PART ONE

ACTIVITIES OF THE CENTRAL BANK OF NIGERIA

CHAPTER ONE

CORPORATE ACTIVITIES OF THE CENTRAL BANK OF NIGERIA

The Bank continued its strategic initiatives with the review of its enterprise mission, vision and value statements, the corporate performance management process, as well as the strategic themes and priorities. It also developed enterprise strategy maps and scorecards for all the directorates. In order to expand banking infrastructure and ensure easy access to banking services nationwide, the development of branch buildings and currency centres in all the state capitals was sustained. Furthermore, to improve its operational efficiency, the two major enterprise applications of the Bank: Temenos T24 and Oracle e-business Suite were upgraded. The interface between the Nigerian Inter-bank Settlements System (NIBSS) and the Bank was enhanced for improved efficiency of data transfers. The Bank and its staff continued to render corporate and social services to organizations and the less privileged in society.

1.1 ADMINISTRATION

1.1.1 Board of Directors and Board Committees

The structure of the Board of Directors of the Central Bank of Nigeria (CBN) remained unchanged. Consequently, the Board comprised the Governor, Sanusi Lamido Sanusi (Chairman); four Deputy Governors, namely: Suleiman A. Barau (Corporate Services), Sarah O. Alade (Economic Policy), Kingsley C. Moghalu (Financial System Stability) and Tunde Lemo (Operations); and six non-executive Directors. The non-executive Directors were Danladi I. Kifasi, (Permanent Secretary, Federal Ministry of Finance) who joined the Board on July 8, 2010 to replace Dr. Ochi C. Achinivu, following his retirement on June 28, 2010, Dahiru Muhammad, Samuel O. Olofin, Joshua O. Omuya and Stephen O. Oronsaye, Ibrahim H. Dankwambo, Accountant-General of the Federation, who resigned his appointment on December 20, 2010 was yet to be replaced.

The Board held six (6) regular meetings in 2010. The Committee of Governors held fifteen (15) regular and three (3) extraordinary meetings, while the Governors' Consultative Committee held two (2) regular meetings. The Committee of Departmental Directors held thirteen (13) regular meetings and six (6) extraordinary meetings, while the Audit and Investment Committees of the Board held five (5) and three (3) meetings, respectively.

1.1.2 The Monetary Policy Committee (MPC)

The MPC held six (6) regular meetings and one (1) extra-ordinary meeting at which major domestic and international economic developments were reviewed and appropriate monetary policy decisions taken. The Monetary Policy Rate (MPR) was reviewed upward once in 2010, in line with the prevailing macroeconomic conditions. The decisions of the Committee were promptly communicated to the public via press briefings by the Governor and a communiqué issued at the end of each meeting.

Table 1.1: List of Monetary Policy Committee (MPC) Members and the Number of Times Members Attended Meetings in 2010

N/S	Name	Number of MPC Meetings Attended
1.	Sanusi Lamido Sanusi	7
2.	Suleiman Barau	6
3.	Sarah O. Alade	7
4.	Kingsley Moghalu	4
5.	Tunde Lemo	6
6.	Sam O. Olofin	7
7.	Ochi O. Achinivu/Danladi Kfasi	5
8.	Adedoyin Salami	7
9.	John Oshilaja	5
10.	Chibuike C. Uche	6
11.	Shehu Yahaya	3
12.	Abdul-Ganiyu Garba	7

Table 1.2: MPC Decisions in 2010

Date	Rate (%)	Decision	
January 4 – 5, 2010 (Communiqué No. 67)	6.00	- CBN to extend guarantee on interbank transactions up till December 31, 2010 with the discretion to terminate the guarantee on a case-by-case basis - Approved the *Monetary Programme and Monetary, Credit, Foreign Trade & Exchange Guidelines* for fiscal years 2010/2011	Corridor +200/-400
March 1 –2, 2010 (Communiqué No. 68)	6.00	- Lowered the Standing Deposit Facility rate by 100 basis points, from 2.0 to 1.0 per cent - Granted liquidity status to state government bonds, subject to their meeting specified eligibility criteria - Approved the use of ₦500 billion quantitative easing facility for investment in debentures issued by the Bank of Industry (BOI)	Corridor +200/-500
April 15, 2010 (Communiqué No. 69)	6.00	- Approved recommendations on the modalities for refinancing/restructuring DMBs' facilities to manufacturers, with ₦1.0 billion as maximum loan size to be refinanced - Directed banks to submit an individual risk-based interest rate pricing model, on a monthly basis - Endorsed complementary policies by the Board of the CBN with respect to revised guidelines for loan loss provisioning, ₦200 billion guarantee for real sector credit and regulations concerning margin lending	Corridor +200/-500
May 10 – 11, 2010 (Communiqué No. 70)	6.00	- Extended to June 30, 2011 the CBN guarantee for all interbank transactions, foreign credit lines to banks, and pension funds' placements	Corridor +200/-500
July 5, 2010 (Communiqué No. 71)	6.00	- Retained MPR at 6.0 per cent	Corridor +200/-500
September 21, 2010 (Communiqué No. 72)	6.25	- Approved the resumption of active Open Market Operations for the purpose of targeted liquidity management - Increased the interest payable on standing deposits with the CBN by 225 basis points, from 1.0 to 3.25 per cent	Corridor +200/-300
November 22-23 (Communiqué No. 73)	6.25	- Adjusted the Standing Lending Facility (SLF) rate to 8.25 per cent, and the Standing Deposit Facility (SDF) rate to 4.25 per cent.	Corridor +/-200

1.1.3 Development of CBN Branch Offices

The CBN sustained the development of branches and currency centres in all the state capitals in order to expand banking infrastructure and ensure easy access to banking services nationwide. The construction of nine (9) new branch buildings at Dutse, Birnin-Kebbi, Lafia, Damaturu, Jalingo, Yenagoa, Abakaliki, Ado-Ekiti and Gusau commenced. The renovation of buildings to serve as currency centres for these locations was completed and operations commenced. In addition, the extensive renovation of the branch buildings in Kaduna, Benin and the Learning Centre in Lagos was completed, while that of Ibadan branch continued. Contracts for the renovation of branch buildings in Sokoto, Ilorin, Jos, Calabar, Abeokuta, Bauchi, Abuja, Minna, Yola and Akure were also awarded. The rebuilding of the Lagos Office Complex project continued. Furthermore, subsisting Total Facilities Management contracts were renewed for those facilities managers with satisfactory performance, while contracts for the maintenance of facilities in the newly opened branches were awarded.

1.1.4 The Computerisation Programme

The deployment of information technology (IT) infrastructure in the Bank continued in an effort to further improve operational efficiency. The two major enterprise applications of the Bank: Temenos T24 Release 5 and Oracle e-Business Suite were upgraded to Release 9 and 11, respectively. In support of the implementation of the Bank's monetary policy, a new Real Time Gross Settlement (RTGS) system was considered. Furthermore, the enhancement of the electronic-Financial Analysis and Surveillance System (e-FASS) to support the risk-based, consolidated and cross-border supervisory framework continued. In addition, the interface between NIBSS and the Bank was strengthened for improved efficiency of data transfer. In order to improve internal and external communication, the e-mail enhancement project commenced. An IT Assessment and Vulnerabilities Test was conducted as part of efforts to get the operations of the Bank's IT certified.

1.1.5 Library Operations

The total volume of books in the Bank's library system, after old titles were weeded out, was 95,236, compared with 93,003 in 2009. Furthermore, the volume of books, journals and periodicals consulted by users increased by 10.0 per cent to 6,990, from 6,355 in 2009. The Library continued to subscribe to electronic journals.

1.1.6 Legal Services

The Bank was involved in a number of activities and projects aimed at strengthening its legal and regulatory framework, as well as enhancing the overall effectiveness of the financial system. These activities included: intensification of efforts for the re-enactment of the BOFI Act; the establishment of the Asset Management Corporation of Nigeria (AMCON); collaboration with stakeholders for the passage of some “Quick-win-Bills” to actualize the Financial System Strategy (FSS) 2020 initiatives; and a review of draft agreements to ensure the effective management and investment of Nigeria's external reserves. Others were the proposed bill for an Act to establish the Banking Sector Resolution Cost Sinking Fund; the prosecution of cases involving the Bank; and the gazetting of the revocation of the licences of microfinance banks. On the prosecution of cases involving the Bank and other parties, out of seventy-two (72) cases decided, sixty-seven (67) were in favour of the Bank, four (4) against and one partly in favour of the Bank.

1.1.7 Security Services

The Bank took measures to enhance and sustain corporate security in its workplace, especially in the areas of asset protection, personnel safety and operational resilience. It upgraded security equipment with the aim of ensuring homogeneity and best practice, and intensified collaborative efforts and synergy with all the security agencies in the country to address security concerns.

1.1.8 Internal Audit

All the twenty-five (25) departments of the Bank and twenty-eight (28) of the thirty-seven (37) branches and currency centres were audited. Fifty (50) spot checks and process-based audit of high-risk activities, as well as critical investigations on the pension scheme, the Entrepreneurial Development Centres and the Nigeria Security Printing and Minting, Plc, were conducted. Also, eighty (80) currency disposal operations requiring audit witnesses were completed. In the absence of any material or significant irregularities or cases of fraud uncovered, a reasonable assurance opinion was expressed by the Banks internal auditors to the effect that no major weaknesses in the overall systems of risk control and governance existed in the Bank.

Box 1: ENTERPRISE RISK MANAGEMENT FRAMEWORK IN THE CBN

Risk Management

Over the years, weak risk management practices and poor corporate governance have been cited among the major causes of bank failures and financial system crises worldwide. The global financial crisis, which started in 2007, not only underscored the importance of risk management, it also brought to the fore the changing risk landscape faced by financial systems and the resultant need for effective enterprise-wide risk management.

In light of the above, the Committee of Governors (COG) of the Central Bank of Nigeria (CBN) approved the establishment of an independent risk management function within the Bank to drive/lead the implementation of an enterprise risk management framework that conforms to international standards, such as the recommendations by the Basel Committee on Banking Supervision and Committee of Sponsoring Organisations (COSO) on Enterprise Risk Management. The Bank took a number of steps to strengthen its risk governance structure to ensure that risk management and internal control activities received adequate attention at Board level. The Bank commenced the development of new Enterprise Risk Management Frameworks that would meet international benchmarks, such as the COSO Enterprise Management Framework and the International Standard Organisation (ISO) 31000.

Risk Governance Structure

The Board of Directors of the Bank is responsible for risk management across the

Bank. The Board has delegated its oversight functions for risk management to the COG and the reconstituted Audit and Risk Management Committee of the Board. The COG is the Executive Management Committee. It is chaired by the Governor, with the four Deputy Governors as members. It has responsibility for the day-to-day management of risk in the Bank and meets regularly to discuss various issues.

The Board Audit and Risk Management Committee meets quarterly and have three Non-Executive Directors, the Accountant General of the Federation and the Deputy Governors in charge of Corporate Services and Operations as its members. The Committee is charged with the following responsibilities:

- To protect the interest of the Bank as a going concern;
- To ensure transparency and accountability across the Bank;
- To examine and evaluate the adequacy and effectiveness of the internal control systems and make recommendations;
- To review the application and effectiveness of risk management procedures and risk assessment methodologies in the Bank's operations;
- To review the accuracy and reliability of the Bank's accounting records and financial statements;
- Evaluate compliance with legal and regulatory requirements and approved policies and procedures; and
- Carry out special investigations, spot checks and other ad-hoc assignments as directed by the Governor.

Risk Policy

It is a policy of the Bank that risk management be embedded within the Bank's critical business activities, functions and processes. The framework for managing risk involves identifying and assessing risk, as well as implementing and reviewing the effectiveness of controls on a regular basis.

Risk Culture

The Management also promotes an active risk management culture that emphasises the careful analysis and mitigation of risk as a vital part of business decisions across the Bank and, by extension, the financial services sector. As a result, risk management within the Bank has been organised to conform to the three lines of defence concept with the aim of ensuring effectiveness and consistency.

The first line of defence is derived from the involvement of the 25 Departments in risk management activities. The second line of defence is the Risk Management

Department with the responsibility for formulating, monitoring and enforcing compliance with the Bank's risk management framework. The third line of defense is provided by the audit functions which provide independent assurance that the risk management arrangements are working effectively.

The Enterprise Risk Management Framework

Prior to March 2010, risk management in the Bank was decentralised and fragmented. The new framework provides an overarching structure for managing risk in order to ensure the application of a consistent and transparent approach to risk management. It clearly defines the roles and responsibilities of key parties in the risk management process, the policies to guide how risks are managed, the tools and processes used, and the reporting outputs that are generated.

The main objective of the Enterprise Risk Management Framework is to ensure that at any given time, the Bank would able to identify, assess, mitigate and manage the risks that it is exposed to, particularly those that may impede its ability to attain its mandate. The framework provides for an end-to-end and front-to-back review of the risks facing the Bank and the financial services sector to ensure that both existing and emerging risks are captured and managed in a consistent manner. The framework provides for both bottom-up and top-down assessments of risks. From the bottom-up dimension, risks are articulated in terms of their potential impact on the achievement of the objectives of the various Departments. From a top-down perspective, risks are articulated in terms of their potential impact on the achievement of the Bank's mandate.

Within the Bank, risk is divided into four high-level categories, although there can be overlap between them:

1. Policy and Reputational Risk: Policy risks, governance issues or external factors which directly impact the Bank's ability to fulfil its mandate.

2. Operational Risk (including IT and Payments System Risk) and Business Continuity: Risks arising as a result of weaknesses in business processes, IT systems, or through staff or third-party actions which have an impact on the delivery of the Bank's key business functions or on its reputation.

3. CBN Financial Risk: Risks to the Bank's capital that may arise through the crystallisation of market, credit or liquidity risks in the Bank's balance sheet.

4. Financial System Risk: Risks that threaten the stability of the Nigeria's financial system.

1.1.9 Strategic Initiatives and Business Process Management

The Bank continued its strategic initiatives with the review of its enterprise mission, vision and value statements, the corporate performance management process, as well as its strategic themes and priorities. It also developed enterprise strategy maps and scorecards for all the directorates: Corporate Services (CS), Economic Policy (EP), Financial System Stability (FSS), Operations and Governors. Furthermore, it aligned budgeting and training processes to strategy, and institutionalized a strategic management system.

The Bank, under its business process management implementation framework, facilitated the restructuring and implementation of 'Project ACE' which resulted in five directorates and twenty five (25) business units. It documented and mapped the business processes of SBUs involved in finance, procurement and support services, human resources, trade and exchange, banking and payments system, strategy and performance, regulatory and supervisory, as well as branch processes. Others were: the review of existing internal policies to improve the efficiency and effectiveness of business processes and the proposed creation of Currency Processing Support Office.

As part of efforts to institutionalise the sharing of knowledge, the Bank validated its Knowledge Management (KM) strategy document. In addition, it commenced the process of developing a corporate taxonomy and continued with the migration of the *Enterprise Programme Management* (EPM) solution to the Bank's domain. In order to facilitate the attainment of its mandates, the Bank signed a *Memorandum of Understanding* (MoU) with the National Bureau of Statistics (NBS) to ensure the availability of timely, accurate and reliable data. It also continued its collaboration with the Nigerian Postal Services (NIPOST) to enhance the effective implementation of the microfinance policy of the Federal Government. Other alliances involved the SERVICOM Integrated charter for the Bank that requires the ratification of the SERVICOM office.

1.1.10 Communications

The Bank sustained its efforts at improving transparency in the conduct of monetary policy, through regular interaction with stakeholders and the general public. The Management of the Bank routinely briefed the Presidency, the National Assembly, the Federal Executive Council and the National Economic Council on the performance of the economy. In addition, it held discussions with other regulators in the financial sector and provided advice to state governments on the management of the economy. A 'Seminar for Finance Correspondents and Business Editors' was held in Benin, Edo State, from July 28 to 30, 2010 with the theme, "The Blueprint for Banking Reforms in Nigeria: Issues, Challenges and Prospects". The seminar was to foster learning and strengthen the capacity of media practitioners to appropriately report the Bank's policies, programmes, and contemporary financial and economic issues.

1.1.10.1 Anti-Corruption and Ethical Issues

The Bank collaborated effectively with the anti-corruption agencies and other stakeholders, including the Economic and Financial Crimes Commission (EFCC), the Independent Corrupt Practices and Other Related Offences Commission (ICPC), and the Nigeria Postal Services (NIPOST), as well as deposit money banks, in preventing corrupt practices and apprehending fraudsters. It received and processed 9,765 e-mails on various financial crimes, particularly advance fee fraud, and duly reported identified issues to the law enforcement agencies. The Bank organised retreats for counsellors and change champions to review the draft *Code of Business Ethics and Compliance* (COBEC) document. It also conducted awareness programmes for SBUs on the new ethical framework and continued the publication of its "Transparency" journal. This whistle-blowing facility was activated during the review period, with increasing usage by CBN staff. The Bank hosted the United Nations Sanctions Monitoring Team, participated in the 'Anti-corruption Day' activities under the aegis of the Inter- Agency Task Team and the preparation of the draft National Strategy to Combat Corruption.

1.1.11 Staff

The Bank recruited six hundred and ninety-eight (698) personnel, comprised of two (2) executive, five hundred and twenty-nine (529) senior, one hundred and sixty-two (162) junior, and five (5) contract staff. The Bank, however, lost the services of twenty-three (23) staff through death, thirty-seven (37) through voluntary retirement, sixty-one (61) through mandatory retirement, and one (1) through resignation. Furthermore, four (4) staff had their appointments terminated and ten (10) were dismissed. Also, one (1) staff was compulsorily retired, two (2) withdrew their service and the tenure of one (1) contract staff expired. The staff strength at end-December, 2010 stood at 5,568, compared with 5,010 in the previous year. As part of the incentives to boost morale and enhance performance, the Bank promoted seven hundred and fifty-seven (757) members of staff, of which two hundred and sixty-eight (268) were executive, three hundred and eighty-seven (387) senior, and one hundred and two (102) junior staff. The Bank also honoured a total of eight hundred and thirty-two (832) staff with various Long Service Awards. A total of one hundred and twenty-eight (128) employees were upgraded/converted to various grades, consisting of one (1) executive, ninety-three (93) senior and thirty-four (34) junior, while fifty-six (56) appointments were confirmed, comprising of three (3) executive, thirteen (13) senior and forty (40) junior staff.

1.1.12 Medical Services

In order to sustain a healthy workforce, the CBN undertook various medical interventions. A total of seventy-six thousand, seven hundred and fifty-three (76,753) cases involving staff and their dependants were attended to at the staff clinics. Three thousand, nine hundred and seventy-six (3,976) members of staff were treated at the head office sick bay. In addition, twelve thousand, five hundred and forty-four (12,544) cases were referred to the standby hospitals, while one hundred and five (105) staff and their dependants were sent on overseas medical treatment. Six thousand, two hundred and twenty-six (6,226) adults were vaccinated against cerebro-spinal meningitis and cervical cancer. Other interventions included the successful immunisation of one thousand and twenty- five (1,025) babies against the major childhood diseases. A 'Healthy Lifestyle Seminar' was organized for all staff, while pre-employment medical screening was carried out on eight hundred and six (806) newly recruited staff. Also, medical screening for the "at risk" was carried out on staff working in "hazardous areas", such as Treasury and Currency Offices, Drivers, etc. Inspection and certification were carried out in standby hospitals with a view to improving the quality of medical services offered to staff and their registered dependants. Furthermore, the Bank sponsored medical screening for four hundred and eighty-eight (488) executives. Overall, a significant cure rate was achieved for staff, resulting in an improved employee health status.

1.1.13 Training

Efforts at capacity building, through staff development and skills enhancement, were intensified. As a result, the Bank sponsored staff training programmes, including workshops, conferences, seminars and courses, within and outside Nigeria. Staff benefited from six thousand and seventeen (6,017) training slots involving one thousand, four hundred and ten (1,410) executive, three thousand nine hundred and twenty-one (3,921) senior, and six hundred and eighty-six (686) junior. The training programs covered emerging issues and general management.

1.1.14 Recreational Activities

The CBN sponsored various sporting competitions to sustain the development of sporting activities in Nigeria. These included lawn tennis, golf and football. The fourth edition of the CBN Junior Tennis Championship took place at the Lagos Lawn Tennis Court, from

February 22 to 28, 2010. In addition, the 32nd edition of the CBN Senior Open Tennis Championship was held at the National Stadium, Lagos from May 27 to June 5, 2010. The Union Bank Football Club won the final of the All Financial Institutions Football Competition played at the Aper Aku Stadium, Markudi, Benue State on November 27, 2010. The final of the 31st edition of the Governor's Cup Football Competition for all CBN branches was played at the Sani Abacha Stadium, Kano on October 16, 2010, won by the Sokoto Branch. The Bank also sponsored the fourth edition of the CBN Governor's Golf Cup Tournament, which took place at the IBB International Golf and Country Club, Abuja from November 19 to 21, 2010. In addition, the workplace gymnasium at the Bank's Corporate Head Office continued to be patronised by staff.

1.1.15 Corporate Social Responsibility

The CBN continued to perform its corporate social responsibility function by promoting the acquisition of relevant knowledge, through the provision of financial and other forms of assistance to organizations and activity groups for the hosting of conferences, seminars, workshops, etc, which were of strategic national interest.

1.1.16 Staff Social Responsibility

Staff of the CBN sustained their support for the less privileged in society through regular contributions to the Alms Collection Scheme. The contribution for 2010 stood at N13.8 million.

1.2 RESEARCH AND COLLABORATIVE ACTIVITIES

The CBN conducted research, in line with its core mandates/functions, and disseminated information on key research issues relating to the management of the economy. The CBN was also involved in a number of empirical studies which culminated in published works, notable among which were the following *"Inflation Forecasting Model in Nigeria"*, *"Estimating a Small Scale Macroeconometric Model (SSMM) for Nigeria: A Dynamic Stochastic General Equilibrium (DSGE) Approach"*, *"Is the Phillips Curve Useful for Monetary Policy in Nigeria?"*, *"Monetary Policy Transmission Mechanism in Nigeria"* and *"Towards a Sustainable Microfinance Development in Nigeria"*.

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The regular publications of the CBN in 2010 included: *the 2009 Annual Report*; the *2010 Half-Year Economic Report*, *the CBN Economic and Financial Review, Statistical Bulletin* and *the Bullion*. The Bank also introduced the *Financial Stability Report* and the *Monetary Policy Review*. Furthermore, seminar papers on topical issues were presented, some of which were published in the *CBN Economic and Financial Review*. Other papers at various stages of being published included the following: *"The Asymmetric Effects of Oil Price*

Shocks on Output and Prices in Nigeria, using a Structural Vector Autoregressive (SVAR) Model"; "Stock Market Developments Indicators and Economic Growth In Nigeria (19902009): Empirical Investigations"; "The Quantity Theory of Money: Evidence from Nigeria"; "External Reserve Accumulation and the Adequacy Level for Nigeria"; "Investment Climate Reform in Nigeria: Challenges and Prospects"; "Capital Flows and Financial Crises: Policy Issues and Challenges in Nigeria"; and "An Examination of the Relationship Between Government Revenue and Government Expenditure in Nigeria: A Cointegration and Causality Approach". The public educational series on "*Inflation*" was also published.

The Bank organized the 18th Annual Executive Seminar with the theme, "Banking Sector Reforms and Real Sector Development in Nigeria". An infrastructure finance conference was held at the Sheraton Hotel, Abuja on December 6 to 7, 2010. The Bank continued to collaborate with the National Bureau of Statistics (NBS) to generate a series of economic indicators, through the conduct of the *2009 National Economic Survey*.

During the year, four visiting scholars, engaged under the Diaspora/Visiting Scholar Programme initiated by the Bank, concluded their work. Following these efforts, the scholars presented papers on the following issues: "The Nigeria's Sovereign Bond Yield Curve: Its Features, Relevance and Monetary Policy Applications", "Monetary Policy Transmission Mechanism and Nigeria's Real Economy", "Macroeconomic Modeling for Monetary Policy analysis in Nigeria", and "Transition to Full-Fledged Inflation Targeting (FFIT): A Proposed Programme of Implementation by the CBN". In recognition of the existence of a pool of experts in various disciplines in the CBN, the Bank received and honoured requests for the delivery of lectures from various institutions, including sub-regional and regional organizations, such as the West African Institute for Financial and Economic Management (WAIFEM) and the African Economic Research Consortium (AERC). Staff papers were also presented at international and local professional conferences and workshops, including those of the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI), the Joint Partnership for Africa, the Nigerian Economic Society (NES), the Nigerian Statistical Association (NSA), and the Farm Management Association of Nigeria (FAMAN).

Box 2: MILESTONE IN MODEL BUILDING AT THE CBN

For the Bank to effectively deliver on its mandates and improve on its policy formulation and analysis, the need for adequate and up-to-date knowledge of the workings and linkages in the economy becomes critical. With this in view, the Management of the Bank, in April, 2008, inaugurated an inter-agency team to build a macroeconometric model that would be capable of informing decision-making at the Monetary Policy Committee (MPC) meetings. The team comprised representatives of the Central Bank of Nigeria (CBN), the African Institute of Applied Economics (AIAE), the Centre for Econometric and Allied Research (CEAR), and the Nigerian Institute of Social and Economic Research (NISER). This multi-institutional approach was intended to harvest ideas from the technical knowledge of the institutions involved, and ensure the robustness of the model, as well as its continuity and sustenance.

In order to achieve this milestone, in 2008, the team set off to build a macroeconometric model of the Nigerian economy, taking into consideration its peculiarities. The model was medium-sized and designed for policy analysis (simulation and policy scenarios). It comprised 20 behavioural equations and 16 identities, and was divided into six blocks, with particular emphasis on the monetary sector. The behavioural equations were specified according to economic theory and estimated within the eclectic macroeconomic framework, using recent econometric techniques. The linkages of the blocks were identified and the model was solved simultaneously to incorporate the linkages. The complete model was then simulated over the historical period and standard evaluation tests were performed. A single-equation analysis indicated that the behavioural equations were well specified and the forecasting performance was good. The results of the dynamic simulation indicated that the simulated data reproduced most of the turning points of the actual time series and showed that the economic variables behaved according to a priori expectations. The model was being managed by the Research Department of the Bank.

Several seminars were organized to harvest expert opinions on the model from within and outside the Bank. In addition, a number of presentations were made to the Management of the Bank and stakeholders. Furthermore, in order to make the model meet international standards and best practice, the team undertook study tours to the central banks of selected developing countries with similar economic structures and significant experiences in modelling to benefit from their technical expertise. The interactions, views and comments garnered during the presentations and study tours served as invaluable inputs for the revision of the model. In addition, the study tour revealed that the CBN needed a suite of models to effectively aid its policy-making operations. While some models are best suited for simulations and policy scenarios, others have excellent forecasting performance. Indeed, no single model can handle the complexities involved in carrying out the different roles and responsibilities of the CBN.

Thus, the CBN commenced preliminary work on building a complementary structural model known as the Dynamic Stochastic General Equilibrium (DSGE). The model, when operationalised, would enable the Bank to have sufficient information for determining, among others, its monetary policy rate, the output gap, the exchange rate pass-through to price, the sacrifice ratio, and the inflation threshold.

1.3 THE CBN BALANCE SHEET

1.3.1 Income and Appropriation

The audited financial statements of the CBN for the year ended 31st December, 2010 indicated that total income was ₦562.2 billion, a decline of 26.1 per cent from the level in 2009. The decline in income largely reflected the fall in interest income, specifically from realized gains on foreign currency. Operating cost increased by 16.3 per cent in 2010, thus, bringing the operating surplus before provisions to ₦46.5 billion, compared with ₦43.9 billion in 2009.

In accordance with the provisions of Part II, Section 5 (3) of the CBN Act, 2007 (as amended), the sum of ₦34.9 billion was due to the Federal Government, while the balance accrued to general reserve.

1.3.2 Assets and Liabilities

The size of CBN's balance sheet decreased in 2010 as total assets/liabilities declined by 15.6 per cent to ₦6.7 trillion. The assets position reflected the decrease in external reserves (-20.0 per cent) and loans and advances (-17.4 per cent), which more than offset the growth of 9.2, 2.4, 30.8 and 21.0 per cent in Holdings of Special Drawing Rights, other assets, fixed assets, and investments, respectively. The decline in total assets was compensated for on the liability side by the fall in deposits (-18.5 per cent), IMF allocation of Special Drawing Rights (-1.1 per cent), and other financial liabilities (-22.7 per cent). However, Central Bank of Nigeria Instruments increased by 108.4 per cent and, notes and coins in circulation by 16.4 per cent over end-December 2009. The paid-up capital of the Bank remained at ₦5.0 billion, while the general reserve fund increased by 16.2 per cent to ₦83.5 billion.

CHAPTER TWO

MONETARY POLICY, SURVEILLANCE ACTIVITIES AND OPERATIONS OF THE CBN

Monetary management in 2010 was conducted within the framework of monetary targeting. The major instrument of monetary policy remained open market operations (OMO), complemented by the discount window operations and foreign exchange market interventions. Reflecting largely internal conditions and developments in the external sector, the growth of the key monetary aggregate at end-December 2010 was substantially lower than the indicative benchmark and the level attained at the end of the preceding year, despite the huge fiscal injections and other measures taken to ease credit squeeze. In line with the liquidity conditions in the economy, the Monetary Policy Rate (MPR) was reviewed upward only once towards the end of the year; and interest rates were generally lower than in the preceding year. The yields on fixed income securities across various maturities were also lower than in 2009.The implementation of risk-based supervision continued, while the Assets Management Corporation of Nigeria (AMCON), which commenced operations during the year, bought off some non-performing loans of the banks in order to ensure stability in the banking sector.

The Wholesale Dutch Auction System (WDAS) was sustained in the foreign exchange market, while the naira exchange rate remained generally stable in 2010. The payments and settlement landscape improved with increased numbers of ATMs and Points of Sale (POS) terminals. Furthermore, the CBN continued its 'clean naira note' policy and outsourced the maintenance of currency processing machines to equipment manufacturers, for greater efficiency and cost effectiveness. The Bank sustained its developmental functions through the Agricultural Credit Guarantee Scheme Fund (ACGSF) and infrastructural financing, among other programmes.

2.1 MONETARY OPERATIONS

2.1.1 Monetary and Credit Developments

Monetary growth was sluggish in 2010, despite the monetary easing policy maintained by the Bank. The stance of monetary policy was to inject liquidity into the economy and restore confidence in the Nigerian financial system. The measures taken included the continuation of guarantees on inter-bank transactions and towards the end of the year,

Monetary growth was slow in 2010, despite the monetary easing policy of the bank. The stance of monetary policy was to inject liquidity into the economy and restore confidence in the Nigerian financial system.

the purchase of non-performing loans from the DMBs by AMCON. The growth of the key monetary aggregate at end-December 2010 was below the indicative benchmark for fiscal 2010 and the growth rate attained at the end of the preceding year. Broad money (M_2) grew by 6.7 per cent, compared with 17.5 per cent at end-December 2009 and the indicative benchmark of 29.3 per cent for fiscal 2010. The rather slow growth in money stock was driven by the increase in domestic credit (net) and other assets (net) of the banking system. Narrow money (M_1) grew by 10.6 per cent at end-December 2010, compared with the growth of 3.0 per cent at the end of the preceding year. Aggregate bank credit to the domestic economy (net) grew by 13.4 per cent, compared with the growth of 59.6 per cent at end-December 2009. The development was attributed, largely, to the 64.2 per cent growth in net credit to the Federal Government. Claims on the private sector, however, declined by 4.1 per cent, in contrast to the growth of 26.6 per cent recorded at end-December 2009.

Base money, the Bank's operating target for monetary policy, which stood at ₦1,803.9 billion, grew by 9.1 per cent, but was lower than the indicative benchmark for the year by 25.9 percentage points.

Table 2.1: Key Policy Targets and Outcomes, 2006-2010 (per cent)

	2006		2007		2008		2009 1/		2010 2/	
	Target	Outcome	Target	Outcome	Target	Outcome	Target	Outcome	Target	Outcome
Growth in base money	7.5	27.8	3.3	22.6	20.8	58.9	3.6	6.7	**35.0**	**9.1**
Growth in broad money (M_2)	27.0	43.1	24.1	44.2	45.0	57.8	20.8	17.5	**29.3**	**6.7**
Growth in narrow money (M_1)	n.a.	32.2	-	36.6	-	55.9	32.2	3.0	**22.4**	**10.6**
Growth in aggregate bank credit	-72.3	-69.1	-29.9	276.4	66.0	84.2	87.0	59.6	**51.4**	**13.4**
Growth in bank credit to private sector	30.0	32.1	30.0	90.8	54.7	59.4	45.0	26.6	**31.5**	**-4.1**
Inflation rate	9.0	8.5	9.0	6.6	9.0	15.1	9.0	13.9	**11.2**	**11.8**
Growth in real GDP	**7.0**	**6.0**	**10.0**	**6.5**	**7.5**	**6.0**	**5.0**	**7.0**	**6.1**	**7.9**

1/ Revised
2/ Provisional

Table 2.2: WAMZ Convergence Criteria, 2006 - 2010

	Target	Achievement				
		2006	2007	2008	2009	2010
Inflation rate	Single digit	8.5	6.6	**15.1**	**13.9**	**11.8**
Ways & Means Advances	< 10.0 per cent of retained revenue of the Government	Nil	Nil	**Nil**	**Nil**	**Nil**
Deficit to GDP Ratio	≤ 4.0 per cent	0.6	0.5	**0.2**	**3.3**	**3.7**
Gross Official Reserve	≥3 Months of import cover	22.9	21.6	**15.9**	**16.6**	**7.2**

Overall, Nigeria met WAMZ convergence criteria, except for the rate of inflation, despite the impact of the uncertainties surrounding the global economic recovery.

Measures taken were also to ensure financial system stability and a steady flow of credit to the real economy in a sound and stable financial system.

2.1.2 Liquidity Management

Monetary policy in 2010, as in the preceding year, was conducted against the background of the lingering effects of a liquidity crunch in the domestic economy, arising from the global financial and economic crises of 2007/2008 and internal problems in some deposit money banks in Nigeria. Liquidity management was, therefore, geared towards improving the liquidity and efficiency of the financial market, without compromising the primary objective of monetary and price stability. The Bank made use of open market operations (OMO), complemented by macro prudential cash and liquidity ratios, standing facilities, tenored repurchased transactions, sale of treasury instruments at the primary segment of the market, and foreign exchange market interventions.

Liquidity management was geared towards improving the liquidity and efficiency of the financial market, without compromising the objective of monetary and price stability.

The monetary easing policy that commenced in late 2009, which was aimed at improving banking system liquidity, ensuring financial system stability, and a steady flow of credit to the real sector of the economy continued. To that end, a number of measures were taken by the Monetary Policy Committee (MPC) including: the extension of guarantee on inter-bank transactions from March 2010 to December 2010, and further to June 2011, and a reduction of the Standing Deposit Facility (SDF) rate from 2.0 to 1.0 per cent. Others were: the approval of a ₦500.00 billion intervention fund (the ₦200.00 billion for refinancing and restructuring of DMBs' facilities to manufacturing enterprises; the ₦300.00 billion for Power and Aviation sectors) and commencement of the operations of the Asset Management Corporation of Nigeria (AMCON) in November 2010. By December 2010, AMCON had purchased toxic assets of 21 banks worth ₦1,036.3 billion, at the price of ₦770.6 billion, in order to strengthen the balance sheets of the banks and facilitate their ability to extend credit to the domestic economy. Other policy measures included the retention of the Cash Reserve and Liquidity ratio at 1.0 per cent and 25.0 per cent, respectively, throughout the year. The Monetary Policy Rate (MPR) was also retained at 6.00 per cent until September 21, 2010 when it was raised by 25 basis points to 6.25 per cent, and the asymmetric corridor was adjusted to 200 basis points above the MPR for the Standing Lending Facility (SLF), and 300 basis points below the MPR for the Standing Deposit Facility (SDF). The domestic money market instruments were supplemented by foreign exchange market interventions at both the wholesale Dutch Auction System (WDAS) and the inter-bank markets. The licences of all existing Class 'A' BDCs were revoked, with effect from November 8, 2010. The measure was designed to prevent money laundering and curtail speculative activities in the foreign exchange market.

The monetary policy measures implemented in 2010 substantially improved liquidity conditions in the banking system, thereby ameliorating, to a large extent, the challenge of the credit crunch in the banking system. The sustenance of banking reforms, unrestricted access to the discount window, and the guarantee of inter-bank transactions increased the level of confidence in the banking system. However, despite the improvement in banking system liquidity, the under-performance of reserve money and monetary aggregates persisted, as reflected by the lower-than-optimal benchmark levels in reserve money, broad money supply (M_2) and private credit. Reserve money, which stood at ₦1,803.91 billion in December 2010, was about ₦420.53 billion, or 25.9 percentage points below the indicative benchmark of ₦2,232.44 billion for the year. This contrasted with the reserve money figure of ₦1,653.86 billion in December 2009, which was about ₦49.06 billion or 3.1 percentage points above the indicative benchmark of ₦1,604.8 billion for the year. The inter-bank rates remained relatively stable in early 2010, but fluctuated thereafter.

2.1.3 Interest Rate Policy and Developments

Developments in interest rates reflected the credit and liquidity conditions in the banking system. Interest rates in all segments of the market were generally lower than their levels in 2009. However, with the upward review of the MPR from 6.00 per cent to 6.25 per cent, after the September Monetary Policy Committee (MPC) meeting, rates in all segments of the market increased. The huge liquidity injections, through the fiscal operations of government, however, moderated the increase in rates.

Interest rates in all segments of the market were generally lower than their levels in 2009.

2.1.3.1 Money Market Rates

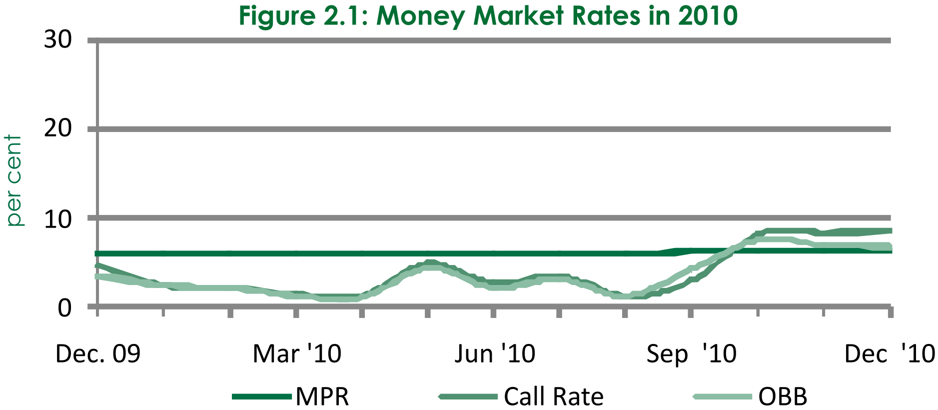
As a result of the inter-bank guarantees, rates in all segments of the money market were low during most of 2010. The weighted average inter-bank call rate and open-buy-back (OBB) rate fell from their respective levels of 4.68 and 3.62 per cent in December, 2009 to

1.50 and 1.28 per cent, respectively, in March, 2010 and 2.73 and 1.80 per cent, respectively, in June, 2010. The rates stood at 2.71 and 1.92 per cent, respectively, in September, 2010. With the upward review of the MPR in September, 2010, however, the weighted average inter-bank call rate and open-buy-back rate trended upwards in the last quarter of the year, rising to 8.03 and 6.93 per cent, respectively, in December, 2010. The weighted average inter-bank call rate and OBB rate were 4.02 and 3.42 per cent, respectively, in 2010, compared with 11.86 and 6.76 per cent, respectively, in 2009. The Nigerian Inter-bank Offered Rate (NIBOR) for 7-day and 30-day tenors, averaged 5.38 and 8.13 per cent, respectively, in 2010, from 13.80 and 16.40 per cent, respectively, in 2009.

Table 2.3: Money Market Rates (per cent)
WEIGHTED AVERAGE

Month	MPR	Call Rate	OBB	NIBOR 7-days	NIBOR 30-days
Dec-09	6.00	4.68	3.62	7.62	13.18
Jan-10	6.00	2.61	2.59	6.39	12.42
Feb-10	6.00	2.27	2.20	5.11	10.60
Mar-10	6.00	1.50	1.28	2.79	5.74
Apr-10	6.00	1.27	1.24	2.46	5.10
May-10	6.00	4.94	4.39	6.16	8.03
Jun-10	6.00	2.73	1.80	3.35	5.71
Jul-10	6.00	3.59	2.98	4.45	6.57
Aug-10	6.00	1.26	1.20	2.05	4.66
Sep-10	6.00	2.71	1.92	3.81	5.48
Oct-10	6.25	8.50	7.48	9.67	11.10
Nov-10	6.25	8.79	7.19	9.13	11.67
Dec-10	6.25	8.03	6.93	9.31	11.50
Average 2010	6.06	4.02	3.42	5.38	8.13
Average 2009	7.44	11.86	6.76	13.80	16.40

Figure 2.1: Money Market Rates in 2010



2.1.3.2 Deposit Rates

Available data showed that, in general, DMBs' deposit and lending rates fell in 2010. The average savings deposit rate fell slightly by 0.8 percentage point to 2.2 per cent. Similarly, other rates on deposits of various maturities fell to a range of 2.47 6.93 per cent, from a range of 6.73 13.40 per cent in 2009. The average term deposit rate fell by 6.45 percentage points to 5.60 per cent. The lower rates reflected the liquidity condition in the banking system.

2.1.3.3 Lending Rates

The weighted average prime and maximum lending rates fell by 1.03 and 0.29 percentage points to 17.59 and 22.51 per cent, respectively, in 2010.

Figure 2.2 Savings and Lending Rates (Prime and Maximum)

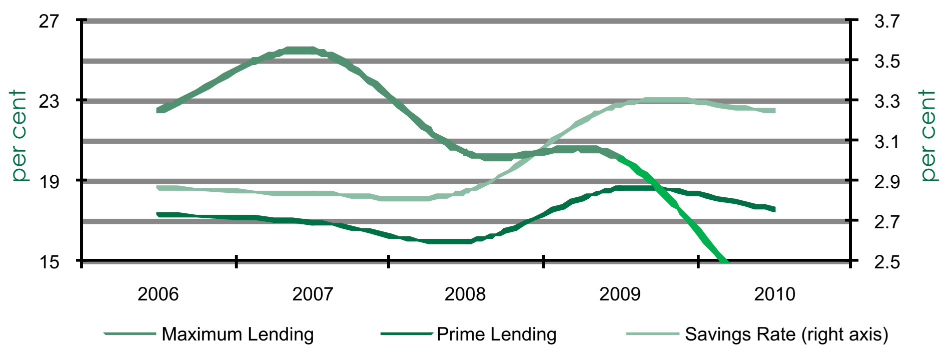
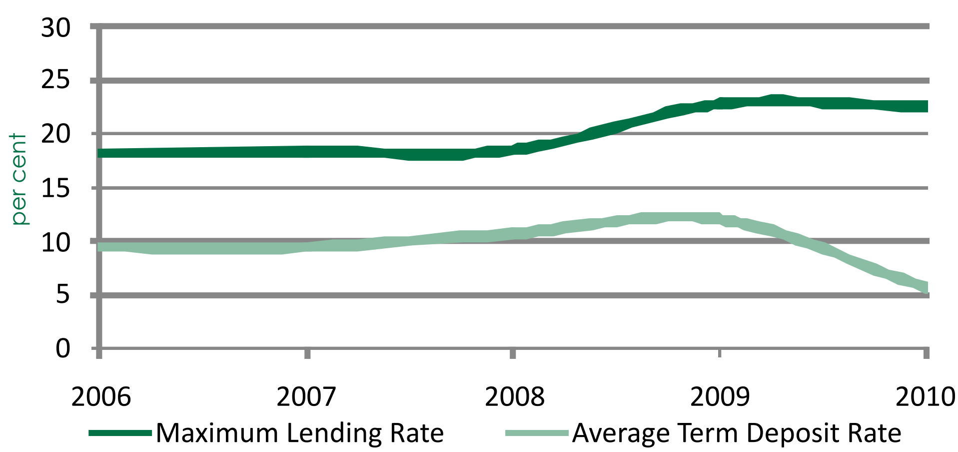


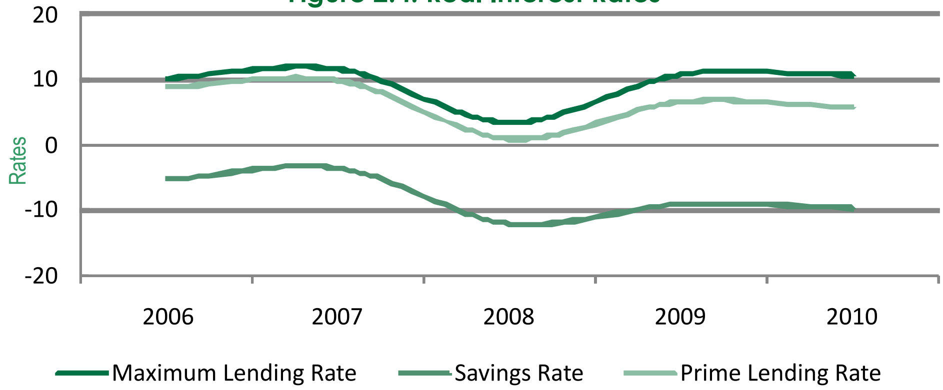
Figure 2.3: Spread Between the Average Deposit and Maximum Lending Rates



With the year-on-year inflation rate at 11.8 per cent in December 2010, most deposit rates were negative in real terms, while lending rates were positive in real terms. The spread between the average term deposits and maximum lending rates widened to 16.91, from 10.74 percentage points in 2009.

The spread between the average term deposits and maximum lending rates widened to 16.9 percentage points, from 10.7 percentage points in 2009.

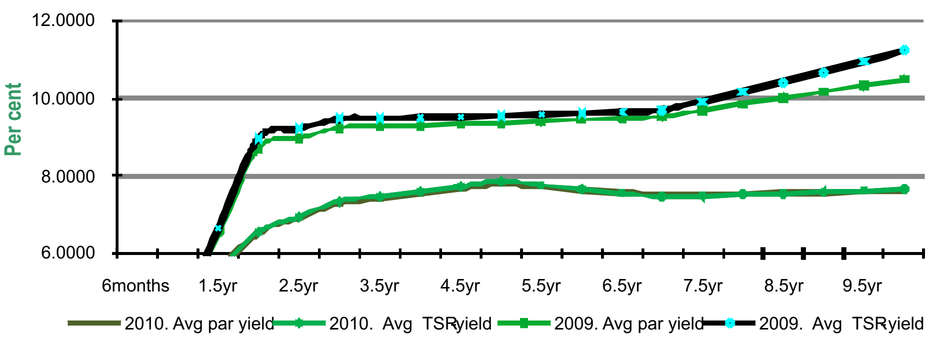
Figure 2.4: Real Interest Rates



2.1.3.4 Return on Fixed Income Securities - The Yield Curve

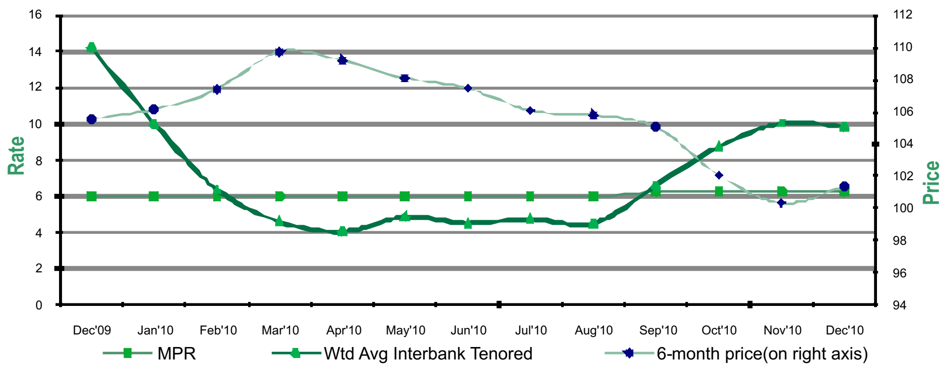
Analysis of the return on fixed income securities showed that the average yield was generally lower in 2010 than in the preceding year. The par yield curve and the theoretical spot rate curve (TSR-curve), as in the preceding year, remained upward-sloping in the short and long end of the curve. The mid-segment of the curve was near flat, indicating investors' indifference to tenors (maturity periods). The slope of the yield curve was lower in 2010 than in 2009, as the yield spread (the difference between the longest and shortest maturities) stood at 5.5 percentage points, compared with 7.2 percentage points recorded in the preceding year.

Figure 2.5 Government Bonds and Average Yield



A plot of the price of the 6-month maturity and weighted average inter-bank tenored rate showed that the bond price and interest rates typically moved in opposite directions.

Figure 2.6 Interest Rate & Price of 6-month Maturity



2.1.4 Payments, Clearing and Settlement Developments

The implementation of Payments System Vision 2020a subset of the Financial System Strategy 2020 (FSS 2020) was sustained in 2010. Within the period, the Bank took the following measures:

- Introduced N10 million as the maximum cap for cheque payment by the banks in January 2010, thereby increasing the patronage of electronic payments in Nigeria;

- Directed banks to migrate all their cards, with effect from October 1, 2010, from magnetic stripe technology to chip+PIN, otherwise known as EMV, due to the weaknesses of the former;

- Directed banks to set up effective help desks for handling card-related complaints; the CBN equally set up a help desk for receiving public complaints on card transactions with a view to fast-tracking resolutions and monitoring compliance with the 72-hour timeline;

- Directed all banks and private switches to connect with the National Central Switch on or before December 2010 to address the issue of interconnectivity of different networks;

- Approved sixteen mobile payments schemes to launch mobile payments services in Nigeria under Bank-led, Bank-focused and Non-bank-led models;

- Established a Payments System Policy and Oversight Office for effective monitoring of existing and planned payments systems in the year under review;

- Issued the Standards and Guidelines on ATM Operations in Nigeria by the COG in April 2010 to guide the conduct of ATM operations in Nigeria. The guidelines covered issues on liability shifts in the event of fraud on ATM transactions and is expected to restore public confidence on the use of ATM's.

- Advised banks to remove their ATMs from public places effective April 1, 2010, following the appointment of three (3) ATM Consortia, effective April 1, 2009 for the deployment of ATM's in places other than bank premises; and

- Issued circulars to cover the following:
    - The introduction of a second-level authentication for cards not presented for payment;
    - Real-time online monitoring tools for PIN entry attempts;
    - Automatic blocking of a card after three unsuccessful PIN attempts;
    - Imposition of a limit for card-to-card transfers, POS and web payments;
    - Need for banks to segregate the process of PIN handling and card activation;
    - Proper due diligence on all merchants before POS is given to them; and
    - Enlightenment campaign on the protection of PIN/card details for cardholders.

Furthermore, the Bank:

- Approved the Direct Debit Rule to facilitate widespread use of electronic consumer bills payments methods;

- Drafted a guideline on electronic payment of taxes in Nigeria which is undergoing approval processes;

- Developed guidelines for electronic payment of salaries for both private and public employers with not less than 50 staff in their employment;

- Completed the guidelines on securities settlement in Nigeria covering procedures and timelines for settlement of all the Exchange-traded securities (equities and bonds), government securities (NTB and bonds), OTC equities and commodities and the integration work between the Central Securities Clearing System (CSCS) and CBN T24 system;

- Approved guidelines on transaction switching and stored value/prepaid cards; and

- Reviewed the Nigeria Bankers Clearing House Rule in compliance with the West Africa Monetary Zone (WAMZ) standards and approved the Nigeria Uniform Bank Account Number (NUBAN).

2.2 CURRENCY OPERATIONS

2.2.1 Issue of Legal Tender

In satisfying the currency needs of the economy in 2010, the Bank, through the Nigerian Security Printing and Minting (NSPM) Plc, printed 2.8 billion pieces of bank notes. To augment the supply from the NSPM Plc, 900 million pieces of ₦500 and ₦1000 denomination banknotes were also ordered from overseas suppliers. In addition, 600 million pieces of ₦50 commemorative polymer banknotes were printed as part of the contributions of the Bank to Nigeria's 50th independence anniversary. The CBN's 'clean notes' policy was sustained in 2010 through the processing of dirty notes, the withdrawal of unfit/soiled banknotes and issuance of clean and fit notes. To that end, currency notes valued at ₦1,871.45 billion were issued by the Bank for circulation during the review period, compared with the ₦1,592.02 billion issued in the preceding year. Furthermore, the Bank approved outsourcing the maintenance of currency processing machines in order to improve efficiency. The Bank also granted approval-in-principle to two cash-in-transit service providers as sorting companies in November 2010 in order to enhance efficiency in currency processing.

The CBN's clean notes policy was sustained in 2010 through processing of dirty notes, the withdrawal of unfit/soiled banknotes and issuance of mint and fit notes.

2.2.2 Currency in Circulation (CIC)

Currency-in-circulation grew by 16.4 per cent to ₦1,378.2 billion at end-December 2010. The growth in CIC was attributable to the developments in economic activity and the positive impact of various government initiatives to cushion the effects of the global economic meltdown, as well as seasonal factors.

The President of the Federal Republic of Nigeria launched the commemorative ₦50 polymer banknote and the non-circulating gold and gold-plated silver coins on September 29, 2010 to mark the country's 50th independence anniversary.

Figure 2.7: Ratio of Currency in Circulation to M_2

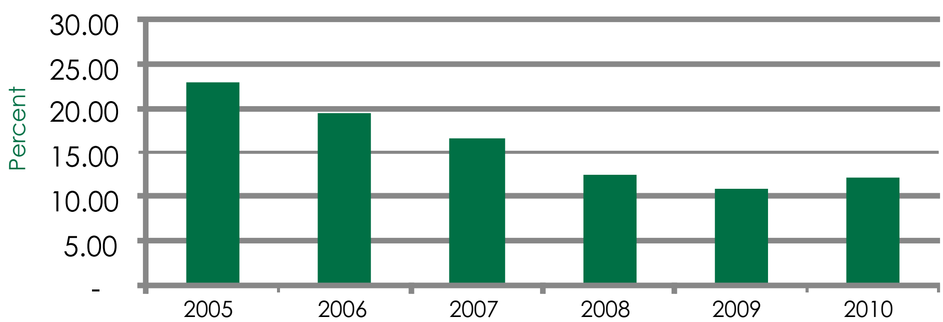


Table 2.4: Currency Structure 2007 - 2010

Coins	2007		2008		2009		2010	
	Volume (million)	Value (₦ billion)	Volume (million)	Value (₦ billion)	Volume (million)	Value (₦ billion)	Volume (million)	Value (₦ billion)
₦2	81.9	0.16	104.5	0.21	114.5	228.90	107.83	0.22
₦ 1	615.4	0.62	532.2	0.53	490.6	490.65	530.11	0.53
50k	738.3	0.37	463.1	0.23	454.5	227.26	434.48	0.22
25k	19.0	0.01	240.6	0.06	212.0	53.00	196.53	0.049
10k	2.2	0.0002	235.1	0.02	228.3	228.82	212.82	0.021
1k	0.0	0.0	51.2	0.0005	57.4	0.57	48.74	0.0048
Sub Total	**1,456.8**	**1.15**	**1,629.7**	**1.06**	**1,557.3**	**1,023.20**	**1,530.51**	**1.04**
Notes								
₦1000	264.4	264.40	572.9	572.91	584.4	584.39	663.76	663.70
₦500	707.2	353.60	801.9	400.93	852.8	426.40	1,027.78	513.89
₦200	1,256.0	251.30	571.6	114.32	491.9	98.38	501.27	100.25
₦100	494.9	49.50	323.6	32.36	350.0	35.00	341.12	34.11
₦50	351.3	17.60	228.0	11.40	344.9	17.25	782.27	39.11
₦20	823.0	16.50	827.3	16.55	769.5	15.39	752.65	15.10
₦10	355.9	3.60	283.2	2.83	285.5	2.85	680.61	6.81
₦5	579.0	2.90	533.1	2.67	720.5	3.60	837.93	4.19
Sub-Total	**4,831.7**	**959.40**	**4,141.6**	**1,153.97**	**4,399.5**	**1,183.27**	**5,587.39**	**1,377.16**
Total	**6,288.5**	**960.55**	**5,768.3**	**1,155.03**	**5,956.8**	**1,184.30**	**7,117.90**	**1,378.20**

2.3 FOREIGN EXCHANGE MANAGEMENT

The Wholesale Dutch Auction System (WDAS) was sustained as the mechanism for exchange rate management throughout 2010. A policy shift to phase out the two-tier structure of class "A" and "B" Bureaux-De-Change (BDCs) introduced in February 2009 resulted in the withdrawal of 132 Class "A" licences in November 2010. They were, however, eligible to apply for conversion to Class "B" BDCs provided the stipulated licensing requirements were met. The policy change was due to gross abuse of the enhanced official funding of the Class "A" BDC window. The withdrawal was also part of the measures taken to curb excessive demand in the foreign exchange market. In the last quarter of 2010, a new policy was introduced to recognize the Chinese Yuan (RMB) as a currency of transaction in the Nigerian foreign exchange market.

The inflow and outflow of foreign exchange through the economy amounted to US$88.15 billion and US$39.16 billion, respectively, representing an increase of 30.1 and 7.2 per cent over the levels in 2009.

2.3.1 Foreign Exchange Flows

Aggregate foreign exchange inflow and outflow through the economy stood at US$88.15 billion and

US$39.16 billion, representing an increase of 30.1 and 7.2 per cent, respectively, over the levels in 2009. The net flow through the economy increased by 56.8 per cent over the level in 2009 to $48.99 billion, while the net flow through the CBN recorded a deficit of US$10.1 billion, although it improved by 6.3 per cent compared with the previous year.

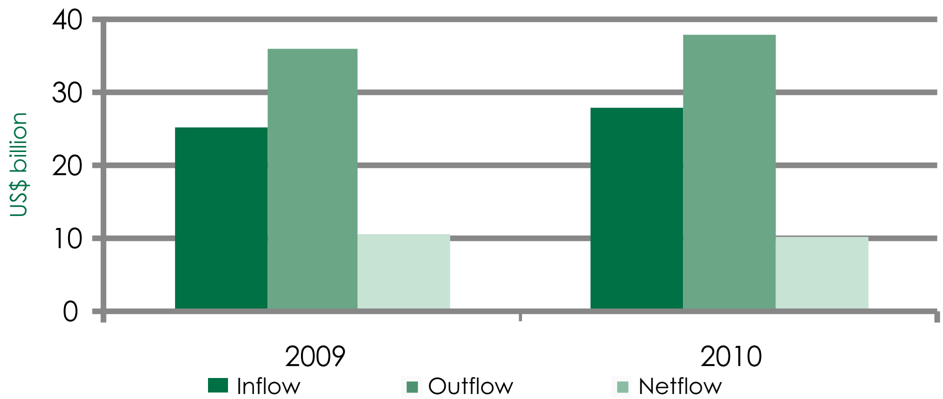
Analysis of aggregate inflow showed that receipts through the CBN increased by 11.2 per cent over the level in 2009 to US$27.8 billion. Further analysis showed that oil receipts through the Bank increased by 50.7 per cent over the level in 2009 to US$26.2 billion, and accounted for 94.0 per cent, compared with 69.5 per cent of the total in 2009. The development was attributed to an increase in the price of crude oil at the international market. In contrast, non-oil inflow (comprised WDAS purchases, interest income on reserves and investments, and other official receipts) fell by 78.0 per cent, to US$1.7 billion.

The development was due largely to the increase in the price of crude oil at the international market.

The inflow through autonomous sources rose by 41.2 per cent above the level in 2009 to US$60.3 billion. Of this, receipts from non-oil exports, capital inflow and invisibles (inflow to domiciliary accounts and foreign exchange sales by oil companies) increased by 12.3, 27.1 and 42.6 per cent over the level in 2009, to US$2.2 billion, US$0.06 billion and US$58.0 billion, respectively.

The outflow through the CBN increased by 6.0 per cent to US$37.9 billion. Outflow through the Bank comprised WDAS utilization, drawings on letters of credit, external debt service, national priority projects and other official payments.

Figure 2.8: Foreign Exchange Flows through the CBN



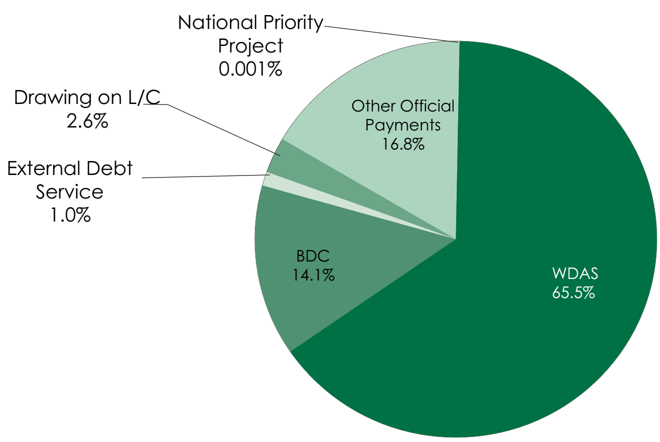
WDAS utilization increased by 1.3 per cent to US$30.17 billion. Sales to WDAS and BDCs increased by 10.5 and 13.6 per cent to US$24.8 billion and US$5.34 billion, respectively.

Outflow through drawings on letters of credit and external debt service fell by 2.9 and 4.2 per cent below the levels in 2009 to US$0.97 billion and US$0.39 billion, respectively. The sum of US$0.02 billion was paid to finance national priority projects that commenced in 2010.

Other official payments increased by 38.6 per cent over the level in 2009 to US$6.37 billion. Within this sub-category, out-payments to international organizations and embassies, and NNPC/JV Cash Calls, increased by 11.4 and 26.5 per cent to US$0.55 billion and US$3.88 billion, respectively. In addition, contributions and grants (ESAF-HIPC) amounted to US$0.47 billion; parastatals and estacode dropped by 10.4 per cent to US$0.88 billion, while miscellaneous increased from US$0.06 billion to US$0.59 billion.

Outflow through autonomous sources increased by 88.6 per cent to US$1.24 billion. Of this amount, imports of merchandise accounted for US$1.23 billion, while invisibles fell from US$0.017 billion to US$0.01 billion in the year under review.

Fig. 2.9: Foreign Exchange Disbursements in 2010



2.3.2 Developments in the Foreign Exchange Market

The foreign exchange market in 2010 recorded ninety-six (96) trading sessions, compared with one hundred and twenty-two sessions (122) in the previous year. Total demand at the market declined by 18.0 per cent to US$35.06 billion as a result of the closure of the class "A" BDC window in the last quarter of the year.

Aggregate supply to the market increased by 9.6 per cent to US$30.17 billion, accounted for by sales to WDAS and BDC segments of the market which increased by 8.9 and 12.7 per cent to US$24.83 billion and US$5.34 billion, respectively.

Figure 2.10: Developments in the Foreign Exchange Market

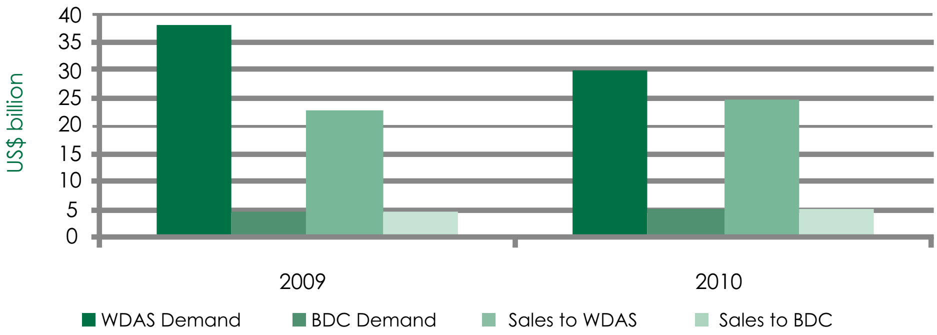


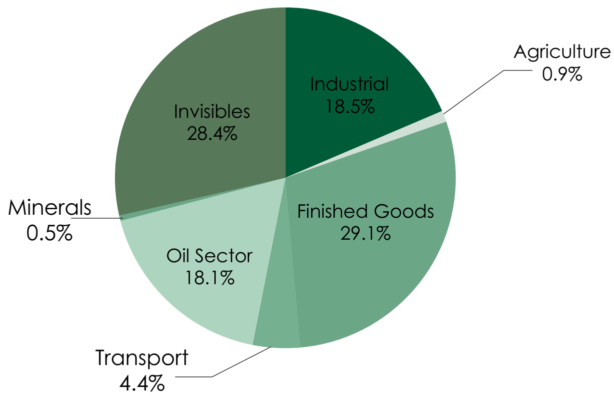
Figure 2.11: Demand for and Supply of Foreign Exchange

2.3.3 Sectoral Utilization of Foreign Exchange

Provisional data showed that the utilization of foreign exchange by the DMBs for transactions through the CBN (valid for foreign exchange) increased by 2.9 per cent over the level in 2009 to US$33.91 billion. Analysis by category showed that visible import (goods) increased by 0.8 per cent to US$24.25 billion in 2010 and accounted for 71.6 per cent of total. Under this category, industrial and transport sectors' imports declined by 15.4 and 4.9 per cent to US$6.23 billion and US$1.50 billion, respectively. Importation of other manufactured products also declined by 12.6 per cent to US$5.37 billion. However, imports under oil, the agriculture sector, food products, and minerals increased by 23.3, 15.8, 27.4 and 16.7 per cent to US$6.12 billion, US$0.32 billion, US$4.47 billion and US$0.18 billion, respectively, in 2010.

The import of invisibles (services) at US$9.66 billion, or 28.4 per cent of total, increased by 8.8 per cent over the level in the preceding year. Under this category, financial, construction, and transport services increased by 13.4, 204.9 and 10.3 per cent to US$6.69 billion, US$0.13 billion and US$0.79 billion, respectively. The import of business, communications and educational services, however, declined by 6.4, 17.2 and 16.4 per cent to US$1.4 billion, US$0.29 billion and US$0.16 billion, respectively.

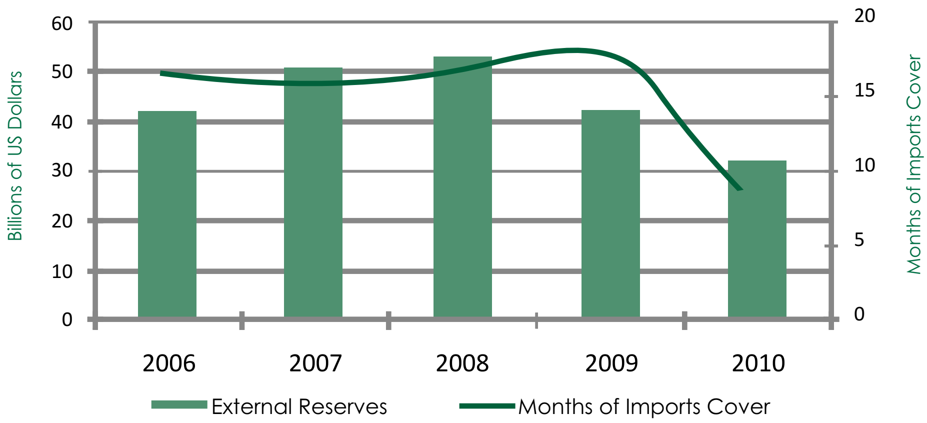
Figure 2.12: Sectoral Utilization of Foreign Exchange in 2010



2.3.4 External Reserves Management

Nigeria's gross external reserves at end-December 2010 stood at US$32.34 billion, a decline of 23.7 per cent when compared with the level at end-December 2009. The development arose from increased funding of WDAS and BDCs; official payments, drawings on L/Cs, national priority projects and the notional changes in the value of third currencies.

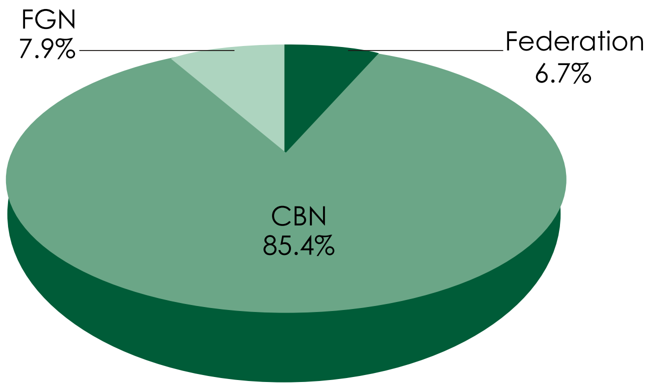
Figure 2.13: Nigeria's Gross External Reserves Position (US$billion) and Months of Import Cover



At this level, the external reserves could support 7.2 months of imports, compared with 16.6 months in 2009.

The composition of external reserves holdings showed that Federation reserves accounted for US$2.17 billion, or 6.7 per cent of total; Federal Government reserves stood at US$2.56 billion or 7.9 per cent; and CBN reserves accounted for US$27.61 billion, or 85.4 per cent of the total.

Figure 2.14: Holdings of External Reserves as at end-December 2010



The total earnings from the investment of the external reserves amounted to US$0.43 billion, 10.4 per cent lower than the level in 2009. The development resulted from low interest rates and lax monetary policy across the globe, which were meant to boost recovery from the recent global economic crisis. The Bank's Investment Committee approved the appointment of Messrs Russels Investment Limited of the United Kingdom to serve as consultant on external reserves management. Their mandate would cover a comprehensive review of the external reserves portfolio to improve returns and overall performance.

2.4 SURVEILLANCE REPORT ON THE ACTIVITIES OF FINANCIAL INSTITUTIONS

2.4.1 Banking Supervision

The effects of the global financial crisis, which lingered in 2010, posed enormous challenges to the operations and performance of banks. Consequently, the CBN adopted various approaches in its supervisory and surveillance activities, including regular appraisal and review of banks' periodic returns, spot checks, monitoring, special investigations and risk-based/consolidated supervision. To further improve the efficiency of supervision, the Bank embarked on the

To further improve the efficiency of supervision, the Bank embarked on the development of a supervisory framework aimed at providing an early warning signal to supervisors about the condition of banks and development of a supervisory framework aimed at providing an early warning signal to supervisors about the condition of banks for prompt corrective actions. The pilot examination on two deposit money banks under the risk-based/consolidated supervision framework, which commenced in December 2009, was completed in February 2010. The exercise led to a more effective assessment of banks' risk profile.

The CBN Credit Risk Management System (CRMS) infrastructure recorded remarkable improvements in the management of basic credit information on customers during the period under review. The database as at December 31, 2010 had a total of 73,189 registered borrowers. Out of this, 26,367 borrowers had 32,557 facilities with total outstanding balance of ₦5.24 trillion. This represents an increase of ₦1.34 trillion or 34.4 per cent compared with ₦3.9 trillion to 63,451 borrowers at the end of the preceding year. The development was attributed largely to increased co-operation among stakeholders in the industry.

Table 2.5: Borrowers from the Banking Sector

Description	2009	2010	Absolute Change	% Change
Total No. of Borrowers	63,451	73,189	14,967	15.3
No. of Borrowers with outstanding credits	21,542	26,367	4,825	22.4
No. of Credits/facilities	26,599	32,557	5,958	22.4
Total outstanding balance (₦'000 bn)	**3,900**	**5,240**	**25,790**	**34.4**

Derived from the Bank's CRMS

Following the directive of the Federal Government of Nigeria on the mandatory adoption of the International Financial Reporting Standards (IFRS) by January 1, 2012, the CBN, in conjunction with the NDIC, in October 2010, set up a committee to review the earlier approved IFRS Implementation Framework. In that regard, a circular was issued to the DMBs on December 29, 2010, requesting them to submit their approved action plans for the implementation of IFRS to the CBN, not later than end-March 2011. The Bank also strengthened its collaborative efforts with other stakeholders, under the aegis of the Roadmap Committee of Stakeholders on the Adoption of IFRS in Nigeria, the main goal of which was to ensure a phased transition to IFRS over a three-year period, beginning with the 2012 reporting date for all listed companies and major public entities. All banks were to commence full IFRS reporting in 2012. The adoption of IFRS would facilitate the implementation of Basel II requirements by banks in Nigeria.

In order to ensure a more comprehensive supervision and surveillance of the banking sector, the CBN signed additional Memoranda of Understanding (MoU's) for cooperation and information sharing in cross-border supervision with regulators in other jurisdictions. The Bank, thus, signed an MoU with five countries under the aegis of the West African Monetary

In order to ensure a more comprehensive supervision and surveillance of the banking sector, the CBN signed additional Memoranda of Understanding (MoUs) for cooperation and information-sharing in cross-border supervision with regulators in other jurisdictions.

Zone (WAMZ), bringing the total number of MoUs on cooperation and information-sharing to eight. Discussions were ongoing with twelve (12) other countries (individually) and the Banking Commission of the West African Monetary Union on the signing of additional Memoranda of Understanding. Also, work on the draft framework for cross-border supervision of Nigerian banks reached an advanced stage during the year and would be concluded in 2011. At end-December 2010, twelve (12) Nigerian banks had representative offices, subsidiaries and/or branches in twenty-seven (27) other countries, while four (4) foreign banks were operating in Nigeria.

The CBN promoted the establishment of the College of Supervisors of West African Monetary Zone (CSWAMZ) and hosted its inaugural meeting in August 2010. The College was established to promote greater cooperation between supervisors in the West African sub-region; reduce regulatory duplication; improve information-sharing; and promote common understanding of the risk profile of large banking groups, among others.

The Bank, in partnership with other foreign regulatory agencies, resolved a number of cross-border issues, including divestment of some Nigerian banks' investments in The Gambia; a dispute between Nigerian-owned banks in Sierra Leone and their local staff; and the closure of the representative offices of Nigerian banks and the fair treatment of local staff in China.

Following the review and comments on the exposure draft of the Framework for the Regulation and Supervision of Institutions Offering Non-Interest Financial Services in Nigeria, earlier issued in 2009, the document was finalised and issued for implementation in December 2010. Consequently, two documents, the Guidelines on Shariah Governance for Non-Interest Financial Institutions in Nigeria, and the Non-Interest Window and Branch Operations of Conventional Banks and Other Financial Institutions were also issued. In addition, the CBN became a member of the International Islamic Liquidity Management Corporation (IILMC) and subscribed US$5.0 million to five (5) units of the Corporation's share capital. Also, the Bank participated in meetings organized by the Islamic Financial Services Board (IFB), including its Council Meeting as well as meetings of the council's working groups on stress testing and liquidity risk management. In addition, capacity building initiatives aimed at enhancing examiners' understanding of non-interest banking were carried out at both the local and international levels.

The Bank issued a number of circulars/guidelines to the DMBs, as part of its efforts to promote a safe and sound financial system.

Table 2.6: Circulars and Guidelines to DMBs in 2010

- Regulation on the Scope of Banking Activities and Ancillary Matters, No. 3, 2010
- Circulars on the Review of the Universal Banking Model
- CBN Scope, Conditions and Minimum Standards for Merchant Banks Regulations No. 02
- CBN Scope, Conditions and Minimum Standards for Commercial Banks Regulations
- Review of Guidelines for Specialised Institutions
- Prudential Guidelines for Deposit Money Banks
- Re: Monthly Submission of Credit Portfolio Classification by Banks
- The Need for Banks to Develop and Implement a Risk-Based Pricing Model
- Data Exchange Agreements with at least two Licensed Credit Bureaux in Nigeria
- Disbursement of the proceeds of Foreign Funds Transfer
- Minimum Information to be Disclosed in Financial Statements for the Year Ended December 31, 2009,
- Re: Publication of Interest Rates

BOX 3: THE NEW BANKING MODEL IN NIGERIA

As part of ongoing reform in the Nigerian banking sector, the Central Bank of Nigeria reviewed the universal banking model, which encouraged banks to act as financial supermarkets. The new banking model re-introduced the categorisation of banks into commercial, merchant and specialized banks (non-interest banks, microfinance banks, development banks and mortgage banks). Generally, the model was designed to ensure the evolution of a financial landscape that would be capable of providing the platform for sustainable economic growth and development.

The classification of banks under the new banking model included:

Commercial Banks:

- Commercial banks to be licensed under different categories namely, regional, national and international;
- Minimum capital requirements:
    - Regional - ₦10.0 billion
    - National - ₦25 .0 billion
    - International - ₦50 .0 billion

- Regional banks are entitled to carry on banking business within a minimum of 6 and a maximum of 12 contiguous states lying within not more than 2 geo-political zones of the Federation and the Federal Capital Territory;
- National banks are authorised to carry on banking business in every state of the Federation;
- International banks are allowed to carry on banking operations in all states of the Federation as well as establish offshore subsidiaries;

Merchant Banks:
- Merchant banks require a minimum capital of ₦15.0 billion and are restricted to investment and wholesale banking.

Specialised Banks:
- Non-interest banks are authorised to carry on banking business on a regional or national basis;
- Minimum capital of specialised banks:
  - Regional non-interest banks - ₦5.0 billion
  - National non-interest banks - ₦10 .0 billion
  - Primary mortgage institutions - ₦5.0 billion.

2.4.2 Prudential Examinations

Available data revealed that all the twenty-four (24) banks met the minimum prescribed liquidity ratio (LR) of 25.0 per cent at end-December 2010, as against three (3) that failed to meet the prescribed minimum ratio at end-December 2009. However, eight (8) banks failed to meet the statutory minimum Capital Adequacy Ratio (CAR) of 10.0 per cent at end-December 2010, compared with eleven (11) at end-December, 2009. The banks involved were the ones in which the CBN intervened following the findings of the joint special examination conducted by the CBN and the NDIC in 2009.

All the 24 DMBs met the minimum prescribed liquidity ratio of 25.0 per cent at end-December 2010, as against three (3) that failed to meet the prescribed minimum ratio at end-December 2009.

Prudential examination conducted on eight hundred and twenty (820) MFBs that had operated for a minimum of six (6) months revealed that two hundred and ninety-one (291) met the prescribed minimum shareholders' fund of ₦20.0 million, six hundred and thirty-four (634) met the prescribed minimum liquidity ratio of 20.0 per cent, while five hundred and thirty-eight (538) satisfied the required minimum capital adequacy ratio (CAR) of 10.0 per cent. Consequently, the examined MFBs were rated sound, marginal, unsound, technically insolvent, or terminally distressed, using the CAMEL rating, depending on the severity of non-compliance with the prescribed minimum prudential ratios. Some of the major regulatory concerns included: poor corporate governance, a high level of non-performing loans, undercapitalization, significant investment in the capital market, and operating losses sustained as a result of high expenditure on staff cost and overheads. The erring institutions were appropriately sanctioned, ranging from revocation of licences to reclassification of operations.

2.4.3 Compliance with the Provisions of the Code of Corporate Governance for Banks in Nigeria

Following the outcome of the special examination carried out on the DMBs in 2009, which revealed severe weak corporate governance in some banks, the CBN reviewed the existing code of corporate governance for banks, including the limitation of the tenure of managing directors of banks to a maximum of ten years. In compliance with the directive, UBA Plc, Zenith Bank Plc and Skye Bank Plc replaced their managing directors in July 2010. Also, the Governor and Deputy Governors of the CBN, and the Managing Director and Executive Directors of the NDIC shall not be eligible for appointment in any bank until after the expiration of five (5) years from the date of their exit. In addition, the Departmental Directors of the two institutions shall not be eligible for appointment in any bank until after three (3) years from the date of their exit.

2.4.4 Financial Crime Surveillance/Money Laundering

In order to ensure that financial institutions comply with CBN's Anti-Money Laundering/Combating Financing of Terrorism (AML/CFT) regulation, the CBN created a unit solely responsible for handling AML/CFT issues. The unit also interfaces with the Nigerian Financial Intelligence Unit (NFIU) and other stakeholders at both domestic and international levels on AML/CFT issues, as well as ensuring the coordination of enforcement of the regulation among the relevant departments of the Bank. In that regard, the CBN and the NFIU carried out a joint AML/CFT examination/inspection of the twenty-four (24) DMBs during the review year. The exercise revealed violations of various provisions of the Money Laundering (Prohibition) Act (MLPA) of 2004 and the AML/CFT Regulation 2009. A total of seventeen (17), out of the twenty-four (24) DMBs, were fined to the tune of ₦85.0 million for various infractions. In addition, the CBN coordinated the verification of two hundred and twenty-four (224) account balances owned by one hundred and thirty-nine (139) suspected illegal fund managers ("wonder banks") nationwide.

Also, the International Monetary Fund's approval of Technical Assistance (TA) to Nigeria in 2010 further strengthened the level of international cooperation and partnership between the Fund and Nigeria in the area of money laundering and terrorism financing. On completion, the TA would be expected to further enhance the capacity of targeted institutions, including the NFIU, the SEC, NAICOM, the CBN's Special Control Unit Against

Money Laundering and Terrorism Financing, as well as address some systemic weaknesses.

Furthermore, the CBN, in conjunction with the NFIU and the United Nations Office of Drugs and Crime (UNODC), coordinated a public awareness/sensitisation campaign of the general public to highlight the need to update customer information on various bank accounts (individual and corporate). The aim of the update exercise was to enhance the vital customer identification process and deepen the implementation of the AML/CFT regime. Also, the CBN conducted a training programme for directors of banks and discount houses to enhance their awareness and commitment to the implementation of the AML/CFT programmes in their various institutions.

2.4.5 The Special/Target Examination

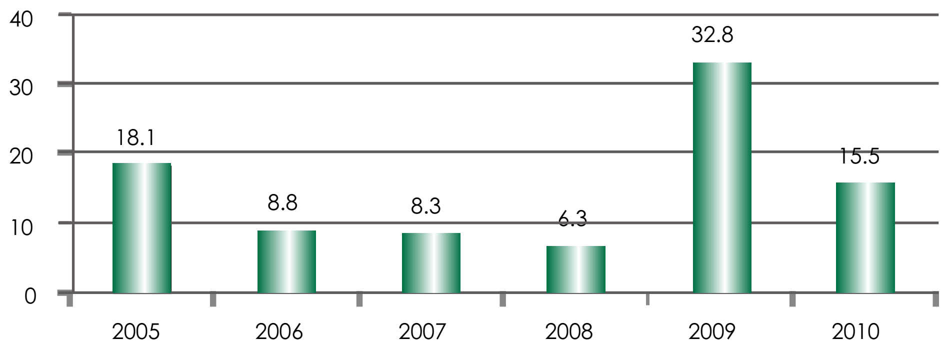
The exercise was aimed at reviewing the quality of risk assets of the banks in line with the prudential guidelines and applying the recommended provisions.

The CBN, in conjunction with the NDIC, conducted target examination on the twenty-four (24) DMBs in 2010. The exercise was aimed at reviewing the quality of risk assets of the banks, in line with the prudential guidelines, and applying the recommended provisions for the appraisal/approval of the annual accounts of the banks for the year ended December 31, 2009.

2.4.6 Banking Sector Soundness

The computed average CAR of the banks indicated that sixteen (16) met the stipulated minimum ratio of 10.0 per cent, compared with thirteen (13) at end-December 2009. The asset quality of the banks, as measured by the ratio of non-performing loans to industry total, improved substantially as it declined from 32.8 per cent at end-December 2009 to 15.5 per cent at end-December 2010. The ratio was below the industry threshold of 20.0 per cent maximum prescribed in the Contingency Plan for Systemic Distress. The development was attributed to the acquisition of non-performing loans in the industry by the newly established Asset Management Corporation of Nigeria (AMCON). The average industry liquidity ratio stood at 47.5 per cent and was above the 25.0 per cent minimum requirement. All the banks met the stipulated ratio, compared with twenty-one (21) in the preceding year. The development indicated that the overall health of the industry had improved.

Figure 2.15: Banks' Non-Performing Loans (% Total Credit)



BOX 4: THE ASSET MANAGEMENT CORPORATION OF NIGERIA (AMCON)

The incidence of high non-performing loans in the industry, as well as the erosion of capital in some banks, informed the need to set up the Asset Management Corporation of Nigeria (AMCON) which would relieve banks of the burden of toxic assets. Specifically, AMCON was designed as a multipurpose resolution/recapitalisation vehicle that is empowered to purchase toxic assets from banks, as well as inject needed capital through the issuance of appropriate securities. For the troubled banks in which the CBN had intervened, AMCON is expected to facilitate mergers, acquisitions or capital injections by new investors. AMCON was therefore established in the second half of 2010 by an act of parliament with a ₦10.0 billion capital, fully subscribed to by the Federal Government, and held in trust by the CBN and the Federal Ministry of Finance in equal proportions.

AMCON was created for:

- Acquiring non-performing loans (NPLs) from banks;
- Injecting needed funds to recapitalise the intervened banks;
- Stimulating the recovery of the financial system by providing liquidity;
- Facilitating M&A transactions and strategic partnerships;
- Attracting institutional investors into the intervened banks; and
- Increasing access to restructuring/refinancing opportunities for distressed borrowers.

Its activities would be funded largely by bonds guaranteed by the Federal Government. The twenty-four (24) DMBs (participating Banks) and the CBN are to provide a total of ₦1.50 trillion, over the next ten years as a Banking Sector Resolution Cost Sinking Fund to augment any shortfall between the funds raised through the realization of bank assets acquired by AMCON and the resolution costs of ensuring financial stability. To achieve this, the CBN pledged to contribute ₦50.0 billion annually over the next ten (10) years to the Fund, while each of the participating banks would contribute an amount equivalent to 30 basis points (0.3 per cent) of its total assets as at the date of its audited financial statement for the immediately preceding financial year over the next ten (10) years.

The bases of valuation of the NPLs, as announced by AMCON, were:

- Loans secured by shares would be valued at 60.0 per cent premium over the 60-day moving average prices of the shares, as at November 15, 2010;
- Other secured loans of the banks were to be acquired, with recourse, at the banks' valuation; and
- Unsecured loans would be valued at 5.0 per cent of the principal value.

Since its commencement of operations, AMCON has acquired non-performing loans from 21 DMBs, valued at ₦2.165 trillion at end-December 2010. In return, it issued 3-year zero coupon bonds, valued at ₦1.036 trillion.

2.4.7 Examination of Other Financial Institutions

On-site examination was conducted on one thousand and sixty-eight (1,068) other financial institutions (OFIs). The exercise included the target examination of eight hundred and twenty (820) microfinance banks (MFBs) and routine examinations of one hundred (100) primary mortgage institutions (PMIs), seventy-four (74) finance companies (FCs), and five (5) development finance institutions (DFIs). Spot checks were also carried out on sixty-nine (69) bureaux-de-change (BDCs).

Target examination was conducted by the CBN/NDIC on eight hundred and twenty (820) MFBs that had operated for a minimum of six (6) months. An assessment of the health of the affected MFBs, using CAMEL parameters, indicated that two hundred and twenty-four (224) were technically insolvent and terminally distressed and, therefore, had their licences revoked by the CBN. Of this number, one hundred and twenty-one (121) were later granted provisional licences, following the injection of fresh capital and the recovery of bad loans. Others rated either 'marginal' or 'unsound' were required to inject additional capital and liquid assets to shore up their prudential ratios to the acceptable limits, within six (6) and three (3) months, respectively. The observed weak financial performance of the MFBs was attributed to a number of factors, including a high level of non-performing loans, gross under-capitalization relative to the levels of operations, poor corporate governance, heavy investments in the capital market, poor asset-liability management (asset mismatch), high overheads, and weak management.

On-site examination conducted on one hundred (100) PMIs confirmed that seventy-six (76) PMIs were active, seven (7) were undergoing restructuring, while seventeen (17) had closed shop. The exercise further revealed that sixty-eight (68) PMIs met the prescribed minimum adjusted capital of N100.0 million; forty-five (45) met the prescribed minimum liquidity ratio of 20.0 per cent; while forty-nine (49) met the prescribed minimum capital adequacy ratio of 10.0 per cent. The major regulatory issues of concern included, lack of focus demonstrated by the relatively low level of investment in the core area of mortgage assets creation, dearth of long-term funds, weak capitalization, poor corporate governance, and weak risk management. The erring institutions were sanctioned according to severity of their non-compliance with the prescribed minimum prudential ratios.

Routine examinations conducted on seventy-four (74) FCs indicated that fifty (50) were active, while the remaining twenty-four (24) were undergoing restructuring. The exercise further revealed that thirty-eight (38) FCs had adjusted capital above the prescribed minimum of ₦20.0 million. Sixty (60.0) per cent of the active institutions were more into capital market activities, while six (6) were active players in the leasing business.

Routine examinations were carried out on the five (5) DFIs, namely, the Bank of Agriculture (BOA), the Federal Mortgage Bank of Nigeria (FMBN), the Bank of Industry (BOI), the Nigerian Export-Import Bank (NEXIM) and the Urban Development Bank of Nigeria (UDBN). The exercise showed that, following the restructuring programme embarked upon since 2007, the dominance of government in the shareholding structure of the UDBN had been reversed. The UDBN had become a private entity and Messrs Investment and Credit Holdings Limited (ICHL) had emerged as the dominant shareholder. However, it was noted that the desired re-focus of the institution's business model on infrastructure financing was yet to be achieved. The examination of BOA, BOI, the FMBN and NEXIM revealed, among other things, a continued high level of deterioration in asset quality, under-capitalization, dearth of funding sources, and continued undue influence by the supervising ministries.

Spot checks conducted on sixty-nine (69) Class “A” BDCs revealed that most of the institutions breached their operational guidelines, particularly in the areas of utilization of foreign exchange for ineligible transactions or without records of transactions, non-compliance with documentation requirements and suspected document forgery. The withdrawal of the operating licences of the one hundred and thirty-two Class “A” BDCs, effective November 8, 2010, was the fallout from these observed infractions.

2.5 DEVELOPMENTAL FUNCTIONS OF THE CBN

2.5.1 The Agricultural Credit Guarantee Scheme Fund (ACGSF)

The CBN guaranteed a total of 50,849 loans, valued ₦7.74 billion in 2010, bringing the cumulative loans guaranteed from the inception of the scheme in 1978 to 698,200, valued ₦42.15 billion.

Analysis of loans guaranteed by states showed that Katsina state had the highest volume with 7,375 loans (14.5 per cent), valued at ₦0.81 billion (10.5 per cent), followed by Kebbi state with 5,512 loans (10.8 per cent), valued at ₦0.36 billion (4.7 per cent). Sokoto State came third with 3,623 loans (8.4 per cent) valued at ₦0.29 billion (3.7 per cent) of the total. A breakdown of the guaranteed loans by bank showed that eleven DMBs granted 42,171 loans valued at ₦6.98 billion, while the microfinance banks that participated in the Scheme granted 8,678 loans, valued at ₦0.76 billion. A sub-sectoral analysis of the loans guaranteed indicated that food crops got the highest volume of 41,451 loans, valued at ₦5.42 billion, followed by livestock with 3,544 loans valued at ₦1.31 billion, and fisheries with 1,426 loans, valued at ₦0.46 billion. Cash crops had 507 loans, valued at ₦0.09 billion, while mixed farming and 'others' had 189 and 3,732 loans, valued at ₦0.06 billion and ₦0.40 billion, respectively.

The volume and value of recovered loans in 2010 stood at 50,119 loans, valued at ₦5.85 billion, thus bringing the cumulative volume and value of fully repaid loans since the inception of the Scheme to 492,845 and ₦24.05 billion, respectively. Analysis of repaid loans on state basis showed that Katsina state had the highest volume with 7,184 (14.3 per cent), valued at ₦667.21 million (11.4 per cent). Kebbi State came second and Sokoto state third with 6,887 repaid loans (13.7 per cent) and 5,618 repaid loans (11.2 per cent) valued at ₦182.86 million (3.1 per cent) and ₦345.41million (5.9 per cent), respectively. In terms of claims settlement, 303 claims valued at ₦30.93 million were settled, compared with 38 claims valued at ₦14.23 million in 2009.

Table 2.7: Distribution of Loans under the ACGSF by Volume and Value of Loans in 2010

Category	Volume	Value in ₦' million
₦5,000 and below	25	0.12
₦5,001- ₦20,000	4,075	68.22
₦20,001 – ₦50,000	16,061	644.03
₦50,001 – ₦100,000	13,029	1,109.00
₦100,001 and above	17,659	5,918.00
Total	**50,849**	**7,739.37**

2.5.2 The Trust Fund Model (TFM)

The Bank signed one (1) MoU under the TFM in 2010, bringing the total number of MoUs signed under the model, as at end-December 2010, to fifty-six (56). The total sum pledged as at end-December 2010 was ₦5.52 billion, compared with ₦5.51 billion in 2009.

Table 2.8: Funds Placement under the Trust Fund Model (TFM) at end–December, 2010

S/No	Type of Stakeholder	Amount (N)	Number	Remarks
1	Multinationals/Oil Companies	₦0.444billion	4 Multinationals	₦5 million less due to suspension of MISCAD
2	SGs/LGAs/Ministries	₦2.438billion	18 States/17 LGAs/3 Govt. Ministries	
3	Federal Govt. Agencies	₦2.000billion	1 Federal Govt. Agency	
4	Individuals/Organizations	₦0.634billion	13 Individuals/Organisations	
TOTAL		**₦5.516 billion**	**56 Stake Holders**	**₦5 million less due to suspension of MISCAD**

2.5.3 Operations of the Agricultural Credit Support Scheme (ACSS)

Claims valued at ₦119.0 million were settled by the Bank under the Scheme as 6.0 per cent rebate to deposit money banks in 2010. This cumulated to ₦ 844.3 million as the value of rebate paid to 42 projects since 2006.

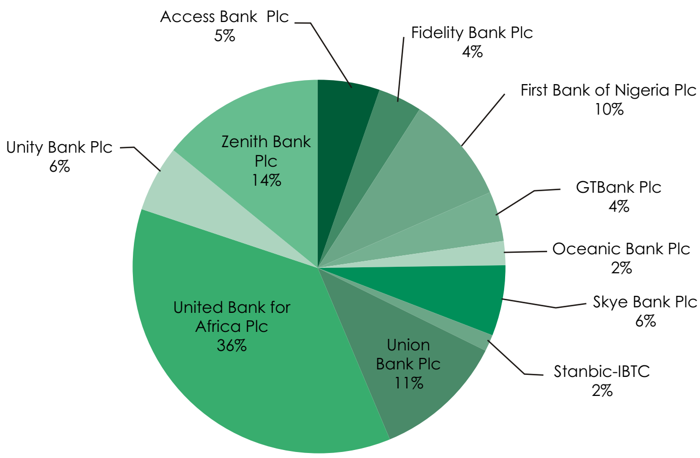
Table 2.9: Performance of the Agricultural Credit Support Scheme (ACSS)

Performance Parameter	Jan–December, 2009		2006–December, 2010		Jan–December, 2010	
	No:	Value (₦) million	No:	Value (₦) billion	No:	Value (₦) million
Application Received by banks	5	167.0	196	37,878.8	2	1,100.0
Approval by banks	5	147.5	149	28,658.3	2	1,100.0
Project submitted to CBN for verification	5	147.5	105	21,353.3	2	1,100.0
Project verified	5	147.5	101	18,893.3	-	-
Disbursement by banks	5	147.5	103	19,427.3	2	1,100.0
Approval for 6% interest rebate	20	356.9	42	0.844,281	7	119.1

2.5.4 The Commercial Agriculture Credit Scheme (CACS)

The sum of ₦96.81 billion has been disbursed so far, to eleven DMBs in respect of 104 projects, including 18 state governments and the FCT. A breakdown showed that UBA Plc received ₦ 35.16 billion for 32 projects, including 6 state governments and the FCT; Zenith Bank Plc received ₦13.84 billion for 10 projects, including 4 state governments; Skye Bank Plc received ₦6.00 billion for 3 projects; FBN Plc received ₦9.14 billion for 25 projects. Others were GT Bank Plc ₦4.25 billion for 6 projects, UBN Plc ₦10.90 billion for 12 projects and 3 state governments and the FCT; Fidelity Bank Plc ₦3.50 billion for 4 projects and 3 state governments; Oceanic Bank Plc ₦ 2.0 billion for 1 project; Access Bank Plc ₦5.18 billion for 5 projects and one state government; Unity Bank Plc ₦5.5 billion for 3 projects; and Stanbic-IBTC, ₦1.35 billion for 3 projects.

Figure 2.16: Banks' Lending under the Commercial Agriculture Credit Scheme (CACS) as at December 2010 (Per cent)



2.5.5 The SME/Manufacturing Refinancing and Restructuring Fund

The Bank established the ₦200.0 billion Refinancing and Restructuring Fund (RRF) to restructure banks' existing loan portfolios to manufacturers and SMEs. The scheme was meant to address the huge financing gap in Nigeria with a view to boosting the operations of manufacturers and SMEs to achieve a double-digit growth rate over the next decade. The sum of ₦199.67 billion had been released by the CBN to BOI, out of which the sum of ₦197.59 billion had been disbursed to the participating banks for restructuring the loans for 539 projects.

2.5.6 The Small and Medium Enterprises Credit Guarantee Scheme

The Bank also established the ₦200.0 billion Small and Medium Enterprises Credit Guarantee Scheme (SMECGS). The objectives of the Scheme include fast-tracking the development of the manufacturing and SME sectors of the economy by providing guarantees for credit from banks to manufactures and SME promoters. The activities covered under the Scheme include manufacturing, the agricultural value chain, educational institutions, and any other activity as may be specified by the CBN. As at end-December 2010, two applications, valued at ₦7.5 million and ₦100.0 million, had been processed under the Scheme. The applications were awaiting Management's approval.

2.5.7 The Power and Aviation Intervention Fund

The ₦300.0 billion Power and Aviation Intervention Fund was established by the CBN to provide long-term financing for infrastructure development, with emphasis on the power sector. The framework for the take-off of the Scheme has been put in place and this includes the modalities for accessing the Fund.

2.5.7 Entrepreneurship Development Centres (EDCs)

The Bank engaged three (3) consultants to evaluate the pilot phase of EDCs, covering the period April 2008 to June 2010. The report has been submitted to Management for consideration. Meanwhile, the centres have so far, trained and counselled 49,697 graduates; created 1,825 jobs; and 595 trainees have accessed loans for their businesses.