FAILURE OF EAGLE BANK LIMITED

1. INTRODUCTION

A privately-owned commercial bank originally licenced as First Africa Trust Bank (hereinafter referred to as FATB) in December 1990, commenced operations in February 1991. Very early in its life FATB was engulfed in a combination if shareholder and board-room crisis which affected its viability. The shareholder-crisis was eventually resolved in December 1993 but that did not positively impact on the bank's performance. A combination of factors including insider abuse, management ineptitude, poor asset quality, illiquidity, erosion of capital and loss of public confidence resulted in the bank being classified as distressed and technically insolvent by the Regulatory Authorities. The shareholders failed to undertake self-restructuring of FATB as directed by the CBN. For example, FATB had an overdrawn balance of N506million at the CBN. To halt further deterioration of its condition, the CBN assumed control and management of the bank in September 1995 and appointed an Interim Management Board to superintend over its affairs. Subsequently, CBN obtained an order of the Federal High Court and acquired the bank for a nominal fee of N1.00 (one naira) for the purposes of restructuring and sale.

A key component of the bank's restructuring was capital injection. But the prevailing Federal Government policy at that time was that public funds could not be utilized to bail out banks. In the circumstance, the main focus of the Interim Management Board (IMB) appointed by CBN to superintend over the affairs of FATB was on debt recovery and cost control. The bank was offered for acquisition by new investors. The CBN did not find a serious bidder until the year 2000.

The new investor paid the sum of N571million in June 2000 while the hand-over of the bank was subject to the following conditions:

i. Appointment of qualified professionals to the Board and top management positions,
ii. Putting in place of organogram acceptable to the CBN.

iii. Grant of 40% waiver on FATB overdrawn position of N506million amounting to N202.4million by CBN.
iv. Conversion of resulting overdrawn accounts balance of N303million to a 5-year term loan at 3% interest per annum with a 2-year moratorium.

All the above conditions were fulfilled before the bank recommenced business under a new name – Eagle Bank Limited.

2. PROFILE OF EAGLE BANK

2.1 Ownership Structure

The bank was closely held by only two individuals in the ratio of 92.75% and 7.25%. Post-recapitalization, the bank's shares stood at 753,947,735units as at 30th September 2001 and thereafter rose to 838,146,470 units while the value of paid-up capital was N669,749,000. At this early stage a pre-commencement expense of N84.2million incurred by one of the individuals was capitalized without the approval of the CBN. There were subsequent increases in the capital structure of the bank without diluting the dominant control of that person. At the bank's Annual General Meeting (AGM) held on 3rd December 2002, the authorized share capital was increased from N726.244million to N1,001.749million. As at 30th November 2003, the paid-up capital was N794.749 million. By 30th September 2004, the paid-up capital increased to N1,001.749million with the additional subscription of N207million by the individual mentioned above which was approved by CBN. It is noteworthy that in spite of these capital injections, the bank's capital was consistently inadequate to support its volume of business because of delinquent credits totaling N1,165,550,975 it inherited from FATB.

2.2 Board and Management

At the recommencement of business, the Board of Directors comprised the following members:

Dr. P.S. Achimugu	-	Chairman
Mr. Yoshiro Niim	-	Managing Director/CEO
Mr. Shuzo Ishii	-	Director
Mrs. Uneku H. Ugboro	-	Director
Rev. Isiah Akintemi	-	Director
Mr. Ibrahim Oruma*****	-	Director

*(He was the Managing Director/CEO before the acquisition of FATB by new investors)

The Board established two committees to assist the performance of its oversight functions. The committees were Board Standing Committee and Board Credit Committee. Undoubtedly, two committees were inadequate for an insolvent bank that needed a major turn-around.

The situation of the management was even worse. Between July 2001 when the bank commenced operations and May 2004, it had three Managing Directors namely:

Yosiro Niim	-	2001
Abdulkadir Idris	-	2003 to 2004
Bonoy Kumar Dutta (Acting)	-	May 2004

The turn-over of Managing Directors equally manifested across staff cadre. For example, by 2004, the staff strength of 205 reduced to 135 due to mass resignation. The staff turnover was attributable to bad human resources policies and uncompetitive remuneration package.

In summary, Eagle Bank was a closely-held institution with a board comprising the Chairman's surrogates and associates. It commenced operations with huge inherited liabilities comprising hardcore risk assets of legacy FATB and CBN term loan. The new capital requirement of N25billion prescribed for deposit money banks by CBN in July 2004 coupled with management instability and self-serving board were all indicative that the bank was unlikely to survive. Its lack-lustre performance is presented in the next section.

3.0 JOURNEY TO FAILURE

The bank's performance between 2000 and 2005 as depicted in various CBN and NDIC Examination Reports was less than satisfactory. A synopsis of its performance indicators based on CAMEL (Capital Adequacy, Asset Quality, Management, Earnings and Liquidity) parameters is prescribed below:

3.1 Capital Adequacy

The start-up capital of N571million as at the time of acquisition of FATB in June 2000 was inadequate to sustain the bank's operations viewed against the backdrop of inherited hardcore debt of N1.163billion. The CBN Maiden Examination conducted as at 30th September 2001 (barely three months after commencement of operations on 1st July 2001) put its capital to Risk Asset Ratio (CAR) at 5.68% as against the regulatory minimum ratio of 8%. Even with the additional capital subscriptions in 2003 and 2004 noted in section 2.1 above, the bank's CAR still fell below regulatory requirements. The CAR as at 30th September 2004 was only 3.01% as against regulatory minimum of 10%.By 30th September 2005, the bank recorded a negative shareholders fund of N341.92million and a negative CAR of 52.26% (NDIC Examination Report). The bank was adjudged to be technically insolvent. The Closing Statement of Affairs as at 31st March 2007 recorded a negative shareholders fund of N566,769,816 which clearly showed further deterioration. Its capital had been completely eroded by accumulated losses totaling N1.468billion as at 16th January 2006 when its banking licence was revoked.

3.2 Asset Quality

The CBN Maiden Examination report as at 30th September 2001 revealed that inherited hardcore credits from FATB accounted for about 98% (N1.164billion out of N1.190billion) of the bank's credit portfolio. This became an albatross for the bank until the revocation of its licence in January 2006. Several weaknesses in credit administration were noted by Bank Examiners in various Examination reports some of which are listed below:

- Vital documents such as loan application, offer and acceptance letters, board resolutions and title documents were not in place before drawdown on certain facilities were allowed.
- Policy loans could be granted without credit appraisals.
- Granting of unsecured credits while some were based on Personal Guarantees of the borrowers.
- Grant of credit facilities without status enquiries from the Credit Risk Management System (Credit Bureau) managed by CBN.
- Credit facilities operating above approved limits in violation of bank's credit policy
- Poor monitoring of credit utilization which encouraged diversion of loans by borrowers.
- Failure to undertake quarterly credit review in violation of CBN Prudential Guidelines
- Concealment of delinquent director-related loans
- Concentration of credit with only 20 borrowers accounting for 57% (N854.82million out of N1.50billion) of credit portfolio as at 31st August 2004 (CBN Examination Report)
- Under-provisioning for loan losses. For example, bank's provision of N430.68million as at 30th August 2004 fell short of the recommended provision of N702.41 million by CBN Examiners.
- Large volume of non-performing credits. For example N684.54million (or 45.5%) out of total credit portfolio of

N1.50billion was delinquent as at 31st August 2004. Table 1 below is provided as a proxy for the bank's performance from 2000-2004. Total debt recovered over the 5-year period was a paltry sum of N13.7million against inherited hardcore debt of N1.163billion.

Severe impairment of risk assets would surely lead to erosion of capital. The bank failed to appreciate the need for aggressive remedial management. Hence it was saddled with poor asset quality throughout its existence.

3.3 Management

As earlier noted the board comprised either cronies or associates of the Chairman while the Management experienced frequent turnover of Chief Executive Officers (CEOs). The board failed to show appreciation of the dynamics of bank restructuring. Hence, there was no provision for remedial management in the organogram of a bank whose credit portfolio comprised 98% of inherited hardcore credits from legacy FATB. It was particularly scandalous that out of N78.7million credit facilities granted to the Chairman and his related companies, N72.1million (or 91.6%) was classified lost as at 31st August 2004.

Rather than devise strategies to turn-around the bank, the board engaged in self-serving practices. For example, rather than implement NDIC Examiners' recommendation in 2003 that director's remuneration be reviewed downward, it was reviewed upward in 2004. Similarly, Examiners' recommendation that the shareholding structure be diversified was not heeded. Furthermore, the bank's involvement in foreign exchange malpractices resulted in its suspension from the foreign exchange market by CBN in 2002 with adverse repercussions for earnings and liquidity.

The Chairman engaged in insider-abuse through conversion of some bank's assets especially its branch buildings. The bank had two branches located in Ikeja and Abuja. On 24th October 2005, the bank‘s Legal Unit released the title documents to the Ikeja property to the Chairman in response to his claim that the property belonged to him. But information available to the Liquidator showed that the bank paid N35million for the property with its Managers' Cheque (MC) No. 00000917 dated 23rd August 2002. Similarly, the bank purchased from the Liquidator of Commerce Bank Limited Abuja property at a cost of N42million in 2000. By a resolution passed by the board at its meeting held on 7th November 2000, the purchase price of N42million was credited to the Chairman as equity contribution to the bank's capital. The CBN approved the capital subscription on 30th October, 2003. Curiously, the Chairman stalled the execution of the Deed of Transfer forwarded to the bank by Commence Bank Liquidator since 2001 and demanded that the transfer instrument be executed in his name and not in favour of the bank.

The Board failed to provide strategic direction while the Management lacked the technical skills to turn around the bank. Various Examination Reports revealed that the Management failed to implement several board decisions. After the revocation of the bank's licence, the erstwhile Chairman, in his petition dated February 2, 2006 to the Interim Management Committee appointed by CBN accused the then bank's Management of "Fictitious Debits, Fraudulent Manipulation, Diversion of Funds and Unethical Practices". He alleged that "TheManagement of the bank deliberately ran the bank aground and made away with huge sums of money". He therefore, prayed that "They are to be arrested, investigated and if found culpable they should be made to return all ill-gotten loot to the coffers of the bank". One obvious inference that could be drawn from the Chairman's petition was that there was disharmony between the Board and Management and collapse of corporate governance during the bank's short lifespan.

The failure of corporate governance manifested in weak internal control process. The Inspection and Internal Control Unit was poorly staffed. The Chief Inspector was a Deputy Manager who had only West African School Certificate (WASC). He was supported by 10 other staff with little experience. Consequently, securities sweeps of each unit every 6 months was not accomplished while a fraud perpetrated in 2002 was not detected until 2004. Poor record-keeping and incomplete transaction narrations abound. There was no full inspection conducted in any department while

Inspection Staff were engaged in call-over of transactions. These control lapses are symptomatic of a failing bank.

Given the new capital requirement of N25billion stipulated by CBN in July 2004 with a compliance deadline of 31st December 2005, one would have expected the bank's shareholders to broaden the ownership base as earlier recommended by Bank Examiners. But it was not until the last quarter of 2005 that a desperate and belated effort was made to merge with a group of technically insolvent banks to form Alliance Bank. Eagle Bank with a negative shareholders fund of N341.92million as at 30th September 2005 made no capital contribution to the still-born Alliance Bank and stood the risk of revocation of its banking licence. At that point, the Chairman's inclination was towards conversion of the bank's assets as earlier noted in respect of two branch buildings.

3.4 Earnings and Profitability

Table 1. Income & Expenditure Profile for 2000-2004

N'000	**2000 N'000**	**2001 N'000**	**2002 N'000**	**2003 N'000**	**2004 N'000**
INCOME					
Interest	1,107	87,671	304,475	372,060	549,729
Commissions	0	15.874	85,415	197,797	220,353
Foreign Exchange	0	16,928	56,374	123,502	0
Other Income	2,620	6,109	3,434	18,720	47,819
Recoveries	534	4,268	2,702	4,092	2,100
TOTAL	**4,261**	**130,850**	**452,400**	**716,171**	**820,001**
EXPENDITURE					
Interest	208	16,414	115,962	219,774	428,161
Operating Expenses	25,509	92,394	253,161	348,629	499,759
Loan Loss Provision	55,522	71,919	19,496	42,777	79,787
TOTAL	**81,239**	**180,727**	**388,619**	**611,180**	**1,007,707**
PROFIT BEFORE TAX	**-76,978**	**-49,877**	**63,781**	**104,991**	**-187,706**

Source:CNB/NDIC Examination Reports

Table 1 is provided as a proxy for the bank's financial performance from 2000-2004. Given the persistent under-provisioning by the bank, the profit reported in 2002 and 2003 was suspect, more so, the bank suffered massive erosion of deposit between 2003 and 2004 sequel to its suspension from Foreign Exchange Market in 2002. Bank Examiners noted that total deposit of N3.983billion in 2003 reduced to N2.139billion (that is 46% reduction) in 2004. Hence, its ability to generate income was impaired.

The bank's earnings throughout its existence were grossly inadequate to create a capital buffer to reduce losses from inherited hardcore credit facilities from FATB. The situation was further compounded by failure to make adequate provision for delinquent loans and other known losses incurred post-acquisition of FATB. For example, the bank made a provision of N430.68million in 2004 whereas CBN Examiners recommended a provision of N702.41million. The bank's capacity was severely impaired by its suspension from the Foreign Exchange Market by CBN in 2002 having been guilty of foreign exchange malpractices. The combined effect of its inability to recover inherited hardcore credits, imprudent lending post-acquisition, suspension from Foreign Exchange Market and inability to inject sufficient capital to support the volume of business was a sustained accumulation of losses. Consequently, accumulated losses amounted to N1.469billion on 16th January 2006 when banking licence was revoked whereas total capital subscription in the bank's lifespan was N1.011billion. Accumulated losses increased to N1.569billion in 2007 when liquidation commenced.

3.5 Liquidity Profile

The bank relied more on the public sector and the interbank market (two volatile sources) for deposit mobilization. It was therefore very susceptible to liquidity shocks. As noted above, after suspension from the Foreign Exchange Market in 2002, the bank last 46% of its deposit liability. Also, as at 31st August 2004, 34% of its deposit liability was from the public sector while it borrowed N311million from the interbank market against its paltry placement of N11million. Its loan/deposits ratio as at same date was 140%, a pointer to illiquidity. Bank Examination report as at 30th September, 2005 revealed that the bank failed to meet the liquidity ratio stipulated by the CBN for several months. Its adjusted deposit liability as at 16th January 2006 stood at N890.8million, N600million of which was from the Nigerian National Petroleum Corporation (NNPC) alone. The concentration of risk noted in its risk asset portfolio was equally present in its liability profile. Furthermore, its current accounts with both the CBN and its Settlement Bank were overdrawn to the tune of N36.5million and N143million respectively as at 30th September 2005 while its inherited overdraft from FATB which CBN restructures into a 5-year term loan still had an unpaid balance of N126million.

4.0 CORE REASONS FOR FAILURE

The lack-lustre performance of Eagle Bank as depicted in the fore-going section at a time new capital requirement of N25billion was mandatory for all banks showed that it was bound to fail. The causes of the bank's failure can be summarized as follows:

4.1 The acquirers of FATB (renamed Eagle Bank) lacked the managerial competence to turn around the bank. There was lack of strategic focus. Hence, the shareholders failed to constitute a board comprising persons with requisite skills and to appoint a competent Management Team. The Chairman who held 92.75% equity interest chose a board comprising his associates and cronies.

4.2 The shareholders lacked the capacity to inject the quantum of capital commensurate with the bank's risk profile. The total capital of N1.001billion injectedthroughout the bank's 5-year lifespan was hardly sufficient to absorb the losses embedded in the N1.163billion hardcore credits inherited from FATB. The shareholders failed to diversify the ownership structure as recommended by Bank Examiners but preferred that the bank be closely held by just two investors.

4.3 The board failed to appoint a management with the requisite turn-around skills for restructuring a failing bank under its supervisory purview.

The frequent turnover of Managing Directors (three in three years) manifested in lack of strategic goals such as debt recovery, cost control and remedial management.

4.4 The self-serving disposition of the board as manifested in upward review of its members remuneration contrary to downward review recommended by Bank Examiners, reflected lack of appreciation of the precarious condition of the bank. A responsive board would have adopted cost control as a restructuring tool rather than relish the perquisite of office.

4.5 Failure to adopt remedial management resulted in sustained accumulated losses far in excess of the shareholders fund. The classification of 98% of credits extended to the Chairman and his related companies as lost showed total lack of commitment to the bank's survival as a going concern.

4.6 Imprudent lending practices as noted above under Asset Quality contributed to higher provisioning requirement and increase of accumulated losses. Against the backdrop of meagre earnings there was no buffer to cushion losses.

4.7 The concentration of risks in Asset and Liability structure made the bank vulnerable to credit risk and liquidity shocks.

4.8 The suspension from Foreign Exchange Market by CBN contributed to the massive erosion of deposits in 2004. Indeed, the bank was exposed to flight to safetyby its depositors with adverse consequences on liquidity.

4.9 The board failed to appreciate the critical role of internal control in banking operations as reflected in the appointment of a Deputy Manager who had only West African School Certificate as Chief Inspector and the inadequate staffing of the Unit. The various control lapses noted above reflected the quality of staff deployed to such a critical function.

5.0 FAILURE RESOLUTION

Eagle Bank was already technically insolvent as at July 2004 when the CBN announced a new capital requirement of N25billion.

The bank was therefore a candidate for regulatory intervention. However, the CBN gave ablanket forbearance to all banks to attain the newly introduced capital requirement by 31st December 2005. Both CBN and NDIC Examination reports of 2004 and 2005 respectively showed that the bank's financial condition had worsened rather than improve.

In the last quarter of 2005, the shareholders of Eagle Bank made a belated attempt to join a group of technically insolvent banks to form a new bank to be known as Alliance Bank. However, Eagle Bank made no contribution whatsoever to the still-born Alliance Bank project.

After the expiration of the compliance deadline for the new capital requirement, the CBN on 13th January 2006 removed the board of Eagle Bank and appointed a two-man Interim Management Committee (IMC) to superintend over the affairs of the bank. On 16th January 2006, the bank's licence along with those of 13 other banks that failed to achieve the new capital requirement, were revoked by the CBN. In keeping with the subsisting provisions of the Banks and Other Financial Institutions Act (BOFIA) NDIC applied to the Federal High Court to be appointed Liquidator of Eagle Bank along with a Petition to wind-up its affairs. The processes filed by NDIC were opposed by the bank's shareholders. But at the end of the court proceedings, NDIC was appointed Liquidator of Eagle Bank on 14th March 2007.

After obtaining the requisite court orders, NDIC prepared a Statement of Assets and Liabilities as at 31st March 2007 as shown in Table 2 below:

Table 2

STATEMENT OF ASSETS AND LIABILITIES AS AT 31ST MARCH, 2007

BANK: EAGLE BANK LTD (IN-LIQ)		
	NOTE	**NET BOOK VALUE**
		=N=
CASH ON HAND	1	623,687.60
DUE FROM OTHER BANKS	2	14,314,141.59
TREASURY BILLS/CERTIFICATE		25,716,096.76

INVESTMENTS	3	75,000,000.00
LOANS & ADVANCES	4	1,210,284,680.13
OTHER ASSETS	5	**50,899,506.89**
FIXED ASSETS (NET)	6	229,699,029.79
TOTAL ASSETS		**1,606,537,142.76**
DEPOSITS	7	875,124,024.21
DUE TO OTHER BANKS	8	86,266,607.60
SUNDRY CREDITORS	9	24,848,732.42
OTHER LIABILITIES	10	1,187,067,594.06
TOTAL LIABILITIES		**2,173,306,958.29**
NETASSET/(LIABILITIES)		**-566,769,815.53**
SHARE CAPITAL		1,001,749,000.00
TOTAL RESERVES		
PROFIT & LOSS	11	**-1,568,518,815.53**
SHAREHOLDER FUNDS		**-566,769,815.53**

The Table reflects the bank's inability to generate reserves while accumulated losses stood at N1.569billion and Shareholders Fund was negative to the tune of N566.77billion. The bank was put up for acquisition through Purchase and Assumption Mechanism. Bid Information Package was made available to interested bidders to enable them conduct due diligence on Eagle Bank. The bids received were analysed after which discussions were held with the bidders. At the conclusion of the process, Zenith Bank Plc was the successful bidder. Zenith Bank acquired the entire deposit of the bank along with selected assets and paid the agreed consideration while the bank was handed over to it on 14th January 2008 as a gone concern.

Meanwhile, the Chairman of the defunct Eagle Bank on 8th August 2007 had written a petition under the caption "Central Bank of Nigeria (CBN) Take-Over and Nigeria Deposit Insurance Corporation (NDIC) Intention for Liquidation Order on Eagle Bank Nigeria Limited: Petition for Justice" to the Honorable Minister of Finance (Dr. Shamsudeen Usman).

His prayers were that “Alliance Bank” in formation be granted a banking licence and that the activities of the IMC before take over by NDIC be properly investigated in order to establish the true financial position of Eagle Bank. Given that a court of competent jurisdiction had issued a wind-up order on Eagle Bank on 14th March 2007, the petition was an exercise in futility as the Finance Minister could not bring Eagle Bank back to life. If the petitioner was not making mischief, he should have gone to an appellate court to register his dissatisfaction with the Federal High Court’s grant of winding-up order on Eagle Bank.

6.0 LESSONS LEARNT AND CONCLUSION

A number of lessons can be drawn from the short lifespan of Eagle Bank as summarized below:

6.1 The turn-around of a technically insolvent bank requires specialized skills set which should include balance sheet restructuring and remedial management skills. The acquirer of Eagle Bank was an entrepreneur who neither understood the intricacies of banking nor the need for restructuring. Policy makers and regulators should be rigorous in the application of fitness and properness test to prospective acquirers.

6.2 Regulators should ensure that prospective acquirers of insolvent banks have the financial capacity to inject adequate capital commensurate with the risk profile of the acquired institutions. Where such institutions are closely held as was the case with Eagle Bank, broader ownership structure should be prescribed/encouraged.

6.3 Effective risk management is critical to the survival of a banking institution. The total absence of risk management in Eagle Bank contributed to its failure.

6.4 Sound corporate governance based on setting strategic direction, delegation of authority and promotion of accountability across all layers of authority is critical to a bank’s survival. The board composition and structure in Eagle Bank were instrumental to the collapse of corporate governance.

6.5 Insider-dealing is detrimental to a bank's survival. In the case of Eagle Bank, the directors were more interested in perquisites of office as reflected by upward review of their remuneration while accumulated losses were mounting. Failure to service their delinquent credit facilities was equally detrimental to the bank's survival.

6.6 Rebranding through change of name and logo if not complemented with requisite managerial skills and commensurate financial resources cannot reverse the precarious condition of a failing bank. The change of name of FATB to Eagle Bank Limited was a mere façade.

Conclusion

The failure of Eagle Bank was inherent from the point of acquisition given the quantum of hardcore risk assets and liabilities taken over by an acquirer that lacked the financial capacity and managerial skill to undertake a turn-around programme. The bank's precarious condition was further compounded by insider dealings and management instability. The turn-around of a failing bank requires strong commitment of the shareholders, board and management which was glaringly absent in the case of Eagle Bank. Its survival would have been a miracle while its failure was predictable.

<u>REFERENCES</u>

Achjmugu P.S. -Petition to Interim Management Committee of Eagle Bank datedFebruary 2, 2006 and captioned "Undue Denial of Payment of Forbearance Ifo Eagle Bank Re: Fictitious Debits, Fraudulent Manipulation, Diversion of Funds and Unethical Practices by the Management of Eagle Bank led by Mr. Ibrahim Oruma"

Achimugu P.S. -Petition to the Honourable Minister of Finance sdated August 8, 2007 and captioned: "Central Bank of Nigeria (CBN) Take-Over and Nigeria

Deposit Insurance Corporation (NDIC) Intention for Liquidation Order on Eagle Bank Nigeria Ltd: Petition for Justice".

CBN	-Examination Report on Eagle Bank as at 30^{th} September 2001.
CBN	-Examination Report on Eagle Bank as at 31^{st} August 2004.
NDIC	-Examination Report on Eagle Bank as at 30^{th} September 2003.
NDIC	-Examination Report on Eagle Bank as at 30^{th} September 2005.
NDIC	-Statement of Assets and Liabilities of Eagle Bank as at 31^{st} March 2007.