



METROPOLITAN BANK CASE STUDY





Metropolitan Bank Case Study

The closure

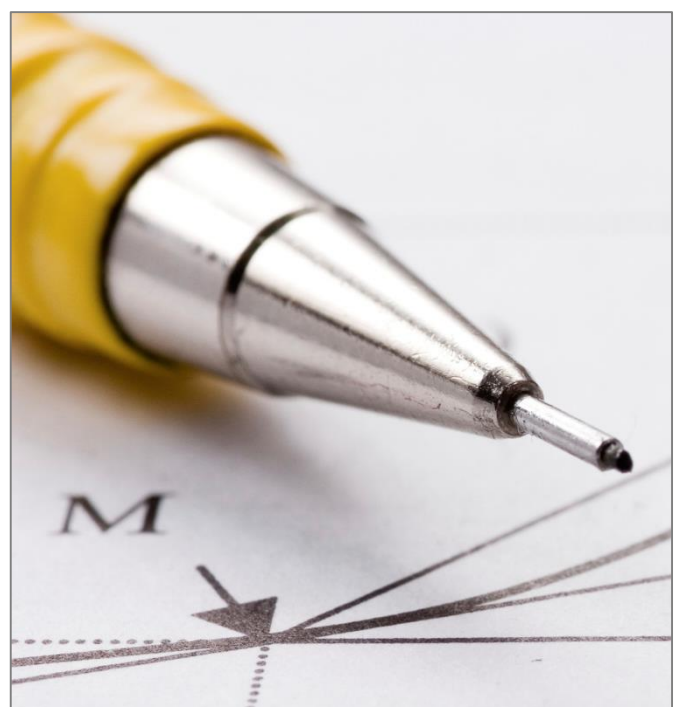
On 16 January 2006 the Central Bank of Nigeria revoked the license of Metropolitan Bank for its failure to meet the minimum capital requirement for banks operating in Nigeria set at NGN25,000,000,000 (twenty five billion naira) by the deadline of 31 December 2005. This revocation order was challenged by the Board and Management of Metropolitan bank.

Prior to the closure of the bank, the Central Bank of Nigeria had on the recommendation of the Nigeria Deposit Insurance Corporation, removed the erstwhile Management of the bank and constituted an Interim Management Committee [IMC] to assume the control of the affairs of the bank. The mandates of the IMC were:

- (i) To assume control of the affairs of the bank
- (ii) Stem further dissipation of the assets of the bank and,

- (iii) Embark on recovery of the debts owed to the bank.

The option of constituting IMC for the bank was stop gap measure to enable the Supervisory Authorities assume control of the affairs of the bank between the date of the revocation of the bank's licence and the



appointment of the Corporation as Liquidator by the Federal High Court.

On 09 June 2006, a Federal High Court sitting in Lagos, Nigeria gave orders to the Nigeria Deposit Insurance Corporation to liquidate Metropolitan Bank Limited following its failed financial health. The presiding judge Honorable Justice Abimbola Ogie in his ruling on the suit No. FHC/LCP/38/2 between NDIC and the bank ordered that the bank be wound up under the provisions of Companies and Allied Matters Decree Cap 59 Laws of the Federation of Nigeria 1990 (as amended) and the Banking and Other Financial Institutions Act (BOFIA) 1991.

On 12 June 2006, a closing team arrived at the bank and was involved in a process of staff rationalization, debt recovery, interest waiver processing, release of documents, negotiations with debtors, physical verification and tagging of all assets, custody of legal documents and records and supervising activities.

Background

Metropolitan Merchant Bank was incorporated on 16 February 1989 and commenced operations on 03 April 1989 as a merchant bank. It was owned by 23 shareholders spread across 12 states in Nigeria, in compliance with the requirement of geographical spread for operating banks. Its equity capital was NGN12,000,000 (twelve million naira).

By 1990, Alhaji Mohammed Biu and Mrs Sofoluwe were replaced on the Board by

Chief P. A. Oguntimehin and Alhaji A. Abdulkadir respectively. This followed a Board resolution of 24 August 1989. Miss Solape Adelaja was also appointed Acting Company Secretary and Legal Adviser. The Managing Director was charged with the overall administration of the bank and was assisted by two Assistant General Managers in charge of Operations and Corporate departments as well as a Senior Manager in charge of Administration and Corporate matters. The bank had a codified credit policy which set out clear limits of authority for credit officers of the bank and the bank had commenced drawing up specific procedure documents for each department and unit. The bank complied with corporate governance principles and effectively constituted and used Management Committee, Executive Management Credit Committee and the Board of Directors Credit Committee in the process of review and approval. In this first ten months of operations i.e. ending 31 January 1990, the bank realized a gross income of NGN20,357,400 (twenty million three hundred and fifty seven thousand four hundred naira) and expended NGN13,998,127 (thirteen million nine hundred and ninety eight thousand one hundred and twenty seven naira) resulting in a net profit of NGN6,359,273 (six million three hundred and fifty nine thousand two hundred and seventy three naira). As at 31 January 1990, the bank had participated in three loan syndication, totaling NGN7,000,000 (seven million naira) and had not diversified or engaged in other specialist functions such as equipment leasing,

advisory services etc. The bulk of its income was from interest received.

On 15 January 2001, the bank changed its name from Metropolitan Merchant Bank to Metropolitan Bank Limited following its conversion to universal banking. By this time, the bank's share capital became concentrated in the hands of a few, with the chairman and related parties i.e. his companies and family owning 80.27% of the bank's shares while the balance of 19.3% was



owned by one corporate body and twenty seven individuals. Mr. Muyiwa Bakare assumed position as Managing Director / Chief Executive with effect from 01 March 2001. It is pertinent to note that this followed a refusal of confirmation of his nomination by the Central Bank of Nigeria in its letter dated 27 March 2001 explicitly stating that Mr. Bakare did not meet conditions set in the CBN guidelines on appointment of top management teams of banks and as such the

bank should scout for another Chief Executive Officer.

In an effort to reposition the bank to ensure survival and profitability, the bank engaged in branch network expansion and structured advertisement. The chairman and management embarked on capital expenditure such as the acquisition of land, motor vehicles and office space. However the Board was non-committal on the need to increase its paid-up capital to a level commensurate with its volume of operations and capital expenditure. Core capital benchmark had been set for NGN1,000,000,000 (one billion naira) and NGN2,000,000,000 (two billion naira) was proposed as an acceptable benchmark but the bank's capital remained at N510 million.

By January 2006 when the licence of the bank was revoked, the bank had a paid-up capital of NGN1,008,513,725 (one billion eight million five hundred and thirteen thousand seven hundred and twenty five naira). It had failed to meet the requirements for consolidation set by the Central Bank, of NGN25,000,000,000 (twenty five billion naira) as at December 2005. The bank's owners had spent the 18 months prior to this period challenging the order of the Central Bank and had been unable to garner the required minimum capital.

Review of issues

1. Board and Management

Over the lifetime of the bank, it maintained a six-member Board with Chief S. O. Bakare as Chairman. Though the composition of directors changed, Chief S. O. Bakare remained both a member of the Board and its

Chairman. The Managing Director position went from Mr. E. O. Ferreira at inception to Mr. G. N. Anyichie and lastly to Mr. Muyiwa Bakare from 2001 until its closure in 2006. The Board met an average of six times each year and had committees overseeing credit, audit and establishment. The Board's effectiveness was hampered by management's non-disclosure of the true position of the bank to the Board. Major items of credit exposure of the bank were not reported to the Board or disguised with other names. This is detailed further in the section on Risk Credit review.

2. Operations

The bank's daily transactions were supported by a General Manager and two Assistant Managers. There were six management committees including Credit, Risk Asset Review, Assets and Liabilities (ALCO), Executive and Tender Committees. The committees seemed inefficient. From ALCO's meeting minutes for instance, it seemed clear that it did not monitor the assets and liabilities effectively. Its focus was on liabilities without attempts to match these with the bank's liquidity position, leading to overtrading and a skewed credit portfolio towards overdrafts and similar loans.

The bank's operation was riddled with illegalities, contravention of rules and regulations for which it was sanctioned and mandated to regularize its actions. Some were rectified but a number persisted throughout the existence of the bank. For example recommendations pertaining to non-performing loans were not implemented so that these loans persisted as

non-performing throughout. Conditions precedent for loan draw down were mostly not observed; many loan accounts operated above limits; a number of loan accounts operated without security perfection; and many accounts operated with deficient documentation. Furthermore, many transactions above statutory limits went unreported to the Central Bank.

The bank regularly overdrawed its account with the Central Bank and it hid its liquidity position by inter-bank borrowing. Its true liquidity position was therefore not obvious from the calculated liquidity ratios displayed. The bank's inspection function was poorly performed due to inadequate personnel. The audit function was reduced to spot-checks rather than planned and comprehensive reviews. Critical areas such as financial control, foreign exchange activities and cash centres went unsupervised. Some of the abuses of banking processes emanated from these areas.

Various examination reports highlighted certain inadequacies in the bank's accounting system and internal controls including: poor record keeping, wrong posting of transactions, abnormal balances, stock control and other issues, most of which were not rectified as some of the issues persisted including: inadequate provision in the balance sheet for bad and doubtful debts, and the persistent concealment of the credit exposure of the bank through wrong classification of credit to customers as Banker's Acceptances or Commercial Papers.

3. Risk Assets

The risk assets of the bank increased from NGN221,142,539 (two hundred and twenty one million one hundred and forty two thousand five hundred and thirty nine naira) in 1993 to NGN3,784,100,000 (three billion seven hundred and eighty four million one hundred thousand naira) in 2001 and then to NGN8,155,700,000 (eight billion one hundred and fifty five million seven hundred thousand naira) in June 2006. See breakdown of composition in Figure 3.

The bank's credit portfolio included sizeable insider debts. At closure this amounted to NGN2,611,000,000 (two billion six hundred and eleven million naira) or 32% or total risk assets. Of this amount, two accounts were owned by the chairman and these owed NGN1,093,000,000 (one billion ninety three million naira) and NGN547,7000,000 (five hundred and forty seven million seven hundred thousand naira). No repayments came from them and they remained non-performing from the time of draw down. Repeated demands by regulators for these delinquent non-performing insider debts to be regularized were not heeded. In addition, despite repeated payment of penalties by the bank for contravening the single obligor limit of loans, the breach continued through the life of the bank.

Over the years, processes were improved and expedited however, the bank's loan recovery record did not match the speed of disbursement of loans. Furthermore, the size of non-performing loans was not matched by provision for bad and doubtful

debts. The bank was also unable to diversify its source of funds from the expensive placement and overnight sources to cheaper means, which resulted in high cost of funds throughout the existence of Metropolitan bank.

4. Financial Malpractice

Five major financial malpractices were highlighted in the closing report. These are:

- i. Illegal withdrawal from the bank's foreign account balance by the former MD, Mr. Muyiwa Bakare
- ii. Improper use of customer accounts – several accounts were opened without the knowledge of the customer and used to transact, enjoying large credits in millions of US Dollars and Naira
- iii. Illegal write-off of customer balances – director's loans were illegally written off
- iv. Parallel banking – the former Managing Director and his management opened accounts at defunct Citizen's International and Assurance Banks into which Metropolitan Bank funds were lodged and about NGN12,500,000,000 (twelve billion five hundred million) was diverted as payments to third parties
- v. Diversion of income – incomes due to the bank were warehoused in fictitious accounts

Conclusion

After 18 years of operations, the signs came down and the doors of the bank closed, finally, they shut. They shut to customers,

staff, shareholders, suppliers and all who once transacted with Metropolitan bank Limited. The purchase and Assumption failure resolution strategy led to a bid package being sent to the 25 remaining banks. Two of these banks responded (Ecobank and UBA). **Eventually**, a single formal bid was received from UBA to take over the remains of Metropolitan bank Limited. The 18 year story of Metropolitan bank as an entity ended.

Following a review of the facts of this case, we can answer many questions including the following:

- Was the mandatory banking consolidation the only reason for the failure of Metropolitan bank?
- Could Metropolitan bank have remained in business without the mandatory banking consolidation?
- Were there other drivers of failure building up in the operations of the bank?
- What role did regulatory enforcement or the lack of it play in operational failure of this bank?



EXHIBITS 1-11

Tabulated Board of Directors, Shareholding Structure and Shareholding Structure Breakdown at commencement through to closure. Also contains overall Liquidity Ratio, Balance Sheet at closure, Deposit Payout as at 31st December, 2014, and Proceeds from Sale of Physical Assets as at 31st December, 2014

Exhibit 1 – Commencement Board of Directors as at 04 April 1989

1. Chief S. O. Bakare - Chairman
2. Prince C. A. Ariyo - Director
3. Alhaji Mohammed Biu - Director
4. Chief Osita Onyejiana - Director
5. Mrs. Sola Sofoluwe - Director
6. Mr. E. G. Ferreira - Managing Director / Chief Executive

Exhibit 2 – Commencement Shareholding Structure as at 04 April 1989

Number of Shareholders	Percentage (%) of Shares for Each	Total Number of Shares	Total Shareholding
14	5%	8,400,000	70%
5	4%	2,400,000	20%
1	3%	360,000	3%
2	2.5%	600,000	5%
1	2%	240,000	2%
23		12,000,000	100%

Exhibit 3 – Breakdown of Shareholding Structure as at 04 April 1989

S/N	Shareholders	No. of Shares	(%) Holding
1.	S.O BAKARE	600,000.00	5%
2.	MRS S. SOFOLUWE	600,000.00	5%
3.	CHIEF P.O. OGUNTIMEHEN	480,000.00	4%
4.	CHIEF G.A AGBAJE	480,000.00	4%
5.	ALH. K.L RASAK	300,000.00	2.5%
6.	O.A TALABI	300,000.00	2.5%
7.	C.A ARIYO	600,000.00	5%
8.	P.A OGUNLOWO	240,000.00	2%
9.	CHIEF O. ONYEJIANYE	600,000.00	5%
10.	ENG. R.O ANYICHIE	600,000.00	5%
11.	ALH. M.M. BIN	600,000.00	5%
12.	OBA S.K. ADESONA	600,000.00	5%
13.	O.A OGUNSIPE	480,000.00	4%
14.	T.O MAYABIKAN	480,000.00	4%
15.	BIODUN BANWO	480,000.00	4%
16.	O.W.O OSINUSI	600,000.00	5%
17.	ALH. A.A ABDULKADIR	600,000.00	5%
18.	V.C ONUKWUGHA	600,000.00	5%
19.	MAJOR GEN. RIMI	600,000.00	5%
20.	O.O AMODEMI	360,000.00	3%
21.	ALH A.G O. ATANDA	600,000.00	5%
22.	ALH. IDRIS ALI	600,000.00	5%
23.	ALH A. GWANDU	600,000.00	5%

Exhibit 4 – Board of Directors as at February 2001

- | | | |
|-------------------------|---|-------------------------------------|
| 1. Chief S. O. Bakare | - | Chairman |
| 2. Mr. Muyiwa Bakare | - | Managing Director / Chief Executive |
| 3. Alhaji T. O. Swakatu | - | Director |
| 4. Chief G. N. Anyichie | - | Director |
| 5. Dr. B. Ogunkelu | - | Director |
| 6. Chief E. A. Akintoye | - | Director |

Exhibit 5 – Breakdown of Shareholding Structure as at February 2001

S/N	INDIVIDUAL		CORPORATE		CUMMULATIV	
O	NAMES	STATUS	NAME	DIRECTOR	E (%)	
				S	HOLDING	
1.	CHIEF S. O BAKARE	CHAIRMAN			8.76%	8.76
2.	MRS D. O BAKARE				1.47%	10.23
3.	MR M.M BAKARE	MD/CEO			4.54%	14.77
4.			SKEN VENTURES LTD			
				MRS D.O BAKARE		
				MR MM. BAKARE	34.71%	49.48
5.			BEE-KAY VENTURES	DITTO	30.79%	80.27
6.			OBASANJO HOLDINGS		0.44%	80.71
7.	ALH. T. O SWAKATU	DIRECTOR			1.18%	81.89
8.	ALH BUHARI BALE	DIRECTOR			1.03%	82.92

9.	CHIEF G.N ANYICHUE	DIRECTOR	0.39%	83.31
10.	DR. B. OGUNKELU	DIRECTOR		
11.	CHIEF E.A AKINTOYE	DIRECTOR		
12.	22 INDIVIDUALS		16.69%	100
	TOTAL		100%	

Exhibit 6 – Board of Directors as at Closure, June 2006

1. Chief S. O. Bakare - Chairman
2. Chief E. A. Akintoye - Vice Chairman
3. Mr. Muyiwa Bakare - Managing Director / Chief Executive
4. Chief G. N. Anyichie - Director
5. Alhaji T. O. Surakatu - Director
6. Alhaji B. Bala - Director

Exhibit 7 – Breakdown of Shareholding Structure as at Closure, June 2006

S/N	SHAREHOLDERS	No. of Shares	% Holding
1.	CHIEF S.O BAKARE	96, 716, 568.48	9.59%
2.	PRINCE ARIYO	3, 619, 151.85	0.36%
3.	CHIEF O. ONYEJIANYA	5, 291, 042.65	0.52%
4.	MRS. SOFOLUWE	3, 619, 151.85	0.36%
5.	OBA S.K ADETONA	20, 106, 399.15	1.99%
6.	ALHAJI BIU	3, 619, 151.85	0.36%
7.	ALHAJI ABDUKADIR	3, 619, 151.85	0.36%
8.	CHIEF OGUNTIMEHIN	16, 085, 119.32	1.59%
9.	MR. V. ONUKWUGHA	11, 661, 711.51	1.16%
10.	MR. OGUNSIPE	16, 085, 119.32	1.59%

11.	CHIEF AGBAJE	2,895,321.48	0.29%
12.	MR. O. MAYABIKAN	16,085,119.32	1.59%
13.	ENGR. OBI ANYICHIE	3,619,151.85	0.36%
14.	MR. BIODUN BANWO	2,895,321.48	0.29%
15.	OTUNBA OSINUSI	3,619,151.85	0.36%
16.	MR. O. AMODENI	2,171,491.11	0.22%
17.	ALHAJI RAZAK	10,053,199.57	1.00%
18.	MR. TALABI	1,809,575.92	0.18%
19.	ALHAJI IDRIS ALI	3,619,151.85	0.36%
20.	MR. OGUNLOWO	1,447,660.74	0.14%
21.	OBASANJO HOLDINGS	3,619,151.85	0.36%
22.	E.G. FERREIRA	3,619,151.85	0.36%
23.	CHIEF AKINTOYE	2,466,417.06	0.24%
24.	MRS. D.O. BAKARE	12,063,839.25	1.20%
25.	MR. M.M. BAKARE	52,737,051.22	5.23%
26.	ALHAJI SURAKATU	9,651,071.59	0.96%
27.	CHIEF OKUBOYEJO	1,775,701.01	0.18%
28.	ALHAJI B. BALA	12,345,766.17	1.22%
29.	SKEN VENTURES LTD	374,706,611.95	37.18%
30.	BEE-KAY NIGERIA LTD.	302,560,500.99	30.00%
31.	CHIEF ANYICHIE	4,330,748.86	0.43%
	TOTAL	1,008,513,725	100.00%

Exhibit 8 – Comparison of Liquidity Ratio for Metropolitan Bank (%)

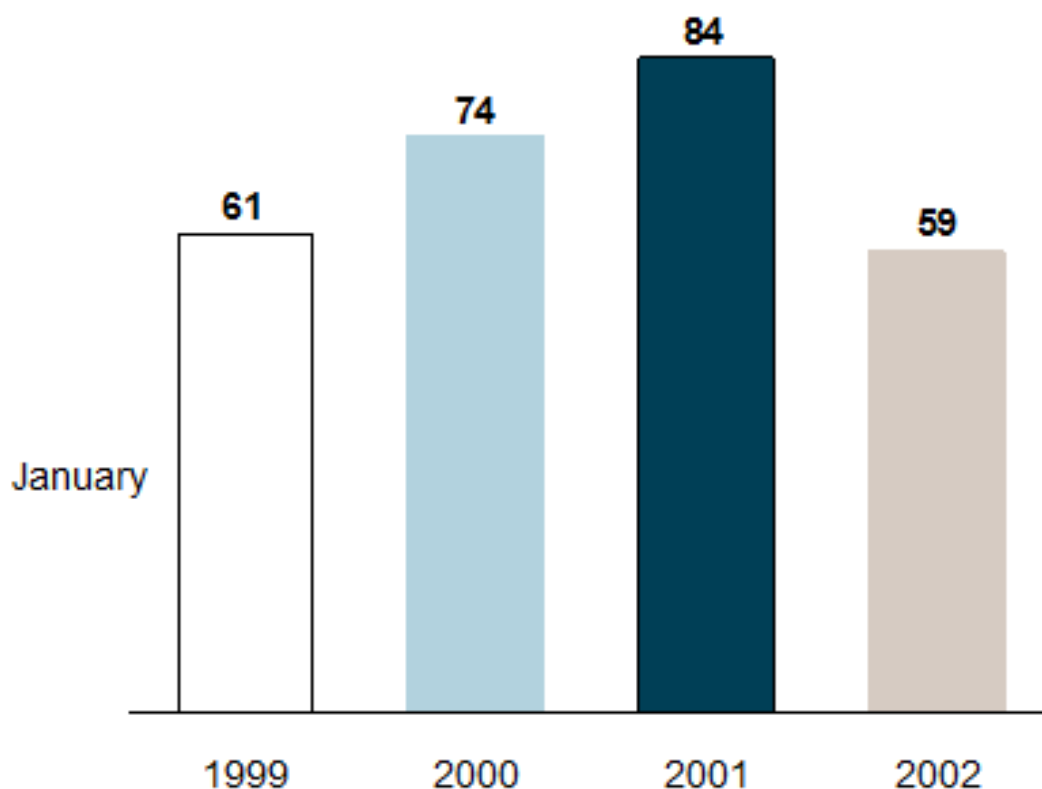


Exhibit 9 – Balance Sheet as at 31ST July, 2006

ASSETS	NGN
CASH	1, 869,116.55
FOREIGN / TRAVELLERS CHEQUES	153, 952.35
BALANCES WITH CBN	547, 049,955.17
TREASURY BILLS	596,885,893.98
BALANCES WITH LOCAL BANKS	108, 739, 362.29
FOREIGN BANK BALANCES	33, 232, 226.90
INVESTMENTS	286, 836, 934.88
LOANS AND ADVANCES	2,287, 972, 836.17
OTHER ASSETS	432, 861, 471.31
FIXED ASSETS	112,501,346.17

TOTAL ASSETS	4,408,103,095.77
LIABILITIES	
DEPOSIT LIABILITIES	5,097, 585, 783.46
OTHER LIABILITIES	1,007, 209, 445.45
TOTAL LIABILITIES	6,104, 795, 228.91
SHAREHOLDERS FUNDS	(1,696,692,133.14)
	4,408, 103,095.77

Exhibit 10 – Deposit Payout as at 31st December, 2014.

TOTAL DEPOSITS AT LIQUIDATION (₹) MILLION	TOTAL No OF DEPOSITORS AT LIQUIDATION	TOTAL INSURED DEPOSITS AT LIQUIDATION (₹) MILLION	TOTAL EXCESS DEPOSITS (₹) MILLION	TOTAL PAID INSURED (₹) MILLION	No OF INSURED DEPOSITORS PAID	TOTAL EXCESS PAID (₹) MILLION	No OF UNINSURED DEPOSITORS PAID
5,087.573	34,409	161.389	4,926.184	27.030	1,635	2,321.713	1,569

SOURCE: NDIC Annual Report and Statement of Accounts 2014

Exhibit 11 – Proceeds from Sale of Physical Assets as at 31st December, 2014.

LANDED PROPERTY (₹) MILLION)	VEHICLES/GEN. SET (₹ MILLION)	CHATELS (₹) MILLION)	TOTAL (₹) MILLION)
517.40	0.72	85.00	603.12

SOURCE: NDIC Annual Report and Statement of Accounts 2014.



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