

Charles C Soludo: The safety and soundness of the Nigerian banking system

Press statement by Professor Charles C Soludo, Governor of the Central Bank of Nigeria, on the safety and soundness of the banking system, Abuja, 12 June 2007.

* * *

This briefing is to clarify some pertinent issues regarding the state of Springbank, and to reassure the Nigerian public that the banking system is the safest and soundest it has ever been in its history, and that the CBN and NDIC will take all necessary measures to protect all depositors of the banking system.

I: Banking sector consolidation: progress so far

As you are all aware, the banking sector consolidation programme was necessitated by the pervasive weaknesses and uncertainty of the banking system, and the need to re-engineer and fast-track a system that will engender confidence and power a new economy. So far, the grand objectives of that policy are being achieved, and our consolidation programme has been adjudged about the most successful in the world. The world is celebrating Nigeria's success, and over \$1 billion of foreign investment has gone into the sector within the last 12 months, and several hundred millions of dollars are still pouring in. The non-performing loans as percentage of total loans have gone down from about 23% before consolidation to less than 8% currently; total deposits have almost doubled, and credit to the private sector growing astronomically (annualized at 72% within the first four months in 2007). Today, individual banks can finance big projects valued at hundreds of millions of dollars and also operate in the oil and gas sector – a feat they never could do before now. Interest rates are gradually coming down. As at today, there are over 3,866 branches of commercial banks, up from 3,200 prior to consolidation and the total employment in the sector far higher than prior to consolidation. By end 2007, there will be about 7 or more banks with shareholders fund in excess of \$1 billion, and over 10 banks with market capitalization of over \$2 billion each (there was none in 2004). Today, Nigeria has the fastest growing banking system in Africa, and one of the fastest in the world. As seasoned commentators have observed, it has taken Nigeria less than three years to achieve what it took South Africa 20 years to achieve in the area of banking. To put it succinctly, a new banking system has emerged, and will only get stronger for the benefit of the Nigerian economy. We firmly believe that with the sustenance of the reforms as the CBN is determined to, the best is yet to come.

II: Springbank and challenge of re-capitalization.

At the conclusion of the recapitalization exercise in early 2006, I announced that the CBN would undertake post-consolidation re-verification of capital. This was in a clear understanding that there was a possibility that some people may have manipulated their capital during the last days of the recapitalization exercise. Fortunately, the re-verification exercise did not throw up major surprises.

In the case of Springbank, it must be recalled that its merger was consummated some few days to the end of the consolidation programme, after each of the six legacy institutions had experienced repeated failed attempts to merge with other banks. Even the legacy banks themselves agreed in their Merger Document to carry out post-merger adjustment based upon post-merger capital recertification. The CBN's maiden examination of the bank as at June 2006 queried the bank's reported shareholders' funds and directed the bank to beef up its capital within six months. The inability of the bank's Board to resolve the issue of the contributions of each legacy institution to its capital led to a special CBN/NDIC Examiners to re-certify the bank's capital. A bank by bank contribution to the shareholders' fund revealed that only the former Guardian Express bank and ACB International brought positive capital to the merger.

However, despite its weak capital base, the other indicators show that the bank has a strong promise: its deposit base and liquidity situation are strong.

It was in the light of the new capital structure of the bank (and relative contributions of the legacy institutions) as well as the deeply divided and acrimonious Board, that the CBN decided earlier to dissolve the Board, and call for a reconstitution by the legacy institutions.

We have however monitored the developments closely since our last decision, and hereby wish to update the public on the developments regarding our current stance as follows:

Decisions:

1. Initially, we decided to give the legacy groups of shareholders a chance to nominate some members of the Board, and the legacy bank with the highest shareholders' fund – Guardian Express – to produce the MD. From the acrimonious public pronouncements of the various camps, it is evident that we can't rely upon the reconstituted Board drawn from the legacy groups to move forward. Consequently, the CBN and NDIC have decided to reconstitute a totally neutral Board, made up as follows:
 - i) Mr. Vincent Omoike, Chairman
 - ii) Dr. S. A. Ndanusa, Managing Director
 - iii) Abdulraman Umar
 - iv) Bature Mohammed Abubakar
 - v) Bulus Dareg
 - vi) H.I Muhammed
 - vii) Emmanuel Onucheyo
2. The CBN and NDIC stand ready to provide every necessary support to the new Board to re-capitalize the bank, and ensure that it meets the aspirations of the shareholders, depositors and the Nigerian public. This will be completed within the shortest possible time.
3. We assure all depositors of Springbank that their money is safe. The public should go about their normal banking business with Springbank.
4. We are compiling the infractions of the various Directors and Management of the legacy groups, and will ensure that appropriate sanctions are applied and/or report same to the EFCC and the police for any criminal investigations and prosecution.
5. Furthermore, we are also compiling the list of non-performing loans of the bank and the culprits will be handed over to the EFCC and the Police for necessary action.
6. We appeal to the general public to ignore the vexatious, albeit libelous publications of those who either want to divert attention or destroy the bank. Some want to hide under the umbrella to reopen their lost debate on banking sector consolidation. In due course, we shall respond appropriately.
7. Finally, We assure Nigerians and the world that the CBN and NDIC are committed to ensuring that the Nigerian banking system remains the safest and fastest growing among the emerging markets. You can count on us to deliver on this!

Thank you.