



QUESTIONS AND ANSWERS ON THE EXAMINATION OF 14 BANKS

Q: If the bulk of the problem had been dealt with in the first examination of 10 banks, why bother to extend it to the other 14 banks?

A: Yes, the bulk of the problem was dealt with in the first round. But expanding the examination to the remaining 14 banks is not only the fair thing to do; it is also the proper thing to do. It is important to examine the state of health of all the 24 banks operating in the country and address the problem in its entirety. Now that this has been done, the thick air of doubt and distrust that previously hanged over the banking industry in Nigeria has been cleared. This is good not only for the industry but also for the economy and the country as a whole.

Q: What are the highlights of the reports of the examination of the second batch of the 14 banks?

A: The result of this batch is substantially better than the first one. Out of the 14 banks examined, nine were given the clean bill; four were found to be in grave situation; while one was found to have inadequate capital but with sufficient liquidity to meet its obligations to depositors and creditors and with no corporate governance issues.

Q: What are the key actions taken by the CBN on the recent findings?

A: After a careful examination of the findings, the CBN is providing N200 billion as liquidity support and long-term loans to the four banks adjudged to be in grave situation. The Managing Directors of Bank PHB Plc, Equitorial Trust Bank Limited and Spring Bank Plc were removed and replaced with new ones. The Executive Directors of the three banks were removed and replacements will be announced soon.

The new management that took over Wema Bank Plc recently was not removed because it couldn't be held responsible for the current state of the bank, but was asked to recapitalize by 30 June 2010. And Unity Bank Plc—which has inadequate capital but has sufficient liquidity and no corporate governance issues—was also asked to recapitalize by 30 June 2010.

Q: It appears the CBN is treating the outcome of this examination differently. Why?

A: All the banks in Nigeria are treated the same way. All the 24 banks were examined through the same process, and by the joint-examination teams from CBN and NDIC. The same criteria were employed for the special examination in all the banks. These criteria

were: liquidity, capital adequacy, and corporate governance. The only difference is that the examiners found different things in the 24 banks, necessitating different actions.

Q: Why didn't you give the affected banks the option to recapitalize as you have just given to others?

A: The banks were clearly in different situations. CBN had to intervene to save and strengthen banks that were in danger of collapse so as to protect depositors and creditors and prevent a systemic crisis. The first five banks had shown persistent signs of distress, and the examination report confirmed that, as they were found wanting on all the three criteria mentioned above. The three newly affected ones fell into the same category, as they were also found wanting on the three criteria. So, the issue is not just capital, and asking them to just recapitalize will be really superficial as it will not take care of liquidity and governance issues.

Wema Bank Plc also was found wanting on the three criteria. But the new management took over three months ago and could not be held responsible for the bank's current situation. They have been asked to recapitalize. Unity Bank Plc has problems with capital, but no problem with liquidity and corporate governance. Its problem is simply capital, and the management has been asked to recapitalize within a deadline. It is clear the banks were in different situations.

Q: Has your quick action on the first batch not given the other banks undue advantage?

A: The intervention didn't give any advantage to the other banks because the criteria were the same and the data required were not the type that could be quickly massaged or cooked up. CBN acted in a pro-active manner to strengthen the five banks, and those five banks are stronger and safer today. If CBN had waited till the completion of the entire examination, some of those banks might have gone under. This would have had dire implications for their creditors and depositors, and the larger economy.

Q: Is CBN changing its style now because it has been called to order or because it has realized the mistake in how it intervened in the five banks?

A: CBN's style remains consistent and fair. CBN is intervening in three other banks, just as it did in the first five on account of their performance against the three criteria consistently applied by the CBN/NDIC joint examination teams. What may appear to be different was informed by the difference in the situations of certain banks, not as a result of any regret on the part of CBN or pressure from any quarters.

Q: Why were certain Managing Directors of certain banks not removed despite widespread suspicions against them?

A: CBN used the same criteria to evaluate all the banks, and acted on its findings. CBN is not after any institution or any individual. CBN is not led by sentiments. Rather, CBN is guided in its actions by how the various institutions performed against these criteria: liquidity, capital adequacy and corporate governance.

Q: How did Unity Bank escape the hammer?

A: Unity Bank Plc performed well on two of the three criteria used by the examiners, unlike the eight affected banks that were found wanting on all the three criteria. Unity Bank has problem with only capital adequacy and this has been an issue with the bank since consolidation. Unity Bank Plc is a combination of nine legacy institutions and this has naturally impacted on the bank's performance.

The other eight banks had problems with liquidity, with capital adequacy and with corporate governance. Comparing them will be like comparing apples with oranges. CBN only made exception for Wema Bank by not replacing its management because it is a new management. So, CBN made liquidity support available to Wema Bank Plc and asked its management to recapitalize in nine months.

Q: Does this not reinforce the charge of regional agenda?

A: Objective criteria were used to examine all the banks. There was nothing sectional or regional about those criteria. For emphasis, these criteria are: liquidity, capital adequacy and corporate governance. The only agenda that the CBN has is to carry out its regulatory responsibilities in a way that will guarantee a safe, sound and stable banking system in Nigeria.

Q: Did you uncover infractions that could lead to court actions against some MDs?

A: The CBN is not a law enforcement agency. If the CBN suspects serious infractions in any of the banks, it would provide information to the appropriate authorities to investigate and possibly prosecute the suspects, if they have a case to answer.

Q: Have you reported anyone to EFCC based on the latest audits?

A: Not yet. CBN as a regulatory agency has a working relationship with EFCC and other law enforcement agencies and issues of this nature are treated in the normal way information flows between CBN and these agencies.

Q: Are you going to publish the names of the bad debtors of the newly affected banks?

A: CBN will help all the five new banks with capital adequacy issues in their loan recovery efforts just as it did with the last five. This is because it is the Non-Performing Loans in all the affected banks that put their capital at risk. CBN will remain consistent and fair in its stance on banks that are in similar situations.

Q: **Is the overall cost of the banking reform not greater than the benefit to the economy?**

A: Both the banking sector and the economy are better off because of the banking reforms. Yes, there have been some effects. But they are minimal and temporary, never mind that some people with vested interests are desperate to blow them out of proportion and force a doomsday picture on the country. Most of the real negative consequences were anticipated and quickly contained. The on-going reform has cleared the thick air of suspicion hovering over Nigerian banks. Depositors, creditors and investors now have more confidence in Nigerian banks and the Nigerian economy. Nigeria is the better for it.

Q: **Is the worst over in the banking sector?**

A: Yes, the worst is over. The affected banks are being stabilized and strengthened, and with the return of confidence in the industry, the Nigerian banking sector is stronger and safer. However, the CBN will remain vigilant and pro-active to ensure that the situation gets even much better.

Q: **What are the next steps for the five banks?**

A: CBN's immediate priority is to stabilize the five banks. This is the same priority for the three newly affected ones. The next steps will be taken after careful review of available options and in due consultations with the banks' shareholders.

Q: **What are the next steps for CBN?**

A: CBN will remain vigilant and put in place measures to prevent a repeat. Going forward, CBN will focus on strengthening its own regulatory capacity; fast-tracking the implementation of risk-based, consolidated and cross border supervision frameworks; working with other stakeholders to fast-track the establishment of an assets management company; easing the flow of credit, particularly to the real sector of the economy; improving governance structures and practices in the financial services sector; and improving confidence in the economy in general.

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