



CBN - 100 Days After -

A Review of the Post Aug 14, 2009 Policies on Investors



November 2009



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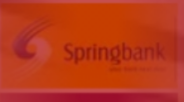
AFRIBANK



FinBank



Bank PHB
PlatinumHabib Bank Plc



Springbank



Wema Bank

UnityBank

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The NCM's Road to Recovery:

What lessons has been Learnt?

“Imagination is the beginning of creation. You imagine what you desire, you will what you imagine and at last you create what you will.” - George Bernard Shaw ((Irish literary Critic, Playwright and Essayist. 1925 Nobel Prize for Literature, 1856-1950)

The CBN has reviewed the causes of the financial crisis and laid out its thought process for the required changes, though without a clear execution timeline/milestones to guide investors.

It is not our intention to repeat the discussions in the BULL IN THE CHINA SHOP report again (<http://www.proshareng.com/reports/view.php?id=2016>). The post analysis of the submissions and prognosis contained in the report continue to encourage our decision to work assiduously towards creating the future we imagine for our capital market. Being right however on the unintended consequences identified gives us no joy at all and this continually propel us to deliver ‘intelligent information’ necessary for decision review and pronouncements.

Thus, it was obvious that to learn from this experience, the recognition of its historical and developmental importance compels us to develop a daily tracking system of activities, with the sole purpose of documenting same. This process, we believe, would prove useful to all stakeholders and help us discharge a responsibility that has been subsumed in the plethora of decisions taken and commentaries – holding the leadership accountable for its actions to improve the believability index of information available to investors.

In this report therefore, we have focused mainly on the presentation of the **FACTS & DATA**, allowing the reader to make his/her own judgements. We hope to deliver an opinion on the developments in the **NCM 2010** report due for release in Q1 2010.

The causes of the crisis we face are undoubtedly diverse and require a reigning in; but recent actions have revealed why it is important to understand the limits of regulation. Regulators, as we have seen, make no claim to be infallible BUT it would appear that the systemic impact of their mis-steps creates unintended consequences – part of the larger intervention framework yet to be fully appreciated.

A critical lesson we must all take away from these developments is the importance of recognising that the principal responsibility for managing our quoted companies responsibly remains with the management of the Plc's and that shareholders are the principal mechanism for holding these managers accountable.

This defining and critical role has hitherto been a secondary activity within our markets and its understanding has defined the media-nurtured debate on the merits or otherwise of the actions of the CBN. Some of the flip-flops in pronouncements by the CBN has not helped the situation but should not be an excuse for both parties (and indeed the NSE/SEC) to recognise the need to take action on a matter that

always ends up with the 'little man' paying for the sins of the 'big and mighty'. Shareholders going forward, have a duty, an obligation to make that oversight role more effective.

We sincerely hope you find the report thought provoking and useful.

In the preparation and eventual publishing of this report, I must acknowledge the exceptional commitment to duty and sacrifice from the analyst team that put this report together under the leadership of Reshu BAGGA (Mrs.), our Chief Operating Officer who led her team to go beyond and above the call of duty to ensure the report was ready in record time. Their actions signify the very best of Proshare's value system and commitment to the market.

One thing that impresses me is how these interventions of ours retain its focus on the investing public and the future. The maturity shown by the leadership of our regulatory bodies to the stimulating debate/agenda setting issues stirred up, remains the highpoint of the report process.

To your our dear readers, partners, board of analysts, clients and indeed the market, we thank you for your steadfast support throughout 2009. We could not have delivered on our mission without you.

I know that each of you recognises that the future of our market lies in your hands – and that the success of our journey on the road to recovery is as well.

Seasons Greetings!



Olufemi AWOYEMI, FCA
Managing Director/CEO

Executive Summary

Paying a heavy price for banks to be virtuous!

Stock prices move in relation to fluctuations in supply and demand. This relationship between supply and demand is tied into the type of news reports that are issued at any particular moment.

Negative news will normally cause individuals to sell stocks. Bad earnings reports, poor corporate governance, economic and political uncertainty, going concern issues, bad press through scandals and unexpected, unfortunate occurrences will translate to selling pressure and a decrease in stock price. Conversely, positive news will translate into buying pressure and an increase in stock price.

It is however, if not impossible, to capitalize on news. The impact of new information on a stock or the market itself, depends on how unexpected the news is. This is because the market is always building future expectations into prices. For example, if a company comes out with better-than-expected profits, the stock's price will likely jump. But, if that same profit was expected by a majority of investors, the stock's price will likely remain the same as the profit would have already been factored into the stock price. Thus, **it is unexpected news - and not just any news - that helps drive prices.**

The most significant development in the Nigerian financial landscape in the last 100 days was neither the expected action of the CBN on August 14, 2009 nor the far-reaching nature/severity of the pronouncements - as the market was expectant and agreed on the need for a change.

The management of information and the **consistent/sustained 'negative' news cycle** have proven to be the most crucial factor in the market downturn. The last 100 days is replete with such gloom and doom that it is a 'miracle' the ASI has stayed above the 21,000 basis points.

But can all the problem be placed on the doorsteps of Regulators?

Hector Sants, Chief Executive, FSA while delivering his speech to participants at the 2009 Securities & Investment Institute Conference, on 7 May 2009 said "From evidence available, it has become demonstrably clear that **firstly**, albeit with the benefit of hindsight, there are some management decisions that have revealed a degree of incompetence, and at times a rather cavalier approach regarding risk management; **secondly** shareholders and regulators must be careful not to place excessive reliance on senior management judgements; **thirdly**, the necessary challenge was missing from governance structures, in particular boards, and **finally** there may well be questions that can reasonably be asked about the openness and thus, arguably, the integrity of firms dealings with regulators, shareholders and their customers." 1

He could have been talking about the Nigerian operating environment here. This goes to show that what we are experiencing is a global phenomenon and we should quickly move away from the distracting focus on 'criminalising individuals' and embracing the task of market and nation building.

Moving from nowhere to somewhere!

Now that we understand that we have a shared problem, can we change the engagement rules? The CBN must rethink its engagement approach if the ultimate goal is to establish a game changer? To have a market, we must have participants.

In our desire to get the banks to become virtuous and disengage from being 'facilitators of criminal enterprises' as they have been branded, we have all been made to pay for the changes needed.

Robert Preston, City Editor BBC while commenting on the cost of changes to get banks to become 'virtuous' without admitting the intrinsic cost of the democratic deficit that is being charged stated that ***“even if the banks are given long enough to reinvent themselves as more cautious, well capitalised, better balanced institutions, it would be very foolish to believe there won't be costs - and most of those costs will probably fall on us, their customers, rather than on the banks themselves and their shareholders”***.²

He added, “If all banks were to increase their holdings of liquid assets, shrink their reliance on fee based income and lend less relative to their capital resources in one fell swoop, well there would be a collapse in lending to the real economy and we'd be in a fair old depression in no time at all - and the banks themselves would soon find themselves bust”²

Thus, it is obvious that the price we are being called upon to pay must not be indeterminate; for there is a fallacy of composition arising from all banks discovering virtue and prudence at the same time.

While some continue to push the argument that taking such steps will ultimately benefit the economy over the longer term and in the interest of the banks individually and collectively to strengthen their finances; not a few have now recognised that to do so in such a wholesale manner (*leading to the freeze in the supply of credit*) will do significant harm to the Nigerian economy.

Quite frankly, we must find a middle road to balance the arguments for holding 'quality/safe liquid assets' (those low yield – less income assets considered less attractive to a banking industry long on greed and short on reality) on the one hand and riskier loans and engagements in the capital market on the other.

But can one truly blame the banks? Evidence indicates that they have had to provide services and amenities which the state has failed in its responsibility to do and they continue to shoulder and account for the semblance of developments we have seen and experienced in the last decade. They simply got carried away playing 'God'; and at a great cost to us all.

We must devote our energies to resolving this debacle; for should we fail to reward the original providers of capital (investors) with relative returns to capital via dividends for the second year in a row by 2010, there would be far worse unintended consequences than imagined.

This market confidence crisis runs deeper than expressed. The impact of the post August 14, 2009 declaration celebrated with a massive media coverage is beginning to look like a circus show parade – the excitement only falters to deceive.

Our banks now know, and the CBN should get it; that trust has been a key casualty in this unending story – that is why the newly appointed CEO's are sending back reports to the CBN with tales of unanticipated challenges.

The staff and customers see them more as impostors or usurpers depending on how deep the consequence of the actions taken and those to follow impact their lives. Their customers have been publicly disgraced and humiliated and the basis of trust turned to a negotiated issue depending on which side of the divide the EFCC chooses to swing. Morale is down and the affair between the banker and customer is facing a rocky season.

With talks of new bond issues, there is the ever present fear that in forcing the banks to hold more capital, they will make the price we are paying go higher - in the form of higher interest charges and lower deposit rates.

The CBN must find a way out of the on-going intellectual hole it has connived to create, and we believe it is seriously looking at options open to it; starting with the decision to avoid a wholesale sanction on the whole banking system and the slow down in its me-against-them rhetoric. We are all in this together.

Now, Investors in the NCM must confront the inevitable – recognise the cost they will and are paying for engaging in the only legitimate market for building wealth in the country – the capital market.

Our assessment of the situation is that there is no cheering news on the horizon, at this date to encourage a different course of action. Quite frankly, it is pure fantasy to believe otherwise. Yet, the story does not have a sad ending.

History has shown us that we cannot leave our cash-cows – the banks to self regulate. If we are going to achieve a turn around of the losses made in the market – we have to transmute from by-standers to active participants in the paradigm shift taking place. Each generation faces its own major crisis. This is ours, and we must rise up to the challenge.

Events in the capital market with a constant news stream of huge losses by the banks play to investors' big fear – the idea that banks have only recognised the losses they can afford to shoulder today, not the defaults that will arrive eventually. We can start here and receive assurances to that effect. We can do more than just sit down and moan.

Finally, 2009 appears it could yet end as it began – with the markets staying south. We must thus set our sights and thoughts on 2010 and make the best of the opportunity to begin again, better informed and wiser. It is a heavy price to pay but one that we can intelligently use to rebuild. Enjoy Reading.



The CBN an otherwise 'conservative' institution had to take the unusual step of active engagement of the public to 'explain' itself.

The CBN Governor's Directives to Banks

- Matters Related Thereto or Arising Therefrom

Preamble

The long-awaited intervention in our financial services sector, starting with the banking industry was unleashed on August 14, 2009 guided by a deliberate 'shock and awe' objective by the Sanusi Lamido led CBN.

This action set up a chain of events, the full impact of which is still unfolding.

How we saw the market before this day.

To deliver this change, we sought the conduct of a stress test on the Nigerian banking system as a critical component of determining the true state of the industry. This was contained in our July 18, 2009 Half Year Review of the NCM published - <http://www.proshareng.com/reports/view.php?id=1937> (executive summary) which was a follow up to our NCM 2009 outlook (issued in February 2009 - <http://www.proshareng.com/analyst/downloads/ncmFULL.zip>).

The report, on pages 30 - 35, focussed on the challenges to the capital market and the banking system based on the exposures of listed banking institutions to margin loans and the contagion effect of the global market crisis on Banking, Aviation, Oil & Gas, Insurance, Real Estate and credit lending to firms and governments.

Further, in our public presentation to the media in April 2009, we made it clear (<http://proshareng.com/reports/view.php?id=1939>) that the issue that confronts the market is yet to unfold. We affirmed that this issue could not be wished away and that we would have to confront it at some point.

The Governors Address of August 14, 2009



Key points in the address are:

- In Nigeria, the banking system appears to have weathered the storm due to a number of factors. Among these are the facts that our financial system is not strongly integrated into the international financial system, as well as the relatively simple nature of financial products and strong capitalization and liquidity of Nigeria banks.
- ...whereas the system in general is likely to absorb and survive the effects of crisis, the effects vary from bank to bank. A few Nigerian banks mainly due to huge concentrations in their exposure to

certain sectors [Capital Market and Oil and Gas being the prominent ones], but **due to general weakness in risk management and corporate governance, have continued to display signs of failure.**

- As far as **October last year, some of the banks showed serious liquidity and had to be given financial support by Central Bank in the form of an “Expanded Discount Window”** [EDW] Where the CBN extended credit Facilities to these banks on the basis of collateral in form of CP’s and BA’s, **sometimes of doubtful value.**
- As at June 4, 2009 when I assumed office as Governor of the CBN, the total amount outstanding at the Expanded Discount Window **was N256.571 billion most of which was owed by the 5 banks.**
- A review of the activity of in the EDW showed that four banks had been almost permanently locked in as borrowers and were clearly unable to repay their obligations. A fifth bank had been a very frequent borrower when its profile ordinarily should have placed it among the net placers of funds in the market. Whereas the five banks were by no means the only ones to have benefited from the EDW, **the persistence and frequency of their demand pointed to a deeper problem and the CBN identified them as probable source of financial instability, most likely suffering from deeper problems due to non-performing loans.**
- The impact of the situation of these banks was being felt by the market in different negative ways. Because of this staring in their balance sheets, the banks pushed up the interest rate paid to private sector deposits and their competitors had to follow suit. **They also contributed to the destabilization of the inter-bank market as many of their competitors were unwilling to take an unsecured risk on them.** It was primarily because of these banks, or at least some of them, that the CBN took the step of guaranteeing the inter-bank market when it stopped granting new lines under the EDW. Without that guarantee, **almost four banks would not have been able to borrow in the inter-bank and would probably have collapsed.**
- As you are aware, **we guaranteed the inter-bank market to give us the time to conduct a thorough diagnostic of the banks** and ensure that appropriate remedial action is taken. At least four of the banks under question have since the guarantee came into force either remained heavy users of funds at the EDW or drawn heavily from other banks under cover of the CBN guarantee to wind-down at this window. In all events, **it is clear that they do not have the ability to meet their obligations to depositors and creditors as they are in a grave situation.**
- In view of the aforementioned circumstances, I instructed the **Directors of Banking Supervision of the CBN to carry out a special Examination** of the following five banks: Afribank Plc, Finbank Plc, Intercontinental Bank Plc, Oceanic Bank Plc and Union Bank Plc.

- ① The examination was conducted by a **joint team of CBN and NDIC** officials. The major findings on the 5 banks included:

 - ① Excessively high level of non- performing loans by the five banks which was **attributable to poor corporate governance practices, lax credit administration processes and the absence or non- adherence to the bank’s credit risk management practices**. Thus the percentage of non-performing loans to total loans ranged from 19% to 48%. The 5 banks will therefore need to make additional provision of N539.09 billion.
 - ① The total loan portfolio of these five banks was N2, 801, 92 billion. Margin loans amounted to N 456.28 billion and exposure to oil and Gas was N487.02 billion. Aggregate non –performing loans stood at N1,143 billion representing 40.81%
 - ① From 1 and 2 above, it is evident that the five banks accounted for a disproportionate component of the total exposure to Capital Market and Oil and Gas, thus reflecting heavy concentration to high areas relative to other banks in the industry.
 - ① The **huge provisioning requirement has led to significant capital impairment**. Consequently, all the banks are undercapitalized for their current levels of operations and are required to increase their capital. **Indeed one is technically insolvent with a Capital Adequacy Ratio of [1.01%]**. Thus a minimum capital injection of **N204.94 billion will be required in the 5 banks to meet the minimum capital adequacy ratio of 10%**.
 - ① The five banks were either perennial net- takers of funds in the inter-bank market or enjoyed liquidity support from the CBN for long periods of time, a clear evidence of illiquidity. In other words, these banks were unable to meet their maturing obligations as they fall due without resorting to the CBN or the inter-bank market. As a matter of fact, the outstanding balance on the EDW of the five banks amounted to N127.85 Billion by end July 2009, representing 89.81% of the total industry exposure to the CBN on its discount window while their net guaranteed inter-bank takings stood at N253.30 billion as at August 02, 2009. Their Liquidity Ratios ranged from 17.65% to 24% as at May 31, 2009. (Regulatory minimum is 25%)
- ① It is important to note that at least three of the banks are systemically important (accounting for more than 5% of Assets and Deposits in the banking System) and together the five banks account for 39.93% of loans, 29.99% of deposits, and 31.47% of total assets as at May 31, 2009.
- ① Given the extent of the asset quality problem leading to liquidity stresses, and the variety of stress points on the banks’ balance sheets, **failure to act to secure the financial health of these banks will clearly place the system at risk**. The Central Bank has a responsibility to act to protect all depositors and creditors and ensure that no one loses money due to bank failure. The Bank also needs to move decisively to remove this principal cause of financial instability and restore confidence in the Banking system.
- ① Consequently, having reviewed all the reports of the examiners and the comments of the Directors and Deputy Governors, **I am satisfied that these 5 institutions are in grave situation and that their management has acted in a manner detrimental to the**

interest of their depositors and creditors. Therefore, in exercise of my powers as contained in Section 33 and 35 of the Banks and Other Financial Institutions Act 1991, as amended, and after securing the consent of the Board of Directors of the CBN. I hereby remove the Managing Directors of the following banks from office with effect from Friday, August 14, 2009.

- ① Afribank Plc
- ① Intercontinental Bank Plc
- ① Union Bank of Nigeria Plc
- ① Oceanic International Bank Plc
- ① Finbank Plc

These persons forthwith cease to be directors and officers of their respective bank.

The Board of Central Bank of Nigeria has also appointed the following as the MD/CEOs of the affected banks:

- ① Mr. John Aboh – MD/CEO Oceanic International Bank Plc
- ① Mr. Mahmud L. Alabi – MD/CEO Intercontinental Bank Plc
- ① Mr. Nebolisa Arah – MD/CEO Afribank Plc
- ① Mrs. Suzanne Iroche – MD/CEO Finbank Plc
- ① Mrs. Funke Osibodu – MD/CEO Union Bank Plc

① Each of the above will head a management team that will include **Executive Directors and Chief Financial Officers to be appointed by the CBN.** This team is tasked with continuing the business of the banks as a going concern. I therefore appeal to the Boards of the affected banks, **in their own interest to cooperate with the newly appointed Executive Management.**

① We are conscious of the fact that **changing management alone will not resolve this problem.** Consequently, the CBN is injecting a total of about N400billion into these five banks with immediate effect in form of Tier 2 Capital to be repaid from proceeds of capitalization in the near future. This injection is sufficient to resolve and stabilize all the institutions and enable them continue normal measure as government does not intend to hold the shares for long and shall divest its holdings as soon as new investors recapitalize these banks.

① Let me also advise all debtors of Nigerian banks, that the **CBN and all government agencies are united** in our commitment to support the recovery efforts of the banks. **Debtors who do not pay shall have their names published in National Newspaper in due course and we will solicit of law enforcement agencies in recovery.**

① Let me reassure especially the customers of the affected banks and all the banks in general that **there is no cause for alarm.** They should continue to transact their normal business in the banks where their accounts are domiciled as this exercise is meant to further strengthen the banking industry and recapitalize the affected banks.

- I should also state at this point that the **scope of the special Examination was widened to cover all 24 banks**. So far, we have concluded the audit of 10 banks including these five, the others being Diamond Bank, First Bank, United Bank for Africa, Guaranty Trust Bank and Sterling Bank. We have also commenced the **next batch of 11 banks** and hope to conclude them by end of August. In all, **we expect to conclude the audit in mid September**. The Central Bank is requiring all banks to make appropriate provisioning for non-performing loans and disclose them. We hope that by **the end of this quarter, all banks would have cleaned up their Balance Sheets**. On the basis of the information available to us so far, we are confident that the banking system is safe and sound and **we have dealt with the major sources of systemic risk**.
- I will conclude by residing that, going forward, the CBN will not waive in its desire to ensure that public confidence in the Nigerian banking system is maintained through appropriate disclosure and **the reinvigoration of its policy of zero tolerance on all professional and unethical conducts**.
- We will not allow any bank to fail**. However, we will also ensure that **officers of banks and debtors who contribute to bank failures are brought to book to the full extent of the law and that all proceeds of infraction are confiscated where legally feasible**.

The Governors Address of October 03, 2009



Key points in the address are:

- In furtherance of the Central Bank of Nigeria’s statutory duty to ensure a sound financial system in the country, the Governor of the Central Bank of Nigeria (CBN) ordered the Special Examination of all the 24 banks operating in Nigeria.
- The result of the Special Examination of the first set of 10 banks was made known on 14 August 2009. The CBN wishes to announce that the joint CBN-NDIC examination teams have completed the Special Examination of the remaining 14 banks — and as such, the books and affairs of all 24 banks in the Nigerian banking system have now been examined.
- The Special Examination primarily focussed on assessing the health of the banks with particular focus on **liquidity, capital adequacy and corporate governance**.
- After a review of the findings of the Special Examination report in respect of these 14 banks, the CBN said it came the following conclusions:

 1. “The following 9 banks were found to have adequate capital and liquidity to support the level of their current operations and future growth:

 - Access Bank Plc,

support and long term loans for the four banks adjudged to be in a grave situation to enable them continue normal business, while pursuing recapitalisation options – *NB: No breakdown/allocation was provided.*

- ❗ The order to the board of **Unity Bank Plc. to recapitalise by 30 June 2010.** It is noted that Unity Bank Plc was adjudged to have insufficient capital for its current level of operations but was adjudged to have a healthy liquidity position and with no indication of poor corporate governance practices.
- ❗ The CBN has therefore exercised its powers under Section 13.3 of BOFIA to order the Board of Unity Bank Plc to recapitalise by the said date and the CBN will continue to monitor this situation
- ❗ “In addition, the **CBN will assist the five banks** with insufficient capital **in their loan recovery efforts**, just as it did with the previous five.
- ❗ The CBN is happy to report that as at 25 September 2009, the five banks had recovered more than N110 billion of previously non-performing loans. (*NB: out of a total debt figure put at a conservative estimate of N1trillion*)
- ❗ “The CBN reiterates its commitment to stand by all Nigerian banks and ***work with their respective boards, management and other stakeholders to restore the stability of the financial system*** and thus ensure that our banks are able to effectively play their role in economic growth and development.”
- ❗ In furtherance of the commitment of the Federal Government to the growth and stability of the financial system, His Excellency the President of the Federal Republic, President Umaru Musa Yar’ Adua has directed the Minister of Finance and the CBN governor to liaise with the Attorney General of the Federation, the National Assembly and other relevant stakeholders with a view to fast-tracking the process of **establishing an Asset Management Company.**
- ❗ The formation of this company **should facilitate an improvement in banking sector liquidity, protection of the earnings of banks from further erosion and a reduction of the debt overhang on the capital market** and its participants.
- ❗ This should **provide a much-needed fillip** for the **revival of the Nigerian Capital Market (NCM).**
- ❗ “With the conclusion of the bank audit exercise, we have come to the **end of the first phase** of the process of restoring financial sector stability.
- ❗ Ongoing action will focus on
 - ❗ building capacity within the regulatory regime;
 - ❗ fast-tracking the implementation of risk-based, consolidated and cross border supervision frameworks;

- ④ easing the flow of credit, particularly to the real sector of the economy;
- ④ improving governance structures and practices in the financial services sector; and
- ④ improving confidence in the economy in general.”

NB: The Central Bank of Nigeria (CBN) did not provide any timelines for the execution of these plans stated above.

The Timeline of Market Activities

- Before, During and After the 100 Days

Before

The Sanusi Lamido FT Interview – Laying the Ground Rules – June 2009

The CBN Governor, Mallam Sanusi Lamido laid out his thoughts/plans in his Financial Times (FT) June 2009 Interview - (<http://proshareng.com/reports/view.php?id=1938>) where he stated that, inter alia (page 2):

“FT: There’s a huge clamour in the market for more clarity on the size and shape of this (margin loan) problem. You mentioned that a diagnosis needs to be done. Could you expand on what kind of procedure you would envisage carrying out to do that?”

Lamido Sanusi: It’s extremely important that whatever we do does not cause a panic in the system. We’re dealing with two different participants with completely different profiles and mindsets....You’ve got on the one hand the investors, and while many shareholders might just be retail shareholders a substantial part of the investments in banks is in the hands of institutional investors...These are generally educated, they understand finance and they would be extremely happy to have the full picture blown up in the newspapers so that everybody knows. But on the other hand you’ve got the millions of retail depositors who would easily just panic if you send out signals that this particular bank has a problem without putting in place the mechanism and the structures for resolving them. I suppose the communication strategy is extremely important as we go through.

We’ve got our own examination teams; we’ve got our own supervision teams in the central bank and NDIC. What I would like to do is have them go into every bank, including those we don’t think have problems. I would start with First Bank among the first batch of banks to go and actually do an asset quality audit and a capital audit and bring a report. (Ed: Mr Sanusi was formerly head of First Bank before he took up his post as central bank governor). We would then sit down and dimension. Ideally would like to break them into three. We would like to break them into the banks which are really marginally affected by the margin loan thing. The second category -- and that would be the largest number – would be banks who have some margin loan exposure but who have enough capital to deal with it., who really have not exhibited any kind of liquidity pressures in their balance sheets. The third category would those banks which seem to have a strong liquidity problem and maybe even a solvency problem. And then with those banks we’ve got to work out a strategy and frankly its not yet fully worked out...There are a number of options, there are a number of models which have worked. **The strategy for dealing with it and the strategy for communicating it and the remedial steps that need to be taken – all of that will have to be worked out.”**

Probed further about Margin loans, he replied on page 7:

“FT: Given that the central bank has allowed banks to reschedule their margin loans

until the end of December this year, do you think that will serve to concentrate minds and make sure that these issues are tackled?

Lamido Sanusi: I don't have any issues with restructuring, even beyond the end of this year. ***What is important is that if they are non-performing (loans) then they should be recognised as that. If they are restructured and all the income is taken in on the assumption that it's*** going to come back then we are living in the dream that the markets will go back to the highs that they were at and that's not likely to happen. We would work on the most conservative and prudential basis and see how things go. But as a risk manager I can tell you that **margin loans are not a problem** they are a symptom. The real problem is weaknesses in risk management systems. You may find that a bank has serious margin loans problems but it also has other problems in other portfolios, whether its oil and gas or real estate and so on, so we don't know."

FT: Could you envisage a situation where there would be government-appointed boards having to run some of these banks?

Lamido Sanusi: I would not like to have that. It would be a last resort. They've got boards. If you need to have a transition in the institution, the boards can appoint a new CEO. I don't think there is compelling evidence that in the past having government officials managing financial institutions have worked. My preference is to get private capital.

The African Report (TAR) on Nigerian Banks – July 2009

Although the publishers of the report, in response to criticisms on its published report which it stood by, stated on their web site: ***"The Africa Report covers issues closest to the hearts of Africans and international investors alike accurately, incisively and comprehensively. The Africa Report goes beyond the headlines to give you in-depth reportage and analysis from writers who know their way around Africa's fast-changing worlds of business and politics."***

Words on Marble:

The African Report (TAR):

The performance of the banks follows the fall in the prices of oil and the crash of the capital market, adding – "Some hold the CBN governor, Charles Soludo, responsible for allowing a host of bad banking practices to go unchecked. Fortunately, a growing number of banks are beginning to equate more transparency with better returns."

NDIC:

In its reaction, the Head, Communications and Public Affair Unit of NDIC, Mallam Birchi Sule, said the public should ignore the report. He said, as far as the NDIC was concerned, "we don't know the criteria used to rate the banks."

CBN/NDIC:

On July 1, 2009, The Central Bank of Nigeria (CBN) and the Nigeria Deposit Insurance Corporation (NDIC) gave a clean bill of health to all the 24 banks operating in the country.

Chartered Institute of Bankers of Nigeria (CIBN):

Bank Executives' Response vide a press Conference, July 02, 09: Bank representatives held a press conference last week Thursday and issued a statement titled, "misleading publication on Nigerian banks".

The statement, signed by Uju Ogubunka, registrar/ chief executive of the Chartered Institute of Bankers of Nigeria (CIBN), said "the Institute, as a responsible professional body, is making this pronouncement to advise the banking public not only to disregard the report but to consign it to the trash can. We equally advise banks not to be bothered about the report but to continue their businesses and services to their numerous stakeholders."

Lamido Sanusi in Responding to the above report at the Monetary Policy Committee meeting on 7 July Sanusi, excerpts (Courtesy NEXT234 report), doused any tension building in the financial sector over the health of the banks, saying there is no evidence before him to the contrary that the sector is not safe.

In a speech at his first Monetary Policy Committee meeting since resuming office as CBN governor in June, Mr Sanusi said,

"there have been concerns in recent times about the health of the Nigerian banking system occasioned largely by the system's exposure to the capital market and the effect of the global financial crisis as well as exposure to oil marketers and Ministries, Departments and Agencies (MDA).

"While there is no doubt that the banks were challenged in the face of these developments, there is no evidence, thus far, that our banking system is facing a crisis as has been reported in some newspapers recently. **All reports purporting to suggest that some named banks are not sound or shaken are unfounded and we urge journalists to exercise caution and show more responsibilities in reporting and quoting unofficial sources.** Our view is that there are stress points in banks' balance sheets (margin loans, proprietary positions, oil marketing firms, unsecured large exposures) and these are being dimensioned. An appropriate resolution framework will be developed in consultation with reputable independent advisers, and the market will have information on steps being taken at appropriate junctions in the process", he said.

He added, "We reiterate that, based on the totality of information available to the regulator, **there is no basis for suggesting that the system is at risk.** We also re-affirm our commitment to stand behind every financial institution and work with its board and management to ensure a smooth resolution of any issues that may arise as an outcome of the diagnostic process.

No bank will be allowed to fail."

The Nigerian Tribune reported that the apex bank's acting Head of Corporate Affairs, Mallam Mohammed Abdullahi, while reacting to the report in the latest edition of TAR, published by the Paris-based group, Jeune Afrique, disclosed that one needed to read the full report in the weekly magazine to be able to have an understanding of the analysis made in the report.

Describing the report, which said only four Nigerian banks are strong, as a mischief, Abdullahi said the report only analysed the categories of bank in Nigeria

He described the report as nonsense, asking rhetorically whether it was possible to describe banks in the satisfactory group as weak. Noting that banks were bound to have categories, Mallam Abdullahi said there would always be first class banks, while others would be in other categories, stressing that this did not mean that banks in other categories were weak.

The TAR Report and Current Reality:

Find below a summary of the report and outcomes after the CBN action of August 14 and October 03, 2009.

Strong	Satisfactory	Shaky	Stressed
Diamond Bank	Afribank	Access Bank	Finbank
First Bank of Nigeria	Citibank NigeriaUQ	Ecobank Nigeria	Spring Bank
GT Bank	Equitorial Trust BankUQ	FCMB	Unity Bank TO
Skye Bank	Fidelity Bank	Intercontinental Bank	Wema Bank TO
	Bank PHB	Oceanic Bank	
	Stanbic IBTC	Sterling Bank	
	Standard Chartered BankUQ	Union Bank	
	UBA		
	Zenith Bank Plc		

UQ – Unlisted Banks operating in the Nigerian financial System.

TO – Given lifeline till June 2010 based on CBN's demand for recapitalisation.

Opinion: Thriving but may be in a position to profit from crisis.

Opinion: Some have margin lending issues but all will survive.

Opinion: Serious Corporate Governance issues, needs urgent attention.

Opinion: Ton the ropes, will either sink or be swallowed.

Legend: **BLUE** – Subject-to clearance given pre August 14, 2009 Declaration

Legend: **RED** – Actioned based on Outcome of Special Assessment by CBN, August 14, 2009

Legend: **ORANGE** – Actioned based on Outcome of Special Assessment by CBN, October 03, 2009

Others – As is

OBSERVATIONS:

Overall, The African Report, a bi-monthly published by the Paris-based Groupe Jeune Afrique, delivered an impressive seventy-five per cent (75%) believability return index on the report. This report, it has been argued, represents a 'toe in the water' intervention for which a follow-up report is required.








The CBN seized control of five banks with armed guards in tow (FT)

The 100 Days






**Aug
14,
2009**

- 📍 The CBN phase 1 special audit covering 10 banks was concluded and the immediate removal of Managing Directors and Executive Directors of the first five troubled banks was effected.
- 📍 The sum of N420 billion was injected into the first five troubled banks to help the banks meet their respective minimum regulatory capital requirement and to enable their new managements keep the operations going.
- 📍 New Management for the troubled banks were appointed with Mr. John Aboh heading Oceanic Bank Plc, Mahmud Alabi heading Intercontinental Bank Plc, Nebolisa Arah heading Afribank Plc, Mrs. Suzanne Iroche heading Finbank Plc and Mrs. Funke Osibodu heading head Union Bank Plc.

**Aug
14,
2009**

-  CBN assured depositors of safety of their funds in the troubled banks both now and in the future.
-  CBN cleared air on the merger stating that it would be in favour of forced mergers and that both foreign and local investors are welcome to discuss taking stakes in the troubled banks with the central bank's financial advisors.
-  Presidency assured depositors of safety of their funds stating that the Federal Government would continue to act in concert with the CBN to ensure that no bank was allowed to fail or become distressed.
-  Law enforcement agencies were directed by the presidency to support the new management teams of the five banks which have received bailout funds from the apex bank to recover their huge loans.
-  Appointment of Dr. Kingsley Chiedu Moghalu as CBN Deputy Governor to strengthen the CBN for the effective and efficient performance of its supervisory and regulatory functions.

**Aug
17- 23,
2009**

-  The CBN stabilized the operations of the banks by making funds available in all its branches across the country to ensure that the banks do not run out of cash, a response to fears that there might be a run on the banks by customers' withdrawals. The apex bank instructed all its clearing arms to ensure that there are returned cheques provided the accounts are funded by the operators.
 -  CBN assured major depositors of the affected banks of the safety of their funds. Nigerian Stock Exchange (NSE) in collaboration with Central Bank of Nigeria and Securities and Exchange Commission placed full suspension on 5 troubled banks shares for two weeks (till 28, August 2009).
 -  CBN assured foreign investors/creditors of safety of their stakes in the five embattled banks.
 -  Mr. Bartholomew Ebong, Mr. Okey Nwosu, Mrs Cecilia Ibru and Mr. Peter Elolo the Managing Directors of Union Bank Plc, Firstinland Bank Plc, Oceanic Bank Plc and Falcon Securities Limited respectively were arrested by the Economic and Financial Crimes Commission (EFCC).
 -  CBN published Names of Non-performing Debtors
Economic and Financial Crimes Commission (EFCC) gave a seven-day ultimatum to the debtors of the troubled banks to pay their debts or face arrest, prosecution and possible seizure of their assets.
- The Board of the Securities and Exchange Commission (SEC) gave a seven-day














Aug
17- 23,
2009

ultimatum to the Director-General of the Nigerian Stock Exchange (NSE), Prof. Ndi Okereke-Onyiuke, to explain the circumstances under which Transcorp Plc, which she chairs, appeared on the list of “non-performing” debtors of the five banks whose executive managements were removed by the CBN.

- SEC directed the immediate suspension of any of the affected executives of the five banks who are members of the council of the NSE pending the conclusion of investigation of allegations against them by the CBN.
- SEC directed that henceforth no securities of a public quoted company should be placed on technical or any other form of suspension without the prior approval of the commission.
- Forensic audit of affected banks to be carried out by KPMG, PWC and Akintola Williams-Delloite kicked off.
- CBN guarantees foreign loans of bailed out banks EFCC declared wanted sacked Chief Executive Officer of Oceanic Bank Plc, Mrs. Cecilia Ibru and her Intercontinental Bank Plc counterpart, Dr Erastus Akingbola.
- Akingbola sued Central Bank of Nigeria at the Federal High Court, Lagos, seeking for an order of Certiorari to quash his removal as the CEO.
- Cecelia Ibru’ counsel, Mr. Ajibola Oluyede, a managing partner in TRLPLAW & Co contended her dismissal as outright illegal and a miscarriage of justice.
- Bailout banks considering internal replacement of Eds.
- Foreign banks started cancelling credit lines to some Nigerian companies on account of the crises in the financial sector.
- Bad loans: EFCC grills Akintola Williams, PriceWaterhouse.
- Troubled banks recovered N13.5bn of the combined N747bn owed following threats by the Economic and Financial Crimes Commission to arrest the debtors.
- CBN directed the banks to submit names of beneficiaries of non-performing loans that exceed N100 million.
- SEC through its acting Director General directed NSE to immediately effect the suspension of Erastus Akingbola as the second Vice-President of the Exchange from the council, following his removal as Group Chief Executive of Intercontinental Bank Plc by the Central Bank of Nigeria.

Aug
24- 30,
2009

Cbn Opened Databank To Credit Bureaux

-  CBN Enforced Credit Checks Report on Banks
EFCC operatives sealed up the properties of the identified debtors of the troubled banks.
-  EFCC handed down threat to arrest debtors of the five banks.
EFCC held meetings with the new Managing Directors of the five troubled banks to prepare the final list of loan defaulters.
-  Former Managing Director and Chief Executive Officer of Oceanic International Bank Plc, Mrs Cecilia Ibru, submitted herself to the Economic and Financial Crimes Commission (EFCC).
-  EFCC teams of detectives were sent out after some of the bank debtors.
Mr. Okey Nwosu, former Managing Directors of Firstinland Bank Plc was granted bail.
-  Central Bank Governor, Mr. Lamido Sanusi met with international banks, lenders and rating agencies in London to discuss the bank bailout.
-  CBN Admitted negligence as a regulatory authority and blamed the management of the affected banks as exploitative and lacking in corporate governance.
-  CBN unfolded mergers, acquisition plans for the troubled banks.
-  The new Managing Directors of Union Bank Plc, Oceanic Bank Plc, Intercontinental Bank Plc, Afribank Plc and Finbank Plc organized a road show in London.
-  N25.5 Billion Non-Performing Loans were recovered.
-  Sixteen Bank Chiefs and Sixty Eight debtors were detained by EFCC.
-  EFCC set bail terms for Nwosu, Adigwe on reasonable terms of deposit bank guarantee in the sum of N1 billion in favour of the commission and such guarantee should be procured from banks not involved in the current CBN/NDIC/EFCC investigations, the procurer of the said bank guarantee must provide tax clearance certificate of the preceding three years payable as at when due, a surety in respect of each must be a serving/current minister of the Federal Republic of Nigerian who will provide a landed property in Victoria Island or Ikoyi in Lagos or Maitama or Asokoro in Abuja whose title and value will be verified and found acceptable to the commission).
-  CBN, FSA - United Kingdom's Financial Services Authority (FSA) to work on cross border supervision of Nigerian banks.
-  Federally-collected revenue in the second quarter of this year closed at N1.044 trillion, representing a decline of 21.2 per cent and 11.6 per cent from the

<p>Aug 24- 30, 2009</p>	<p>proportionate budget estimate and receipts in the preceding quarter.</p> <ul style="list-style-type: none"> 🕒 CBN declined option of any foreign banks taking a 100 per cent stake in the five troubled Nigerian Banks. 🕒 CBN promised the release of 14 outstanding audit reports of Nigerian banks in October. 🕒 CBN envisaged Nigeria economic growth of five percent this year, rising to double-digit rates from 2010 as its banking sector strengthens again after a \$2.6 billion bailout.
<p>Aug 31 – Sep 06, 2009</p>	<ul style="list-style-type: none"> 🕒 CBN on the floor of the House of Representatives to defend the N420 billion injected into the five troubled banks. 🕒 Chief Executive Officer appointed by the Central Bank of Nigeria (CBN) for Intercontinental Bank Plc, Mr. Mahmoud Lai Alabi, assumed duty at the bank’s corporate headquarters in Victoria Island, Lagos. 🕒 Monetary Policy Committee (MPC) meeting retained the lending rate at six per cent per year with a resolution for the establishment of a management firm to buy the toxic securities and assets of sick banks. 🕒 CBN announced the commencement of x-ray of the capital market activities in conjunction with the Securities and Exchange Commission (SEC) to identify abuses by operators and bring culprits to book. 🕒 CBN approved, in principle, the establishment of an Asset Purchase Facility Fund Full suspension on the shares of the five banks was lifted. 🕒 Sansui gave clarification on his UK tour not to sell or advertise the five troubled banks to international investors. 🕒 EFCC began investigation of the assets of the five banks Managing Directors sacked by the Central Bank of Nigeria. CBN declared its readiness to print more Naira. 🕒 Two suspected foreign investors alleged to be having interest in the five banks turned down the offer. 🕒 Some shareholders of Oceanic Bank Plc concluded plans to file a legal action against the Central Bank of Nigeria to challenge the propriety of its action on the bank. 🕒 CBN Governors Sanusi clarified to lawmakers the legality of his actions with regards to injection of N420 billion.

<p>Aug 31 – Sep 06, 2009</p>	<ul style="list-style-type: none"> 🔍 EFCC orders detained CEOs to surrender shares. 🔍 Senate demands explanation on N100bn to print bail out cash. 🔍 Court fixed Sept 14 for ruling on bail for Ibru, other detained bank chiefs. EFCC detained Union Bank director. 🔍 NSE boss allays stockbrokers' fears over margin loan saga. 🔍 CBN Governor stated that there exist no plans to arrest stockbrokers involved in margin trading.
<p>Sept 07 – 13, 2009</p>	<ul style="list-style-type: none"> 🔍 CBN injected N105.57b into economy through treasury bills. 🔍 The Central Bank of Nigeria scheduled meeting with stakeholders of the Nigerian Stock Exchange to address the confidence crisis currently rocking equity trading activities in the capital market. 🔍 The EFCC boss disclosed that current investigation of banks had revealed that looted funds were being laundered into the stock market through acquisition of shares. 🔍 The Economic and Financial Crimes Commission (EFCC) has so far recovered over N70 billion. 🔍 Afribank 24 billion is followed by Intercontinental Bank Plc with N15.5 billion; Oceanic International Bank Plc with N15 billion and Union Bank with over N10 billion in that order. 🔍 N80.75bn withdrawn from banks through EDW, REPO windows. 🔍 CBN proposes harmonized supervision for banks. 🔍 Director-General of the Nigerian Stock Exchange (NSE) and Chairman, Transnational Corporation Plc (Transcorp), Dr. (Mrs) Ndi Okereke-Onyiuke, along with five directors of the company were quizzed by the Economic and Financial Crimes Commission (EFCC). 🔍 Central Bank of Nigeria (CBN) agreed in principle to remove the 10 percent cap earlier placed on banks' participation in sub-national and corporate bond offers. 🔍 Economic and Financial Crimes Commission (EFCC) attributed the crash in the prices of shares quoted on the floor of the Nigerian Stock Exchange (NSE) to high level of insider trading and other malpractices. 🔍 SEC approved the discontinuation of the periodic renewal of registration by capital market operators and investment exchanges.

<p>Sept 07 – 13, 2009</p>	<ul style="list-style-type: none"> 📌 The Central Bank considered Rights Issue, Scheme of Arrangement and Acquisition as three local options aimed at acquisitions of the five troubled banks.
<p>Sept 14 – 20, 2009</p>	<ul style="list-style-type: none"> 📌 Former CEO of Union Bank, Bartholomew Ebong, Mrs Cecilia Ibru (Oceanic Bank Plc), Mr. Sebastian Adigwe (Afribank Plc), Mr. Henry Onyemem and Mr. Niyi Albert Opeodu were granted bail on stringent terms. 📌 Banks embrace Internal Capital Adequacy Assessment Process (ICAAP) as the new risk policy to check losses. 📌 CBN Governor visited the NSE, accused stockbrokers of irresponsible behaviour in terms of margin lending. 📌 The total recovery now increased to N87bn from N66.7bn of the previous week. 📌 Former Chief Executive Officer of Finbank Plc. Mr. Okey Nwosu and seven non-executive directors of Intercontinental Bank Plc were granted bail. 📌 Securities and Exchange Commission (SEC) the shares of the five banks recently taken over by the Central Bank of Nigeria (CBN) will not be placed on technical suspension. 📌 The Governor of the Central Bank of Nigeria (CBN), Mallam Sanusi Lamido Sanusi foreclosed the possibility of returning the five banks whose management teams were recently sacked to their former majority owners. 📌 CBN committee proposed 7 bills to strengthen banking sector. 📌 CBN set to print 1.9 billion new polymer notes.
<p>Sept 21 – 27 2009</p>	<ul style="list-style-type: none"> 📌 Loan recovery from the debtors of five banks by EFCC hit N92.9 billion. 📌 The travel documents of chief executives of Bank PHB, Wema Bank, Spring bank and Equitorial Bank were seized by the State Security Service (SSS). 📌 The special audit of 21 of the country's 25 banks completed. 📌 FMBN released new bad debtors as CBN Allays Fresh Fears in Banks. 📌 15 banks may remain after audit, says Sanusi. 📌 Extension of deadline given to banks on removal of offsite ATM. 📌 Mortgage bank debtors have 21 days to pay up.

Sept
21 – 27
2009

- 📌 CBN approved Executive Directors for rescued banks.
- 📌 Mortgage bank debtors have 21 days to pay up.
- 📌 Nigeria's banking sector was criticized for corruption by Transparency International.
- 📌 CBN urged banks to be innovative to compete in global market.
- 📌 The Governor of the Central Bank of Nigeria (CBN), Mallam Sanusi Lamido Sanusi asked banks to commence awareness campaign on risk and exposure to customers and key stakeholders.
- 📌 CBN Governor pledged to collaborate with the Securities and Exchange Commission (SEC) and the Nigerian Stock Exchange (NSE) to reduce the cost of transactions in bond issuance as companies are focusing on the bond segment of the capital market.

Sept
28-
Oct 04,
2009

- 📌 Sanusi directed banks to appoint chief risk officers.
- 📌 CBN raised alarm on obsolete ATMs.
The Central Bank of Nigeria (CBN) mopped up N48.9 million from the economy through auction of N48.9 billion (\$324 million) in 91-day and 182-day treasury bills as well as auction N18.9 billion in 91-day bills and N30 billion in the 182-day instruments using the Dutch Auction system.
- 📌 CBN Restates Likely Emergence of 15 Banks.
- 📌 (CBN) forwarded the advance copy of its audit report on the remaining 14 banks to the presidency.
- 📌 The EFCC recovered over N103 billion from bank debtors across the country since the beginning of recovery exercise.
- 📌 CBN rolls out new polymer naira notes.
- 📌 CBN to earn N46.2bn from banks bail-out fund.
- 📌 Presidency asked the Senate to confirm the appointment of Dr. Kingsley Moghalu as a deputy governor of the Central Bank of Nigeria and the confirmation of the appointments of Dr. Adedoyin Salami and four others as members of the Monetary Policy Committee of the CBN.
- 📌 Mike Adenuga, a non-executive director with Equitorial Trust Bank (ETB) and the bank's chief executive officer, Charles Uwaechie; Francis Atuche, managing director of Bank PHB and his counterpart at Spring bank, Charles Ojo were relieved
The new Managing Director /Chief Executive Officer of Spring Bank Plc, Mrs. Sola Ayodele resumed duties at the bank's head office.
- 📌 The CBN announced the result of the special examination of the remaining 14 banks which focused primarily on liquidity, capital adequacy and corporate governance.

**Oct
05 - 11,
2009**

- 🔍 CBN promised single digit inflation rate.
- 🔍 Bank PHB and Spring Bank placed on full suspension.
- 🔍 CBN endorsed strategies for raising of additional capital such as mergers with local peers and take over by core foreign investors.
- 🔍 Central Bank of Nigeria (CBN) set to appoint its own independent directors for banks that fail to sign up theirs after a stipulated period.
- 🔍 Federal Government considers taking control of some underperforming banks on a temporary basis.
- 🔍 The newly appointed chief executive officers for Bank PHB, Equitorial Trust Bank and Spring Bank by the Central Bank of Nigeria (CBN) resumed.
- 🔍 Sacked former Managing Directors of the Bank PHB, Spring bank and Wema Banks were placed on a watch-list by the Economic and Financial Crimes Commission.
- 🔍 Four new Executive Directors (EDs) for Oceanic Bank International Plc were appointed by the Central Bank of Nigeria (CBN).
- 🔍 Shareholders of banks quoted on the Nigerian Stock Exchange urged the Central Bank of Nigeria to publish the names of non-performing debtors of all the banks in the country in the spirit of transparency.
- 🔍 EFCC begins probe of Atuche, other sacked bank Mds.
- 🔍 Wema, Finbank were out of NSE 30 Index.
- 🔍 The Central Bank of Nigeria (CBN) considers the establishment of regional or specialised banks in the aftermath of the cleansing of the banking sector.
- 🔍 The Central Bank of Nigeria (CBN) considers fresh operational guidelines to strengthen the capacity of banks to perform their statutory function of lending to investors.
- 🔍 Probe begins in Soludo CBN bribery scandal.

**Oct
12 - 18,
2009**

- 🔍 Economic and Financial Crimes Commission (EFCC) reported an alleged N23 billion money laundering scam in Oceanic Bank.
- 🔍 Central Bank of Nigeria (CBN) called on the Reserve Bank of Australia (RBA) to explain why its bank-note firm's dealings with Nigeria involved multimillion-dollar payments to offshore tax havens.
- 🔍 Senate Endorsed CBN's Banking Sector Reform.
- 🔍 The technical suspension placed on the shares of Bank PHB Plc and Spring Bank Plc by the Nigerian Stock Exchange (NSE) was lifted.
- 🔍 The Central Bank disbursed N200 billion bailout fund to the Bank PHB, Spring Bank, Wema Bank and Equitorial Trust Bank.
- 🔍 The N120bn hole discovered in Afribank was attributed to losses incurred in trading in its own shares.
- 🔍 The Central Bank of Nigeria (CBN) published the names of non-performing debtors totalling N450 billion in Bank PHB Plc, Equitorial Trust Bank, Spring Bank Plc, Wema Bank Plc and Unity Bank Plc.
- 🔍 Economic and Financial Crimes Commission (EFCC) has so far recovered N115 billion from the debts owed some banks in the country.
- 🔍 Federal Government accepted proposals for the formation of asset management companies to take over the toxic assets in banks put in excess of N1 trillion.
- 🔍 The Economic and Financial Crimes Commission (EFCC) filed fresh charges against the former Managing Director of Oceanic Bank Plc, Mrs Cecilia Ibru and two others at large over alleged N25.8 billion scam.

<p>Oct 19 - 25, 2009</p>	<ul style="list-style-type: none"> 🕒 The Central Bank of Nigeria (CBN) had so far injected a total of N650.721 billion into the economy. 🕒 Economic and Financial Crimes Commission (EFCC), summoned 100 debtors of the five banks for a meeting at Abuja. 🕒 CBN declared 93.02% of Micro Finance Banks audited by CBN as sick. 🕒 Foreign investors expressed interest in buying into Nigeria's troubled banks. 🕒 The Minority Whip in the House of Representatives, Honourable Femi Gbajabamila (AC Lagos) dragged the Governor, Central Bank of Nigeria (CBN), Mallam Sanusi Lamido Sanusi before a Federal High Court over the insistence of the apex bank that it had powers to inject funds into ailing commercial banks without due authorisation and appropriation of the said funds by the National Assembly. 🕒 House of Representatives uncovered a N28 billion scam involving 14 commercial banks charged with the responsibility of receiving payments in respect of the lease and sale of Federal Government landed property across the country. 🕒 First Bank Plc and UBA Plc were given 21 days ultimatum to disburse the N100 billion agricultural intervention funds in their custody for the past six months.
<p>Oct 26 - Nov 01, 2009</p>	<ul style="list-style-type: none"> 🕒 Commerzbank to Raise Stakes in Nigerian Banks. 🕒 Stockbrokers Seek Effective Corporate Governance. 🕒 FG Boosts Agric with N400bn. 🕒 CBN Asset company not ready in 6 months. 🕒 EFCC prepares 1000-count charge on bank CEOs. 🕒 Troubled banks' Shareholders have lost their banks – Sanusi. 🕒 Nigerian economy may out grow South Africa's economy by 2012 – Sanusi. 🕒 Oil prices slip on profit-taking, ceasefire in Nigeria. 🕒 Govt to establish N57.5b commodity exchange market. 🕒 FG bans foreign petroleum vessels. 🕒 Third quarter budget performance put at 41 percent. 🕒 CBN, FG urged to save micro-finance banks as clampdown continues. 🕒 The UK economy unexpectedly contracted by 0.4 per cent between July and September. 🕒 Nigerian stock market shows recovery signs. 🕒 Bad loans: FG stops harassment of fuel importers. 🕒 Senate plans jumbo allocation to education in 2010 budget. 🕒 Akingbola's N50bn suit: Court orders consolidation of originating motion, objections. 🕒 Banking reform: NDIC allays depositors' fears. 🕒 Short-term capital market recovery not in sight' 🕒 Judge to hear Akingbola's suit with Sanusi's objection. 🕒 Naira Firms, Falls across Market Segments. 🕒 Exchange Rate: CBN Targets N150 to \$1. 🕒 More stock broking firms are shifting from equities trading to money market instruments following the persistent lull in the nation's capital market. 🕒 Bank common year end: Branch closure looms. 🕒 Sanusi Promises to stabilise the Naira at N150 a dollar. 🕒 Legislation on Asset Management Company slows takeover of toxic assets. 🕒 Naira drops further as CBN moves to peg rate at N150 per dollar.

Oct 26 -
Nov 01,
2009

- 🔍 Bank shares will no longer be used to secure margin loans – Sanusi
- 🔍 Development: World Bank, others set aside \$5.7bn for Nigeria
- 🔍 UK's aid to Nigeria to hit N35bn in 2010
- 🔍 Oil prices fall on mixed signs for U.S. recovery
- 🔍 Atuche Arraigned, Faces 26-Count Charge
- 🔍 Budget 2010: House May Jack Up Benchmark to \$60
- 🔍 Bank PHB ex-MD, Director arraigned over N79bn fraud
- 🔍 CBN beams searchlight on banks' top management staff
- 🔍 EFCC arraigns Atuche, Ojo over N113.3bn fraud
- 🔍 CBN to begin talks with investors on banks
- 🔍 The proposed asset management company will unburden investors and stabilise the stock market.
- 🔍 CBN issues new guidelines on banks' financial statements.
- 🔍 Shareholders fault CBN's policy on margin loans security.
- 🔍 IMF predicts recovery for Nigerian economy.
- 🔍 Akingbola: Judge sets aside ruling on court process.
- 🔍 Bank PHB directors in court over N80 billion fraud .
- 🔍 Troubled banks: CBN begins talks with investors.
- 🔍 EFCC arraigns Bank PHB, Spring Bank's ex-MDs.
- 🔍 Oil prices rise on strong U.S. growth data.
- 🔍 A Federal High Court in Lagos overruled both the Central Bank of Nigeria (CBN) and its Governor, Mr. Lamido Sanusi, and chose to hear an application seeking to stop them from disbursing funds to weak banks, along with the objection raised by the apex bank and Sanusi.
The application filed by a member of the House of Representatives, Hon. Femi Gbajabamila, is seeking an order of interlocutory injunction restraining the CBN, its governor and the Federal Attorney General from disbursing the N620 billion earmarked by them for some weak banks, pending the final determination of the substantive suit.
- 🔍 Banking Crisis: NDIC Admits Regulatory Lapses
- 🔍 Nigerian banks recapitalised soon, economic view bright - CBN
- 🔍 AMC to redistribute bank losses, facilitate stock market recovery - CBN.

Nov
02-08
2009

- 🔍 CBN begins next stage of reforms aimed at entrenching transparency in the system
- 🔍 Rencap tips GTBank, First Bank, UBA, Zenith Bank as post-audit industry leaders
- 🔍 SEC reaffirms need for good corporate governance
- 🔍 CBN set to regulate banks' regional expansion, executive compensation
- 🔍 CBN mops up N45.8bn from circulation
- 🔍 NDIC recommends two 5-year term for bank chiefs
- 🔍 Bank Debts: EFCC Recovers N171bn
- 🔍 CBN gives ETB seven-month recapitalization deadline
- 🔍 Finbank recovers 10bn
- 🔍 CBN Returns ETB to Mike Adenuga
- 🔍 Ecobank recovers N18 bn bad debts
- 🔍 CBN raises alarm on rising cases of bank fraud
- 🔍 CBN insists on zero tolerance for unprofessional, unethical practices.

<p>Nov 09-15, 2009</p>	<ul style="list-style-type: none"> 🕒 CBN injects N500 billion into the Economy. 🕒 Union Bank sets N50b debt recovery target. 🕒 The Federal Government and the Central Bank, CBN set to inject a fresh N250 billion to buy back bad debts of banks through the proposed Assets Management Company. 🕒 NSE Reduces Holding in CSCS to 30%. 🕒 CBN insists on common year-end. 🕒 Cost of funds rise as massive withdrawal hit Interbank. 🕒 NDIC recovers N16bn from 48 failed banks. 🕒 CBN rolls out new agenda for banking sector mainly to strengthen the regulatory and supervisory framework and enhance monitoring of the operations of the deposit money banks. 🕒 CBN Okays Shareholders' desire to recapitalise Banks. 🕒 CBN Gives Banks Deadline on International Standard.
<p>Nov 16-22, 2009</p>	<ul style="list-style-type: none"> 🕒 Rencap raises Access, FBN, FCMB Rating. 🕒 FG Asks Banks to Resume Lending to real sector. 🕒 CBN Issues New Guidelines on Commercial Papers and Bankers' Acceptance for Banks. 🕒 CBN withdraws N60bn from circulation. 🕒 CBN traces 60 shops in Dubai to sacked bank chief.
<p>Nov 23-24, 2009</p>	<ul style="list-style-type: none"> 🕒 CBN begins due diligence on the first five troubled banks in preparation for acquisition 🕒 Inter-bank rates dip as CBN offers \$500m in Forex.

After

1. CBN directs rescued banks to trim workforce, salaries
<http://www.proshareng.com/news/singleNews.php?id=8107>

There are indications that the Central Bank of Nigeria has directed rescued banks to cut executive and other staff emoluments by at least 30 per cent.

A memo from the CBN to the banks last month, obtained by our correspondent on Thursday, said the banks should immediately submit action plans for branch and staff rationalisation in order to “utilise some hidden economies of scale” in their operations.

The banks, according to the memo signed by Mr. Thompson Sunday for and on behalf of Director of Banking Supervision CBN, are also required to submit their action plans for enhanced revenue generation and cost reduction in the six months following the date the directive was given.

The CBN also directed them to comply with its directive in the special examination report by increasing total provision for loans and other known losses by the end of September 2009 and publish the full result

not later than October 31.

The memo said, “You are requested to recognise any additional diminution in the bank’s warehoused shares in its books latest by October 31, 2009.

”Furthermore, we request that you take the following steps immediately to check the dwindling operating performance of the bank:

- ① immediately **reduce executive and other staff emoluments by at least 30 per cent** and
- ① submit an action plan for branch and **staff rationalisation** in order to utilise some hidden economies of scale in the bank’s operations.”

A source in the CBN had told our correspondent that those banks that got the apex bank’s funds would have to cut costs while ensuring efficiency, saying that was the practice in the global economy as a result of liquidity challenges.

Investigations by our correspondent had revealed that employees were no longer sure of their jobs as banks engaged in cost-cutting moves, including mass sacking of workers, to achieve clean and robust balance sheets before the December 31, 2009 common year-end.

Some bankers, who spoke in separate interviews with our correspondent, had said the atmosphere in banks was currently tense, adding that many workers were being forced to resign, not only for target reasons.

A top worker in one of the banks adjudged safe by the CBN said that the jobs of many of those that had been promoted as a result of their deposit mobilising capabilities were on the line now that banking was not about size but efficiency.

She said, ”It has dawned on the bank that it will be difficult to continue to afford the huge salaries of some workers, which had been agreed on at the point of entry in view of expected deposit. There have also been memos saying that the bank wants to streamline processes and restructure for better performance while some workers have been asked to resign.”

Another employee of one of the controversial banks that scaled through the CBN’s second round of audit, said although the bank did not sack workers, even when others were sacking for deposit reasons, the management told workers last week that there would be a ”staff audit” at the end of the year.

This, he said, had sent panic waves across the banks, adding that bankers were not excited about the approaching Christmas and New Year celebrations because no one knew what could happen before the end of the year.

The Head, Corporate Affairs, CBN, had told our correspondent that the CBN was encouraging banks to cut costs in line with the reality in the global economy, including the sale of private jets acquired by some chief executive officers. (Source: Punch)

2. Fidelity Bank plans buy of rescued bank

<http://www.proshareng.com/news/singleNews.php?id=8104>

3. All-Share index falls by 0.49 per cent by Wednesday, Nov 25, 2009

<http://www.proshareng.com/news/singleNews.php?id=8102>

4. Bank Crisis: How CBN Directive, CEOs' Scheming Propel Mass Sack

http://www.ngrguardiannews.com/news/article03//indexn2_html?pdate=291109&ptitle=Bank%20Crisis:%20How%20CBN%20Directive,%20CEOs%27%20Scheming%20Propel%20Mass%20Sack

5. Troubled banks consider mergers and acquisitions

<http://234next.com/csp/cms/sites/Next/Money/Business/5487359-146/story.csp>

The 100 Days - Assessing the Impact/Consequence

- Matters Related Thereto or Arising Therefrom

Areas Covered

1. Preamble
2. Assessing Systemic Risk
3. N400 billion Rescue Package for the Five Affected Banks
4. The Five Banks Loan Spread
5. Total Loan, Non-Performing Loans and Required Provisions
6. Banking Sector Loan and Deposit Data with Reference to the Five Banks.
7. Percentage (%) of Shareholder's Fund of the Five Banks and Others
8. Percentage (%) of Net Assets Positions of the Five Banks and Others.
9. Banking Sector Net Asset Per Share and Price-to-Book Data.
10. Impact of CBN action on the stocks of five affected banks.

Preamble...

The result of the Special Examination of the first set of 10 banks was made known on 14 August 2009. The first phase of the audit covered ten banks which are listed below:

- 1. First Bank Plc, Diamond Bank Plc, GTBank Plc, Sterling Bank Plc, UBA Plc
- 2. **Intercontinental Bank Plc, Oceanic Bank Plc, Union Bank Plc, Afribank Plc, Firstinland Bank Plc**

On October 03, 2009, the CBN announced that the joint CBN-NDIC examination teams have completed the Special Examination of the remaining 14 banks — and as such, the books and affairs of all 24 banks in the Nigerian banking system have now been examined.

The Special Examination primarily focussed on assessing the health of the banks with particular focus on **liquidity, capital adequacy** and **corporate governance**. After a review of the findings of the Special Examination report in respect of these 14 banks, the CBN came out with decisions Chapter 2 – **The CBN Directives**.

Assessing Systemic Risk...

According to the Central Bank of Nigeria, to assess the systemic risk posed by the five institutions in the absence of any official action, it is worth focusing on a few key numbers.

Three of the five banks were considered systemically important, each accounting for more than 5 percent of assets and deposits in the system. In aggregate, as of end-May 2009, they represented 39.93% of loans by the banking sector, 31.47% of the sector's assets, and 29.99% its total deposits.

The troubled institutions had a disproportionately heavy concentration of loan exposure to high-risk areas such as the stock market and Nigeria's oil and gas sector relative to the rest of the industry.

Of a total loan portfolio of N2.8trn, margin loans accounted for N456 billion, and oil and gas loans made up N487 billion. The aggregate Non-performing loans (NPLs) totalled N1.143 trillion, or 40.81% of total loans.

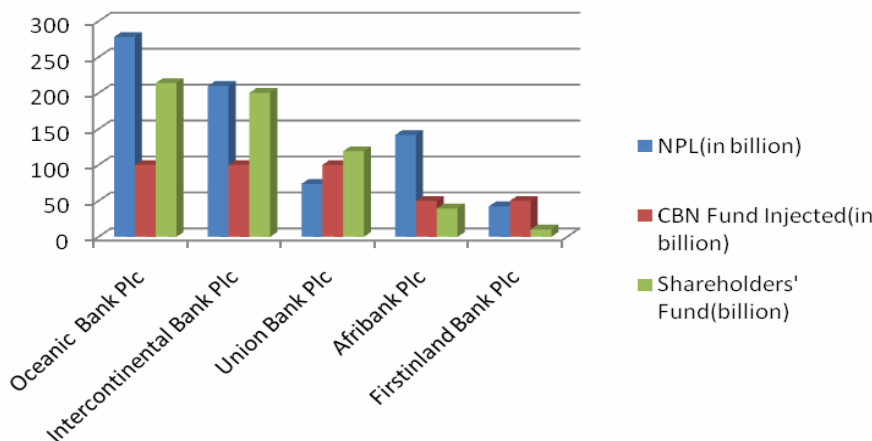
At the end of May 2009, their liquidity ratios ranged between 17.65% and 24%, compared with the regulatory minimum of 25%. One of the banks was found to be technically insolvent by bank examiners, with a capital adequacy ratio of only 1.01 percent. In all, a minimum capital injection of N204.94bn would have been required for the five banks to meet the minimum capital adequacy ratio of 10 percent.

N400bn Rescue Package for the 5 Affected Banks...

As graphically outlined below, after the conclusion of the audit exercise, the five banks were discovered to be in dire need of urgent liquidity help to salvage the impending halt on their operations as a result of liquidity squeeze.

CBN immediately injected the sum of N400 billion into these banks with Union Bank Plc, Oceanic Bank Plc and Intercontinental Bank Plc taking N100 billion each representing 25% of the total fund.

Afribank Plc and Firstinland Bank Plc shared N50 billion each of the fund representing 12.5% each. If their non-performing loans are placed side by side with their shareholders funds as graphically illustrated below, the CBN might be right on the true state of these banks as the situation revealed a strong indication of systemic risk for the bank involved.



According to the CBN, the fund does not represent equity take over in the bank, but a loan in form of Tier 2 Capital to be repaid from proceeds of capitalization in the near future when they must have been in the position to do so.

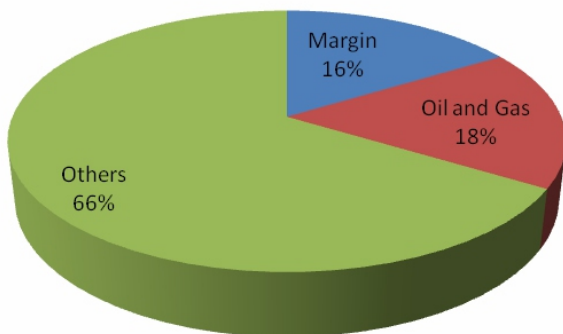
The fund according to the CBN is sufficient to resolve and stabilize all the institutions and enable them continue their normal operations.

The 5 Banks Loan Spread...

Of the total gross loan of the five banks to the tune of N2,802 billion, 16% goes for loan extended for margin finance(N456 billion) while N487 billion representing 18% goes for Oil and Gas sector. The remaining 66% is spread to other sectors of the economy.

From this data, it is clear that stock market and Oil & Gas were mostly exposed to and the state of these sectors accounted for bulk of the loans extended to them going bad or becoming non-performing. If these loans were spread out evenly to the other sectors, the risk would have been minimal.

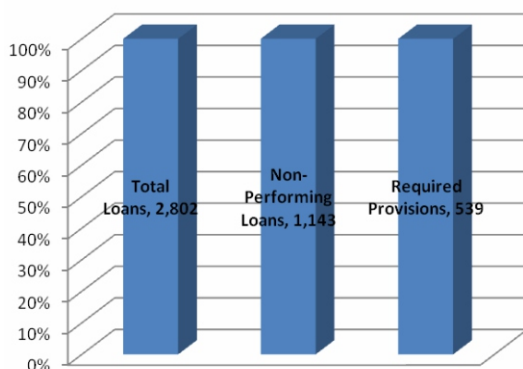
The Five Banks Loan Spread



Total Loan, NPL's and Required Provisions...

From the data made available by the CBN, the total non-performing loans in the books of these five banks amounted to N1,143 billion, representing 40.79% of the total loan. This means that almost half of the loans in the books of these banks are potential bad debts.

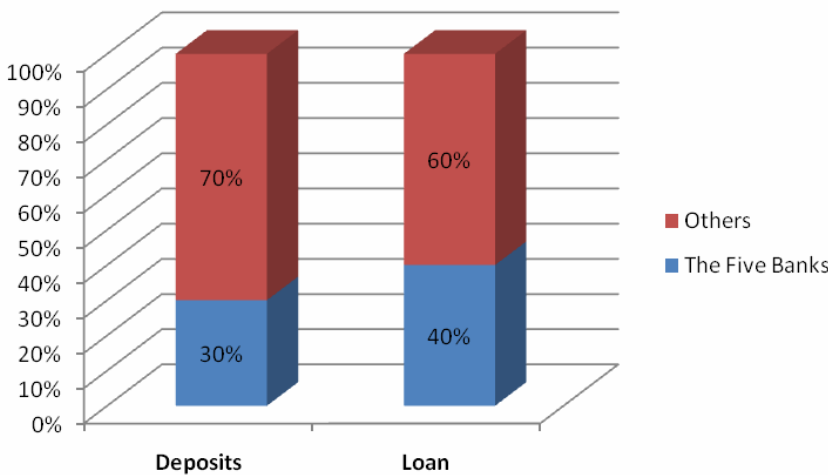
This, according to analysts appears disturbing and indicates a strong evidence of poor credit and risk management by the banks involved. Therefore, according to the CBN, this situation necessitated the need for provision to the tune of N539 billion which is 19.24% of the total loan and 47.16% of the total non-performing loans in these banks. Though this required provision is a cost on the profit of these banks, it is necessary in the face of the present realities for the true financial positions of these banks to be unfolded.



Banking Sector Loan and Deposit Data ...

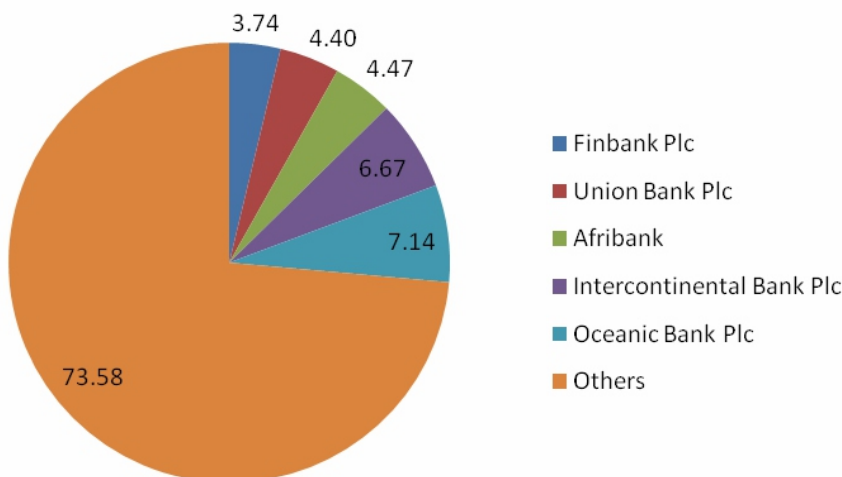
The aggregate of both the loans and deposit for the five banks and other banks in the sector are analysed below. From the data, the five banks accounted for 40% loan of the entire sector's loan (five banks out of 24 banks accounting for close to half of the entire market loan looks outrageous).

There deposit strength in the sector is however lower as all of them accounted for 30% of the entire sector deposit. This is a sign of outrageous loan exposure and the potential risk associated with such is high.

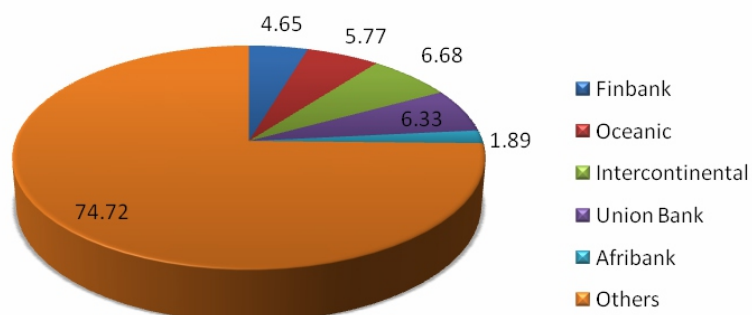


% of Shareholders Fund of 5 Banks and Others...

The 40% loan of the five banks compared with the entire sector's loan portfolio cannot be justified by their shareholders' fund percentage holding compared with the sector. The aggregate of their shareholders' fund was 26.42% while the remaining 73.58% goes to other banks. Firstinland Bank Plc accounted for 3.74% of the sector's shareholders' fund, Union Bank Plc (4.40%), Afribank Plc (4.47%), Intercontinental Bank Plc (6.67%) and Oceanic Bank Plc (7.14%). This would create a huge pressure on their respective shareholders' fund. This is another evidence while their shareholders' funds is endangered as a result of the loan loss.



% of Net Assets Positions – 5 Banks and Others...



The Net Assets positions of the sector with the five banks on one hand and the other banks in the sector. Firstinland Bank Plc and Afribank Plc closed lower of average sector percentage of 4.76%.

	NPL (in billion)	Shareholders' Fund(billion)	% of NPL to Shareholders Fund
Oceanic Bank Plc	278.2	214.04	129.98
Intercontinental Bank Plc	210	200.43	104.77
Union Bank Plc	73.58	119.16	61.75
Afribank Plc	141.86	39.526	358.90
Firstinland Bank Plc	42.45	10.331	410.90

Sources: Thisday Newspaper 19th August, 2009; Companies Annual Reports.

From the data above, non-performing loans in the books of four of the five banks were above their shareholders' funds.

The implication of this is that if all these loans eventually go bad and unrecoverable, the shareholders' funds consequently stands eroded.

Non-performing loans of Union Bank Plc to its shareholders' fund stands at 61.75%.

The regulatory authority might be right on its position that the state of these banks' financial health posed a great threat to their survival.

Banking Sector Net Assets Per Share and Price-to-Books...

Banks	Shares in issue(bn)	Price as at 241109	Net Asset Per Share	Price/Book Value
Access	16.452	6.99	11.52	0.61
Ecobank	7.218	14.42	4.98	2.90
Bank PHB	18.554	1.94	12.41	0.16
FCMB	18.75	7.25	8.58	0.84
Diamond bank	14.475	7.35	7.57	0.97
Fidelity Bank	34.963	2.66	4.84	0.55
Finbank	16.721	0.69	7.18	0.10
Oceanic Bank	24.443	2.26	8.9	0.25
Wema Bank	10.186	1.10	2.44	0.45
Intercontinental Bank	20.284	2.22	10.31	0.22
Unity Bank	14.736	0.98	1.97	0.50
Sterling Bank	12.563	1.19	2.39	0.50
Skye Bank	11.585	5.42	7.5	0.72
Union Bank	11.58	6.14	9.76	0.63
Zenith Bank	25.117	14.07	13.28	1.06
UBA	21.549	12.24	9.66	1.27
First Bank	28.5	14.00	11.63	1.20
Afribank	13.56	1.93	2.92	0.66
GTB	18.886	15.50	9.22	1.68
Stanbic IBTC	18.75	7.45	4.58	1.63
Spring Bank	11.321	0.98	2.64	0.37
Total			154.28	17.26
Average			7.35	0.82

Impact of CBN Action on the stocks of 5 Affected Banks...

Banks	Shares in issue (bn)	Price as at 140809	Price as at 241109	Market Cap @ 140809	Market Cap @ 241109	%Change
Oceanic Bank Plc	24.44	4.94	2.26	120.75	55.24	-54.25
Intercontinental Bank Plc	20.28	6.93	2.22	140.57	45.03	-67.97

Banks	Shares in issue (bn)	Price as at 140809	Price as at 241109	Market Cap @ 140809	Market Cap @ 241109	%Change
Union Bank Plc	11.58	12.60	6.14	145.91	71.10	-51.27
Afribank Plc	13.56	5.22	1.93	70.78	26.17	-63.03
Firstinland Bank Plc	16.72	1.55	0.69	25.92	11.54	-55.48

As at Friday, August 14, 2009, the shares of Afribank Nigeria Plc stood at N5.22 per share and it recorded a transaction of 4.45 million shares, FinBank Plc's share price stood at N1.55 per share and it recorded the exchange of 0.82 million shares, Intercontinental Bank Plc traded 1.49 million shares at N6.93 per share, Oceanic Bank International Plc's share price stood at N4.94 per share and it recorded a turnover of 12.5 million shares, while Union Bank Nigeria Plc's share price stood at N12.60 per share and it recorded a turnover of 10.74 million shares.

At the close of transactions on Friday, the volume of traded equities in the banking sub-sector closed lower as investors staked a total of N1.42 billion on 184.3 million shares, 15.5 per cent lower than the preceding day's volume of 218.1 million shares valued at N1.64 billion.

The panic and air of uncertainty created by the removal of the banks' helmsmen caused the investors to embark on panic sales which created a run on the shares of the banks. The share prices of these stocks suffered decline on August 14th as investors started reacting to the rumour of impending CBN actions on the banks.

Their prices dropped from the preceding day's share prices: Union Bank of Nigeria Plc lost 36 kobo to close at N12.60 per share followed by Intercontinental Bank Plc with 36 kobo to close at N6.93 per share, while Afribank Nigeria Plc shed 27 kobo to close at N5.22 per share, Oceanic Bank Plc and FinBank Plc both shed 26 kobo and eight kobo to close at N4.94 and N1.55 respectively. NSE Banking Index consequently dropped by 5.8% to close at 389.75 points.

Within the space of three months, the market capitalisation which measures the worth of a company's market shares **declined very drastically**. This consequently meant that investors in these banks were affected in varying degree, but significantly within the space of three months.

- 📌 Intercontinental bank Plc lost the highest of 73.94%, followed by Afribank with 69.22%.
- 📌 The least loss is Union Bank Plc and this is as a result of recent rebound in the prices of the stock in the last few days.
- 📌 Oceanic Bank Plc and Firstinland Bank Plc declined by 60.38% and 58.90% respectively.

Appendix. Articles on the Market....

The “Worthlessness” of Shares of Bailed Out Banks to The Nigerian Investor

By Dr. Chukwumah Biosah

A couple of weeks ago, The CBN Governor finally acknowledged and noted that “Shareholders of the eight (8) banks that received life lines from the CBN probably have worthless shares” Whether this is completely true or not for now depends on what the CBN decides to do with the funds injected into the nine bailed out banks.

Conversion of funds to equity position

The conversion of the injected funds into equity will be the worst case scenario for current shareholders. This will basically make the shares of the current shareholders of the eight (8) banks worthless as it will result in a significant dilution in their share position. For illustrative purposes, converting the injected funds to equity position based on the closing share prices as of Thursday November 5, 2009 for the first five bailed out banks, will enable the CBN (which is basically the Federal Government) to own greater than 60% of each of the bailed out banks as highlighted in the schedule below:

Banks	CBN Capital Infusion	Approx. # of Shares outstanding	Unit Share Price @ 30/10/09	CBN equity position, if funds are converted to shares @ current price	Projected Combined O/S Checks	Projected CBN % Ownership of each Bank
AfriBank	50,000,000,000	13,506,826,511	2.53	19,762,845,850	33,269,672,361	59%
FinBank	50,000,000,000	9,688,629,584	1.00	50,000,000,000	59,688,629,584	84%
Oceanic Bank	100,000,000,000	22,222,794,578	2.39	41,841,004,184	64,063,798,762	65%
Union Bank	120,000,000,000	11,579,765,711	7.28	16,483,516,484	28,063,282,194	59%
Intercontinental Bank	100,000,000,000	20,284,436,101	2.80	35,714,285,714	55,998,721,816	64%
Total	420,000,000,000	77,282,452,485		163,801,652,232	241,084,104,717	

Basically, if the above scenario is actualized, the shares of all current shareholders will be almost worthless since the Federal Government will become the majority shareholder of these banks. Instead of throwing around conspiracy theories, shareholders should be imploring the CBN and the Federal Government not to convert the invested funds to equity, because of the significant dilutive impact it will have on existing shareholders. Nevertheless, it is important to note that shareholders own the public companies they invest in (through share purchases).

Therefore, investors share in the profits and losses that come with investing in these companies. When stocks of most of these listed NSE companies were booming prior to the burst in March 2008, investors were on highs and did not question any decisions made by the managements of these firms. Unbeknownst to most of these investors, management of these bailed out firms seemed to be playing Russian roulette with their funds.

However, even if the CBN decides not to convert the injected funds into equity, other events that might accelerate the worthlessness of these shares include the acquisition and merger of these bailed out banks by other institutions, or the sales of these banks to new investors.

Merger & Acquisition

Although there are several ways that mergers and acquisition can be implemented, there are three primary methods:

- ➊ Acquiring all assets and liabilities of a firm through the use of cash/or securities. The firm ceases to exist and the current shareholders receive cash/or securities. This requires at least 50 percent approval of the stockholders.
- ➋ Acquiring firms can use a tender offer by buying shares directly from shareholders and by passing the management of the company.
- ➌ The acquirer can directly purchase the assets of the target firm and payment is made to the firm rather than directly to its stockholders.

No matter how you slice it, none of these options will be beneficial to existing shareholders. Head or tails, existing shareholders lose. For example, in May 2007 Oceanic Bank did a secondary public offer of their shares at N16.50k, an investor that purchased 100,000 shares have lost approximately 88% of their original investment as highlighted below (Note: Excluding any declared bonuses).

Description	May-07	5 Nov. 2009	Amt. of Change	%
# of Shares	100,000	100,000		
Stock Price	16.5	1.97	(14.53)	-88%
Total Cost	1,650,000	197,000	(1,453,000)	-88%

In any merger or acquisition, the acquirer will buy the shares at the current or discounted price if it is an all cash transaction, but in an all stock transaction the existing shareholders will receive fewer shares than the number of shares the shareholders currently have outstanding. Assuming a bank like First Bank of Nigeria (FBN) decides to acquire Oceanic bank at the current price (N1.97K), the most existing shareholders of Oceanic bank will receive is approximately 1 share of FBN for every 7 shares of Oceanic Bank based on the current price. My calculation has assumed the most optimistic scenario, because FBN or any interested acquirer might offer a price less than the bank's current share price because of the bank's liabilities and other issues that might be uncovered during the due diligence.

Conclusion

A review of investors current options indicate that the shares of the current shareholders of these bailed out banks appear to have little or no value at this point in time.

One option that has not been explored extensively is the **possibility of allowing the major shareholders of some of these bailed out banks to inject capital into these banks and pay back the funds they received from the CBN**. For example, in the case of Oceanic Bank, it will be interesting to find out if the CBN will allow the Ibrus' to pay back the N100 Billion they received from the Federal Government and bring in additional capital as prescribed by the CBN.

A lot of shareholders and analyst have represented that some of these banks may not have been in the ailing position that the CBN claimed. Therefore, I believe that the CBN should probably give the opportunity to some of these major shareholders who have the "wherewithal" to do the right thing. Like the common saying goes "let these major shareholders put your money where your mouths are". Although this is probably more wishful thinking than reality, it might be the only option that will save investors and revitalize the shares of these bailed out banks. The ETB model might just as well work here as well, in the absence of any criminal underlying reason.

It is unfortunate that most shareholders fell asleep at the wheel or basically were indolent during the past years. It is important that investors do their home work and understand that they must be active participants in the affairs of any firms they invest in.

Basically, investing in any public firm is Caveat Emptor. Again a couple of weeks ago in my article, "**Corporate Bond Craze and Its Implications On Financial Institution In Nigeria**" (<http://www.proshareng.com/news/singlenews.php?id=7754>), I noted that shareholders are again making the same mistakes they made a couples of years ago by rubber stamping all the current proposed bond sale without asking for actual projections or justification for bond sale.

I believe that the issuance of these bonds will negatively impact these shareholders and the value of their shares, as currently presented. These banks will be unable to pay dividends from income except if they resort to borrowing to pay dividends as some banks were reported to have done in the past.

Investment Scenarios and Technical Analysis

- The Investor – PO's, Secondary Market and Share Value

Areas Covered

1. Investment Scenarios
 - a. Investment in Banks Public Offer
 - b. Investment via the Secondary Market
 - c. Investment of CBN funds in 5 affected Banks
2. Technical Analysis

SCENARIO 1: INVESTORS INTO THE BANKS PUBLIC OFFERS



	Afribank	Firstinland Bank	Intercontinental Bank	Oceanic Bank	Union Bank
Offer Date	Nov 07-Sep 08	Jan08-Feb09	Sep 06-Nov07	Mar07-Jan08	2005
Offer Price	25	9.5	13.5	16.5	36
Offer Volume (Hypothetical)	1,000,000	1,000,000.00	1,000,000.00	1,000,000.00	1,000,000.00
Value Invested	25,000,000.00	9,500,000.00	13,500,000.00	16,500,000.00	36,000,000.00
Price at 140809	5.22	1.55	6.93	4.94	12.6
Value at 140809	5,220,000.00	1,550,000.00	6,930,000.00	4,940,000.00	12,600,000.00
Diminution in Value to 140809	- 19,780,000	-7,950,000	-6,570,000	- 11,560,000	- 23,400,000
Price at 241109	1.93	0.69	2.22	2.26	6.14
Value at 241109	1,930,000.00	690,000.00	2,220,000.00	2,260,000.00	6,140,000.00
Diminution in Value to date (Nm)	- 23.07	- 8.81	- 11.28	- 14.24	- 29.86
% Loss on initial investment	-92.28	-92.74	-83.56	-86.30	-82.94

Within the last four years, each of the five affected banks had come to the market canvassing for investors' stake in their companies.

There offer documents, sanctioned and approved by the market regulators, showed promises of ample returns both in form of dividend and capital appreciation which was premised on the potentials of their banks to grow earnings. These financials were backed by fundamental and technical information that made it such a market wave the market rode successfully till now.

In assessing what investors have gained or lost within that space of time, hypothetical figure of 1,00,000 units is assumed as a particular investor's public offer subscription and allotment.

Afribank Plc's offer at N25 per share would amount to N25,000,000 , by August 14th, 2009 before the CBN pronouncement, the price of the stock had come down to N5.22 per share resulting in N5,220,000(Loss of N19, 780,000). This loss could be attributed to the general market crisis which is peculiar to all the listed companies on the exchange depending on the investors' perspective. The percentage resultant loss from the offer price to August 14th on Afribank equals 79.124%. The loss the stock experienced between August 14th to November 24th, 2009 amounts to 63%. As at 24th November, 2009, investors into Afribank Plc public offer have lost 92.28% of their investment, having only 7.72% remaining. Assuming the fund was invested in let say bond with an annual coupon rate of 10%, the investors would have gotten N5, 000,000 plus the initial investment which amounts to N30, 000,000. Therefore, the actual loss the investors have incurred if this alternative investment is considered is (-92.28% plus N5, 000,000 he could have earned from other investment).

Firstinland Bank Plc's offer at N9.50 came down to N1.55 as at August 14th, 2009(83.68% loss). Between August 14th and November 24th, 2009, the investment had come down by 55.48%. From offer price to November 24th, 2009, the value of the investment has suffered diminution by 92.74%. Assuming an annual coupon rate of FGN bond at 10% in the last two years of the offer, the investors would have gotten N1, 900,000 plus N9, 500,000 initial investment. The actual loss in this regard equals 92.74% plus N1, 900,000 that could have been earned.

In the case of **Intercontinental Bank Plc**, the public offer at N13.50 declined to N6.93 in August 14th, 2009, recording 48.67% loss. The loss recorded in the stock between August 14th and November 24th, 2009 equalled 67.97%, above the loss to August 14th. The diminution in value to November 24th, 2009 stood at 83.56%. Considering the alternative investment of FGN bond at annual coupon of 10%, investors would have earned N4, 050,000 plus the initial investment. The actual loss Intercontinental Bank Plc public offer is 83.56% loss and N4, 050,000 that could have been earned.

Oceanic Bank Plc public offer price of N16.50 dropped down to N4.94 in August 14th, 2009 to record a loss of 70%. The loss between August 14th and November 24th 2009 equalled to 54.25% and the loss to November 24th 2009 amounted 86.30%. Investing in FGN bond at annual coupon rate of 10% with the money would have yielded N3,300, 000. The loss therefore is 86.70% diminution plus N3, 300,000 not earned.

Union Bank offer price at N36.00 declined to N12.60 as at 14th August (65% decline). The loss recorded between August 14th and November 24th, 2009 amounted to 51.27% and the total loss to 16th November, 2009 is 82.94%. Investing in FGN bond at an annual coupon rate of 10% would have fetched N10, 800,000. The real loss therefore is the 82.94% decline plus N10, 800,000 not earned.

The hypothetical scenario presented above shows the great blows that have been dealt on investors' holdings in the affected banks.

SCENARIO 2: INVESTMENT VIA THE SECONDARY MARKET



	Afribank	Firstinland Bank	Intercontinental Bank	Oceanic Bank	Union Bank
Price on the floor 120809	5.58	1.71	7.29	5.32	13.04
Buy Charges of 2.75%	0.0275	0.0275	0.0275	0.0275	0.0275
Buy Charges	0.15345	0.047025	0.200475	0.1463	0.3586
Total Cost	5.73345	1.757025	7.490475	5.4663	13.3986
Offer Volume	1,000,000	1,000,000.00	1,000,000.00	1,000,000.00	1,000,000.00
Value Invested	5,733,450.00	1,757,025.00	7,490,475.00	5,466,300.00	13,398,600.00
Price at 140809	5.22	1.55	6.93	4.94	12.6
Value at 140809	5,220,000.00	1,550,000.00	6,930,000.00	4,940,000.00	12,600,000.00
Value at 241109	1.93	0.69	2.22	2.26	6.14
Value at 241109	1,930,000.00	690,000.00	2,220,000.00	2,260,000.00	6,140,000.00
Diminution in Value to date (Nm)	- 3.803	- 1.067	- 5.270.	-3.206	-7.259
% Loss on initial investment	-66.34	-60.73	-70.36	-58.66	-54.17

The table above presents an hypothetical reality of what average investors in the stocks of the five banks have lost between August 12th when we assumed investors bought into these stocks.

As a result of CBN pronouncement, Afribank declined by 66.34%, Firstinland Bank lost 60.73%, Intercontinental Bank lost 70.36%, Oceanic Bank lost 58.66% and Union Bank lost 54.17%.

The seemingly low loss reported in Union Bank was a result of the rally the stock enjoyed in the last few days to the release of its audited result.

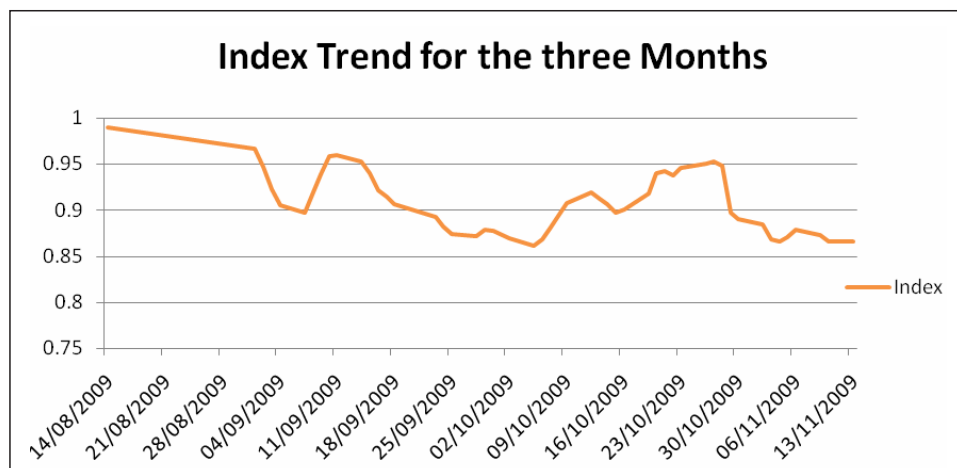
SCENARIO 3: INVESTMENT OF CBN FUNDS IN 5 AFFECTED



	Afribank	Firstinland Bank	Intercontinental Bank	Oceanic Bank	Union Bank	Total Amount Lost	
Fund Injected by the CBN	50,000,000,000	50,000,000,000	100,000,000,000	100,000,000,000	100,000,000	400.000 bn	
Share price as at 140809	5.49	1.63	7.29	5.2	12.96		
Buy Charge rate	0.0275	0.0275	0.0275	0.0275	0.0275		
Buy Charges	0.150975	0.044825	0.200475	0.143	0.3564		
Total Cost	5.640975	1.674825	7.490475	5.343	13.3164		
The volume the Fund could buy	8,863,715,935.63	29,853,865,329.21	13,350,288,199.35	18,716,077,110.24	7,509,537.11		
Price as at 241109	1.93	0.69	2.22	2.26	6.14		
Value as at 241109	17,106,971,755.77	20,599,167,077.16	29,637,639,802.55	42,298,334,269.14	46,108,557.87		
Diminution in Value(bn)	-32.893	-29.400	-70.362	-57.701	-53.891		-190.411
% Diminution	-65.79	-58.80	-70.36	-57.70	-53.89		
					NET BALANCE	209.588 bn	

The scenario presented above pictures the diminution in the fund injected by the CBN; between August 14th 2009 when the fund was injected, the fund had declined by N190,411,778,537.52 (representing 47.60% decline) and the net balance amounts to N209,588,221,462.48.

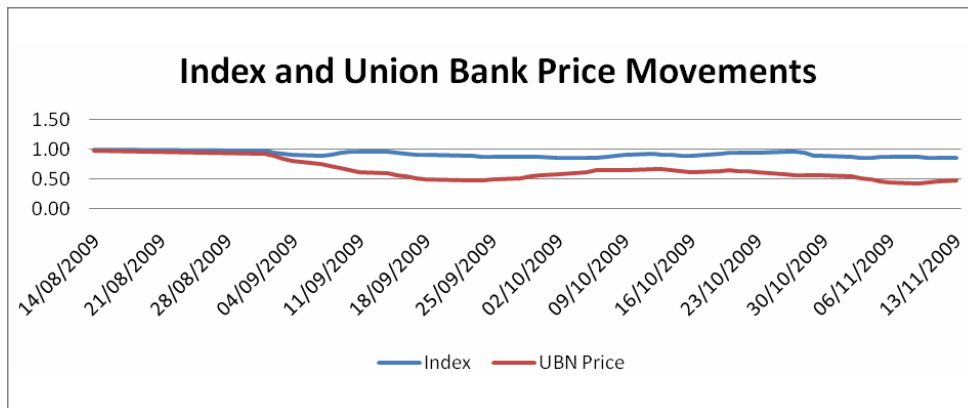
Technical Analysis...



There was upward trend within the second week of September. Between August 13th and November 13th, 2009, ASI lost by 13.39%. ASI recorded the lowest for the period in October 5th, when ASI closed at 21,090.08.

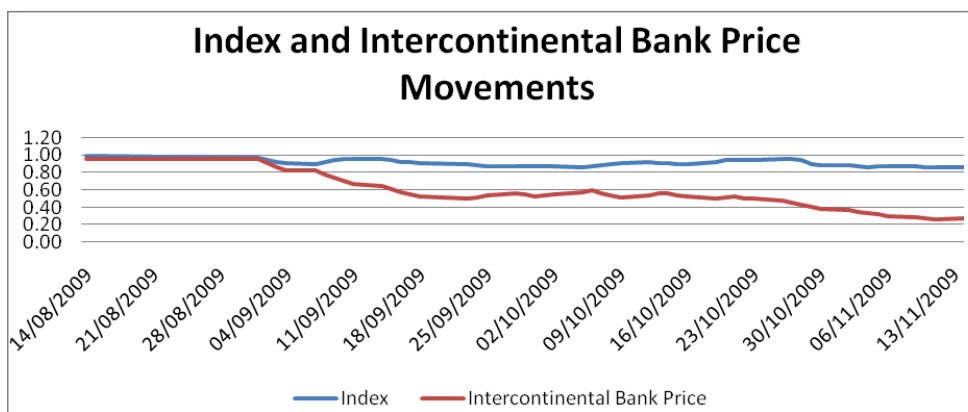
The lowest for the Month of September was recorded on the 28th of September closing at 21,335.94. Index has been able to return to its close of 24,482.52 of August 14th.

The downward trend of ASI was above the downward trend of all the five stocks as depicted in the subsequent graphs.

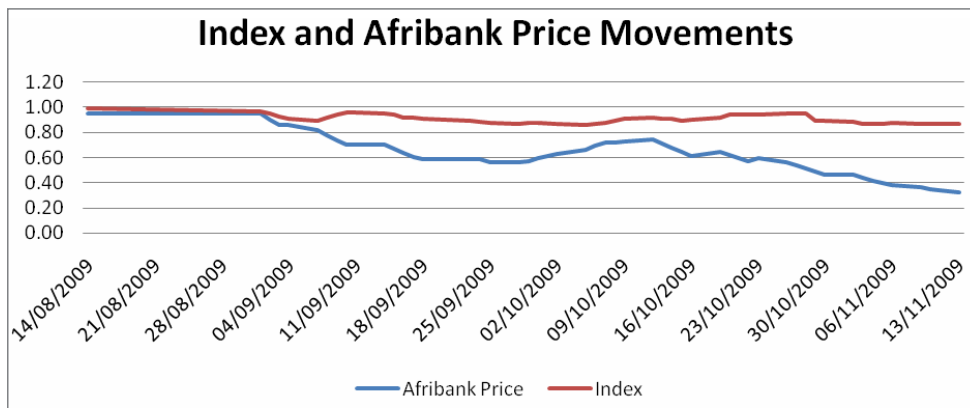


Oceanic Bank Plc declined by 57.31% within the period against ASI drop of 13.38%. The stock suffered deeper loss between the first week of September and second week in October.

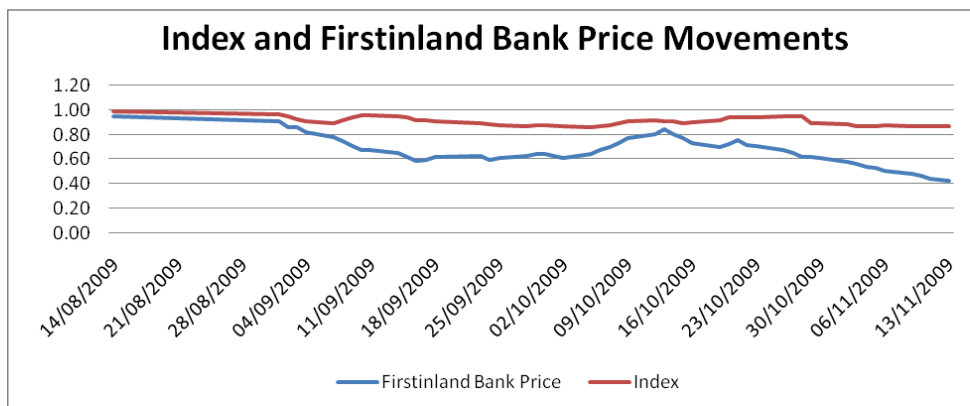
There was however upward trend in the stock price in the third week of October after week the decline resumed again.



Intercontinental Bank Plc lost 72.84%. The stock was/is the most hit among the five stocks.



Afribank Plc decline rate for the period stood at 67.77% against ASI decline of 13.38%. The stock price trended upward between first and third week of October to resume its downward trend again. The stock is the second most hit among the five.



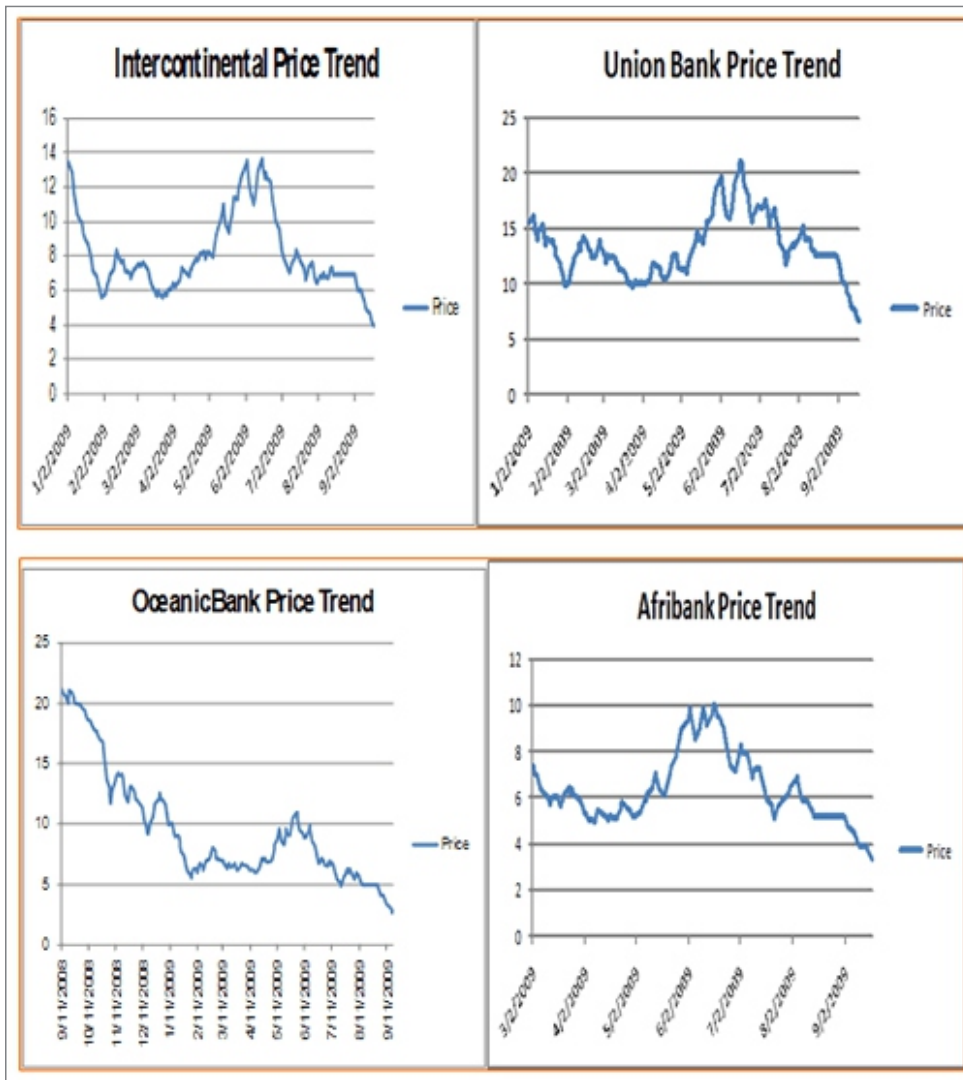
Firstinland Bank Plc began relative upward movement in the second week of September to reach its high for the period in the third week. The stock lost 57.06% against ASI drop of 13.38%.

In a nutshell, all the upward trend movements recorded by the five stocks within the period is adduced to the activities of speculators who were taking advantage of the massive drop the stock had experienced.

Appendix. Articles on the Market....

Swift actions by the CBN will protect further deterioration of shareholder values

It has been slightly over four weeks since the CBN infused 420 Billion into five banks and replaced their Chief Executive Officers (CEOs'). Since the Apex Bank took over these banks and replaced their CEOs, the share prices of these banks have suffered severely as highlighted by the graphs of four of the banks below:



The shares of Oceanic Bank have lost N2.23k or 45.1% translating into a loss of N49.56 Billion of shareholders wealth. Afribank shares have lost N1.90k, or 36.4% translating into a loss of N25.66 Billion in shareholders wealth. Intercontinental Bank shares have lost N2.94k, or 42.4% translating into a loss of N59.64 Billion of shareholders wealth. Union Bank shares have lost N6.00k, or 90.9%; translating into a loss of N69.48 Billion of shareholders wealth. While these losses are intolerable, it would have been worse if the CBN had allowed these banks to fail. It should be noted that shareholders of a bank or any public company are actual owners of these institutions; regardless of how many shares they own or their percentage of ownership. Ordinarily, these institutions should not be bailed out or protected in dire situation like the current circumstances.

Becoming a shareholder of a company comes with risk and benefits. Equity holders share in any capital appreciations, dividends, and also losses. With this back drop, it is pertinent that shareholders actively participate in issues relating to any company they invest in such as using collective voting powers to vote out board of directors or CEOs' who participate in behaviors that are more geared towards the destruction of shareholders value than creating it.

While most shareholders may understand what the worst case scenario would have been if the CBN did not act, continued inaction to determine the ownership structure of these financial institutions by the CBN is magnifying the level of anxiety of most shareholders as the share prices of these institutions continue to erode.

Several Daily papers recently reported that sources within the CBN represented that the following three measures listed below are being considered regarding attempt to determine the new ownership structure of the five banks:

- i. The first option is a rights issue. The CBN will execute a rights issue, converting the tier two capital (the amount injected) to 80 percent stake in the affected banks, leaving the remaining 20 percent to the current shareholders.”
- ii. The second option is to arrange for extraordinary meetings of the current shareholders of the five banks to foster shareholders agreement to a merger or acquisition arrangement.
- iii. The third option is having the CBN nominate a bank in the country to acquire any of the five banks and then backing the action with statutory powers.

It was noted that the CBN believes that the first two option are most plausible. These three options are less controversial than the Apex bank's original intentions of bringing in foreign investors to acquire some percentages of these banks.

From my perspective the first option appears to be the best option for the current shareholder of these banks. However, it will probably be the most dilutive to the share position for the current shareholders.

Illustration

To illustrate, Oceanic Bank received N100 Billion from the Apex bank and also borrowed N90 Billion from the discount window; making combined borrowing from the Apex bank N190 Billion. If the N190 Billion is converted to shares based on N4.94k per share which was the stock price as at the day Apex Bank took control of Oceanic Bank, the N190 Billion will translate to 38.46 Billion shares.

If the government retains 80%, it will mean that 7.69 Billion will go to current shareholders through rights issue, and the CBN will own 30.77 Billion shares. Implementing this option will increase Oceanic Bank's outstanding shares to 60.68 Billion shares since Oceanic Bank currently has 22.22 Billion shares outstanding. Therefore, it is rational to assume that the CBN will own 30.76 Billion shares or 50.7% and the current shareholders will own 29.9 Billion shares or 49.3% of the new Oceanic Bank.

Although this is a more favorable plan for the current shareholders, 60.8 Billion shares is extremely heavy for any firm. The bank will be unable to pay any significant dividend. Furthermore, such a huge number of outstanding shares will impact the bank's valuation. One important issue to raise here is that since the CBN will become the largest shareholder, I believe that there should be governance transparency. Minority shareholders should be informed before the CBN sells any of its shares. Additionally, existing shareholders should be given the first right of refusal if the CBN decides to sell

their shares.

Another option that the CBN should consider is to convert the N190 Billion to a 5 to 7 year interest bearing term loan. The decision of how the government should be paid off will then be left to the Management and their shareholders of these banks. As an interest bearing loan, it will not have any dilutive impact on the current shareholders. The suggestion will be for Management to operate these banks for at least two years, stabilize the banks, then perform share reconstructions to reduce the number of outstanding shares to a manageable level. Attempts should then be made to raise funds to pay back the CBN through rights issues. This will be less dilutive to the current shareholders and will have less negative impacts on the valuations of these banks.

Finally, if the CBN decides to go the merger route, the bidding process should be transparent and the CBN should consider “loss Share” agreements to protect the potential acquirers from any potential unforeseen losses from these banks current non-performing loan portfolios.



Prepared by Chukwumah Biosah, President CEBAL Audit Group, USA and InvestIQ, Technical Analysts to Proshare. All opinions on this page/site constitute our best estimate judgement as of this date and are subject to change without notice. Investors should see the content of this page as one of the factors to consider in making their investment decision. Proshare Limited, its employees and analysts accept no liability for any loss arising from the use of this information. All enquiries should be directed to Biosah@ca.rr or info@proshareng.com



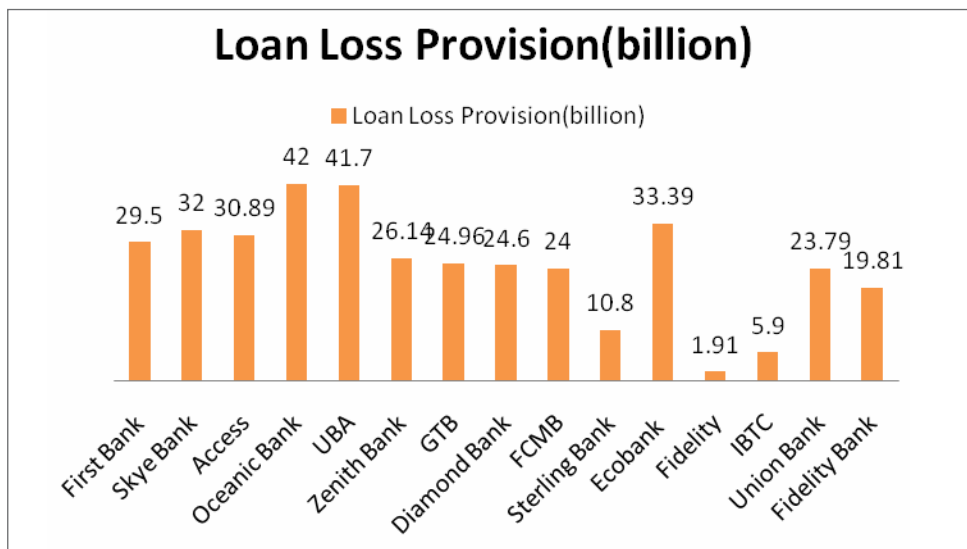
The CBN & Loan Loss Provisioning by Banks

- Special Audit Loan Losses and Recovery Effort to date

Areas Covered

-  CBN Special Audit and Loan loss Provision
-  Loan Loss Recovery

CBN Special Audit and Loan Loss Provision...



The banks in compliance with the new CBN directive and in compliance with the IFRS format of reporting have been reporting huge provisions for loan losses depending on the state of their books as at the time of the audit. The mandated provisions created a wide gap between the normal provisions the banks used to make in compliance with the old rules.

These provisions consequently have been throwing their books into net loss as against jumbo profits they used to report before now. As they make huge loan losses provisions and consequently declare net losses, the sector becomes more unattractive and the investors will either position in the stocks of these banks for long term view or shift to another sector/companies with prospect of returns in the near term.

Among the five banks, **Oceanic** released its audited report prior to August 14th saga with a total provision of N42 billion for loan losses. As a result of this, the bank could not pay commensurate returns to investors in form of dividends but eventually resorted to a bonus of 1 for 10 which in our opinion further poses a great challenge in the days ahead for the bank in being able to meet returns to the investors in terms with the increased number of shares. The shares in issue of the bank jumped to 24.44 billion units from pre-bonus of 22.22 billion units.

Union Bank Plc few days ago published its 2009 audited account with provisions for losses to the tune of N23.79 billion. The profit after tax for the year closed at a net loss of N72.85 billion, the greatest net loss

so far reported in the sector. Other remaining three banks are yet to publish their results but we envisage huge provisions and consequently net loss in their books.

Loan Loss Recovery...

Managements of banks are optimistic that the non-performing loans they have made provisions for would be recovered and that when this happens, it will be a plus for their earnings in the periods ahead as such would be factored in their reported profit. And some of them have been making progress in this area.

According to the new management of Union Bank Plc, the bank as at 11th November, 2009 has recovered N31 billion with the bulk of N22.1 billion from Transcorp Plc, N660 million from government and the remaining balance from one year promissory notes.

Intercontinental Bank Plc has so far recovered N30 billion, and according to the new management, the bank is set to recover N200 billion in the next three months.

Oceanic Bank Plc as at September 2nd, 2009 had recovered a meagre N9 billion, in proportion to its total exposure.

Further loan recovery is dependent on the phase of economic recovery; with economic recovering at a fast speed, the prospect for such recovery becomes brighter. We however do not see how that will happen to speed up the growth in liquidity required to service the market.

Appendix. Articles on the Market....

The AMC may not be the final solution for the NCM!

By Dr. Chukwumah Biosah

Source: <http://proshareng.com/blog/?p=58>

Filed under: 24 November 2009 – admin @ 7:49 pm

Capital Raising Plans of Banks

- The Devaluation of Capital and Banking Industry Outlook

Areas Covered

- 📍 Preamble
- 📍 Proposed Capital Raising by Banks
- 📍 Outlook for Banking Sector

Preamble – What the CBN proposes...

The Central Bank has stated that it had a number of options available to stabilise the bailed out banks. According to its head of corporate affairs Mohammed Abdullahi, there are three options, viz:

- 📍 The first is for foreign investors coming to invest in the banks and buy them up;
- 📍 The second is to encourage acquisition and mergers by strong local banks in Nigeria;
- 📍 The third option is the one that government would acquire equity shares and then sell to the public at a later date, which is not nationalisation.

Sanusi Lamido Sanusi, the CBN Governor said in August that his preferred option for the first five banks rescued would be for them to be purchased by other financial institutions, foreign or local.

Nine Nigerian banks: Afribank, FinBank, Intercontinental Bank, Oceanic Bank and Union Bank, Wema bank, Bank PHB, Spring Bank and Equitorial Trust bank are presently seeking investors to recapitalise them after being indicted by the Central Bank for

- 📍 high non-performing loans,
- 📍 poor corporate governance,
- 📍 lax credit administration,
- 📍 failure to meet prudential ratios such as liquidity and capital adequacy,
- 📍 high level of loan concentration to the capital market, and
- 📍 Oil and Gas sectors.

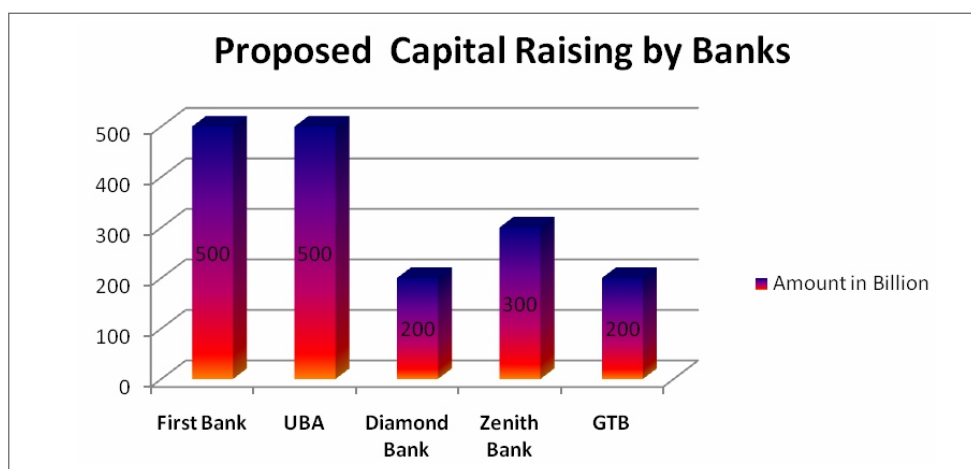
Proposed Capital Raising by Banks...

Due to the gloomy nature of equity market, banks have now shifted their capital raising drive to bonds; the bond market which used to be exclusively for government bonds is now being patronised by the corporate organisations as an avenue to secure funds for their businesses. So far, about N1.7 trillion is being anticipated to be raised by five banks through bond market.

Four of the five banks are coming to the bonds markets to boost their tier one capital while only Diamond Bank is coming for tier two capital boosting. The success or otherwise of this first round of bond market entrants may determine the reactions of other banks to this channel of capital raising. If they are

successful, we should expect the trend from other banks as well.

In our opinion, with the current state of most of the banks' books occasioned by the CBN recommended loan loss provisions, coupled with the fact that they still have more provisions to make, the entrance of these banks into the debt market may in the near term deny shareholders return on their investments. The reason being that unlike equity market where return is given to investors after all other obligations must have been met, the banks must first, before considering returns to investors, service these bonds obligations. Moreover, the returns on the investment with the fund are heavily correlated with the economy which does not appear to have shrug off its sluggishness.



Outlook for Banking Sector...

The challenges confronting the sector can now be much more easily dissected and the new game rules suggest that the market has been nudged towards the value based mindset.

These are still early days of the post-birth pains and until some few bridges are crossed in terms of outstanding legal issues, sale of banks, the common year-end, the AMC and the internal re-organisation going on with all banks; the direction of the Nigeria banking stocks can be said to be 'potential optimistic' but 'presently uncertain'.

- ? We envisage relative easing of the tight liquidity impairing the sector, nay market with the combination of fund injection and policy pronouncements directed at the key areas identified in previous sections above.
- ? For the Banks which have been declared as having problems, they are more likely to be at a disadvantage as their competitive strength has been weakened both for deposit mobilisation, credit lending and brand worth.
- ? The unanswered and unresolved legitimacy question hanging of the CBN appointed MD/CEO's of the seven banks 'under intensive care' will remain an issue in attracting new businesses to these banks; until a shareholder supported bank is in place.

- ❗ The common accounting year end requirement will be complied with, even if it means there will be some creative treasury manoeuvres to achieve desired targets. The pressure to outdo each other is reduced as the market expects all banks to use this period to 'clear out the baggages' in their books.
- ❗ There is high possibility of provision write-backs from loan loss provision even as we expect to see more provisioning in Q1 arising from the impaired value of securities used as collaterals for the margin loans.
- ❗ Profit from non-fee based revenue streams will shrink in Q1 if the AMC is not operational by then, one or two of the banks get back into proper business of banking/management, and undue pressure on customers does not abate.
- ❗ There is expected to be an increased internal focus on and compliance with risk management benchmarks as the CBN moves to consolidate its paradigm shift in supervisory responsibility based audits.
- ❗ The move towards the bond market, for which only one bank has formally applied to SEC may gather steam but its success will be dependent on how well the GT Bank Plc offer does. Returns for investors in 2010 looks dicey as the news cycle of negative corporate results is expected to continue.

Appendix. Articles on the Market....

Corporate Bond Craze and Its Implications on Financial Institutions in Nigeria

By Dr. Chukwumah Biosah

Source: <http://proshareng.com/blog/?p=35>

Filed under: Monday, October 12, 2009 — admin @ 8:21 am

The Market Pulse

- Stakeholder Comments, Impact Assessments & Opinions

We collated the investing community’s perceptions, behaviour and expectations under the following sub heads:

- 📍 The CBN Action – Views on the Action
- 📍 General Commentary - Opinions and Analysis
- 📍 On the Way Forward
- 📍 On the Impact of CBN’s action on Different Sectors

The CBN Action – For and Against...

A view that Supports:

<p>The Director General, Nigerian Stock Exchange (NSE) - Prof. Ndi Okereke- Onyuike</p>	<p>“the CBN has a duty to protect the interest of depositors and other stakeholders hence do not require the permission of the National Assembly or Senate to take the action it did. In her opinion, the CBN has the right to bail out the banks that are in distress, provided it gets the consent of the president of the country”.</p>
<p>The Board of the Securities and Exchange Commission (SEC)</p>	<p>...commends CBN's action aimed at sanitizing the banking system and mandates its commission's management to intensify surveillance of the market and its operators.</p>
<p>Fitch Rating Agency</p>	<p>The injection of 420bn into five banks threatened by huge non-performing loans by the Central Bank of Nigeria will ultimately benefit the economy, just as it affirmed Nigeria's stable outlook. The funds will enable the banking system to resume its role in developing Nigeria's non-hydrocarbon economy. The new money and the increased level of transparency in the industry “should restore confidence in the system.</p>
<p>Standard & Poors</p>	<p>The lowering of the sovereign rating on Nigeria reflects our view of the government's reduced fiscal flexibility due to costs associated with its recent bail-out of five large domestic banks, and also the fall-off in government oil revenue.” The central bank's action has begun a welcome restructuring of Nigeria's banking system, but it also reveals deep problems in Nigeria's credit markets, with the extent of problem loans beyond our previous estimates.</p>

<p>The Attorney-General of the Federation and Minister of Justice, Chief Michael Aondoakaa (SAN)</p>	<p>The CBN's new drive to sanitize the banking sector is the only way to ensure confidence in the banking sector as this intervention is a positive step to avert a doom in the banking industry.</p>
<p>Dr. Faruq Umar (National Coordinator, Association for the Advancement of the Rights of Nigerian Shareholders (AARNS))</p>	<p>The step taken by the CBN will serve as a deterrent to would-be betrayers of public trust and CBN should go further by fixing the tenure of banks directors for maximum of eight years as this will help ensure proper accountability. "The CBN should make sure that the new managing directors declare their assets because corporate governance must be all-encompassing. We must know what they are doing with our money. We are also calling on the CBN to take a look at the remaining banks and let us know the level of their debtors' indebtedness to the banks. Any director whose loan is not performing should be made to face the law,"</p> <p>The CBN should make sure that the new managing directors declare their assets because corporate governance must be all-encompassing. We must know what they are doing with our money. We are also calling on the CBN to take a look at the remaining banks and let us know the level of their debtors' indebtedness to the banks. Any director whose loan is not performing should be made to face the law,"</p>
<p>The Association of Corporate Affairs Managers of Banks (ACAMB) <i>Source: Vanguard ACAMB urges debtors to pay money owed to banks</i></p>	<p>The regulatory authorities' remedial action should neither be misconstrued nor misrepresented to already "over-loaded" members of the public but be appreciated for its proactiveness and far-reaching positive consequences. The Association also advised banks, customers and the general public against using the cleansing exercise to de-market the five banks, noting that the injection of fresh funds into the banks was intended to stabilize them against liquidity crunch with the ultimate goal of rejuvenating the Nigerian economy.</p>
<p>Chairman of Ibadan Zone Shareholders Association of Nigeria, Mr. Aderemi Oyepeju</p>	<p>"It has always been my opinion that the banks need liquidity and what the CBN has done is commendable. But we hope what they have done is not aimed at bringing ethnic interest. If that is the case we will resist such move, we will ensure that it never happen, I can assure you that," he declared.</p>

<p>Former President of the Chartered Institute of Stockbrokers (CIS), Mr. Oladipo Aina</p>	<p>If the N420 billion is injected into the banks, it will create some liquidity that may impact on the market. “We have been saying it that the banks have huge exposure to the capital market and it should be taken care of. We have suggested various strategies to take care of the problem but they were ignored. Now that the CBN decided to do it its own way, we hope it will lead to some liquidity in the system. Ordinarily, when banks have enough funds to lend in the financial system, it will automatically create some liquidity in the financial system. We therefore expect that to happen.”</p>
<p>President of Consolidated Shareholders Association of Nigeria (CSAN), Barrister Raymond Anyiwo</p>	<p>What the CBN governor has done is to demonstrate how a market can be regulated bravely. If other regulators do the same, sanity and confidence will return to the market quickly. But the N420 billion liquidity should not be used to hijack the banks from their current owners. Whenever the banks are stabilized and the N400 billion is to be converted, it should be done via hybrid issue. There should be a rights issue, which should be the larger chunk of it so as to allow shareholders to enjoy the benefits of their investments. There should also a public offering that should be spread equally across the country. There should not be a preferential or majority allotment in the public offer</p>
<p>Presidential spokesman, Segun Adeniyi former Editor, ThisDay</p>	<p>If we were to assume Sanusi took the action he did in promotion of a so-called Northern agenda, then we should ask some questions: Why would CBN pump in about N420 billion to bail out the five banks owned by people we have identified not as Nigerians but Southerners? Why would he appoint Southerners to replace the ones he removed? Why would he use our collective wealth as a nation to stabilise the savings of people who, if we buy the current argument, are Southerners? The ongoing reform is a national agenda being carried out in the interest of depositors, which ever part of the country they come from, because we cannot continue to live a lie. Nobody has disapproved the fact that there were serious holes in those five banks and in any case, it was already common knowledge that at least three of those five banks were in serious crisis before Sanusi moved in.”</p>
<p>The Managing Director of Futures and Bonds Limited, Mr. Akin Oladeji</p>	<p>The CBN took the most pragmatic option of sacking the managements, injecting new funds into the banks and then initiating a process to re-capitalise them and that the interim managements could implement pragmatic programmes to enable the affected banks remain solvent. Moreover, “The bank management should be totally responsible for the credit risk</p>

	<p>failure. However, the peculiarity of our environment may also exonerate the management for oversight. Secondly, some of the debtors too do have fraudulent intentions which may have been used to manipulate the bank management in not seeing the overall risk of the lending.”</p>
<p>Michael Hugman of Standard Bank</p>	<p>“We believe the actions by the CBN not only open the door to the creation of a viable banking sector driving long-term growth, but will have positive spill-over effects on reform in other areas of the capital markets such as corporate debt.”</p>
<p>The World Bank</p>	<p>The World Bank has expressed surprised at the magnitude of the problem uncovered by the Central Bank of Nigeria (CBN) in the banking system and that some big banks were found in insolvent condition but endorsed the apex bank's recent action at sanitising the banking sector. Particularly, the bank endorsed CBN's decision to lift restrictions on foreign participation in the Nigerian banking system, saying that such would make more capital available for businesses in these institutions as well as drive transparency in the entire system.</p>
<p>The Nigerian Association of Chambers of</p>	<p>....commended the courageous effort of the Central Bank of Nigeria (CBN), the major regulator of banks and other financial institutions, saying that the ongoing sanitisation in the banking sector should speedily be concluded in order to restore the confidence of all shareholders, particularly the depositors, operators of the real sector, employees, and the general public. The assurance by CBN that no bank will be allowed to fail and injection of operational funds into troubled banks should be followed, as “this is a global trend where Central Banks have supported similar institutions across the world.”</p>
<p>Prince Kunle Quadri (CITN President)</p>	<p>The CBN Governor should be commended and appreciated for his boldness in taking the steps taken in exposing the rot and abuses within the banking industry as this was timely move to save the country’s financial sector from sudden collapse.</p>
<p>International Monetary Fund (IMF)</p>	<p>International Monetary Fund (IMF) endorsed CBN's intervention in the banking system. David Nellor, IMF country chief and representative in Nigeria, saw the action that led to the sack of five chief executives as “essential to building a sound financial sector that can promote long term growth and development consistent with the goals being set for the Vision 2020.”</p>

<p>The Lafferty Group - A London based research and advisory house</p>	<p>The Lafferty Group, has endorsed statements by the Governor of the Central Bank of Nigeria (CBN), Mr Lamido Sanusi, for a Code of Conduct for central bank regulators, banks' executive directors and top management, the world over.</p>
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Another View on CBN's Actions:

<p>The National Coordinator, Independent Shareholders Association of Nigeria (ISAN), Sir Sunny Nwosu.</p>	<p>Rather than increase investment in stocks, the CBN's action will slow down the rate of investment inflow especially from foreign investors. "I believe foreign investors will laugh at us because of the way and manner the action was taken.</p>
<p>The LCCI President, Mr Solomon Onafowokan</p>	<p>The current state of affairs is a strong indictment on the part of the Examination and Supervision Departments of the CBN and the NDIC. Their primary functions are to regularly carry out examination and supervision of these banks.</p> <p>The partial audit had created a suspense situation for banks that had yet to be audited and had put some of them under stress. The ideal thing is to complete the entire exercise before announcing the outcome.</p>
<p>Unegbu (Source: Guardian - CBN did a good job but used wrong procedure that is inimical to the economy)</p>	<p>What the Central Bank governor has done has very good intentions, but what has happened was done in a manner that was not very appropriate, because we ought to have known that the announcement itself would have devastating effect on Nigerians. It created unnecessary ripples within the financial system. Also, the CBN did not finish auditing all the banks at the same time. I know it is a big job to do at the same time, but it would have been cleaner if the report had come out at the same time, to ensure a level playing ground for all and sundry.</p>
<p>House Committee on Drugs, Narcotics and Financial Crimes</p>	<p>...faults the unilateral decision of the Central Bank of Nigeria (CBN) to deploy funds into ailing banks and demanded that the funds be withdrawn until it is duly appropriated by the National Assembly. Hon. Basse Etim, said CBN Governor, Dr Sanusi Lamido Sanusi, breached provisions of the 1999 Constitution that empowers the National Assembly to appropriate expenditure for all Ministries, Departments and Agencies (MDAs) of the Federal Government.</p>

<p>General Secretary of ISAN, Mr. Adebayo Adeleke</p>	<p>The timing of the action was wrong considering the current meltdown, the timing is wrong and the action will likely depress the market further.</p>
<p>The Human Resource Director of Seven-Up Plc. Mr. Femi Mokikan</p>	<p>The Human Resource Director of Seven-Up Plc. condemned the CBN for publishing the names of the debtors, adding that the companies involved only needed the loans to survive Nigeria's harsh business environment. The move would further cripple the Nigerian business environment because companies will be afraid to ask for loans from banks, while the banks on the other hand would be unwilling to grant loans. Is there any company in this country or anywhere in the world that does not take bank facilities to run their businesses? I believe the CBN would have given itself more time before embarking on such assignment". The action, he noted, has also reduced Nigeria's international rating, which Mokikan said, may scare foreign investors.</p>
<p>Acting President of ASSBIFI, Comrade Sunday Salako</p>	<p>Senior workers in the nation's financial institutions, faulted the Central Bank of Nigeria, CBN, over phased implementation of the on-going "Special Examination" of the banks' accounts which led to the sacking of five banks executives, saying that the action could make the 14 yet-to-be audited banks to cover their tracks and have competitive advantages in an industry that is highly sensitive and volatile.</p>
<p>George Stephen, a legal practitioner</p>	<p>Detaining chieftains of the five banks is like treating them like criminals, which they are not," "These people might have committed serious banking errors but they are by no means robbers and so should not have been treated as such."</p>
<p>The Nigerian-British Chamber of Commerce (NBCC)</p>	<p>...faulted the strategy being adopted by Central Bank of Nigeria (CBN) in its ongoing reforms of the banking sector, saying the modus operandi has unduly heated up the financial system with unsavoury consequences on the economy. Already, NBCC pointed out that CBN's moves so far has stifled operations in the money market, as banks have virtually halted granted loan facilities to businesses across the nation.</p>
<p>The Chief Executive, MBC Television, Mr Alex Muoka</p>	<p>... berated the CBN for not having an articulated objective under the new leadership of Mr. Sanusi Lamido, especially as regards his monetary policies. He said while both the external and internal auditors for banks are expected to be transparent in their dealings,</p>

	they could be held for criminal and civil culpability when there are discrepancies in their reports. He also said that the public and shareholders have the right to file lawsuits against auditors when shares are inflated.
Chairman of Progressive Shareholders Association of Nigeria, Boniface Okezie argued yesterday that it is not the responsibility of CBN to dictate ownership structure, adding that the regulatory agencies should be empowered adequately to function only in respect of its regulatory mandate. He explained that any arrangement that bothers on either inviting core or institutional investors should pass through the board. According to Okezie, quoted banks would be guided by laid down procedures, pointing out that any bank management found wanting should be made to face the law.
Chief Ajibola Aribisala	... described CBN's removal of bank chiefs as an illegal act. He noted that the Economic and Financial Crimes Commission (EFCC) should be more concerned with bringing the debtors to book as well as recovering the money. There is no reason why these bank Chief Executives are punished while these debtors are still roaming about as free as air. "Is CBN now saying that the sins of those who gave out the money is higher than those who collected but have refused to pay back?"

General Commentary - Opinions and Analysis ...

Managing Director, First Securities Discount House Limited , Mr. Rilwan Belo-Osagie	The side effects of the Central Bank of Nigeria's banking sector reform on Nigeria's financial sector is likely to linger after the bad loans have been recovered.
Mohammed Abdullahi , CBN Spokesperson	There is hope for the shareholders who invested in the distressed banks if the non performing loans of the banks are recovered.
Opeyemi Agbaje , Resource and Trust Company Limited	Nationalising the banks would only lead to disaster.
Credit freeze slows down businesses in Nigeria - Bismark. Rewane	The business cycle in Nigeria is currently suffering a depression. The consensus is that Nigeria is at the trough of the business cycle. The upside potential for a rapid recovery is predicated on a surge in oil price production and accommodative monetary policy,"

	<p>The sustained recovery in the nation's stock market is dependent on the early establishment of the Asset Management Company (AMCO).</p>
<p>Mr. Ayodele Teriba</p>	<p>"I fully agree with the new central bank governor (Sanusi Lamido) on this, that we need, in fact, we require increased foreign ownership in Nigerian banks now. "What the central bank governor is talking about is not only money investment. There are other things that are required now." Citing the disappearance of the sacked CEO of Intercontinental Bank, Erastus Akingbola, he explained that if the industry was left entirely in the hands of local investors, they would end up fighting for their own interest." These people would end up protecting their interest and maybe that of a few. Presently, the man is no longer available. Presumably, he owns some shares in Intercontinental Bank. If that bank was Barclays Bank, do you think they would run away? No, they won't run away."</p>
<p>The Managing Director of Financial Derivatives Company, Bismarck Rewane</p>	<p>Those who entertained any fears over foreign investors in the banking industry had insufficient understanding of the issue. "it's a boisterous position to take, "It is myopic," . "If it is good for Nigerians, then why is it not good for foreign investors? It is an unfortunate position to think like that." If people have no problems with Guinness owning shares in Nigeria, they shouldn't have problems with foreign investors owning shares in Nigerian banks.</p>
<p>Analysts</p>	<p>The unguarded utterances of the Governor of the Central Bank of Nigeria,(CBN) Mallam Lamido Sanusi, in recent times, is increasingly giving industry analysts and other key stakeholders grave cause for concern.</p>
<p>Bank crisis and the implications for the markets (Guardian)</p>	<p>Investors are likely to be cautious about buying banking stocks, and the share prices of the five rescued banks are likely to fall sharply. The realization that senior bankers who own significant stakes in their own banks can be removed from power so swiftly could also cause investors in other institutions with similar shareholder structures to dump their stocks.</p> <p>The nervousness could also dampen appetite for bond issues planned by Nigerian banks to diversify their capital and funding structure and plug holes in their balance sheets ahead of stricter financial reporting rules at the end of the year.</p> <p>The naira currency fell around 2 percent against the U.S. dollar</p>

	<p>after the bank bail-out was announced and may weaken further if traders take the view that the crackdown on the banking sector could destabilize Nigerian financial markets and prompt capital flight in the short term.</p>
<p>A market analyst, Tony Akinsanya</p>	<p>... “elections of shareholders into audit committees have become a do-or-die affair among the shareholder groups because of the perks that come with such positions”.</p>
<p>Analyst and shareholder, Nona Awoh</p>	<p>“you cannot have a committee of people who are not knowledgeable and expect things to work better”. He added that the CBN rule on the election of members to the audit committees was being violated by some banks. According to him, the law specifies that nomination of members to the committee should be submitted to the company secretary within 21 days but this is not being enforced.</p>
<p>Wale Abe</p>	<p>The huge non-performing loans that have been locked up by the Nigerian factor (where loans are seen as national cake) seemed to have been reversed suddenly, and so there are sequences of adjustments that will mean well for the finance sector if the tempo is maintained. In the long run, the flurry of activities might likely lead to drastic reduction in lending rates as the payment of these debts meant that more liquidity was being injected into the financial system. The multiplier effect is that the economy will improve as the real sector gets more loans, and projects initially abandoned will be taken up again.</p> <p>The stock market is not likely to be left out as investors will have money to invest again in the capital market, thus reversing the present fortune of the market. However, the fallouts may take time as the money recovered by the EFCC will be initially warehoused in Federal Government account before the banks will have them, according to Abe</p>
<p>Godwin Owoh</p>	<p>The CBN must be held accountable for deceiving Nigerians last year to early this year that all the Nigerian banks were sound and safe, thereby leading investors and depositors astray. “It is not enough that the CBN sack bank managing directors and executive directors, as well as publish the names of debtors, it should tell us what went wrong and why the facts were hidden before now.”</p>

<p>Okoro Fidelis, an economic analyst</p>	<p>... agrees that if the Federal Government pays half of that domestic debt, it will go a long way in improving the ratings of the banks in terms of non-performing loan. To the apex bank, the total is N747 billion owed the five banks, less than half of the total domestic debt owed by the government. Again, a company like Transcorp that owes various amount of money is a creation of the government. At least it has compounded the woes of Union Bank by owing it N30.86 billion.</p>
<p>Risk Managers Association (RIMAN),</p>	<p>... called for a review of the prudential guidelines and the entrenchment of whistle blowing policies as measures to check poor corporate governance practices in the industry.</p>
<p>ANAN President, Mrs. Iyamide Jafar</p>	<p>... has formally reacted to the ongoing moves by the Central Bank of Nigeria to strengthen commercial banks, canvassing a constant change of bank auditors.</p>
<p>Sir Lawrence Ukwu, publisher and media consultant to the World Bank and African Development Bank</p>	<p>What the CBN did was to lend the money to the five banks, adding that, "if the CBN then printed this sum of money for the stated purpose in a developing economy like ours, it could trigger off hyper inflation capable of destroying the good work it (CBN) set out to do."It will amount to the same outcome, if the same procedure is adopted for infrastructural development and other related areas, he added.</p>
<p>Chief Executive Officer of Nextzon Business Services Limited, Mr. Mac Atasié</p>	<p>Injection of liquidity is critical in times like this. We have always known that injection of capital will be relevant to reverse the effects of the economic meltdown and this is surely a way to do same by passing it through the financial system"</p>
<p>How to save troubled banks (II) by Kwekwu Brown</p>	<p>The advantage of the APF is that it has a double advantage to the financial system. It will remove the toxic assets dragging down the operations of these banks, and at the same time help inject liquidity into the system, freeing the troubled banks to continue their lending activities. Where loans are bought at less than book value, the difference should be written off against the earnings of the affected banks, and where earnings are not enough to absorb it, against the capital of the bank.</p>
<p>University don and Deputy President of the Nigerian Society of International Law, Prof. Isaac Agbede</p>	<p>The injection of foreign investments is an antidote for bailing out the ailing Nigerian banking sector.</p>

<p>Standard & Poors</p>	<p>The worldwide economic crisis has stifled Africa's growth boom and the region faces further threats even as a recovery gets underway in other parts of the world. This would make the economy feel the impact of the current crisis in the Nigerian banking sector more.</p>
<p>The Managing Director, CRC Credit Bureau Limited, Mr Ahmed Babatunde Popoola,</p>	<p>Lending infrastructure that is specially tailored to enhance credit assessment and guarantee the quality of loans given by banks is the credit registry. According to the credit bureau chief, credit bureaus can play significant role in facilitating access to finance for small businesses in Africa judging by the transformation such financial infrastructure has played in the developed world.</p>
<p>Dr. Chukwuma Biosah - Swift CBN action will curtail deterioration of shareholder values</p>	<p>If the CBN decides to go the merger route, the bidding process should be transparent and the CBN should consider "loss Share" agreements to protect the potential acquirers from any potential unforeseen losses from these banks current non-performing loan portfolios.</p>

The CBN Action – On the Way Forward...

<p>Mr. Bismarck Rewane, MD/CEO Financial Derivatives Limited</p>	<p>...there are strong possibilities of induced mergers in the industry. "There is a likelihood of induced mergers or schemes of arrangement with survivors of the stress test. Investors will continue to hold back until the ongoing confusion in the banking system is resolved. The Central Bank will issue a statement on the process for disposing of banks under administration,"</p>
<p>Chief Executive Officer of Dunn Loren Merrifield, Sonnie Ayere</p>	<p>Quality investment by banks and other sectors is necessary to boost the economy but that the country may not get to that level of investment without a strong buy side. Pension fund which is a major source of liquidity for investment is not performing that role in Nigeria and the regulation on the investment of pension funds restricts it to dividend paying financial institutions and other companies.</p>
<p>A former President of ANAN, Dr Samuel Nzekwe</p>	<p>CBN should prosecute external auditors of five banks, whose Chief Executives were removed.</p>
<p>Dr. Chukwuma Biosah</p>	<p>In order to prevent unnecessary margin facilities to the stockbroking firms and future crash of the Nigerian stock market, the relevant government agencies have been advised to pass legislation that will prevent banks from owning brokerage firms.</p>

<p>Mr. Bismarck Rewane, MD/CEO Financial Derivatives Limited</p>	<p>The events of the last twenty-four months have shown that we cannot place an over-reliance on rating agencies, because they too have been caught unawares. Therefore, apart from the traditional toolkit of asset management including diversification, risk and reward trade off, location, location, location in real estate, we need to also have to be cognisant of another major consideration in the evaluation of stock picks and investment opportunities.</p> <p>He identified exchange rate risk as still a stumbling block in the investment of financial assets in the country, in a situation where government revenue continues to shrink and making it difficult to fund the foreign exchange market.</p>
<p>Tunde Lemo, Deputy Governor, operations Directorate, CBN</p>	<p>“Information sharing among regulators of the financial market is germane for the desired synergy in harmonised regulation of the financial market. It is important for each authority to articulate its information needs from other authorities with a view to reaching an agreement for the timely and adequate provision of information to one another”. “We have at various instances decried the widening gap between our local accounting, auditing standards and the international standards. Our market is being limited in attracting requisite patronage from the global financial operators because of our slow adoption of these requisite standards”</p>
<p>The Ope Banwo, Principal partner, Banwo & Igbokwe (Attorneys-at- Law)</p>	<p>In fairness to both parties, debtors could themselves file for bankruptcy if they have reached the 'dead-end' but warned of the consequence of such decisions.</p> <p>According to the corporate lawyer, banks should identify the big names and put them into bankruptcy; stressing that initiating such decision could be very effective in their debt recovery efforts. Other options included applying for corporate re-organisation by debtors, outright cancellation of contract for undue influence or coercion and initiating special plea for Force Majeure.</p>
<p>CBO Capital Partners</p>	<p>The CBN has to further strengthen risk-based supervision as the only way to guarantee the soundness of the financial system. “Our understanding is that a legal, regulatory and operational framework for risk based supervision exists, but the CBN is yet to implement it – mainly owing to human capacity challenges</p>

<p>Managing Director, Gracefeild Monumental Capital Limited, Mr Osita Odili</p>	<p>Banks need to show high level transparency in their financial reporting and back that up with a commitment to forensic auditing. This he said, is to ensure that nothing is hidden in the books and that staff that infringe on accounting standards are brought to book.</p>
<p>The Risk Management Association of Nigeria (RIMAN)</p>	<p>'Whistle blowing' policies should be encouraged in banks to allow credit staff raise concerns when greedy management go on their own to abuse the credit process.</p>
<p>Need to strengthen corporate governance in banks By Vincent Ekhator (Fin. Standard)</p>	<p>It should be understood that the fact that the CBN governor acted swiftly and decisively in restoring confidence in the banking sector does not automatically mean that distress problems has been totally resolved in the banking industry. Rather, it should be understood that CBN's action only opened our eyes to many regulatory failures such as inadequate corporate governance, poor credit risk, bad management and poor loan evaluation by banks.</p>
<p>Central Banks should move beyond price stability – IMF</p>	<p>There should be tenure for bank CEOs and executive directors. A situation in which a director or CEO stays in a bank for over eight years has a tendency to lead to absolute control and turns these executives to gods. There should be two terms of four years each for CEOs; while for directors it should be four years in the first instance, renewable for another second term of four years, making a maximum of eight years. They should not all vacate or hold offices at the same time.</p>
<p>Banking sector brouhaha: Way forward (II) (Business day)</p>	<p>The current regime of the CBN has demonstrated rare courage and has brought that scenario to a halt. Hence, it has unleashed a new dimension in the industry's evolutionary process. The first and very obvious ones are the possibilities of more bank consolidation rounds as well as foreign participation in the industry.</p>

The CBN Action – Impact on Different Sectors...

<p>Downstream Sector</p>	<p>Dr. Martin Oluba</p>	<p>With loans from the banks not forthcoming, coupled with the inability of the PPPRA to liquidate the outstanding debt, even as plans by the government to deregulate thickens, the marketers may face imminent danger, with its attendant consequences on petroleum products availability and affordability. Oil and Gas Sector Oil and</p>
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<p>Downstream Sector</p>		<p>gas firms might no longer be able to source funds for their upstream and downstream projects.</p>
	<p>Mr Adebisi Bada, Chairman, Mosinmi Chapter of the Independent Petroleum Marketers Association of Nigeria (IPMAN)</p>	<p>...the pronouncement by the CBN would create uncertainties in the banking industry. He said that the uncertainties could affect the ability of the oil firms to know which banks to partner with for their development initiatives.</p>
<p>Manufacturing Sector</p>	<p>Chairman, Juli Plc, Mr. Julius Adelusi-Adeluyi</p>	<p>Chairman, Juli Plc, Mr. Julius Adelusi-Adeluyi, has blamed Nigerian banks for the slow growth in the manufacturing sector. Nigerian banks only lend to multinational companies at the detriment of ingeniously promoted ones.</p> <p>He said the Nigerian economy will never improve if government does not promote laws that will aid local companies in assessing credit facilities.</p>
<p>Leasing Sector</p>	<p>Lease Companies Association of Nigeria</p>	<p>The chairman of the association, Mr. Collins David-Ikpe, lamented that what was happening in Nigeria's banking industry had further compounded the funding capacity of both banking and non-banking leasing firms. According to the chairman, caution was now the watchword as the banks have continued to tighten the nozzle on granting additional credit lines to leasing firms as banks that hitherto executed big tickets and leveraged leases were now skeptical as they want to reduce their level of risk exposure.</p>
	<p>Mr. Collins David-Ikpe</p>	<p>What was happening in Nigeria's banking industry had further compounded the funding capacity of both banking and non-banking leasing firms. Caution was now the watchword as the banks have continued to tighten the nozzle on granting additional credit lines to leasing firms as banks that hitherto executed big tickets and leveraged leases were now skeptical as they want to reduce their level of risk exposure.</p>

Real Estate	S. Enitan	The loss of capital in the capital market and the oil and gas industry had positioned the real estate industry as the last bastion of hope for investors, but noted that though there was capital appreciation in the industry, the funds could not be moved out.
	Chairman, NIESV, Lagos State Branch, Mr. Elias Ovesuor	Some bank debtors were already putting their properties up for sale in order to pay up before the deadline given by the Economic and Financial Crimes Commission to do so expired. To sell such properties and others used by borrowers as collateral for loans may be difficult now because some of the borrowers are already in court over the inclusion of their names on the debtors' list and that no action can be taken on their properties until the cases are concluded.
Auto Business	Kia Marketing Manager, Mr. Chetan Mehan	The ongoing reform in the banking sector has further dealt a blow to the automobile business in the country. Prior to the crisis, the prices of new vehicles, especially the Japanese models, had gone through the rooftops. This was occasioned by the rise in the Japanese currency, the Yen, against the United States dollar on the one hand, and the depreciating value of the naira against major currencies on the other.
Power Projects		The Power Projects might suffer a major setback as foreign manufacturers involved in the execution of major power projects have suspended the supply of equipment for the ongoing projects that some Nigerian banks are distressed. Exporters may hold Letters of Credit (LCs) from the banks the CBN pronounced as distressed. No bank will fund government projects anymore; if you present CBN Letters of Credit, they will not honor it.

Final Thoughts

- Embarking on the Road to Recovery

Review Of Outcomes Envisaged...

The history of bank takeovers induced by the CBN has been largely driven by a reaction to systemic or possible systemic crisis and has best been mostly adversarial and highly charged. On August 22, 2009, we produced a table of outcomes in **THE BULL IN THE CHINA REPORT**. Here is the assessment of how we fared!

NB: Review comments in bold brown.

Worst Case	Best Case	Most Likely Case
<ul style="list-style-type: none"> ⊗ The sovereign risk rating of Nigeria is downgraded for up to a year with an attendant higher cost of credit or a denial of credit. S&P downgraded our rating. ⊗ L/C's from Nigeria are not honoured for a period or till the auctions of the banks are concluded. This is happening even as CBN denies. ⊗ Political pressure will mount on the Government ahead of the 2011 elections to force the president to compromise by using the opportunity provided by the 'heat & lock down' to secure patronage for the ruling party's aspirations at the polls. Uncertain at this time how it would turn out but remains a possibility. ⊗ Tight credit regime means that the economy will contract and industries and investors returns will suffer. Credit lines have dried up and the banks are no more than firms under an undertaker. ⊗ The Bank CEO's found guilty will be allowed to get away with the assets amassed due to a plea bargain deal. Might yet unravel. ⊗ New bankers will learn a new way to beat the system and the lessons from this development will 	<ul style="list-style-type: none"> ⊗ The Niger Delta issue is resolved and the revenue position of Government is enhanced thus mitigating FG financial position. Amnesty, though tentative has been achieved. ⊗ The decisions taken by the CBN goes ahead and the debtors pay up as planned to provide the banks IGF rather than for government to provide additional funds. The N420bn paid is recovered. Recovery has achieved under 20% success rate but left an indelible scar on the banker-client relationship. ⊗ Debtors pay up and the previous outstanding issues are resolved with equal dispatch. Asking Debtors to pay up tenured facility will prove difficult. Long outstanding loans though have a higher rate of negotiated recovery. ⊗ CBN ensures that conviction is achieved against those found guilty to complete the loop. This may be a long drawn out process. ⊗ Leadership changes at SEC and the NSE are implemented with dispatch. This unfortunately is yet to crystallise but SEC has nominated a DG designate awaiting senate confirmation while the NSE is preparing a succession for the post 	<ul style="list-style-type: none"> ⊗ We all discover that the scale and size of the problem is much larger than initially thought and bank debtors are confronted with the need to scale down their leveraged positions as a matter of national importance. Correct ⊗ CBN reduces the banks in Nigeria to 15 by announcing additional 3 – 4 more banks with similar 'distresses'. Removal of 3 CEO's, Reversal of action on 1 bank and 2 others placed on a watch-list. ⊗ CBN will have to act by preparing and submitting to local and foreign investors a plan for the auction of the banks 'distressed'. Only the list of advisers was made public with banks calling on the CBN for a guide on the planned sale of banks. ⊗ CBN will issue a Regulatory Risk management guideline for adoption by SEC, NDIC, and the NSE in the performance of their duties. This, we understand is in the works. ⊗ CBN will undertake an internal restructuring of its supervisory and oversight functions and bring in expertise from outside rather than within to head such functions. Overdue but perhaps on-going through the capacity

Worst Case

not be learnt to enable us avoid such in future. ***This will be seen in the process of preparing year end accounts – as survival instincts kicks in – with the market at the extreme end of its tolerance of another cycle of negativity from the CBN.***

⊗ The CBN is revealed to have an ulterior agenda through its conduct in taking extra-judicial steps to achieve its objectives. ***The CBN Act will have to reviewed at some stage to eliminate the unwieldy powers contained therein, though not as a spite to the current Governor.***

⊗ The economy slides further into recession with the capital market slumping further. ***The situation has been a consistent slide in the last 100 days with occasional but un-sustained rallies***

⊗ The loan write downs at First Bank of Nigeria will be a subject of enquiry and challenge for the CBN Governor who was the ED, Risk Management under which the credits were extended. ***The logic of his actions will become a central issue. This is a non-issue and the market has moved on from this, not with the series of huge write downs/provisions (which analysts still believe does fully recognise the diminution in value of the securities held as well as the non-recoverability of most margin loans).***

Best Case

Ndi era with pre-demutualisation steps initiated.

⊗ The subject of a hidden agenda is laid to rest. Confirmed but remains an issue for curious conspiracy theorists.

⊗ Investor protection rules are in place that makes it difficult for CEO's of quoted companies and their directors to operate outside a guideline that makes it a criminal offence to trade in the shares of their firms outside laid down rules. ***This does not appear to a priority for anyone include the NSE and indeed the shareholders association of board audit committees who have been left wondering what powers, if any, they have.***

⊗ CBN quickly establishes itself and relevance internationally and acts as a voice of hope and credibility in reversing the negativity that has developed. CBN has worked real hard to establish such a platform.

⊗ CBN and the FG reconcile the political class and are able to secure a buy-in to its growth and development plans. ***This is an on-going process but some sort of compromise appears to be on, though tentative.***

Most Likely Case

development initiatives between CBN and international finance agencies.

⊗ The preferred owners of the new banks to emerge will be banks possessing both the brand-worth and management capacity and acumen to run a financial institution of the size we have. The point has been made that management competence is the bane of the problem. ***This remain key though a variant has lately emerged suggesting that local banks can and would be able to bid for such 'opportunistic acquisitions'.***

⊗ Political compromise produces a resolution of sorts between the regulator, the market and foreign investors. This should begin to unfold starting with the passage of the AMC bill whose details remain shrouded in mystery.

⊗ A legal challenge to the action of CBN leads to a prolonged period of uncertainty - bankruptcy applications, class action suits by shareholders, suits by aggrieved persons etc. ***This is ongoing and should be a litmus test for the development of our financial judicial system.***

⊗ Government does not learn how the impact of its actions has created the conditions that led to this. ***True and this has played out in many ways including the management of the budget presentation in a period of high market uncertainty and political tensions on direction and policy.***

⊗ Decision making affecting the financial market reforms are released to raise the stakes and concentrate the mind on the way forward and diversion of issues away from the fall-out. The media visibility of the CBN governor is retreating slightly back to status quo and it is hoped that we

Worst Case	Best Case	Most Likely Case
		<p>focus more on policies that impact business and the economy in general more than the 100 days afforded.</p> <p><i>The possibility of reversals will influence the 2011 election of the next president. Given what happened with Mike Adenuga/ETB, and our recent history with Savannah Bank and SGBN...this remains a strong possibility.</i></p>

NCM 2010 Report.



NCM Report & Directory

The report has been flagged off and would focus on the ROAD to RECOVERY – where we see the market headed, new products, services and market developments, analysis of the economy, quoted firms and an assessment of regulatory institutions. Most importantly, it would help an investor address the “WHATS IN IT FOR ME’ question.

The Editorial Board and team of contributors/research firms for this years report comprise some of the most respected individuals and firms available locally and internationally.

Thank you.

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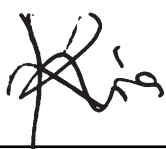
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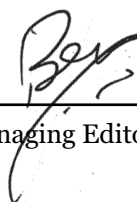
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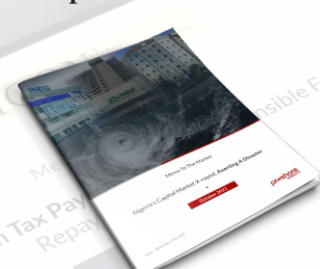
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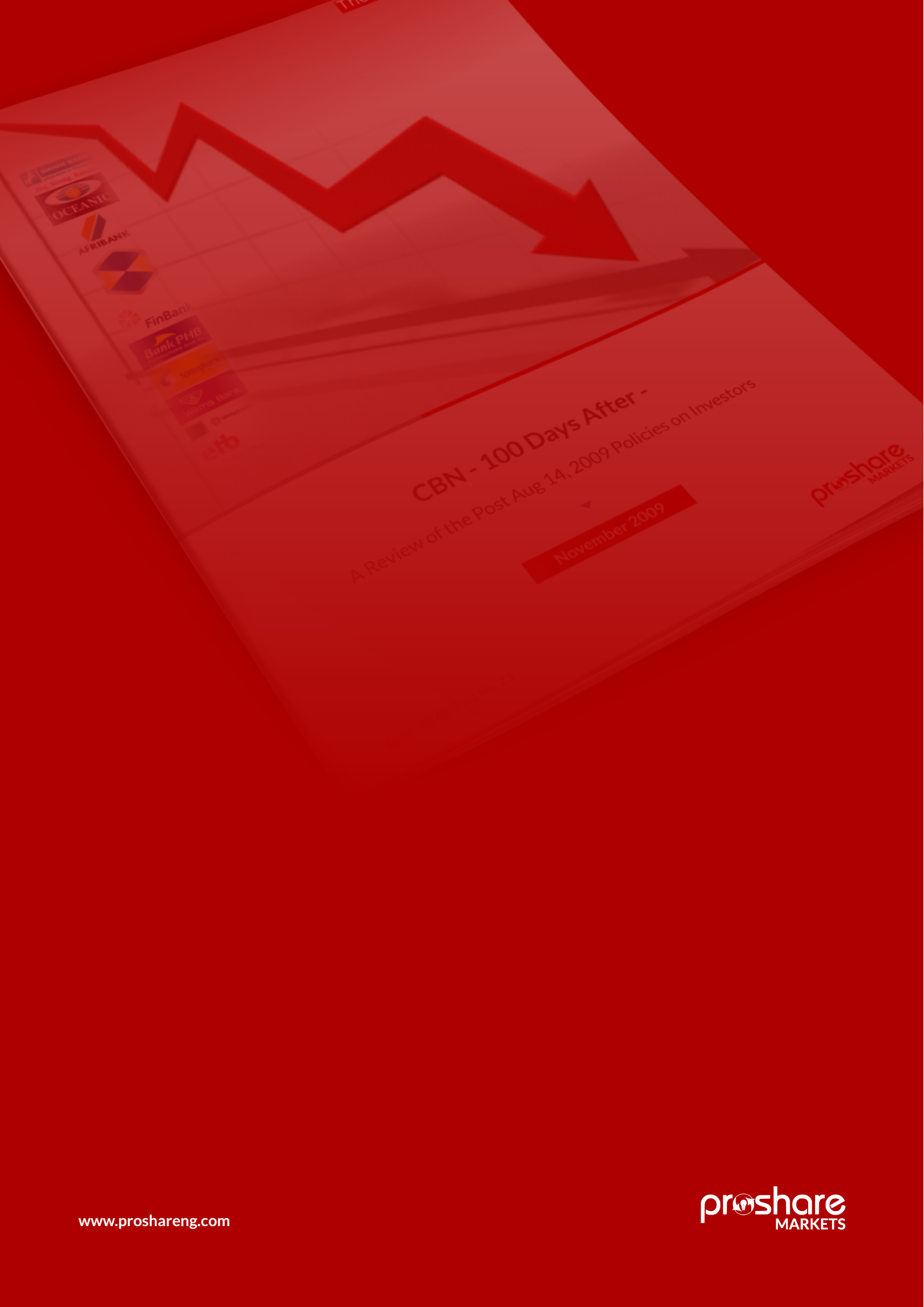
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