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## The Global Financial Crisis in Nigeria: AMCON's Banking Sector Recapitalization

Pascal Ungersboeck

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# The Global Financial Crisis in Nigeria: AMCON's Banking Sector Recapitalization

Pascal Ungersboeck<sup>1</sup>

January 15, 2020

## Abstract

During the Global Financial Crisis, the burst of a stock market bubble fueled by margin lending and a dramatic decline in the price of crude oil resulted in a high level of nonperforming loans (NPLs) and undercapitalized institutions in the Nigerian banking sector. The government established the Asset Management Corporation of Nigeria (AMCON) in July 2010 to purchase NPLs and to inject capital in illiquid or insolvent banks. AMCON injected a total of NGN 2.3tn (USD 15bn) in capital into eight different financial institutions. Five capital injections, roughly comparable to open bank assistance historically provided by the US Federal Deposit Insurance Corporation, were designed to bring failing banks to zero net asset value and allow them to remain open before their acquisition and further recapitalization by a third-party investor. The three remaining injections were made into purchase-and-assumption-style Bridge Banks, with the Nigerian Deposit Insurance Corporation (NDIC) acting as receiver. Bridge banks purchased and assumed the assets and liabilities of failed banks unable to achieve the minimum capital requirement. As a result of its operations AMCON accumulated a negative equity position of NGN 3.6tn (USD 24bn) by 2014. Observers have highlighted the uncertainty surrounding AMCON's ability to cover its losses from funds recovered through the resolution of NPLs, returns on its equity investments, and the NGN 1.5tn (USD 10bn) dedicated to its operations through the banking sector Resolution Cost Fund.

**Keywords:** Nigeria, capital injections, Bridge Banks, Global Financial Crisis

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# AMCON

## At a Glance

During the years leading up to the Global Financial Crisis, Nigerian banks fueled a rapid credit expansion to the private sector. Most notably banks spearheaded a large expansion in the supply of margin loans and investments in the oil and gas sector.

The situation became unsustainable as the financial crisis spread around the globe. The crash of the domestic stock market in March 2008 and the rapid decline of oil and gas prices affected the balance sheets of many banks in Nigeria, resulting in a high level of NPLs in the sector and undercapitalized institutions. In response, Nigerian authorities set up the Asset Management Corporation of Nigeria (AMCON) during the summer of 2010. A public corporation, owned jointly by the Central Bank of Nigeria (CBN) and the Ministry of Finance, AMCON's mandate was to "acquire [NPLs] from [Nigerian] banks and annex the underlying collateral, [as well as] fill the remaining capital deficiency and receive equity and/or preferred shares in the affected banks as consideration." ([Makanjuola 2015 pp93-94](#)) AMCON intervened in eight financial institutions, injecting a total of NGN 2.3tn. Five injections were done into failing banks that arranged an acquisition by a third-party investor. The remaining three banks could not achieve the minimum capital adequacy ratio (CAR) required by the CBN and thus had their assets and liabilities transferred to Bridge Banks. This approach was meant to give the authorities time to seek an acquirer. AMCON became the full owner of these three Bridge Banks.

## Summary Evaluation

AMCON's capital injections were successful in protecting depositors and ensuring the continuation of business in each of the eight banks. Critics noted issues related to AMCON's dependence on CBN guidelines. However, these critics focused on AMCON's activities as an asset management company. AMCON's financial performance was also a case for concern. Most of its losses were attributable to its capital injections. Through loan acquisitions and

### Summary of Key Terms

<b>Purpose:</b>	AMCON was established "to acquire [NPLs] from [Nigerian] banks and annex the underlying collateral, [...] fill the remaining capital deficiency and receive equity and/or preferred shares in the affected banks as consideration."
<b>Announcement Date</b>	January 28, 2010 (first public hearing on the AMCON Act)
<b>Operational Date</b>	July 19, 2010 (signed into law)
<b>Injection Start Date</b>	August 5 <sup>th</sup> , 2011 (injection into Bridge Banks)
<b>End of Application Window</b>	NA
<b>Program Size</b>	NGN 2.3tn (USD 15.3bn)
<b>Peak Utilization</b>	NGN 2.3tn (USD 15.3bn)
<b>Eligibility</b>	Participation was forced for Nigerian banks with CAR below the regulatory minimum
<b>Participants</b>	8
<b>Administrator</b>	AMCON
<b>Legal Authority</b>	AMCON Act 2010 NDIC Act 2006

bank recapitalizations, the agency accumulated a negative equity position of 3.6tn by the end of 2014. During the following year, AMCON's CEO announced that the corporation had resolved 57% of the acquired loans, recovering a total of NGN 1tn. While encouraging, the announcement did not remove the uncertainty regarding AMCON's ability to cover losses incurred without requiring further government support.

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# I. Overview

## Background

In the early 2000s, the Nigerian banking sector underwent major structural reforms. In an effort to strengthen its banks, the Central Bank of Nigeria (CBN) announced a plan to consolidate the country's fragmented financial sector (Alford 2010 pp.4). The CBN justified the policy with the need to "grow the banks and position them to play pivotal roles in driving development across the sectors of the economy" (Sanusi 2011 pp.117). Thus, the CBN mandated all banks to increase their paid-up capital from NRN 2bn (USD 13mn) to NRN 25bn (USD 166mn)<sup>2</sup>. The policy was announced just one month after Charles Soluda took office as the new Governor of the CBN in June 2004 (Alford 2010 pp.4). Banks had until December 2005 to reach the new minimum required capital, a period of roughly 18 months (Alford 2010 pp.4). The announcement resulted in several forced mergers and acquisitions in the banking sector (Osuji 2012 pp.149). From the 89 licensed institutions active in Nigeria in 2005, 25 emerged from the process while 13 saw their licenses removed due to their inability to reach the mandated capital level in time (Osuji 2012 pp.149).

Under the consolidated structure Nigerian banks fueled a rapid credit expansion to the private sector<sup>3</sup> (Cerruti 2016 pp.115). Banks invested most of the funds in the country's natural resources sector and margin loans for the purchase of domestic stocks (Cerruti 2016 pp.115). These operations increased the financial sector's exposure to oil price swings and made it vulnerable to shocks in the Nigerian stock market (Cerruti 2016 pp.115) (Makanjuola 2015 pp. 6). The expansion of margin lending fueled a rapid increase in the total capitalization of the Nigerian stock market (Osuji 2012 pp.149). Between 2004 and 2007, "the market capitalization of the domestic stock market [grew] more than fivefold [...], unsupported by strong economic fundamentals." (Makanjuola 2015 pp.34) The domestic all-shares index reached its high of 66,162.17 points on March 3, 2008 before the equity bubble burst (Nigerian stock exchange data). The index fell 70% in the following 12 months (Nigerian stock exchange data). Four months after domestic equity prices fell, oil prices tanked as the Global Financial Crisis spread around the globe (Fred data - crude oil price). The combined oil and equity shocks affected the balance sheets of many banks in Nigeria and rapidly increased their nonperforming loan (NPL) ratios as margin investors were unable to service their debt and the oil sector faced massive drops in crude oil prices (Cerruti 2016 pp.115). Other than through the oil price shock, the Global Financial Crisis caused little direct spillover effects on the Nigerian banking sector. As noted by the CBN at the time, the Nigerian banking system was not fully integrated into the international financial system. Nigeria's stock market boom and bust were caused by domestic issues. (CBN report 2009 pp.32)

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<sup>2</sup> The exchange rate used (NRN150 for USD1) is the exchange rate in 2010 obtained from the Federal Reserve Bank of St. Louis data library.

<sup>3</sup> This was intended by regulators as the head of the CBN issued a circular in 2009 restricting banks' lending to the public sector to 10 percent of their loan portfolio. (Makanjuola 2015 pp.4-5)

Policymakers became aware of the magnitude of the problems facing the Nigerian financial sector through a special examination of the banking sector conducted jointly by the Nigeria Deposit Insurance Company (NDIC) and the CBN in June 2009 (CBN annual report 2009 pp33). The investigation concluded that 11 banks would not meet the CBN's minimum risk-weighted capital adequacy ratio of 10 percent if they accurately reported their substantial holdings of NPLs (CBN annual report 2009 pp. xliii, 33). In addition to balance sheet inadequacies, the examination report highlighted the banks' "excessive risk-taking and ineffective risk management, weak internal control mechanisms, undue focus on short-term gains, lack of Board and management capacity, conflicts of interest, and excessive executive compensation" (Makanjuola 2016 pp.6). As a result of the additional provisioning that regulators required banks to make following the special examination, reported NPLs in the industry increased from 6.3 percent to 32.8 percent between December 2008 and December 2009 (CBN report 2009 pp. xliii, 34). The conclusions of the examination made clear that several Nigerian banks needed to be recapitalized.

### **Program Description**

The CBN announced the result of the first audits of ten banks conducted as part of its special examination on August 14, 2009. (Alford 2010 pp.5) The conclusions resulted in an immediate capital injection totaling NGN 420bn into five banks – Oceanic Bank, Union Bank, Afribank, Finbank, and Intercontinental Bank. (Alford 2010 pp.5) These banks were identified as insolvent and "chronic borrowers at the Expanded Discount Window<sup>4</sup> ("EDW") of the CBN indicating that they had little cash on hand" (Alford 2010 pp.5). The remaining audits were completed by October 3, 2009 (Alford 2010 pp.6). As a result, the CBN said it would inject an additional NGN 200bn into Bank PHB, Spring Bank, Equitorial Trust Bank and Wema Bank – increasing the number of intervened banks to nine (CBN press statement, October 2009). The CBN subsequently lent NGN 247bn to the four banks (CBN report 2009 pp. xliii, 187). CBN removed the Managing Directors of eight of the nine banks that received injections – all but Wema Bank, which had just replaced its management in June 2009 (CBN press statement, October 2009). A tenth bank, Unity Bank, was also determined to be insolvent but "had sufficient liquidity to meet its current obligations" and did thus not receive additional capital (Alford 2010 pp.6). CBN ordered Wema Bank and Unity Bank to recapitalize by June 30, 2010 (CBN press statement, October 2009). By the end of 2009, Equitorial Trust Bank had repaid its NGN 30bn debt but was still in need of a merger partner. At the end of 2009, CBN's outstanding loans to the remaining eight banks stood at NGN 637 bn (CBN report 2009 pp. 35, 187).

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<sup>4</sup> The Discount Window is the CBN's lending facility through which it provides lender-of-last-resort services to Nigerian financial institutions. The DW was expanded in 2008 to accept state bonds and commercial papers as collateral. (proshareng)



**Figure 1: Overview of CBN recapitalizations (2009)**

Bank	Amount [NGN bn]
Intercontinental Bank	100
Union Bank Nigeria	120
Wema Bank	87
Oceanic Bank	100
FinBank	50
Bank PHB	70
Afribank	50
Springbank	60
<b>Total</b>	<b>637</b>

*Source: CBN annual report pp.187*

The NGN 667bn injection into the eight banks took the form of 7-year convertible long-term loans. CBN treated the loans as Tier II capital. The loans were issued with an interest rate of 11 percent, reduced to 8 percent in December 2009 and 3.25 percent in December 2010. The loans were callable at the end of the fifth year. (CBN report 2009 pp.35). The central bank wrote off these loans in full in 2009 and 2010 but retained them on their books (CBN report 2009 p.187, CBN report 2010 p.183). In 2011, AMCON took over those debts in the course of recapitalizing the banks (CBN report 2011, p.217).

To ensure continued confidence in the banking sector, the central bank guaranteed all interbank lending transactions until December 2011 (Cerruti 2016 pp.115). In June 2011, CBN stated that, in order to keep their banking licenses, all rescued banks would be required to reach the mandated minimum CAR by September 30, 2011 (Financial sector assessment 2013 pp.9).

The Nigerian authorities decided to establish a new agency to provide further support to the banking system. The government decided to establish a new entity because there was no rapidly available mechanism to inject more public funds into capital deficient banks, and legal challenges remained regarding the NDIC's ability to wind up failed banks (Cerruti 2016 pp.115). The Asset Management Corporation of Nigeria Act (AMCON Act) was signed into law in July 2010 by the president, Goodluck Jonathan, officially establishing AMCON as Nigeria's public asset management company. The Act mandated AMCON to inject capital and purchase nonperforming and systemically important loans (Makanjuola 2015 pp. 93-95).

The AMCON Act provides guidelines on governance and transparency (Cerruti 2016 pp.116). Regarding governance, the document establishes guidelines related to board members' experience and potential conflicts of interest (Cerruti 2016 pp.116). Measures for transparency in operations included the requirement to submit annual reports to the MOF and CBN and quarterly reports to the Parliament, in addition to publishing annual reports yearly. (Cerruti 2016 pp.116). However, the Act did not include financial safeguards that would limit the government's exposure to potential losses, acting as

AMCON's only shareholder. "There [were] no provisions to limit the amount of assets or equity that AMCON may purchase or the bonds to be issued, no leverage ratio, and no requirement to maintain a minimum amount of equity" (Cerruti 2016 pp.116). AMCON was thinly capitalized with paid-in capital of NGN 10bn for asset acquisitions and recapitalizations totaling over NGN 4tn (Cerruti 2016 pp.117).

The CBN launched the recapitalization process for the intervened banks in December 2009, before AMCON had been begun to operate. The CBN's strategy relied on third-party investors to acquire failing banks and ensure continued operations. AMCON's role was to inject capital into intervened banks in the final stages of the mergers and acquisitions process in order to facilitate the deal once a failing bank had signed a Transaction Implementation Agreement (TIA) with an interested acquirer. (Makanjuola pp107) In practice this was achieved through injections of zero-coupon bonds with discounted value sufficient to return banks' net asset value (NAV) to zero (Makanjuola pp103).

In addition to the bridge bank solution the CBN considered three alternatives. Direct nationalization was thought to be difficult to implement, as it would have required additional legislation to be enacted. The CBN also opposed liquidation by the NDIC, motivated by concerns that it would negatively affect the recovering economy. A revocation of the banking licenses was opposed for the same reasons as it would have led to forced liquidation by the NDIC as well. (Makanjuola 2015 pp.113) The bridge bank decision was thus deemed to be the most desirable one.

The mergers and acquisitions process that the CBN launched in December 2009 followed a predetermined series of steps:

- *Confirmation of interest:* Identify interested investors
- *Investor evaluation:* Shortlist investors and execute non-disclosure agreements
- *Initial due diligence:* accountants' report and interaction with senior management
- *Submission of non-binding offers:* Final shortlist of participants and submission of non-binding offers
- *Final offers:* detailed due diligence and reception of final offers.
- *Evaluate bids:* Review and evaluation of final offers and follow-up discussion
- *Discuss and recommend bids:* discuss course of action and finalize of decision on preferred investor
- *Enter exclusive negotiations:* exclusive negotiations with the preferred investor and finalization of a memorandum of understanding (MOU).
- *Approval and AMCON capital injection:* Sign TIA and obtain all necessary approvals. AMCON capital injection.

(Makanjuola pp. 108)

The new management and boards of undercapitalized banks played an integral role in the process, supported by financial advisers. CBN and AMCON helped them find investors to ensure that all banks could recapitalize before the September 30, 2011, deadline

(Makanjuola pp. 107-108). For banks that were unable to make sufficient progress towards a deal, the central bank and NDIC chose the Bridge Bank concept as a resolution method, following a meeting on June 13, 2011 (Makanjuola pp.112-113). In the Nigerian context, a Bridge Bank is “a temporary full-service government-owned bank licensed by the CBN but otherwise fully operated by the NDIC” (Makanjuola pp.113). Section 39 of the NDIC Act of 2006 outlined the Bridge Bank resolution process (NDIC Act). During the recapitalization process leading up to the deadline, all eight banks had negative equity and were kept as going concerns through the Tier II capital injected by the CBN in 2009. (proshareng 06/09/2011)

One bank that CBN had supported in the initial recapitalization in 2009, Wema Bank, was able to avoid participating in the AMCON recapitalization round. It recapitalized in 2010 with the help of a NGN 20bn asset sale to AMCON and a NGN 7.5 billion capital raise from private investors. CBN also waived NGN 37 billion of Wema Bank’s original NGN 87 billion loan; this appears to be the only instance in which CBN waived a bank’s debt. Also unlike the other banks, Wema continued to owe CBN a portion of its original loan, totaling NGN 50 billion, at the end of 2011 (Wema Bank 2010 Annual Report, pp. 6, 63, 80; CBN 2010 Report, p. 184; CBN 2011 Report, p. 217). Wema Bank subsequently applied for a regional banking license. Under CBN regulations regional banks have lower capital requirements, which ensured Wema could continue operating without further support. (proshareng 05/10/2011)

## **Outcomes**

In total, eight Nigerian banks were involved in AMCON’s recapitalization process in 2011. Five banks were able to find acquirers and signed a Transaction Implementation Agreement (TIA) with their acquirers before the deadline (Makanjuola 2015 pp112). To facilitate the deal, AMCON injected capital into each institution to offset their negative equity – in other words, to get their net asset values above zero prior to the investment of capital by the acquirers. (Makanjuola 2015 pp 103)

Three other banks failed to make satisfactory progress towards a recapitalization deal before the deadline, and their banking licenses were revoked by the CBN. (Makanjuola 2015 pp125) As a result, the three failed banks had their assets and liabilities transferred to newly created Bridge Banks. (Makanjuola 2015 pp125) To ensure the new institutions were viable, AMCON provided a capital injection into each of the banks – becoming their full owner and only shareholder. (Makanjuola 2015 pp125) Figure 1 provides a summary of AMCON’s capital injections into these eight intervened banks.

**Figure 1: Overview of AMCON capital injections**

Bank	New Name	Amount [NGN bn]	2011 Acquirer	Final Acquirer
Intercontinental Bank	NA	562	Access Bank	NA
Union Bank Nigeria	NA	383	African Capital Alliance	NA
Equitorial Trust Bank	NA	65	Sterling Bank	NA
Oceanic Bank	NA	305	Ecobank	NA
FinBank	NA	155	First City Monument Bank	NA
Bank PHB	Keystone	301	AMCON	Sigma Golf/ Riverbank
Afribank	Mainstreet	426	AMCON	Skye Bank
Springbank	Enterprise	135	AMCON	Heritage Bank
<b>Total</b>		<b>2332</b>		

*Source: AMCON Financial Statement 2011 pp16*

Further, it was decided that AMCON's capital injection would only occur after the licenses of the failed banks had been revoked and new licenses for the Bridge Banks had been issued. This setup ensured that "AMCON would not [acquire] anything directly from [failing institutions ...] and [was] thus not susceptible to any action at the instance of shareholders of the failing insured institutions" (Makanjuola 2015 pp.114).

Overall AMCON's capital injections produced most of the agency's reported losses from the early years of its operations. (AMCON FS 2011 pp 15) When AMCON's public accounts were issued at the end of 2011, its first year of operations, the statements revealed a negative equity position of NGN 2.36tn. (AMCON FS 2011 pp 13) 88.28 percent of this total can be attributed to AMCON's recapitalization efforts and subsequent write-downs. (AMCON FS 2011 pp 15)

AMCON contributed a total of NGN 1.33tn to bring the 5 intervened banks back to zero NAV. (AMCON FS 2011 pp 15-16) By the end of 2011, AMCON had to write down 91.06 percent of the investment, leaving it with NGN 117bn. (AMCON FS 2011 pp 16) Similarly, AMCON wrote down 88.49 percent of the equity it acquired in the three Bridge Banks. (AMCON FS 2011 pp 16) As of December 31, 2011, AMCON reported a combined NAV of NGN 99bn for the three banks. Its initial investment was NGN 861bn (AMCON 2011 financial statement pp16). Figure 2 provides a detailed breakdown of the various injections and write-downs.

**Figure 2: Details of write downs in intervened and Bridge Banks****5 Intervened Banks**

N'000	FA	Market Value Dec 31, 2011	Diminution Dec 31, 2011	Percentage Loss Dec 31, 2011	% of Total Loss
Intercontinental Bank	561,583,438	3,599,999	(557,983,439)	99.36%	23.5
Union Bank	382,814,220	102,031,812	(280,782,408)	73.35%	11.8
Equitorial Trust Bank	64,515,737	1,586,090	(62,929,647)	97.54%	2.6
Oceanic Bank	304,680,328	23,980,016	(280,700,313)	92.13%	11.8
FinBank	154,699,520	-	(154,699,520)	100.00%	6.5
	<b>1,468,293,243</b>	<b>117,866,377</b>	<b>(1,332,902,644)</b>	<b>91.06%</b>	<b>56.2</b>

**3 Rescued Banks**

N'000	Cost	Net Asset Value Dec 31, 2011	Diminution Dec 31, 2011	Percentage Loss Dec 31, 2011	% of Total Loss
Keystone Bank Limited	300,673,147	29,349,055	(271,324,092)	90.24%	11.41
Mainstreet Bank Limited	425,562,011	41,615,478	(383,946,533)	90.22%	16.15
Enterprise Bank Limited	135,032,301	28,152,026	(106,880,275)	79.15%	4.49
	<b>861,267,459</b>	<b>99,116,559</b>	<b>(762,150,900)</b>	<b>88.49%</b>	<b>32.05</b>

Source: AMCON financial statement 2011 pp16

## Key Design Decisions

- AMCON's capital injections were part of a policy package that included the acquisition of non-performing loans and the recapitalization of undercapitalized banks. AMCON was established to provide further support after previous interventions by the CBN failed to stabilize the banking system.**

AMCON's operations followed earlier interventions by the CBN intended to stabilize the financial sector. These interventions included capital injections into nine banks totaling NGN 667bn in 2009 and a blanket guarantee for interbank lending until December 2011. (Cerruti 2016 pp.115) (CBN report 2009 pp.xliii) AMCON was set up in 2010 to provide additional support. (Cerruti 2016 pp.115) Out of nine banks that received support from the CBN in 2009, eight banks benefitted from AMCON's capital injections. Wema Bank, which had converted to a regional chapter, did not require additional support. (proshareng 05/10/2011) AMCON's mandate was broad and encompassed both the role of a public AMC and a capital injection vehicle. (Cerruti 2016 pp.116). As an AMC, AMCON's operations included the acquisition and resolution of eligible banking sector assets, such as nonperforming loans or other designated assets (Makanjuola 2015 pp.103 table 6.7) (Makanjuola 2015 pp.98).

**2. AMCON was established under the AMCON Act, approved by the Nigerian Senate and House of Representatives, and signed into law by President Jonathan on July 19, 2010.**

A draft of the AMCON Act was forwarded to the Senate in November 2004 during the government's push to consolidate the banking sector (Makanjuola 2015 pp. 95). At the time the proposal encountered strong pushback from opponents of banking consolidation and did not gain the necessary traction (Makanjuola 2015 pp. 95). The idea was revived in 2009 following a special examination of Nigerian banks, focusing policymakers' attention on the fragility of the domestic banking sector (Makanjuola 2015 pp. 95). A first public hearing on the bill was held at the House of Representatives on January 28, 2010 (Makanjuola 2015 pp. 95). After a second reading, the House enacted the bill on March 10, 2010 (Makanjuola 2015 pp. 95). The Nigerian Senate passed the bill on May 5, 2010 (Makanjuola 2015 pp. 95). Finally, Nigeria's president Goodluck Jonathan signed the AMCON Act into law on July 19, 2010. (Makanjuola 2015 pp.95) Among other functions<sup>5</sup>, the AMCON Act empowered the agency to "purchase or otherwise invest in eligible equities" (AMCON Act section 5).

**3. AMCON had the authority to transfer assets and liabilities of banks that failed to qualify for the recapitalization program to a Bridge Bank under the NDIC Act of 2006.**

The AMCON Act provided the authority to allow AMCON to support the five intervened banks in their acquisition deals by returning them to zero NAV. (Makanjuola 2015 pp 103) However, the Bridge Bank solution implemented to rescue the remaining three failing banks required the triggering of Sections 38(1) (c) and 39 of the NDIC Act of 2006 (Makanjuola 2015 pp.114). Section 38 (1)(c), which establishes the guidelines for the management and restructuring of failing financial institutions, and designates the NDIC, with the consultation of the CBN, the ability to arrange the transfer of deposit liabilities by another insured institution (NDIC Act Section 38). Section 39 provides the NDIC the authority to establish Bridge banks (NDIC Act Section 39).

**4. The authorities' communication strategy focused on ensuring a smooth transition for the three failed banks that became Bridge Banks. While AMCON had full ownership of the banks, the communication strategy was implemented jointly by the NDIC and CBN.**

The communication strategy during the intervention was primarily focused on removing the uncertainty surrounding the transition of the three failed banks to AMCON-owned Bridge Banks. (Makanjuola 2015 pp 119-120) The strategy was executed jointly by the NDIC and CBN. (Makanjuola 2015 pp 119-120) The announcements were centered around August 6, 2011, the first day the Bridge Banks operated as fully licensed banks. (Makanjuola 2015 pp 124-125) The communication strategy was laid out in the New World

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<sup>5</sup> Other functions specified in the Act include: acquire eligible bank assets, purchase or invest in eligible equities, manage or dispose of eligible bank assets, issue and redeem bonds and debt securities for the consideration of assets, and attempt to recognize maximum value on the resolution of acquired bank assets. (AMCON Act Section 5).

Committee's report issued to the NDIC (Makanjuola 2015 pp 116). The plan highlighted the importance of a public announcement by the NDIC confirming that "it would continue to insure all depositors migrating to the Bridge Banks." (Makanjuola 2015 pp 120) At the same time, a press statement by the CBN was planned to provide "a full faith solvency guarantee and credit assurance for all bridge banks." (Makanjuola 2015 pp 120) Finally, the communication plan ensured more specific communication with "overseas regulators, foreign creditors [and] rating agencies." (Makanjuola 2015 pp. 120)

#### **5. AMCON was governed by a 10-member board of directors.**

AMCON's board of directors consisted of 4 executive directors and 6 non-executive members (AMCON Act section. 10). The Nigerian Senate approved the 10 nominees on November 3, 2010 (Makanjuola 2015 pp.101). The board was led by Mustafa Chike-Obi as AMCON's CEO (Makanjuola 2015 pp.101). The CBN had considerable power over the board as it nominated all 4 executive directors, including the CEO, as well as 2 non-executive members, for a total of 6 nominations (Makanjuola 2015 pp.107). The Ministry of Finance nominated 3 non-executive members including the chairman of the board while the last nominee was nominated by the NDIC (Makanjuola 2015 pp. 106-107). All directors were nominated for 5-year terms with a possible reappointment to a second 5-year term (Makanjuola 2015 pp.107). The AMCON Act further specified that board members were required to have at least "10 years [of] cognate financial experience at a senior management level," "have no conflict of interest with AMCON's business, and disclose debt obligations and interest." (Cerruti 2016, pp.116)(AMCON Act 10.2)

#### **6. AMCON had a paid-in capital of NGN 10bn subscribed in equal parts by the CBN and the Ministry of Finance.**

AMCON was fully owned by the federal government with its NGN 10bn capital split evenly between the Ministry of Finance and the CBN (Makanjuola 2015 pp. 100-101). The cash helped cover AMCON's initial operating costs (Cerruti 2016 pp. 117).

#### **7. AMCON injected a total of NGN 2.3tn in zero-coupon bonds into 8 failing banks. The CBN set a deadline for recapitalization of September 30, 2011.**

In total AMCON, injected NGN 2.3tn into 8 banks. (AMCON FS 2011 pp.16) For the five banks that were able to sign a TIA before the September 30, 2011 deadline imposed by the CBN, the injection occurred after an agreement with a potential acquirer had been signed and shortly before the conclusion of the merger deal. (Makanjuola 2015 pp.108) These injections were timed in such a manner that the failed institutions had zero NAV at the time of the acquisitions. For the three banks that failed to find an acquirer and did thus not make satisfactory progress towards a recapitalization before the deadline, the injections occurred in early August, 2011, as the banks were taken over by the NDIC and their assets and liabilities transferred to bridge banks (Makanjuola 2015 pp.118).

## **8. Funding for the operations was provided through the Banking Sector Resolution Fund (RCF)**

The RCF was a NGN 1.5tn sinking fund financed through contributions by Nigerian financial institutions and the Central Bank of Nigeria. It was intended to fund AMCON's loan acquisition and recapitalization activities. ([Makanjuola 2015 pp. 104](#))

## **9. In the context of its capital injection program AMCON issued government-guaranteed, zero coupon bonds in exchange for equity. These bonds were discountable at the CBN, and investable assets for pension funds.<sup>6</sup> AMCON bonds were also issued in exchange for non-performing loans as part of AMCON's AMC operation.**

The bonds were issued in five series between December 31, 2010 and December 28, 2011. The table below provides an overview of AMCON's bond issuances. While AMCON managed to retire about a third of its bonds by 2014 the remainder was refinanced by the CBN. The arrangement provided that the CBN invested NGN 3.6tn in AMCON bonds in order to refinance the agency's exposure. ([Bloomberg 06/04/13](#)) The bonds were guaranteed by the Nigerian government and qualified as eligible investments for the CBN and pension funds. They could also be traded on the Nigerian Stock Exchange. ([AMCON FA 2011 pp.34](#)) To address their liquidity needs banks used the bonds to access the CBN discount window where the bonds served as collateral. ([CBN annual report 2013](#))

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<sup>6</sup> Further details on the use of AMCON bonds in credit operations with the CBN can be found in the relevant guidelines issued by the CBN.

[https://www.cbn.gov.ng/OUT/2011/CIRCULARS/FMD/GUIDELINES%20FOR%20THE%20USE%20OF%20AMCON%20BONDS%20IN%20CBN%20OPERATIONS\\_.PDF](https://www.cbn.gov.ng/OUT/2011/CIRCULARS/FMD/GUIDELINES%20FOR%20THE%20USE%20OF%20AMCON%20BONDS%20IN%20CBN%20OPERATIONS_.PDF)



**Figure 4: A Breakdown of AMCON Bond Issuances**

Issuance	Purpose	Discounted Value (₦'m)	Bond Face Value (₦'m)	Yield (%)	Maturity Date
Series I Tranches I	EBAs Acquisition	785,747	1,164,951	10.125	Dec. 31, 2013
Series I Tranches II	Price Discovery	12,878	17,620	11.800	Dec. 31, 2013
Series I Tranches II	Additional EBAs	377,764	516,864	11.800	Dec. 31, 2013
Series II	Injection in Bridge Banks	765,299	1,001,772	10.500	Aug. 8, 2014
Series III	Deposit Restoration Fund	64,500	88,812	10.500	Nov. 15, 2014
Series IV	Deposit Restoration Fund	1,299,802	1,908,318	13.000	Oct. 31, 2014
Series V Bonds	Additional EBAs, Deposit Restoration Fund	644,729	929,404	13.000	Oct. 31, 2014
<b>Total</b>		<b>3,894,070</b>	<b>5,464,928</b>		

Source: *AMCON Audited Group Results Presentation 2011 pp.33.*

In 2013 the CBN reported that “AMCON redeemed the Series 1, 2, 3 and 4 Bonds [...] using [its] internally-generated funds and the outstanding balance in the Banking Sector Resolution Cost Sinking Fund.” The remaining NGN 3.8tn were restructured into a 10-year bond with 6 percent coupon. ([CBN annual report 2013](#))

#### **10. Eligible Financial Institutions in the context of AMCON’s broad activities were defined following guidelines issued by the CBN.**

The definition of Eligible Financial Institution (EFI) is provided in the guidelines issued to AMCON by the CBN and includes banks licensed by the CBN to undertake the business of banking in Nigeria as well as banks or financial institutions whose licenses have been revoked ([AMCON guidelines pp4](#)). The guidelines focus on AMCON’s role as an asset management corporation. ([AMCON guidelines pp.2](#)) While participation in the asset acquisition program was strongly incentivized under the guidelines ([AMCON guidelines pp.7](#)) – participation in the capital injection program was dictated by a bank’s ability to achieve the capital position required (10 percent CAR ([CBN report 2009 pp.34](#))) by the CBN deadline. 16 of the 24 EFIs were sufficiently capitalized, five banks were undercapitalized but able to arrange an acquisition and three banks were undercapitalized and had to be acquired by AMCON. ([source documents for more on this](#))

**11. The amount to be injected was dictated by the EFI's capital position at the time of the intervention.**

**12. AMCON received ordinary common shares in return for the zero-coupon bonds**

The equity issued to AMCON in consideration for the zero-coupon bonds were ordinary common shares. In the case of the acquisition of Oceanic Bank by Ecobank Transnational Inc. (ETI), AMCON and Oceanic Bank legacy shareholders received ETI shares in consideration for their equity in Oceanic. After Oceanic was acquired by ETI, AMCON and Oceanic's other shareholders were issued ordinary shares with total value of NGN 38.5bn and preference shares with value NGN 16.5bn. ([source documents for more](#))

**13. All legacy shareholders of the five rescued banks became shareholders of the merged entity. Legacy shareholders of the Bridge Banks were wiped out.**

In the case of the five intervened banks, shareholders received new equity in the merged entity. They only experienced losses to the extent that their shares were diluted following AMCON's injections and the bank's acquisition by a third party. The impact on shareholder value varies for each case. Details on the value of stock held by legacy shareholders are unavailable. Shareholders of the failed banks that were resolved through the Bridge Bank solution were wiped out as the banks were fully acquired by AMCON. ([source documents for more](#)) In each case AMCON fully absorbed the bank's negative equity. For the Bridge Banks AMCON recovered a fraction of its losses through the sale of the bank. AMCON largely relied on the Resolution Cost Fund to recover the remainder as well as losses related to the five rescued bank. ([source documents](#))

**14. The CEOs of the eight failing banks were replaced following the CBN's intervention in 2009. There was no further intervention in the management structure at the time of AMCON's capital injections in the 5 intervened banks. The NDIC appointed new executive directors to replace management at the three Bridge Banks.**

The CEOs of the eight failing banks had been replaced in 2009 following the CBN's examination of the banking sector<sup>7</sup>. ([Allafrica article](#)) ([Alford 2010 pp.6](#)) The authorities did not further intervene in the management of the 5 banks that were able to find an acquirer. ([Makanjuola 2015 pp.103](#)) However, new CEOs and executive directors were appointed by the NDIC for the Bridge Banks. The CEOs of the failed banks were notified of the expiration of their terms of engagement by a letter from the CBN sent to all chief executives on August 5, 2011. The same day the new CEOs of the Bridge Banks received a letter from the NDIC officializing their appointment. ([Makanjuola 2015 pp.123](#)). These directors then replaced the interim management of the Bridge Banks, prior to the start of their operations. All other employees of the failed banks were retained ([Makanjuola 2015 pp.124](#)).

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<sup>7</sup> The eight banks whose CEOs were replaced are Afribank, Finbank, Intercontinental, Oceanic, Union Bank, Bank PHB, Spring Bank and ETB, the same banks that received AMCON support.

### **15. AMCON expected to own and manage the Bridge Banks until it found acquirers.**

Bridge Banks were immediately recapitalized by AMCON to achieve the regulatory minimum CAR and have the bank licensed by the CBN. In exchange AMCON assumed 100 percent ownership of these institutions. The authorities' strategy was to target an acquisition by a third-party investor in the medium run. The banks were thus managed under AMCON ownership for a period of two years, leaving the authorities with sufficient time to seek an acquirer. This strategy was realized for all three Bridge Banks as Keystone, Mainstreet and Enterprise were acquired by the Sigma Golf – Riverbank consortium, Skye Bank and Heritage Bank respectively ([Makanjuola 2015 pp.130](#)).

### **16. The AMCON Act was amended in 2015 and 2019. These amendments were related to AMCON's role as a debt restructuring and collection agency – not its capital injections.**

The AMCON Act was amended in 2015 and 2019. These amendments were meant to extend AMCON's power as a debt restructuring and collection agency. They were focused on facilitating AMCON's exit strategy related to its loan acquisition activities. The legal framework related to its role as a recapitalization vehicle remained unchanged. ([Berkeley Legal website](#)) ([AMCON Act 2015](#))

## **Evaluation**

AMCON's capital injections achieved their goal of protecting depositors and ensuring that failing banks are not wound down. ([Makanjuola 2015 pp.114](#)) Critics focused on AMCON's governance and lack of independence from the CBN, and lack of transparency. In 2013, two years after the recapitalizations, the CBN took over AMCON's debts, leaving it to the central bank and potentially taxpayers to bear losses. Moreover, the government does not appear to have disclosed how much of those losses taxpayers ultimately realized (Cerruti, p. 120).

On the operational side, criticism focused on the guidelines issued by the CBN. Critics raised concerns regarding the central bank's decision to limit the scope of AMCON's activities to deposit money banks. In particular, the exclusion of the microfinance sector "question[ed] the CBN's claim that its intervention was [intended] to protect depositors and creditors and prevent losses." ([Osuji 2012 pp.156](#)) The CBN's influence also reflected on AMCON's governance. Beyond serving as the agency's main supervisory authority and shareholder, the central bank nominated all four executive members of the board of directors, including the chief executive. Given that experience shows independence to be an important factor in an AMC's success, critics raised the question whether "these powers [...] [compromised] its mission of attaining financial stability" ([Cerruti 2016 pp. 121](#)). The issues related to AMCON's independence were further exacerbated due to concerns regarding AMCON's ability to conduct its operations. One source noted that "AMCON apparently lack[ed] persons with specialist skills including credit and transaction risk management" ([Osuji 2012 pp.161](#)). On AMCON's independence the source observes that "AMCON's board lack[ed] sufficient suggestions of independence to withstand political and other pressures" and "AMCON [was] practically an arm of the CBN." ([Osuji 2012 pp.162](#))

The IMF criticized AMCON for its lack of an explicit exit strategy. The Fund recognized the agency's contribution in restoring stability in the banking sector. However, it voiced concerns regarding the absence of a sunset provision for AMCON's activities. In a 2012 report, the Fund recommends that a "credible exit strategy [should be] devised to ensure a smooth winding up of its operations by end-2017" (IMF Article IV 2012 pp 12). An explicit sunset date is considered "important to minimize fiscal risks and avoid potential moral hazard behavior by the banks" (IMF article IV 2012 pp.12). The Fund reiterated its criticism in a 2019 report claiming that "an exit strategy for the state-backed asset management company (AMCON) is urgently needed." The Fund recommended "that AMCON stops the purchase of distressed assets, formally sets a sunset to its existence, earmarks its cash flows to buy back bonds, sets annual disposal targets, implements a plan to divest AMCON's interests in companies and banks, improves its legal power to recover assets and is gradually phased out." (IMF article IV 2019 pp.21)

Finally, there were concerns regarding the manner in which AMCON absorbed losses from its loan purchases and bank recapitalization activities and the eventual allocation of those losses. A World Bank study noted that the program restored bank's capital, but "the negative equity losses were transferred into the AMC with no expectation of recovery, rather than being allocated to banks' shareholders, depositors, and creditors." By 2014, AMCON's accounts showed a negative equity position of NGN 3.6tn due to its loss absorption program (Cerruti 2016 pp. 120).. (AMCON FS 2011 pp.16) The resulting debt "was initially designed to be paid first from the proceeds of asset sales, with any remaining balance to be repaid out of the Banking Sector Resolution Cost Fund". (Cerruti 2016 pp.121) In 2015, AMCON announced that it had recovered 57 percent of its eligible asset portfolio for a total of NGN 1tn in recovered funds (Bloomberg 2015/05/24) (Bloomberg 07/30/2019). However, it maintains a large amount of NPLs on its balance sheet and further losses accumulated from its bank recapitalization operations. Exact information on the return on the equity held in the five intervened banks is unavailable. The exit deals for the Bridge Banks yielded a return far below AMCON's initial investment (source documents for more). Given the NGN 1.5tn ceiling on the RCF it appears that a large share of the losses will eventually be transferred to the government. (Makanjuola 2015 pp. 102) "Repayment of the recapitalization costs is now a matter for the CBN and potentially a fiscal issue" (Cerruti 2016 p 120).

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