FAILURE OF ICON LIMITED (MERCHANT BANKERS)

1.0 INTRODUCTION

ICON Limited (Merchant Bankers) was one of the oldest merchant banks in Nigeria. It appeared twice on the Nigerian financial landscape. In 1959, the bank was promoted principally by the International Finance Corporation (IFC) as Investment Company of Nigeria (ICON). Three years later (by 30th June 1962) it established ICON Securities Limited. By 1964, the bank was converted to the Nigerian Industrial Bank (NIDB) Limited. However, ICON Securities Limited still operated till 14th October 1974 when it was converted to ICON Limited (Merchant Bankers). This new bank was floated by Barring Brothers (a pioneer British bank), NIDB and National Insurance Corporation of Nigeria (NICON Insurance) Plc. At commencement, the shareholding structure of the bank was as shown in Table 1 below:

Table 1. Shareholding Structure of ICON at the On-Set.

SHAREHOLDER	HOLDING (%)
Barring Brothers	15
NIDB Limited	45
Management	25
NICON Insurance	15
TOTAL	100

Source: NIDB/BOI Archives

The bank operated as a joint-venture for about 12years. However, due to irreconcilable differences, Baring Brothers pulled out on 30th June 1986 shortly after the exit of the erstwhile Managing Director, Dr. Ime Ebong. NIDB took over the shareholding of Barring Brothers and became a majority shareholder. The shareholding of the bank was restructured and as of 1989, four shareholder blocks owned the bank which had a paid-up capital of N63,856,454 divided into 31,928,227 ordinary shares of N2.00 each. The ownership structure as at then is as shown in Table 2 below:

Table 2: Shareholding Structure of ICON Limited as at 1989

Shareholders	No. of Shares	Value =N=	% Shareholding
NIDB	21,157,971	42,315,942	66
NICON	8,755,991	17,511,982	27
SPT Trustees	1,450,068	2,900,136	5
Others	564,197	1,128,394	2
TOTAL	31,928,227	63,856,454	100

Source: NIDB/ICON Archives

The bank had 4 branches and a Liaison Office in addition to its Head Office. The branches were in Calabar, Kaduna, Kano and Benin while the Liaison Office was in Abuja. The Head Office was initially located in NIDB House at 63/71, Broad Street, Lagos before it moved to ICON Building (own premises) situated at Idejo Street, Victoria Island, Lagos.

As a joint venture, the bank benefited from the prudent and conservative banking policies provided and sustained by its technical partner, Barring Brothers. The bank operated as a viable profitable venture. However, its declining fortune started shortly after the exit of its technical partners in 1986 when a new business model and less prudent policies were introduced by the new Board and Management. The policies and practices of the new management resulted in liquidity crisis, high credit portfolio delinquency, collapse of internal control and non-adherence to banking laws, rules and regulations. These undesirable developments contributed to the eventual collapse of the bank and revocation of its banking licence in 1998.

The rest of this case study is organized into five sections. Section 2 presents an overview of the bank’s performance while section 3 highlights the core reasons for failure. Section 4 focuses on regulatory intervention while section 5 covers resolution of the bank’s failure. Section 6 provides some learning points and conclusion.

2.0 OVERVIEW OF BANK PERFORMANCE

The CAMEL (Capital Adequacy, Asset Quality, Management, Earnings and Liquidity) parameters have been adopted to analyse the bank's performance. The narratives graphically illustrate the bank's journey to failure.

2.1 Board and Management.

After the exit of Barring Brothers and ownership restructuring, a new board was constituted which as of 1987 comprised 11 members. Apart from the Managing Director, NIDB had 6 seats, NICON Insurance had 2 seats while the minority shareholders held the remaining 2 seats. Upon the exit of the technical partner, Alhaji Mukhtar Ahmad was appointed Managing Director. He served up to August 1989 when the bank was already in liquidity problems and the board was dissolved. The shareholders took over as an interim management. Thereafter, Mr. Ambrose Feese was elevated from his position of Executive Director and became the substantive Managing Director (Source: Field Survey). However, the 1995 Target Examination of the bank by the Nigeria Deposit Insurance Corporation (NDIC) criticized the appointment of Mr. Feese as the Managing Director on the following grounds:

i. As Chief Reporting Officer, he failed to ensure effective implementation of bank's policies.
ii. He appeared to lack the technical skills for turning around the bank.
iii. As Executive Director (ED) policies and guidelines were freely abused under his supervision in areas such as appraisal, disbursement and monitoring of risk assets.
iv. Periodic returns from some branches were in arrears of up to 4 months, thereby rendering prudential returns to the Central Bank of Nigeria (CBN) and NDIC unreliable while he failed to take corrective measures.

Bank Examiners observed that the board appeared completely alienated from the problems confronting the bank while the management lacked the capacity to frontally confront the problems. The board was unable to provide focused leadership hence the bank's condition deteriorated irreversibly.

The Federal Government's directive on withdrawal of public-sector deposits from commercial and merchant banks to the CBN in May 1989 exposed the bank's fragility. Its illiquidity was overwhelming to the extent that it had to be bailed out by NDIC Accommodation Facility along with some other banks in August 1989. However, an analysis of the bank's balance sheet by CBN/NDIC Committee on Liquidity Crisis in the Banking System showed that its situation was grave and not limited to the liquidity shock created by the government policy on withdrawal of public-sector deposits. The management had engaged in the imprudent practice of financing long-term credits with short-term funds mainly mobilized from the interbank market. Its balance sheet depicted a severe mismatch of assets and liabilities. The position was compounded by the fact that most of the risk assets created were non-performing. The bank had to resort to distress borrowing to fund its operations at high interest rates. Various Bank Examination reports revealed approval of credits by line officers and line managers in brazen violation of the bank's credit approval and control procedure while the board and management failed to decisively contain the situation.

Another imprudent act of the management was its recourse to depositors' fund for the completion of the bank's Head Office Building. On realizing that the N41.7milliuon Debenture raised for the Head Office Building was insufficient to complete the project, the management utilized N132.94million depositors' fund to finance it. The interest due on the irregular credit facility was concealed in the Building Construction Account instead of the Profit and Loss Account. This showed how unethical and fraudulent the management was.

Pervasive internal control lapses further exposed the management's incompetence. Some of the lapses noted by Bank Examiners are listed below:

i. Lack of segregation of duties. For example, in Benin branch, the officer managing the Accounts Unit was also a signatory to the bank's accounts, was custodian of cheque books, issued cheques to customers, rendered returns to Head Office and prepared the bank's reconciliation (abandoned since December 1993).

ii. Clean Report of Findings (CRF) in respect of many letters of credit were not authenticated.
iii. Untested telex messages of value which did not originate from the bank regularly appeared on its telex machine, a situation conducive for fraudulent practices.
iv. The bank did not have specimen signatures of some of the Inspection Agents, a situation conducive for fraudulent practices.
v. Discrepancies noted in the bank's accounts indicated that various sections/branches were not reconciling their records with the Accounts Department.
vi. Most of the bank's 10 Nostro accounts were not reconciled for 2years running.
vii. Customs' Bills of Entry relating to many L/Cs were not available.
viii. Non-rendition of Schedule XI returns on defaulting customers to Trade & Exchange Department of CBN for necessary sanctions.
ix. Repurchase of unutilized Letter of Credit balances without surrendering them to CBN as required by regulation.
x. Disbursement of foreign exchange through Midland Bank, London for estacode allowance and L/Cs were not supported with documentation.
xi. Non-disclosure of many interbank sales in the interbank purchases and sales returns rendered to CBN (for example January, March and April 1995). Bank sold of foreign exchange between 15/12/94 and 28/12/94 at N137/$ instead of N21.996/$.
xii. The bank's schedule of Foreign Exchange inflow and outflow in the Foreign Exchange Schedule V returns for the period 10 December, 1994 to 30 April 1995 did not reflect the actual position in its books and records. The bank understated foreign exchange inflows and overstated foreign exchange outflows.
xiii. On many occasions, the bank sold foreign exchange at rates higher than the official rate permissible contrary to CBN Circular No. FOD/D/S.14.Vol. XIII.46 of 4 February 1994. For example, Messrs M.S.K, Eskay & Co and Samaria International Limited bought at higher than prescribed rates.

xiv. The balances on some customers' Domiciliary Accounts were purchased by the bank to offset the customers' indebtedness to the bank but were not so reflected in the relevant register, thereby understating the total foreign exchange inflow to the bank.

The internal control weakness was exploited to perpetrate fraud against the bank. For example, the bank purportedly purchased £170,000 from a fraudster and N24million, being the proceeds of the foreign exchange transaction was successfully withdrawn by the fraudster.

The Management Information and Accounting System was deficient and generated unreliable information. As a result differences in accounts abound. Bank Examiners noted that no training programme was conducted for staff on the new Bank Master Software before deployment. The records transferred into the new system could not be verified nor reconciled. For example, it was noted that the General Ledger contained various accounts with debit balances totaling N486.096million in the name of other banks, N197.462million in the name of suspense accounts and N56.41million in the name of NNPC Staff Pension Funds – even though the underlying transactions were not easily discernible. It was therefore, no surprise that the last audited accounts (that is 1992 audited accounts) was qualified by the bank's external auditors.

Human capital management was appaling and manifested in exodus of trained employees. At inception, the bank invested heavily on staff training and the bank had a pool of well-trained staff. However, after the exit of its technical partner followed by deteriorating financial condition, the bank recorded high staff turnover. As at the end of 1989, the staff strength was 608 but due to high turnover, the staff strength reduced to 243 (that is by 60%) by the end of 1991. The declining trend continued until the bank's liquidation. As a result of staff turnover, the Training School was understaffed. Hence, the bank could not organize in-house training for the remaining employees. Also, due to high staff turnover, staff were being deployed primarily to essential duties while other tasks were not attended to.

Apart from financial misreporting to CBN and NDIC, the bank was found to have willfully engaged in violation of banking laws, rules and regulations particularly in adherence to credit guidelines and foreign exchange (Forex) regulations. Some of the violations are listed below:

i. Non-submission of Customs Bills of Entry for imports within prescribed 90days.
ii. Non-rendition of returns on foreign exchange (Forex) transactions to CBN.
iii. Non-surrender of repurchased forex to CBN.
iv. Funds transfer from ordinary Domiciliary Accounts to third parties without requisite documentation as required by CBN.
v. With-holding of distributable interest earned on forex transactions instead of sharing same to affected customers.
vi. Constant debiting of Nostro accounts with foreign correspondent banks without documentation.

As a result of reckless lending, non-performing risk assets warranted huge provisioning which resulted in operational losses. Coupled with illiquidity and maturities mismatch, the bank's financial condition recorded a deteriorating trend which overwhelmed its management. Consequently, the CBN imposed Holding Action in 1992 which comprised measures aimed at engendering self-restructuring by the Board and Management of the bank. The prescribed measures included capital injection, aggressive debt recovery, strengthening of management and cost control. The inability of the shareholders, board and management to undertake self-restructuring was a clear indication that the bank was on a journey to failure. A review of the other CAMEL parameters that follow would further underscore the fact that the bank was irredeemable.

2.2. **Asset Quality**

The credit portfolio which stood at N1,365,996,880 at the end of 1991 grew to N2,564,769,408 by 1995. As earlier noted, unauthorized lending was pervasive which the following examples serve to illustrate:

i. Officers without delegated approving authority approved facilities which later became hard-core debts.

ii. Some officers granted credit facilities in violation of the bank's credit approval limits.
iii. An officer approved an unauthorized credit of N67.6million in disregard of the bank's policy guidelines.
iv. An Assistant General Manager unilaterally approved facilities worth N24million which became sticky.

The deterioration of credit quality as recorded by Bank Examiners is quite instructive. In 1991, the credit portfolio was classified as follows:

Table 3: Classification of Credit Portfolio, 1991

Category	Value	% of Total
Classified Loans & Leases:		
Substandard - N16,385,045		
Doubtful - N116,193,568		
Lost - N770,542,169	903,120,786	66.11
Performing	462,876,094	33.89
TOTAL	1,365,996,880	100

A total of N903,120,786 (or 66%) of the credit portfolio of N1,365,996,880 was classified a non-performing in 1991. By 1995, the volume of classified credits increased to N2,564,769,408. In an effort to salvage the situation, Credit Administration Department was broken into two, viz:

- Credit & Marketing Unit (CAM)
- Risk Asset Management (RAM)

CAM was responsible for current and performing credits while RAM was responsible for classified credits. By April 1995, about 67% of credits under CAM had been classified. The ineffectiveness of the two departments manifested in the following discrepancies:

i. The true position of the credit portfolio could not be ascertained.
ii. There was no reliable records of exposure to customers which resulted in disputes over outstanding balances on customers' accounts. In many cases, purported outstanding balances could not be traced in customers files/records.

iii. Securities pledged in support of many facilities were grossly inadequate and other cases were either non-existing or not realizable.

iv. The bank's recourse to litigation to recover debts was largely fruitless. This was because in cases where judgments were obtained against customers, there were no assets or securities to foreclose due to poor credit documentation. For example, Messrs Phoems Produce and Citcidel Resources that owed N39.07million and N16.35million respectively as at 30th April 1995,could not be traced.

The worthlessness of the credit portfolio is glaring from the Table 4 below which shows the position of the credit portfolio as at 30th April 1995.

Table 4 Asset Quality 1995 (N'000)		**%**
LOANS & ADVANCES TO CUSTOMERS	707,676	27.59
EXPORT, ADB & SME LOANS	141,382	5.51
LEASES	235,965	9.20
BILLS DISCOUNTED	444	0.02
PRE-SFEM SHORTFALL	37,575	1.46
STAFF LOANS	9,020	0.35
DUE FROM ICON STOCKBROKERS	30,584	1.19
BAD DEBT WRITTEN OFF	645,104	25.15
INTEREST EARNED NOT COLLECTED	757,018	29.51
	2,564,768	

From the above table, Bad Debts Written Off and Interest Earned Not Collected accounted for as much as 54.66% of the credit portfolio while loans to deposit ratio was 139%. This is indicative of a failing if not a failed bank.

2.3 **Liquidity and Funds Management**

The withdrawal of public-sector deposits from commercial and merchant banks in May 1989 brought to the fore the bank's precarious position. As already noted, the bank got a temporary respite through CBN/NDIC Accommodation Facility. But the fundamental causes of its illiquidity were not addressed. Maturity mismatch was a major contributor to the bank's precarious liquidity. Deposits and interbank funds were locked up in non-performing credits. Hence, depositors could not be paid as and when the bank's obligations fell due. This led to loss of confidence and litigations. By the beginning of 1995, there were 13 lawsuits against the bank to recover deposits totaling N190.89million. Presented below is Table 5 which clearly reveals heavy dependence on short-tenored funds as far back as 1992 to sustain its operations:

Table 5 Deposit Profile as at 1992

Deposit Type	Amount =N=	%
Call Deposit	614,030,935	69.87
Time Deposit from Banks	221,912,633	25.25
Call Placement	13,845,380	1.58
Fixed Deposits	29,000,000	3.30
TOTAL		100

The above Table shows that 70% of the bank's deposit was on call while very short-tenored deposit from banks accounted for 25.25% of total deposit liability. With 95% of its deposit being volatile in nature the bank was bound to experience severe liquidity crisis. Its inability to meet matured interbank obligations amounting to N401million as at 30th April 1995 triggered litigations by the creditor banks.

The bank had resorted to borrowing at high interest rates to meet matured obligations and as a result interest margin had been negative since 1989. After a while, it could no longer mobilize new funds due to its chronic illiquidity. The apparent increase in deposit liability to N1.28billion in December 1994 and to N1.85billion in April 1995 was due largely to forced capitalization of interest by its creditors who also put their total funds on call. Its special deposit mobilization products (ICON Premium Certificate and IFRAC) also increased due to capitalization of interest rather than through in-flow of new funds. It is equally noteworthy that the bank had not been able to participate in the Inter-bank Foreign Exchange Market (IFEM) since 1992 due to its chronic illiquidity. Typically, inability to meet the needs of customers who required foreign exchange had always resulted in deposit flight and loss of valued customers by banks in such predicament. ICON Limited was no exception to that development.

2.4 **Earnings**

The summary of the bank's 5-year performance is shown in Table 6 below:

Table 6: 5-year Profit and Loss Account.

	1990	1991	1992	1993	1994	*1995
INCOME	N'Mill.	N'Mill.	N'Mill.	N'Mill.	N'Mill.	N'Mill.
Interest Income	345.1	325.6	294.7	426.8	117.3	39.1
Foreign Exchange	9.0	24.8	23.1	55.4	42.1	8.1
Eqpt on Lease	123.7	116.1	109.8	86.5	19.4	6.2
Other Incomes	95.3	55.0	104.7	19.7	12.7	6.9
Investment Income	2.2	3.4	13.6	1.1	2.0	0.1
Fee & Other Services	5.9	5.5	17.5	13.1	7.6	1.9
Commissions	13.1	16.4	18.9	8.5	8.9	0.3
TOTAL INCOME	**594.3**	**546.8**	**582.3**	**611.1**	**210.0**	**62.6**
EXPENDITURE						
Interest Expense	353.2	300.1	529.8	929.7	311.4	111.8
Interest Shortfall on Pre-SFEM deals	4.0	4.0	4.0	4.0	4.0	
Loan Loss Expense	108.1	95.9	218.4	111.5	120.4	3.4
Other Staff Cost	19.0	26.9	30.7	38.7	39.7	8.7
Gen. Admin Expenses	42.3	55.5	82.6	51.1	60.3	18.1
Deprec of Assets	3.7	3.7	6.6	15.0	20.8	6.7
Deprec of Leased Assets	45.2	51.5	57.8	31.7	28.6	7.5
TOTAL EXPENSES	575.5	537.6	929.9	1,181.7	585.2	156.2
NPBT	18.8	9.2	-347.6	-570.6	-375.2	-93.6
Taxation	0.0	0.0	0.0	349.7	5.0	12.5
NPAT	**18.8**	9.2	-347.6	-920.3	-380.2	-106.1
Provision	0.0	387.1	279.7	769.5	548.4	213.7

*April 1995

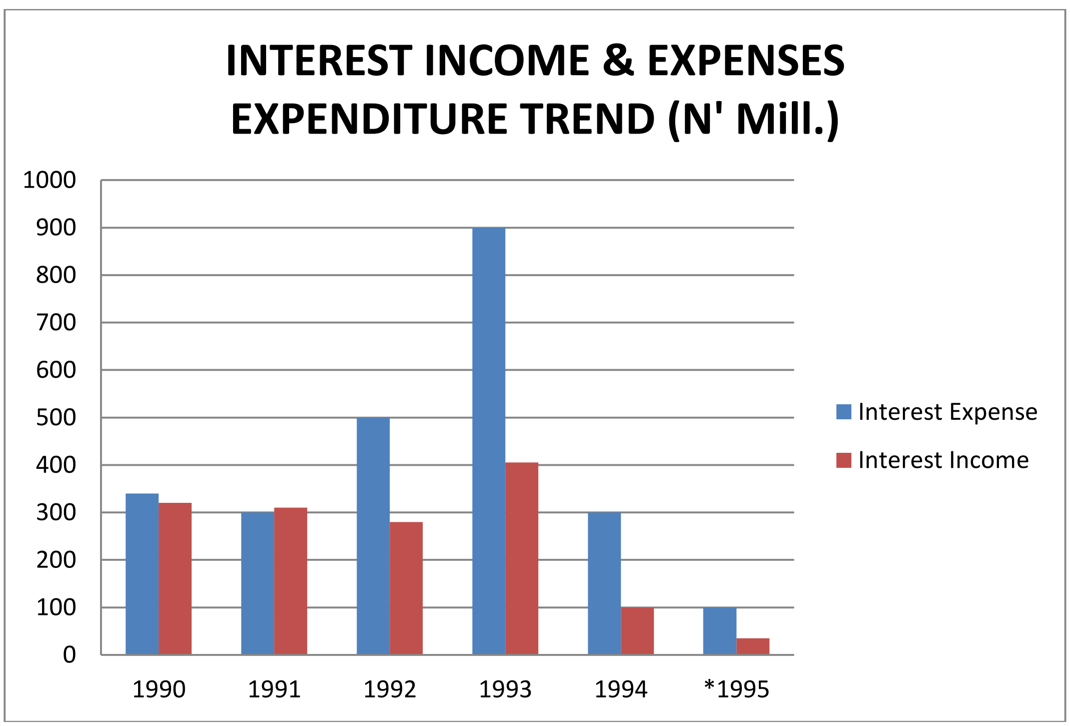
(*Source: NDIC Routine Examination Report of 30/4/95 Table VIII)*

From the Table, it is clear that the fortune of the bank started waning from 1991 when it posted a Net Profit Before Tax (NPBT) of N9.2million. The trend continued with further losses in subsequent years. This is obvious because its expenses outstripped its income. Provision for the non-performing assets further compounded its position.

Interest Income from Loans and Advances and Leases constituted the major source of income since 1992. However, with the stringent requirements of CBN Prudential Guidelines and the poor quality of the Risk Assets of the bank, realizing these incomes to meet its expenses became a mirage. Earned income fell far short of its expenses.

Like the interest income, interest expense accounted for the bulk of the bank's expenditure since 1992 (53.6% - 78.4% of total expenditure). The interest expenditure more than doubled the interest income thus creating serious financial dislocation for the bank. (See Table 3 and Chart 1)

Chart 1, INTEREST INCOME & EPENDITURE TREND (N'MILLION)



The chart shows that from 1993 till closure the interest income was less than 50% of the interest expense. This is not a sustainable scenario. Negative interest margin is indicative of unprofitable operations.

2.5 Capital Adequacy

As earlier noted, the bank had a paid-up capital of N63,856,545 as at 1989 which was completely eroded by operating losses. The bank's audited accounts for 1992 was qualified by its external auditors for capital deficiency. The auditors recommended injection of additional capital to assure its going-concern status and viability. Similarly, NDIC Examiners recommended the injection of N3.04billion fresh capital to facilitate the resuscitation of the bank by its major shareholders (NIDB and NICON) or attracting new investors to recapitalize the bank. While the shareholders lacked the financial capacity to recapitalize, the bank's chronic illiquidity and insolvency made it unattractive to new investors.

It was against this backdrop that the Federal Government mandated the Bureau of Public Enterprises (PBE) to take over the bank. The BPE appointed a Sole Administrator (Chief Omowale Kuye) to superintend over the bank. Subsequently, the BPE proposed the merger of three Federal Government-owned merchant banks namely Continental Merchant Bank, ICON Limited (Merchant Bankers) and Nigerian Merchants Bank to create a new bank to be known as Atlantic Bank. An application for banking licence was submitted to CBN which granted an approval-in-principle for the establishment of the new bank. However, the BPE failed to fulfill the conditions precedent to the issuance of a banking licence. It therefore became clear that the option of failure resolution would be activated.

5.0 REGULATORY INTERVENTION

There was minimal regulatory intervention to arrest the deteriorating condition of the bank ostensibly because of its government ownership. The major actions taken by CBN and NDIC, aside from their statutory supervision of the bank were as follows:

i. The liquidity facility provided to bail out the bank in 1989.
ii. Imposition of Holding Action in 1992 which was aimed at engendering self-restructuring by the owners and management of the bank.
iii. The call for capital injection of N3billion to resuscitate the bank. As shown in the preceding narratives the bank failed to implement the measures prescribed in the Holding Action imposed in 1992 as well as the call to recapitalize. The CBN also supported the initiative to merge three government-owned banks to create a new bank which did not materialize.

4.0 CORE REASONS FOR FAILURE

A combination of factors contributed to the bank's failure. The core reasons for its failure are summarized below:

4.1 The exit of the technical partners, Messrs Barring Brothers marked a turning point in the bank's trajectory. The policies and practices introduced by the new management were at variance with the earlier established conservative and prudent policies and practices. For example, depositors fund to the tune of N133million was utilized to complete the bank's Head Office Building without consideration of its negative impact on liquidity.

4.2 The board failed to provide focused leadership, strategic direction and check the imprudent practices of the management. It was lethargic and appeared alienated from the problems confronting the bank. Consequently, the management engaged in reckless mismanagement unhindered. The management's ineptitude manifested in brazen violation of Credit Policy by various cadre of officers and managers who engaged in unauthorized lending which resulted in a large quantum of delinquent credits, huge provisioning and operating losses.

4.3 Heavy reliance on call and interbank deposits to grant medium to long-term credits created maturity mismatch which aggravated the bank's liquidity crisis. For example, call and interbank deposits accounted for 95% of total deposits in 1992. In order to meet matured obligations the management resorted to distress borrowing as exhorbitant rates of interest. Consequently, interest expense far outstripped interest income. Indeed, from 1993 onward, interest expense was more than double interest income, a development which created serious financial dislocation through accumulated losses from which the bank never recovered.

4.4 The bank's inability to participate in the Interbank Foreign Exchange Market due to illiquidity resulted in deposit flight, loss of confidence and loss of valued customers. This also aggravated the bank's liquidity crisis as the bank was stock in a vicious circle.

4.5 The absence of risk management both on the asset and liabilities sides of the balance sheet spelt doom for the bank. While over-reliance on volatile funds made it vulnerable to market shocks the huge quantum of delinquent risk assets due to reckless lending manifested in substantial debt write-off and interest earned not collected as the two items accounted for about 55% of the credit portfolio. In effect, 55% of the credit portfolio was lost thus eroding capital and leading to insolvency.

4.6 The collapse of internal control and deficient management information systems provided a conducive environment for fraudulent and unethical practices. Efficient operation was jeopardized by lack of segregation of duties and non-reconciliation of accounts. The haphazard computerization resulted in generation of unreliable financial information and differences in accounts. These deficiencies undermined tracking of exposure to borrowers as reflected by disputed debt obligations by debtors, which hindered the bank's debt recovery efforts. Unreliability of financial records contributed to inability to audit the bank since 1993 thereby rendering the bank unattractive to new investors for the purpose of recapitalization.

5.0 FAILURE RESOLUTION

Given the inability of the shareholders to recapitalize the bank or attract new investors for that purpose and the collapse of BPE's merger initiative, the only option left was liquidation. Accordingly, the CBN, revoked the bank's licence on 16th January 1998. Thereafter, NDIC in keeping with the extant laws filed application at the Federal High Court to be appointed liquidator as well as a winding-up petition to wind up the bank.

Upon the grant of both prayers by the Federal High Court, liquidation by NDIC commenced in earnest. A summary of the liquidator's activities as at 31st December 2012 as published in NDIC's 2012 Annual Report and Statement of Accounts is provided below:

Total Deposits at closure	-	N1,421.19million
Payment to Depositors	-	N895.73million
Cumulative debt recovery	-	N185.49million
Disposal of Fixed Assets and Chattles	-	N681.80million

The above data show that 63% of deposit liability as at the date of closure. The low quantum of debt recovered corroborated the earlier assertion that the management had been reckless and unprofessional in the manner it extended credits while the bank was in operation.

6.0 LESSONS LEARNT AND CONCLUSION

The failure of ICON Limited (Merchant Bankers) provides some useful lessons for stakeholders ranging from policy makers, the government, regulators, shareholders, bank management, depositors, academics and the banking public. Some of the learning points are summarized below:

6.1 The transition from a joint-venture under professional management to a state-owned enterprise heralded the bank's declining fortune. Its major shareholders being state-owned enterprises themselves failed to appreciate the need to install a competent board and management. Prudent banking policies and practices were abandoned. The lesson is that banking being a specialized business should be entrusted to a professional and competent management rather than allowing political and other extraneous factors to influence board and management composition.

6.2 Effective risk management and strong internal control mechanism are critical to a bank's sound management, viability and long-term survival. The absence of these critical success factors in the bank contributed significantly to its demise.

6.3 An illiquid and insolvent bank requires adequate capital injection to facilitate a successful turn-around by a professional and competent management. While the bank's shareholders lacked the capacity to recapitalize the bank, the failure or unwillingness of BPE to provide the required capital made its merger initiative, an exercise in futility.

6.4 Early intervention in a failing bank is critical to its turn-around or resuscitation. The scenario painted in this case suggests, that CBN should have intervened robustly as far back as 1992. At a minimum it should have caused a change of management in view of the glaring incapacity of the bank's management to address the bank's liquidity crisis and its brazen unethical and imprudent practices. Such a measure could have reduced the accumulated losses recorded by the bank and also reduce the cost of failure resolution.

6.5 Depositors (whether corporate or individuals) patronizing a bank offering unusually high interest rates should be reminded that the higher the reward the higher the risk of default. Depositors' ability to discriminate against distress borrowing would serve as a fulcrum for enforcing market discipline.

In conclusion, the shareholders' inability to appreciate the need for professionalism in managing the bank, the demonstrated management incompetence, the inability to recapitalize the bank and the delayed intervention by the regulatory authorities all combine as causative factors of the bank's failure. If the policies, procedures and practices introduced by the departed technical partner had been sustained, the bank would in all probability have survived.