COOPERATIVE & COMMERCE BANK CASE STUDY

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Cooperative & Commerce Bank Case Study

Background

Cooperative and Commerce Bank was incorporated in 1961 as a Private Limited Liability Company by the defunct Eastern Nigeria Government and it operated as a Commercial Bank. Upon the creation of states in 1967 – the 12 states structure in Nigeria, its ownership was vested in the government of East Central State which later became Anambra and Imo States. Thus the bank was owned by two State Governments and their respective cooperative movements.

The bank expanded in operations and grew to a branch network of 62 (sixty two) branches with a staff strength of 2,843 (two thousand eight hundred and forty three). However, its management was not able to sufficiently manage this expansion and by 1990, it consolidated some branches and reduced the total number to 29. As of January 1991 its paid up capital was NGN25,329,000 (twenty five million three hundred and twenty nine thousand).

At closure in 1998, paid-up capital was estimated at -NGN2, 510,100,000 (negative two billion five hundred and ten million one hundred thousand naira).

Review of issues

1. Ownership

The bank was owned by Anambra and Imo State Governments and their respective Cooperative Societies until 1991. With the creation of new states from existing ones in August 1991, new shareholders were introduced. On 25 September 1991, through a resolution passed at an Extra-Ordinary General Meeting, the bank became a public company. Its share capital was raised from NGN25,000,000 (twenty five million) to NGN60,000,000 (sixty million) by the creation of 70 million ordinary shares of 50kobo each. This public offer was necessary to meet the new statutory minimum capital requirement of NGN50,000,000 (fifty million naira) since the governments that owned the bank were unwilling to increase state ownership. *(See Exhibit 1)*

The Board that passed the resolution to make the bank a public company had to fight a number of legal battles with the owner governments before it succeeded in taking it to the Nigerian Stock Exchange. Although the bank's shares were subsequently oversubscribed, it had to pay a penalty of NGN1,800,000 (one million eight hundred thousand naira) to the Central Bank for failure to meet the cut-off date.

At the time when NGN35,000,000 (thirty five million) new capital was injected into the bank, it had been adjudged technically insolvent by the regulators. This was because the examination carried out on the bank by regulators as at 31 January 1991 had recommended that at least NGN442,600,000 (four hundred and forty two million six hundred thousand naira) was needed as fresh equity injection to keep the bank afloat. By January 1998, the owner's capital was placed at –NGN2,510,100,000 (negative two billion five hundred and ten million one hundred thousand naira).

2. The Board of Directors

Up till 1991, Board members of the bank were drawn from owner – State Governments and their respective Cooperative Societies. Each owner entity had two nominees, making 12 board members excluding the Managing Director. Board quorum was formed with seven members present as long as each of the State Governments was represented. The bank had periods when Anambra State Government withdrew its nominees from the board, depriving the board meeting of the required quorum.

This situation changed when the bank became a public company with diversified shares that made the State Governments minority shareholders. The newly constituted Board of the bank as a Public Company was comprised of 12 members. This Board is credited with successfully diversifying the share ownership of the bank, the spirited sale of the bank to other Nigerians and its attempts to rationalize the staff by 700. However, the Board had to deal with the serious liquidity issues and other problems that plagued the bank. The Central Bank had imposed certain holding actions on the bank including:

i. Restriction on further lending and an embargo on new capital projects
ii. Sizeable reduction of the large portfolio of non-performing loans
iii. Recapitalization of the bank by its owners

iv. Development and submission of a credible turn-around plan

v. Correcting all the areas of operational weakness identified in the January 1991 Examination report

Apart from the sale of shares which raised the capital base, the Board essentially ignored all of the holding actions imposed by the Central Bank. Rather than pursuing actions that could guarantee the long term sustainability of the bank, the Board usurped management's powers and responsibilities. It met twice a month and stifled management decisions such as not allowing attempts to enforce disciplinary measures or reducing the bloated workforce. Board members became credit merchants, granting loans without recourse to the Board or the bank's management including unsecured facilities to non-performing accounts. This was in violation of the Central Bank's holding actions.

The Board approved housing loans for themselves of NGN2,000,000 (two million naira) each at 7% interest. It acquired a property for the bank in Jos, Plateau State for NGN4,650,000 (four million six hundred and fifty thousand naira) in addition to the existing rented property branch of the bank at Jos, for which five years rent had been paid in advance. This was against management advice. The Board expended a total sum of NGN6,400,000 (six million four hundred thousand naira) to renovate its property at 17/19 Nnamdi Azikiwe Street, Lagos. However, there was no building at the site when visited by inspectors.

Several staff members of the bank who were indicted for fraud or illegal lending practices could not be summarily dismissed or prosecuted due to the intervention of Board members. The Board members individually interfered with the process of enforcing discipline in the bank.

3. The Management

The size of the bank's management was considered a serious impediment to its effectiveness. There were nine layers of management in the bank. In addition to this, it had 29 branch managers reporting to Area Offices in Aba, Onitsha, Lagos and Kano and a regional office in Owerri. These area offices and regional office were unable to perform their duties as the head-office dealt directly with the branches. Many of the positions were redundant causing an unnecessarily bloated wage bill. The most severe challenge was that there were no clearly defined roles and responsibilities for the various cadres of management staff and reporting lines were opaque. The muddled organizational structure created confusion, indiscipline and open loopholes for fraud and unauthorized lending.

4. Accounting Systems & Control

The bank started a computerization program in 1990. By 1991, only 9 out of its 61 branches had their current accounts computerized. The deposit and other accounts were manual across all the branches. The Board initiated another computerization program without involving management. It disbursed NGN64,000,000 (sixty four million naira) for the contract and by July 1993, there was no sign of the contract performance. The manual processes gave rise to fraud especially at the processing centres where accounts were manipulated to effect fictitious credits such as illegal withdrawals by fraudsters of N2,855,010 (two million eight hundred and fifty five thousand ten naira) at Sokoto Road Branch and N3,152,004 (three million one hundred and fifty two thousand four naira) at Niger Bridge Branch.

The bank's accounting staff were ill-trained and poorly supervised, giving rise to deficiencies such as:

i. Long outstanding items in the reconciliation statement with CBN – This concealed a large debit balance of NGN280,901,951.24 (two hundred and eighty million nine hundred and one thousand nine hundred and fifty four naira twenty four kobo) as at 31 May 1993

ii. Long unreconciled items in the inter-branch accounts

iii. Many unreconciled items in the house ledger

iv. Poor record keeping including unauthenticated cancellations and entries and alterations in pencil

v. Weak internal control including non-enforcement of policy guidelines as well as the unbridled lending by the Board, management and staff of the bank

vi. Contravention of rules and regulations on foreign exchange – The bank circumvented CBN guidelines requiring banks to surrender to the CBN any unutilized allocations and instead rolled such balances over to other periods. It also charged customers commissions of between 2 and 9,9% rather than the 1% stipulated by the Bankers Tariff

5. Loans and Advances

i. Imposition of Holding Actions

The bank was overburdened by a large portfolio of bad quality loans, and this prompted the Central bank in 1991 to restrain the bank from granting fresh loans. This position was reviewed on 29 September 1992 with the following stipulated conditions:

(a) Authentication for fresh loans to be done at the highest level of the bank

(b) The loans must go to prime customers

(c) First class collateral such as deposit or government securities is required

(ii) Rather than comply with these conditions, loans were granted by the Board and management without any restraint or coordination. The bulk of loans were granted to delinquent debtors of the bank who had been unable to service existing facilities, thereby compounding their indebtedness to the bank and worsening the bank's liquidity. *(See Exhibit 5 for sample)*

(iii) The bank's credit management guidelines had stipulated the creation of two committees: (1) the

Credit Committee – to establish operating, accounting, monitoring and reporting systems and procedures; and (2) The Commitment Appraisal Committee – to implement policies on credit facilities as approved by the Board. Only the Credit Management Committee was set up and it was unable to effectively carry out its functions. The Board weakened the bank's credit policies. It extended its limits, reduced interest payable by Board members, extended repayment periods for themselves.

(iv) Branch Managers also engaged in illegal credit activities breached their credit limits and participated in fraudulent activities. There were instances when the Personal Assistant to the Managing Director instructed Branch Managers to grant credit to customers without prior Board or Management approval.

(v) As at 31 May 1993, the bank's total loans and advances stood at NGN1,485,377,880 (one billion four hundred and eighty five million three hundred and seventy seven thousand eight hundred and eighty naira) 70% of these loans and advances were defective.

6. Liquidity & Fund Management

6. **Liquidity & Fund Management**

The bank's liquidity and fund management was plagued by the managerial and operational inefficiencies that were the hallmark of the organization. Head Office deposits and placement activities were not coordinated with similar operations in Lagos. Funds placed with or by other banks matured and were written off in Lagos several days before their entries were made in the head office. Foreign exchange operations at the head office were managed independently of the treasury.

The bank's deposit mobilization trend had been impressive; however, the improvements over the years were swallowed up by reckless placements in dubious finance houses and uncoordinated loans and advances to non-performing accounts. Improvements in deposit mobilization did not translate into reduction in its debit balance with the CBN. While that debit stood at NGN280,000,000 (two hundred and eighty million naira) in 1993, many of the bank's branches kept large cash volumes above their approved and insured limits. The excess cash position was the bases for illegal and unauthorized lending in branches. This they did rather than transferring the excess cash to reduce the bank's debit position in its CBN current account.

The bank's interbank placements handled by its Treasury also were concentrated in a few banks and finance houses; many of who defaulted when the placements matured. Such defaulted placements were then rolled over, and were treated as loans, thereby swelling the bank's non-performing portfolio of loans. For example, on its own, and without reference to the Treasury, the Corporate Finance Unit in Enugu invested NGN44,300,000 (forty four million three hundred thousand naira) in Majestic Securities Ltd, and a total of NGN18,350,000 (eighteen million three hundred and fifty thousand naira) was placed with Credible Finance Ltd. The bases of such large placements in single finance houses seem questionable in view of the fact that the paid up capital of these finance houses was N5,000,000 (five million naira).

7. Income and Expenditure

Over the years, the bank's income had grown appreciably and this income came mainly from interest on loans and advances. The interest income on which the bank relied for determining its profit was generated largely on interbank placements from which it had serious difficulty in collecting proceeds. The examiners had concluded that the bulk of the bank's interest and investment earnings were mere paper incomes that were not realizable. However, as this income appeared to grow, so too did operating expenses of the bank. The growth of the bank's overhead expenses had been a recurring issue raised by its external auditors but the management seemed to be unable to curb these expenses.

The bank was unable to standardize its product pricing with respect to interbank placements and investments with finance houses. Different rates were charged to different beneficiaries for no clear reason. *(See Exhibit 6)*

Conclusion

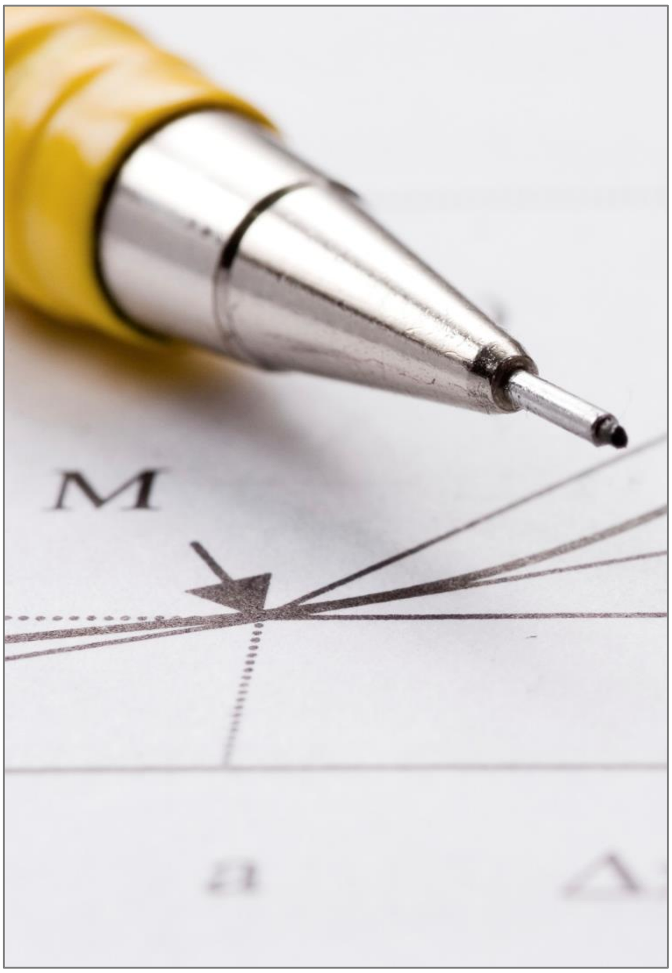
At the time of the withdrawal of its banking license, Cooperative and Commerce Bank had been in operation for 37 years. Various issues culminated in the eventual demise of the bank; however we can safely note that existing prudential regulation provided the ambits within which the bank could have survived had it obeyed these and strengthened its operations. Following a review of the facts available, we can answer the following questions amongst others:

i. What led to the eventual closure of Cooperative and Commerce Bank?

ii. What were the functions of the Board of Directors of this bank and how did their actions impact on the bank?

iii. What more could the regulator have done to curb the losses?

iv. How long should Cooperative and Commerce bank really have existed?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EXHIBITS 1-13

Ownership Structure, Commencement Board, Sequence on Loans Granted, Sample of Loans Granted to Delinquent Customers, Loans Granted to Individual without Prior Approval, Interest Rates Charged on Interbank Placements, Deposit Trends, Income from Interest on Loans and Advances, Bank's Organogram, Financial Profile as at Revocation of Licence, Deposit Payout as at December 2004 and December 2014, and Liquidation Dividends Paid to Creditors at December 2014.

Exhibit 1 – Ownership Structure August 1991

	OWNERSHIP	NO OF 50K SHARES	(%)
i.	Government of Imo, Abia, Enugu and Anambra States	27, 540, 000	24.7
ii.	Cooperative Societies of Imo, Abia, Enugu and Anambra States.	12, 752, 442	11.44
iii.	Other Nigerians	71, 201, 460	63.86
	Total	**111, 493, 902**	**100.00**

Exhibit 2 – Commencement Board of Bank as a Public Company

1. Barr. E.C. Okwuosa - Chairman
2. Mr. E.N Egbunike - Managing Director
3. Prince R.O. Ozobu - Member
4. Chief E.O. Achu - Member
5. Chief S.N.O Adighibe - Member
6. Lady V.U. Nwigwe - Member
7. Dr. R.U. Igwebuike - Member
8. Mr. F.S. Igwe - Member
9. Ichie C.O. Okpalla -` Member
10. Chief Sab I. Ejimofor - Member
11. Barr. O.I. Njemanze - Member
12. Mr. F.R. Angahile - Member

Exhibit 3 – Sequence on Loans Granted

Date	Loan Granted by	Amount (NGN)
Nov. 1991 to Sept. 1992	Board of Directors	32.2 million
Sept. 1992 – June 1993	Board of Directors	181.9 million
Sept. 1992 – June 1993	Corporate Finance and Treasury	160.0 million

Exhibit 4 – Sample of Loans Granted to Delinquent Customers

Company	New Loan Granted (NGN)	Existing Loan (NGN)	Total Indebtedness (NGN)
Ibeto Group	10.0 million	55.0 million	73.0 million
Mitchelson Nig. Ltd.	5.0 million	8.5 million	11.8 million
Bessoy Nig. Ltd	6.0 million	1.0 million	14.76 million

Exhibit 5 – Loans Granted to Individual Customers without Prior Approval

Customers	Approving Entity	Amount (NGN)
Nkalagu Cement Company	Member of bank board/who was also on the Nkalagu Cement Board.	10.0 million
Soyut Nigeria Ltd.	Mr. E.C. Okwuosa (Chairman of Board)	5.0 million
Bessoy Nig. Ltd	Board	5.0 million
Bessoy Nig. Ltd	Management	4.0 million

Exhibit 6: Interest Rates Charged on Interbank Placements

BENEFICIARY	PLACEMENT (NGN)	INTEREST CHARGED (%)
Merchant Bank of Nigeria	57.0 million	60.0
NBCI Merchant Bank	15.0 million	42.0
Merchant Banks	10.0 million	58.0
Genesis Finance	10.0 million	42.0
Capital Development	10.0 million	42.0

Exhibit 7: Deposit Trends 1987 – 1993

Year	Fixed Deposit	% Change	Demand Deposits	% Change	Savings Accounts	% Change	Total	% Change
1987	111, 183	12.7	163, 787	20.8	158, 563	15.4	433, 533	16.7
1988	233, 126	209.7	248, 693	51.8	200, 797	26.6	682, 616	57.4
1989	295, 200	26.6	279, 813	12.5	291, 833	45.3	866, 846	27.0
1990	163, 638	44.6	239, 054	14.6	407, 539	39.6	810, 231	6.5
1991	191, 766	19.0	388, 824	41.7	612, 961	50.4	1, 146, 246	41.7
1992	205, 453	5.5	449, 294	32.6	927, 923	51.4	1, 582, 670	37.2
1993	188, 993	8.0	633, 904	41.1	1, 282, 029	38.2	2, 186, 787	38.2

Exhibit 8: Income from Interest on Loans and Advances

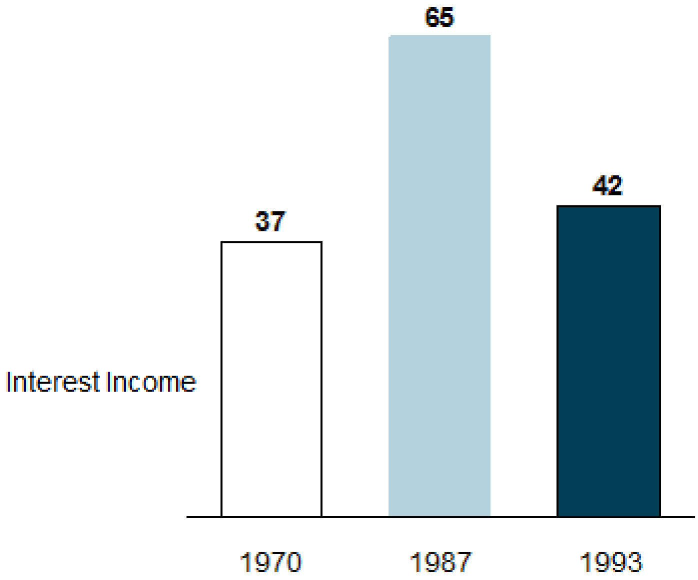

Exhibit 9: Case Writers Rendering of Cooperative and Commerce Bank's Organogram in 1991

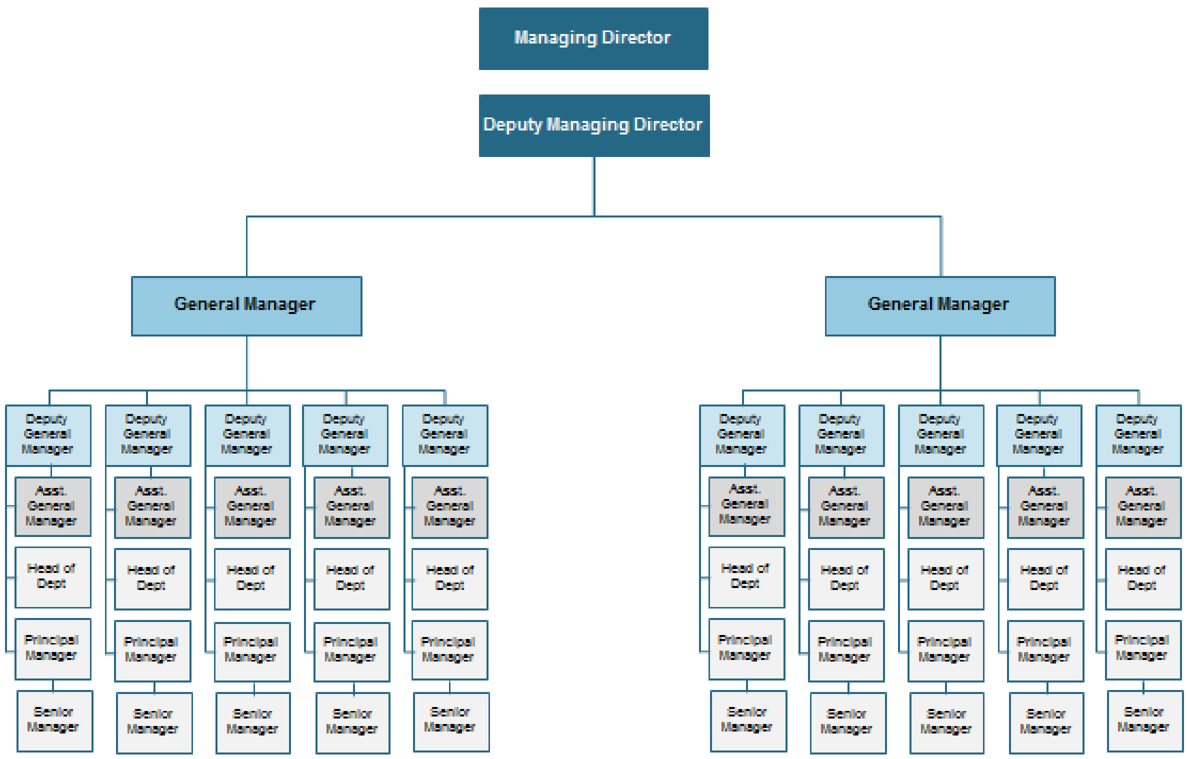

EXHIBIT 10: Financial Profile of the bank as at the Date (16th January, 1998) of Revocation of its Licence

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)	INSIDER LOANS TO TOTAL LOANS (%)	RATIO OF NON-PERFORMING LOANS TO TOTAL LOANS (%)	ACCUMULATED LOSS (₦' MILLION)
2732	-40.2	-96.39	-36.41	-609.6	0	82.91	-2510.1

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

EXHIBIT 11: Deposit Payout as at December 31st, 2004

TOTAL DEPOSITS AT CLOSURE (₦ MILLION)	TOTAL INSURED DEPOSIT (₦ MILLION)	TOTAL INSURED DEPOSIT PAID (₦ MILLION)	LIQUIDATION DIVIDED		
			RATE%	AMOUNT DECLARED (₦ MILLION)	AMOUNT PAID (₦ MILLION)
1955.853	1366.915	883.578	65.86	1314.45	704.81

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

EXHIBIT 12: 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 DEPOSITS (₦) MILLION	TOTAL PAID INSURED (₦) MILLION	№ OF INSURED DEPOSITORS PAID	TOTAL EXCESS PAID (₦) MILLION	№ OF UNINSURED DEPOSITORS PAID
1,915.587	364,239	1366.666	548.921	885.368	71,441	719.370	2,373

SOURCE: NDIC Annual Report and Statement of Accounts 2014.

EXHIBIT 13: Liquidation Dividents Paid to Creditors as at 31st December, 2014

№ OF FILED CLAIMS (CREDITORS)	№ OF CREDITORS PAID	AMOUNT DECLARED FOR GENERAL CREDITORS (₦' MILLION)	AMOUNT PAID TO CREDITORS (₦' MILLION)	REMARK
585	465	193.97	116.98	100% declared

SOURCE: NDIC Annual Report and Statement of Accounts 2014.

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