

THE FAILURE OF GROUP MERCHANT BANK LIMITED:

1.0 INTRODUCTION

1.1 Corporate Profile

Group Merchant Bank (GMB) Limited was incorporated in 1990 and as the name suggest, it commenced merchant banking business in the same year. It started with the paid-up share capital of ₦12 million subscribed 100% by private Nigerian shareholders. By 1991, the paid-up share capital increased to ₦42 million and it remained at that till its licence was revoked on 16th January, 1998. The first Board was composed of seven members made up of six non-executive directors and one executive director who was the Managing Director/Chief Executive Officer (MD/CEO). The Board members reduced to six in 1993 following the resignation of an erstwhile director. The Board was reconstituted to have four non-executive directors and two executive directors with the exit of another three pioneer directors (2 non executive directors and MD/CEO). That was the composition of the Board until the bank was taken over by the CBN on 15th September, 1995.

GMB operated from one branch and its Head Office at 9, Oba Adeyinka Avenue, Ikoyi. The staff strength before it was taken over stood at 76.

1.2 Objectives of the Study

The need to gather, collate and analyse the financial condition, underpinning causes of failure, supervisory measures and resolution method adopted to resolve the failed GMB is a cardinal objective of this study. The cost implication of the failure of GMB on Nigeria Deposit Insurance Corporation (NDIC) and other stakeholders also to constitutes another important objective of the study. The study is also expected to provide an authoritative and valuable compendium of all that transpired before and at the point of failure for the use of current and future policy makers, operators, researchers and members of the public. Key lessons and learning points are to be brought out to inform future actions and decisions. The eventual publication of the study will boost the image of CBN and NDIC as responsible and responsive corporate bodies that are documenting and making the public to be aware of their activities. Making the study available to the public is also to provoke debate on the issues and for suggestions to be proffered for future consideration on addressing cases of failed banks. Members of the public on reading the case study will be convinced that the Regulatory Authorities in Nigeria are using international best practice in the discharge of their mandates.

1.3 Scope and Methodology

The study covers the period of commencement of GMB in 1990 to its exit on 16th January, 1998. Where appropriate and where the data is available, we provided an update on post-closing activities. The published accounts in 1991 and 1992 and other available information

from CBN and NDIC were gathered and used to review the financials. Information from CBN and NDIC and other sources were analysed to deduce the causes of failure, supervisory measures and the resolution method adopted for GMB. The Study Team engaged in retreats to map out strategy for the study; source and share materials; and draft, review and edit the report.

1.4 Study Limitation

No doubt, the greatest limitation to this study is the paucity of information which we think is necessary for an exhaustive review. We could not locate the balance sheets and management accounts as at 30th September for years 1993, 1994, and 1995. The maiden examination report and other routine examination reports that followed were not available to us. The closing report of GMB was also not available to the Study Team. The Study Team only relied on Target Examination on Credit as at 30th June, 1995 and the Report on Routine Examination of the Foreign Exchange Operations from 1st August, 1993 to 30th November, 1995 as provided by NDIC.

The Study Team had gathered additional information from other sources and was able to come up with the findings in this report. We are convinced that the report can easily be updated and enriched if some of the critical information is eventually made available.

2.0 FINANCIAL REVIEW

The audited accounts for the first two years, 1991 and 1992 indicated a well capitalized bank with high liquid assets, but low credit portfolio. However, by June 1995 virtually all the liquid assets had been wiped out with the loan portfolio exploding beyond the capacity of the bank, most of which were delinquent. Between 1991 and 1992, total loans grew by mere 7.67% from ₦47.99 million to ₦51.67 million (see Table 10). Total loans which ordinarily should account for more than 50% of total assets accounted for only 11.98% in 1991 and 8.88% in 1992 (see Table 12). Within a period of less than three years, precisely by June 1995, it had risen by a whopping 1187.94% to ₦665.49 million and accounted for 79.53% of total assets.

It was observed that deposits actually declined from ₦435.47 million in 1992 to ₦415.21 million in 1995. What accounted for the massive increase in loans therefore was partly a change from the hitherto conservative lending posture to a lending spree environment without growing the deposit base. Another plausible reason could be a change from the plundering through foreign exchange (forex) malpractices especially as the CBN had discovered massive and fraudulent forex transactions in GMB in September, 1994. Yet another factor could be the hiding of several loans under other assets that were eventually booked as loans. In fact the bank had overdrawn many of its accounts with other correspondent banks in Nigeria and the Central Bank of Nigeria (CBN) to the tune of ₦118.68 million in 1995 to partly finance loans (see **Table 10**). Shockingly, provision for loan losses at ₦543.59 million represented 81.68% of total loans.

It should be noted that most of these loans were insider-related. Apparently, members of the Board descended on the deposits, threw caution to the winds and helped themselves. By June 1995, insider-related loans stood at N517.22 million or 77.72% of total loans (see Table 12). It was noted that all the insider-related loans were non-performing.

As the directors focused mainly on plundering the bank, making little effort to grow it, the bank soon ran into acute liquidity problems. From a robust liquidity ratio of 90.05% in 1991 and 101.66% in 1992, it declined to a paltry 5.43% in June 1995 (see Table 12). The ratio of total loans to total deposits (LD ratio) also followed the same trend from 17.19% in 1991 and 11.87% in 1992 to 160.28% in June 1995. The illiquidity of the bank had scared many prospective depositors as existing ones battled to recover their money.

Prior to the change from moderate and less risky practice by the bank in its first two years to a regime of total disregard for internal controls and best practices by the Board, operating expense remained modest at between 34.64% and 30.48% of total expenses (see Table 11). More important was the fact that provision for loan losses represented only 1.88% and 0.45% of total loans. The bank was therefore able to grow its profits before tax from N12.52 million to N28.17 million or 124.94% between 1991 and 1992. With these performances, contribution to capital by way of transfers to general reserves partly explained the increase in shareholders fund from N17.06 million in 1991 to N60.06 million in 1992. The PBT to shareholders fund or return on capital (ROC) was robust at 73.42% and 46.91% in 1991 and 1992 respectively. Correspondingly return on assets (ROA) as measured by PBT to total assets was impressive at 3.13% in 1991 and 4.84% in 1992.

It was a complete turn of events for the worse in June 1995 as the shareholders funds plummeted to negative N638.62 million. With the capital adequacy ratio (CAR) of negative 254.87%, the shareholders were required to inject additional capital of N648.51 million given the volume and character of the bank's business as at 30th June, 1995.

It was evident that the Regulatory Authorities were no longer convinced that the erstwhile Board members could remain in that capacity as there was no effort on their part to inject additional capital and/or pursue debt recovery with vigour. The Regulatory Authorities then shifted focus to debt recovery and prosecution of the affected Board members for various malpractices.

3.0 MAJOR DETERMINANTS OF FAILURE OF GMB

3.1 ERROR IN APPROVING SOME BOARD MEMBERS

The validity of the criteria used to approve a prospective bank director is determined by the effectiveness of the director on the Board and ultimately by the successes achieved by the bank. Given the benefits of hindsight, the trio of Duro Emmanuel, Peter Arigbe and D. Odebode ought not to have been approved as directors of the bank; they were not 'fit and proper'. Apparently, the three were major contributors to the failure of United Commercial Bank Ltd

[UCB] (in Liquidation). Unfortunately, UCB had not failed as at the time they were approved to serve on the Board of GMB and therefore the Regulatory Authorities were oblivious of the malpractices that they perpetrated earlier. The efficacy of the process used by Regulators in clearing nominees to serve on the board and management of banks lacked predictive validity. There is also the need for Regulators to frequently scrutinize the continued fitness of serving directors and management to superintend over the affairs of a bank without prejudice to the routine examination being conducted. In that regard, supervisors should:

- i) Judiciously use all available information on prospective promoters and directors, using validated predictors that discriminates nominees;
- ii) Avoid relying on personal knowledge and relationship in approving prospective directors;
- iii) Beef up National Identification data base;
- iv) Avoid creating conditions that promote regulatory capture by the so-called industry ‘big players’; “movers and shakers”, et cetera
- v) Using validated criteria for assessing character and integrity of prospective directors and management staff.

3.2 POOR CORPORATE GOVERNANCE

Evidence of failure of corporate governance abound in GMB as would be discussed in the following five subsections:

3.2.1 Non Compliance with Credit Policy & Laws

- i) Deliberate circumvention of the elaborate credit policy approved for the bank culminated in a large provisioning requirement of ₦543.59 million as earlier mentioned. The trio of Duro Emmanuel, Peter Arigbe and D.Odebode precipitated the existence of large insider- related loans which they obtained at below market rates, and which were unsecured and non- performing. They also did not declare their interests in the outstanding facilities. This they did in violation of Section 18(1)(2) and (3) of BOFIA, 1991 as amended. They thus entrenched a culture of illegality which hindered vigorous pursuit of debt recovery and compounded the liquidity position of the bank.
- ii) Repeated poor record keeping/ rendition of false returns particularly in respect of foreign exchange (forex) transactions.
 - (a) Failure to indicate in the relevant registers, the US dollar equivalents of transactions in third currencies.
 - (b) Entries in the invisible trade registers were lumped together.
 - (c) The column for date of payment on the bills for collection register was not being completed.
 - (d) The telex messages registers were not up-dated and several instances of wrong filing of telex messages.
- iii) Non-compliance with laws and regulations on forex documentation
 - (a) Import duty reports and clean reports of findings related to negotiated L/Cs were not available in respective L/C files. Some examples are tabulated hereunder.

| Date L/C Established | L/C Ref.No | Applicant | Amount | Missing Documents |
|----------------------|-------------|-----------------|---------------|-------------------|
| 2/8/93 | 93/077/AMEX | Heleena farms | IFL278,842.75 | CRF &B/L |
| 24/8/93 | 93/081/AMEX | Church gate Nig | \$499,417.00 | CRF |
| 16/9/93 | 93/029/AMEX | Aries Inv. Ltd | \$400,500.00 | IDR |
| 28/2/95 | 95/002/AMEX | Heleena farms | \$7,902.31 | IDR |
| 13/3/95 | 95/003/AMEX | Heleena farms | \$9,192.22 | IDR |

(b) Customs bills of entry relating to some L/Cs were yet to be submitted by the bank's customers after expiration of maximum period of 90 days allowed after negotiation of the L/Cs. The bank failed to render returns on the defaulters to the Trade and Exchange Department of CBN for those customers to be sanctioned in contravention of forex laws, rules and regulations.

(c) Some transactions were not disclosed in returns submitted to the CBN on interbank forex transactions in violation of forex laws, rules and regulations, yet the amounts were taken into account in computing the sources and applications of forex. These included the followings:

| Date of Transaction | Amount \$ | Sold to | Purchased from |
|---------------------|------------|----------------------|----------------|
| 02/8/93 | 200,000.00 | - | Trade Bank Plc |
| 02/8/93 | 150,000.00 | - | Mer. Bank Corp |
| 21/10/93 | 100,000.00 | UBN | - |
| 04/11/93 | 100,000.00 | Nig. Int. M Bank | - |
| 23/11/93 | 36,500.00 | FBN Plc | - |
| 23/11/93 | 100,000.00 | Meridian Equity Bank | - |

Thus, the bank was guilty of rendering false returns to CBN in violation of Sections 24 and 28 of BOFIA, 1991 as amended.

d) Bank was requested by a customer - FOE International Ltd to transfer the amount of \$96,000.00 to Eastern Motor Spare in Japan for settlement of bill for collection REF No. OA/12/93. Out of the amount, the bank remitted \$26,000.00 to a different beneficiary, Stallion Company Limited (a name different from the one indicated in the approved form M).

3.2.2 Foreign Exchange Malpractices

Going by the numerous evidence of lapses and fraudulent foreign exchange (forex) transactions it was obvious that the principal shareholders were attracted to banking to become forex dealers. They threw caution to the wind as they perpetrated various malpractices in forex transactions in alarming proportion as the volume involved was unrelated to its balance sheet footing. Some of the findings in a special investigation carried out by the CBN in September, 1994 were enough evidence to the monumental forex fraud perpetrated in GMB. We have given a summary of two of them here.

- (a) GMB failed to disclose to the CBN interbank purchases and sales of forex totalling \$25,708,157.97 and \$2,901,919.29 between 20th January 1992 and 2nd August 1993 respectively.
- (b) GMB disbursed a whopping sum of \$103,211, 469.13 irregularly, that is, without documentation and for unascertainable purposes, from its Nostro accounts nos. 101575 and 130710 with AMEX London.

In spite of these serious economic and financial crimes perpetrated in GMB as discovered by CBN, the bank was not penalized because of the flimsy excuse that its financial condition was poor. CBN by that action unwittingly emboldened rogue forex traders to continue to flourish in the Nigerian banking system.

3.2.3. Personal and Corporate Greed

a) In January 1992, Mr. Godwin Echegile, Head of Treasury Department was directed by Mr. Disun Odebode, Managing Director to purchase drafts worth N36.3m from Chartered Bank Nig. Ltd in favour of the then UCB Ltd. The drafts were purportedly to be used to pay for additional shares in UCB Ltd acquired by the three directors following statutory increase in the minimum paid-up capital for commercial banks in 1992. Subsequently, a fictitious suspense account was created and debited to offset the credit entry of N36.3 million in favour of UCB Ltd. The following companies in the suspense account, listed as beneficiaries did not maintain any account relationship with GMB Limited as at 30th June, 1995:

| <u>NAME</u> | <u>Amount</u> |
|------------------------------|----------------------|
| <u>(N' M)</u> | |
| (i) SemideNig Ltd | 17.5 |
| (ii) DelgradeAgric Proc. Ltd | 15.2 |
| (iii)Citagroup Air Services | 19.7 |
| (iv)LydioAgned Fishing | 21.8 |
| (v) LaseunImprex Nig. Ltd | 10.9 |
| Total | <u>85.1</u> |

The Regulatory Authorities concluded that the aim behind the creation of the suspense account was to defraud the bank and also avert the accretion of interest on the facilities. The companies were later discovered to be related to the trio.

b) Facilities were granted to these three related companies listed here which were not duly appraised and approved. They were also unsecured and had been classified as non-performing.

| <u>NAME</u> | <u>Amount</u> |
|----------------------------|---------------|
| <u>(N' M)</u> | |
| (i) Pagade Ventures | 53.4 |
| (ii) Pagade Chemicals | 79.8 |
| (iii) Assurance Securities | 30.0 |
| Total | <u>163.2</u> |

c) Red Star Express Ltd was a company connected to Messrs Disun Odebode and Peter Arigbe. The company was paid the sum of N27.99m in September 1995 through a swap deal made between the bank and Chartered Bank Ltd to liquidate the indebtedness of Red Star Express Ltd. This was done in spite of the fact that the account relationship with Chartered Bank Ltd was unreconciled!

i) When nostro accounts were closed in June 1995, the balance on the two FEM accounts were \$220,594.56 Dr and \$46,625.59 Dr. However, the balances on the underlisted export and non-export domiciliary accounts were utilized to reduce the overdrawn balances on the two accounts:

| AMEX A/C NO | TITLE OF ACCOUNT | BALANCE AS AT THE CLOSE OF ACCOUNT ON 27/6/95 |
|-------------|------------------------|---|
| | | \$ |
| 101567 | Interest Account £ | 13,774.19 |
| 101540 | FEM DEM A/C | 348.24 |
| 101591 | Int. Account \$ | 46,249.60 |
| 130192 | Cash collateral A/C DM | 258.93 |
| 130206 | Int. Account DM | 5,573.28 |
| 1220130 | Export proceeds £ | 1,634.60 |

| | | |
|--------|--------------------|------------|
| 122122 | Export proceeds \$ | 199,381.31 |
| | Total | 267,220.15 |

- ii) Interests earned on FEM deposits and credited to the under-listed interest accounts was utilized by the bank to reduce the overdrawn balances in FEM main accounts instead of repatriating the money to CBN as required by regulation.

| Account no | Title of Account | Interest \$ |
|------------|------------------|----------------|
| 101567 | Interest A/C £ | 13,774.19 |
| 101591 | Interest A/c \$ | 46,249.60 |
| 130206 | Interest DM | 5,573.28 |
| | Total | 65,597.07 |

- iii) Total interests earned on L/C cash collateral accounts was \$99,819.03, out of which \$35,609.09 was repatriated to CBN. The balance of \$64,209.94 was utilized to reduce balances on FEM main account no. 0115428.

- iv) The bank disbursed the sum of DM 3,088.90 and £3,589.00 from interest accounts nos. 00130206 and 60101567 with AMEX for settlement of L/C No 93/082 and payment for Kessington Publication respectively instead of repatriating same to CBN.

3.2.4 Insider Abuse

The ratio of insider-related loans to total loans stood at 77.72% all of which were not performing. Insider abuse made it difficult to pursue other debtors, as a culture of wrong doing had been entrenched. It was gratuitous that the former Board passed a resolution to dispose their shares in GMB in partial settlement of their indebtedness. This was at a time when the shareholders fund was negative as at 30th June, 1995. Such a resolution could only have legitimacy after injecting fund to wipe out the shareholders' fund of negative ₦638.62 million and bringing an additional ₦40 million minimum capital required for a merchant bank. The Board in passing the resolution were still in the illusion that they owned the bank when the true owners were the depositors, CBN and other creditors to the extent of the negative shareholders fund.

3.2.5. Poor Loan Quality

Almost all the interest income was suspended due to non-performing loans. The bank made a provision of N543.69 million for bad and doubtful debts. Combined with reduced business activities, mainly due to negative reputation, there was huge fall in income and increase in

accumulated losses. Meanwhile, the bank continued to experience restiveness on the part of depositors due to its illiquidity.

4.0 SUPERVISORY MEASURES

A subtle approach involving moral suasion was initially adopted by the CBN and NDIC to persuade the shareholders of GMB to recapitalize their bank. Apparently, they became lethargic as the Principal Shareholders/Directors seem contented with their loot and no longer interested in recapitalizing the bank.

4.1 Imposition of Holding Actions

The imposition of Holding Actions on GMB was the next measure. The aims of the Holding Actions were to propel the distressed GMB to undertake self restructuring measures to arrest further deterioration in its financial condition. In December, 1994, the Holding Actions were imposed, which required GMB to do the following:

- (i) to stop further advertisement for deposits without prior consent of the CBN;
- (ii) not to grant further loans and advances until the Regulatory Authorities were satisfied with the bank's liquidity position;
- (iii) to take necessary steps to ensure adequate internal control measures to safeguard its books, records and assets;
- (iv) to inject additional capital fund;
- (v) to engage in aggressive debt recovery drive;
- (vi) to take steps to perfect all collateral securities pledged for loans and advances and keep same in protective custody;
- (vii) to segregate all dormant accounts within a specified time limit;
- (viii) not to embark on new capital projects without prior consent of the CBN; and;
- (ix) to embark upon possible rationalization of staff and branches if considered necessary as a measure of cost saving and restoration of viability.

The Board and management was required to furnish the CBN and NDIC within 30 days of the receipt of the Holding Actions, its detailed strategic plan for the revitalization and effective management of GMB. Such a turnaround plan was expected to be credible and to include proposals for debt recovery, rationalization of cost and staff, injection of additional capital, training, et cetera. For the purpose of monitoring compliance with the Holding Actions, the bank was required to render to the CBN and NDIC monthly returns in the following format provided:

- i. Debt recovery;
- ii. New loans and leases;
- iii. Statement of non-performing and negotiated loans and advances;
- iv. Maturity profiles of assets and liabilities;
- v. Cash flow variance and analysis;
- vi. Profit and Loss accounts;
- vii. Interest income; and

viii. Non-interest income

It was obvious that the imposition of Holding Actions did not have any positive effect on the performance of GMB as its poor financial condition was self-inflicted. As a matter of fact since the preponderant of the loans were insider-related with inadequate security and fraudulently granted, the Board and management were helpless in vigorously pursuing debt recovery. If anything, the loans became hardcore and plunged GMB into accumulation of more operational losses. The consideration of other measures became imperative mainly to protect depositors.

4.2 Assumption of Control and Management

The Federal Government approved the taking over of GMB for the purpose of restructuring it on 15th September, 1995. The Board of Directors of GMB was dissolved and a 3-member Management Board (MB) appointed by the CBN and NDIC as a conservator. The MB assumed control and management of GMB effective 17th September, 1995. The MB was composed of a management staff of GMB as Executive Chairman and an Executive Director each from CBN and NDIC. The terms of reference of the MB which was to report to NDIC are:

- i. to superintend over the affairs of the bank;
- ii. to evaluate the condition of GMB with the assistance of external auditors appointed by NDIC and recommend appropriate failure resolution strategy;
- iii. to undertake extensive rationalization of operations of GMB so as to reduce operational losses;
- iv. to implement, generally, the Holding Actions imposed on GMB by CBN and NDIC; and
- v. to assist in the bank's debt recovery.

The CBN and NDIC on the takeover of GMB, gave the shareholders another opportunity to appropriately recapitalize their bank within a month failing which the MB would package the bank for sale, merger or liquidation. The option to consider would be premised on the one that would best protect depositors, help restore public confidence and would be most cost-effective. Expectedly the shareholders failed to recapitalize the bank and the CBN approached the Federal High Court to acquire GMB for a nominal fee of ₦1 to facilitate its restructuring. That order was granted and the CBN became the sole shareholder of GMB primarily to protect depositors.

In spite of the best endeavours of the CBN and NDIC, no credible bidder was found for GMB as its level of insolvency was grave since there was no meaningful debt recovery. The CBN and NDIC also joined efforts in debt recovery through the instrumentality of the Failed Banks Tribunal (FBT). The directors that were alleged to have perpetrated various financial malpractices were also prosecuted. While the four directors arraigned before the FBT were found guilty and jailed, not much was achieved in respect of debt recovery through the same FBT. The NDIC in line with its role, recommended the option of pay-out as a method to resolve the failure of GMB. The CBN in exercise of the powers conferred on it revoke the license of GMB on 16th January, 1998 and appointed NDIC as the provisional liquidator to wind up the affairs of the closed GMB.

5.0 FAILURE RESOLUTION

In consideration of various factors including the need to restore public confidence in the banking system; the need to best protect depositors; and the need to consider the least-cost method, NDIC settled for liquidation of GMB through pay-out option. The NDIC approached the Federal High Court to be appointed the liquidator of GMB and for an order to wind up its affairs. These prayers were answered and NDIC became the official liquidator of GMB. The pay-out method adopted entailed the payment of insured depositors after an orderly closure of the bank and thereafter the realization of the assets of the closed bank. The proceeds from the assets realized were being used to settle the claims of uninsured depositors in form of liquidation dividends. The proceeds were being shared on pro rata basis and in accordance with relevant laws.

5.0 CONCLUSION

The failure of GMB is a classical case of principal shareholders that promoted and owned banks through dubious means and for the sole purpose of using such banks to perpetrate economic and financial crimes. The main target was to use forex transactions for rent-seeking purposes and to enrich themselves with ill-gotten wealth. These people in GMB succeeded in their “ungodly mission” and they further took loans fraudulently with the prior motive of not paying back. Since their actions were premeditated, GMB became insolvent and illiquid while they became strikingly rich. The Regulatory Authorities took over the bank, but it was not redeemable as the so-called shareholders were not willing to return part of their loot to recapitalize it and credible investors could not be sourced to acquire GMB. The license was revoked on 16th January, 1998 and NDIC closed and put GMB in liquidation through pay-out option.

6.0 KEY LEARNING POINTS

Some of the obvious key lessons and learning points are as follows;

- (i) The need for the Regulatory Authorities to be wary of those desirous of owning banks to engage in forex malpractices. Some of the principal shareholders of the closed GMB were known to be principal shareholders in some other banks. Based on their antecedent in those banks and in GMB, they did not even contribute a “dime” to the shareholders’ fund but they exploited the weaknesses in licensing banks then to become shareholders. Verifiable sources of funds subscribed should be a basis for allowing a person to become a bank shareholder.
- (ii) Also, not again should the Regulatory Authorities allow rogue forex traders to own shares in any Nigerian bank. The incentives to engage in forex malpractices should be curtailed as the cost to the Nigerian economy is colossal. A background check on prospective principal shareholders of banks is necessary to reduce this cost.
- (iii) The antecedent of some principal shareholders should be instructive as a means to prevent them from having interest in other banks. Otherwise, what could be the

justification for some of these people to be principal shareholders as well as interlocking directors in multiple banks. They used all the banks to help themselves and all of them are now in liquidation.

- (iv) The rules and regulations governing insider-related loans should be tightened, strictly enforced and reviewed from time to time. The principal actors that caused the demise of GMB must be well connected to be able to plunder the bank to that extent before the Regulators could take over the bank. Otherwise, how could we explain that insider-related loans all of which were fully provisioned constituted 77.72% of total loans as at 30th June, 1995. They used their connection to obtain banking license and used the same connection to continue the looting until the bank was no longer in a position to meet its obligations to depositors.
- (v) Regulatory capture was apparent in the case of the closed GMB, otherwise how could one explain the gargantuan forex transactions which were carried out irregularly and nobody was made to refund anything. The fact that at least four of the pioneer directors including the MD/CEO were tried and jailed by the Failed Banks Tribunal (FBT) was not enough. They should have been compelled to vomit part of the stolen fund.
- (vi) The need to ensure good corporate governance cannot be over-emphasised as its breakdown had been responsible for the failure of GMB. Given the antecedent of the principal shareholders and the way they ran the affairs of the bank, it would be foolhardy to expect anything better. In the interest of depositors, other shareholders and the economy where good corporate governance cannot be guaranteed and sustained, that should be a basis not to allow such an institution and its rogue directors to come on board.

Table 10
Group Merchant Bank Ltd
Balance Sheet

| <u>ASSETS</u> | As at 30 | As at 30 | As at 30 |
|-----------------------------|----------------|----------------|------------------|
| | Sept, 1991 | Sept., 1992 | June, 1995 |
| | (₦ '000) | (₦ '000) | (₦ '000) |
| Cash & Short Term Funds | 251,342 | 442,699 | 28,978 |
| Investments | 1,800 | 21,900 | 17,520 |
| Loans & Advances | 47,989 | 51,671 | 665,491 |
| Other Assets | 87,895 | 41,350 | 113,337 |
| Fixed Assets | 5,672 | 4,872 | 11,474 |
| Total | 400,620 | 581,720 | 836,800 |
| | | | |
| <u>LIABILITIES</u> | | | |
| Deposits | 279,106 | 435,466 | 415,208 |
| Takings | - | - | 92,050 |
| Overdrawn position with CBN | - | - | 15,398 |
| Due to other banks | - | - | 11,230 |
| Other liabilities | 104,454 | 86,195 | 941,529 |
| Sub-Total | 383,560 | 521,661 | 1,475,415 |
| Paid-up share capital | 12,000 | 42,000 | 42,000 |
| Reserves | 5,060 | 18,059 | (680,615) |
| Shareholder's funds | 17,060 | 60,059 | (638,615) |
| Total | 400,620 | 581,720 | 836,800 |
| Contingent Liabilities | 36,155 | 40,132 | 379 |

SOURCES

- (i) Banks' Published Accounts, and
- (ii) NDIC

Table 11
Group Merchant Bank Limited
Income and Expenditure

| Income | Up to 30 th Sept., 1991 ₦'000 | Up to 30 th Sept., 1992 ₦'000 |
|---------------------------|--|--|
| Total income | 76,235 | 170,230 |
| <u>Expenditure</u> | | |
| Interest expenses | 33,170 | 88,057 |
| Operating expenses | 22,069 | 43,299 |
| Depreciation | 7,569 | 10,467 |
| Loan loss provision | 902 | 233 |
| Total Expenditure | 63,710 | 142,056 |

Source: Bank's Published Account

Table 12
Financial Highlights

| Item | 30/9/91 (₦'000) | 30/9/92 (₦'000) | 30/6/95 (₦'000) |
|---|--------------------|--------------------|--------------------|
| Total Assets | 400,620 | 581,720 | 836,800 |
| Total Deposits | 279,106 | 435,466 | 415,208 |
| Total Loans | 47,989 | 51,671 | 665,491 |
| Total Insider-related Loans | (a) | (a) | 517,222 |
| Provision for Loans | 902.00 | 233.00 | 543,587 |
| Loans to Deposits Ratio (%) | 17.19 | 11.87 | 160.28 |
| Provision for Loans to Total Loans (%) | 1.88 | 0.45 | 81.68 |
| Total Loans to Total Assets (%) | 11.98 | 8.88 | 79.53 |
| Insider- Related Loans to Total Loans (%) | (a) | (a) | 77.72 |
| Non-Performing Insider-Related Loans to Total Insider Loans (%) | (a) | (a) | 100 |
| Capital Adequacy Ratio (%) | 10.79 | 44.30 | (254.87) |
| Liquidity Ratio (%) | 90.05 | 101.66 | 5.43 |
| PBT to Shareholders Fund | 73.42 | 46.91 | (a) |
| PBT to Total Assets | 3.13 | 4.84 | (a) |

(a) Not available

Sources: Derived from Tables 1& 2, CBN and NDIC

Table 13**FINANCIAL PROFILE OF THE BANK AS AT THE DATE (16TH JANUARY, 1998)
OF REVOCATION OF ITS LICENCE**

| ADDITIONAL CAPITAL REQUIRED (₦' MILLION) | CAPITAL TO RISK WEIGHTED ASSET RATIO (%) | RATIO OF NON-PERFORMING LOANS TO SHAREHOLDERS FUNDS (%) | LIQUIDITY RATIO (%) | CURRENT A/C BALANCE AT CBN (₦' MILLION) | INSIDE LOANS TO TOTAL LOANS (%) | RATIO OF NON-PERFORMING LOANS TO TOTAL LOANS (%) | ACCUMULATED LOSS (₦' MILLION) |
|--|--|---|---------------------|---|---------------------------------|--|-------------------------------|
| 495.9 | -93.8 | -105.77 | -21.66 | -42.5 | 77.6 | 94.5 | -333.65 |

SOURCE: NDIC (2005); Bank Liquidation in Nigeria.

TABLE 14**DEPOSIT PAYOUT AS AT DECEMBER 31ST 2004**

| TOTAL DEPOSITS AT CLOSURE (₦ MILLION) | TOTAL INSURED DEPOSIT (₦ MILLION) | TOTAL INSURED DEPOSIT PAID (₦ MILLION) | LIQUIDATION DIVIDEND | | |
|---------------------------------------|-----------------------------------|--|----------------------|-----------------------------|-------------------------|
| | | | RATE% | AMOUNT DECLARED (₦ MILLION) | AMOUNT PAID (₦ MILLION) |
| 296.275 | 4.197 | 1.335 | 0 | 0 | 0 |

SOURCE: NDIC (2005); Bank Liquidation in Nigeria.

TABLE 15**DEPOSIT PAYOUT AS AT 31ST DECEMBER, 2014**

| TOTAL DEPOSITS AT LIQUIDATION (₦) MILLION | TOTAL № OF DEPOSITORS AT LIQUIDATION | TOTAL INSURED DEPOSITS AT LIQUIDATION (₦) MILLION | TOTAL EXCESS DEPOSIT S (₦) MILLION | TOTAL PAID INSURED (₦) MILLION | № OF INSURED DEPOSITORS PAID | TOTAL EXCESS PAID (₦) MILLION | № OF UNINSURED DEPOSITORS PAID |
|---|--------------------------------------|---|------------------------------------|--------------------------------|------------------------------|-------------------------------|--------------------------------|
| 296.275 | 212 | 4.197 | 292.078 | 1.335 | 32 | | 0 |

SOURCE: NDIC Annual Report and Statement of Accounts 2014.