38% while Rivers state Government along owns 18.95%. The State governments that own the ACB have a total indebtedness to distressed banks in Nigeria standing at ₦507,298,291 broken down as follows: ₦9,332,919 representing performing credits while ₦ 497,965,372 represents non performing credits (See Table III).

TABLE II:

OWNERSHIP STRUCTURE OF

S/No	COMMERCIAL BANK STATE GOVTS. PRIVATE	STATE OWNERSHIP	STRUCTURE % NIGERIANS
1.	African Continental Bank	65.3	34.7
2.	Co-operative & Commercial Bank Plc	66.5	33.5
3.	Mercantile Bank Ltd	68.0	32.0
4.	New Nigerian Bank PLC	63.7	36.3
5.	PAN African Bank Ltd	100	-
6.	Progress Bank of Nig PLC	58	42

SOURCE: NDIC 1991 Annual Report and Statement of Accounts

TABLE III

STATES INDEBTED TO DISTRESSED BANKS AS AT JUN 30 1991

S/No	STATE GOVTS.	PERFORMING	NON-PERFORMING	TOTAL
		CREDITS		CREDITS
		₦	₦	₦
1.	A/IBOM	------	45,632,589	45,632,589
2.	FORMER ANAMBRA	9,290,000	143,760,691	153,050,691
3.	BAUCHI	10,540,961	---	10,540,961
4.	FORMER BENDEL	----	69,267,661	69,267,661
5.	BENUE	----	2,563,993	2,563,993
6.	CROSS RIVER	----	56,120,533	56,120,533
7.	FORMER IMO	42,919	317,886,878	317,979,797
8.	" KANO	----	33,090,068	3,090,068
9.	" KWARA	----	112,762	112,762
10.	LAGOS	----	16,530,664	16,530,664
11.	OGUN	----	2,674,732	2,674,732
12.	ONDO	----	2,963,789	2,963,789
13.	FORMER OYO	----	6,314,853	6,314,853
14.	PLATEAU	----	17,432,596	17,432,596
15.	RIVERS	----	36,317,803	36,317,803
SOURCE: NDIC Quarterly, Vol. 2: No 1 March, 1992				

An indepth study of Table III confirms the assertions of Ahmed (1991) and Ebhodaghe (1992) on the accumulation of huge bad and doubtful debts by state government owned banks. No wonder then, that they were mostly taken over by CBN. Having confirmed that most state government owned banks are distressed and the fact that the indebtedness by the owner-state governments has been traced to have contributed enormously to their poor financial conditions, the question the public now poses remain. Wthat are the ways out especially for those banks that were distressed for sometime now and are not taken over by the CBN. The answer is wthat this work is designed for.

INADEQUATE CAPITAL BASE

For any bank to enjoy the confidence of depositors, it must have strong capital base as evidence of strength. It is also important that the bank operates profitably for the shareholders fund to increase through accretion to statutory and general reserve.

TABLE IV: CAPITAL REQUIREMENT AND SHAREHOLDERS FUND

Banks	No of Banks		SHAREHOLDERS FUND ₦'000		CAPITAL REQUIREMENT ₦ '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)	(3,9220)	2,289.7	27,162.3
Industry	116	115	(3.871.1)	(8,791.1)	6,682.4	30,835.0

SOURCE: NDIC 1995 ANNUAL REPORT AND STATEMENT OF ACCOUNT

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 depositor's fund. The only way for such bank is to be recapitalised as it is technically insolvent.

From Table IV above, the trend of gross undercapitalization of banks reported in 1994 continued in 1995. It shows the extend of undercapitalization as it worsened in 1995. The adjusted shareholders fund deteriorated further from negative of ₦3,871.l million in 1994 to negative of ₦8,791 million in 1995. This was as a result of increase in loans and advances. 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 are known to depositors, therefore their confidence to deposit money in such banks will be eroded and in that way, customers are lost.

FRAUD AND FORGERIES

Fraud as already presented is another serious problem that banks have to cope with. This fraud ranges from outright theft by way of credits that the manager or the approving authority knows will fail. Employment policy in banks in Nigeria reflect the ownership structure and this makes it difficult for some people to be disciplined because of the ownership structure. The employee or operator may not see anything in wthatever bad things their kinsmen might have done.

Examined in this report are cases of frauds as against section 39 and 40 of NDIC Decree of 1988. The nature of these frauds and forgeries are highlighted . Data on reported cases of 1995 are compared to those of 1994 in an effort to show trend in the malpractices.

TABLE V

RETURNS OF COMMERCIAL BANKS ON FRAUD AND FORGERIES

Quarterly	Year	No of banks Rendering Returns	No of banks with Fraud cases	Amount Involved ₦'m	Actual Expected ₦'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	35.95	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
	1995	-	-	1,006.28	220.68	22.49
Total	1994	-	-	2,655.71	883.55	33.26

SOURCE: NDIC 1995 ANNUAL REPORT AND STATEMENT OF ACCOUNTS

Data on table V shows the amount involved in frauds and forgeries, together with actual/expected loss and the number of commercial banks involved. The data show that the total amount involved stood at ₦1,006.28 million in 1995 - compared to ₦2,655.71 million in 1994. The total actual/expected loss in 1995 was about ₦ 226.38 million whereas the 1994 Figure was ₦883.55 million. From this information, in the first quarter of 1995, 51 banks were involved and the number of banks with fraud cases were 30, in 1994, 47 were involved out of which 33 have cases of fraud. In the 4th quarter of 1995, 47 banks were involved and those with fraud cases were 32. The situation in 1994 shows that 49 banks were involved out which 45 had fraud cases. There was therefore 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.

PERFORMANCE OF INSURED BANK'S SHARE ON THE NIGERIAN STOCK EXCHANGE AS A CRITERIA FOR CLASSIFYING BANKS AS DISTRESSED

As at 1994-95, the number of banks listed on the Nigerian Stock Exchange (NSE) remained at 21. The relative stability in the number of bank listed on NSE might not be unconnected with the fact that most of the strong, privately owned banks were not keen in seeking quotation. For those banks listed on the NSE Table VI. showing their names, per values, market prices of shares, earnings per share and price/earning ratios as at 31 Dec 1995.

TABLE VI

PERFORMANCE OF INSURED BANK'S SHARES ON THE NIGERIAN STOCK EXCHANGE AS AT DEC 31, 1995

BANK	Per Value	Quotation	Year High	Year's Low	Earnings Per Shares	Price/ Earnings Ratio
Afribank Nig PLC	50	655	655	116	82.2	8.0
African Continental Bank PLC	50	50	50	50	0.0	0.0
Allied Bank of Nig PLC	50	98	100	70	37.5	2.6
Alfa Merchant Bank	50	110	110	110	19.2	5.7
First Bank of Nig PLC	50	956	980	260	132.2	7.2
FSB International Bank PLC	50	475	958	108	59.4	8.0
Highland Bank of Nig PLC	100	130	130	120	16.0	8.1
Inland Bank Nig PLC	50	70	94	70	0.0	0.0
International Merchant Bank	50	524	103	50	2.0	26.0
Lion Bank of Nig	50	50	60	50	12.3	4.1
Mercantile Bank	50	12	12	12	0.0	0.0
NAL Merchant Bank	50	350	500	302	137.6	2.2
Ovient Bank of Nig	50	67	70	40	70.9	0.9
Owena Bank of Nig	50	120	120	57	5.0	24.0
Progress Bank of Nig Plc	50	32	70	30	0.0	0.0
Savanna Bank	50	64	64	26.0	2.5	-
Trade Bank	50	85	98	85	26.3	3.2
Trans Inter. Bank	50	112	125	192	11.1	10.1
UBA PLC	50	728	742	195	58.8	12.4
Union Bank	25	588	669	262	52.9	11.1
Wema Bank	50	735	960	370	75.6	9.7

SOURCE: NDIC 1995 Annual Report & Statement of Account

Using the performance of insured bank's share on the NSE as criteria for classifying banks as distressed, the banks that were not able to perform well on the NSE are those that are distressed especially banks like Progress Bank of Nigeria that has 0.00 earnings per share. The bank amount per value was 50k, the quotation was 32k and amount they actually gave out as their earnings per share was 0.00. This implies that the bank was insolvent as such was not able to participate in the NSC effectively.

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CHAPTER THREE

3.0 HISTORICAL DEVELOPMENT OF ALLIED AND PROGRESS BANKS PLC.

3.1 PROGRESS BANK OF NIGERIA PLC

The bank was incorporated on 3rd Dec 1981 in the joint name of Anambra and Imo States with the headquarters in Owerri, Imo State. The bank was listed on the Nigerian Stock Exchange in 1988 seven years after its incorporation. The nature of its business was banking and it has a ten-man board of directors including the managing Director (MD).

The appointment of the members of the board of directors was confined to the geographical ownership structure of the bank. The initial pioneer staff were very few but the number increased when the bank extended its services to some other parts of the country.

3.1.2 OWNERSHIP STRUCTURE

The bank is jointly owned by former Imo and Anambra State before the creation of additional states. The shareholding analysis of the bank revealed that the state governments mentioned owned 58% while the public owned 42% to make the 100% ownership structure. The bank has no subsidiaries or associates.

3.1.3 STRUCTURE OF THE BANK

The bank just like any formal or profit oriented organisation has a simple organisation 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 MD who is also a member of the Board of directors. The Board is made up of ten members drawn from the states and ministries of finance. Next to the Board of Directors (BOD) is the executive management. This is made up of the Executive 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 the following departments: Legal, Personnel/Administration, Accounting, Advances, Training, Property/Estate and inspection. The bank has a network of branches concentrated at Lagos, Eastern Nigeria and a few Northern states like Kaduna and Kano. The bank is currently distressed due to illiquidity and insolvency.

3.2 ALLIED BANK OF NIGERIA PLC

This bank is currently distressed due to illiquidity and insolvency. The bank was incorporated on 3rd May, 1967 in the joint ownership of private investors and staff in Nigeria and Bank of India. The bank was listed on the Nigerian Stock Exchange on Feb 1993, twenty six years after its incorporation. The nature of its business is commercial banking and it has eight - man Board of directors including the managing director (MD). The appointment of members of Board of Directors cuts across Nigerian and Indian nationals in line with the ownership structure.

3.2.1 OWNERSHIP STRUCTURE

The bank is jointly owned by Bank of India with a shareholding of 13.3% and Private Investors/staff with shareholding of 86.7% making a total of 100%.

3.2.2 STRUCTURE OF THE BANK

Many of its branches across the nation have remained closed to customers and most of the employees have either resigned or been rationalised. The bank was first established as a branch of the Bank of India Bombay, which later commenced operation in Nigeria on 10 Sep 1962 before its incorporation. Since its inception it had expanded its operation and branches to various states and towns in Nigeria in line with various banking legislations. It has been fairly healthy until it crashed into the league of distressed banks. The Bank is organised and controlled by the Board of Directors while the administration and Management of the bank is the responsibility of the Executive committee, Assets and Liability committee and

Management committee. The bank has 69 Branches spread across Nigeria with about 2,112 employees.

The head office is located in Lagos manned by the MD, Gms and AGMs with the following branches: legal, personnel and Administration, Accounting, Advances, Training, Property/Estate and inspection.

The bank has the following subsidiaries/Associates: Bank of New Delhi Branch, Paris Branch, Bombay Branch, London Branch, New York Branch, Hongkong Branch, Singapore Branch, Deutsche Bank. The bank has capital structure of authorised of ₦100million and paid-up of ₦75million as at 1994.

CHAPTER FOUR

4.0 DATA PRESENTATION AND ANALYSIS

4.1 INTRODUCTION

Of all desirable skills for a manager, perhaps the most generally appreciated and normally emphasised are his ability to analyse and solve problem.

For the purpose of analysis of the information /data obtained during the course of this work, attempt is made to analyse them and interpret them correctly to enable me draw a relationship between my findings and the situation in the two banks studied to enhance the evolution of survival options which remain the cardinal target of this investigation.

4.2 SURVEY CONDUCTED:

Fifty(50) operators of the banking system, 50 corporate customers of the banking system and 50 individual account holders of the two banks were interviewed on the possible causes of the present state of the bank and the consequent impact on them and the economy.

The response from these categories of people who warned not to be quoted is so revealing and tailored towards the same factors. The main factors which were shared by all interviewed are bad management on the part of the operators of the banks, Fraud, Selfishness, Ownership structure and the inability of he regulatory authorities to detect and take the necessary steps on time until everything went out of hand.

The also observed that they have not been paid anything from their money deposited with the distressed banks. The effect is frustration and bankruptcy on the parts of the customers and lost of job and rationalisation on the parts of the workers of the bank are currently being experienced.

4.3 ESTIMATION OF PERFORMANCE

It is useful to develop certain financial statements as an aid in evaluating a firm's past or present performance.

In order to appraise the financial situation or performance of these two banks before they crashed, financial ratio analysis was employed.

Financial analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationships between the items balance sheet and he profit and loss account. The analysis of financial statements is typically devoted to the calculation of ratios in order to evaluate the past, current, and projected performance of the business firm. Ratio analysis is the most common form of financial analysis. It provides relative measures of the company's performance. The basic inputs to financial analysis are the firm's income statement and balance sheet for the period(s) to be examined. Using the data provided by these statements, various ratios can be calculated that permit an evaluation of certain aspects of the firm's performance.

Ratio analysis of a firm's financial statements is of interest to a number of parties, especially current and prospective shareholders (investors), creditors, and the firm's management. The nature of analysis will differ depending on the purpose of the analyst. For example, the current and prospective shareholder is interested primarily in the firm's present and projected level of earnings. Although the shareholders main concern is with profitability, he also pays close attention to measures of liquidity and leverage in order to determine the likelihood of the firm's continued existence and to evaluate the probability of receiving any distribution of the firm's earnings. The investors restore more confidence in those firms that show steady growth in earnings.

The firm's creditors are primarily interested in both short-term liquidity of the firm and the ability of the firm to service its debts 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 or prospective creditor is the firm's profitability: he want 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 firm's profitability over time, its ability to generate cash to be able to pay interest and return their claims 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 firm's management is supposed to be concerned with all aspects of the firm's financial situation. Since it is aware of the type 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 their overall responsibility 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 worthliness should be unimpaired. In other words, the firm's 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 firm's management is to use ratio in order to monitor the firm's performance from period to period. Any unexpected change are examined in order to isolate developing problems.

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

Data and Ratio Analysis of Allied Bank of Nigeria PLC

Ratio analysis involved comparison for a useful interpretation of the financial statements. To ensure that comparison was made with some standards, the following standards of comparison consisting of

a. Ratios calculated from the past financial statements of the same firm

b. Ratios developed using the proforma financial statement of the same firm

c. Ratios of some selected firms 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. If the competitors are also corporating 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 utilizing 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 performances, any developing trends must be isolated, and appropriate action must be taken to direct the firm toward its immediate and long-term goals. Time series analysis is often helpful in checking the reasonableness of a firm's projected financial statements. A comparison of current and past ratios to those resulting from an analysis of pro-forma statements may reveal discrepancies or over optimism in the pro-forma 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 financial summaries of he bank as provided by the Nigerian Stock Exchange fact book of several years. The standard formulae used to arrive at the ratios are as presented in appendix one.

The results of the ratios analysis and profit and loss accounts of the banks are presented on Tables VII - VIII and figures 1 -2 respectively.

a.

Table VII: **SIX YEARS (1988 - 1993)**
RATIO ANALYSIS OF THE FINANCIAL SUMMARY OF ALLIED BANK OF NIGERIA PLC

	RATIO	1988	1989	1990	1991	1992	1993
1.	Current Ratio	0.07	.04	1.00	1.00	1.04	1.05
2.	Debt Ratio	14.37	0.96	0.99	0.99	0.96	0.95
3.	Debt Equity Ratio	0	0.69	3.03	0	0	0.07
4.	Debt to Total Capitalization	0	0.41	0.75	0	0	0.06
5.	Gross Profit Margin	0.15	0.02	0.16	0.15	0.02	0.11
6.	Net Profit Margin	0.10	0.02	0.15	0.15	0.01	0.11
7.	Return on Investment	0.21	0.01	0.03	0.02	0.01	0.03
8.	Fixed Asset Turnover	5.32	2.85	1.66	1.13	2.04	3.61
9.	Total Asset Turnover	2.00	0.18	0.16	1.13	0.19	0.27

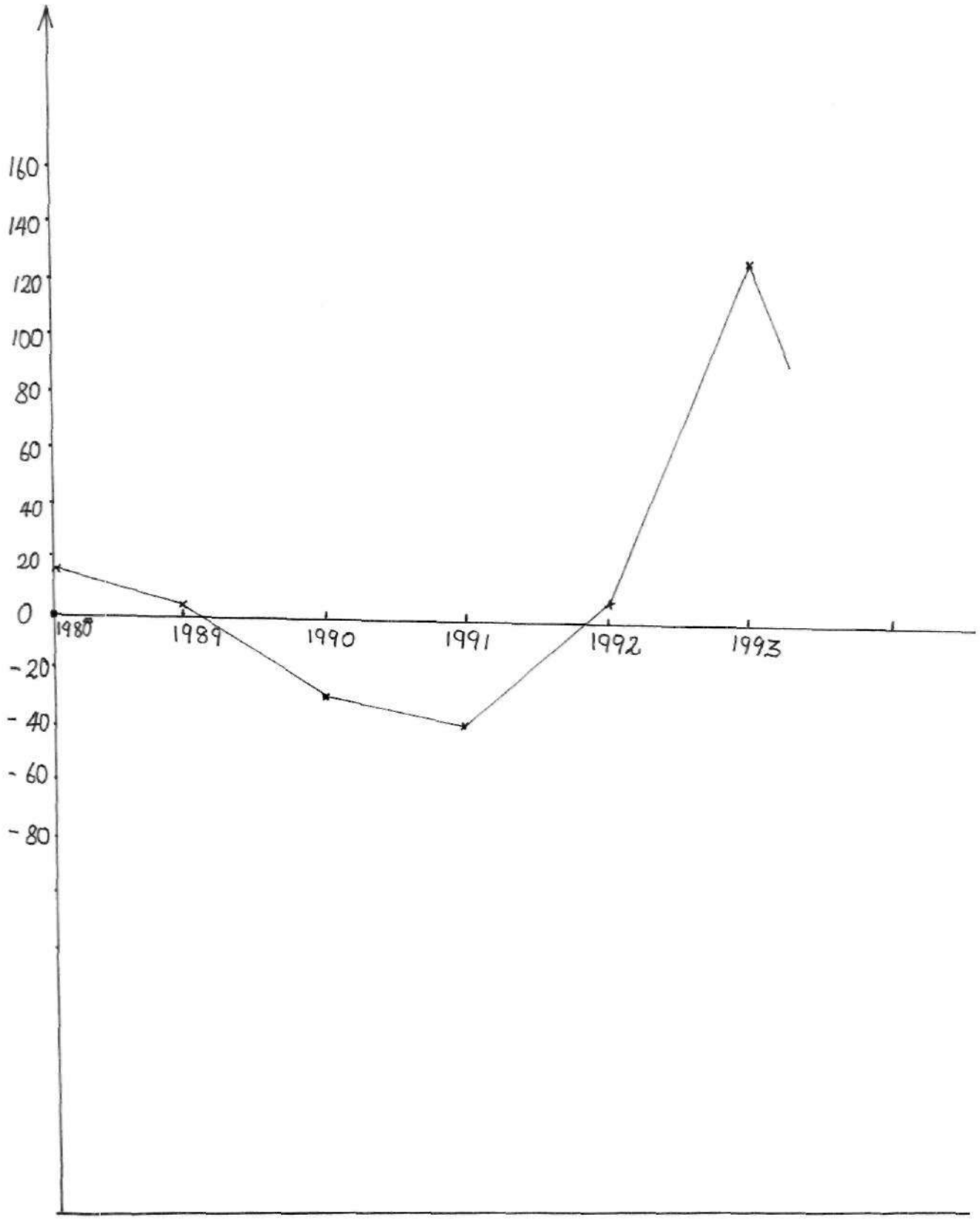


Fig 1: **Profit and Loss Summary 1998 - 93 After Tax of Allied Bank of Nigeria PLC** (₦, 000, 000)

Table VIII: **SEVEN YEARS (1988 - 1994)**
RATIO ANALYSIS OF THE FINANCIAL SUMMARY OF PROGRESS BANK OF NIGERIA PLC

S/NO	RATIO	1988	1989	1990	1991	1992	1993	1994
1.	Current Ratio	3.08	2.37	3.45	2.13	3.03	8.27	7.47
2.	Debt Ratio	0.32	0.42	0.29	0.47	0.33	0.12	0.13
3.	Debt Equity Ratio	0.36	0.45	0.32	0.50	0.35	0.13	0.09
4.	Debt to Total Capitalization	0.26	0.31	0.24	0.33	0.36	0.11	0.08
5.	Gross Profit Margin	0.12	0.14	0.13	0.02	0.01	0.02	2.41
6.	Net Profit Margin	0.74	0.09	0.39	0.02	0.01	0.01	2.41
7.	Return on Investment	0.01	0.01	0.02	0.01	0.01	0.01	0.52
8.	Fixed Asset Turnover	13.38	4.22	4.73	3.66	4.09	3.24	1.62
9.	Total Asset Turnover	0.13	0.15	0.22	0.16	0.26	0.24	0.21

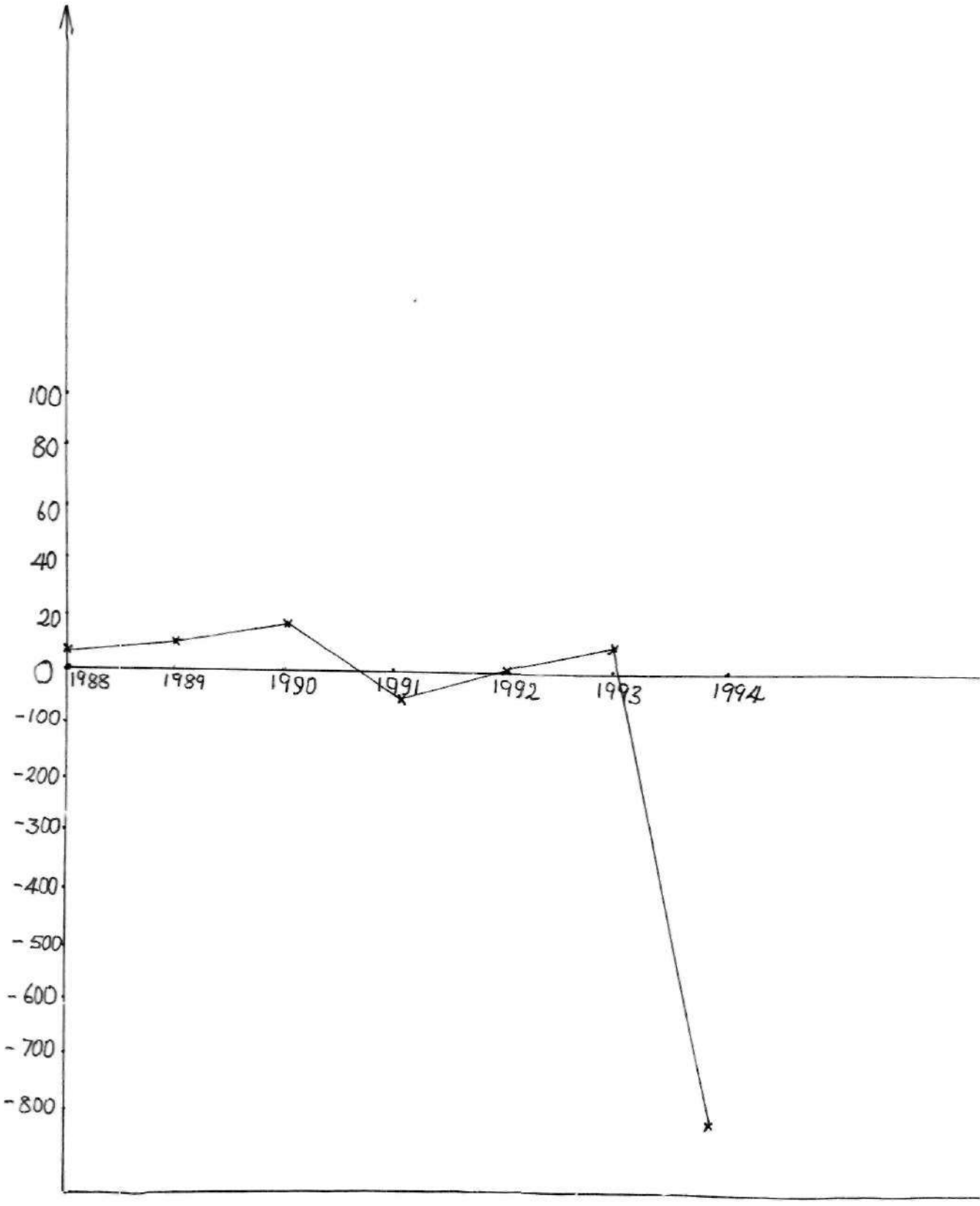


Fig 2: **Profit and Loss Summary 1998 - 94 After Tax Of Progressive Bank Of Nigeria PLC** (₦, 000, 000)

4.4 RATIO RESULTS ANALYSIS OF ALLIED BANK OF NIGERIA PLC 1988 - 1993

CURRENT RATIO: (CR)

The evaluation of current ratio for this bank for the years 1988 - 1991 was relatively low but slightly picked up in 1993 before its current state. The implication here is that in the early years, the bank probably had difficulty in paying its bills but the situation improved in 1993 when the bank became more liquid and was able to pay its bills until recently when it crashed.

DEBT RATIO (DR)

The debt ratios within the years examined 1988 - 1993 was low. This implies that the performance was good as at then. It also mean that the amount of money from creditors (i.e the amount of other people's money that is being used in an attempt to generate profit for the bank owners) was low. The low debt ratio is preferred by creditors because lower ratio means a greater cushion against creditors losses in the event of band liquidation.

DEBT EQUITY RATIO (DER)

The debt equity ratios were low in 1988 - 1993 except in 1990 when it was as high as 3.03. This implies that in terms of performance, the bank had large amount of fixed assets and stable cash flow except in 1990 when the ratio was high probably the bank then was less capital intensive.

DEBT TO TOTAL CAPITALIZATION RATIO

Since there is a great similarity between equity ratio and the ratio to total capitalization as indicated in Debt equity ratio. The same degree of performance is applicable.

GROSS PROFIT MARGIN (GPM)

For the periods examined, the GPM was generally low which is an indication of a poor performance because the higher the gross profit, the better and the lower the relative cost of merchandise sold. The low rates of gross profit margin probably stemmed from the effect of price, earnings and overhead cost.

NET PROFIT MAGIN (NPM)

The net profit margins for the periods examined are poor. This implies that the bank service or sales prices were relatively low or that its costs were relatively high or both. It is therefore not surprising that the bank crashed in the subsequent years.

RETURN ON INVESTMENT (RETURN ON TOTAL ASSETS)

Returns on total assets for the bank for the periods was low. This is not healthy for the bank. These low rates could probably stem from the low profit margin on earnings and from the low turnover of the total assets during the period.

FIXED ASSETS TURNOVER

The bank fixed assets turnover was fairly good in 1988 and since then it has been low until 1993 when the highest turnover was attained. This implies that the company used its fixed assets to a high percentage of capacity in 1988 and 1993 compared to 1989 - 1992 respectively.

TOTAL ASSETS TURNOVER (TAT)

The TAT was about 2 in 1988 this has decreased gradually since then. This implies that less revenue is generated per naira of total investment in assets because the higher the ratio the better.

PROGRESS BANK OF NIGERIA PLC
RATIO RESULT ANALYSIS

CURRENT RATIO (CR)

The evaluation of current ratio for the bank for the years 1988 - 1992 were relatively low that is poor, however the bank picked up between 1993 - 1994 when the ratios even though fluctuated from 8.27 in 1993 to 7.47 in 1994 before the subsequent down turn which later plugged the bank to its present situation. This implies that early in the years 1988 - 1992, the bank probably had difficulty in paying its bills but the situation improved in 1993 and fell slightly in 1994 when its ability to pay its bill became relatively better because of high value of the current ratio.

DEBT RATIO (DR)

The debt ratio has been low over the years examined (1988 - 1994) especially between 1988 - 1992 but dropped further between 1993 and 1994. This implies that the performance was good in the early years of 1988 - 1992 and even became satisfactory between 1993 - 1994 when the lowest ratios were recorded. It also mean that the amount of money from creditors was low in the early years up to 1992 and even lower between 1993 - 1994. The lower ratio is preferred by creditors because lower ratio of debt means a greater cushion against creditor losses in the event of bank liquidation.

DEBT EQUITY RATIO (DER)

The DERs were low from 1988 - 1992, but the least ratios were observed between 1993 and 1994. This implies that in terms of performance, the first four years 1988 - 1992, the bank had large amount of fixed assets and stable cash flow which consequently led to fairly high ratios as against 1993 and 1994 when probably the bank was less capital intensive which led to low ratios. The

performance of debt equity ratio from 1993 to 1994 is poor compare to 1988 - 1992.

DEBT TO TOTAL CAPITALIZATION RATIO

Similarity exist between DER and the ratio to total capitalization as evidenced from the ratio values. The degree performance therefore is as applicable in DER.

CROSS PROFIT MARGIN (GPM)

The gross profit margin for the seven years examined was poor except in 1994 that it improved from 0.02 in 1993 to 2.41 in 1994. This has seriously affected the bank. This could be as a result of overhead cost, earning among other factor. It was therefore not surprising that the bank crashed subsequently.

NET PROFIT MARGIN (NPM)

The NPM shows a similar pattern with GPM which generally shows a poor performance. This could be as a result of low cost of services or high overhead cost or both.

RETURN ON INVESTMENT (ROI) OR RETURN ON TOTAL ASSETS (ROTA)

Generally for the years examined 1988 - 1994, the ROI was low except in 1994 when it improved from 0.01 to 0.05. This is not a healthy performance. This could be as a result of low profit margin on services and from the low turnover of total assets.

FIXED ASSET TURNOVER (FAT)

The FAT has continuously deminished from 1988 to 1994 such that from 13.38 in 1988 to 1.62 in 1994. This implies that the bank used it fixed assets to a

low percentage of capacity in subsequent years after 1988. This is not a healthy performance.

TOTAL ASSET TURNOVER (TAT)

The TAT just like FAT has been on the decrease or rather fluctuating negatively. This shows that less revenue is generated per Naira total investment in assets because the higher the ratio the better.

4.5 PROFIT AND LOSS ANALYSIS

ALLIED BANK OF NIGERIA PLC (Fig 1)

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

The result shows that the bank's performance in 1988 was fairly good with a profit after tax of about ₦14.7 million. However, the performance dropped with a profit of ₦3.9 million in 1989. The situation became worse in 1990 when a loss instead of profit of ₦35.9 million was recorded. The situation of negative performance continued and degenerated in 1991 when a further lost of ₦39 million was realised. However the situation slightly recovered when a profit after tax of ₦ 5.9 million was attained in 1992. This situation improved up to 1993 when the profit after tax improved to ₦12.3 million. On the whole, the profit of the bank has fluctuated as far as profit making is concerned. This was the period when signals of financial ill-health was beginning to manifest itself, when a prompt remedy would have helped the bank from the distress situation it finds itself today.

PROGRESS BANK OF NIGERIA PLC (Fig 2)

The profit and loss analysis of this bank was examined as shown in (Fig 2) in addition to the ratio analysis. The results show that in 1988, a profit after tax of ₦ 3.6 million was made. This was improved upon in 1989 with a profit of ₦7.5 million. The situation got better in 1990 when a profit after tax of ₦10.6 million was

documented. Unfortunately in 1991, the situation changed negatively to loss of ₦ 4.2 million after tax. In 1992, the situation slightly improved from deficit of ₦4.2 m to a profit after taxes of ₦2.3 m and this was further improved upon in 1993 when a profit after taxe of ₦4.2 was declared by the bank. The present situation of distress started when in 1994, a deficient (loss) of ₦734,090 million was recorded, since then the bank crashed and has not be able to be on its feet.

Finally the ratio summary, profit and loss accounts presented give a reasonably good picture of the banks areas of weakness and strengths.

The banks liquidity position was not very good and therefore not satisfactory. The gearing ratios of the two banks show that the banks had no good debt ratio which means that the banks might not find it easy to borrow additional funds without necessarily more equity capital. Creditors would not be willing to lend more money to the banks and the shareholders because of the undue danger. The analysis of the leverage ratios suggest that the banks would not be able to raise more additional debt financing without relatively unfavouable terms because of the danger of default and liquidation in the event of a business downswing as they are currently facing.

For the activity ratio, fluctuating and low fixed asset turnover was observed in the two banks. This may probably be attributed to operation with smaller investment in fixed assets.

The profit margins are generally low showing that costs are too high or that prices are to low or both. Low return on investment on total assets as observed in the period examined for the two banks had a negative effect on profit margin or earnings. These unfavourable variables collectively contributed to the situation of these banks today.

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CHAPTER FIVE

5.0 SUMMARY, SURVIVAL OPTIONS, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY

An attempt was made to examine the distress situation in the Nigerian Banking Industry with a particular attention on Allied and Progress Banks of Nigeria PLC. The work was carried out in five divisions. The first which constitutes chapter 1 focused attention on introduction, statement of problem, objective of study, significance of study, scope and Research methodology. In addition, limitation of study and definition of terms were highlighted.

The second division which form the chapter two discussed literature review, definitions, historical development of banking in Nigeria, the regulatory agencies with a highlight on causes of distress on the banking industry and ownership category.

The third division (chapter 3) paid attention on the research methodology and historical development of Allied and Progress banks of Nigeria PLC

Section four was devoted for data presentation and analysis with a focus on the financial report and profit and loss accounts of the two banks.

On the final step, the work was summarized, survival options are presented with a concluding remarks and recommendations.

5.2 SURVIVAL OPTIONS

Having diagonised that the major problems of distressed banks in Nigeria especially Allied and Progress Banks PLC, are those of weak management control, lending to projects owned by shareholders, diversion of funds, fraud, low return on investment, turnover and profit. The problems which have consequently led to the distressed situation of these banks today. The bank today lacks credible

information system and are real bankrupt. The discussion so far made of the causes of distress is necessary to put in proper context the solution to financial distress. This leads us to survival options.

Several survival options have been advanced by many authors. The option to adopt depends on the circumstances the bank finds itself. However Mergers and Acquisitions or takeovers has been seen as an available means of saving companies from serious financial distress and providing such businesses with new management and better access to new financial resources. Such companies in distress are thus provided with growth opportunities which they could hardly attain on their own within the same time scale.

Mergers and acquisitions represent some of the survival options open to distressed financial institutions. Other options which have been used in recent times in various countries in the world include:

(a) Sale of assets, securitisation and internal restructuring by the bank.

(b) Liquidity, support from Regulatory Authorities (Usually the central Bank or Deposit Insurance Agency) of friendly banks.

(c) Recapitalisation through equity injection by existing shareholders or outside/new investors.

It is usual in many cases for a combination of these options to be used in the eventual rescue of a distressed bank. The key player in all cases is the central bank which either provides support or encourages the process to sustain confidence in the financial system. This support or the intervention is usually provided immediately to avoid further deterioration in the financial position of such institution which result from protracted process of distress as currently experienced by the two banks of this study. Support by the Central Bank is usually in the form of temporary loans, equity and / or purchase of assets.

The guiding principles for support was recently set out by the Governor of the Bank of England who provided such support to 40 small and medium sized banks in 1991. These are set out below:

(i) The bank will explore every option for a commercial solution before commitment of funds. It will always ask large shareholders to provide support, and failing that will encourage the bank to try to find a buyer.

(ii) If the bank does provide support, it will try to structure it so that any losses fall first on the shareholders and any benefits first to the bank support will be on terms as penal as possible without leading to collapse.

(iii) The bank will look for a clear exit.

(iv) The bank will try to keep systemic support secret at the time.

Countries where banks have experienced financial distress in recent times include Norway, Sweden, Spain and Venezuela. There were also cases of distress among some major banks in the U.S.A in the 1980s following the energy crises and problem in third world debt and real estate sectors. In Norway where two of the largest banks - Christiania Bank (CBK) and Dan Norske Bank (DNB) were distressed last year as a result of heavy loan losses, the Government provided life line in the form of equity funding to enable capital adequacy requirement to be met. This resulted in a situation where the government owns 80% of DNB and 93% of CBK. The banks have now turned around, the Government is arranging to dispose of its holdings through public issue. In the case of Spain where one of the largest banks experienced similar problems recently, the Central Bank took over Barnesto, provided liquidity support of $3.7 billion by way of equity and loans from the Deposit Guarantee fund and arranged the sale of the bank to one of the large banks in the country. Spain's Deposit Guarantee Fund is said to have made a profit of $971 million from the sale. In Venesuela, the government had to provide assistance to about six private banks following the collapse in January 1994 of Banco Latino, the country's second largest bank. The Government is now setting up a fund to buy bad loans of selected banks in distress to improve their financial performance. Banco Latino was taken over by the Government and re-capitalised. In France, he Government is arranging to inject fresh capital of about $680 million into credit Lyonnaise, the country's biggest Government Bank to shore up its

balance sheet. In Turkey, the government recently enacted a law for the Finance Ministry to provide a lifeboat of up to two times the equity of a bank in distress to overcome any sudden run on deposits. This followed the collapse of three private banks.

In Nigeria, our experience has been limited to the liquidity support provided by NDIC to 13 banks in 1989 following the withdrawal of parastatal funds, the recent take over of some state Government banks by NDIC, withdrawal of licenses of two private merchant banks (Kapital Merchant Bank and Financial Merchant Bank) and suspension of licenses of two private commercial banks (Republic Bank and Broad Bank). The license of Broad Bank has been restored after, the bank met certain conditions and sacked top managements. We understand that many banks have approached the NDIC for liquidity support since the beginning of the current banking crisis and some have received such support. Some of the distressed banks are exploring some of the other options outlined earlier including Mergers or acquisitions. a comprehensive solution to the crisis is still awaited.

MERGERS AND ACQUISITIONS AS A SURVIVING OPTION

A merger has been defined by the companies and Allied Matters Act (CAMA) of 1990 (S.590) as "any amalgamation of two undertakings or interests of two or more companies and one or more corporate bodies". A merger could therefore, be simply defined as the coming together of two or more separate companies to form a single company.

Acquisition and take-overs are often used interchangeably. CAMA defines take-over as the acquisition by one company of sufficient shares in another company to give the acquiring company control over that of the other company. An acquisition may also arise through the purchase of the assets (rather than shares) of the offeree company. Usually, an acquisition will occur where an individual offeror company acquires all the assets of another company and become the new owner or where the individual or offeror acquires all the shares or majority of he

shares of the offeree so as to exercise control over the management of the offeree company. The acquisition may be achieved by a process of negotiation with the holders of a majority or all of the shares and this would normally be the case in a small private company. But in the more widely held companies, it may be achieved by agreement with the controlling shareholders or through acquisition of sufficient shares on the stock market to assume control or through a take-over bid. It is to be emhasised that whereas acquisitions leave two companies existing separately, at least in the short run, a merger on the other hand entail an amalgamation of the undertakings or art of the undertaking or interests of two or more companies or the undertaking of one or more companies and one or more body corporate. Thus a merger will result where the assets of company B for instance, becomes vested in company A or where the combined assets of companies A and B are invested in a new company formed for this purpose.

Those who initiate mergers and acquisitions usually premise their actions on economic or business considerations. More often than not, an economy under recession provides compelling reasons for a company to seek a merger with the hope that the combined enterprise will stand a better chance of weathering the storm. Furthermore, dire economic conditions as presented by SAP expose the weak and inefficiently managed companies to take over bids.

In the light of the foregoing, the motives behind any merger or acquisition bid are given as follows:

- The need to maximise the opportunities available to a company by replacing its inefficient or incompetent management.

- The need to achieve economies of scale resulting in the combined output of both enterprises.

- The need to diversify the product or market range of the company.

- The need to reduce competition by acquiring a competitor.

- Sheer ambition on the part of management to achieve growth and market power for the company.

For the acquiror, mergers and acquisition represents an alternative approach to growth and the exercise will have to be compared with other immediate investment opportunities open to it.

The factors that underline successful merger/acquisition bids include the following:

- The mutual needs for the proposed merger or acquisition must be given priority consideration. The basic need is for purposes of fostering growth and profitability which would otherwise be difficult and impossible to achieve as separate companies or would take more resources and longer time to accomplish.

- Broader similarities in markets, organisational structure and policies. Businesses with broadly similar policies and organisational structures and markets will experience less friction if they propose to merge.
- Synergies - a merger of acquisition is expected to:
- Provide benefit for the exploitation of synergies especially in manufacturing, marketing and distribution and the pooling of management and financial resources together.

- Broaden the scope of training and development of personnel of the combined businesses and provide enhanced opportunities for all levels of employees. The emerging organisational structure would attract and retain managers of higher professional calibre thereby strengthening the manager cadre and making it more cost - effective.

- Result in savings and improve earnings for the shares of the company particularly in the medium to long term, thus preventing overlapping and duplication of efforts and responsibilities to serve optimum use of available resources.

SOCIAL AND ECONOMIC BENEFITS

A proposed merger or acquisition must have positive economic and social benefits. If a merger, for instance is viewed as exerting considerable assets stripping i.e close of uneconomical and unwanted operations by the enlarged company which may involve retrenchments and redundancies, it is likely to meet with considerable resistance from the localities, people affected and possibly objection from the governmental regulatory authorities. If on the other hand the proposed merger will enable the enlarged company to expand the existing operations, establish new activities, create employment and accelerate economic growth, there are chances that it would receive official blessing from the governmental regulatory authorities. For a successful merger or acquisition, the acquiror must do the following:

i. Clearly spell out objectives

ii. Identify areas of synergies

iii. Identify resources required to make the merger work and the strengths and weaknesses of both parties.

iv, Identify early how the people in the target company will fit after the exercise and make definite arrangements to keep executives needed to make the merger work.

v. Do proper valuation of the acquisition candidate

Possible areas of Synergy in a bank acquisition include:

i. Rationalisation of bank branches

ii. Improved servicing of combined client base

iii. Enhanced underwriting capacity.

iv. Lower cost of funds for the combined enterprises as the acquired company will be able to raise funds cheaper.

v. Cross marketing and subsidisation of services i.e Investment Management and Issuing House Activities.

vi Improved resources allocation (personnel, office, etc)

In evaluating a bank acquisition candidate, it will be necessary to review the following:

i. Adequacy of level of provisions and recovery prospect

ii. Quality of assets and earnings

iii. Management

iv. Financing requirements (i.e Defaults, capital adequacy requirements, liquidity requirements).

v. Pending litigations and claims

vi. Credibility of Information system and Management Controls.

In the past the practice of merger and acquisition was not only being constrained by the regulatory environment but mainly by the inherent attitudinal resistance to business mergers by business managers, shareholders and employees. While the managers and employees feel threatened by any merger /acquisition drive, the shareholders resist any moves that would dilute their control of the company.

LEGAL FRAMEWORK FOR BANK MERGERS AND ACQUISITION

The approvals required for a merger or acquisition in the banking industry will depend on the status of the parties involved i.e public unquoted, public quoted, or private and the structure of their ownership, ie partly foreign or indigenous, widely held or closely held. It will also depend on he method and consideration, i.e shares, securities or cash equivalents. There are six methods available to

accomplish a merger or acquisition under the companies and Allied matters Decrees 1990. These methods are:

i. Private sale Agreement
ii. Voluntary liquidation under section 538
iii. Scheme of Arrangement under sections 539-540
iv. Reconstruction and Merger Arrangement under section 591
v. Direct offer under sections 592-593
vi. Take over Bid under sections 494-613

The first method applies to acquisition of private companies and involves the execution of sales agreement between acquiror and vendor after securing necessary regulatory approval. If the bank being acquired is an indigenous company and the consideration is cash, only CBN approval might be required. A sizable acquisition will, however, require approval of shareholders of the acquiror and clearance of the Nigerian Stock Exchange if the acquiror is a quoted bank. A merger or acquisition requiring the issue of shares by the acquiror will invariably require the approval of its shareholders and the NSE if the acquiror is a quoted bank. Considering the current structure of the industry and profile of distressed banks mergers and acquisitions in the immediate future are likely to fall within this category. The acquiror is likely to be a major quoted bank and consideration is likely to be cash infusion to increase the capitalisation of the distressed institution. Other approvals will depend on the specific situation of the banks such as where covenants exist for substantial change in ownership. If the exercise is to involve the sale of shares of existing shareholders in the acquired bank, clearance of the Federal Board of Inland Revenue (FIBR) will be required as to capital gain tax under Finance Miscellaneous Decree 1989. The voluntary liquidation method is not suitable in a banking merger or acquisition because of the likely reaction of

depositors. A forced liquidation under the supervision of NDIC and the CBN is more likely if such method is chosen.

Methods (iii) to (vi) are applicable to acquisition of widely held public companies because of the provision for compulsory acquisition of the shares of dissenting minority shareholders. In a bank merger, the following approvals will be required:

1. CBN approval
2. SEC Clearance and Registration of Scheme Documents
3. NSE approval where quoted companies are involved.
4. FBIR Clearance
5. Court Sanction and AGM approval under (3) Scheme of Arrangement and (4) Reconstruction and Merger Arrangement Methods (v) and (vi) are direct offers and takeover bids which enable the acquiror to byepass the board. These methods are yet to be used in Nigeria and require 90% approval level as against 75% in value and majority in number of those present and voting at AGM/Court meeting under methods (iii) and (iv).

POSITIONS OF VARIOUS STAKEHOLDERS IN ACQUIRED BANK

The positions of the various stakeholders in an acquired distressed bank are as follows:

(i) DEPOSITORS

These are the primary beneficiaries of the exercise since the depositors have a prior claim to all the assets of the bank. The merger and acquisition exercise can only go towards ensuring the safety of their deposit. Some major depositors especially interbank depositors might, however, be required to make some contribution to the rescue effort by way of interest and debt concession or restructuring of some obligations. The position of

the acquiror's depositors will depend on the size of the organisation and whether it is a full merger or acquisition which determines the additional obligation undertaken by the company. It will also depend on whether the merger results in a stronger and more profitable group in the long run.

2. **OTHER CREDITORS**

For the acquired bank, the exercise improves the recovery prospects of this group of shareholders. This group is also likely to be required to make concessions.

4. **SHAREHOLDERS**

Penalty for the poor performance of a distressed bank is expected to fall first on this category of stakeholders. They might be required to inject additional funds and write down their investment as part of the rescue effort. Their main interest is to salvage some value out of their underlying investment in the bank. In some cases, it might be necessary to take legal action against shareholders who are known to have defrauded their banks.

4. **STAFF**

Most mergers and acquisitions involve some element of staff rationalisation to improve productivity. It is therefore, likely that some staff will lose their jobs while others might enjoy an enhancement in their position. Since failure would have resulted in total loss of jobs by all staff, the exercise preserves the jobs of those who remain with the organisation and in the long run, it leads to further job creation if the merger acquisition is successful. Most cases of financial distressed are partly attributable to mismanagement by incumbent management. Major changes in management of an acquired distressed financial institution are not only to be expected but necessary.

This is in addition to other changes that will be necessary to make the exercise work.

5. REGULATORY AUTHORITIES

The regulatory authorities have an interest in maintaining a sound financial system. This requires continuing confidence of the public in the banks, an essential condition for the intermediation role of the system in the economy. The effect of loss confidence which is currently being witnessed in the country is a decline in savings and investment and capital flight. It is for this reason that the CBN has to be seen to be closely supervising the operation of licensed banks and intervening immediately it detects signs of distress. This intervention can take the form of specified holding action, financial support (loans on equity) or takeover and liquidation. Wthat is important is the immediate action to be taken to avoid the failure of one bank leading to widespread run and subsequent failure of other banks. The NDIC also share a similar interest since the Insurance Fund cannot be expected to handle widespread failure in the financial system. It is therefore the responsibility of the CBN, NDIC and the Government to ensure that bank failures are avoided either by way of liquidity and capital support or by managing and encouraging a solution via merger and acquisition of distressed financial institutions. Part of the solution might be the liquidation of institution that cannot be rescued if it is clear that the impact on the financial system would be limited.

5.3 CONCLUSION

This investigation has taken a look at distress in the Nigerian banking industry and the survival options with a particular reference to Allied and Progress Banks of Nigeria PLC. The past financial records of the two banks show a poor performance before they eventually crashed.

It is human factors found within the banking industry (i.e board members, management team and other bank staff, that are the main parameters to be examined in explaining the financial condition of a bank. This takes us back to the early 1930s at the famous University of Chicago (Graduate School), when Professor of banking used to say that bad and doubtful loans do not make themselves, but that, it is the loans officers or managers (human factors) who make these bad or doubtful loans. If these human factors cared a little about the health of their respective banks, the story might have been different from wthat it is today within the banking industry. We also earlier asserted that the ownership structure (one of the parameters) of a bank influences the quality of management and staff of the bank.

On the survival options as earlier discussed, Mergers and acquisition remain one of the viable options for rescuing some of the distressed financial institutions. This process, however needs to be encouraged actively by the regulatory authorities who should be directly involved in the process. This is the norm in other countries that have successfully tackled banking crisis in their financial system. The participation of the regulatory authorities might take the form of providing temporary loans and equity, purchasing some of the loans i.e State Government and Parastatal loans and tax breaks to the acquiror.

It is finally concluded that the problems of the distressed banks are mostly man-made. It is in its entirety management problem on the part of all operators within the banking system.

Private owners, state government owners, the monetary authorities (the CBN and NDIC) of course the members of the board of directors with their various top management staff are solely responsible for wthat so ever that has led to distress in our banking system. However , I personally wish to level a greater percentage of blame on the CBN and the NDIC, for failing in their responsibilities. The regulators should always come out boldly to show how sad and bad they feel about some of these vices which are common in the system, especially in the

government-controlled banks. They should stop shying away from their responsibilities.

5.4 RECOMMENDATIONS

Having examined the distress situation in the Nigerian banking Industry with a particular reference to Allied and Progress Banks of Nigerian PLC and came out with the findings and conclusions, certain recommendations need to be made to all operators within the system which it is hoped shall not fall on deaf ears but would be taken into consideration, by all concerned especially the regulatory authorities, in formulating future monetary and corporate policies. The following recommendations, even though not a panacea for all ills, would go a long-way to amelicrate the deteriorating standards in our banking system. These recommendations are made in the general interest of the banking public covering the various operators as follows:

(1) THE CENTRAL BANK OF NIGERIA

a. There is the need for complete overhaul and reformation of the CBN and the NDIC. This is justified by the recent developments in the banking and finance sector of our economy. The inability of the regulatory bodies to cope with the momentum of change, had now started to slow down the pace of growth in the sector. So there is the need for new breed ideas.

b. There is the need for the CBN to re-evaluate itself, prioritize its functions, strengthen its various divisions and place more emphasis on the quality of its regulatory and monitory functions. The monitoring functions should be in position to compel the various sub-sectors to operate within their boundaries and make he objectives for setting them up more attainable.

c. The CBN over the years has been unable to examine and supervise the operations of the banks as frequently as effective control would dictate. It has often been observed that its supervision and even reports have usually been mere post-mortems of the actual events or phenomenon. These, we believe are caused by inadequacies in staffing both quantitatively and qualitatively. It is therefore recommended that recruitments, promotions and postings should be based purely on merit, experience and exposure. Staff should be sent out on regular internal and external trainings. Considering the momentum of change within the banking systems, there is every need to get the staff constantly exposed to the ever-changing situation within the banking and finance sector.

With these reformations and overhauling at the apex financial institution; it (the CBN) should always come out boldly to show how sad and bad it feels about the vices which have apparently led to Mismanagement and eventually to distress in our banking system. For instance, the CBN should boldly enforce the use of he Magnetic Ink Character Recognition (MICR) cheques in their cheques' settlement vigilance and hence reduce frauds and forgeries in the banking industry. The banks had hitherto been foot-dragging in accepting the use of he MICR with the flimsy excuses that its use involved enormous costs and thus, the CBN had continued to extend the deadline for the compulsory use of the cheques indefinitely. This should not happen. Once a deadline is given, defaulters should be penalised immediately without prejudice, to act as a deterrent.

d. A review of bankruptcy law is recommended to speed up recovery. The current situation where debtors hold up recovery efforts in court through unnecessary court injunctions is one of he major causes of financial distress.

e. It is recommended that the CBN put in place a mechanism to identify problem debtors and prevent the current practice where such debtors move from one bank to another bank and engage in public extravagant spending inspite of their problem loans. This will call for the establishment by the CBN of a data bank of classified debtors of distressed banks including the directors/principal shareholders of such debtor organisation and the circulation of this list to all licensed banks.

Also banks should be advised from time to time by the CBN. This will bring some sanity to the system and change the borrowing culture of indigenous borrowers. This list can be later extended to include classified loans of healthy banks. Public criminal proceedings should also be brought against directors and top management staff of banks where evidence of fraud on their part is detected as part of the cause of the distress. This will restore the needed confidence in the industry and the banking profession which has been destroyed in the last few years when the business of banking was taken over by the culture of greed, whiz kids and yuppies.

2. **THE NIGERIAN DEPOSIT INSURANCE CORPORATION (NDIC)**

a. It seems that the general public which are customers of the bank which NDIC deals with directly do not know the function of the NDIC. It is therefore recommended that the NDIC should mount an extensive campaign that would enable the public understanding its function(s) so that there will be more confidence in and commitment to the nation's banking industry. When this is achieved, an immediate response by the NDIC in the refund of depositors funds trapped in a distressed bank that is allowed to fail or liquidate, would not create any panic or runs on the banking system. This ironically, has been the reason that has always been put forward by the regulatory bodies on why they (the regulatory bodies) recommend the injection of the nation's hard - earned money into their sick

banks. They should be allowed to liquidate naturally while the NDIC should react immediately to avoid the feared erosion of public confidenced.

b. It is recommended that the NDIC should start to conduct its affairs in such a way as to give banks the confidence that their resources were being well managed. Given the huge financial commitment to the NDIC by the banks, the corporation should be authonomous from the CBN to enable it discharge its respponsibilities towards the banks on private sector orientation. This practice, if considered would result to competitive rather than co - operative federalism.

(3) **STATE GOVERNMENT:**

In an economy such as ours, State Governments should be forced to divest from running of banks because of the political considerations which govern appointments of the management which normally compromise merit. This would also reduce the incidence of huge bad and doubtful debt, arising from the excessive borrowing of the owner - state governments.

Contrary to other recommendation (Ebhodaghe 1992) that Federal Goverrment should deduct the various owner - state governments indebtedness to the distressed banks at source, that is from Federal Accounts. I rather recommend that the banks be allowed to liquidate naturally or be sold at a nominal fee thus making the shareholders (mainly the owner - state governments) to forfeit or lose their shareholdings in these bank thus indirectly forcing them to divest in the running of banks.

(4) **THE BANKING INDUSTRY:**

a. The Banking System, I recommend, should be overhauled to facilitate effective banking business that would bring sanity into the industry. Banks should be regulated by the regulatory authorities to ensure that they (banks) employ experienced and exposed staff who would render meaningful services.

b. The common practice in Nigeria where banks employ on political grounds, for monetary rewards or on " connections basis, mediocres and even appoint inexperienced managers who cannot manage the business effectively because some of these managers may be people who studied courses unrelated to banking should be stopped and reversed positively for the benefit of the industry.

c. It is recommended the highly qualified and honest professionals who will not singularly, collectively or in connivance with members of the public defraud the banks or embezzle funds be employed. People with irrelevant experience should never be allowed to play key rules in bank for banking business to strive successfully, and the avoidance of a repeat of distress in the nation's banking industry, the industry must identify with professionalism.

d. Finally, I strongly recommend that time has come for banks to accord their audit and inspection departments the appropriate and adequate importance they deserve, in terms of staffing in quantity and quality as well as creating the necessary environment for objective and fearless inspection and reporting. In many cases, majority of the banks in Nigeria today, regard these vital departments or units as dumping ground for discredited or recalcitrant staff. It is also a common practice amongst the bank to find that it takes an awfully longtime, sometimes several years, to complete investigation of reported frauds and to bring the culprits to book. Meanwhile, the deterrent effect of the punishment is lost on prospective fraudsters. Those departments or units given their appropriate place and adequate attention, shall provide for the much needed internal check and control system, if not to eliminate, at least to reduce the rate of frauds, forgeries and embezzlements in the nations banking industry.

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APPENDIX 1

FORMULAE FOR THE CALCULATION OF FINANACIAL RATIOS

1. Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

2. Debt Ratio = $\frac{\text{Total Liabilities}}{\text{Total Assets}}$

3. Debt Equity Ratio = $\frac{\text{Long Term Debt}}{\text{Stock Holder Equity}}$

4. Debt to Total Capitalization = $\frac{\text{Long Term Debt}}{\text{Total Capitalization}}$

   (i.e LongTerm debt + Stock Holder Equity)

5. Gross profit Margin = $\frac{\text{Gross Profit}}{\text{Sales}}$

6. Net Profit Margins = $\frac{\text{Net Profit After Taxes}}{\text{Sales}}$

7. Return on Investment (Return on Total Assets) = $\frac{\text{Net Profit After Taxes}}{\text{Total Assets}}$

8. Fixed Assets Turnover = $\frac{\text{Sales}}{\text{Net Fixed Assets}}$

9. Total Assets Turnover = $\frac{\text{Sales}}{\text{Total Assets}}$

APPENDIX 2

The Following questions were asked the operators of the banking system, corporate, customers, individual account holder and regulartory authorities:

1. Wthat is the state of your bank?
2. Do you have financial distress?
3. For how long?
4. Wthat led to the distress situation
5. Wthat effort is made to revive the bank?.