FUND OF PROBLEM LOANS
ACQUISITION. MANAGEMENT. SALE.

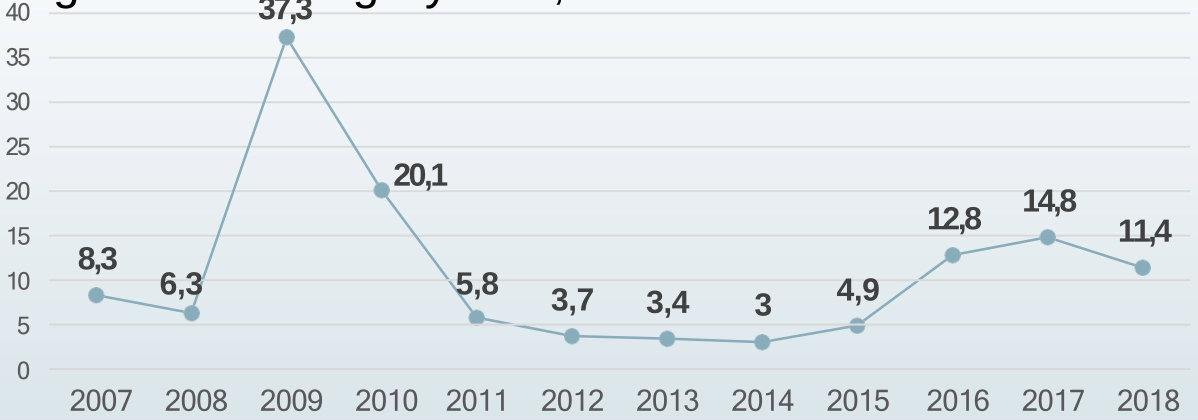
Nigeria’s Experience in Resolving Non-Performing Loans: AMCON's Role

I. Banking Sector Crisis in Nigeria: Preconditions for the Creation of AMCON

By 2009, Nigeria's financial system had undergone significant structural changes. In order to increase the efficiency and competitiveness of commercial banks, the Central Bank of Nigeria (CBN) required banks to raise their paid-up capital from 2 billion to 25 billion Nigerian Naira (from 15 million to 190 million USD) in 2005. This led to the forced consolidation of the banking sector — the number of banks decreased from 89 to 24 during the period of 2005-2006. At the same time, there was an increase in private sector lending.

A large portion of these loans was granted for the purpose of purchasing shares in banks (so-called margin loans) and investing in the oil and gas sector. As a result, the assets of the banking system doubled from 2005 to 2008, reaching 42% of the GDP.

Dynamics of Non-Performing Loans (NPLs) in Nigeria's Banking System, %



Source: ceicdata.com

As the global financial crisis spread, the situation in Nigeria's banking system became increasingly unstable. The collapse of the stock market and the decline in oil and gas prices led to a significant rise in the level of non-performing loans (NPLs) in the banking sector, reaching 37%.

In the fall of 2009, the Central Bank of Nigeria (CBN) and the Nigerian Deposit Insurance Corporation (NDIC) initiated a comprehensive audit of commercial banks. The audit revealed that 10 banks, which together accounted for one-third of the entire banking system, were particularly vulnerable. This triggered a series of regulatory and corrective actions to stabilize the sector.

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In addition to the capital deficiency, the audit of these banks revealed inadequate liquidity, poor asset quality, and weaknesses in risk management practices and corporate governance. Furthermore, the level of non-performing loans (NPLs) in these banks had reached 65% of the total loan portfolio. This alarming situation highlighted the severity of the banking crisis and underscored the urgent need for intervention to stabilize the financial system.

To support the banking sector and maintain liquidity, the Central Bank of Nigeria (CBN) allocated 620 billion Nigerian Naira (approximately 4.1 billion USD) in the form of unsecured and subordinated debt. The CBN also provided guarantees for all interbank lending operations (the terms of which expired at the end of December 2011), foreign credit lines, and pension deposits. The authorities publicly committed to protecting depositors and creditors from losses and announced that bank bankruptcies would be prevented. Ultimately, this led to the protection of shareholder interests.

The need for prompt action and the shortcomings of existing crisis resolution mechanisms resulted in the creation of the **Asset Management Corporation of Nigeria (AMCON)**.

In accordance with the Banks and Financial Institutions Act, the Nigerian Deposit Insurance Corporation (NDIC) had the authority to restructure and regulate banks, as well as manage the assets of bankrupt banks. However, these powers were challenged in court. The Bankruptcy Act also contained provisions that hindered the recovery of non-performing loans. Furthermore, injecting government funds into the capital of commercial banks would require parliamentary approval, which was a more cumbersome process than creating a new organization.

As a result, in July 2010, the Nigerian parliament passed a law establishing the **Asset Management Corporation of Nigeria (AMCON)**. AMCON is a government-owned corporation, fully owned by the federal government and the Ministry of Finance.

III. Mandate and Powers of AMCON

The powers of AMCON, in addition to asset acquisition and management, also include the recapitalization of banks and investment in shares, subject to approval by the Central Bank of Nigeria (CBN).

The AMCON Act does not specify a time limit for the corporation's operations. However, the legislation limits the period for asset acquisition to three years and three months from the identification of assets for purchase.

According to the legislation, AMCON is required to submit an annual report to the Ministry of Finance and the Central Bank of Nigeria (CBN), as well as quarterly reports to the parliament. However, the law does not contain provisions that limit the amount of assets to be purchased or the corporation's equity.

AMCON was established with a charter capital of 10 billion Naira (approximately 67 million USD). Since AMCON issues zero-coupon bonds, the initial capital was intended not for the payment of annual interest obligations on the bonds but for covering operational expenses, including the depreciation of acquired assets.

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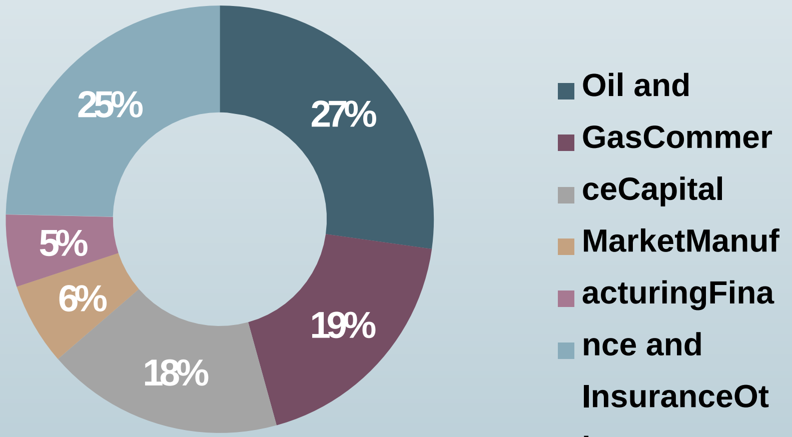
IV. Asset Acquisition

After its establishment in the fall of 2010, AMCON swiftly began acquiring distressed assets. The first tranche of asset purchases, amounting to 866 billion Naira (approximately 5.7 billion USD), was carried out in December of the same year. The high operational efficiency in closing these deals was due not only to the need for a quick response to the banking crisis but also to the nature of the assets themselves — a large portion of the portfolio consisted of margin loans or unsecured loans.

In total, AMCON acquired approximately 12,000 loans with a total value of around 2 trillion Naira (approximately 13.2 billion USD). About 75% of the acquired assets were secured solely by shares (margin loans) or were unsecured.

According to the asset valuation methodology developed by the CBN for AMCON, the purchase price of margin loans was the greater of two values: 5% of the nominal value or the sliding average price of the securities securing the loan over the past 60 days, plus a 60% premium. Unsecured loans were valued at 5% of the nominal value. Only 20% of the portfolio was represented by mortgage loans.

AMCON Asset Portfolio Structure by Sectors



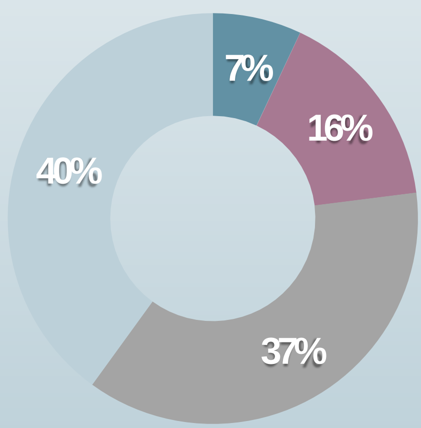
IV. **Asset Purchases**

Although the buy-sell transactions of assets were made on a voluntary basis, the Central Bank of Nigeria (CBN) introduced a requirement that encouraged banks to actively sell their assets. According to the regulatory requirements set by the financial regulator, financial institutions were allowed to hold no more than 5% of non-performing loans on their balance sheets. As a result, by 2011, the share of non-performing loans decreased to 5.8%.

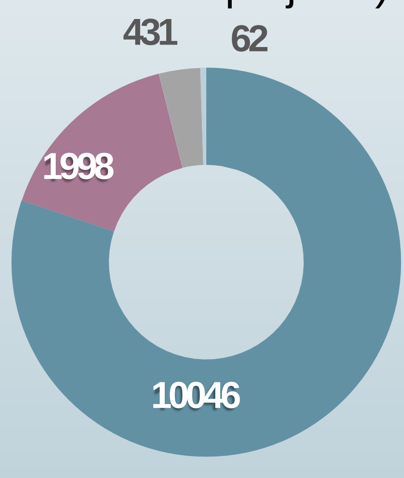
The average purchase price of assets was around 45% of their nominal value. In addition to non-performing loans, the corporation also acquired large strategically important loans totaling 750 billion naira (approximately 5 billion USD), including assets related to the oil and gas sector. These assets were purchased for 85-95% of their nominal value.

In addition to purchasing non-performing loans, AMCON recapitalized 2 banks and "absorbed" the negative capital of 8 banks. This role was considered critical for maintaining financial stability. However, information about the management and realization of assets is not published by the corporation in public sources.

Asset portfolio structure
(by debt amount)



Asset portfolio structure
(by number of projects)



More than 10 billion Naira (Strategically important projects)

100 million - 1 billion Naira

1 billion - 10 billion Naira

Less than 100 million Naira

V. **Conclusion**

Overall, AMCON's actions led to the cleansing and stabilization of the banking system. As of December 2014, the capital adequacy ratio stood at 17%, and the share of non-performing loans was approximately 3%. However, the negative capital of the banks was transferred to the corporation without expectations of reimbursement, rather than being distributed among the shareholders, depositors, and creditors of the banks.

However, it is not possible to assess the effectiveness of the corporation's involvement of acquired assets into the economic cycle due to the lack of transparency of the relevant information..

According to experts from the World Bank, one of the significant drawbacks of AMCON's operations is the organization's dependence on the financial regulator. The CBN has exclusive powers over the corporation, including decisions regarding the purchase of shares and assets, as well as the appointment of leadership. This situation creates a conflict of interest, considering the supervisory role of the regulator, and could jeopardize its mission to ensure the stability of the financial system.

Corporate Development Department of JSC "Non-Performing Loan Fund"
Sources of information:
Public Asset Management Companies, Caroline Cerruti and Ruth Neyens, WB Group
Official website of AMCON