FAILURE OF IVORY MERCHANT BANK

1.0 INSTITUTION'S BACKGROUND

Ivory Merchant Bank was promoted by a group of investors including a banker who after the grant of banking licence became the pioneer Managing Director. The bank was a privately owned financial institution established by 35 shareholders. It was licenced in 1988 and commenced operations in April 1989. By 1991, the number of shareholders increased to 37 and 40 by 1993.The bank had its Head Office in Victoria Island Lagos and a branch at Aba. It started operating a branch in Abuja in 1994 without obtaining requisite approval from the Central Bank of Nigeria (CBN) and another branch in Onitsha.

The bank was engulfed in shareholder and Board-room controversies during its short life span. The controversies which were not effectively resolved till the bank collapses in 1995 generated adverse publicity for it. The Board exhibited self-serving disposition and was more interested in benefits accruable to them as Board members. The Managing Director took advantage of the Board's weak oversight to engage in unethical practices which contributed to the bank's collapse as presented in the next section.

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

2.0 OVERVIEW OF BANK PERFORMANCE

The review of the bank's performance in its relatively short lifespan would be based on CAMEL (Capital Adequacy, Asset Quality, Management, Earnings and Liquidity) parameters. The review presented below shows that the bank was headed for trouble early in its life.

2.1 Board and Management

The Board comprised 5members from inception until October 1992 when its membership was increased to 8 to placate feuding shareholders. The quorum for Board meetings was put at 2 but was later increased to 5. However, the CBN directed that the quorum for Board meetings should be two-thirds of the membership rather than a fixed number.

The Board was very docile and failed woefully in discharging its functions of watchdog of management. The lack-luster performance could be attributed to lack of technical competence and self-serving disposition of members. A synopsis of the Board's short-comings is provided below:

i. Failure to institute a framework of checks and balances. The bank's operations were left to the whims and caprices of the Managing Director (MD) according to CBN/NDIC Examination Report of 30th September 1993. The bank's credit policy was ambiguous as the MD's approval limits were based on maturity or tenor of credit facilities which could not be easily monitored. The credit approval matrix of the bank is presented below:

Table 1. Schedule of Approval Limits in Ivory Merchant Bank

Tenure (month)	Amt. N' Mill	Type	Approval	
≤ 6	≤5	BA& CP	MD	
6 – 12	≤5	Secured credits	MD	
≤12 ≥12	≤5 3	Credits Credits	MD	
≥12	>3 >5	Credits Credits	Board Credit Committee	

The MD could delegate his credit approval authorityup to ₦1million. However, he failed to respect above approval matrix.

ii. The Board members were granted credit facilities on preferential terms. They were granted mortgage loans of 35years tenor at 9% interest at a

time the bank was mobilizing funds from the market at rates ranging from 60 – 150% for short tenor of less than 180 days. Despite making the facility an entitlement for every director, most of facilities extended to the directors were not performing. The CBN/NDIC Special Examination report as of 30th September 1993 put loans to directors at ₦46.5million (6.29% of total loans) while loans to other shareholders amounted to ₦88.95million (12.05% of total loans). Virtually all the loans to other shareholders were delinquent as ₦88.81million (or 99.83%) was non-performing.

iii. The directors increased their emolument sharply between 1991 and 1993 despite the precarious condition of the bank as shown below:

	1991	1992	Sept 1993
Board members	5	8	8
Sitting Allowance (NM)	52	476 (835%)	396
Director's Fees (NM)	30	301.6	NYD
Others (Allowances) (NM)	202.5	1,273.5	NYD
Total Package (NM)	283.5	2,052 (624%)	NYD

NYD= *Not Yet Determined. (Source: CBN/NDIC Joint Special Examination Report of 30/9/93 page 9).*

iii. Directors and shareholders were granted 50% interest waiver on their debts that had been classified lost without CBN approval and in violation of the provisions of BOFIA.

iv. Non-executive directors held on to their cars which should have been returned to the bank. Similarly, the former MD after resignation, held on to his car and generating set to which he was no longer entitled even though he remained a non-executive director. Furthermoreby 1993 Board members who had not been assigned vehicles since 1989 were paid ₦500,000 each in lieu of unassigned vehicles. The CBN Examiners' recommendation in 1994 that bank assets such as cars and generators in possession of non-executive directors be retrieved was ignored.

v. Fraud cases were not considered to be of utmost importance by the Boardas they were usually deferred at Board meetings even though they were rampant. The Board failed to appreciate the need for probity and integrity and instill discipline in the workforce. Consequently, bank staff were enriching themselves by manipulating rates in foreign exchange interbank transactions while cheques issued in favour of customers were diverted to companies in which officers of the bank were directors.

vi. The Board never reviewed the credit portfolio of the bank to ascertain critical issues such as degree of delinquency, credit concentration, capital erosion due to loan loss provisioning and debt recovery. Consequently, it was unaware of the huge volume of unauthorized facilities granted nor of those in excess of approved limits. Given that facilities extended to board members were delinquent, their cavalier attitude was not asurprise.

vii.The Board did not appreciate the need for accountability and compliance with applicable laws. Hence, it did not show concern for the late publication of the bank's audited accounts. Since 1991, the audited Annual Report and Accounts due for publication not later than April of the succeeding year as stipulated in BOFIA, were usually ready in November (that is seven months late). The major cause of delay was because the external auditors were not satisfied with adequacy of provisions for loan losses.

Given the monumental compromise of their positions as Board members, the Board could not hold the management accountable to it. The management therefore engaged in unwholesome practices as summarized below:

i. The organizational structure presented to CBN by the management differed from what was always presented to the Board which did not reflect the actual structure in operation. The one in use had only a Deputy General Manager (DGM) at the top echelon next to the MD. The DGM and all other unit heads reported to the MD. The management set-up was more like an empire where the MD, through his wide span of control, held sway while the Board took the position of acrippled

onlooker. Indeed, the MD operated as a Sole Administrator. The management structure enabled the perpetration of unethical practices.

ii. The management information system and financial reporting was fraught with deliberate misrepresentation of transactions and unreliable. The prudential returns to the regulatory authorities did not reflect the true financial condition of the bank. For instance, the loan portfolio was understated by ₦335.61million as at 30th September 1993. The bank reported a total amount of ₦402.48million as against an exposure of ₦738.09million in its books. Similarly, crystallized facilities under ADB Export Stimulation Loans (ADB/ESL) and NEXIM's Rediscounting and Refinancing Facilities (RRF) were not recognized as loans as at 30th September 1993 but were carried in suspense as Account Receivables for over 2years. Furthermore, crystallized overdrafts and syndicated facilities worth ₦102.14million which had matured for more than 2years were restructured into commercial papers (CPs) to hide delinquency.

iii. There was no coordination between the Accounts Department and other departments which resulted in differences in the accounting information presented by various departments. Interbank takings presented a graphic illustration of such differences. While the Accounts Department recorded ₦5million in favour of Intercontinental Bank, Treasury Department had a nil balance. Furthermore, while Treasury Department had ₦5million each in favour of Trans-International Bank and Pan African Bank, Account Department had nil balances for both banks.

iv. Reconciliation of accounts was not done monthly. As a result many accounts harboured long-outstanding items as illustrated below:

- CBN Account had un-reconciled items dating back to 1989.
- Correspondent Bank Accounts had un-reconciled items dating back to 1989.

- Inter-branch Account had un-reconciled transactions outstanding for over 30months.
- Cash Advance Account carried unretired advances of over 12months.

v. Basic internal controls were lacking in the bank's operations. Call over of transactions was not done regularly for timely detection of posting errors. For example, placement from banks and customers investment in Capital Appreciation Note (CAN) had debit balances while Staff Loans and Local Cash Accounts had credit balances as at 30th September 1993.

vi. Of particular concern was the ineffectiveness of Inspection Department established as far back as 1990 as reflected by the following lapses:

- There was no inspection of key areas of operation since the department was created. As of September 1993, the department had only two (2) staff which was grossly inadequate for its responsibility.
- Fraud was pervasive in the bank. Managers and Assistant General Managers approved loans at will while export proceeds were freely diverted without management approval.
- Bank staff were enriching themselves by manipulating rates in foreign exchange transactions while cheques issued in favour of customers were diverted to companies in which they had interest.

vii. Sadly, it was the MD that set the tone for unethical practices that pervaded the bank. Apart from his reckless extension of credit, other unwholesome practices involving him include the following:

a. A company was incorporated in 1991 as a trading arm of the bank under the MD's supervision. Though CBN declared thearrangement illegal, some transactions were executed by the company. For example, Form M and letter of credit valued ₦14,943,424 were processed for importation of stockfish head.The invoice of actual goods inspected and received was ₦7,471,712. The amount debited to the company's account was ₦12,160,000.

As at 31st December 1993, a debit balance of ₦7,649,408.27 was outstanding on the company's account.

b. Another company was incorporated by the MD. The company which was a shareholder of the bank was operated by the MD and his spouse and used for acts of insider abuse in the bank.
c. An investment company secured a bank guarantee approved by the MD. Subsequently, the guarantee crystallized and bank was obliged to settle the related facility.

The combined effect of the Board's self-dealing and fraudulent management resulted in the bank's illiquidity, huge portfolio of non-performing assets and insolvency which led to the imposition of Holding Action by the CBN in 1993 aimed at fostering self-restructuring. The erstwhile MD (Mr. Mbagwu) hurriedly resigned and left without handing over to any staff. An Interim Management Committee (IMC) was constituted by the Board to replace him. The IMC comprised:

- An Associate
- Three (3) Board members
- DGM Corporate Banking (the highest officer left in the bank)

The main objectives of the initiative was to prepare (i). A Turn-Around Programme and (ii) a Blue Print for restructuring and refinancing the bank. According to CBN Examination report as at 31st July 1994, the bank engaged twenty three (23) new staff including a new Managing Director between January and July 1994, while twenty one (21) staff exited the bank. However, this initiative could not reverse the bank's journey to failure as further under-scored in the sections that follows.

2.2. Asset Quality

The credit portfolio grew from ₦111million in 1991 to ₦738million, ₦774.6million and ₦919.3million in 1993, 1994 and 1995 respectively. The structure of credit portfolio as at 31st July 1995 is as prescribed in the Table below:

Table 2. Ivory Merchant Bank's Credit Profile

Credit Type	%	Amount =N=
ADB/ESL	60.21	553,524,522
Export Financing	11.25	103,455,612
Directors' Mortgage Loan	1.20	11,001,350
Shareholders/Directors Related	5.03	46,212,319
Government Loans	3.60	33,134,418
Ex-staff Loans	0.17	1,561,093
Current staff Loan	0.03	319,557
Other Commercial Loans	18.51	170,135,370
TOTAL	**100.00**	**919,282,972**

(*Source: NDIC Target Examination Report of 31/7/95 page 10)*

The bank's credit administration machinery was in disarray right from inception. It contained numerous loopholes that were exploited for unethical and fraudulent practices.

The pioneer MD engaged in reckless lending without restraint. He and the then AGM (Corporate Banking) granted credits well above their approval limits. Many of credits were not brought to the notice of the Board as required by the bank's Credit Policy. As at 30th September 1993, unauthorized lending by the MD stood at ₦595.3million or 81% of total credits and accounted for ₦543.8million or 91% of provisions the bank was required to make. Expectedly, non-performing loans increased from ₦8.55million to ₦595.68million respectively over the period. By 31st July 1995, credits valued N908million (that is 99%) out of ₦919million were classified lost while 25% of the obligors/accounts accounted for ₦870million of the total credits (that is 95%). The bank with 99% of its credit portfolio classified lost had failed beyond resuscitation unless a massive capital injection was effected. How did the bank get to this stage?

The numerous factors that rendered the credit portfolio worthless as a balance sheet item are presented in this segment. The credit process lacked risk acceptance criteria and risk analysis. Table 2 above on the bank's credit profile revealed that ADB/ESL facilities and export financing accounted for 71.45% of total credits. Readers may wish to note that ADB/ESL facilities are foreign-currency denominated funds provided multilateral financial institutions for short-term lending to export-oriented

customers, the repayments of which are due from sales in foreign exchange. Meanwhile, the bank deployed the facilities long-term for purchase of machinery. There was no evidence that export ever took place. Customers abandoned the facilities and machines. Some of the delinquent customers were further refinanced with RRF secured by the bank from Nigeria Export-Import Bank (NEXIM). As the facilities fell due the bank's account was debited by CBN based on Promissory Notes issued to the tune of ₦289.43million. The bank's exposure to CBN was further increased by additional funding from NEXIM's RRF.

With regard to Local Purchase Order (LPO) financing and import financing, most of the projects financed were uncompleted and could not generate cash flows to meet repayment obligations. Even the borrowers that generated proceeds, diverted the funds due to lack of monitoring by the bank. In some cases, products supplied did not meet agreed specifications and customers got stuck.

In respect of import financing, several L/Cs were established without cash cover contrary to standard practice. The bank utilized depositors' fund to bid for foreign exchange for its import customers which resulted in crystallized exposure of over ₦300million to such customers as at 30th September 1993. Most of the LC customers did not bother to take possession of the goods imported on their behalf because they already made profit from the overstated value of the proforma invoices presented to the bank. The goods were usually cleared and warehoused by the bank and eventually sold at huge losses. There were occasions when such sales triggered law suits against the bank. For example, a company bought crumb rubber processing machines originally imported for another company. The original importer refused to take possession and the bank sold to the former company which later alleged that the machines were scraps.

Warehouse Warrant Facilities (WWF) under which goods pledged as collaterals were sold by customers without the knowledge or consent of the bank were noted. A case in point was a company in favour of which an AGM endorsed the shipping documents relating to the importation of

cement without close monitoring of the goods when cleared. The customer sold the goods without making payment to the bank. The bank's management later claimed ignorance of the clearing of the goods. Another case was that of a company in favour of which an officer of the bank altered the LC of fishing trawlers being imported from "new" to "used vessels " at the request of the customer. Eventually, ten-year old vessels were imported. It took the vessels 2years to sail to Nigeria and after being used for just 1 year, they were abandoned. Furthermore, there were other companies alleged to have fraudulently removed bonded goods from bank-controlled warehouses without the knowledge of the bank. The ease with which customers defrauded the bank could only have been possible with the active connivance of bank staff. The bank was also a victim of debt-repayment default by the a State Government.The bank had a credit exposure of ₦30.65million to PLSG in respect of which an Irrevocable Standing Payments Order (ISPO) was executed between the State Government, CBN and the bank for a monthly deduction of ₦1.8million from the state's statutory allocations with effect from September 1992 to defray the debt over a period of 30months. But in February 1994, the State Government issued a STOP ORDER to CBN contrary to the tripartite agreement thus leaving and unpaid balance of ₦13.2million.

Other factors which led to the huge volume of delinquent credits included:

- Grant of facilities to customers not well-known to the bank
- Spurious appraisal of credit proposals to justify lending.
- Absence of independent confirmation of information provided by potential and existing borrowers.
- Disbursement of loans without fulfillment of conditions precedent to drawdown.
- Absence of a credit control unit to enforce draw down conditions.
- Non-perfection of title documents to secure credit exposure.

In addition, maturity mismatch was a constant feature of the bank's credit administration. For example, credit profile to deposit liability as presented in Table 3 under Liquidity Profile shows that short-term funds had been utilized to create medium term credits. There was excessive reliance on

interbank funds of less than 90days which accounted for 54.5% of deposit liability to sustain delinquent credit portfolio. Also the loans to deposit ratio was as high as 166% which was tar in excess of the prescribed ratio of 70% by CBN. The credit portfolio structure with ₦565.4million (or 76.6%) in short term credits violated the 1993 CBN Monetary Policy Guidelines which stipulated that credits of short term nature by merchant banks should not exceed 20%.

The combined effect of the aforementioned weaknesses in the credit portfolio was huge provisioning for accumulated losses which eroded the bank's capital. As at 31st September 1993, recommended provision by CBN/NDIC Examiners was₦595.7million but by 31st July 1994, provision for losses had increased to ₦781.2million against a nominal capital of ₦45million. By 31st July 1995, credit portfolio of ₦919million were classified lost. It was therefore, beyond any doubt that the bank had failed beyond resuscitation.

2.2 Liquidity Profile

The bank's deposit liability which stood at ₦445,338,096 in 1993 reduced to ₦403.7million by July 31st 1994. But the bank relied heavily on volatile interbank deposits which accounted for 56%, 63%, 75% and 55% of total deposit liabilities in 1990,1991, 1992 and 1993 respectively. Viewed against a delinquent credit portfolio as highlighted above, liquidity crisis was inevitable. Reliance on volatile deposits for a bank's operations is imprudent. In particular, interbank funds are susceptible to market shocks. Table 3 below showing deposit base for 1993 graphically illustrates the bank's fragility.

TABLE 3: - IVORY MERCHANY BANK

MATURITY PROFILE OF LOAN PORTFOLIO AND DEPOSIT LIABILITY AS 30TH SEPEMBER 1993

LOAN PORTFOLIO **DEPOSIT LIABILITY**

Tenor	Amount N' million	%	Type	Amount (Naira)	%
1-3 Months	72,902	9.88	Demand	22,740,785	5.1
3- 6 Months	134,644	18.24	Interbank	242,733,626	54.5
6 – 12 Months	357,862	48.48	Time/Term	179,863,685	40.4
Over 12 Months	172,685	23.40	-----	-----	____
TOTAL	738,093	100.00		445,338,096	100

Source: Joint CBN/NDIC, Special Examination Report as at 30th September 1993.

Only ₦25.8million out of the so-called Time/Term deposits of ₦179.8million had more than 90days tenor which implied that ₦429.6million (96.5%) had less than 90days tenor. It was therefore, no surprise that in April 1993, the bank informed CBN of its inability to honour its interbank obligations and requested for a refund of its holding of Stabilization Securities. In response ₦92million was released by CBN. The bank was in deep liquidity crisis to the extent that the management issued dud cheques to some aggrieved depositors while some depositors instituted winding-up petitions in Court against the bank.

2.4 Capital Adequacy

The bank's ₦45million paid up capital had been completely eroded by accumulated operational losses; and there was need to raise the Authorised Capital from ₦50million to at least ₦200million by 1993. The shareholders' Funds as at 31/12/92 were negative to the tune of ₦548million.

It deteriorated further by 88.62million by 31/12/93. At the same time, its Adjusted Capital was 1:15.66 as against 1:10. Capital Adequacy ratio was negative. Based on these computations, there was need to inject additional capital of ₦774,485,483 in the bank. The need for additional injection eventually grew to ₦995.9million by December 1993. The Capital Adequacy ratio was also (5.5%) as against the prescribed minimum of 8%.

2.5 Earnings Performance

The bank's earnings trend from 1990 to 1993 September is presented in Table 4 below:

Table 4: Income & Expenditure of Ivory Merchant Bank Limited for 1990 - 1993

N'000	1990	1991	1992	1993*
INTEREST INCOME	95,112	83,087	173,389	299,881
INTEREST EXPENSE	73,306	73,514	162,225	305,037
NET INTEREST INCOME	21,806	9,573	11,164	-5,156
PROVISION FOR LOSSES	4,256	14,149	-----	-----
	17,550	**-4,576**	**11,164**	-5,156
OPERATING INCOME	22,661	35,377	26,081	37,236
OPERATING EXPENSE	20,076	25,669	31,290	33,787
PROFIT BEFORE TAX	**20,135**	**5,132**	**5,955**	**-1,707**
TAX	3,174	1,008	-----	------
PROFIT AFTER TAX	**16,961**	**4,124**	**5,955**	**-1,707**

1990 & 1991: published Accounts, 1992: Draft Accounts

1993:Management Accounts*

Source:CBN/NDIC Special Examination report 30.9/93 Table IV

On performance profile, the following could be deducted:

Income:

i. The bank's total annual income was unstable and unpredictable.
ii. Its Interest Income accounted for 66 – 87% of Total Income
iii. The fees and Commission earned accounted for 15 – 24% of its Total Income.

Expenditure:

i. Interest Expense/Interest Income was worrisome, rising from 102% in 1993 to 330% by 31/7/94. This means cost of sourcing funds far outstripped income generated.
ii. Charges on overdrawn CBN account were ₦90.9million or 22% and ₦33.1million or 34.1% of its 1993 and 1994 Total Interest expense.
iii. Purported Profit Before Tax maintained a declining trend which eventually led to the bank's terminal distress. Given the continuous roll-over and repackaging of hardcore debts to hide delinquency and the under-provisioning for loan losses highlighted under analysis of asset quality in sub-section 2.2 above, the income generated was grossly exaggerated. Indeed, the bank undoubtedly sustained huge losses from 1992 until the revocation of its licence. In the circumstance, Table 4 did not reflect the true financial of the bank.

3.0 CORE REASONS FOR FAILURE

The core reasons for the bank's failure were largely endogenous as summarized below:

3.1 The shareholders and Board lacked the technical competence to superintend over a banking institution. The directors failed to provide strategic direction and formulate policies to guide the bank's operations. They abdicated their responsibility to ensure accountability and prudent management of the bank's resources. Instead they engaged in self-serving practices such as increasing their perquisites at a time the bank was accumulating losses, borrowing on preferential terms and failure to repay the credits extended to them. According to 1993 Joint CBN/NDIC Special Examination report directors held 6.29% while other shareholders held 12.05% of the total loan portfolio. Some shareholders had abandoned their credit

facilities while some directors serviced theirs once in two years from sitting allowances due to them from the bank. The Board failed to appreciate the negative impact of frauds on earnings and capital adequacy hence, reports on frauds perpetrated against the bank which should be accorded priority were being deferred at Board meetings therebyfailing to promote discipline in the workforce. As a result, the self-dealing practices of the Board and its lethargy to pervasive frauds by employees and customers contributed to the bank's failure.

3.2 Management ineptitude and its fraudulent practices set the bank on the journey to its failure. Apart from presenting different organizational structures to CBN and the Board from the one used for managing the bank, the management structure in use concentrated power on the MD to whom all the departmental and unit heads reported directly. The structure epitomized an empire over which the MD held sway. The structure lacked mechanism for checks and balances.Hence, the MD exercised enormous powers which enabled him to grant credits above his authorized limits without restraint and 87.7% of which became delinquent and greatly contributed to the bank's operational losses. Risk management was completely absent which manifested in concentration of credits in export financing and excessive reliance on the interbank market for funding.The management resorted to window-dressing of the bank's financial condition by understating the credit portfolio, repackaging crystallized exposures as commercial papers and putting crystallized ADB/ESL facilities in Accounts Receivable (a suspense account) for more than two years in order to evade provisioning. Furthermore, staff at various levels engaged in fraudulent practices such as guarantee issued by the MD in favour of an investment company that crystallized against the bank while employees engaged in manipulation of rates in foreign exchange transactions and diversion of cheques issued in favour of customers to companies in which they had interest in order to enrich themselves. These unwholesome practices

denied the bank of its legitimate income as well as warranting provisioning which resulted in operational losses. There was no way the bank could survive given the intensity of the assault on its resources by management and staff.

3.3 The absence of internal control contributed to the bank's failure. The Inspection Department was understaffed and lacked the capacity to review activities in key operational areas. As a result imprudent and unethical practices were pervasive. Record-keeping was unreliable due to wrong postings and absence of call-over of transactions while various accounts such as Inter branch, Foreign Correspondent Banks, CBN were not only un-reconciled but harboured long outstanding items dating back to 1989. Differences in accounts kept by various departments abound. The absence of internal control provided a conducive environment for brazen unauthorized lending and other fraudulent practices all of which contributed to the bank's accumulated losses and its eventual demise.

3.4 Credit Administration was designed to plunder the bank's resources. Apart from the ambiguous approval matrix given to the MD, the Credit Policy lacked clearly articulated risk acceptance criteria thereby providing a fertile ground for abusive practices. The MD set the tone for reckless lending and other staff joined the fray. For example, the 1993 CBN/NDIC Joint Examination report put unauthorized lending by the MD at ₦595million or 81% of the total credit of the bank. His approved credits warranted ₦544million provision or 81% of total provisions required of the bank as at the same date. The management's ineptitude manifested in credit concentration with export sector alone accounting for 71% of total credits according to NDIC's Target Examination as at 31st July 1995. Worse still, heavy reliance was placed on short-tenored and volatile interbank fundswhich accounted for as much as 75% and 55% of deposit liabilities in 1992 and 1993 respectively. These short-term (90days) funds were utilized to grant credits of longer tenor thereby creating maturity mismatch and severe

liquidity crisis. The crisis induced distress borrowing as a result of which interest expense far outstripped interest income. The combined effect was accumulation of losses, erosion of capital and insolvency.

3.5 The turn-around of the illiquid and insolvent bank required massive injection of funds for which the shareholders lacked financial capacity neither did the bank have the franchise value to attract new investors. On the contrary, the shareholders had withdrawn multiples of their capital subscription through credit facilities granted to them that were later abandoned. It is clear per adventure that they had no interest in the survival of the bank.

4.0. REGULATORY INTERVENTION

Regulatory intervention in the bank started with the imposition of Holding Action in November 1993. Essentially, Holding Action entailed self-restructuring through implementationof measures which include strengthening or change of management, capital injection, aggressive debt recovery, branch/staff rationalization and cost control. The Board had failed to faithfully implement the prescriptive measures embedded in the Holding Action hence the bank's condition deteriorated further. Given the unabated deteriorationof the bank's condition, the CBN, in exercise of its intervention powers under BOFIA removed the Board and Management of the bank in September 1995 and appointed an Interim Management Board (IMB) to superintend over the affairs of the bank. The IMB's mandate comprise debt recovery, cost control, marketing the bank to new investors and documenting financial malpractices that led to terminal distress. Given the reckless manner in which credit was administered, the IMB could not achieve much by way debt recovery. However, it documented financial malpractices discernible from the bank's record and submitted same to NDIC. On receipt, NDIC forwarded same to the Failed Bank's Inquiry Unit of the Nigeria Police Force for further investigation. Upon conclusion of investigation the erstwhile Chairman and erstwhile Managing Director were prosecuted at the Failed Bank's Tribunal for financial malpractices.

5.0 FAILURE RESOLUTION

In the absence of massive capital injection by the shareholders or new investors, to facilitate a turn-around of the bank, its liquidation became inevitable. It should also be noted that the Federal Government policy at that time was that public funds should not be used to bail out banks thereby foreclosing capital injection as an option available to the Regulatory Authorities, In the circumstance, the bank's licence was revoked by CBN on 16th January 1998 along with those of 25 other banks.

Pursuant to revocation of licence, NDIC was appointed Liquidator of the bank by the Federal High Court which equally granted NDIC's application to wind-up the bank. As liquidator NDIC adopted depositor reimbursement which entailed realization of the failed bank's assets and application of the proceeds to pay depositors based on the priority of claims stipulated in BOFIA. A summary of the liquidator's performance as at 31st December 2012 according to NDIC's 2012 Annual Report and Statement of Accounts is provided below:

Total Credits at closure	N1,491.37million
Cummulative Debts Recovered	N57.36million
Disposal of Physical Assets and Chattels	N46.08million
Total Deposits Paid	N35.89million

The above data revealed that only 4.1% of the credit portfolio had been recovered over a period of 14years. This is an eloquent testimony to the degree of recklessness in lending by the bank's Board and management during its existence.

6.0. LESSONS LEARNT AND CONCLUSION

The failure of Ivory Merchant Bank provides some useful lessons to stakeholders ranging from policy makers, regulators, bank management to academics as summarized below.

6.1. Leaving a banking institution to an incompetent, self-serving and clueless Board of directors to oversee a fraudulent management is recipe for failure. The bank's Board abdicated its responsibilities to the Managing Director (MD) and relished in self-dealing while the MD exploited the situation to execute his per-determined fraudulent intent as manifested in presentation of different management structures to the CBN and Board while implementing the one that suited his game-plan. Thereafter, the MD embarked on reckless lending which generated huge provision and operational losses that led to insolvency.

6.2. Sound management, adequate capital and effective risk management are critical success factors for a bank's viability. All the three were non-existent in Ivory Merchant Bank. The combined effect of their absence was dissipation of resources till the bank collapsed.

6.3 The levying of penal interest rates on overdrawn accounts of illiquid banks by CBN had the unintended consequence of aggravating their liquidity problems thus expediting their journey to failure.This was the case with Ivory Merchant Bank. The lesson is for regulators to apply sanctions targeted at imprudent managers (such as removal from office) rather the institutions.

6.4. Contractual agreements should make it mandatory that all parties must honour their obligations under such agreements. The STOP ORDER issued by the State Government was a breach of the tripartite agreement to repay its debts through monthly deductions from its statutory allocations as covered by its Irrevocable Standing Payment Order. The CBN should have ignored the STOP ORDER, Similarly, banks participating in on-lending of foreign-currency denominated facility such as ADB/ESL should ensure that their CBN accounts are adequately funded to absorb maturing obligations.

They should not seek refuge in automatic debit of their accounts whether funded or not by CBN based on Promissory Notes earlier issued by them thus turning CBN into a lender by default.

Indeed, CBN found itself providing unsolicited facilities until its exposure to distressed banks became worrisome and had to stop debiting unfunded accounts.

6.5. There should be prompt intervention in failing banks. Ivory Merchant Bank's case required drastic failure-resolution actions as far back as 1992 given the extent of reckless mismanagement but its Board and management were not removed until 1995.

In conclusion, the Ivory Merchant Bank's case study presents a classic example of how not to run a bank. The Board and management brazenly violated all the known principles of corporate governance and prudent banking practices which include but are not limited to transparency, probity, accountability, focused leadership, strategic direction, succession planning, delegation of authorities, risk management and long-term viability. The bank was saddled with a plunderer who willfully set it on the path to failure and eventually it failed.

REFERENCES

CBN - Routine Examination Report of Ivory Merchant Bank as at 31st July 1994

CBN/NDIC - Joint CBN/NDIC Special Examination Report of Ivory Merchant Bank as at 30th September 1993

NDIC - Target Examination Report of Ivory Merchant Bank as at 31st July 1995

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