

**AHMADU BELLO UNIVERSITY,
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RESEARCH PROJECT IN MBA

TOPIC:

**EVALUATION OF COMMERCIAL BANK'S CREDIT POLICY:
A CASE STUDY OF UNITED BANK FOR AFRICA PLC**

1998

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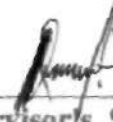
DECLARATION

I Abubakar Sani of Department of Business Administration, Ahmadu Bello University, Zaria hereby declare that this thesis work has been personal academic undertaking executed under the supervision of Mal. Sani Abdullahi of Department of Business Administration, Zaria.

All sources of information are specifically acknowledged by means of reference.



Student's Signature



Supervisor's Signature

CERTIFICATION

This thesis, entitled

"EVALUATION OF COMMERCIAL BANKS CREDIT POLICY:

A CASE STUDY OF

UNITED BANK FOR AFRICA PLC.,"

*by Abubakar Pani, meets the regulations governing
the award of master of business Administration of
Ahmadu Bello University, and is approved for its
contribution to knowledge a literary presentation.*



Sani A. Abdullahi

28/3/99

Date

Member, Supervising Committee

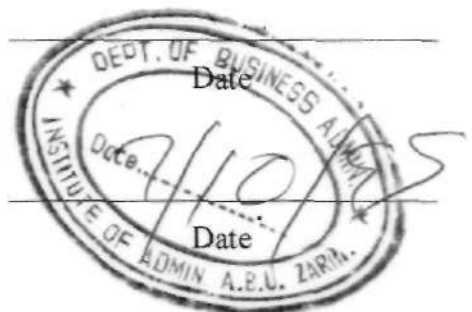
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DEDICATION

This study is Dedicated to My daughter AISHATU ABUBAKAR who at her youthful age appreciated the value in education.

ABSTRACT

Credit policy is a sound and fulfilling monitor document that guides lending and its eventual recovery, thereby safeguarding banks against deteriorating into distress outfits. While some of these banks have collapsed due to defective credit policy, those presently surviving are forging ahead with reviragorated and reviewed credit policies that suits events of the times.

In UBA Plc. which has been chosen for our case study the credit policy has just undergone dynamic but reflective change, to protect and manage lending generally. The objective however, is to provide better up-front financial and industry analysis and the consideration of the risks involved in our lending decisions.

To adequately achieve a purposeful research edifice we used interview and questionnaire method in our research methodology to discretely evaluate Credit Policy of many banks and in particular the case of UBA. The response was high and interesting. However it simply seeks to provide disciplined approach to credit evaluation by offering discrimination right from credit origination stage thereby weeding out weak proposals. The essence at the end of the day is to ensure quality and recoverable credits.

Nevertheless, the professional touch to the credit policy equally allows us to identify possible problem areas such as ratings through deliberate and realistic discriminant analysis. To this end, there is the need for flexibility, decentralization and periodic review of the credit policy to reflect realities of the industry and the economy. The enormous positive implications desirable to UBA balance sheet and profit statement will no doubt result in positive multiplier effect on the economy. Finally, the study is intended to aid Bank Analysts in particular and the industry in general.

CHAPTER ONE

INTRODUCTION

"Banking" as a profession is an interesting one indeed. Interesting, not from the point of view of remuneration or welfare but it deals with improvement of financial and physical assets by a way of adding value for individuals, groups or companies, which in turn improve the general socio-economic wealth of the nation at large. In banking, one interacts with people who are physically well and sound and not with people who are either sick, miserable, mentally retarded or insane. Business is transacted under happy disposition except in exceptional cases where trust is breached. Post business relationship leaves both banker and her customer satisfied and with strong anticipation to meet again at a later on continuity spectrum basis. The banker is holding the customer's assets in trust and TRUST is a very important stock in trade, the attribute which both parties possess in abundant quantum. The lack of it on the part of either party will leave the other in immeasurable business disappointment.

One of the functions of the commercial banks, the economists would say, "is the creation of money through granting of credit facilities (e.g. loans, overdrafts, bonds, indemnities and guaranties) to needy customer". These facilities enhance the customer's financial position towards the achievement of any particular business objectives, which in turn enable him to pay back such obligations. The bank is compensated by a way of interest earnings and commission charged within the stipulated guidelines as issued by Central Bank of Nigeria.

This was the nature of banking profession which was creative, envious and interesting in 1982, when this research fellow joined the profession. Unfortunately, this perspective has changed over the years. The much desired trust has greatly been eroded between the banker and the customer. Banking is carried out under fears (of the duppers) distrust and suspicion. Lending is characterised with lots of uncertainty of repayment but the difference lies in the art.

The era of huge earnings by commercial banks on foreign exchange transactions is over. They rather rely heavily on earnings on credit facilities and commissions on general services. Today, lending in banking industry worldwide and our country in particular has become more intricate and complex. The managerial decision to grant facilities is more than satisfying the conventional canons of lending. It has become phenomenal that even where all the articulate conditions were satisfied before granting the facilities, recoveries has in many cases proved

difficult due to defective & dynamic credit policies in place. The undue over reliance upon the concept of canons alone therefore has left many banks distressed or with huge amount of money landing in the non-performing accounts.

Even after strict compliance with the lending procedures, many accounts still go bad and become difficult to recover. What the banks should address in Credit policy is not only lending but recoverability. This is what informed the mind of the researcher to choose this topic for this project in fulfillment of a Master Degree in Business Administration.

1.1 **Background of Study**

Basically, any lending process is characterized by certain risks (both exogenous and endogenous). The essence of Credit Policy is therefore to establish parameters that help minimize these risks by installing a hopefully watertight lending organizational structure and criteria for the effective management of the lending function on itself.

The quality of a bank's risk assets is therefore a reflection of its credit policy and the effectiveness of the management of that policy. Such credit policy is achieved through a definition of standardized procedures and operational guidelines which also explicitly emphasize the banks lending philosophy and credit standards at each point in time.

Characteristic ingredients of a good policy are its simplicity, formalization, implementation as well as flexibility in reflecting changes in the banks lending criteria in response to both internal and environmental changes.

So, inability of a bank to have a standard but dynamic credit policy in place easily leads their lending into bad accounts. It is against this background therefore, we shall address the evaluation of commercial bank's credit policy with reference to UBA Plc. To this end therefore, the researcher will broadly look at credit policy with a view to seeing lending as provision of funds to meet the needs of the banks customers as well as maximize profit, keeping within the laws.

1.2 **Statement of Problem**

Lack of a good and dynamic credit policy in place in the banking industry has led to distress outfit for many banks in Nigeria and in many parts of the world. While some of the active banks are only forging ahead with symptoms of recovery difficulties are perceived in recent times. It may not be too far from the fact that banks generally apply

religiously the conventional canons of lending which one way or the other has been adulterated to suit various individual and corporate interests. But to a large extent the effect is that lending results into bad accounts.

In United Bank for Africa Plc, which has been chosen for the case, lending is not near perfect, following which many accounts have turned bad. In other words, large proportion of commitment in many branches falls into irregular category.

Against this background therefore, the Banks and Other Financial Institutions Decree of 1991 was promulgated by the Federal Government of Nigeria, otherwise known as "Prudential Guidelines" lays down uniform accounting standard for all the banks in Nigeria. The objective of the guideline is to realign the reporting procedure of the bank performance in Nigeria with the standard practice of International Financial Institutions, in order to project realistic profit profiles of licensed banks and to enhance the development of sound financial system.

In effect the decree seeks to disallow commercial banks to include interest accrual on non-performing accounts in their yearly profit. Rather, such interest earnings should be kept in suspense account until such a time when both the principal sum and accumulated interest charges are recovered.

It is therefore apparent that, distress outfit is avoidable through a monitor mechanism which is a dynamic credit policy such that does not see to lending only but to the eventual recovery of same.

1.3 Purpose of Study

The objective of this study are:

To investigate into and identify commercial bank credit policy, the success or otherwise;

- * Analyze the extent to which lending officers are able to balance quality and quantity of their loan portfolio in pursuit of profitability.
- * Analyze the efficacy or otherwise credit standards in minimizing loan losses
- * Help in the identification and evaluation of good business opportunity
- * Application of risk assets and balance sheet liquidity.
- * To ascertain adjustments to regulatory requirements

- * To determine if credit quality is able to take precedence over the capitalization of business opportunities and if the credit policy can accommodate sales of other financial services other than lending.
- * Offer useful and dynamic approach to lending.
- * Provide a better frame work for standard, flexible and dynamic credit policy.

1.4 Significance of Study

The study is significant to Credit Officers of Banks and Insurance Institutions involved in lending. And not is it intended to give useful guide towards a reliable credit policy but provide cushion for eventual recovery. It should be appreciated that UBA was recently rated as nos'8 by Agosto. & Co., Financial Consultants, thus commenting "that UBA is a bank with good financial condition and strong capacity to meet obligations as and when they fall due. Adverse changes in the environment (macro economic, political and regulatory) will result in a slight increase in risk attributable to an exposure to this bank..."

A good credit policy will go a long way to boost the shareholders earnings and worth.

1.5 Scope of Study

Although, all commercial banks in this country are guided by common legislation, the credit policy may vary from one bank to the another. Our study is greatly restricted to United bank for Africa Plc. Further more it is not particularly easy to gather data from all branches of the bank. However, reasonable sample of branches was taken to obtain picture of the entire organization.

Our recommendations are by no means exhaustive but to be seen as a contribution.

1.6 Research Methodology

Two methods were employed in the collection of the necessary data and information used for this project.

They are:-

- a. Interview Method
- b. Questionnaire method

Interview Method

The interview method is said to be the para-excellence of social science. In interview, a selected population was personally visited and a set of questions, were prepared and put across to them. To get desired response from the respondents one needs wisdom, tact, courage, decision, emotional stability, perseverance, patience, principle and temperance. This is in view of different disposition, character, knowledge and openness inherent in people.

The information received is first hand or direct from sources and up to date. The interview covered the following group of people.

- UBA credit officers
- Other staff of UBA in commercial/consumer/corporate Depts.
- Managers and Credit Officers of other bank
- UBA Analysts
- UBA External Consultants,
- UBA Training School Instructors
- UBA Inspectors
- UBA Customers

Some of the interviewees were visited in their official address while others were met in their branch premises in the various town in which they reside. The question raised during the course of the interview with the various respondents were modeled alongside with the questionnaire attached to appendix this project.

The following table shows the number of people interviewed in their various groups and locations.

<u>Group</u>	<u>Number Interviewed</u>
- UBA Credit Officers	40
- Other staff of UBA in Commercial, Consumer or Cooperate	200
- Managers and Credit Officers of other banks	50
- UBA Analysts	20
- UBA External Consultants	2
- UBA Training School Instructors	6
- UBA Inspectors	5
- UBA Customer	61
- Others	20
	404

Questionnaire Method

A copy of the questionnaire used for this project is attached (see appendix 2) the following procedure were adopted) to administer the questionnaire.

- A team of 40 credit officers attending basic credit course held at UBA Head Office, which the investigator was also in attendance were the first to be interviewed and given the questionnaire. The respondents were spontaneous and all the copies received.
- Most of other copies were delivered personally, with similar responses
- The few other copies were mailed through the banks internal mailing system and negligible copies were not returned.

The process of obtaining our information through interview and questionnaire though tedious was quite interesting. The spirit of our respondents was quite high which accounted for near complete return of all the copies of the questionnaires distributed.

1.7 Limitation of Study

The project shall address credit policy in general and with specific reference to United Bank for Africa Plc. Coincidentally, the wind of change in the banking industry is wild in UBA, particularly with privatization of the Bank. Virtually all areas of the bank is undergoing change, so the credit policy. This project therefore sees through the conventional lending procedures against the newly developed credit policy, to arrive at specific conclusions at the end of the project.

CHAPTER TWO

2.0 Literature Review

Basically, any sound lending process is characterized by certain risks. The essence of CREDIT, POLICY is therefore to establish and develop parameters that will help minimize risks by installing hopefully watertight lending organizational structure and criteria for effective management of the lending function itself.

The quality of the Bank's risks asset is therefore a reflection of its credit policy and the effectiveness of the management of that policy. Such credit policy is achieved through a definition of standardized procedures and operational guidelines, which also explicitly emphasize the bank's lending philosophy and credit standards at each point in time.

Characteristic ingredients of a good credit policy are its simplicity, formalization, implementation as well as flexibility in reflecting changes in the bank's lending criteria in responses to internal and environmental changes.

A credit policy is written and not static but flexible to reflect the changes in the macro environment both cyclical and secular.

Many writers and researchers have written a lot on commercial bank's credit policy. There are many books and seminar papers on the same subject matter. However, difference exists between theory and practice, and with the changing society and human behaviour, one needs to blend these traditional approaches with the realities of the changing world.

This study intrigues further into credit policy, loan supervision administration and debt management in the changing society.

In a work done by Financial Consultants (Piersons), they observe that "the lending pattern is fundamental to any economy, as it has direct impact on the pattern of economic development within the society."

Over the years therefore, the overall lending policies and the patterns of financial institution have drawn the attention of the public, government, and senior management of the financial institution to issues of standard credit policy.

Thus, the apparent recognition of credit policy as a central monitor documents is the primary functions of the bank.

According to Prof. Akin Mabogunje, "all management of banking institution, has development interests in the growth and quality of loans and advances, as well as the spread to various sectors of the of the national economy. The overall objective of a bank in to provide prompt product delivery for it numerous customers and one which is lending. But the quality of lending is a function of quality credit policy. The aim is to ensure and facilitate a sound high standard recoverable lending and such that will stand the rest of time"

He continued, "... to meet these needs of the Bank, a lending a policy must be clearly established, properly communicated to the officers and effectively implemented" 1.

In most cases, the bank's lending policy evolves from an unwritten set of standard, (sometimes nebulous) to specific criteria covering condition under which facilities are granted. It is gradually transforming into credit spectrum deviating into credit culture built on one to one relationship management. The aim is not only to save time but also to develop growth and confidence through monitor.

According to the work carried out by Committee on Banking Regulations and the Supervision Practice, the different stages of procedures governing bank's own internal controls of credit quality are as follows;

- Formulation of lending policies and ensuring compliance with them
- Control of authorization of new lending (credit assessment).
- Control of execution of lending (documentation, contracts and collateral's)
- Monitoring of performance of the borrowers under the terms of the
- Application of provision against losses.

They went further to elaborate on the above stages:-

"It has been observed that modern bank operations including lending together with customer' financial needs, have become very much sophisticated. However equally advanced and sophisticated, credit policies have been evolved to hedge against the increasing risks borne by banks in the areas of lending".

Similarly, Henderson (1988) said: "Sensitive lending..... involves making a reasoned attempt to measure risk and decide whether the return to be made justifies the risk being taken because of the long history of banking, useful guidelines have been developed for looking at lending propositions but the final decision to lend or not to lend,

must be at matter of judgement. Clearly, a banker who never losses any money when lending in being over cautious and missing opportunities for profit. However, to lose money frequently and in huge quantum is not advocated for because it uses up all the profit made on loans which are repaid" He went on the discuss the principle of good lending which many others also have discussed which include prominently safety, suitability and profitability."

In the words of Agene (195): "The banking system occupies the commanding heights of the economy of any nation since its stock in trade, money or capital, forms the grease which lubricates the economy. An important step towards a successful banking career in the cultivation of successful lending habits. It has been said that the job of lending money, reduced to its basics, is the identifications, measuring and managing of risks. Thus risk is at the heart of lending business".

The above statement in a pointer to why we need to install systems that will make it possible to identify problem loans before much havoc is done because, the ability to recognise the early signs of bad debts is an integral part of any bank's loan portfolio management. Normally a bank credits policy spells out the context.

It is believed that businesses are not static and their state of health in constantly changing, but a customer does not become insolvent over night. According to Haman (1994), he states that, "In many cases the decline is gradual and an alert lender will see danger signals long before the situation becomes critical... too often, the monitoring of progress and the tell tale signs of a downturn in the affairs of a customer are overlooked".

A most recent study on Bank lending that is both academic as well as professional is that of Prof. Nwankwo (1990). He devoted some chapters to the management of lending portfolio of banks.

In chapter eight of his book, Nwankwo discussed the need for lending policies and their criteria. In that chapter, he stated that "As in liquidity and portfolio management, effective management of the lending portfolio requires an articulate lending policy".

The policy as enumerated further, is essentials to:

- a. Set out the banks lending philosophy and objectives including the modalities for implementation, monitoring, appraisal and review. It should be a written form to act as a signpost to guide management and lending officers.

- b. Ensure that the lending portfolio is effective in the optimum mix that maximizes the bank's objectives and obligations of liquidity and profitability with the economy objective of development as guided by the government.
- c. Assess the quality of management by the Bank Examiners of Central Bank of Nigeria, Nigerian Deposit Insurance Corporation and External Auditors.

Nwankwo then explained that while the loan policy differs for one bank to another, depending on size, market sequent, philosophy and technical competence, a well articulated lending policy should in general, have what is referred to as the "taxonomy of an articulated lending policy" 11.

He stressed that each bank has a loan portfolio management department which perform among many others, the following major functions:-

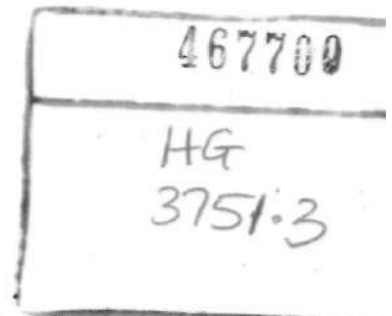
- Has responsibility to safeguard the quality of the banks loan portfolio on a continuing basis
- Meets over troubled loans and reports to the Chief Executive (Managing Director) and to the Board of Directors
- Follow up weak loans until their weakness is corrected or the loan is collected
- Has the authority to reassign the loan if the loan officer in charge does not make satisfactory progress in correcting the observed weakness or recovering the loan.
- Aims at detecting actual or potential problem loans as early as possible enforce uniform documentation
- Enforces loan policy stipulations.

In United Bank for Africa Plc., loan portfolio management is under the Credit Risk Management Division of the bank.

Nwankwo dwell on the various aspects of credit analysis, which he summaries as follows,

- a. Study the environment,
 - The banking environment, financial environment.
 - Bank's corporate plan and lending policy and objectives.

- External environment i.e. political and economic policies and objectives of the government, burning economic and political issues and the machinery for resolution for conflicts.
- b. Conduct credit investigations
 - Six factors in credit investigations Vig. Character, capital, capacity. Collateral, conditions and management.
- c. Conduct financial statement and security analysis
 - Ratio analysis
- d. Examine condition of
 - Borrower and of project determine the economic and technical feasibility and reliability.
- e. Ascertain management capabilities
 - 4Ms of management: means, men materials and management
- f. Have judgement ability-
 - Function of technical competence training, experience, integrity, calm, coolness, composure relation with Head office and customer etc.



2.2 The practice of lending and portfolio management in United Bank for Africa Plc within the context of Credit Policy.

The general belief of the public that bank are established primatily to provide funds by a way of lending to individuals, corporate bodies for their working capital requirements and procurements of assets, and also to the government for the development of various sectors of the economy, is to some extent, true. Lending is a cardinal service offered by commercial banks to both individuals, firms and governmental bodies. And many banks have folded up while others are have recorded tremendous achievements as a result of the quality of their lending.

Lending has assumed greater importance since in recent years when the level of foreign transactions of nearly all the commercial banks in the country has declined very graphically. In UBA however, there are other important avenue, which the bank derives

its, earnings.

These avenue include:-

- Commission on turnover on current accounts
- Commission on standing order transfers
- Administrative fees chargeable on services
- Commission on safe custody items
- Agency fees
- Interest/commission on guarantees, bonds and indemnity
- Any other commissions and interests charges.

The practice of lending has been a technical and laudable administrative procedures which even with a credit policy, has to be in line with Central Bank of Nigeria lending guidelines. In fact, the bank has a evolved manual on lending which are taught to its staff either on the job, training schools and overseas.

The following procedures are adopted in lending:-

- a. The customer must maintain a current account with the branch where the facility is sought. However, for syndicated loan where UBA is not the lead bank, this requirement is not compulsory. Similarly, for agricultural loans considered for individual or group farmers under the joint liability scheme or credit scheme for rural women, this procedure may be waived off. Where a current account is required, such an account must be operated for relatively reasonable period of time to determine the trend of performance that will justify the request for the facility.
- b. There must be written application for the facility. The purpose of the facility is stated therein which must be within the object clause, in the case of corporate customers, or for furtherance of customers business activities in the case of individual customers. The purpose must also pass the test of general legality.
- c. The application must be critically appraised. In appraising request for any facility, the following different synopsis of lending must be considered
 - i. Purpose of borrowing must be within the object clause of the memo and

articles of association in the case of corporate customers or for the furtherance of the customers business in the case of individuals. The purpose must not contravene the law of the land.

- ii. The amount sought must be suitable i.e. it should be adequate for the business to be pursued. Inadequate or too much funds have negative consequences on customer's performance.
- iii. The period of the facility must be initially weighted. How long will the facility last? What is the possible economic trend during the life span of the facility? These considerations are for enhancement of timely repayment schedule.
- iv. Does the borrower have required experience or technical expertise manage the funds towards profitable return? Often atimes, borrowed fund are mismanaged into destruction due to lack of required experience
- v. What is the repayment period? Should it be short term or long term facility? Does repayment require moratorium period? Customer should be given enough time to take off fully before begins repayment of the facility
- vi. The facility must be adequately secured. What is the nature, value marketability, near liquidity of the security offered, to back up the facility? Is it realisable. Some facilities can be granted clean.
- vii. Good public relation or connection is very important for the success of any business in Nigerian today.
- viii. Remuneration what does the borrower stands to gain from the funds taken from the bank? Will he have enough margins to keep him in the business even after setting his obligations with the bank?
- ix. The character, or integrity of borrower. Is the borrower a serious man? Is he honest or stable emotionally?
- x. What proportion of the entire capital outlay or requirement is generated personally by the borrower? Projects that are highly geared are easily abandoned in the face of slightest crises. On the other hand where the

borrower has high capital participation, there is the tendency to manage the project more carefully or prudently by the borrower.

- d. If the customer's application for facility is approved either at branch level, at regional management or by Head Office, an offer in writing must be sent to the applicant. This offer states the terms of the facility. The offer is expected also to be accepted in writing. In case of default, this forms part of evidence to be tendered to law court if recovery degenerated to litigation.
- e. Disbursement of facility comes after the borrower has satisfied all the necessary conditions viz, the acceptance of offer made to him, deposition of title documents pledged as securities, completions of all the charge forms and provision of such legal documents that are necessary for the perfection of securities.

It used to be the practice of bankers to disburse after the necessary documents have been taken and charge forms executed, provided that the search report reveals non-encumbrance. This practice has recently been applied with caution. Because of the fraudulent nature of the society today, the bank can run into difficulty in the process of perfection despite the earlier favorable search report. Hence the rule has been amended that security should be fully perfected before the bank parts with funds.

In this case of overdraft facility, disbursement or drawdown could be in bulk. However, in the case of loan and other facilities, this may not be the case as the customer requirement for the funds may be in segments, hence disbursement may not be at once.

- f. Post disbursement monitoring of lending is very important. The lender (bank) and the borrower (customer) owns the business so funded in principle. Therefore, the bank must monitor utilization of funds to ensure that the funds are appropriately invested. Both must be in close contact over economic or market trends. If there is need for bridging facility or enhancement, the bank will not hesitate.

In the case of consortium lending, the lead bank does the greater part of monitoring. There must be periodical review of the banks lending portfolio to

know which accounts are performing or not. The non-performing accounts are graded into substandard, doubtful and lost in accordance with number of months they remain inactive

- g. Record keeping and rendering of returns. UBA has various forms designed for up-dating of records for various facilities similarly, there are forms used to render returns from branches and regions to various sub-sectors in Head office. There are also prescribed Central Banks of Nigeria returns which are rendered the Head Office. UBA has a system of using diary cards which reminds managers of what to do and when to do them. The card act as a guide
- h. Internal audit system and control. The bank has its regional monitoring and control unit, which is charged with responsibility of going round the branches under each region to ensure that the branches comply with the bank's laid down roles and regulations. Furthermore, the bank has Inspection Subsector, with well-versed personnel who visit each branch at least twice in a year on full inspect on spot check of the branch. The inspection highlights the lapses of he branch and recommends remedial measures. In certain cases, corrections are effected instantly significant aspect of the inspection Is ensure that branches comply with correct portfolio lending procedures of the bank. The Branch Manager that model his branch along the line of laid down procedure is given pass mark and rewarded. The inspectors are the "Banks' policemen and are involved in the investigation of irregular cases and frauds that occur within the bank.

2.3 Handling of Distressed Accounts

Many events both natural and deliberate can make facility go hard core. Whatever reasons that is responsible, once an account is being abandoned, a stress is already created and the branch is cautious of the possible outcome either the borrower rally round to mobilize funds to pay off his debt or the bank will fall back on the security provided. In any case, the debtor is not seen as an enemy. If there are possible ways to bail out the situation the bank should not hesitate.

2.4 Purpose of Literature Review

The purpose of Literature review is to:-

- developed thorough understanding and insight of previous studies,
- reveals relevant investigation in the study and shows how similar research has been handled,
- Reveal sources of data hitherto unknown to you,
- Help in historical perspective in relation to approaches used in similar earlier studies,
- Provide the researcher insights or approaches which has not occurred to him before
- Review of relevant literature that will help to conceptualize relevant theoretical problem
- Assist in evaluation and comparing the research efforts with similar researches.

Against this background therefore, there is the need to evaluate commercial banks policy.

2.5 Steps in Formulation of Credit Policy

- a. Market identification and analysis
- b. Credit initiation
 - Origination
 - Evaluation
 - Negotiation
 - Approval
- c. Documentation & Disbursement
 - Documentation
 - Disbursement
- d. Portfolio Management
 - Administration
 - Repayment
 - Workouts

2.6 Credit Process

Credit process refers to the various steps in lending as guided by banks credit policy, right from time of loan origination to the time of its booking and eventual disbursement. The entire process will often involve:

- Credit origination
- Credit analysis
- Credit approval
- Loan documentation and booking. -

The credit origination process could be from existing customer relationships, walk in applicants and other banks (i.e. syndication, lead manager) and referrals.

The second step commences as the borrower request comes in, the analyst takes steps to confirm the legal borrowing authority of the loan applicant by calling for the board resolution. The analyst will proceed to analyze the quantitative factors relating to the loan applicant (such as character, competence, repayment, capacity and collateral). Further more the analyst will analyze the quantitative factors which involves the use of financial analysis and mathematical model in making viability inferences and then finally structuring the credit proposal in a formal memorandum for presentation to approval authorities.

2.7 Credit Approval

The credit approval process is a procedure by which a loan is sought and receives approval following the limits set in the banks credit policy. The relevant approval level for each loan will often depend upon the loan size and perhaps the rating. In addition the approval authorities can often be grouped into individual approval authorities. Also management credit committee as well as Board Credit Committee have their various roles repending too on the size.

A critical control in the approval process is that all levels in an approval process must give their approval in an ascending order of seniority. Thus emphasis on unanimaty tends to curb any reckless enthusiasm either from above or below.

2.8 Loan Disbursement and Booking Process

Following loan approval and customer's acceptance of offer, all conditions precedent to loan draws down will have to be fulfilled before commencement of disbursement. This is very important. Also occurring at this time, is the liason with the solicitors for

preparation of binding agreements, the perfection of security and filling the necessary legal documents from the time the loan is booked upon, execution of loan agreement and credit administration should necessarily commence.

Loan disbursement will always be within the disbursement terms and policy as evidenced in the credit policy.

2.9 **Security**

A standard secured lending is to exhibit the following features;

- formal demand
- call in guarantee clause
- Debt restructuring capacity
- To deduct at source
- Interest waiver capability
- Debt factoring capability
- Foreclosure clause
- Effectiveness of court judgement and Failed Bank Tribunal and NDIC
- Functionality of receivership
- Realisability.

2.10 **Role of Credit Policy**

Principal among them includes.

- To ensure that credit assumes a good posture and eventual recovery
- Profitability aim of the company
- Shareholders returns on investment in realised.

2.11 **Types of Facilities**

We have clean lending usually unsecured and on the other hand, secured lending is usually collateralised by an acceptable security.

a. **Overdraft**

Usually meant for working capital by allowing the customer to draw beyond his own deposit up to an agreed limit with the obligation to repay on demand. The account could swing from credit to debit and vice versa, at interest on the daily balance. If an additional facility is required above the overdraft, it's regarded as an excess at an extra fee.

b. **Loans**

A loan facility is granted to finance specific asset or projects and are more suitable in circumstance when the purpose is well defined and when amount as well as the timing are known with reasonable degree of certainty. Repayment may be monthly, quarterly or annually. It may be short, medium or long term. Interest is on the whole amount standing to his debit in the loan account on reducing balance method.

c. **Advance**

A form of short-term loan is financing a specific project or operation. Repayment is enblock or form project financed or through another institutionalized lender. Another is advance against architect certificate granted to construction compares on the stage by stage basis

d. **Direct Credit**

A formal facility granted by giving value on cheques pending receipt of proceeds from paying banks. The account is usually debited back if the cheque given value is returned unpaid by the paying bank.

e. **Bills Discount**

Most commercial houses operate credit terms wherein goods are sold on credit to their customers against bill of exchange which is duly accepted as an acknowledgement of indebtedness with a promise to pay on the maturity of the bill. Where the seller requires money before maturity of the bill he negotiates

the bill with his bankers who immediately credits him with the face value of the bill less the discount charge.

f. **Stock Replacement Credit (SRC)**

It is meant for the finance of importation of raw materials and other items of stock (of capital goods) for period up to 180 days meant for the customers that have previously enjoyed direct credit times and trust receipt times. The period is determined by the nature of the business and delivery/manufacture/sales cycle but should not normally exceed 180 days. Normal lending criteria shall be applied when considering the facilities.

g. **Parking Credit**

It is designed to finance the production, purchase storage and transportation to the port of departure of goods delivered for export. Parking credit are advances made against confirmed letter of credit and for amounts not exceeding 80% of the L/C value depending on the status of the customer. It may also be against warehouse warrant issued by reputable warehouses (e.g. cocoa exporters). The period of the credit should normally be limited by the expiry date of the elcee but should not exceed 90 days or exceptionally 180 days. The facility is repayable from the proceeds of the exported goods when the documents are presented for negotiation under the elcee.

Other forms of credit are warehousing, produce loan, tannery financing etc. are devised/structured too meet peculiar needs of the customers. The framework is dependent on the type of facility.

2.12 **Contingent Liabilities**

Perhaps it is relevant to highlight briefly on contingent liability which in defaulted turns into credit automatically. These are liabilities that become due only at the occurrence of an event. They are off - balance sheet items but can crystallise. Among these are bonds, indemnities, guarantees and bankers acceptance.

- **Bonds**

These are contingent liabilities usually issued by the bank on behalf of her customers to guard against non-performance. There are various types of bonds namely perfor-

mance bonds, Tender or Bid bonds customer bonds and excise bonds. The bank becomes liable only in case of non-performance by the customer guaranteed.

a. Tender or Bid Bonds

This is a bond issued by the bank on behalf of a customer to aid him in bidding for a contract. This essentially guarantees that the customer will execute the contract.

b. Performance Bond

This is an undertaking required by a principal from a contractor's banker stating that the contractor has the ability to carry out the job. This is normally issued to cover the duration of the contract.

c. Custom Bonds

These are bonds issued on behalf of customers (mostly established clearing agents) to the Board of Customs and Excise to enable them move imported goods straight to their warehouse without going through the rigorous of paying duties initially. Duties are usually paid later.

d. Excise Duties

This is an undertaking given on behalf of a customer to the board of customs and excise, which allows him to sell locally manufactured goods before the payment of excise duties.

e. Customs Cheque Bond

Usually an undertaking to honour customer's cheque to a particular limit to cover payment of duties. The liability here is 4 or 5 times in view of the clearing days.

f. Re-Exportation Bond

An undertaking that goods (highly specialised machinery for drilling, trade fair, or goods in transit) that are allowed entry without payment of duties would be re-exported.

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- **Guarantees**

A guarantee is an undertaking in writing to be liable for the debt of a customer to a third party on default. There are basically two types of guarantee in commercial bank lending:

- a. Advance Payment Guarantee

This is a guarantee issued to enable contractors collect mobilisation fees for contracts won. Here the bank becomes liable if after collection of the money, the contractor still fails to execute the project.

- b. Retention Fee Guarantee

An undertaking by the bank to the client of a contractor which enable him collect the funds that ordinarily would have been held for a specific period to take care of any flaw on the project executed.

Indemnities

Usually issued on behalf of importers to shipping agents for ~~extension~~ late bills of lading to facilitate release of goods. The Bank becomes liable for the value of the goods on wrong delivery.

Bankers Acceptance

It is a promissory note issued by a corporate client, usually a first class customer and accepted or guaranteed by the Bank to take over liability, if at maturity of the instrument the issuer is unable to make good his promise to pay. By this acceptance, the bank guarantees the payment of the bill on due date. Once accepted, the bill becomes readily discountable.

Summary

A composite literature review from the foregoing exhibits consensus in credit policy package amongst Commercial Bank. It attempts on a macro level to address fundamental issue of quality lending at the end of the day. Hence the need to continuously develop and improve on the package through periodic reviews in say, 6 months is imperative.

CHAPTER THREE

3. EVALUATION OF UBA PLC. CREDIT POLICIES

To adequately address the evaluation of Credit Policy of UBA successfully, there is therefore the need to introduce the organisation thereafter we look into the subject matter, in reference to United Bank for Africa Plc.

3.1 Introduction

United Bank for Africa Plc. has its antecedents rooted in that of its precursor, the British and French Bank Limited, with same metamorphosed firm BNCI Paris, Banque National Pour de commerce et L'Industrie, established in 1932.

In May 1949 British & French Bank began operations in Nigeria at 117 Broad Street, Lagos. The Bank officially opened for business in December 1949 with staff strength of 12 and the General Manager, Mr. G. P. Piperand. In May 1961, UBA was incorporated to take over the assets and liabilities of British and French Bank. The founding bankers are:

- The British & French Bank
- Banca Nazinale de Lavovo of Italy
- Monte dei Paschi di Siena of Italy
- Banker Trust of New York, U.S.A.
- Amstardam Rotterdam Bank of Holland.

According to E. P. Doyle, a bank is defined as "... any body of persons whether incorporated or not, who carry on the business of banking". Put in another way, "... banking or discount means, any company which satisfies the Dept. of Trade and Industry...."

The customer on the other hand is statutorily defined as "... When a person(s), society, firm or company etc., makes an offer to become a customer, which the bank duly accepts". Acceptance may be made subject to a condition precedent or subsequent. Even though relationship between the bank and her customer is purely contractual, it is fundamentally the relationship of debtor (banker) and the creditor (customer), with this role sometimes reversed.

UBA Credit Manual (1990) however sees a customer as “any individual, partnership, corporate body, Public Institutions and Associations, who maintains banking relationship with the Bank and on whom the Bank holds adequate and satisfactory reference.

The Bank in its normal course of business lends the deserving customers. The principal objective of lending is profitability and to achieve this therefore, the underlisted requires brief attention before credit is extended to a customer.

3.2 **Fundamental of Bank Lending**

A customer approaches the Bank with a signed request containing the following information:

- i. Purpose of facility
- ii. Amount
- iii. Proposed repayment period
- iv. Proposed Security (where applicable)

There are however, a few occasions when facilities are extended to customers prior to the customer's letter of request.

- (a) Through marketing drive, as in the case of wooing a prospective customer by granting facilities.
- (b) Returned cheques on behalf of Direct Credit Customers, which may be converted to loan.
- (c) Defaulted Contingent liabilities without cash cover as collateral e.g. Bill of Lading Indemnities.

The following are of importance before processing credit application;

Character

The honesty and integrity of the borrower is of primary importance. The measurement of a customer's character from the Banker's point of view can be ascertained from the conduct of the account, status inquiry, statement of account, market intelligence, correspondences and of course through other informal sources that may give useful information.

Purpose

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Purpose

Purpose

The purpose of borrowing is established in terms of genuineness and legality of the entire transactions and if their memo and articles permits.

Amount

The adequacy of the amount required before draw down is paramount moreso, the need for the facility to be self-liquidating either from cash flow or the specific transaction so financed.

Repayment

Ascertainment of the source of repayment, terms of payment, mode and timing of repayment.

Security

Except for clean lending, all secured lending must necessarily be backed up by an acceptable security.

Any collateral offered must have the following characteristics,

- title must be ascertainable
- title must be easily transferable
- value must be ascertained and relatively stable or in appreciating terms
- security must be marketable and easily realisable.

The recent credit policy of UBA PLC. however, places emphasis on personality, amount, repayment, security, expediency, remuneration and services (PARSERS).

3.3 UBA Credit Analysis Guide

The above has been replaced with the Credit Analysis Guide in processing a credit (CAG), as enumerated below;

Review and record data of receipt of file

Study file for familiarization

Confirm that all stages have been followed as per CPRC 02 & CPRC 02 (ANNEXTURE).

- Ascertain customer's business is within the Bank's focus and target market.
- Confirm that the lending is within the Bank's obligor's limit by reference to

request and amounts outstanding with connected account and compliance with all policy requirements.

- Specify whether credit is new renewal, increase, restructuring etc.
- Confirm risk ratings by recalculating.
- Check evaluation of primary source of payment and in the event of failure strength/ possibility of the secondary source of repayment.
- Verify liquidation analysis
- Ascertain acceptability by reference to location.
- State whether perfected or not and confirm position from Securities Department.
- Ascertain adequacy and acceptability of Insurance Cover.
- Reviews visit report to site.
- Arrange a visit if in doubt.
- Confirm if credit risks and company business risks have been adequately discouraged and realistic mitigants proffered.
- Review account performances with particular reference to:
 - (i) Turnover entrusted U.B.A. PLC vis-à-vis to other banks. Confirm proportion of borrowing and adequacy.
 - (ii) Return On Assets (ROA) vis-a-vis bench mark/earnings from returns prescribed by the bank have been met in the past and whether they will be met during the currency of the loan.
 - (iii) Account conduct with a view to ascertaining frequency of credit swings (if any) or whether account is developing a hard core.
 - (iv) Check account's prudential classification and those connected account.
- Review call measures
- Check assessment of customers management and confirm character key men.
- Ascertain that financial analysis is based on recent reports (not older than 6 months) and confirm that the firm's profitability, asset management, liquidity, leverage and capital adequacy are adequately addressed.

- Review customer's file
- Complete cover sheet and ascertain if there is any control issues.
- Confirm the approval level and state whether requires and deserves expedited approval.

3.4 Credit Process Gride

In proposing credit, the following will be addressed,

- Policy and compliance
- Risk rating
- The Company
- The Request/purpose
- Banking relationship/Bank checkings
- Security
- Pricing
- Tenor
- Ownership/Management
- Key Credit issue
- Conditions/Convenants
- Industry Analysis
- Management analysis
- Financial analysis
- Income Statement Analysis
- Balance Sheet Analysis
- Cash Flow Analysis
- Customer Profitability Report
- Risk and Mitigants
- Risk Analysis

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- Fall back analysis
- Conclusion/Recommendation.

3.5 Evaluating the Credit

From the foregoing it can be observed that UBA Credit Policy has gradually grown into quality and result influential based package, from the unconventional piece to Lending Manual (1990), CPRC 02 AND CPRC 02 (ANNEXTURE). The success of the policy is due to the following;

- Policy and Compliance:- The Bank now focuses her lending only to identified sectors of the economy by ensuring that the credit proposal is within all credit and legal policies in force to the Bank.
- Credit Risk Rating:- (as usually proposed by the Lending Sector) is a new concept to lending in this environment. Both the Customer Risk Rating and Financial Risk Ratings allows for accessibility in graduated pattern before value judgement. This tends to improve on the quality of credit.
- Security Ratings:- Security acceptable to UBA Plc (particularly mortgaged property) have been localised into class A namely Lagos, Abuja, Kano, Port Harcourt and Onitsha, while class B in Aba, Ibadan, Kaduna and Warri and class C in Maiduguri, Enugu, Jos, Sokoto, Owerri, Calabar, Benin, Yola and Ilorin. This classification derives from the view of prime mortgage values, active market values and fairly active property market for the A, B and C respectively.

The sighting of the property within any of these locations does not confer automatic acceptance, it merely means that the property can be accepted for proper evaluation of suitability, adequacy and realisability.

The Bank's measurement of value of a pledged property in its forced value which implies that the property can find buyers at short notice. Value does not mean replacement 'values or the value in use' (i.e how valuable the property is in the present use).

Conditions/Covenants:

With the peculiarity of any credit, respective conditions and covenants are put in place to properly safeguard the Bank.

Industry Analysis:

An all important development to the credit policy. More often than not has succeeded in providing a clear positioning of the credit product. It is linked to the policy & compliance as stated above.

Management Analysis:

It attempts to look at the management profile, they credit personnel factors etc.

Other Analysis:

Looking extensively into financial, income statement, Balance Sheet, Cash Flow analysis are relative interdependent checkings. Risk analysis, and mitigants are of importance too.

The above has reinforced,

- Communication of credit terms
- Enforcement of credit terms
- Security Compliance
- Credit Quality Maintenance
- Profit monitors, relationship Growth & Protection & finally file maintenance.

Conversely, it is noteworthy to say that UBA Credit Policy is rather subjective and regressive for the following reasons,

- (a) The risk rating procedure is purely subjective and academic-particularly as the error rate is high. Although this appears to be reason for counter rating by the Credit Risk Management Sector, Head Office. If it was scientific or complete process, this will not have been necessary.

- (b) Property value ~~only~~ by location alone successfully, ^{is not enough.} Rather ability of the property to independently find buyers for herself in any environment should be emphasized.
- (c) Discretionary Lending Powers: This has not significantly reflected in the credit policy manuals to the satisfaction of the writer. More often than not fast decisions may lead to bad credit but that delegation has to be in place. Until it is abused each Relationship manager should have a share of the already centralized powers.

Conclusion to the Chapter

Our study of UBA PLC Credit Policy establishes existence of quality and growth as the coefficient is significant and sound comparatively. The present level will not move more than 5% to prudential account as the credit policy water light. However, a fair and honest flexibility will promote and enhance more profit. Each Relationship Manager is more knowledgeable of the environment and therefore the need for decentralization too.

CHAPTER FOUR

DATA PRESENTATION & ANALYSIS

Introduction

In chapter one, we discussed on both the primary and secondary methods used in collecting our information and the data which were through interview and questionnaire methods.

In response to the interview and questionnaire methods, 320 interviewees responded, with 59.4% having knowledge of UBA credit policy, While respondents recognized credit policy as a comprehensive monitor document that will guide credit analysis's from credit origination up to disbursement and eventually recovery, the document recognizes the roles of account officer as facilitators.

Nonetheless, respondents see UBA Credit Policy as waterlight hence not easy to implement as it seeks to over protect the bank's position. It was unanimously agreed that the six monthly review of process of UBA Credit policy which is aimed at reflecting changes in the bank's business and update the quality or otherwise is good. Moreso, it allows line management more accountable for results of their credit decision. .

Generally, the respondents are of the opinion that even though whichever credits is approved chances are that, repayment will be achieved.

Finally, there is the need for flexibility and decentralization of authorising powers appropriate for respective account officers.

Problem and Prospects

Problems associated with project of this nature are numerous among which are;

- Dearth of relevant data.
- Reluctance of respondents to readily offer information due to secrecy rule of the bank.
- Lack of appropriate literature on Bank's Credit policy.
- Non – conformity with financial and monetary regulations by banks on credit issues.
- Competition amongst banks result in flexibility of credit policies.

- Usual affirmative and negative covenants for appropriate assessment of a Bank's Credit Policy.

The prospects includes:

- Enlarged body of knowledge in Commercial Bank's Credit Policy for both academic and financial with full one.
- Research basis for current credit policy standards acceptable world-wide.
- Helps in deriving a standard for credit policy formulation
- Development of credit culture in replacement of the old system.

Conclusion to the Chapter

From where we have discussed and analyzed in the proceeding chapters, it can be deduced that the quality of credit policy of a Commercial Bank is a function of recoverability. The fact that UBA's credit policy is watertight and lacks flexibility is not conclusive but the standard and quality speaks of recoverability of the credit. Suffice too to mention of the need to introduce a fair level of flexibility and authority uncentralization for more effective and efficiency. The 6 monthly service presently in place should also be maintained.

CHAPTER FIVE

SUMMARY CONCLUSION AND RECOMMENDATION

The case of lending centres on articulated credit policy of a bank. However, the quality of lending is a function of credit policy. In other words a 'good' credit policy leads to 'good' lending.

It is in the spirit of the foregoing that Banks generally evolve a credit policy such that is clearly established, properly communicated to the operators and effectively implemented. To a large extent, it usually provides guidance to lending officers, establishes a standard for control purposes, provide alternative courses of action and simplifies and accelerated the decision making process of the bank.

Hitherto, UBA's credit policy places greater emphasis on fundamentals as character, capacity, purpose, amount, repayment, security and sometimes connection. But following review reports by critical process review committee on the Banks Credit policy, the Credit Analysis memorandum (CAM) has the following features;

ITEM 1 Customers Credit Brief (see Appendix)

ITEM 2 Credit Analysis Memorandum (CAM)

- Customer's legal name & incorporaters
- Policy Compliance Confirmation
- Credit Risks Rating
- Purpose of the Credit Request
- Identification of primary source of credit repayment
- Identification of secondary source of credit repayment
- Corporate Business Analysis
- Industry Analysis
- Customer Profitability Report
- Other Banking relationship
- Historical Financial Analysis
- Conclusions and Recommendation

In addition to the above credit management is purely a relationship affairs wherein from credit initiation to eventual recovery, an Account Officer is responsible for the success or failure of the credit.

To determine the success or otherwise of Commercial Bank Credit policy, United Bank for Africa PLC, was chosen for our case study. Our survey covered 404 UBA and non-UBA staff rising questionnaire method.

The analysis of the data revealed an affirmative result to our hypotheses and the following conclusions were drawn.

- UBA's Credit Policy is not only comprehensive but watertight.
- The standard and quality of the credit policy is high and up to date but guarantees high recovery rate.
- Recent attention on target markets, risk acceptance criteria, minimum return on assets helps to improve quality of the credit package,
- Identification, evaluation and protection against credit risks, adequacy of repayment sources, account profitability etc enhances quality.
- Long term relationship potential and opportunities for selling non-credit products and services, credit management and credit collection responsibility to a large extent enforces the quality.

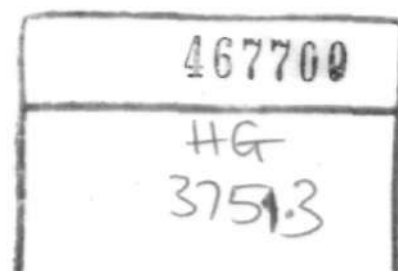
Recommendation

Having examined the various issues that arose out of UBAs Credit Policy in the course of our study, the following issues emerged,

- The management should continue to observe 6-9 monthly review of the existing credit document presently in force. The review exercise will however constitute the Relationship manager, Account officer and the Credit operators at the Head office.
- Radical decentralization of powers regarding lending among respective Relationship manager will greatly reduce time waste in getting approval and eventual disbursement.

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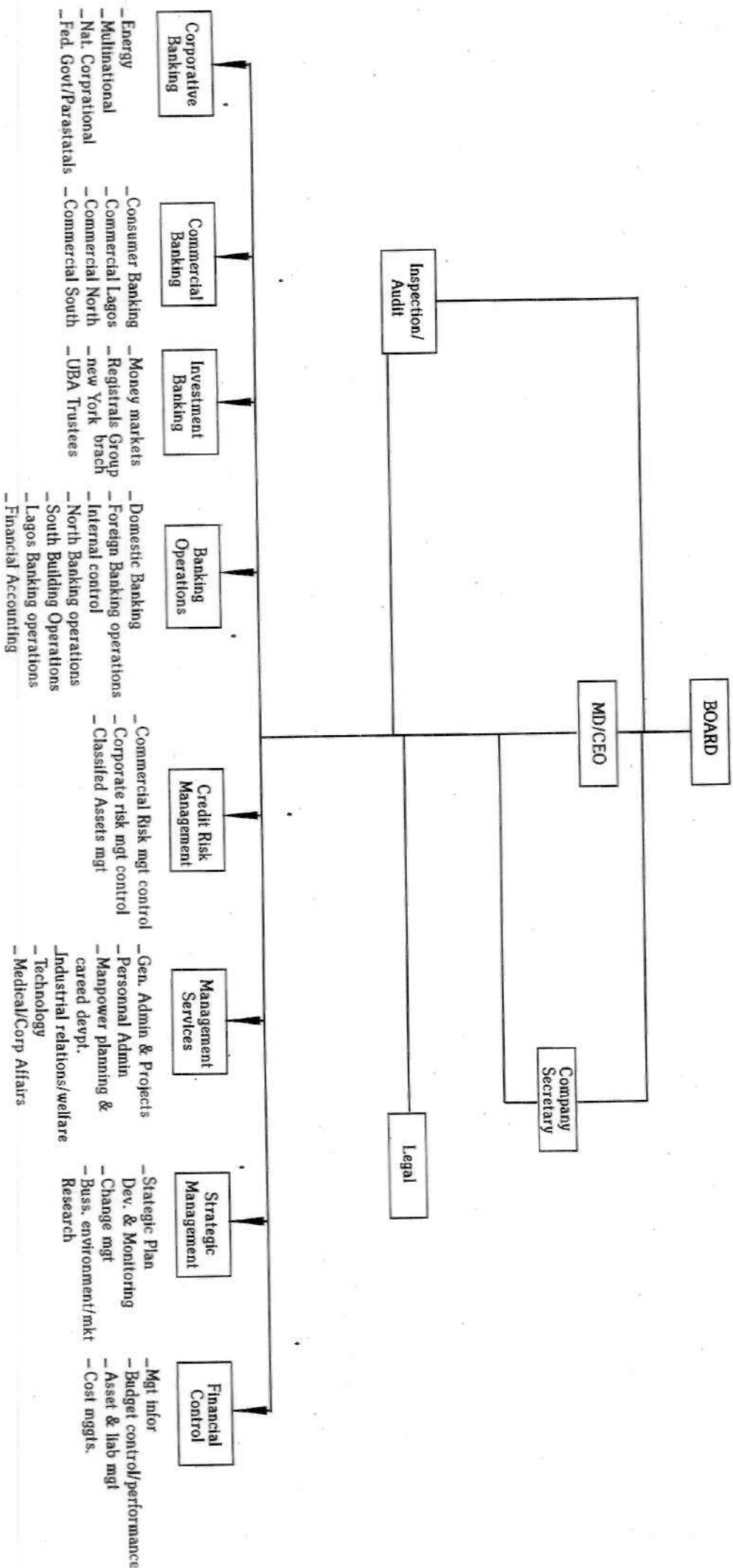
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APPENDIX 1

UBA TO P LEVEL ORGANISATIONAL STRUCTURE (APPROVED - MARCH 1996)



APPENDIX 2

Department of Buss. Admin.

Faculty of Administration

Ahmadu Bello University, Zaria.

12/12/97

Dear sir,

MBA RESEARCH PROJECT EVALUATION OF

COMMERCIAL BANK'S CREDIT POLICY

A CASE STUDY OF UNITED BANK FOR AFRICA PLC

I am undertaking a research on the above mentioned topic as a requirement for satisfying MBA programme of Ahmadu Bello University, Zaria.

The attached questionnaire seeks to sample opinions of facilitators of UBA's credit policy and any other persons in similar policy-user outfits.

Please note that your name/identity is not required as part of the input. However, all information provided will be treated in strict confidence and your objectivity is highly appreciated.

I shall very much be grateful for your cooperation.

Abubakar Sani

NAME OF YOUR BRANCH (BANK)/OFFICE.

Please tick where appropriate and complete the space provided for each question.

SECTION A (GENERAL INFORMATION)

- (1) What is your profession?
 - (a) Banking
 - (b) Solicitors
 - (c) Accounting
 - (d) Marketing
 - (e) Any other

- (2) In what capacity do you relate with UBA PLC?
 - (a) As staff
 - (b) External solicitor
 - (c) Credit analyst
 - (d) Marketing officer
 - (e) Any other.

- (3) What is your highest educational qualification?
 - (a) Professional certificate (e.g AIB, ACCA, ICAN, NNA, LLB)
 - (b) Post – Graduate certificate
 - (c) Degree/Diploma certificate
 - (d) Secondary school/teacher's certificate
 - (e) Any other

- (4) How long have you been in this profession?
 - (a) Over 15 years
 - (b) 10 – 15 years
 - (c) 5 – 9 years
 - (d) Under 5 years

- (5) What is your present status?
- (a) Management staff
 - (b) Officer
 - (c) Supervisor
 - (d) Clerk
 - (e) Any other
- (6) What is your present job schedule?
- (7) Have you worked in credit department
- (a) Yes
 - (b) No.
- (8) If your answer to question 7 is yes, in what capacity and for how long?
- (a)
 - (b)

SECTION B

- (9) Have you attended lending course/seminar
- (a) Yes
 - (b) No
- (10) Do you consider UBA Credit policy package
- (a) Comprehensive
 - (b) About right
 - (c) Below average
- (11) Do you have any opportunity of implementing the credit policy package
- (a) Yes
 - (b) No
- (12) What section do you find fascinating?
- (a)
 - (b)
 - (c)
- (13) Is it easy to implement?
- (a) Yes
 - (b) No
- (14) What areas do you consider unnecessary
- (a)
 - (b)
 - (c)

- (15) How regular should it be reviewed
- (a) Every 6 months
 - (b) Every year
 - (c) Every other year
- (16) Have you had access to any other Bank Credit policy
- (a) Yes
 - (b) No
- (17) Do you consider UBA Credit Policy package much better?
- (a) Yes
 - (b) No
- (18) What suggestions if any do you have to help improve the credit policy?
-
-
-
- (19) How many credit proposals have you handled?
- (a) 1 – 10
 - (b) 10 – 50
 - (c) 50 – 100
- (20) What is the level of % of approval obtained
- (a) < 50%
 - (b) > 50%
- (21) What is the level of failed credits
- (a) < 50%
 - (b) > 50%

KASHIM IBRAHIM LIBRARY

(22) What are the major forms of the securities

- (a) Legal mortgage
- (b) Debenture
- (c) Memo of charge over credit balance
- (d) Life insurance policy
- (e) Share certificate
- (f) Any other

(23) How far do borrowers satisfy the condition before certifies are disbursed in your branch?

- (a) All conditions are always satisfied
- (b) Some customers do not satisfy the conditions
- (c) Branch has defiant attitude toward Bank's condition

(24) What is your opinion are the main cards of loan defaults in your branch

- (a) Improper appraisal of credit request
- (b) The prevailship economic situation
- (c) Poor recovery policies of the bank
- (d) Lack of follow-up with borrowers
- (e) Instability of interest rates
- (f) Improper disbursement prolongs
- (g) Any other

(25) What is your assessment of the bank's credit policy?

.....
.....
.....

(26) What is your opinion on the recent Federal Government Decree that stipulates strong penalty for fraudulent bank staff, and what effects does it have on the future of banking system in Nigeria?

UNITED BANK FOR AFRICA PLC

CUSTOMER CREDIT BRIEF

APPROVAL LEVEL:

BRANCH / SECTOR

DATE OF LAST MEETING:

NAME OF CUSTOMER:

CUSTOMER SINCE:

GROUP:

NEW FACILITY

ADDITIONAL

RENEWAL

RESTRUCTURE

NATIONALITY:

PREVIOUS EXPIRY DATE:

PROPOSED EXPIRY DATE:

AUTHORISED CAPITAL:

CODE:

PREFERRED / LESS PREFERRED

PAID UP CAPITAL:

INDUSTRY

NATURE OF BUSINESS:

MAIN SHAREHOLDERS:

%

DIRECTORS:

FACILITIES

POSITION
AS AT
No. 122

PREVIOUS
AUTHORISATIONS
No. 123

CUSTOMER'S
REQUEST
No. 124

BRANCH/SECTOR
RECOMMENDATION
No. 125

INTEREST CHARGES:

CURRENT ACCOUNT:

LOAN:

COT:

OTHER CHARGES:

CURITIES:

(PRESENT AND PROPOSED) Indicate:

Perfect (2) Being Perfect (3) To be obtained (4) To be released (5) Forced sale values and date done (6) Date of last physical inspection of property and documentation check.

VALUE -N-

ANALYSIS OF LAST 3 BALANCE SHEETS AS AT (DATE, MONTH, YEAR)

AUDITED () ; NAME OF AUDITOR(S)
UNAUDITED () ; MANAGEMENT PREPARED () ; QUALIFIED () ; NOT QUALIFIED ()

TICK APPR ()

ASSET	19..... =N='000	19..... =N='000	19..... =N='000	LIABILITIES	19..... =N='000	19..... =N='000	19..... =N='000
FIXED ASSETS (OUT OF WHICH LAND & BUILDINGS)	()	()	()	CAPITAL & RESERVES (REVALUATION RESERVES)	()	()	()
STOCKS				DEPRECIATION			
RECEIVABLES				LONG TERM LIABILITIES			
BANK AND CASH				CURRENT LIABILITIES			
LOSSES (CUMULATIVE)				(OUT OF WHICH TAXES)	()	()	()
				(--TRADE CREDITORS)	()	()	()
				BANK			
				RETAINED PROFIT			
TOTAL				TOTAL			
SALES				DEBT/EQUITY RATIO			
DEPRECIATION FOR THE YEAR				CURRENT RATIO			
NET PROFIT B/F APPROPRIATION				ACID TEST RATIO			
DIVIDENDS				PROFIT MARGIN			
WORKING CAPITAL				NETWORTH			

CURRENT ACCOUNT CREDIT TURNOVER FOR CURRENT YEAR

AS % OF SALES:

OTHER BANKS

AUTHORISED FACILITIES

ADDITIONAL INFORMATION
(INC. CONNECTED ACCOUNTS)

EARNINGS - (3 YEARS)

	YTD CURRENT 19..... =N='000	LAST YEAR 19..... =N='000	YEAR B/F LAST 19..... =N='000
(12 MONTHS ENDED)			
INTEREST RECEIVED			
C O T			
OTHER COMMISSIONS			
TOTAL			

RISK RATING SCHEDULE

LENDING SECTOR

CCP CONFIRMATION
OR REVISION

COR	FRR

NAMES OF RATING OFFICERS, SIGNATURES AND DATES

RESPONSIBLE OFFICER

NAME

SIGN.

SENIOR CREDIT OFFICER
(AT LEAST SCO 4)

NAME

SIGN.

COMMERCIAL AND CREDIT
POLICY SECTOR

NAME

SIGN.

LAST 3 CONFIRMED RATINGS

KASHIM IBRAHIM LIBRARY

CREDIT RISK RATING FORM

CUSTOMER'S NAME:

SECTOR:

CRITERIA		SCORE 1 - 5		
	CUSTOMER'S QUALITY RATING (CQR)	DATE		
	NON FINANCIAL FACTORS			
	Industry			
	Market Position			
	Management Adequacy			
	Shareholder Support			
	Political/Legal Risks			
	Earning Stability			
A	SUB TOTAL			
B	Non Financial Rating (A/6)			
	FINANCIAL FACTORS			
	Size and Capital Access			
	Leverage			
	Interest Coverage			
	Profitability			
	Working Capital			
	Inventory Turnover			
C	SUB TOTAL			
D	Financial Rating (C/6)			
E	GRAND TOTAL (B+D)			
F	CQR (E/2)			
	CUSTOMER MATCHING PROFILE			
	FACILITY RISK RATING (FRR)			
	(a) Collateral			
	(b) Tenor			
	(c) Others	—	—	—
G	FRR (The highest of a to c)			
	REASONS(S) FOR CHANGES IN THE RATING (IF ANY)	RATING OFFICER	SCO	
		NAME:		
		SIGNATURE:		

UNITED BANK FOR AFRICA PLC
CREDIT RISK MANAGEMENT
FINANCIAL ANALYSIS SPREADSHEET OF
BALANCE SHEET AS AT DEC 1996

AUDITORS:

OPINION: UNQUALIFIED

		1994 AUD N'000	1995 AUD N' 000	1996 AUD N' 000
	ASSETS			
1	Cash			
2	Marketable Securities & Time Deposits			
3	FX Purchased for Import			
4	Advance Payments & Deposits to Suppliers			
5	Inventory			
6	Trade Debtors			
7	Due from Related Parties			
8	Other Debtors & Prepayments			
9	TOTAL CURRENT ASSETS			
10	Investment Properties			
11	Other Non-Current Investments			
12	Fixed Assets			
13	Spare Parts, Returnable Containers, etc.			
14	Goodwill, Intangibles & Other LT Assets			
15	TOTAL LONG TERM ASSETS			
16	TOTAL ASSETS			
	LIABILITIES AND EQUITY			
17	Short Term Borrowings			
18	Current Portion of Long Term Borrowings			
19	Long - Term Borrowings (including Lease obliga.)			
20	TOTAL INTEREST BEARING LIABILITIES (TILB)			
21	Trade Creditors			
22	Due to Related Parties			
23	Advance Payments & Deposits from Customers			
24	Other Creditors & Accruals			
25	Taxation Payable			
26	Dividend Payable			
27	Deferred Taxation			
28	Obligations Under Unfunded Pension Schemes			
29	Minority Interest			
30	Redeemable Preference Shares			
31	TOTAL NON-INTEREST BEARING LIABILITIES			
32	TOTAL LIABILITIES			
33	Share Capital			
34	Share Premium			
35	Irredeemable Preference Shares			
36	Revaluation Surplus			
37	Other Non-Distributable Reserves			
38	Revenue Reserve			
39	SHAREHOLDERS' EQUITY			
40	TOTAL LIABILITIES & EQUITY			
	INCOME STATEMENT FOR THE YEAR ENDED			

	1994 AUD	1995 AUD	1996 AUD
	N 000	N 000	N 000
41 Turnover			23
42 Cost of Sales			15
43 Gross Profit			8
44 Operating Expenses			
45 Depreciation			0.2
46 Operating Profit			
47 Other Income/(Expenses)			
48 Profit Before Interest & Taxation			
49 Interest Expense			
50 Profit on Continuing Activities			
51 Exceptional Items			
52 Profit Before Taxation			
53 Tax (Expense) Benefit			
54 Profit After Taxation			
55 Extraordinary Items			
56 Minority Interest in Group PAT			
57 Profit After Tax & Minority Interest			
58 Dividend			
59 Profit Retained for the Year			
60 Bonus Issues			
61 Other Appropriations/Adjustment			
62 Profit Retained B/Fwd			
63 PROFIT RETAINED C/FWD			
ADDITIONAL INFORMATION			
64 Capital Expenditure			
65 Sale of Assets			
66 Purchase of Other Long Term Assets(Net)			
67 Sale of other Long Term Assets(Net)			
68 (Profit)/ Loss on Sale of Fixed Assets			
69 Other Non-Cash Items			
CASH FLOW STATEMENT FOR Y/END			
OPERATING ACTIVITIES			
70 Profit After Tax			
ADJUSTMENTS			
71 Interest Expense			
72 Minority Interest in Group PAT			-
73 Depreciation			-
74 (Profit)/Loss on Sale of Assets			-
75 Other Non-Cash Items			-
76 Potential Operating Cash Flow			
77 INCREASE/(DECREASE) IN SPONTANEOUS FIN.			
78 Trade Creditors			
79 Due to Related Parties			-
80 Advance Payment & Deposit from Customers			-
81 Other Creditors and Accruals			
82 Taxation Payable			
83 Deferred Taxation			-
84 Obligations under Unfunded Pension Schemes			-
85 Minority Interest			-
86 Cash from (used by) Spontaneous Financing			
(INCREASE)/DECREASE IN WORKING ASSETS.			