

## Steady and Sustained:

### Interview with Oyinkan Adewale,

Executive Director/CFO, Oceanic Bank

In the following interview, **Oyinkan Adewale**, discusses Oceanic Bank's second quarter results and its future plans.



Oyinkan Adewale trained with Coopers & Lybrand (now part of PriceWaterhouseCoopers) and qualified as a Chartered Accountant, ACA, in May 1984. She has been a Fellow of the Institute of Chartered Accountants of Nigeria for over 15 years.

She joined Nigeria International Bank/Citigroup in 1989 as Deputy Financial Controller and rose to the position of Citigroup Chief Financial Officer for the West African Cluster. She was appointed to the Board of Directors as an Executive Director in February 1998. She is one of a limited number of MIS experts in Nigeria.

In 2004, Oyinkan co-founded SIAO, Nigeria's leading indigenous accounting firm and number five overall accounting firm in the country. She is credited with originating the firm's M&A financial due diligence practice

She joined Renaissance Group, the emerging markets-focused investment bank, in April 2007 as Managing Director, Chief Operating Officer for Africa.

In October 2009, the Central Bank of Nigeria appointed her to the board of Oceanic Bank as Executive Director and Chief Financial Officer.

Oyinkan Adewale was educated at St Mary's Private School, Lagos, Holy Child College, Lagos, St George's School in Switzerland and University of Ibadan, Nigeria.



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**Q:** These latest results show that the business turnaround is well on course: costs are down, strategy refocused, risk management strengthened, and corporate governance more vigilant. But bad loans and shareholders' funds remain an issue. What is Oceanic Bank doing in this regard?

**Oyinkan Adewale:** With respect to bad loans, up to the end of June 2010, we have recovered over =N=98 bn, almost entirely non-insider related, and have been able to bring down the NPL ratio from 71.3% at end 2009 to 68.6% by end Q2 2010. It is however clear to us that the major breakthrough will come from an Asset Management Corporation (AMCON) bad loan sale option as well as the resolution of the significant insider-related NPL book, which accounts for half of all NPLs.

So we are looking forward to the take-off of AMCON and are making necessary preparations e.g. collateral valuation. We are also continuing the process of engagement with the insider-related parties. With almost =N=0.5 trillion in loan loss reserves, subject to AMCON valuations and the degree of success in resolving the insider related NPL book, we are confident that within the next 6 months to 1 year, we will witness both a massive injection of liquidity, from NPL repayments and sales to AMCON, and a significant degree of recapitalization as a result of provision write-backs. With respect to recapitalization, we are also looking forward to an institutional-strategic investor transaction.

At this point, Oceanic Bank has finished the due diligence phase of the exercise and we have had successful meetings with potential investors as part of the bidding process. Interested parties have submitted their bids to the Central Bank of Nigeria (CBN). Once those bids are made known to us, the Board and its advisers will review them and make recommendations to our shareholders in accordance with laid down guidelines for such transactions.



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**Q:** Managing the turnaround of a financial institution is fraught with unique challenges. What role did your previous experience in financial services and auditing play in helping you to identify areas to prioritize and what new lessons have you learnt?

**OA:** I would say that, beyond the professional pedigree and proven track-record of the current executive management of the Bank, the key factors responsible for the turnaround of Oceanic Bank are: the enthronement of sound corporate governance, the loyalty of our customers, the resilience of the Oceanic brand and the support of the Central Bank of Nigeria.

Every single member of the Bank's current ExCo has worked in world class institutions where over decades, it has been demonstrated that process and system, not any individual, determine the success and long-term viability of the institution. Most of the current staff of the Bank were here well before Intervention. What has changed is the corporate governance framework within which they now operate. We have been able to share with our colleagues tried and tested principles of corporate governance and best in class processes and systems in all areas from risk management to financial control; from operations to IT.

My experience as a finance professional for over 29 years, the first 8 of which I spent in Audit, has prepared me for this job. I have always believed that without a credible Financial Control function that provides timely, value-adding and reliable financial analysis to Management before and after action is taken, no institution can thrive. Similarly, an institution that can not accurately measure the financial consequences of its actions is doomed to fail. Since Q4 2009, we have introduced basic financial control and financial analysis tools that ensure that ExCo is fully on top of the Bank's progress.

**Q:** The Bank has emphasized low- cost liability generation as a cornerstone of its recovery strategy. The statement shows a 13% leap in deposits but only a corresponding 3% growth in net loans and advances? Is this a deliberate position of the 'new' Oceanic Bank or do you expect to recommence loan-book expansion soon? How does this dovetail with the Bank's new risk management processes?

**OA:** In Nigeria today, as indeed in most countries all over the world, banks are not lending; confidence is yet to be restored. Across the industry, banks are cautious about making new loans as they grapple with bad loan recovery, a process which is not helped by our legal system. Enforcing collateral through the courts is not straightforward. In the absence of a special fast-track judicial system for recovering bad loans, banks will continue to feel unprotected from borrowers. Even the “non-intervention” banks in Nigeria are not lending; so this is not just an Oceanic matter.

We owe the growth of our deposit book to the loyalty of our customers, sustained quality customer service and the success of our turn-around strategy, which is underpinned by low cost deposit mobilization. With our current liquidity constraints and the burden of a 68% NPL book, we do not expect to resume lending in earnest until we receive significant injections of liquidity from AMCON or a strategic investor. Meanwhile, we continue to lend cautiously and modestly, mostly to our teeming numbers of middle-market customers.

Understandably, our attention is currently focused on recovering NPLs. This is not unique to Oceanic Bank.

**Q:** The economy has had a benign interest rate regime for some time, which no doubt has impacted on the Bank's cost of funds. How dependent is the Bank on interbank borrowing compared to six months ago and assuming stability in interest rates, where do you expect that level to be on December 31, 2010?

**OA:** Our dependence on interbank borrowings is really a function of the balance sheet we inherited from the previous management. When we arrived, we had to unwind several irregular transactions some of which were not reported. Bringing them on to the books meant that these transactions had to be funded one way or another. In that situation, the automatic replacement funding for the artificial liabilities on the balance sheet was interbank borrowings.

Again, unless we recover bad loans, unless we get a huge injection of liquidity from AMCON or other sources, we are unlikely to get a quantum boost in liquidity which will enable us make a like-sized reduction in our dependence in interbank borrowings.

We are extremely lucky in that, as long as the CBN continues to guarantee our interbank takings, we are able to access that window to plug our funding gaps.

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August, 2010



The deferred tax assets (DTAs) should be integral to our current market valuation. Nigerian tax law is clear on DTAs and our claims to them are unassailable.



**Q:** Oceanic Bank has disclosed that it has substantial deferred tax assets from past losses. Should this play a role in the valuation of the Bank?

**OA:** Definitely. Oceanic Bank made significant losses in 2008 and 2009 because of loan loss provisions. Therefore, the deferred tax assets (DTAs) are directly linked to these provisions. As we all know, the Federal Inland Revenue Service (FIRS) does not write a cheque or deliver cash for the DTAs; instead, it is utilised when the company makes profits. The DTAs are a material part of the fair value of Oceanic Bank. Whether the bad loans are realized through AMCON or from the original borrower paying back, to the extent that any portion of the loans that were provided for are recovered by the Bank, we will be in a position to use the DTAs. The DTAs should be integral to our current market valuation. Nigerian tax law is clear on DTAs and our claims to them are unassailable.

From time, in Nigeria, the FIRS has been fine with allowing loan loss provisions, if they are tied to specific loans. In the Oceanic case, every single provision we have made has been against a specific loan or debtor.

As we speak, Oceanic Bank has engaged one of the most professional tax firms in Nigeria to handle its tax affairs. It is important to note that as Nigerian tax law does not set an expiry date on the utilisation of DTAs, there is no pressure on Oceanic Bank to exhaust these assets within a stipulated time window.

**Q:** At a recent interactive session with shareholders, Oceanic Bank said that it is considering a number of options for its recapitalization. Would you like to share the merits and possible challenges of each option?

**OA:** At every opportunity we have had, the board and executive management have said that Oceanic Bank has two options for recapitalization: internal and external. Internal options include retained profits, loan recoveries and provisions write-backs. Our latest results show that we made a profit after tax of N8 billion in the first six months of 2010. At that rate, we would need more than 10 years to recapitalize Oceanic Bank. By any stretch of the imagination, that is an unacceptably long time. Let us not forget that we are currently operating under the forbearance of the CBN. If the regulator withdrew that grace, Oceanic Bank would have very big problems to contend with over its future.

While the CBN guarantee is slated to run till June 30, 2011, there is no law that restricts the apex bank from extending it after that date or even terminating it before that date. The prerogative belongs solely to the regulator.

We cannot therefore rely on internal means of recapitalizing the Bank because this option is bound to take too long.



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The external options are capital raisings through the equity (this could be via a rights issue or secondary offering) or bond markets AMCON, and sale of a stake to a strategic investor.

Many shareholders have expressed willingness to increase their equity investments in Oceanic Bank in order to support the recapitalization efforts. However, given the current state of the capital markets, a share price of about N1.54 and the sheer volume of funds required to recapitalize the Bank, it is unlikely that the Bank can be fully capitalized from equity offerings.

The key advantage of a bond issue is a lack of dilution of current shareholdings. Regardless of the attractiveness of this option, especially to existing shareholders, the Bank cannot recapitalize solely through a bond issue. Bonds are not a substitute for equity and do not count as Tier 1 capital. It is also likely to attract speculative investors versus value investors, given the Bank's current situation. Besides, for credible investors to participate in a bond offering, there would have to be a rating, which the Bank is not currently in a position to obtain.

We are all excited about AMCON. However, we need to set realistic expectations. This is hinged on two points: timing and value recoverable.

Although in a CNBC Africa interview on August 16, 2010, the Central Bank Governor, Lamido Sanusi, assured the market that AMCON's takeoff is round the corner (<http://www.youtube.com/watch?v=MsWE2rPWXsM>) the fact is that it is not within the power of Oceanic Bank to determine when it will become operational. AMCON has also not disclosed the exact formula it will use in assessing value and the criteria for assets it is willing to purchase.

On the strategic investor option, there is no doubt that the right partner will inject more than capital into Oceanic Bank, which can only be a benefit for shareholders. As the market is aware, we have undergone a due diligence process with credible parties. However, as with any M&A transaction, differences of opinion on valuation may become a sticky point. We mustn't forget that there is only a small set of parties with the resources, strategic fit and risk appetite that match Oceanic Bank's current situation. When the time comes to make a decision, we may be faced with choosing a bid that may not be the highest we would have hoped for but which delivers guaranteed value to our shareholders.



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August, 2010



However, Oceanic Bank is unique in the sense that a significant amount of our loans are insider-related NPLs for which the status of collateral is at different stages of perfection. Just over N300 billion, or half, of our non-performing loans, are insider-related.



**Q:** In the last few months, Oceanic Bank has reached out to shareholders to intimate them of the Bank's progress and turnaround. Why was this not done earlier? What have been the main points of those meetings? What is the quality of feedback the Bank has received at those meetings?

**OA:** The primary reason why we were unable to hold talks with our shareholders earlier than July was simply because we did not have audited accounts on which to base our report card. We only completed the restatement of our 2008 and audit of our 2009 results in May.

Before then, we could not have met with shareholders in an open forum to discuss the precise state of Oceanic Bank, much as we wanted to.

At any such event, the Q&A session is just as important as what the board has to say. So to be prepared for that, and also to give shareholders the facts to which they can hold us, we needed to have audited accounts. That clarity was critical to avoid an interaction based on conjecture.

After our last meeting, shareholders have reached out to us to express their appreciation of our candour on the state of the Bank. They are also encouraged by the positive results we have released in the first quarter. From their point of view, the major concern is to be carried along in considerations on the future of the Bank. Understandably, shareholders want to be involved in determining the future of their bank and they have every right to. Our board has assured them of that much. When we do get to the point in the recapitalisation process where shareholder review is required, we will table the proposals we receive before them. Oceanic Bank shareholders will not be disenfranchised in this process.

**Q:** The AMCON Bill has been passed into law. Realistically, how much relief does Oceanic Bank expect to receive from the asset management company?

**OA:** Primarily, AMCON will buy collateralized assets. How much relief this will be is yet to be known. However, Oceanic Bank is unique in the sense that a significant amount of our loans are insider-related NPLs for which the status of collateral is at different stages of perfection. Just over N300 billion, or half, of our non-performing loans, are insider-related. We are taking steps to resolve that. Fortunately, the Central Bank governor has suggested that even for loans where the collateral has not been formally pledged, AMCON may still decide to take those assets because it may be easier for the government to engage with those debtors than the lender. Internationally, asset management companies buy loans with collateral.



Two words capture the essence of our earnings in the first six months of the year: steady and sustained.






We are confident that if we can extricate the 'bad loan' aspect, Oceanic Bank is a great institution with very good upsides.



It is also likely that AMCON could be a shareholder beyond its original purchaser-of-bad-loans assignment. It is not ruled out that if AMCON determines that the purchases do not adequately address the equity hole, it may take an equity stake in institutions. This too is an option.

**Q:** What is the outlook for Oceanic Bank for the rest of the year?

**OA:** Two words capture the essence of our earnings in the first six months of the year: steady and sustained. The market can expect more of that. In the immediate term, provision write-backs from loan recoveries will continue to drive our profitability, while we keep costs in check. We expect that the takeoff of AMCON would solve a fair amount of our bad loan problems, while we would have much better visibility on the strategic investor proposal. We are confident that if we can extricate the 'bad loan' aspect, Oceanic Bank is a great institution with very good upsides. 

## About Oceanic Bank

Oceanic Bank International Plc. is one of Nigeria's foremost financial services institutions. The Bank was incorporated on March 26, 1990 under the Companies & Allied Matters Act (1990) of Nigeria as a private limited liability company and was granted a commercial banking license on April 10 1990. Oceanic Bank opened for business on June 12, 1990. On June 4, 2004, the Bank converted to a public liability company and its shares began trading on the Nigerian Stock Exchange on June 25, 2004. Twenty years after it first opened for business, Oceanic Bank serves customers spread across all tiers of government, corporates, small & medium enterprises and individuals. Today, the Bank whose success has been built on providing excellent services in a friendly environment through professional staff leveraging on the right technology, manages assets in excess of N900 billion. With a strong presence in asset management, commercial banking, health management, insurance, investment banking, pensions, registrar services, Savings & Loans and trustee services as well as over 370 business offices spread across Nigeria, Cameroun, the Gambia and São Tomé & Príncipe, Oceanic Bank is one of the most recognized financial services brands in West Africa.



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