CENTRAL BANK OF NIGERIA, ABUJA

Press Conference

BY

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ON

The Outcome of the Banking Sector Recapitalization and the Way Forward for the Undercapitalized Banks

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Ladies and Gentlemen of the Press,

You will recall that the Central Bank of Nigeria, on July 6, 2004 announced a reform programme for the nation's banking industry, the main thrust of which required the 89 deposit money banks then in the system to raise their capital base to a minimum of N25 billion each through injection of fresh capital and/or mergers and acquisitions.

It is gratifying to report that the program has thus far been very successful. At the close of the first phase of the consolidation programme on 31st December 2005, 25 banks have emerged having met the minimum capitalization requirement.

In our press release of January 2, 2005, which was intended to guide the banking public, we announced the names of the 25 banks. You would have noticed that the list included the four foreign owned banks operating in Nigeria despite their initial hesitation. Let me use this opportunity to thank all Nigerians for their support throughout the implementation phase of this programme. In due course, I will have a chance to present a detailed review of the recapitalization exercise and the agenda for the next phases of the reforms.

At this present conference, our goal is to communicate the decision of the CBN Board of Directors on the fate of the banks that failed to meet the recapitalization requirement as well as steps being taken to ensure that depositors of those banks do not lose their money.

Attached to this presentation are the details of the 25 banks (i.e. the constituent member banks) and a list of those that did not make it.

<u>Outcome of the Consolidation exercise?</u>

Twenty-five banks emerged from 75 banks, out of a total of 89 banks that existed as at June 2004. The successful banks account for about 93.5% of the deposit liabilities of the banking system. In the process of complying with the minimum capital requirement, N406.4 billion was raised by banks from the capital market out of which N360 billion was verified and accepted by the CBN; and also the process led to the inflow of FDI of US$652 million and 162,000 pounds sterling. Aside from the shrinkage of banks to 25 and the heavy capital mobilization, there are other benefits;

- The liquidity engendered by the inflow of funds into the banks induced interest rate to fall drastically while an unprecedented 40% increase has been recorded in lending to the real sector.

- With higher single obligor limit, our banks now have greater potential to finance big ticket transactions.

- Already, more banks now have access to credit lines from foreign banks (one recently received $250 million from two foreign banks--- this is unprecedented.

- Ownership of the banks has been diluted. This will in no small way tame the monster of insider and corporate governance abuse.

- With virtually all the banks now publicly quoted, there is wider regulatory oversight; with SEC and NSE joining the team. Regulatory resources would now be focused on fewer and more stable banks.

- Depositor confidence is bound to be greater and interest rate on deposit lower due to “safety in bigness” perception by depositors.

- The banks will of course enjoy economies of scale and consequently, pass on the benefit in the form of reduced bank charges to their customers.

- The capital market deepened and consciousness about it increased significantly among the population. The market has become more liquid and the total capitalization markedly increased.

As is to be expected, there are bound to be integration challenges in the new banks. In this regard, the CBN is poised to address such concerns. Some of the measures intended to address the corporate governance and integration issues in the consolidated banks are:

- A new Draft Code of corporate governance for banks has been issued to the industry in the spirit of transparency and constructive consultation. At a later date, a stakeholders forum will deliberate on the new Code of Conduct before we finalize it.
- The CBN will closely monitor the banks to ensure that the provisions of the merger schemes documents are complied with.
- The CBN maintains a black book of discredited practitioners in the system. The black book is being

automated for easy identification of persons on the list. Meanwhile, the list of debtors of banks is being screened to ensure that no non-performing debtor is left on the Boards of the 25 banks

- Zero tolerance regarding infractions; misreporting; non-transparency; etc. This was one of the 13 points in the reform programme which we intend to strictly apply now that the first phase of the programme has been concluded.
- The supervisory process is also being reformed:
  - The prudential supervision arm of the CBN is migrating to a risk-based approach to supervision. The framework for this has been released and implementation process is close to launch.
  - The capacity of supervisors is being enhanced through training, especially in risk management.
  - The supervision software deployed in the CBN has been significantly upgraded and is now being operationalised.

■ A post consolidation due diligence exercise is slated to be carried out on all the banks within the first quarter of this year.

- The exercise would involve a re-verification of each bank's capital to prevent or eliminate any incidence of "bubble capital".
- In the event that a bubble that had existed bursts, a contingency plan, which includes getting stronger banks to acquire any shaky bank, is in place and the CBN stands ready to play its role as lender of last resort.

At the expiration of the December 31 2005 deadline, a number of banks failed to secure merger partners and were not able to make the minimum capitalisation requirement on their own. Towards the end of the first phase of the exercise, eight banks hurriedly formed themselves into a group (Alliance Group) when they failed to secure merging partners. All of them were bedeviled by poor operational performance, insider abuse, poor corporate governance and negative networth. The group negative shareholders fund was N54.3 billion. The CBN compassionately reviewed the proposal for merger and granted a conditional Approval-in-principle on the strong affirmation by the promoters of the group that they would recover and pay into a CBN escrow account the sum of N10.5 billion insider-related debts before December 30, 2005.

The Alliance Group did not comply with the conditions of the AIP and CBN on January 4, informed the group that the AIP had lapsed as a result of its inability to meet the stipulated conditions.

Another group of 6 banks that could also not meet the recapitalization conditions were characterized by precarious financial conditions. This brings the number of unhealthy banks in the system to 14. In CBN's last ditch effort to save these banks the 25 healthy banks were invited to absorb any bank of their choice among the group. Unfortunately, no serious effort has been made to absorb any of the weak banks.

In the interest of the credibility of the reform agenda, and in the interest of the general public, we have decided to take some decisive steps. We have repeatedly made our position clear that we are not going to extend the compliance deadline. The general public is therefore awaiting the next line of action. In the exercise of the powers conferred upon us by the Banks and Other Financial Institutions Act, the operating licenses of the following 14 banks are hereby revoked. The Banks are as follows:

1. African Express Bank
2. AllStates Trust Bank
3. Assurance Bank of Nigeria
4. City Express Bank
5. Eagle Bank
6. Fortune International Bank
7. Gulf Bank
8. Hallmark Bank
9. Lead Bank
10. Liberty Bank
11. Metropolitan Bank
12. Societe Generale Bank
13. Trade Bank
14. Triumph Bank

The Nigeria Deposit Insurance Corporation (NDIC) has also been directed to obtain court approval to commence the process of liquidation of the affected banks.

I wish to reiterate at this juncture our earlier assurance to the private depositors of these banks that their deposits are safe. It is pertinent to state here that the guarantee of 100% payout of private sector deposit covers both individual and corporate depositors.

The premises of the banks are being protected by the Police while examiners will immediately move into the banks for final deposit verification and the compilation of the depositors registers. Negotiation will also commence soon with the 25 banks for the payment or transfer of such deposits for safety and security reasons. All these should be completed within 90 days.

Finally, I would like to appeal to the banking public, especially the depositors in the failed banks and other stakeholders to cooperate with the CBN and the NDIC. Our goal is that all stakeholders --- especially the depositors--- will not suffer undue inconveniences in the process of liquidation.

I thank you for your attention.

Banks that Have met 25 billion Naira

1. Access Bank
2. Afribank
3. Diamond Bank
4. EcoBank
5. Equitorial Trust Bank
6. First City Monument Bank
7. Fidelity Bank
8. First Bank Plc
9. First Inland Bank
10. Guaranty Trust Bank
11. IBTC-Chartered Bank
12. Intercontinental Bank
13. Nigeria International Bank
14. Oceanic Bank
15. Platinum Bank
16. Skye Bank
17. Spring Bank
18. Stanbic Bank
19. Standard Chartered Bank
20. United Bank of Africa
21. Sterling Bank
22. Union Bank
23. Unity Bank
24. Wema Bank
25. Zenith Bank Plc.