P R E S S R E L E A S E: April 11, 2005

BANKING SECTOR CONSOLIDATION: SPECIAL INCENTIVES TO ENCOURAGE WEAKER BANKS

Introduction

Throughout last week, we held meetings with most of the banks in our Lagos office to evaluate progress and challenges in the banking sector consolidation. Also the Board of Directors of the Central Bank met and among other things considered and approved a framework for granting forbearance to the banks that the CBN is exposed to. The programme has gone half way, and with about 9 months to the end of the year. It was therefore auspicious to sit with the banks (in smaller groups and as individual banks) to evaluate progress, and work together to achieve the common goal. The CBN remains committed to doing its utmost best to encourage all banks to achieve the goals of the consolidation.

Recent Developments

So far, progress has been impressive. By the end of the programme, Nigeria is most likely to have more than 25 strong and reliable banks. Foreign interest in the banking system has increased; confidence in the system is improving; Nigerians at home and abroad are investing heavily in the sector; and a new banking structure and system is on the way. By 2006, the Nigerian banking system would have changed fundamentally for the better. Our long-term goals is to make Nigeria’s banking system the best in Africa, and one of the best in the world.

In recent times, there have been a number of developments, including:

i. An IMF Technical Assistance visit and assessment of the consolidation programme, which was rated as satisfactory so far but with some issues raised in the legal and administrative areas;

ii. The President's approval for the setting up of a high level Steering Committee;

iii. The revised Procedures Manual to fast-tract the process;

iv. Progress made in respect of drafting the Asset Management Company Bill, and hopefully the National Assembly would enact it soon;

v. The revised Procedures Manual to fast-tract the process --- e.g. simplifying the requirements for pre-merger consent, shortening processing periods, etc.

vi. Governor's meetings with all the banks to assess their consolidation programmes, identify constraints and address all emerging issues, including the further roles/supports required of the CBN and other Authorities.

Special Forbearance Granted to Weak and Problem Banks

On Wednesday, 6 April 2005, the CBN Board approved the following forbearance framework in furtherance of the provision in the main guidelines on consolidation.

a.) A write-off of 80% of the **DEBT** owed the CBN by the banks, subject to:

i.) The recovery of **ALL** non-performing owner/insider related loans and advances within two months;

ii.) Injection of **ANY** shortfall in the banks' capitalization to bring it up to a solvency status, also within two months;

b.) The conversion of the balance of 20% of the debt to CBN to a long term loan of a maximum of 7 years at 3% per annum including two (2) years moratorium;

c.) A further forbearance on the balance of 20% of the debt, that is, (b) above, could be extended to the new owners after its acquisition and meeting the N25 billion capital base.

The aim was to protect the depositors, employees and other stakeholders of the problem banks.

i.) The Board of the Central Bank was very mindful of the need to avoid rewarding the past mismanagement of the institutions by ensuring that the forbearance was contingent on the recovery of owner/insider non-performing facilities.

ii.) Furthermore, the CBN is also mindful of the fact that the issue of granting loans to banks and writing them-off in the future would no longer arise in the light of the new settlement system. This is a special one-off concession, which would not reoccur in the future.

iii.) Substantial loan loss provision had been made in the books of CBN for the Bank's exposure to the institutions. It will therefore not adversely affect the CBN's account in 2005. In other words, it is already a sunk cost. If CBN does not write-off the loans and the banks remain unattractive to potential acquirers/investors, they would eventually be liquidated and the system will lose more, including the depositors, bank employees as well as debt to the CBN.

As already being indicated from various quarters, it is expected that the latest CBN gesture will significantly increase the attractiveness of the affected banks to potential acquirers.

GOVERNOR'S OFFICE
CENTRAL BANK OF NIGERIA; April 11, 2005