## LIST OF APPENDICES



## LIST OF BOXES

# Appendix A1

## Balance Sheet
## As at 31st December, 2009

| | Note | 2009 ₦' Million | 2008 ₦' Million |
|---|---|---|---|
| **Assets:** | | | |
| External reserves | 2 | 6,543,628 | 7,334,295 |
| Nigerian Government securities | 3 | 317,269 | 272,407 |
| Loans and advances | 4 | 387,549 | 523,027 |
| Investments | 5 | 88,584 | 86,615 |
| Other assets | 7 | 85,216 | 72,768 |
| Fixed assets | 8 | 159,182 | 141,427 |
| | | **7,581,428** | **8,430,539** |
| **Liabilities:** | | | |
| Deposit accounts | 9 | 4,708,758 | 5,878,514 |
| Central Bank of Nigeria instruments | 10 | 50,800 | 627,068 |
| Notes and coins in circulation | 11 | 1,181,828 | 1,155,050 |
| International Monetary Fund allocation of Special Drawing Rights | 13 | 388,982 | 31,769 |
| Other financial liabilities | 14 | 666,914 | 234,548 |
| | | **6,997,282** | **7,926,949** |
| **Capital and reserves:** | | | |
| Share capital | 17 | 5,000 | 5,000 |
| General reserve fund | 18 | 71,854 | 60,888 |
| Fixed assets revaluation reserve | 19 | 63,143 | 63,143 |
| Foreign currency revaluation reserve | 20 | 379,982 | 358,130 |
| Reserve on fund managers' investments | 21 | 64,167 | 16,429 |
| | | **584,146** | **503,590** |
| **Liabilities and equity** | | **7,581,428** | **8,430,539** |

| | | |
|---|---|---|
| ____________ | Governor | 02 March 2010 |
| ____________ | Director | 02 March 2010 |
| ____________ | Director | 02 March 2010 |
| ____________ | Director of Finance | 02 March 2010 |

The accounting policies on pages 163 to 168 and the notes on pages 169 to 182 form part of these financial statements.

# Appendix A2

## Income Statement
## For The Year Ended 31st December, 2009

| | Notes | 2009 ₦' Million | 2008 ₦' Million |
|---|---|---|---|
| Interest income | 22 | 158,850 | 189,875 |
| Interest expense | 23 | (22,665) | (133,227) |
| Net Interest Income | | **136,185** | **56,648** |
| Realised gain(+) / loss (-) on foreign currency | 20 | 449,704 | 27,812 |
| Other operating income | 24 | **123,132** | **117,156** |
| | | **709,021** | **201,616** |
| Provision for bad and doubtful debts | 25 | (412,295) | (51,839) |
| Operating Costs | 26 | (256,913) | (141,432) |
| Surplus before provisions | | 39,813 | 8,345 |
| Write-off (Net charge) to provisions | 16 | 4,050 | (25) |
| Surplus available for appropriation | | **43,863** | **8,320** |
| **Appropriation:** | | | |
| Transfer to general reserve fund | 18 | (10,966) | (2,080) |
| Transfer to Federal Government of Nigeria under s.5 (3) of the Central Bank of Nigeria Act 2007 | 15 | (32,897) | (6,240) |

The accounting policies on pages 163 to 168 and the notes on pages 169 to 182 form part of these financial statements.

# Appendix A3

## Statement of Cash Flows
## For The Year Ended 31st December, 2009

| **Cash flow generated from operating activities** | **Notes** | **2009 ₦' Million** | **2008 ₦' Million** |
|---|---|---|---|
| Cash (utilized by)/generated from operating activities | 27 | (608,146) | 1,093,524 |
| Net cash (utilized by)/ generated from operating activities | | (608,146) | 1,093,524 |
| **Cash flow (utilized by)/generated from investing activities** | | | |
| Purchase of fixed assets | | (32,340) | (24,275) |
| Proceeds from sale of fixed assets | | 30 | 250 |
| Deposit for shares | | (10,186) | (57,958) |
| Redemption of promissory notes | | (25,924) | (16,719) |
| Purchase of promissory notes of Transcorp | | (63,000) | - |
| Net investment in Government bonds | | (44,862) | (187,904) |
| Net cash utilized by investing activities | | (176,282) | (286,606) |
| **Cash flow utilized by financing activities** | | | |
| Surplus paid to the Federal Government of Nigeria | | (6,239) | (21,399) |
| Net cash utilized by financing activities | | (6,239) | (21,399) |
| Decrease/(Increase) in cash and cash equivalents | | (790,667) | 785,519 |
| Balance at the beginning of the year | | 7,334,295 | 6,548,776 |
| Decrease/(Increase) in cash and cash equivalents | | (790,667) | 785,519 |
| Balance at the end of the year | | 6,543,628 | 7,334,295 |
| The balance at the end of the period is analysed as follows: | | | |
| Bank balances | | 6,469,430 | 7,127,284 |
| Sundry currencies | | 74,198 | 207,011 |
| | | 6,543,628 | 7,334,295 |

# Appendix B1

## SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies were adopted by the Bank in the preparation of its financial statements and have been consistently applied:

### a. Basis of presentation

These are the financial statements of the Central Bank of Nigeria (CBN or the Bank), a body corporate established by the Central Bank of Nigeria Act of 1958 as amended by the CBN Act No. 7 of 2007. The financial statements are prepared under the historical cost convention as modified by the valuation of certain fixed assets and comply with the accounting policies set out below:

### b. Consolidation

Subsidiary undertakings, which are those companies in which the Bank, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over their operations, have not been consolidated. These entities are not consolidated because their activities and accounting policies are different from those of the Bank. Such entities are accounted for as long-term investments.

### c. Foreign currency activities

Foreign currency transactions are recorded in Naira, using the exchange rates prevailing at the dates of the transactions. Differences arising at the dates of settlement are recognized in the income and expenditure account.

At the balance sheet date, assets and liabilities denominated in foreign currencies are converted to Naira, using the closing rate except where a balance is to be settled at a contracted rate, then that rate is used. All differences arising on conversion are taken to the income and expenditure account, except differences on long-term foreign currency monetary items which are deferred and taken to the income and expenditure account on a systematic basis over the remaining lives of the monetary items concerned.

**d. External reserves**

Gold reserves are held for long-term purposes and are not being traded. It is carried at cost.

External reserve balances at year-end are converted into Naira in accordance with the policy in "c" above. All gains and losses realized on external reserve balances are recognized as follows: revaluation gains and losses on reserves due to the Federal Government of Nigeria (FGN) are for the account of the FGN and, consequently, all translation profits and losses are transferred to the respective deposit accounts of the FGN: revaluation gains and losses on external reserve balances of the Bank are transferred to its Foreign Currency Revaluation Reserve Account.

**e. Loans and receivables**

The following assets have been classified as loans and receivables for the purposes of assessing their recoverability: loans and advances; amounts due by liquidator of distressed banks; and other assets.
A specific credit risk provision is established to provide for Management's estimate of credit losses as soon as the recovery of an exposure is identified as doubtful. This provision is made for each account that is not performing in accordance with the terns of the related facility. The basis is as follows:

| Interest and/or principal outstanding for over | Classification | Provision |
|---|---|---|
| 90 days but less than 180 days | Sub-standard | 10% |
| 180 days but less than 360 days | Doubtful | 50% |
| 360 days and over | Lost | 100% |

In addition, a provision of 1% is made for all performing risk assets to recognize losses in respect of risks inherent in any credit portfolio. The 1% provision is applicable only to loans and advances.

Provisions for losses on doubtful receivables are recognized in the income and expenditure account.

When a loan is deemed not collectible, it is written off against the related provision for loan losses and subsequent recoveries are credited to income.
Risk assets in respect of which a previous provision was not made are written directly to the income statement when they are deemed not collectible.

In addition to the above basis, Management subjectively makes provisions for loans on the basis of their assessment of the likelihood of recoverability of the facility.

**f. Investment securities**

The Bank's investments in securities are categorized into: long-term investments and short-term investments.

**(i) Long term investments**

Long-term investments are equity and debt held by the Bank over a long period of time to earn income.

Long-term investments are carried at cost. When there has been a permanent decline in the value of an investment, the carrying amount of the investment is written down to recognize the loss. Such a reduction is charged to the income statement. Reduction in the carrying amount is reversed when there is an increase, other than temporary, in the value of the investment, or if the reasons for the reduction no longer exist.

**(ii) Nigerian Government Securities**

Nigerian Government Bonds represent debt instruments issued by the Federal Government of Nigeria (FGN) in which the Bank has invested. These bond issues are normally underwritten by the Bank and the investments arise as a result of crystallization of its underwriting commitment.

Treasury bills of the Federal Government of Nigeria are initially recorded at cost and subsequently measured at amortized cost.

Treasury bonds and development stocks are initially recorded at cost, plus the incidental cost of acquisition and subsequently measured at amortised cost. A decline in value is not taken into account unless it is considered to be permanent. Where a permanent decline in the value of such bonds and development stock are deemed to have occurred, the carrying amounts of these bonds are written down to recognize the loss.

Interest earned on investment securities is reported as interest income. Dividend received is reported as dividend income.

**g. Fixed Assets**

All items of fixed assets are initially recognized at cost. Cost includes expenditure that is directly attributable to the acquisition of the item.

**Subsequent measurement Fixed assets at historical cost**

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. Repairs and maintenance expenses are charged to the income and expenditure account during the financial period in which they are incurred.

**Depreciation**

Depreciation is calculated on a straight line basis to write down the cost/valued amounts of fixed assets to their residual values over their estimated useful life at the following rates:

| | |
|---|---|
| Land and Buildings | 2.0% |
| Motor Vehicles: | |
| Buses | 12.5% |
| Cars | 20.0% |
| Lorries | 10.0% |
| Plant and equipment | |
| Air conditioners, generators and water pumps | 15.0% |
| Currency processing machines | 10.0% |
| Furniture and Fittings | 20.0% |
| Computer software/hardware | 33.3% |

Costs related to fixed assets under construction or in the course of implementation are disclosed as capital work-in-progress. The attributable cost of each asset is transferred to the relevant category immediately the asset is put into use and then subjected to depreciation.

Gains and losses on disposal are determined by comparing proceeds with the carrying amount. These are included in the income and expenditure account for the year.

**H. Borrowings (loans)**

Borrowings are recognized initially at their issue proceeds net of transaction costs incurred. Borrowings are subsequently stated at amortised cost.

Interest paid on borrowings is recognized in the income and expenditure accounts for the year on a prorata basis.

**i. Currency in circulation**

Currency issued by the Bank represents a claim on the Bank in favour of the holder. The liability in respect of notes and coins in issue at the balance sheet date is stated at the nominal value of the currency.

**j. Central Bank of Nigeria instruments**

Central Bank of Nigeria instruments comprise Promissory Notes and Open Market Operations Bills.

Central Bank of Nigerian Promissory Notes represent short- to medium-term debt instruments issued by the Bank to commercial banks assuming net liabilities under the Purchase and Assumption distress resolution programme for banks which could not meet the minimum capital requirement for licensed banks.

Promissory Notes are recognized at the face value of the instrument.

Open Market Operations Bills represent short-term debt instruments of the Bank issued to commercial banks as a liquidity management tool. They are recognized at cost less any unamortized premiums/discounts.

Interest paid on these instruments is recognized in the income and expenditure account for the year.

**k. Retirement benefits**

The Bank operates a defined benefit plan and a contributory retirement savings scheme as required by the Pension Reforms Act of 2004. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Bank and the employees pay fixed contributions into a separate entity. The Bank contributes 15% of basic salary, housing and transport allowances of the qualifying employees while the employees contribute 7.5% on the same basis towards the pension plans.

For the defined benefit plan, the employer's obligation is calculated periodically by independent actuaries, using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows, using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial deficit arising from adjustments and changes in actuarial assumptions are to be amortised systematically over a period of not more than three (3) years.

For defined contribution plans, the Bank pays contributions to privately administered pension fund administrators on a monthly basis. The contributions are recognized as employee benefit expense in the income and expenditure account. The Bank has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

**l. Provisions**

Provisions are recognized when the Bank has a present obligation, whether legal or constructive, as a result of a past event for which it is possible that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

**I. Internal Currency insurance**

This provision is accumulated to cover possible losses that could arise on currency stock held within the Bank and in transit. The provision is determined as premium payable to provide insurance cover over such losses.

**Ii. Contingency**

Contingency provision is determined on the basis of experts' valuation (where applicable) and/or the best estimate by Directors of the Bank of the probable resources required to meet the Bank's present obligations.

**iii. Self-insurance schemes**

The Bank operates self-administered insurance schemes through duly constituted trustees for all potential losses for currency in transit and in vaults and for replacement and major repairs for its fleet of vehicles. Annual appropriations are made, based on past experience.

These schemes are fully funded and managed independent of the Bank's operations.

**m. Sale and repurchase agreements**

The Bank has entered into repurchase agreements as part of its monetary policy activities. Securities purchased under agreements to resell are recorded under the heading “Loans and Advances” as loans and receivables. Securities sold under agreement to repurchase are disclosed as reverse repurchase agreements included in deposit accounts.

The underlying Securities purchased under repurchase agreements are not recorded by the Bank. Likewise, underlying securities sold under repurchase agreements are retained in the books of the Bank.

The differences between the purchase and sale prices are treated as interest and recognized on an accrual basis.

**n. Appropriations**

In accordance with Section 5(2) of the Central Bank of Nigerian Act No.7 of 2007, the Bank makes an annual appropriation representing one-quarter of the operating surplus of the Bank for the year to a general reserve fund.

All remaining surplus after the statutory appropriation to the general reserve fund is payable to the Federal Government of Nigerian on a semi-annual basis. This is in accordance with section 5(3) of the Central Bank of Nigeria Act No. 7 of 2007.

**o. Cash flow**

For the purpose of the cash flow statement, cash and cash equivalents comprise sundry currency balances and bank balances with foreign banks.

**p. Revenue recognition**

Interest income and expenses are recognised on a time proportion basis, taking account of the principal outstanding amount and the rate over the period to maturity.

Interest income and expenses are recognised in the income and expenditure account for all interest-bearing instruments on an accrual basis. Where the instrument is deemed to be non-performing, interest income is suspended and recognized on a cash basis. Interest income and expense include the amortization of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its determined amount at maturity.

Fees and commissions, where material, are amortized over the life of the related service. Otherwise fees, commissions and other income are recognized as earned upon completion of the related service. Dividends are recognized when the right to receive payment is established.

Other revenue arising from the provision of services to clients is recognized on an accrual basis in accordance with the substance of the relevant transaction.

**q. Currency issuance and management expenses**

Note-printing and coin-minting expenses include ordering, printing, minting, freight, insurance and handling costs. These costs are recorded as prepaid expenses and subsequently released to the income and expenditure account when the currency is delivered to the Bank.

# Appendix B2

## Notes to the Financial Statements for the year ended 31st December, 2009

### 1. General Information

The Central Bank of Nigeria (CBN or the Bank) is the apex regulatory authority of the financial system in Nigeria. It was established by the Central Bank of Nigeria Act of 1958, as amended by the CBN Act No 7 of 2007. It commenced operations on 1 July 1959.

The issued share capital of the Bank is wholly owned by the Federal Government of Nigeria. The principal objectives of the Bank are to ensure monetary and price stability, issue legal tender currency in Nigeria, maintain external reserves to safeguard the international value of the legal tender currency, promote a sound financial system in Nigeria and act as banker and provide financial advice to the

| | 2009 ₦' Million | 2008 ₦' Million |
|---|---|---|
| Convertible Currencies (see notes 2a and 2b) | 6,191,121 | 7,334,097 |
| International Monetary Fund: | | |
| - Reserve tranche | 23 | 23 |
| - Special Drawing Rights (note 2c) | 352,465 | 156 |
| Gold | 19 | 19 |
| | **6,543,628** | **7,334,295** |
| (a) Convertible currencies comprise: | | |
| Current account with foreign banks | 725,240 | 1,222,698 |
| Time deposits and money employed | 2,699,809 | 3,888,202 |
| Domiciliary accounts | 630,965 | 446,651 |
| Other foreign securities | 2,060,909 | 1,569,535 |
| Sundry currencies and travelers' cheques | 74,198 | 207,011 |
| | **6,191,121** | **7,334,097** |

Included in convertible currencies is an amount of ₦2,189.22 million, (2008 ₦3,646.27 million), which represents the Naira value of foreign currencies held on behalf of customers in various foreign accounts for letters of credit transactions and other purposes. The corresponding liability for this amount is included in deposits. (see note 9b)

## Appendix B2 (Cont'd)

| | 2009 ₦' Million | 2008 ₦' Million |
|---|---|---|
| (a) Convertible currencies are further analysed by Currency | | |
| United States Dollar | 5,306,668 | 6,608,337 |
| British Pounds Sterling | 195,832 | 144,096 |
| Euro | 680,299 | 574,526 |
| Japanese Yen | 2,448 | 2,066 |
| Others | 5,874 | 5,072 |
| | **6,191,121** | **7,334,097** |

| | 2009 ₦' Million | 2008 ₦' Million |
|---|---|---|
| (b) Special Drawing Rights | | |
| At 1 January | 156 | 103 |
| Additional holdings | 355,863 | - |
| Acquisitions during the year | 7 | 905 |
| Interest earned in the year | 306 | 2 |
| Charges for the year | (513) | (868) |
| Revaluation | (3,354) | 14 |
| At 31 December | 352,465 | 156 |

| | 2009 ₦' Million | 2008 ₦' Million |
|---|---|---|
| **3. Nigerian Government securities** | | |
| Nigerian Treasury Bills | 1,900 | 410 |
| Nigerian Treasury Bonds | 252,314 | 271,909 |
| Nigerian Development Stocks | 25 | 88 |
| Promissory notes | 63,030 | - |
| | **317,269** | **272,407** |

The CBN invested in Nigeria Treasury Bonds with coupon rates of 5% - 12.5%. The last Treasury bond will mature on 15 October 2024. The Bank as directed by the Federal Government in a refinancing arrangement purchased promissory notes issued by the Federal Government of Nigeria to Union Trustees in respect of loans granted to Transcorp by a consortium of banks (represented by Union Trustees Limited). The promissory notes, with an interest rate of 8.28%, are redeemable on 29 September 2010.

| | 2009 ₦' Million | 2008 ₦' Million |
|---|---|---|
| **4. Loans and advances** | | |
| Overdraft balances & short-term advances | 184,225 | 561,704 |
| Staff loans | 3,203 | 5,763 |
| Loans to DMBs on Commercial Agricultural Credit Scheme (Note 14) | 43,333 | - |
| Advances to Federal Mortgage Bank of Nigeria | 9 | 9 |
| Other loans | 17,174 | 33,983 |
| Long-term loans (see 4(a)) | 637,000 | 7,127 |
| | **884,944** | **608,586** |

## Appendix B2 (Cont'd)

| | 2009 ₦' Million | 2008 ₦' Million |
|---|---|---|
| Provision for loan losses: | | |
| At 1 January | 85,559 | 46,521 |
| Eliminated through forebearances | (24,594) | - |
| | 60,965 | 46,521 |
| Provision for the year | 436,430 | 39,038 |
| At 31 December | 497,395 | 85,559 |
| | **387,549** | **523,027** |

**Overdraft balances and short term advances**

Overdraft balances represent lending to customers and are collateralized by Treasury Bills.

**Other loans**

Other loans represent accommodation to distressed and liquidated banks. These have been fully provisioned.

| | 2009 ₦' Million | 2008 ₦' Million |
|---|---|---|
| (a) Long term loans: | | |
| At 1 January | 7,127 | 8,865 |
| Addition in the year | 667,000 | - |
| Repayments during the year | (37,127) | (1,738) |
| | 637,000 | 7,127 |

Details of benefitting banks and amounts granted by CBN:

| | |
|---|---|
| Union Bank Plc | 120,000 |
| Oceanic Bank Plc | 100,000 |
| Intercontinental Bank Plc | 100,000 |
| Finbank Plc | 50,000 |
| Bank PHB Plc | 70,000 |
| Spring Bank Plc | 60,000 |
| Wema Bank Plc | 87,000 |
| Afribank Plc | 50,000 |
| | **637,000** |

Long-term loans represent Central Bank of Nigeria's 7 years special intervention support to under-capitalized deposit money banks at the interest rate of 8% per annum. A provision of 75% has been effected in these financial statements on account of the negative shareholders' fund of the affected banks, pending successful recapitalization of the banks and the passage of the bill meant to give effect to the establishment of the Assets Management Company (AMC) whose responsibility will be to recover the toxic assets of the banks.

## Appendix B2 (Cont'd)

| 5. Investments | | 2009 ₦' Million | 2008 ₦' Million |
|---|---|---|---|
| Investments in subsidiaries and associates: | % | | |
| Bank of Industry | 41 | 2,708 | 2,948 |
| National Economic Reconstruction Fund | 33 | 100 | 100 |
| Abuja Commodity Exchange | 51 | 408 | 408 |
| Nigeria Deposit Insurance Corporation | 60 | 1,380 | 1,380 |
| Nigeria Agricultural Cooperative and Rural Development Bank | 40 | 4,027 | 4,027 |
| Nigeria Export Import Bank | 40 | 6,723 | 6,723 |
| 6% Perpetual Debentures in Nigeria Export Import Bank | - | 1,250 | 1,250 |
| Africa Finance Corporation | 42 | 57,958 | 57,958 |
| Nigeria Security Printing and Minting Company Plc | 77 | 13,250 | 13,250 |
| | | **87,804** | **88,044** |
| Provision for diminution in value of investments | | (533) | (2,715) |
| | | **87,271** | **85,329** |
| Other Investments: | | | |
| Agricultural Credit Guarantee Scheme Fund | 40 | 1,200 | 1,200 |
| Federal Mortgage Bank of Nigeria | | 60 | 60 |
| Nigerian Interbank Settlement System | 4 | 53 | 26 |
| | | 1,313 | 1,286 |
| | | **88,584** | **86,615** |

| **6. Amount paid out in respect of the following distressed banks** | | |
|---|---|---|
| All States Trust Bank | 15,922 | 15,166 |
| Lead Bank | 4,979 | 4,344 |
| Assurance Bank | 4,475 | 4,475 |
| Hallmark Bank | 1,886 | 107 |
| Trade Bank | 8,103 | 8,102 |
| City Express Bank | 5,181 | 4,595 |
| African Express bank | 930 | 332 |
| Gulf Bank | 5,662 | 3,516 |
| | 47,138 | 40,637 |
| Provision for doubtful balances | (47,138) | (40,637) |

The Bank entered into Purchase and Assumption arrangements with the Nigeria Deposit Insurance Corporation (NDIC) and some banks over private sector deposits and certain capital assets of some distressed banks in liquidation. Accordingly, the Bank issued promissory notes for the net liabilities assumed. See Note 10.

## Appendix B2 (Cont'd)

**7. Other assets**

| | | |
|---|---|---|
| Due from Agricultural Credit Guarantee Scheme Fund | 1,176 | 914 |
| Accrued interest receivable | 26,593 | 21,288 |
| Accounts receivable | 33,302 | 30,687 |
| Deposit for shares (NSPMC & BOI) | 15,132 | 4,946 |
| Sundry receivables (see (a) below) | 11,445 | 15,051 |
| | **87,648** | **72,886** |
| Provision for doubtful balances | (2,432) | (118) |
| | **85,216** | **72,768** |

(a) Sundry receivables are further analysed as:

| | | |
|---|---|---|
| International Monetary Fund local currency subscription | 622 | 622 |
| Deferred interest and prepayments | 2,584 | 10,439 |
| IMF Interest Bearing Securities | 2,316 | 2,316 |
| Cheques in clearing | 2,405 | - |
| Others | 3,518 | 1,674 |
| | **11,445** | **15,051** |

## Appendix B2 (Cont'd)

**8. Fixed Assets**

| | Land & buildings | Plants & equipment | Furniture & fittings | Computers | Motor vehicles | Capital work in progress | Total |
|---|---|---|---|---|---|---|---|
| | ₦'M | ₦'M | ₦'M | ₦'M | ₦'M | ₦'M | ₦'M |
| **2009:** | | | | | | | |
| **Cost/valuation:** | | | | | | | |
| **At 1-January** | 66,317 | 19,559 | 2,006 | 6,194 | 2,706 | 69,262 | 166,044 |
| **Additions** | 969 | 2,124 | 261 | 33 | 1,278 | 27,675 | 32,340 |
| **Disposals** | - | - | - | - | (21) | - | (21) |
| **Transfers in/(out)** | 11,366 | 2,898 | - | - | - | (14,264) | - |
| **Adjustments** | 349 | 2,461 | (76) | (346) | 58 | (4,964) | (2,518) |
| **At 31-December** | **79,001** | **27,042** | **2,191** | **5,881** | **4,021** | **77,709** | **195,845** |
| | | | | | | | |
| **Accumulated depreciation:** | | | | | | | |
| **At 1 January** | 7,340 | 9,183 | 1,783 | 5,120 | 1,191 | - | 24,617 |
| **Charge for the year** | 1,900 | 2,434 | 29 | 355 | 364 | - | 5,082 |
| **Disposals** | - | - | - | - | (18) | - | (18) |
| **Adjustments** | (796) | 7,459 | 68 | (43) | 294 | - | 6,982 |
| **At 31-December** | **8,444** | **19,076** | **1,880** | **5,432** | **1,831** | **-** | **36,663** |
| **Net book value** | **70,557** | **7,966** | **311** | **449** | **2,190** | **77,709** | **159,182** |

During the year, the Bank conducted a fixed asset verification exercise and effected adjustments as deemed necessary. Fully depreciated assets are carried at nominal values.

| | Land & buildings | Plants & equipment | Furniture & fittings | Computers | Motor vehicles | Capital work in progress | Total |
|---|---|---|---|---|---|---|---|
| **2008:** | | | | | | | |
| **Cost/valuation:** | | | | | | | |
| **At 1 January** | 66,572 | 31,430 | 3,780 | 6,492 | 13,309 | 50,808 | 172,391 |
| **Additions** | 1,737 | 2,563 | 25 | 746 | 750 | 18,454 | 24,275 |
| **Disposals** | (273) | - | - | - | (43) | - | (316) |
| **Adjustments** | (1,719) | (14,434) | (1,799) | (1,044) | (11,310) | - | (30,306) |
| **At 31-December** | **66,317** | **19,559** | **2,006** | **6,194** | **2,706** | **69,262** | **166,044** |
| | | | | | | | |
| **Accumulated depreciation:** | | | | | | | |
| **At 1 January** | 5,870 | 19,689 | 3,506 | 5,790 | 3,841 | - | 38,696 |
| **Charge for the year** | 1,654 | 3,928 | 76 | 374 | 679 | - | 6,711 |
| **Disposals** | (28) | - | - | - | (43) | - | (71) |
| **Adjustments** | (156) | (14,434) | (1,799) | (1,044) | (3,286) | - | (20,719) |
| **At 31-December** | **7,340** | **9,183** | **1,783** | **5,120** | **1,191** | **-** | **24,617** |
| **Net Book Value** | **58,977** | **10,376** | **223** | **1,074** | **1,515** | **69,262** | **141,427** |

In 2003, the Bank reinstated items of fixed assets that had been previously written off. Accordingly, all assets except motor vehicles and the Head Office building were valued by Messrs Onakanmi and Partners, Supo Ojo and Co, Ora Egbunike and Associates, Bello and Co, Adamu Muhammed and Partners, Olatoye Ogundana and Partners, Dosu Fatokun and Co, and Mohammed and Co. The assets were valued as at 31 December 2002 on either open market basis assuming a willing seller and an able buyer or depreciated replacement cost basis where market information was not available. Subsequent additions have been incorporated at cost.

## Appendix B2 (Cont'd)

| 9. Deposit accounts | 2009 ₦' Million | 2008 ₦' Million |
|---|---|---|
| Government deposits: | | |
| Current/settlement accounts | **2,267,979** | **1,787,338** |
| Domiciliary accounts | **630,965** | **446,651** |
| Other Accounts (see (a) below) | **1,558,259** | **3,199,623** |
| Financial Institutions: | | |
| Current/settlement accounts | **165,952** | **291,082** |
| Bank's reserve accounts | **85,603** | **153,820** |
| | **4,708,758** | **5,878,514** |

(a) Other accounts are further analysed as follows:

| | 2009 | 2008 |
|---|---|---|
| FGN PPT Naira funding account | 973,760 | 1,378,195 |
| Special reserve account | 622 | 550 |
| FGN excess crude oil proceeds (Naira funding) account | 178,910 | 1,477,442 |
| Letters of credit consolidated account | 283,905 | 197,219 |
| FGN (External creditors) funding account | 88,345 | 91,665 |
| NNPC/ NAPIMS cash call account | 6,353 | 6,353 |
| Deposits for Naira draft account | 2,953 | 18,098 |
| Monetary policy stabilization account | 4,618 | 4,618 |
| Sundry accounts | 18,793 | 25,483 |
| | **1,558,259** | **3,199,623** |

(b) Foreign currency deposits held on behalf of customers for letters of credit transactions and other purposes are analysed below:

| | 2009 | 2008 |
|---|---|---|
| Domiciliary accounts | 630,965 | 446,651 |
| Other accounts | 1,558,259 | 3,199,623 |
| | **2,189,224** | **3,646,274** |

| 10. Central Bank of Nigeria instruments | 2009 | 2008 |
|---|---|---|
| Central Bank of Nigeria Promissory Notes (see 10(a)) | | |
| At 1 January | 19,343 | 20,585 |
| Issues during the year | 6,708 | 9,389 |
| Claim awaiting issue of promissory notes | - | 5,961 |
| Redemption in the year | (25,924) | (16,719) |
| Accrued interest | (127) | 127 |
| At 31 December | - | 19,343 |
| Open Market Operations - CBN bills (see 10(b)): | | |
| At 1 January | 607,725 | 1,543,781 |
| Issued during the year | 254,491 | **2,310,143** |
| Redemption during the year | **(811,416)** | **(3,246,199)** |
| At 31 December | **50,800** | **607,725** |
| | **50,800** | **627,068** |

(a) The CBN issued Promissory Notes to Ecobank Nigeria Plc, Afribank Plc and United Bank for Africa Plc as part of a Purchase and Assumption Arrangement over the private sector deposits and certain assets of Allstates Trust Bank Plc African International Limited and Hallmark Bank Plc (Ecobank Nigeria Plc), Lead Bank Plc and Assurance Bank Plc (Afribank Nigeria Plc) and Trade Bank Plc, Metropolitan Bank Ltd, City Express Bank Plc, African Express Bank, Liberty Bank Limited and Gulf Bank Plc (United Bank for Africa Plc). The Promissory Notes have tenors of 1 2 years and carry coupon rates of 5.5% - 13.50%.

(b) Central Bank of Nigeria Bills represent bills of the Bank issued to commercial banks as a liquidity management tool. These instruments have tenors ranging from 7 days 365 days and carry discount rates ranging from 5.96% - 9.55% per annum.

| | 2009<br>₦' Million | 2008<br>₦' Million |
|---|---|---|
| **11. Notes and coins in circulation** | | |
| Notes | 1,180,686 | 1,151,776 |
| Coins | 1,142 | 3,274 |
| | **1,181,828** | **1,155,050** |
| **12. Employment benefit liabilities** | | |
| Defined benefit scheme: | | |
| At 1 January | 40,163 | 5,435 |
| Contributions | 2,345 | 2,249 |
| Provision for actuarial deficit | 22,280 | 44,560 |
| Remittances/Transfers to trustees | (64,788) | (12,081) |
| At 31 December | **-** | **40,163** |
| Defined contributory scheme: | | |
| At 1 January | - | - |
| Contributions | 43 | 31 |
| Remitted to trustees | (43) | (31) |
| At 31 December | **-** | **-** |

The Bank operated a non-contributory defined benefit pension scheme (Legacy scheme) for existing pensioners and staff. The scheme was funded by contributions of 50% of the employees' annual salary and certain allowances. An actuarial valuation is conducted by qualified independent actuaries and any resulting deficit recognized in the income and expenditure statement.

In accordance with the Pension Reform Act of 2004 and following approval from the National Pension Commission, the Bank introduced contributory defined benefit and defined contribution schemes (both referred to as the hybrid scheme) to replace the legacy scheme. The hybrid scheme allowed members of the legacy scheme to elect to either continue with the defined benefit scheme or join a defined contribution scheme. For members electing to join the defined contribution scheme element of the hybrid scheme, the balance due to them under the defined benefit scheme was determined and remitted to a pension fund administrator chosen by the member. Subsequent to 31 December 2007, new employees of the Bank would join the defined contribution scheme element of the hybrid scheme.

Under the terms of the hybrid scheme, the Bank contributes 15% of basic salary, housing and transport allowances of qualifying employees, while the employees contribute 7.5% on the same basis. Contributions to the hybrid scheme are remitted to pension fund administrators through deposit accounts maintained by trustees of the scheme. An actuarial valuation of the defined benefit element of the hybrid scheme is conducted by qualified independent actuaries and the Bank has agreed to make good any deficit arising from the actuarial valuation.

The defined benefit element of the hybrid scheme was actuarially assessed by the firm of Alexander Forbes Consulting Actuaries and HR Nigeria (Consultants and Actuaries) as at 31 December 2009 and actuarial surpluses of ₦20.06 billion and ₦37.20 billion were respectively established against the deficit of ₦89.12 billion for the year ended 31 December 2008. The sum of ₦44.56 billion, representing 50% of the actuarial deficit, has been charged to the financial statements for the year ended 31 December 2008 while ₦22.28 billion, representing 25% of the deficit, has been charged to the financial statements of the Bank for the year ended 31 December 2009, in line with accounting policy.

The trustees maintain a deposit account with the Bank with respect to contributions and as at 31 December 2009, the balance was ₦157.89 million (2008: ₦11.2 billion).

As at 31 December 2009, the Bank approved the discontinuance of the hybrid scheme and its substitution with defined contribution scheme to forestall any future actuarial deficit going forward in respect of the remaining employees.

# Appendix B2 (Cont'd)

| | 2009 ₦' Million | 2008 ₦' Million |
|---|---|---|
| **13. IMF Allocation of Special Drawing Rights** | | |
| At 1 January | 31,769 | 29,006 |
| Additional allocation | 357,213 | - |
| Revaluation | - | 2,763 |
| At 31 December | **388,982** | **31,769** |

Special Drawing Rights (SDR) are issued by the International Monetary Fund (IMF) to member countries and represent allocations available to member countries in managing and meeting their sovereign payment obligations. The IMF calculates the daily value of the SDR in terms of the United States of America (US) Dollars by reference to a valuation basket of four currencies (USD, GBP, Euro & Japanese Yen). The applicable interest rate on SDR is set at the weekly interest rates on the basis of a weighted average of interest rates on the short-term instruments in the markets of the currencies included in the SDR allocation basket.

| **14. Other financial liabilities** | | |
|---|---|---|
| Interest payable | 172 | 172 |
| Accrued charges | 45,428 | 2,669 |
| Surplus payable to the Federal Government of Nigeria | 33,194 | 6,536 |
| Sundry payables | 351,795 | 169,297 |
| Payable to DMO on Commercial Agricultural Credit Scheme | 200,000 | - |
| Cheques in clearing | - | 15,499 |
| Bank of Tokyo - Commodity loan | 1 | 1 |
| Other provisions (Note 16) | 36,324 | 40,374 |
| | **666,914** | **234,548** |

The Bank, on 6 March 2009, obtained the approval of the Federal Government to mobilize the sum of N200 billion through the issuance of Federal Government Bonds for disbursement to Commercial Agric Farmers as part of CBN's developmental role in the economy. In that regard, the CBN signed an MoU with the DMO to source and issue the said bond at the rate of 10.14% which is the average of the marginal rates for the three-year bond from March to July 2009. A total of ₦43.33 billion (Note 4) out of the said amount has been paid by the Bank to the DMBs for disbursement to the farmers, as at 31 December 2009.

| **15. Surplus payable to Federal Government of Nigeria** | | |
|---|---|---|
| At 1 January | 6,536 | 21,696 |
| Transfer from income and expenditure account | 32,897 | 6,240 |
| Paid during the year | (6,239) | (21,400) |
| At 31 December | **33,194** | **6,536** |

**16. Other provisions**

| | At 1 January ₦' Million | Reversal of Provision ₦' Million | At 31 December ₦' Million |
|---|---|---|---|
| **2009:** | | | |
| Contingency (see (a) below) | 32,234 | (344) | 31,890 |
| Internal currency insurance funds (see (b) below) | 7,800 | (3,366) | 4,434 |
| Agricultural credit fund (see (c) below) | 340 | (340) | - |
| At 31 Dec | **40,374** | **(4,050)** | **36,324** |
| **2008** | | | |
| Contingency | 32,709 | (475) | 32,234 |
| Internal currency insurance funds | 7,300 | 500 | 7,800 |
| Agricultural credit fund | 340 | - | 340 |
| At 31 december | **40,349** | **25** | **40,374** |

(a) Contingency provisions represent provisions in respect of probable legal obligations (note 28a).

(b) The Bank makes provisions for Internal currency insurance, based on the premium that would be payable to external insurers had they been engaged. Losses incurred are indemnified against these provisions.

(c) The Agricultural Credit Guarantee Fund was set aside to provide guarantees to third party lenders on behalf of participating agricultural enterprises. Amounts provided were based on the guarantees issued by the Bank. Following the creation of the Nigerian Export-Import Bank (NEXIM), this function was transferred out of the Bank. No additional provisions have been made in the current year.

| | 2009 ₦' Million | 2008 ₦' Million |
|---|---|---|
| **17. Share capital** | | |
| Authorised share capital | 100,000 | 100,000 |
| Issued and fully paid up: | | |
| At 1 January and 31 December | 5,000 | 5,000 |
| **18. General reserve fund** | | |
| At 1 January | 60,888 | 58,808 |
| Transfer from appropriation account | 10,966 | 2,080 |
| At 31 December | **71,854** | **60,888** |
| **19. Fixed assets revaluation reserve** | | |
| At 1 January | - | 70,928 |
| Realised on a disposal/verification exercise carried out during the year | | (7,785) |
| At 31 December | **63,143** | **63,143** |
| **20. Foreign currency revaluation reserve** | | |
| At 1 January | 358,130 | - |
| Net gain/(loss) on revaluation during the year | 471,556 | 385,942 |
| | 829,686 | 385,942 |
| Realized gain transferred to income and expenditure account | **(449,704)** | **(27,812)** |
| At 31 December | **379,982** | **358,130** |

The foreign currency revaluation reserve is used to record exchange movements on long-term monetary assets of the Bank. Unrealised losses or gains on revaluation of these assets are recorded in the account and upon realisation of the asset, the corresponding gain or loss is released to the income and expenditure account.

| **21. Reserve on fund managers' investments** | **2009** | **2008** |
|---|---|---|
| At 1 January | 16,429 | 1,805 |
| Net unrealized gain on fund management during the year | 47,738 | 14,624 |
| At 31 December | **64,167** | **16,429** |

| **22. Interest income** | | |
|---|---|---|
| Analysis by type | | |
| Time deposits and money employed | 56,432 | 136,935 |
| Federal Government Securities | 27,801 | 36,621 |
| Loans and advances | 74,617 | 16,319 |
| | **158,850** | **189,875** |
| *Analysis by geographical location:* | | |
| Domestic | 102,418 | 52,940 |
| External | 56,432 | 136,935 |
| | **158,850** | **189,875** |

| **23. Interest expense** | | |
|---|---|---|
| Central Bank of Nigeria Instruments | 12,276 | 123,345 |
| Interest on Treasury Bonds | 3,927 | 9,882 |
| Interest on CBN Standing Deposit facility | 1,218 | - |
| Interest subsidy on Commercial Agricultural Credit Scheme | 5,244 | - |

| **24. Other operating income** | | |
|---|---|---|
| Fees | 2,953 | 1,739 |
| Foreign exchange earnings | 77,244 | 96,265 |
| Commissions | 149 | 230 |
| Profit on sale of fixed assets | 27 | 277 |
| Realised gain on fund managers' investments | - | 16,959 |
| Other income | 42,759 | 1,686 |
| | **123,132** | **117,156** |

| **25. Provisions** | | |
|---|---|---|
| Loans and advances | 436,430 | 39,038 |
| Promissory notes issued | 6,708 | 12,801 |
| Contingent liabilities | 31,890 | - |
| Other assets | 2,315 | - |
| Provision no longer required | (65,048) | - |
| | **412,295** | **51,839** |

**26. Operating costs**

| | | |
|---|---|---|
| Currency issue expenses | 57,091 | 19,133 |
| Salaries and wages | 25,900 | 21,338 |
| Gratuity | 35,806 | 2,898 |
| Other staff expenses | 5,468 | 3,176 |
| Pension costs | 23,417 | 50,776 |
| Administrative expenses | 37,117 | 29,772 |
| Depreciation charge | 5,082 | 6,711 |
| Repairs and maintenance | 9,477 | 7,064 |
| Consultancy fees | 4,388 | 108 |
| Bank charges | 298 | 175 |
| Auditor fees | 140 | 100 |
| Directors' related expenses | 530 | 142 |
| Centres of excellence | 2,716 | - |
| Computer systems development costs | 29 | 39 |
| Realised loss on fund managers' investments | 49,454 | - |
| | **256,913** | **141,432** |

**27. Cash generated from operating activities**

| *Reconciliation of surplus for year to cash generated from operating activities:* | **2009** | **2008** |
|---|---|---|
| Surplus available for appropriation | 43,863 | 8,320 |
| Adjustments for: | | |
| Depreciation | 5,082 | 6,711 |
| Profit on disposal of fixed assets | (27) | (277) |
| Provisions | 412,295 | 51,364 |
| Realised loss/(gain) on fund managers | 49,454 | (16,959) |
| Realised gain on foreign exchange currency | (449,704) | (27,812) |
| Net cash (utilised)/generated from operating activities | **60,963** | **21,347** |
| **Changes in working capital:** | | |
| Increase in external reserves (IMF balances) | 357,213 | (53) |
| increase on loans and advances | (276,358) | (154,179) |
| Increase in foreign currency revaluation reserve | 443,744 | 385,942 |
| Increase in fund managers' reserve | 47,738 | - |
| Decrease/(increase) in other assets | (14,762) | 70,159 |
| (Decrease)/Increase in deposit accounts | (1,169,756) | 1,497,387 |
| Decrease in Central Bank of Nigeria instruments | (576,268) | (937,298) |
| Increase in notes and coin in circulation | 26,778 | 194,560 |
| Revaluation gain on IMF allocation of SDR | 51,017 | 2,763 |
| Increase in other financial liabilities | 441,545 | 12,896 |
| Cash generated from/ (utilised by) changes in working capital | (669,109) | 1,072,177 |
| Cash generated from/(utilised by) operating activities | **(608,146)** | **1,093,524** |

## Appendix B2 (Cont'd)

### 28. Contingent liabilities and commitments

(a) Legal proceedings

There were a number of legal proceedings outstanding against the Bank as at 31 December 2009 with contingent liabilities of ₦637.784 billion (2008 = ₦370.845 billion). The Directors estimate that a provision of 5% of the contingent liability will be adequate to meet any liability that may crystalise.

The Directors are also of the opinion that all known liabilities and commitments which are relevant in the assessment of the state of affairs of the Bank have been taken into consideration in the preparation of these financial statements.

(b) Capital commitments

| | 2009<br>₦' Million | 2008<br>₦' Million |
|---|---|---|
| Capital Commitments | 44,500 | 15,726 |

These capital commitments are in respect of fixed assets and will be funded from internal resources.

(c) Guarantees

The Bank, during the year, guaranteed both the local inter-bank balances and foreign credit lines to deposit money banks.

| | 2009<br>₦' Million | 2008<br>₦' Million |
|---|---|---|
| Deposit Money Banks | 964,960 | - |
| Discount Houses | 19,500 | - |
| Pension Fund Administrators | 206,770 | - |
| Foreign Banks | 814,375 | - |
| | **2,005,605** | **-** |

Guarantees represent total exposure to the Nigerian Financial Sector and foreign bankers for foreign credit lines extended to deposit money banks. The guarantees will expire on 31 December 2010.

### 29. Related party information

The Bank entered into banking transactions with related parties in the normal course of business. These transactions include the sale and purchase of currencies, services, loans, deposits, and foreign currency transactions.

All transactions with related parties were, however, carried out at arm's length.

**30. Comparatives**

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

# Appendix B3

## REPORT OF THE INDEPENDENT JOINT AUDITORS TO THE BOARD OF DIRECTORS OF THE CENTRAL BANK OF NIGERIA

**Report on the Financial Statements**

We have audited the accompanying financial statements of Central Bank of Nigeria, which comprise the balance sheet as at 31 December, 2009, the income statement, and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, set out on pages 146 to 168.

**Directors' Responsibility for the Financial Statements**

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with the Central Bank of Nigeria Act No.7 of 2007, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements of the Bank on pages 146 to 168 for the year ended 31 December 2009 have been properly prepared in accordance with the accounting policies set out on pages 149 to 154 and complies with the provisions of the Central Bank Act No. 7 of 2007.

| | |
|---|---|
| Chartered Accountants | Chartered Accountants |
| Abuja, Nigeria | Lagos, Nigeria |
| 4 March, 2010 | 4 March, 2010 |

# Appendix C

## Glossary of Selected Terms

***Approval in Principle:*** This refers to the grant of an initial permit/permission to any financial institution, pending the time it would meet the necessary requirements for operation to qualify it for a formal licence.

***Balance of Payments (BOP):*** These are records of economic transactions between the residents of a country and the rest of the world during a given period of time. The major components of a BOP are the ***current account, the capital account and the official settlement balance***. The current account comprises transactions arising from the sale or purchase of goods and services and unrequited transfers, while the capital account is the record of assets and financial transactions. The official settlement account is used to equalise any imbalance that may exist in the current and capital accounts so that all the BOP accounts sum to zero.

***Balance of Payments Position:*** *see* ***Foreign Exchange and Balance of Payments Position***

***Bank Credit*** is a major determinant of the money supply and it embraces the amount of loans and advances given by the CBN as well as deposit money banks to economic agents. This is the banking system credit to the economy which can be broken down into bank credit to government and the private sector.

***Capital Expenditure***: Payment for non-financial assets used in the production process for more than one year. Loan amortisation (capital repayment) is included.

***Cost of Capital*** is the cost incurred in securing funds or capital for productive purposes. The cost includes interest rate, legal, administrative and information search charges. This means that cost of capital is likely to be greater than or equal to interest rates on loans.

***Cost of Funds***: This refers to net expenses incurred in raising funds, including a reasonable profit margin. The expenses include the interest on deposits, reserve requirements and other administrative expenses, as a proportion of total funds borrowed.

***Credit Risk:*** Credit risk arises from potential that an obligor is either unwilling to perform an obligation, or its ability to perform such an obligation is impaired, resulting in loss to the Bank. In addition to direct accounting loss, credit risk should be viewed in the context of other economic exposures which include opportunity costs, transaction costs and expenses associated with non-performing assets over and above the accounting loss.

***Debentures*** are fixed interest-bearing securities. They are usually of two types, debenture with floating charge and debenture with fixed charge. Debenture holders are creditors to the company rather than owners.

***Debt Stock/GDP***: This measures the level of domestic indebtedness relative to the country's economic activity.

***Discount House*** is a financial institution devoted to trading in government secondary instruments (treasury bills and certificates and other eligible instruments). The discount house submits bids from authorised dealers, including its needs for OMO instruments, to the Central Bank and facilitates the payments and settlement of the transactions.

***Distressed Banks***: These are banks with problems relating to illiquidity, poor earnings and non-performing assets. The extreme case of distress is referred to as insolvency, which implies that a bank's liabilities are more than its assets.

***Dutch Auction System (DAS)***: This is a method of exchange rate determination, through auction, where the bidders pay according to their bid rates. The ruling rate is arrived at with the last bid rate that clears the market where the authorities elect to operate a single exchange rate.

***Equity Price Risk****:* Equity price risk is the risk to earnings or capital resulting from adverse changes in the value of the equity-related portfolios of a financial institution. The price risk could relate to changes in the overall level of equity prices or price volatility that is determined by firm specific characteristics.

***Exchange Rate***: This is the price of one currency in terms of another.

***External Assets***: These are the reserves held by the monetary authorities, as well as the banking and non-bank public, in foreign countries. Thus, external assets comprise the external reserves and the private sector holdings of foreign exchange.

***External Reserves***: These are portions of foreign exchange receipts saved by the monetary authorities for the purpose of enhancing the credit worthiness of the economy, protecting the international value of the domestic currency, and financing temporary shocks in the balance of payments. Reserves are held in the form of monetary gold, the reserve position at the International Monetary Fund (IMF), Special Drawing Rights (SDRs), and foreign bank balances.

***Federation Account***: This is an account opened by the Federal Republic of Nigeria into which all revenues of the Federation are paid for eventual distribution to all tiers of government in Nigeria.

***Fiscal Deficit*** refers to the excess of expenditure over revenue of government. It is usually assessed by its size in relation to the nominal Gross Domestic Product (GDP). The fiscal deficits may be financed in various ways external borrowing and internal borrowing (banking system and non-bank public). It is inflationary when financed by the banking system, especially the central banks.

***Fiscal Operations***: This refers to government financial transactions involving the collection, spending and borrowing of government for a given period.

***Fixed Deposit Rate***: When deposits are for a fixed period of time, say 90 or 180 days, the interest rates paid are called fixed deposit rates. They normally attract higher interest rates; early withdrawals may attract interest penalties.

***Foreign Exchange***: This is a means of international payments. It includes the currencies of other countries that are freely acceptable in effecting international transactions.

***Foreign Exchange and Balance of Payments Position***: The foreign exchange position is the difference between foreign exchange receipts and foreign exchange disbursements. If receipts are higher than disbursements, there is a net inflow or an accretion to reserves. On the other hand, if receipts are lower, there is a net outflow and the reserves would be depleted. The balance of payments position is the difference between the receipts by the residents of one economy from the rest of the world and the payments by these residents to the rest of the world. An excess of receipts over payments shows a balance of payments surplus, while the reverse represents a deficit. When foreign exchange receipts and payments are adjusted for valuation changes in reserves, the net position would be identical to the balance of payments position.

***Foreign Exchange Risk****:* Foreign exchange risk is the current or prospective risk to earnings and capital arising from adverse movements in currency exchange rates. Foreign exchange risk may also arise as a result of exposures of banks to interest rate risk arising from the maturity mismatching of foreign currency positions.

***Government Expenditure***: Payment or flow of financial resources out from government.

***High-powered Money:*** *see* ***Monetary Base***

***Inter-bank Interest Rate***: This is the rate that applies to transactions among banks, mostly for overnight and other short-term funds.

***Interest Rate*** is the price of money. It is the opportunity cost of holding money and the return for parting with liquidity.

***Interest Rate Risk****:* Interest rate risk arises when there is a mismatch between positions, which are subject to interest rate adjustments within a specified period. Interest rate risk is usually assessed from two perspectives: the earnings perspective which focuses on the impact of variation in interest rate on accruals or reported earnings, and the economic value perspective which reflects the impact of fluctuations in interest rates on the economic value of a financial institution.

Interest rate risk also includes risks associated with the term structure of interest rates and basis risk. Basis risk is also known as spread risk and it arises when a bank prices its assets and liabilities using different interest rate basis. On the other hand, risks associated with the term structure of interest rates are also known as the yield curve risk. The impact of shifts in the yield curve on earnings is evaluated using stress tests.

***Internal Balance***: This refers to a state of convergence between domestic output and absorption or expenditure. When output is identical with expenditure, internal balance is considered to have been achieved and the rate of inflation is expected to be stable. The achievement of the savings-investment identity is also viewed as internal balance. Monetary and fiscal policies and external debt management measures are usually applied to achieve internal balance.

***Key Risk Indicator****:* A key risk indicator is a risk item that has been assessed to be important, given all relevant factors. This indicator is used to monitor exposure to risks and could be quantitative or qualitative in nature. It should be forward-looking in order to serve as an effective risk mitigant.

***Liquidity Ratio***: This ratio is defined as the ratio of total specified liquid assets to total current liabilities and reflects the liquidity position of a bank.

***Liquidity Risk****:* Liquidity risk is the potential loss to a bank, arising from either its inability to meet its obligations as they fall due or to fund increases in assets without incurring unacceptable costs or losses. Liquidity risk should not be seen in isolation, because financial risks are not mutually exclusive and liquidity risk is often triggered by consequences of other bank risks, such as credit, market and operations risks.

***Market Capitalisation*** is the market value of a company's issued share capital. It is the product of the current quoted price of shares and the number of shares outstanding. The term is also used as a performance indicator of the capital market.

***Maximum Lending Rate***: This refers to the rate charged by banks for lending to customers with a low credit rating.

***Minimum Rediscount Rate***: This refers to the amount that is charged by the CBN for lending to banks in the performance of its function of lender of last resort and also as a signal of the desired direction of monetary policy.

***Monetary Base (or High-powered Money or Reserve Money)*** comprises certain liabilities of the CBN and includes currency with the non-bank public and total bank reserves. The main sources of monetary base are the net foreign assets of the CBN, net claims on government, claims on government, claims on deposit money banks, and other assets (net) of the CBN.

***Money Supply (or Money Stock)*** refers to the total value of money in the economy and this consists of currency (notes and coins) and deposits with deposit money banks (DMBs). For purposes of policy, there are two variants of money supply in Nigeria M1 and M2. M1 is the narrow measure of money supply which includes currency in circulation with the non-bank public and demand deposits (current accounts) at the deposit money banks. M2 is the broad measure of money supply and includes M1 and savings and time deposits at the DMBs. Savings and time deposits are also called quasi-money. M2 measures total liquidity in the economy. Excess liquidity is the amount of liquidity over and above the optimum level of liquidity, determined by the levels of output and prices.

***Net Foreign Assets (NFA)*** constitute the foreign exchange holdings of the CBN and the deposit money banks, after netting out the claims of foreigners. Changes in NFA should reflect developments in the balance of payments. A deficit in the balance of payments would lead to a decrease in foreign asset holdings and ultimately the money stock. A surplus in the balance of payments produces the opposite effect.

***New Issues*** are securities raised in the primary market for the first time.

***Nominal Exchange Rate***: The nominal exchange rate is the price of one currency relative to another. The real exchange rate is the nominal exchange rate deflated by changes in relative prices.

***Nominal Interest Rate***: This is the actual rental value paid for the use of money or credit. It includes the effects of inflation and uncertainty.

***Offer for Sale*** is an offer by shareholders to sell existing shares to the public. The sale is effected usually through stockbrokers and does not affect the capital base of a company.

***Offer for Subscription*** is an invitation by a company to the public to subscribe to new issues. This increases the capital base of the company.

***Open Market Operations*** involve the discretionary power of the CBN to purchase or sell securities in the financial markets in order to influence the volume of liquidity and levels of interest rates which ultimately would affect money supply. When the CBN sells financial instruments, the liquidity (excess reserves) of the banking system reduces. This restricts the capacity of banks to extend credit or induce monetary expansion. On the other hand, when the CBN purchases such instruments, it injects money into the system and banks' ability to expand credit is enhanced.

***Operational Risk****:* Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk is present in virtually all banking transactions and activities.

***Other Assets (net)*** is the other assets of CBN, deposit money banks less (their) other liabilities.

**Preference Shares** are shares of companies on which dividends must be paid before any other shares.

***Prime Lending Rate***: This is the interest rate applied to loans made to customers with the highest rating. For each bank, this rate also represents the minimum lending rate.

***Prudential Guidelines:*** These are guidelines and practices which all licensed banks are required to adhere to in reviewing and reporting their performance, particularly in the areas of credit portfolio classification and disclosure; the provision for non-performing facilities and interest accrual; the classification of other assets; and off-balance sheet engagements.

***Real Exchange Rate:*** This is the nominal exchange rate deflated by change in relative prices. *See also* ***Nominal Exchange Rate***

***Real Interest Rate***: This is the nominal interest rate adjusted for expected inflation. In order to encourage savings, real interest rate is expected to be positive.

***Recurrent Expenditure***: Expenditure on goods and services (other than capital assets) used in the process of production within one year. Interest on loans is included.

***Required Reserves*** are a fraction of commercial and merchant banks' money held for the purpose of backing up their deposit operations and partly to control the level of liquidity in the economy. They are made up of cash reserves and liquid assets and specified in the form of ratios. The cash reserves ratio is the percentage of deposit money banks' cash deposits with the CBN in relation to their total demand, savings and time deposits. The liquidity ratio is the percentage of banks' liquid assets to their total deposits liabilities.

***Reserve Money:*** *see* ***Monetary Base***

***Reserve Requirement*** refers to the proportion of total deposit liabilities which the deposit money banks are expected to keep as cash in vaults and deposits with the CBN. The CBN can control the money stock by varying the requirement as desirable. Usually, banks keep reserves over and above the legal requirement for safety. The cash ratio requires the deposit banks to keep a certain proportion of their total deposit liabilities in cash balances with the CBN, while the liquidity ratio stipulates the proportion of total deposits to be kept in specified liquid assets, mainly to safeguard the ability of banks to meet depositors' cash withdrawals and ensure confidence in the banking system. The CBN also has powers to call for special deposits from banks for the purpose of controlling liquidity.

***Rights Issues*** are shares offered to companies' existing shareholders in proportion to the number of shares held and usually at below the market price to make the offer attractive.

***Savings Deposit Rate***: The savings deposit rate is the amount paid by banks for funds withdrawable after seven days' notice. This restriction is, however, seldomly applied.

***Total Reserves:*** This is the sum of required reserves and excess reserves.

***Vault Cash***: Deposit money banks keep “petty cash” in their vaults for emergency transactions before they can access their accounts with the CBN. The amount so kept is called vault cash.

***Ways and Means Advances*** constitute a portion of credit by the CBN to government. These are temporary loans to government to bridge shortfalls in revenue. Statutorily, the CBN must not give more than 12.5 per cent of government's current revenue.

***Yield Curve***: Shows the relationship between the rate of interest and the time to maturity of different financial assets.

# Appendix D
## Monetary Policy Committee Decisions in 2009

| Meeting Date | Decisions |
|---|---|
| January 14, 2009 | • Left MPR unchanged at 9.75 per cent<br>• Re-introduced RDAS with effect from January 19<br>• Net Open Position (NOP) limit reduced from 10% to 5% |
| February 9, 2009 | • Left MPR unchanged at 9.75 per cent<br>• Decided to manage exchange rate within a band of +/-3%<br>• Pegged difference between CBN buying and selling rates at 1%; Banks at 1%; and BDCs at 2% around the CBN rate |
| April 8, 2009 | • Reduced MPR from 9.75% to 8.0%<br>• Reduced liquidity ratio from 30.0% to 25%<br>• Reduced the CCR from 2.0% to 1.0% with effect from April 14 |
| | • Decided to return to a regime of fully liberalized foreign exchange market over a 3-month period<br>• Banks' foreign exchange net open position (NOP) limit raised from 1.0% to 2.5%<br>• Relaxed the mandatory requirement to sell to the CBN funds obtained from non-RDAS and non-oil exports proceeds, and might use such fund for inter-bank transactions<br>• Removal of requirement that banks transact foreign exchange at 1% around the CBN rate<br>• RDAS twice weekly effective June 1<br>• Approval in principle granted to 50 non-bank Class "A" BDCs |
| July 7, 2009 | • Reduced MPR by 200 basis points<br>• Reinstated new monetary policy framework with the interest rate corridor at +/- 200 basis points<br>• Reverted to WDAS<br>• Raised NOP limit to 5%<br>• CBN to provide a guarantee on all inter-bank placements from July 2009 to March 31, 2010<br>• Removed all caps and floors on interest rates imposed by the Bankers' Committee |
| September 1, 2009 | • MPR retained at 6%<br>• Recommended to government the floatation of an asset purchase facility |
| November 3, 2009 | • MPR to remain unchanged at 6% with asymmetric corridor of interest rates around MPR of +200 and -400 basis points for SLF and SDF, respectively<br>• N500 billion approved for quantitative easing through investment in bonds to be issued by Asset Management Company, issued during bank consolidation for the purchase and assumption of failed banks<br>• Temporary ban placed on the use of Bankers' Acceptances (BAs) and Commercial Papers (CPs) as off-balance sheet items was lifted effective November 16, 2009<br>• The 1% general provision on performing loans contained in the existing prudential guidelines waived for the year 2009 |

# Appendix E
# Policy Circulars and Guidelines Issued in 2009

## 1. BANKING OPERATIONS

| S/N | Reference No. | Name of Circular | Date Issued |
|---|---|---|---|
| 1. | | Electronic Payment to Government Suppliers: Circular to Banks to Dishonour Cheques dated and Issued from January 1, 2009, by Ministries, Departments and Agencies (MDAs) | January 15, 2009 |
| 2. | | Extension of Timeline for Migration from Magnetic Stripe to Chip+PIN/EMV | February 04 |
| 3. | | Implementation Guidelines for e-Payment from all funds of the Federal Government of Nigeria in respect of MDAs | February 06 |
| 4. | | Circular on Compliance with CIFTS Operating Hours | February 27 |
| 5. | | Extension of Timeline for Migration from Magnetic Stripe to CHIP+PIN/EMV | February 27 |
| 6. | | Update on the CBN Lending Windows | March 16 |
| 7. | | Request for Sort Codes of All Deposit Money Banks | March 26 |
| 8. | | Exposure Draft on Mobile Payment Services Regulatory Framework | April 01 |
| 9. | | Deployment of Automated Teller Machines | April 07 |
| 10. | | Guideline on Transaction Switching Services and the Operational Rules of the Nigeria Central Switch | May 27 |
| 11. | | Dishonouring Bank Draft(s) by Issuing Banks | June 24 |
| 12. | | Circular on Compliance with Settlement Cycle for Electronic Payment | June 25 |
| 13. | | Deployment of Deposit Money Banks' Offsite ATMS and Establishment of ATM Consortium | June 26 |
| 14. | | Guarantee for Inter-Bank Placements and Placements with Banks by Pension Funds Administrators | July 13 |
| 15. | | Revised Guideline for Repo Transactions and CBN Inter-Bank Guarantee | July 17 |
| 16. | | Suspension of BA's and CP's As Off Balance-Sheet Items | July 23 |
| 17. | | Need to Provide Adequate Narration for Inter-Bank Transfers over the CBN Inter-Bank Transfer System (CIFTS) | July 30 |
| 18. | | Extension of the Deadline for the Removal of Deposit Money Banks' Offsite ATMs | August 27 |
| 19. | | Guideline on Stored Value/Prepaid Card Issuance and Operations | November 24 |
| 20. | | Harmonization of Account | December 08 |
| 21. | | Maximum Limit on Cheque Payment | December 11 |
| 22. | | Guidelines for Handling Complaints on Electronic Card Transactions | December 18 |
| 23. | | Circular on Compliance with Service Level Agreement on Funds Remittances to Beneficiaries | December 23 |

## 2. BANKING SUPERVISION

| S/N | Reference No. | Name of Circular | Date Issued |
|---|---|---|---|
| 1. | | Publication of Interest Rates | January 29 |
| 2. | | Liquidity and Capital Adequacy Ratio Computation | January 29 |
| 3. | | Draft Framework for the Regulation and Supervision of Non -Interest Banking in Nigeria | March 04 |
| 4. | | Reforms of the BDC Segment of the Foreign Exchange Market | March 12 |
| 5. | | Anti-Money Laundering/Combating Financing of Terro rism (AML/CFT) Compliance Manual for Banks and Other Financial Institutions in Nigeria | March 20 |
| 6. | | Reminder to Address Anti -Money Laundering/Combating Financing of Terrorism Issues – Circular to all Banks and Other Financial Institutions | March 20 |
| 7. | | Sanctions for the Violation of the Decision on Maximum Deposit Rate, Lending Rate and Other Charges | April 08 |
| 8. | | Sanctions for the Violation of the Decision on Maximum Deposit Rate, Lending Rate and Other Charges | April 17 |
| 9. | | Sanctions for the Violation of the Decision on Maximum Deposit Rate, Lending Rate and Other Charges | April 23 |
| 10. | | Submission of Schedule of Commercial Papers (CPs) and Bankers ' Acceptances (BAs) | June 15 |
| 11. | | Submission of Details of Exposures including Commercial Papers (CPs) and Bankers' Acceptances (BAs), to Transnational Corporation (Transcorp) and Virgin Nigeria Limited | June 15 |
| 12. | | Circular to all Banks and Discount Houses on Common Accounting Year End | June 19 |
| 13. | | Submission on Details of Total Exposures to Companies in the Energy Sector | June 22 |
| 14. | | Lending to all Tiers of Government and their Agencies | June 26 |
| 15. | | Preparation of Financial Statements as at June 30, 2009 | July 13 |
| 16. | | Guarantee for Inter -Bank Placement and Placements with Banks by Pension Fund Administrators | July 13 |
| 17. | | Daily Returns on Inter-Bank Placements and Takings | July 15 |
| 18. | | Common Year End | July 17 |
| 19. | | Circular to Banks on Non -Compliance of Securities Companies of Banks in Nigeria with the Stamp Duties Act 2004 | July 17 |
| 20. | | Revised Guideline for Repo Transactions and CBN Inter-Bank Guarantee | July 17 |
| 21. | | Suspension of BAs and CPs as Off Balance-Sheet Items | July 24 |
| 22. | | Daily Returns on Inter-Bank Placements and Takings | August 06 |
| 23. | | Daily Returns Template | August 06 |
| 24. | | Alert on Counterfeit CFA Notes in Circulation | August 12 |
| 25. | | Restrictions on Democratic People's Republic of Korea (North Korea) Government Agencies and Front Companies for Involvement in Illicit Activities | August 12 |
| 26. | | Publication of Interest Rates | October 14 |
| 27. | | Publication of Un-Audited Accounts of Banks as at September 30, 2009 | October 26 |
| 28. | | Terrorist Individuals and Organizations | October 27 |
| 29. | | Report on Classified Facilities | October 28 |
| 30. | | Revised CBN Anti -Money Laundering/Counter Terrorism Finan cing (AML/CTF) Manual, 2009 (Draft) | October 29 |