PRESS RELEASE
ON THE
REVOCATION OF THE BANKING LICENCE OF
PEAK MERCHANT BANK LIMITED

1.0 INTRODUCTION

1.1 The Central Bank of Nigeria hereby announces the revocation of the banking licence of Peak Merchant Bank Limited as gazetted on Friday, 28/2/03 in line with section 12 [d] of the Banks and Other Financial Institutions Act (BOFIA) 1991 as amended

1.2 Peak Merchant Bank Limited was licensed on 15th February 1991 with its headquarters at No. 12 Adetokunbo Ademola Street, Victoria Island, Lagos. It had 8 branches and operated with a staff strength of 100 [26 Senior and 74 Junior] and a six-member board headed by Sir M.A. Oluokun whose son, Bolaji Oluokun was the Ag. Managing Director/CEO

2.0 THE BANK'S FINANCIAL CONDITION

2.1 Based on off-site supervisory review, the bank's performance for the third quarter of year 2001 was rated "marginal" and that put Bank Supervisors on the alert. Among the specific weaknesses observed then were:

i. a huge net interbank takings of N2.2 billion as at September, 2001.

ii. its current account could not absorb the cash reserve requirement for the month of September 2001.

2.2 As a result of the observations, the bank was requested through a CBN letter dated 16/11/2001, to take decisive steps to prevent further deterioration of its condition.

2.3 PETITIONS AND SPOT CHECK ON THE BANK'S LIQUIDITY

2.3.1 The CBN also received in the third quarter of year 2001, a number of petitions, which sought the CBN's assistance to recover deposits that were trapped in the bank. The volume of such petitions and the magnitude of the amounts involved prompted the CBN to conduct a spot check on the bank early in December 2001 to determine the extent of its liquidity problem with specific focus on the matured obligations, which the bank had failed to meet.

2.3.2 **The spot check revealed, among others, that the bank had a total of N1.127 billion overdue obligations that it could not meet as at December 3rd 2001**

2.3.3 It was discovered in the course of the spot check that the proximate cause of the bank's precarious financial condition included an abortive commodity [rice] importation into which it ventured in September 2000 resulting eventually in a loss of about N1 billion.

2.3.4 The spot check also revealed that the bank's financial condition was very precarious as the bank no longer performed core-banking operations. It no longer booked loans and advances but depended on interbank and distressed borrowings to fund some of the repayments it had to make.

2.3.5 Following the report of the spot check, a meeting was held with the Board and Management of the bank on 19th December 2001 where the bank was given two weeks to:

[a] inject new funds into the bank to take care of all matured obligations and regularize its overdrawn position with the CBN;

[b] enter into strategic alliance with any big bank; and

[c] sell off its good assets to interested parties to meet its maturing obligations.

The bank failed to comply with the above directives.

2.4 By year 2002, the bank's prudential ratios had deteriorated to negative. For instance, from January to December 2002, the bank's liquidity ratio (L/R) deteriorated to –20.77% against the minimum requirement of 40%; while its capital adequacy ratio (CAR) deteriorated to –43.18% against the minimum required CAR for banks of 8%.

3.0 ASSETS QUALITY

3.1 The total risk assets of the bank [net of swapped risk assets] as revealed by a special examination report stood at N5,667,405,504 as at 28th February 2002. The report confirmed that a total of N4, 361,240,014 representing 76.9% of the total risk assets of the bank had become delinquent and classified appropriately in line with the prudential guidelines. Arising from this was a total recommended provision for bad and doubtful debts of N2,778,877,241. Accordingly, the bank was required to increase its provision from the paltry sum of N544,286,495 made by it to the examiners' recommended provision of N2,778,877,241. The bank did not comply with this directive

3.2 The sum of N494.31 million of the bank's delinquent facilities was insider related (i.e. borrowed by the owners/directors of the bank).

4.0 **CAPITAL**

The bank's capital, which had earlier been completely eroded, had further deteriorated from a negative N543 million as at June 2001 to a negative N1.421 billion as at February 2002.

In the circumstance, the bank was required to inject a total sum of N2,024,851,000 to bring up the capital to a level that would sustain its level of operation. The bank failed to comply with this supervisory directive.

It was therefore clear from the above that the shareholders of the bank had completely lost their investment in the bank.

5.0 **EARNINGS**

The bank posted a loss of N284.87million for the 11 months period ended 28th February 2002.

6.0 **UNFULFILLED REGULATORY DIRECTIVES**

6.1 A meeting was held with the bank's Board and Management on 2nd April 2002 during which the bank was directed to submit:

- (i) an updated comprehensive list of its outstanding obligations; and
- (ii) a detailed recapitalization and restructuring plan which would be strictly time bound with specific proposals.

However, a purported recapitalization/restructuring plan submitted by the bank in response to the directive lacked the vital ingredients required to turn around an ailing financial institution as most of the premises on which the plan was anchored were unrealistic and therefore, unacceptable. For instance, the recapitalization plan was predicated on an anticipated recovery of funds from the Overseas (France) court application it had filed in respect of its sunk shipload of rice. We had cautioned the bank that basing its recapitalization on the anticipated compensation from the abortive rice transaction was unrealistic as court proceedings could be protracted and the outcome unpredictable.

6.2 Another meeting was held with the Board and Management of the bank on 4th June 2002 during which the following regulatory measures were further imposed on the bank:

[a] An injection of fresh funds of not less than N2billion to ensure the bank's early recovery, rectify its significantly undercapitalized position and re-establish its viability;

[b] A more aggressive debt recovery drive should be embarked upon by the management to recover the large portfolio of non-performing loans and advances, including in particular, the insider credits;

[c] With immediate effect, no new credits should be granted;

[d] No new capital projects should be embarked upon without clearance from the CBN; and

[e] No new accounts should be opened and no new deposits should be accepted until further notice.

6.3 **The bank was specifically given three months within which to inject fresh funds to the tune of N2, 024,851,000 and submit an acceptable restructuring plan, failing which its licence would be determined without further recourse to its board and management**. The Chairman of the Board personally signed for and collected the letter conveying the above.

6.4 The three (3) months deadline expired on September 3rd 2002 without the bank making any serious efforts to meet the salient issues. Instead, the bank, again, requested for extension of time and, following the interest shown by three foreign investors, the bank was granted a final extension of 60 days up to 4th November, 2002 to enable it consummate the arrangements it claimed to have with the proposed investors. As usual, the bank failed to keep faith with this date despite reminder letters from the CBN.

6.5 We would like to mention at this point that the CBN had been inundated with calls and letters from some prospective investors alleging that their negotiations with the bank had been deadlocked because of the Chairman's unwillingness to accept their terms for fear of diluting his interest in the bank. This was a sufficient reason to believe that granting a further extension of time to the Board of the bank to recapitalise might not yield any result.

6.6 One of the foreign investors at whose instance the extension of time was granted, later informed the CBN, vide a letter dated 3/12/02, of its decision to withdraw from its proposed investment in the bank which it adjudged as highly risky.

6.7 Even after the extension which expired on November 4th 2002, the CBN met with two other groups presented by the bank as its foreign consultant/investor, each proposing an investment of USD15 million, to recapitalise the bank.

6.8 Neither of the two groups paid the proposed USD15 million to recapitalise the bank. As in the previous instances, the investors requested, for more time to fund the CBN foreign account designated for the purpose.

6.9 There was, therefore, a clear lack of sincerity and seriousness of purpose on the part of the Board and Management of the bank to recapitalise it. The CBN, mindful of the possible contagious effect on the system would not wait indefinitely for the bank to be recapitalised and restructured, given its persistent failure to comply with regulatory directives.

ANOTHER DIMENSION TO THE PROBLEM OF PEAK MERCHANT BANK LTD

7.0 <u>UNAUTHORISED COLLECTION, CLEARING AND CONVERSION OF FEDERAL INLAND REVENUE SERVICE [FIRS] CHEQUES</u>

7.1 The situation in Peak Merchant Bank Limited appeared to have become desperate as the investigation of a petition received by the Supervisory authourities from the Federal Inland Revenue Service [FIRS] revealed that the bank, in a bid to stay afloat, had resorted to unauthourized collection, clearing and conversion of the proceeds of revenue cheques with effect from January 2002

7.2 The investigation, which was conducted by the NDIC, and accepted by the CBN Management, revealed that **although Peak Merchant Bank**

Limited was not one of the approved revenue collecting banks for FIRS, it indeed collected a large number of FIRS revenue cheques totaling N1, 086,144,385.33, cleared through three commercial banks and converted the proceeds. The report of the investigation established the complicity of the bank's management in the fraud.

7.3 It is important to note here that the Police has commenced criminal investigation of the fraud.

8.0 THE TERMINAL ACTION

8.1 Peak Merchant Bank Limited had been characterized by weak and incompetent Board and Management, insolvency and the overbearing influence of the chairman who was also a major shareholder in the bank.

8.2 It had suffered from persistent illiquidity, poor asset quality, significant insider abuses and poor track record of profitability.

8.3 Inspite of all regulatory prodding to get the bank recapitalised and restructured, the unseriousness, inability and unwillingness of the shareholders had made it impossible

8.4 The bank's problems were self-inflicted. For instance, the reckless granting of credits, and venturing into commodity trading - particularly the frustrated rice deal, wrecked its operations.

8.5 There was also a complete absence of focus and lack of corporate governance in the bank.

8.6 The NDIC investigation report on the unauthourised collection, clearing and conversion of FIRS cheques, which was accepted by the CBN Management, showed that the bank was deeply involved in the scam.

8.7 It was in final response to all the above that the banking licence of Peak Merchant Bank Limited had to be revoked in line with section 12 [d] of BOFIA. The NDIC has consequently been directed to apply to the court to enable it commence the process of liquidating the bank.

DIRECTOR OF BANKING SUPERVISION
CENTRAL BANK OF NIGERIA
ABUJA
28TH FEBRUARY, 2003