FAILURE OF TRADE BANK PLC

1.0 INTRODUCTION

Trade Bank Plc (the bank) was incorporated in 1985 and commenced commercial banking business in 1987 with a paid-up capital of ₦20million. The bank was promoted by the Kwara State Government as a core investor. Upon the creation of Kogi State, the two states jointly occupied the position of core investors. At inception, Government ownership stood at 30% while private investors held 70% equity interest. However, as at the closure of the bank in January 2006, the equity stake of Kwara and Kogi States had increased to 39.72% while private equity stake stood at 60.28%.

The bank operated from its Head Office located in Ilorin in Kwara State and a Central Office located in Lagos. It established 30 branches across Nigeria. In response to the liberalization policy of the Central Bank of Nigeria (CBN), the bank acquired universal banking status in January 2001. However, its inability to meet the bank consolidation policy of CBN introduced in July 2004 with a compliance deadline of 31st December 2005, warranted the revocation of its operating licence on 16th January 2006 and subsequent liquidation by the Nigeria Deposit Insurance Corporation (NDIC). Meanwhile, it should be noted that the root causes of the bank's failure were endogenous factors such as shareholder interference, collapse of corporate governance, absence of risk management, fraudulent accounting and insolvency as the analysis of its performance in section 2 below will clearly show.

The rest of this case study is organized into four sections. Section 2 provides an overview of the bank's performance while in operation, while section 3 focuses on the core reasons for failure. Section 4 addresses resolution of the bank's failure while section 5 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 over its life span. These performance indicators are discussed below starting with Management which is central to the soundness and viability of a banking institution. The analysis relies mainly on financial statistics for the period 1995 to 2004 and other relevant information till the date of closure. The Balance Sheet and Analysis of Income and Expenditure for the period 1995 to 2004 are attached as Appendices 1 and 2 respectively.

2.1 BOARD AND MANAGEMENT

Management in this context covers the roles and responsibilities of the shareholders, Board of directors, executive management as well as the structure, processes and procedures established to promote the bank's viability. The Board of directors was composed of 10 members including executive management from inception and that number remained unchanged until the bank's closure. At commencement, the Board had only one executive director. In 1999, two additional executives were appointed but were made to disengage in 2002. Right from inception, Government involvement in governance was disproportionate to its equity interest in the bank. For, example, its 4 representatives on the board must include the Chairman while whoever would be appointed Managing Director/Chief Executive Officer (hereafter referred to as MD/CEO) required its endorsement. As a public company and a commercial enterprises, it is the directors that should appoint their Chairman without seeking the consent of the Government as shareholder. Similarly the appointment of MD/CEO should be the responsibility of the Board. In reality, the bank was treated like a Government parastatal as other actions of the two State governments would show elsewhere in this case study. Furthermore, the Board experienced instability of tenure of government representatives as changes in administrative set-up of the two states induced changes of their representatives on the Board. A clear evidence of meddlesome interference by the State Governments was the directive given in 2003 by new administrations in both states that the position of two Executive Directors

(EDs) be re-introduced to represent Kwara and Kogi respectively. The Board succumbed and approved a new organogram with provision for two EDs at its emergency meeting held on 24th February 2004.

Given that the decision to scrap the EDs positions was informed by the need to save operational cost in the face of deteriorating financial condition, there was no tenable basis for its politicization by the two state Governments. In specific terms, the Board had noted that the contributions of the two former EDs to the bank's performance were not commensurate with the sum of N32.8million per annum the bank was incurring on them. However, the introduction of the bank consideration programme which prescribed a new shareholders fund of N25billion for all deposit money banks frustrated the implementation of the ill-conceived directive of the two state governments. Meanwhile, it is noteworthy that the positions of Chairman and MD/CEO enjoyed stability of tenure given that the bank had two persons as Chairmen and three as MD/CEOs in its 19years of existence. As a matter of fact, the pioneer MD/CEO served the bank for a period of 15years.

With the scrapping of the ED position, the layer of management next to the MD/CEO was General Manager's grade. As at the date of closure, the management team comprised the MD/CEO, one General Manager, one Assistant General Manager, one Senior Principal Manager, one Principal Manager and 6 Senior Managers while the total staff strength stood at 883.

The meddlesome interference by the State Governments notwithstanding, the performance of the Board was less than satisfactory. The board failed to provide purposeful leadership and strategic direction. The bank had neither a succession plan nor a strategic plan to achieve clearly articulated corporate objectives. Also, the Board failed to establish an effective mechanism to monitor management adherence to the bank's internal rules and regulations. A case in point was the withdrawal of the delegated credit approval authority of the MD/CEO and other managerial staff about year 2000 sequel to allegation that approving officers were receiving gratifications from borrowers before approving their credit requests. Rather than install an effective internal control system to redress the situation, the Board took over credit approval function for which it was ill-equipped. Some of the credits approved by it later became hardcore and irrecoverable.

In recognition of the need to reposition the bank and reverse its deteriorating condition, a Business Process Re-engineering (BPR) was initiated in January 2002. The Board appointed a consultant to source for a successor to the incumbent MD/CEO. The consultant conducted interviews of various persons from outside the bank and eventually identified a candidate for consideration in 2003. Strangely, the Board jettisoned the BPR process and approved the retirement of the MD/CEO with effect from 1st October 2004 at its meeting held on 27th February 2004 and decided that a General Manager (GM) in the bank should understudy him. The GM was also approved to act as MD/CEO pending when the board would decide to appoint a substantive MD/CEO. However, the CBN declined to approve the GM as acting MD/CEO hence, the bank began the search for a successor afresh. The question that arose from the Board's decision was why should resources be dissipated to engage a consultant to search for a successor only to abort the process after about two years? The action of the Board underscored the absence of succession planning and purposeful leadership. It is lamentable that the Board lacked the capacity to implement the BPR. The scope of the BPR included review of corporate strategic plan, business focus and a redefinition of the Information Technology (IT) system. The only recommendation in the BPR document that was implemented was the disengagement of 5 management staff and 39 other staff in 2003. The Board was found to be weak in exercising its oversight functions, Even though the Board had 6 committees, their performance left much to be desired as meetings were seldom held. For example, despite the delinquent and deteriorating quality of credit, the Board Debt Recovery Committee met only three times within the period of one year from 1st May 2003 to 30th April 2004. Similarly, the Board Audit Committee met once during the one-year period in spite of numerous control lapses, fraudulent financial transactions and flagrant violation of rules and regulations. The inertia exhibited by the Board committees also manifested at the management level. Just like the Board, the management had its committees.

While there was evidence that the Senior Management Committee met twice, the performance of the remaining 5 executive management committees could not be appraised as there were no minutes to evidence that they met in a period of one year.

The performance of management just like that of the board left much to be desired. There was abundant evidence that the management had engaged in unprofessional, unethical and unwholesome practices which largely accounted for the bank's precarious condition and eventual failure. Some of the actions and practices of management are discussed below:

i. Financial misreporting

The bank's management information and accounting systems were unreliable, deceptive and misleading. This raised doubt about the management disposition to observance of transparency and accountability in the conduct of business. Evidence of poor record-keeping by the bank abound. For example, the bank's prudential returns to the Regulatory Authorities as at 30th April 2004 showed that interbank takings of ₦300 million and ₦110 million were from First Bank and Reliance Bank respectively but the subsidiary ledger of the bank showed interbank takings of ₦260million and ₦500 million were from Reliance Bank and Zenith Bank respectively as of the same date. Furthermore, the subsidiary ledger had a balance of ₦1.16 billion as interbank takings as against ₦410 million in the general ledger and returns to the Regulatory Authorities thereby generating a difference of ₦750 million. Another dimension was the non-disclosure of the bank's equity investments in two companies, one a stock-broking company and the other a property company in its balance sheet.

ii. Concealment of Losses.

The management engaged in window-dressing of accounts between August 2003 and October 2004 to cover up the bank's grave financial condition. Within that period, losses of about ₦2.238 billion were concealed through the posting of fictitious income to branches and Treasury Department. Therefore, the bank declared fictitious profit from which it paid tax and issued bonus shares totaling ₦283 million. The losses were later exposed and recognized in the accounts, a development which exposed the bank's insolvency. As a matter of fact, the bank's negative net-worth was put at ₦4.726 billion as at 30th November, 2005, barely a month to the banking consolidation deadline. This act of not keeping proper books of accounts and rendition of incorrect information constituted a violation of the provisions of section 24 of the Banks and Other Financial Institutions Act (BOFIA) 1991 as amended and CBN circular Ref: BSD.1.2003 on rendition of false returns to the Regulatory Authorities.

iii. Unathorised Investments

The bank consummated equity investments in two companies, one a stock broking company and the other a property company without obtaining CBN approval and in violation of Section 20(2)(d) of BOFIA 1991 as amended. As already noted, the two investments were not reflected in the bank's balance sheet. The two investments were also indicative of fraudulent intent. The stock-broking company(hereinafter referred to as the company) was bought by the bank at a price of ₦19million in August 2003. The acquisition was done on "no assets and no liabilities" basis, which implied that the bank acquired only the franchise value as revealed by the purchase agreement. In addition to the purchase price, the bank made an equity contribution of ₦70million and provided ₦50million working capital to bring its total investment in the stock-broking company to ₦139 million. The audited account of the company by an audit firm as at 31st December 2005 showed that it made a cumulative profit of ₦27.79million. There was no evidence of how this profit was treated in the bank's records. Also, even though the company was wholly-owned by the bank, evidence of the bank's ownership was not available in the bank.

Given that an individual whose firm audited the company was a director of the bank, it was not unlikely that the Board was aware of the investment.

With regard to other property company (hereafter referred to as the company) it was a joint venture between the bank and a University. The two parties executed a memorandum of understanding (MOU) to jointly own a company to undertake construction of hostel accommodation for university students on 6th December 2003. The company was incorporated and the bank initially planned to fund its operations through the Small and Medium Enterprises Equity Investment Scheme (SMEEIS) but later opted to provide a term loan. A term loan of ₦61,790,990 availed by the bank was utilized to build 5 blocks of 250 bed spaces. The loan account of the company remained unchanged at ₦61.79million as at the date of the bank's closure in January 2006, while its current account had a balance of ₦6,494,750. The liquidator of the bank would certainly sort out the company issue with the University authorities.

iv. Violation of Know Your Customer (KYC) principle.

There were various lapses in opening accounts for customers such as absence of Board resolution to open corporate accounts, due diligence on corporate customers, identity of account signatories et cetera. The examiners noticed that two accounts were operated in this regard. One account was opened on 16th September 1999 with Afribank cheque number 0360012963 valued N23,235,825 while the other was opened on 7th August 2000 with the sum of N37,500,000 fixed for 90days effective 31sy July 2000. The balances on the two accounts as at 30th April 2004 were N44,729,099.64 and N65,136,937.50 respectively. Neither the signatories to the accounts were known nor was there evidence of correspondence with the allege account holders. Roll-overs of the deposits were unilaterally effected by the bank on its own terms and conditions.

Meanwhile, the executive management failed to provide explanation on the operation of the two fixed deposits despite the fact that the attention of the Board had been drawn to the opaque transactions.

v. Lapses in Foreign Exchange Transactions

Bank Examiners noted that some pages of the Letters of Credit (LC) Register were torn and information lost. The register was not designed to ensure compliance with CBN regulation on submission of import-related documents after Ninety (90) days of LC negotiations. It was noted that ten (10) LC customers failed to submit their customs bill of entry, single goods declaration forms Ninety (90) days after LC had been negotiated while the bank failed to render the required returns to CBN in respect of defaulting customers in violation of CBN Circular Ref: ECD/AD/122/87. Also there were discrepancies between the subsidiary records and fund flow statements to the tune of \$1.1million as at 30th April 2004. Other lapses in foreign exchange operations include incomplete documentation of LC transactions such as absence of payment schedule, bill of entry, tally sheet, clean report of inspection and NAFDAC approval for importation (where applicable). There were deficiencies in invisible trade transactions such as discrepancies in number on international passport presented and the one on application form and passport presented as well as use of void air tickets to procure foreign exchange.

The foregoing narratives showed that the management had concealed the true financial condition of the bank from stakeholders. Its penchant for concealment contributed to its inability to consummate a merger deal with Afribank Nigeria Plc as would be shown in the section on capital adequacy. Thus far, the review has highlighted that the management had been unprofessional and unethical in the conduct of the bank's affairs while the Board's inertia contributed in no small measure to the bank's failure and eventual liquidation.

2.2 ASSET QUALITY

The loan portfolio grew from ₦676.24million in 1995 to ₦8.37billion in April 2004. The highest growth rate of 75.93% was recorded in 2004 when the loan portfolio which stood at ₦4.76 billion in 2003 ballooned to ₦8.37 billion. Remarkably, it was in that same year that the ratio of non-performing loan (NPL) to total loans shot up phenomenally to 86.71%. Similarly, the ratio of loan loss provision to total loans which stood at 9.69%, 7.38%, 7.50% and 7.92% as at 31st March 2000,2001, 2002 and 2003 respectively suddenly skyrocketed to 63.44% as March 2004. As of that date, the bank made a loan-loss provision of ₦3.13billion or 39.59% of total loans compared to its shareholders fund of ₦2.06 billion. Thus, the bank was already technically insolvent before the CBN introduced a new shareholders fund of ₦25billion in July 2004 with a compliance deadline of 31st December 2005.

Various factors were responsible for the remarkable impairment of credit quality which spelt the death-knell of the bank. A common practice in the bank was to renew facilities which it had classified lost to contrive healthy status of suck facilities rather than initiate debt recovery measures. Facilities extended to State Governments and their agencies were usually secured with statutory allocations which were not deployed to service such exposures. For example, the entire Government-related exposure of ₦1.31 billion as at 30th April 2004 which accounted for 15.7% of the credit portfolio was classified non-performing. Beneficiaries of insider-related credits (including ₦230.25 million granted to ex-directors of the bank) were defiant and unwilling to honour their obligations as a result of which such facilities remained delinquent. Furthermore, securities held against most facilities were either weak, inadequate or unperfected thus leaving the bank with weak collateral protection. For example, a ₦160million facility granted to a customer was secured with properties valued ₦31.15 million even though the outstanding debt had risen to ₦204.42million as at 30th April 2004 while the bank had classified the facility lost. Another example was a credit facility of ₦104.31million as at 30th April 2004 secured by a personal guarantee put at N50million.

Other weaknesses in credit administration included lack of vital information in credit print-outs such as dates facilities were granted, last credit lodgment dates), securities pledged and their values and approved limits. These weaknesses hindered prompt appraisal of credits with a view to commencing remedial management. The combined effect of various lapses was a build-up of a huge portfolio of non-performing credits.

Consequently, the sum of ₦7.26 billion or 86.7% out of N8.37 billion total credits as at 30th April 2004 was classified non-performing. The required provision for credit delinquency as at that date was ₦5.31 billion as against the provision of ₦3.13 billion made by the bank. Against the backdrop of ₦2billion under-provision, the management contrived a profit of ₦444million through window-dressing of the bank's financial statement.

2.3 CAPITAL ADEQUACY

The bank commenced operation with a paid-up capital of ₦20million which increased to a nominal capital of N2billion as at the date of its closure. As already noted the capital base had been completely eroded by operational losses especially through provisioning for credit delinquency. As at 30th April 2004, the Capital Adequacy Ratio was negative to the tune of 0.90% as against the regulatory requirement of 10%. The required capital injection was put at ₦795.86million as at that date. However, adjustment by recognizing the suppressed loss of ₦2.238billion and additional provision for credit impairment resulted in a negative shareholders fund of ₦4.72 billion as at 30th November 2005.

Meanwhile, pursuant to the new capital requirement of ₦25billion, the bank made a public offer of 6,818,181,819 ordinary shares of 50kobo each at a price of N1.10 per share with the aim of raising N7.5billion to enable it merge with Afribank Nigeria Plc. The offer opened on 13th July 2005 and closed on 18th August 2005 and total funds raised amounted to ₦2,642,207,784 or 35% of the amount on offer. Two securities company acted as Issuing Houses while a another company was the Registrar to the offer.

The proceeds of the offer were received by Trade Bank Plc (₦2billion) Lead Bank Plc (₦283.92million) and Afribank Plc (N358.3million). In compliance with the joint CBN and Securities and Exchange Commission (SEC) circular on transfer of subscription monies to CBN, the Receiving Banks remitted the total sum of ₦2.6billion to CBN to be kept in an escrow account. It was noteworthy that ₦2billion or 75.69% of the subscription monies came from one investor. Unexpectedly, the major investor had his ₦2billion refunded to it directly by the CBN while ₦5millionm was also refunded to another investor by CBN. While the action of the major investor was attributed to unfavourable share/exchange ratio offered by Afribank, the action of CBN remained questionable. Why did the CBN not refund the subscription monies to the Registrar to the public offer, who had the comprehensive list of subscribers? Was it appropriate for CBN to deal directly with individual subscribers?

The public offer further exposed the financial imprudence and lack of transparency of the bank's management. It turned out that in the course of the public offer, the bank made questionable payments amounting to ₦49,326,712.32 to an individual in respect of ₦2billion subscribed by the major investor, a company in which the individual had substantial equity interest. The analysis of the irregular payments is provided below:

a. ₦40million vide Cheque No. 01114251 dated 01/11/2005 being commission for sourcing ₦2billion equity subscription by the major investor.
b. ₦1,326,712.32 vide Cheque No. 01114252 dated 21/11/2005 to defray the cost of the individual's trip to Nigeria from United Kingdom for the purpose of ensuring that value was received for the ₦2billion cheque issued by the major investor for its equity subscription. Why should the bank accept liability on behalf of the drawer of a cheque?
c. ₦8million via Cheque No. 01114260 dated 07/11/2005 being refund of charges debited by Oceanic Bank in respect of ₦2billion cheque issued for equity subscription. Why should Trade Bank pay for charges on the cheque issued by a subscriber to its public offer?

As a result of the unexpected withdrawal of over 76% of subscription monies, the public offer collapsed and that spelt the death-knell of the proposed merger with Afribank Plc. Also, the huge negative shareholders fund made the bank unattractive to Afribank for the purpose of a merger. Consequently, the bank failed to meet the new mandatory capital requirement stipulated by CBN and had its banking licence revoked in January 2006.

2.4 EARNINGS PERFORMANCE

The bank's annual income increased from ₦472.25million in December 1995 to ₦2billion in March 2000 and ₦3.86billion by 31st March 2004 thereby depicting annual average growth rate of 32.15% over the ten-year period of 1995 to 2004. Interest income accounted for 70.83% up to 31st March 2000 and 76.73% in the period up to 31st March 2001 from where it declined to 61.42% in the year ended 31st March, 2004.By the time the level of under provision for losses was factored into this interest income it was evident that the profit figure of ₦444.74million was suspect and unrealistic. Correspondingly, total expense increased from N436.86million in the year ended 31st December, 1995 to N1,932.59million in the year ended 31st March, 2000 and ₦3,418.99million for the year ended 31st March, 2004.The annual average growth rate in total expense in four-year period 2000-2004 was 19.23. Even though this was below the growth rate of total income, the fact that income in some years was not real did not give room for comfort. Total expense as a percentage of total income was very high throughout the ten-year period 1995-2004. It was lowest at 84.30% in the financial year 2002 and peaked at 97.10% and 97.45% in the financial years ended 31st December, 1997 and 30th April 2004 respectively. Undoubtedly, income level was exaggerated at least in 2004 which is also indicative of poor performance. The profit before tax (PBT) which was ₦36.40million in the financial year ended 31st December 1995, increased to ₦67.75million in the financial year ended 31st March 2000 and rose through ₦209.88million in 2001 to its highest level of ₦481.20million in 2002. From there it dropped to

₦474.42million and ₦444.74million in 2003 and 2004 respectively. The return on capital (ROC) as measured by the ratio of profit before tax (PBT) to total shareholders' funds increased from its lowest level at 3.38% in 1997 to 9.71% in 2000 and then to the highest level of 28.89% in 2002 before falling to 22.97% in 2003. Similarly, the return on assets (ROA) computed by the ratio of PBT to total assets rose from 0.53% in 1997 to 1.01% in 2000 and peaked at 4.26% in 2002 before declining to 3.11 in 2003. A defining moment for the bank as far as profitability was concerned was in 2003 as PBT, ROA and ROC decreased significantly from their levels in 2002. That was a trigger that bad times were ahead but the authorities at the bank failed to act to arrest its dwindling fortune. Given the management's financial misreporting, concealment of losses and huge under provisioning for loan losses and credit delinquency, it was obvious that the reported earnings performance did not reflect the true financial condition of the bank. A glaring evidence of window-dressing of accounts was the contrived profits of ₦444million as at 30th April 2004, at a time the bank made a provision of ₦3.13billion for loan losses while the required provision as at that date was ₦5.31billion. How real was the profit of ₦444million against the backdrop of ₦2billion under-provision?

2.5. LIQUIDITY

The bank appeared to be liquid throughout its lifetime. Over the period 1995 to 2004, the deposit liability grew from ₦1.63 billion to ₦11.71 billion except that deposit liability declined from ₦9.11billion in 2001 to ₦8.92billion in 2002 and from ₦11.80billion in 2003 to ₦11.71billion in 2004 (see Balance Sheet on Table 13). Also the increase of other Liabilities from ₦1.41billion in 2003 to ₦5.27billion in 2004 in the absence of detailed information on the component transactions call for caution in assessing the bank's liquidity profile. Meanwhile, the liquidity ratios computations by CBN based on the prudential returns submitted by the bank showed that it consistently attained the stipulated liquidity ratio benchmark. However, the management's penchant for financial misreporting could have led to the consistently satisfactory liquidity profile. If the liquidity profile is accepted as satisfactory, the pertinent issue arising there-from would be whether the management had the competence and skill to prudently manage resources at its disposal. Given, the huge quantum of non-performing credits (87% as of April 2004) it is obvious that the management did not judiciously deploy the deposit liability.

3.0 CORE REASONS FOR FAILURE

It is tempting to attribute the immediate cause of the bank's failure to the rather high regulatory capital introduced by CBN in July 2004. But as clearly shown in the preceding analysis, the bank was already in a precarious condition before the new capital requirement of ₦25billion announced in July 2004. As a matter of fact, the bank had a negative shareholder's fund of 0.93% as at 30th April 2004 and was adjudged to be technically insolvent. The core reasons for its failure were therefore endogenous while some of them are discussed below:

3.1 Meddlesome Shareholder Interference

The State Governments that promoted the bank's establishment failed to ensure that it operates like a commercial venture in accordance with its Articles of Association. Even though Government equity interest was about 40%, the bank was treated like a Government a wholly-owned parastatal to be issued with directives without consideration of the negatives impact of such directives on its viability. A case in point was the directive that two executive director positions be created to be occupied by nominees of Kwara and Kogi States Governments thereby reversing the earlier decision of the Board that scrapped the executive director position as a cost-saving measure. Even if the bank needed to have executive directors, should the appointees be restricted to the two states and the selection process not open to all qualified professionals from the financial system given that the bank is a public liability company funded by deposits mobilized from the banking public? Furthermore, changes of administrations in the two states induced frequent changes of their nominees to the Board (except for the Chairman's position) thereby causing instability of the Board. Ironically, while the State Governments were disposed to exercise control disproportionate to their equity interest in the bank, they were not committed to ensuring its viability. In this regard, the bank's exposure of ₦1.3billion (or about 16% of the credit portfolio) to Governments and their agencies was classified as non-performing while the two State Governments failed to subscribe to the bank's public offer of shares geared toward consummating a merger under the bank consolidation programme of CBN. In effect, the two State Governments contributed in no small measure to the failure of the bank.

3.2. Board inertia

The Board's actions and inactions showed that it lacked strategic direction and failed to provide purposeful leadership. For example, based on unsubstantiated allegation of receipt of gratification by management staff before approving credit requests of borrowers, it withdrew the credit approval authority of management at all levels and took over credit approval function for which it was ill-equipped. A significant proportion of credits approved by the Board later became hardcore debts. The assumption of management function by the Board undermined good corporate governance principles which entail checks and balances. Also, Board Committee meetings were irregular. For example, at a time the bank was saddled with huge volume of classified credits, the Board Debt Recovery Committee met thrice in one year while the Board Audit Committee met once over the same period in spite of the prevalence of fraudulent practices and serious internal control lapses. Furthermore, the Board failed to put in place a succession planning framework. As a matter of fact, the Board aborted the Business Process Re-engineering project initiated by it. It failed to implement the recommendations of the Consultant appointed for the BPR project which included the appointment of a successor to the long-serving MD/CEO and redesign of the information technology system as well as staff rationalization. The only recommendation implemented was the disengagement of 5 management staff and 37 other employees. Available evidence also showed that credit facilities extended to ex-directors of the bank were non-performing while the affected ex-directors refused to service their debt obligations to the bank. Furthermore, the non-disclosure of the bank's equity investment in the stock broking company and the property company in the bank's financial statement and concealment of losses bore testimony to the Board's ineffectiveness and constituted dereliction of its fiduciary duty to stakeholders. Without any doubt, the Board's lack-lustre performance contributed significantly to the bank's failure.

3.3 Inept Management

The management engaged in unethical, unwholesome and fraudulent practices which contributed immensely to the bank's failure. The undesirable practices included financial misreporting to stakeholders, concealment of losses by posting of fictitious income to branches and Treasury Department, automatic roll-over of credits classified lost by the bank to contrive healthy status and non-disclosure of equity investment in two companies in the bank's financial statement. Also there were numerous violations of banking laws, rules and regulations. The quality of employees was adjudged to be poor while the bank's remuneration package was uncompetitive by industry standards. An ill-motivated workforce cannot compete in a dynamic and competitive environment. All these factors contributed to the bank's inability to survive.

3.4 Absence of risk management

The absence of effective risk management process and non-adherence to prudent canons of lending resulted in a huge quantum of non-performing credits which was as high as 89% of total credits as of April 2004. The huge provision requirement resulted in accumulated losses and erosion of capital.

Consequently, the bank had a negative shareholders fund of ₦4.7billion as at 30 November 2005 and was considered unsuitable for merger by Afribank Plc.

3.5 Under – Capitalization

A bank's capital should grow in tandem with its risk profile to ensure its viability. However, in the case of Trade Bank, its management resorted to concealment of losses to hide insolvency. When capital injection became the only saving grace for the bank, its public offer was hugely under-subscribed. The two State Governments that hitherto exercised overwhelming control failed to subscribe while the major core subscriber surreptitiously withdrew its fund from the CBN. The huge negative shareholders fund and failure of the bank's public offer spelt its death-knell. Unsurprisingly, the bank's licence was revoked and it became a candidate for liquidation.

4 FAILURE RESOLUTION

Before the revocation of the bank's licence on 16th January 2006, the CBN removed its Board and management on 13th January 2006 and appointed a two-man Interim Management Committee (IMC) to superintend over its affairs. The IMC was mandated to prepare a Statement of Affairs, embark on debt recovery and implement cost-control measures. Essentially, the IMC was to serve as a conservator.

Sequel to the revocation of banking licence on 16th January 2006, NDIC filed an application before the Federal High Court to be appointed liquidator in keeping with the provisions of BOFIA 1991 as well as an application for a winding-up order. Both applications were granted on 28th February 2006 and NDIC took over from the IMC with effect from 1st March 2006. Thereafter, the liquidation processes commenced in earnest. At the conclusion of the bank consolidation programme, Purchase & Assumption (P&A) was adopted as the failure resolution option for all the banks that failed to attain the new regulatory capital. Under the P&A, full guarantee was provided for all private sector depositors while public sector deposits would be redeemed from the proceeds of sale of the residual assets of the failed banks.

In pursuit of the P&A resolution mechanism, NDIC invited all the healthy banks in operation to bid for the acquisition of assets and liabilities of the failed Trade Bank. At the end of the bidding process, United Bank for Africa (UBA Plc) was adjudged the successful bidder. It acquired mainly the branch network and other fixed assets and avoided the credit portfolio. It equally assumed the private sector deposit liabilities while the CBN had to issue Promissory Notes to cover the funding gap between assets acquired and liabilities assumed. NDIC had to take over the un-acquired assets which were mainly non-performing loans for realization while UBA formally took over the acquired assets and liabilities of the defunct bank on 15th January 2007.

A summary of NDIC's liquidation activities as at 31ST December 2012 is provided below:

Total deposit at closure	-	₦10.50 billion
Total deposit paid	-	₦7.87billion
Total credit portfolio at closure	-	₦11.90billion
Cumulative debt recovery	-	₦3.51billion
Sale of fixed assets and chattels	-	₦1.47billion

As liquidator, NDIC had vigorously pursued debt recovery and the irregular payment of brokerage fee on ₦2billion subscription to the bank's public offer. With particular reference to the payment of ₦49.3million to an individual, NDIC as liquidator wrote to the beneficiary of the payment to refund same given that the subscription money had been withdrawn from the CBN. The beneficiary ignored NDIC's letters on the issue. The Liquidator was compelled to refer the matter to the Economic and Financial Crime Commission (EFCC) for further investigation and recovery through its letter Ref: NDIC/LU/CVM/93/vol1/7830 dated 18th May 2007. Given that there was no response from EFCC on the action being taken, a reminder letter was issued to the EFCC. Similarly, the assistance of House of Representatives

Joint Committee on Capital Market and Banking & Currency that had shown interest in trapped investors' funds, was sought in May 2008. However, it was after criminal charges were filed at the High Court of Lagos State by EFCC that individual refunded the irregular payment in order to evade criminal prosecution. Upon confirmation of payment to the liquidator, the EFCC withdrew criminal charges filed before the Lagos State, High Court.

5 LESSONS LEARNT AND CONCLUSION

The failure of Trade Bank Plc provides some learning points for policy makers, regulators, shareholders, bank management, academics and other stakeholders. Some of the lessons are listed below:

5.1 Any State Government that owns or seeks to own a bank must allow the bank to operate as a commercial venture whose operations would be driven by business imperatives rather than political considerations. Banks derive the resources for conducting their operations from the banking public and are highly leveraged and their failure are potentially harmful to the macro-economy. Banks should not be run like state-owned enterprises which rely on the owner governments for the bulk of their funding. Governments should realize that their equity stake in commercial banks owned by them is a small fraction of the resources at the bank's disposal. They are therefore, minority stakeholders while the bank is accountable to the entire spectrum of stakeholders. If this lesson had been learnt by the Kwara and Kogi State Governments, their meddlesome interference in the conduct of affairs of Trade Bank Plc would have been avoided.

5.2 The Board of directors of a bank that is a public limited liability company should be alive to its fiduciary responsibilities to stakeholders. It should neither succumb to ill-conceived directives of its owner Government(s) nor abdicate its oversight responsibility on management. Abdication of responsibility by a Board would render it ineffective and provide opportunity for unethical practices by management as happened in Trade Bank.

A Board must provide purposeful leadership and strategic direction to ensure the long-term viability of a bank under its supervisory purview. On no account should a supervisory Board seek to transform itself into a management Board as happened in Trade Bank.

5.3 A bank's viability depends largely on the quality of its management. Management's policies and actions should be driven by accountability, transparency, probity and professionalism. The absence of these attributes in Trade Bank resulted in unethical, fraudulent and unprofessional practices, such as rendition of false returns to the Regulatory Authorities, window-dressing of accounts, non-disclosure of investment in subsidiary or joint-venture companies, non-adherence to canons of prudent lending and concealment of losses. These unwholesome practices resulted in insolvency and revocation of banking licence.

5.4 The refund of ₦2billion and ₦5million by CBN directly to two subscribers to the bank's public offer in December 2005 was a major cause of the failure of the bank's public offer. Without the refund by CBN, the bank had satisfied the 25% benchmark stipulated by SEC. In the absence of any threat to funds held in escrow account at CBN, the basis of the refund by CBN remained un-clear. As a major safety-net player, CBN should have returned the subscription monies to the Registrars to the public offer if refund to subscribers became inevitable. The lesson learnt is that all safety-net players should play by the rules to build trust and promote mutual confidence amongst safety-net participants.

5.5 Any bank that is unable to raise fresh capital to redress its capital deficiency is bound to fail as was the case with Trade Bank.

In conclusion, the case study shows that the Kwara and Kogi State Governments treated the bank like a State-owned enterprise by giving directives that threatened its viability to the Board and by wielding control not justified by the quantum of their equity stake in the bank. The Board on its part failed to provide purposeful leadership and strategic direction while the management had engaged in unethical and unprofessional practices which resulted in operational losses through huge provisions for non-performing credits and erosion of capital. The shareholders lacked the capacity to inject fresh or raise fresh capital through public offer in order to restore capital erosion. Furthermore, the effort to meet the new regulatory capital through merger with Afribank Plc was unsuccessful. The bank remained chronically insolvent. Hence, its failure was inevitable. The bank's failure has provided some learning points for various stakeholders.

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