APPENDICES

Appendix A1

Balance Sheet
As at 31st December, 2010

	Note	2010 ₦' Million	2009 ₦' Million
Assets:			
External reserves	2	4,953,779	6,191,163
Holdings of Special Drawing Rights	3	384,833	352,465
Nigerian Government Securities	4	272,829	317,269
Loans and advances	5	320,163	387,549
Investments	6	107,191	88,584
Other assets	8	475,647	464,700
Fixed assets	9	208,192	159,182
		6,722,634	**7,960,912**
Liabilities:			
Deposit accounts	10	4,145,816	5,088,242
Central Bank of Nigeria instruments	11	105,878	50,800
Notes and coins in circulation	12	1,378,135	1,181,828
International Monetary Fund allocation of Special Drawing Rights	14	384,870	388,982
Other financial liabilities	15	515,345	666,914
		6,530,044	**7,376,766**
Capital and reserves:			
Share capital	18	5,000	5,000
General reserve fund	19	83,477	71,854
Fixed assets revaluation reserve	20	57,069	63,143
Foreign currency revaluation reserve	21	14,070	379,982
Reserve on fund managers' investments	22	32,974	64,167
		192,590	**584,146**
Liabilities and Equity		**6,722,634**	**7,960,912**

	Governor	24 February 2011
	Director	24 February 2011
	Director	24 February 2011
	Director of Finance	24 February 2011

The accounting policies on pages 174 to 180 and the notes on pages 181 to 199 form part of these financial statements.

Appendix A2

Income Statement
For the Year ended 31st December, 2010

	Notes	2010 ₦'Million	2009 ₦'Million
Interest income	23	106,742	158,850
Interest expense	24	(33,921)	(22,665)
Net Interest Income		**72,821**	**136,185**
Realised gain on foreign currency	21	354,712	449,704
Other operating income	25	**134,648**	**123,132**
		562,181	**709,021**
Provision for bad and doubtful debts	26	(206,400)	(412,295)
Operating Costs	27	(298,685)	(256,913)
		57,096	39,813
(Net charge)/Write back to provisions	17	(10,603)	4,050
Surplus available for appropriation		**46,493**	**43,863**
Appropriation:			
Transfer to general reserve fund	19	11,623	10,966
Transfer to Federal Government of Nigeria under S.5 (3) of the Central Bank of Nigeria Act 2007	16	34,870	32,897
		46,493	43,863

The accounting policies on pages 174to 180 and the notes on pages 181 to 199 form part of these financial statements.

Appendix A3

Statement of Cash Flows
For the Year ended 31st December, 2010

	Notes	2010 N'Million	2009 N'Million
Cash flow generated from operating activities			
Net Cash utilised by from operating activities	28	(1,127,029)	(634,070)
Cash flow (utilised by)/generated from investing activities			
Purchase of fixed assets		(58,567)	(32,340)
Proceeds from sale of fixed assets		12	30
Deposit for shares		(5,493)	(10,186)
Purchase of promissory notes of Transnational Corporation of Nigeria Plc		-	(63,000)
Increase in Investment (Note 6)		(18,667)	-
Net investment in Government bonds		44,440	(44,862)
Net cash utilised by investing activities		(38,275)	(150,358)
Cash flow utilised by financing activities			
Surplus paid to the Federal Government of Nigeria		(39,712)	(6,239)
Net cash utilised by financing activities		(39,712)	(6,239)
Decrease in cash and cash equivalents		(1,205,016)	(790,667)
Balance at the beginning of the year		6,543,628	7,334,295
Decrease in cash and cash equivalents		(1,205,016)	(790,667)
Balance at the end of the year		5,338,612	6,543,628
The balance at the end of the year is analysed as follows:			
Bank balances		5,218,256	6,469,430
Sundry currencies		120,356	74,198
		5,338,612	6,543,628

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 terms 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 to only 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 to be 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, and/or risks inherent in such facilities.

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/Guarantees**

Contingency/Guarantees provision are 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, if and when they crystallise.

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 Nigeria 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, 2010

1. General Information

The Central Bank of Nigeria (CBN or the Bank) is the apex regulatory authority of the banking system in Nigeria .It was established by the ***Central Bank of Nigeria Act of 1958***, as amended by the CBN Act No7 of 2007. It commenced operations on 1 July 1959.

The issued 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, act as banker to the Federal Government and Federal Government Parastatals, and provide financial advice to the Federal Government of Nigeria.

2. External reserves

	2010 ₦' Million	2009 ₦' Million
Convertible Currencies (see notes 2 a and 2b)	4,953,737	6,191,121
International Monetary Fund Reserve tranche	23	23
Gold	19	19
	4,953,779	**6,191,163**

(a) Convertible currencies comprise:

	2010 ₦' Million	2009 ₦' Million
Current account with foreign banks	821,585	725,240
Time deposits and money employed	1,872,343	2,699,809
Domiciliary accounts	469,834	630,965
Other foreign securities	1,669,619	2,060,909
Sundry currencies and travellers' cheques	120,356	74,198
	4,953,737	**6,191,121**

Included in convertible currencies is an amount of N2,046.62 million, (2009 N2,568.71 billion), 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 10b)

	2010 ₦' Million	2009 ₦' Million
(a) Convertible currencies are further analysed by Currency		
United States Dollar	4,064,423	5,306,668
British Pounds Sterling	193,191	195,832
Euro	688,903	680,299
Japanese Yen	4,230	2,448
Others	2,990	5,874
	4,953,737	**6,191,121**

3. Holdings of Special Drawing Rights		
At 1 January	352,465	156
Additional holdings	-	355,863
Acquisitions during the year	34,274	7
Interest earned in the year	992	306
Charges for the year	(1,034)	(513)
Revaluation	(1,864)	(3,354)
At 31 December	**384,833**	**352,465**

4. Nigerian Government Securities		
Nigerian Treasury Bills	44,169	1,900
Nigerian Treasury Bonds	228,651	252,314
Nigerian Development Stocks	9	25
Promissory notes	-	63,030
	272,829	**317,269**

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 through a refinancing arrangement purchased promissory notes issued by the Federal Government of Nigeria to Union Trustees in respect of loans granted to Transnational Corporation of Nigeria Plc. by a consortium of banks (represented by Union Trustees Limited). The promissory notes, with an interest rate of 8.28%, were converted to Federal Government Bonds on 22 September 2010.

5. Loans and advances

Overdraft balances & short - term advances	263,571	184,225
Staff loans	5,165	3,203
Loans to DMBs on Commercial Agricultural Credit Scheme (Note 15)	95,606	43,333
Advances to Federal Mortgage Bank of Nigeria	9	9
Other loans	12,794	17,174
Long-term loans (see 5(b))	603,319	637,000
	980,464	**884,944**
Provision for loan losses (Note 5a):	**(660,301)**	**(497,395)**
	320,163	**387,549**

5a Movement in provision for loan losses

	2010 ₦' Million	2009 ₦' Million
At 1 January	497,395	85,559
Eliminated through forebearance	(36,940)	(24,594)
	460,455	60,965
Provision for the year	199,846	436,430
At 31 December	660,301	497,395

Overdraft balances and short-term advances

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

Other loans

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

	2010 ₦' Million	2009 ₦' Million
5b Long term loans:		
At 1 January	637,000	7,127
Addition in the year	3,694	667,000
Repayments during the year	(435)	(12,533)
Eliminated through forbearance	(36,940)	(24,594)
	603,319	637,000

Details of benefitting banks and amounts granted by CBN:

Afribank Plc	50,000	50,000
Bank PHB Plc	70,000	70,000
Finbank Plc	50,000	50,000
Intercontinental Bank Plc	100,000	100,000
Oceanic Bank Plc	100,000	100,000
Societe Generale Bank Ltd	3,258	-
Spring Bank Plc	60,000	60,000
Union Bank Plc	120,000	120,000
Wema Bank Plc	50,061	87,000
	603,319	637,000

Except for Societe Generale Bank Ltd., long term loans represent Central Bank of Nigeria's 7 years special intervention support to under-capitalized deposit money banks at an interest rate of 3.25% per annum as at 31 December 2010. (2009: 8% per annum). A provision of 100% has been effected in the financial statements as at 31 December 2010 for the loan balance. As at 31 December 2010, the Assets Management Corporation of Nigeria (AMCON) had been established and had acquired some of the toxic assets of these banks.

6. Investments

	Percentage Holding	2010 ₦' Million	2009 ₦' Million
Investments in subsidiaries and associates:	%		
Abuja Securities & Commodity Exchange	51	408	408
Africa Finance Corporation	42	57,958	57,958
Asset Management Corporation of Nigeria	50	250	-
Bank of Industry	40	2,708	2,708
National Economic Reconstruction Fund	33	100	100
Nigerian Agricultural Cooperative and Rural Development Bank	40	4,027	4,027
Nigeria Deposit Insurance Corporation	60	1,380	1,380
Nigerian Security Printing and Minting Company Plc (NSPMC)	77	13,390	13,250
Nigerian Export Import Bank	40	25,000	6,723
6% Perpetual Debentures in Nigeria n Export Import Bank	-	1,250	1,250
		106,471	**87,804**
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	53
		1,313	1,313
		107,784	**89,117**
Provision for diminution in value of investments		(593)	(533)
		107,191	**88,584**

7. Amount paid out in respect of the following distressed banks

	2010 ₦' Million	2009 ₦' Million
African Express Bank	663	930
African International Bank	2,300	-
All States Trust Bank	15,922	15,922
Assurance Bank	4,475	4,475
City Express Bank	5,372	5,181
Gulf Bank	6,108	5,662
Hallmark Bank	2,979	1,886
Lead Bank	3,821	4,979
Trade Bank	7,303	8,103
	48,943	47,138
Provision for doubtful balances	(48,943)	(47,138)

The Bank entered into Purchase and Assumption arrangements with the Nigeria Deposit InsuranceCorporation (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 11 for the liability in respect of the promissory note issued.

8. Other assets

Due from Agricultural Credit Guarantee Scheme Fund	711	1,176
Accrued interest receivable	13,805	26,593
Accounts receivable	29,738	33,302
Deposit for shares (NSPMC, BOI, Islamic Liquidity Management Corporation, Malaysia and AMCON) (Note (8a) below)	20,625	15,132
Sundry receivables (Note (8b) below)	415,484	390,929
	480,363	**467,231**
Provision for doubtful balances	(4,716)	(2,432)
	475,647	**464,700**

8a. Deposit for shares represents deposits made by the Bank in respect of equity of the Nigerian Security Printing and Minting Company Plc. (N10.19 billion), bank of Industry (N4.95 billion), Islamic Liquidity Management Corporation, Malaysia (N743 million) and Asset Management Corporation of Nigeria (N4.75 billion). The shares have not been allotted as at 31 December 2010.

8b. Sundry receivables are further analysed as:

Deferred interest and prepayments	8,292	2,584
IMF Quota	402,747	382,422
Cheques in clearing	3,522	2,405
Others	923	3,518
	415,484	**390,929**

9. Fixed Assets

	Land & buildings	Plants & equipment	Furniture & fittings	Computers	Motor vehicles	Capital work in progress	Total
	₦'M	₦'M	₦'M	₦'M	₦'M	₦'M	₦'M
2010:							
Cost/valuation:							
At 1-January	79,001	27,042	2,191	5,881	4,021	77,709	195,845
Additions	-	5,192	270	2,352	1,146	49,607	58,567
Disposals	-	-	-	-	(25)	-	(25)
Transfers in/(out)	-	-	-	-	-	-	-
Adjustments	-	(11,743)	(457)	(808)	(3,058)	-	(16,066)
At 31-December	**79,001**	**20,491**	**2,004**	**7,425**	**2,084**	**127,316**	**238,321**
Accumulated depreciation:							
At 1 January	8,444	19,076	1,880	5,432	1,831	-	36,663
Charge for the year	2,022	946	367	694	261	-	4,290
Transfers	-	-	-	-	-	-	-
Disposals	-	-	-	-	(25)	-	(25)
Adjustments	-	(8,283)	(392)	(745)	(1,379)	-	(10,799)
At 31-December	**10,466**	**11,739**	**1,855**	**5,381**	**688**	**-**	**30,129**
Net book value	**68,535**	**8,752**	**149**	**2,044**	**1,396**	**127,316**	**208,192**

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.

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, OlatoyeOgundana 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

9. Fixed Assets Cont'd

2009:

Cost/valuation:	₦'M	₦'M	₦'M	₦'M	₦'M	₦'M	₦'M
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**

10. Deposit accounts

	2010	**2009**
Government deposits:	**₦' Million**	**₦' Million**
-Capital/settlement accounts	**1,703,128**	**2,267,979**
-Domiciliary accounts	**469,834**	**630,965**
Other Accounts (see (a) below)	**1,576,786**	**1,937,743**
Financial Institutions:		
-Current/settlement accounts	**302,527**	**165,952**
-Bank's reserve accounts	**93,541**	**85,603**
	4,145,816	**5,088,242**

10a. Other accounts are further analysed as follows:

	2010	2009
FGN PPT Naira funding account	508,898	973,760
Special reserve account	627	622
FGN excess crude oil proceeds (Naira funding) account	273,347	178,910
Letters of credit consolidated account	314,653	283,905
FGN (External creditors) funding account	42,767	88,345
NNPC/ NAPIMS cash call account	6,353	6,353
Deposits for Naira draft account	2,832	2,953
Monetary policy stabilization account	4,618	4,618
IMF Securities Account	397,373	379,484
Sundry accounts	25,318	18,793
	1,576,786	**1,937,743**

10b. Foreign currency deposits held on behalf of customers for letters of credit transactions and other purposes are analysed below:

	2010	2009
Domiciliary accounts	469,834	630,965
Other accounts	1,576,786	1,937,743
	2,046,620	**2,568,708**

	2,046,620	**2,568,708**
11. Central Bank of Nigeria instruments		
Central Bank of Nigeria Promissory Notes (see 11(a))		
At 1 January	-	19,343
Issues during the year	4,030	6,708
Redemption in the year	(2,993)	(25,924)
Accrued interest	91	(127)
At 31 December	1,128	-
Open Market Operations - CBN bills (see 11(b)):		
At 1 January	50,800	607,725
Issued during the year	270,750	254,491
Redemption during the year	**(216,800)**	**(811,416)**
At 31 December	**104,750**	**50,800**
Total Central Bank of Nigeria Instruments	**105,878**	**50,800**

(a) The CBN issued Promissory Notes to Ecobank Nigeria Plc. and United Bank for Africa Plc as part of a Purchase and Assumption Arrangement over the private sector deposits and certain assets of African International Bank Limited and Hallmark Bank Plc (Ecobank Nigeria Plc), City Express Bank Plc (United Bank for Africa Plc). The Promissory Notes have tenors of 1 2 years and carry coupon rates of 4.2% - 4.6%.

(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 1.1% - 8.6% per annum.

	2010 ₦' Million	**2009 ₦' Million**
12. Notes and coins in circulation		
Notes	1,376,993	1,180,686
Coins	1,142	1,142
	1,378,135	**1,181,828**
13. Employment benefit liabilities		
Defined benefit scheme:		
At 1 January	-	40,163
Contributions	-	2,345
Provision for actuarial deficit	-	22,280
Remittances/Transfers to trustees	-	(64,788)
At 31 December	**-**	**-**
Defined contributory scheme:		
At 1 January	-	-
Contributions	4,345	43
Remitted to trustees	(4,345)	(43)
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 independently by the firm of Alexander Forbes Consulting Actuaries and HR Nigeria (Consultants and Actuaries) as at 31 December 2009 and actuarial surpluses of N20.06 billion and N37.20 billion were respectively established against the deficit of N89.12 billion for the year ended 31 December 2008. The sum of N44.56 billion, representing 50% of the actuarial deficit, has been charged to the financial statements for the year ended 31 December 2008 while N 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 balance of N22.28 billion representing 25% of the deficit is no longer required to be charged to the financial statements for the year ended 31 December 2010 as the board approved the discontinuance of the non-contributory deficit pension scheme on 31 December 2009.

The trustees maintain a deposit account with the Bank with respect to contributions and as at 31 December 2010, the balance was N2.13 million (2009: N157.89 million).

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.

14. IMF Allocation of Special Drawing Rights	2010 ₦' Million	2009 ₦' Million
At 1 January	388,982	31,769
Additional allocation	-	357,213
Revaluation	(4,112)	-
At 31 December	**384,870**	**388,982**

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.

15. Other financial liabilities

	₦' M	₦' M
Interest payable	408	172
Accrued charges	83,972	45,428
Surplus payable to the Federal Government of Nigeria (Note 16)	28,352	33,194
Sundry payables	155,685	351,795
Payable to DMO on Commercial Agricultural Credit Scheme	200,000	200,000
Bank of Tokyo-Commodity loan	1	1
Other provisions (Note 17)	46,927	36,324
	515,345	**666,914**

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 N95.6 billion (Note 5) out of the said amount has been paid by the Bank to the DMBs for disbursement to the farmers, as at 31 December 2010.

16. Surplus payable to Federal Government of Nigeria

	₦' M	₦' M
At 1 January	33,194	6,536
Transfer from income and expenditure account	34,870	32,897
Paid during the year	(39,712)	(6,239)
At 31 December	**28,352**	**33,194**

17. Other provisions

	At 1 January ₦' Million	Additional Provision ₦' Million	At 31 December ₦' Million
2010:			
Contingency (see (a) below)	31,890	-	31,890
Internal currency insurance funds (see (b) below)	4,434	-	4,434
Agricultural credit fund (see (c) below)	-	10,603	10,603
At 31 December	**36,324**	**10,603**	**46,927**
2009			
Contingency	32,234	(344)	31,890
Internal currency insurance funds	7,800	(3,366)	4,434
Agricultural credit fund	340	(340)	-
At 31 December	**40,374**	**(4,050)**	**36,324**

(a) Contingency provisions represent provisions in respect of probable legal obligations (note 29a).

(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.

	2010 ₦' Million	2009 ₦' Million
18. Capital		
Authorised share capital	100,000	100,000
Issued and fully paid up:		
At 1 January and 31 December	5,000	5,000

Section 4(1) of the Central Bank of Nigeria Act No 7 2007 gave approval to the increase in authorized capital of the Bank from N5 billion to N100 billion. S4 (2) provides that all the capital of the Bank shall be subscribed and held only by the Federal Government of Nigeria.

19. General reserve fund

At 1 January	71,854	60,888
Transfer from appropriation account	11,623	10,966
At 31 December	**83,477**	**71,854**

20. Fixed assets revaluation reserve		
At 1 January	63,143	63,143
Realised on disposal/verification exercise carried out during the year	(6,074)	-
At 31 December	**57,069**	**63,143**

21. Foreign currency revaluation reserve		
At 1 January	379,982	358,130
Net gain/(loss) on revaluation during the year	(11,200)	471,556
	368,782	829,686
Realized gain transferred to income and expenditure account	**(354,712)**	**(449,704)**
At 31 December	**14,070**	**379,982**

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 transferred to the income and expenditure account.

22. Reserve on fund managers' investments	**2010**	**2009**
At 1 January	64,167	16,429
Movement during the year	(31,193)	47,738
At 31 December	**32,974**	**64,167**

23. Interest income		
Analysis by type		
Time deposits and money employed	31,520	56,432
Federal Government Securities	33,995	27,801
Loans and advances	41,227	74,617
	106,742	**158,850**
Analysis by geographical location:		
Domestic	75,222	102,418
External	31,520	56,432
	106,742	**158,850**

24. Interest expense		
Central Bank of Nigeria Instruments	4,593	12,276
Interest on Treasury Bonds	2,608	3,927
Deposit Balances	3,660	1,218
Interest subsidy on Commercial Agricultural Credit Scheme	23,060	5,244
	33,921	**22,665**

All interest was paid locally

25. Other operating income		
Fees	2,475	2,953
Foreign exchange earnings	80,540	77,244
Commissions	26	149
Gain on sale of fixed assets	12	27
Realized gain on fund managers' investments	37,734	-
Other income	13,861	42,759
	134,648	**123,132**

26. Provisions		
Loans and advances	199,845	436,430
Promissory notes issued	4,030	6,708
Contingent liabilities	-	31,890
Investments	60	-
Other assets	2,465	2,315
Provision no longer required	-	(65,048)
	206,400	**412,295**

27. Operating costs

Currency issue expenses	57,931	57,091
Salaries and wages	51,916	25,900
Gratuity	37,408	35,806
Other staff expenses	5,533	5,468
Pension costs	2,928	23,417
Administrative expenses	42,364	36,937
Banking Sector Resolution Cost Sinking Fund	50,000	-
Donations	1,473	209
Depreciation charge	4,290	5,082
Repairs and maintenance	8,410	9,477
Consultancy fees	9,814	4,388
Bank charges	386	298
Audit fees	200	140
Directors' related expenses	307	530
Centres of excellence	1,229	2,716
Realised loss on fund managers' investments	-	49,454
Contribution to international conference center*	20,417	-
Contribution to internal national security	4,078	-
	298,685	**256,913**

*The CBN, in conjunction with the Federal Government of Nigeria, will be constructing a world class centre suitable for hosting of international conferences.

28. Cash generated from operating activities

Reconciliation of surplus for year to cash generated from operating activities:	**2010**	**2009**
Surplus before appropriation	46,493	43,863
Adjustments for:		
Depreciation	4,290	5,082
Profit on disposal of fixed assets	(12)	(27)
Provisions	217,003	412,295
Realised loss/(gain) on fund managers	(37,734)	49,454
Realised gain on foreign exchange currency	(354,712)	(449,704)
Net cash (utilised)/generated from operating activities	**(124,672)**	**60,963**

Changes in working capital:		
decrease on loans and advances	(95,520)	(276,358)
(Decrease)/Increase in foreign currency revaluation reserve	(11,200)	443,744
(Decrease)/Increase in fund managers' reserve	(31,193)	47,738
Decrease in other assets	100,911	342,451
Decrease in deposit accounts	(942,426)	1,169,756
Increase/(Decrease) in Central Bank of Nigeria instruments	55,078	(602,192)
Increase in notes and coin in circulation	196,307	26,778
Revaluation (loss)/gain on IMF allocation of SDR	(4,112)	51,017
(Decrease)/Increase in other financial liabilities	(270,202)	441,545
Cash utilised by changes in working capital	(1,002,357)	(695,033)
Cash utilised by operating activities	**(1,127,029)**	**(634,070)**

29. Contingent liabilities and commitments

(a) Legal proceedings

There were a number of legal proceedings outstanding against the Bank as at 31 December 2010 with contingent liabilities of N3,154 billion (2009=N637.784 billion). The Directors estimate that provision made for 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 and other commitments

	2010 **N' Million**	**2009** **N' Million**
Intervention funds	1,054,700	-
Capital Commitments	95,053	44,500
	1,149,753	**44,500**

Intervention funds balance of N1,055 billion represents commitments made in respect of Commercial Agricultural Credit Guarantee Scheme, Small and Medium Enterprises Credit Guarantee Scheme, Power and Aviation Fund, SME/Manufacturing Sector Intervention Fund and the Banking Sector Resolution Cost Sinking Fund. The capital commitments are in respect of fixed assets and will be funded from internal resources.

(a) Guarantees

	2010 ₦' Million	2009 ₦' Million
Deposit Money Banks	897,680	964,960
Discount Houses	42,160	19,500
Pension Fund Administrators	110,170	206,770
Foreign Banks	-	814,375
	1,050,010	**2,005,605**

The Bank during the year guaranteed local interbank balances and balances with other financial institutions. Guarantees represent total exposure to the Nigerian Financial Sector for foreign credit lines extended to deposit money banks.

30. 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.

31. Comparatives

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

Appendix B3

REPORT OF THE INDEPENDENT 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, 2010, the income statement, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, set out on pages 202 to 222.

Directors' Responsibility for the Financial Statements

In accordance with the provisions of the *Central Bank of Nigeria Act*, the Board of Directors are responsible for the preparation of the financial statements which give a fair presentation of the state of affairs of the Bank at the end of the year and its income and expenditure.

The responsibilities include ensuring that:

i. the Bank keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Bank and comply with the requirements of the *Central Bank of Nigeria Act*;
ii. appropriate and adequate internal controls are established to safeguard its assets and to prevent and detect fraud and other irregularities;
iii. the Bank prepares its financial statements using suitable accounting policies supported by reasonable and prudent judgments and estimates that are consistently applied; and
iv. it is appropriate for the financial statements to be prepared on a going concern basis.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates in conformity with the *Central Bank of Nigeria Act*.

The Directors are of the opinion that the financial statements give a fair presentation of the state of the financial affairs of the Bank and of its income and expenditure and cash flows.

The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the Bank will not remain a going concern for at least twelve months from the date of this statement.

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:

Sanusi Lamido Sanusi, CON
Chairman
24th February 2011

Stephen Oronsaye, CFR
Director
24th February 2011

Auditors' Responsibility

Our responsibility is to express an independent opinion on the 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 our audit to obtain reasonable assurance that 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 Bank'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 Bank'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 opinion.

Opinion

In our opinion, the accompanying financial statements of the Bank on pages 171 to 197 for the year ended 31 December 2010 have been properly prepared in accordance with the accounting policies set out on pages 174 to 180 and complies with the provisions of the Central Bank Act No. 7 of 2007.

Akintola Williams Deloitte
Chartered Accountants
Abuja, Nigeria
28 February 2011

PricewaterhouseCoopers
Chartered Accountants
Lagos, Nigeria
28 February 2011

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 creditworthiness 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 orderto 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
Policy Circulars and Guidelines Issued in 2010

1. BANKING SUPERVISION

S/N	Reference No.	Name of Circular	Date Issued
1.	BSD/DIR/GEN/CIR/04/001	Re Publication of interest rates	6/1/2010
2	BSD/DIR/GEN/CIR/04/004	Minimum Information to be Disclosed in Financial Statements for the Year ended December 31, 2009	18/1/2010
3	BSD/DIR/GEN/CIR/04/005	Review of 26 Resident Examiners Programme of the Central Bank of Nigeria	21/1/2010
4	BSD/DIR/GEN/FCL/02/008	Update of Lending to all Tiers of Government and their Agencies	4/2/2010
5	BSD/DIR/GEN/CIR/04/066	Review of the Prudential Requirements of 1% Provision of Non-Performing Loans	9/2/2010
6	BSD/DIR/GEN/FCL/02/017	Templates for Reports on Non-Performing Loans and Group Proprietary Institutions as at December, 2009	9/2/2010
7	BSD/DIR/GEN/CIR/04/007	Failure to Banks to Update Records – Threat to Anti-Money Laundered Programme	21/2/2010
8	BSD/DIR/GEN/CIR/04/010	Guidelines on the Issuance and Treatment of Bankers' Acceptance and Commercial Papers	30/3/2010
9	BSD/DIR/GEN/CIR/04/011	Reconciliation of Monthly Bank Returns (MBR) to Audited Financial Statements	1/4/2010
10	BSD/DIR/GEN/CIR/04/015	The Need for Banks to Develop and Implement a Risk-Based Pricing Model	30/4/2010
11	BSD/DIR/GEN/CIR/04/016	Re: Monthly Submission of Credit Portfolio Classification by Banks	30/4/2010
12	BSD/DIR/GEN/CIR/04/014	Data Exchange Agreements with at Least Two Licensed Credit Bureaus in Nigeria	7/7/2010
13	BSD/DIR/GEN/CIR/04/015	The Need for Banks to Develop and Implement a Risk-Based Pricing Model	7/7/2010
14	BSD/DIR/GEN/FFT/02/089	Disbursement of the Proceeds of Foreign Funds Transfer	7/7/2010
15	BSD/DIR/GEN/NPG/04/001	New Prudential Guidelines for Deposit Money Banks	8/7/2010
16	BSD/DIR/CBGIR/2010/02	CBN Scope, Conditions & Minimum Standards for Commercial Banks Regulations No. 2010	16/7/2010
17	BSD/DIR/SBG/2010/03	Review of Guidelines for Specialized Institutions	16/7/2010
18	BSD/DIR/MBG/2010/05	CBN Scope, Conditions & Minimum Standards for Merchant Banks Regulations No. 02, 2010	9/8/2010
19	BSD/DIR/SIG/2010/06	CBN Scope, Conditions & Minimum Standards for Specialized Institutions Regulations No. 03, 2010	9/8/2010
20	BSD/DIR/GEN/UBN/03/061	Re: repeal of Universal Banking and Regulation for Transitional Arrangement for Existing Banks	8/9/2010
21		CBN/Securities and Exchange Commission Approved Rules on Margin Lending	1/10/2010
22	BSD/DIR/GEN/BOD/04/060	Document for Board of Directors' Meeting	21/10/2010
23	BSD/DIR/RBG/2010/08	Regulation on the Scope of Banking Activities & Ancillary Matters, No. 3, 2010	9/11/2010
24	BSD/DIR/CIR/RSB/2010/05	Supervisory Framework for Banks and Other Financial Institutions in Nigeria	23/12/2010
25	BSD/DIR/GEN/CIR/04/009	Re: Extension of the CBN Guarantee of Placements With Bonus by the Pension Fund Administrators from March 31, 2010 to December 31, 2010	31/12/2010

1. FINANCIAL POLICY & REGULATION DEPARTMENT

S/N	Reference No.	Name of Circular	Date Issued
1.	FPR/DIR/CIR/AML/CFT/01/001	The Circular informed Stakeholders of the Gazetting of the AML/CFT Regulation. The Circular also m\Mandated Deposit Money Banks to Comply with the Provisions of the Regulation.	5/5/2010
2	FPR/DIR/GDL/01/002	The Circular Listed the Various Names Associated with a Terrorist Group (AQI) and Required Banks to Render Returns upon Discovery of any Related Account within their Institutions.	17/6/2010
3	FPR/DIR/CIR/AML/CFT/01/002	This Circular Required Banks to Forward all AML/CFT Returns to the Director, Financial Policy & Regulation Department.	8/7/2010
4	FPR/DIR/CIR/CFP/Vol.1/003	The Circular Directed Banks to Review their Processes for Handling exited Staff Matters and to Issue Favourable/Adverse Clearances within 60 days of the date of receipt of the request for clearance.	15/7/2010
5		This Policy Listed the Terms/Conditions for the Grant of Liquid Asset Status to State Governmental Bonds.	9/9/2010
6	FPR/DIR/CIR/FXM/01/004	The Circular informed Stakeholders of the Revocation of the Licences of Class 'A' Bureaux De Change	02/11/10

2. FINANCIAL MARKETS DEPARTMENT

S/N	Reference No.	Name of Circular	Date Issued
1.		Guidelines for Granting Liquid Asset Status to State Government Bonds	12/8/2010
2	FMD/FED/CIR/GEN/01/082/10	Revised Guidelines for the Operation of the Foreign Exchange Market: Wholesale Dutch Auction System	29/12/2010

3. TRADE AND EXCHANGE DEPARTMENT

S/N	Reference No.	Name of Circular	Date Issued
1.	028	Deadline for Rendition of Returns through eFASS	9/6/2010
2	029	Process Flow for Marking up the Master Certificate of Capital Importation (CCI) on Nigeria GDRs	24/6/2010
3	030	Re: Monetary, Credit, Foreign Trade and Exchange Policy Guidelines for Fiscal Year 2010/2011	28/6/2010
4	032	Appointment of Citibank, Standard Chartered Bank and Access Bank Plc as Designated Banks for the Collected of NEDD Fees under the Nigeria Export Supervision Scheme (NESS)	23/9/2010
5	036	Re: Liberalisation on Unconfirmed Letters of Credit	24/11/2010
6	038	Specified Currencies for Transaction in the Foreign Exchange Market	22/12/2010

4. BANKING AND PAYMENTS SYSTEM DEPARTMENT

S/N	Reference No.	Name of Circular	Date Issued
1.		**The Circular made Clarifications on the Policy of N10 million Maximum cap for single Cheque Payment as follows:** • Cheques (to include Bank Drafts and Manager Cheque) • In-House Cheques Drawn by all Classes of Account holders of the same Bank and or Branch • Across-the-Counter Cash Withdrawals with Cheque by Customers of Banks • Dividend/Interest Warrant • All Classes of Cheques Issued Prior to the Take-Off Date of the Policy with Value Higher than N10 Million, but yet to be paid after January 1, 2010. Cheques in this Category were Allowed to be Presented within Two Weeks from January 4, 2010.	4/1/2010
2		**Circular on Accreditation of Cheque Printers :** The Circular Notified the Public that the CBN has Approved the Accreditation and Re-accreditation of 14 Cheque Printers Under "Nigeria Cheque Printer Accreditation Scheme" (NICPA)	1/3/2010
3		**Standards and Guidelines on Automated Teller Operations in Nigeria:** • No ATM Owner of Acquirer shall Discriminate Against any Card Scheme or Issuer • ATM Complaints to be Responded to within a Maximum of 72 Hours from the Date of Receipt the Complaints • PIN Change shall be Provided Free of Charge Throughout the Entire Value Chain • The ATM Downtime (Due to Technical Fault) is not more than Seventy-Two (72) Hours Consecutively and Helpdesk Contacts should be Adequately Displayed • All ATM Surcharges are to be fully Disclosed to Customers • Every ATM shall have Cameras which shall View and Record all Persons using the Machines and every Activity at the ATM. Where the User of an ATM Blocks His Image for Camera Capture, the ATM shall be Capable of Aborting the Transaction. • Liability Shifts in the Event of ATM Fraud is Provided.	04/2010
4		**Nigerian Uniform Bank Account Number (NUBAN) Standards:** -The Proposed NUBAN is a 10-digit Bank Account Number format, with the Following Structure: 999999999 - Account Serial Number 9 - A Check Digit constructed to support a Modulus Check, which Enables the Presenting Bank to Perform Checks • The Check Digit is Derived from an Algorithm that Operates on a Combination of the 3-Digit CBN-Assigned Bank Code and the 9-Digit Account Serial Number. • Every Bank is Required to Create and Maintain a NUBAN Code for Every Customer Account (Current, Savings, etc) in its Customers Records Database, and the NUBAN Code should be the Only Account Number to be used at all Interfaces with a Bank Customer. • The Bank Customer should be provided with only the NUBAN Code Supplied by the Customer to the Relevant Internal Account Number within the Bank's Technology System. • Effective Date for the Implementation is 9 Months	19/8/2010

5		**Circular on Interoperability and Interconnectivity of the Payments System Infrastructure in Nigeria:** The Circular stipulated that all Parties to the Nigerian Switching Infrastructure shall ensure that: • All Terminal Access Devices (POS and ATM etc) are Configured to Accept and Process All Payment Cards Schemes and other Electronic Payment Instruments that are Acceptable in Nigeria on or before 1st December 2010. • Their Switching Systems connect to the Nigeria Central Switch and only One Other Private Switch of their Choice as Determined by their Business Case. All Participants with Multiple Connection to Private Switches are hereby given till December 1, 2010 to Terminate all multiple Connections as appropriate.	25/8/2010
6		**Circulars on the Need to Combat Card Fraud:** • No Debit Card should be Issued on an Account without a Written Request from the Account Holder. Henceforth, DMBs shall bear Liability for any Fraud Perpetrated with the Use of Cards Issued without written Request from the Account Holder, and such Card must be Delivered in such a Manner that the Confidentiality of the Information is not Compromised. • DMBs should set and Implement Mandatory Daily Limits for ATM Cash Withdrawals. All other related Transactions, including POS and WEB Purchases should be Subject to Stringent Limits as Agreed and Documented between the DMBs and their Customers. It is the Responsibility of the DMBs to Ensure that the Agreements are Documented and that such Limits are Embedded with the Card so as to Automatically initiate a trigger when Limits are exceeded. • The Use of 2nd Level Authentication for Internet Transactions is now Mandatory for all Payment Cards. It is the responsibility of the Issuer to Ensure that Transactions Emanating from its WEB Merchants are Properly Scrutinized and Operations are Permitted Only After 2nd Level Verification. • DMBs must Send SMS Alerts to the Telephone/emails Addresses of Cardholders whenever there is a Debit Transaction via Payment Card. Evidence of the Dispatch of such Messages would be required in Cases of no-receipt of the Alerts by Account Holders as a Result of Telephone Network Failures. • Cardholders should be Provided with a Facility to Block their Accounts Immediately from their Mobile Phones whenever the SMS Alert is received in Respect of Suspicious Transactions so as to Prevent Further Fraudulent Transactions from being Perpetrated. • All Card Issuing Banks should deploy Fraud Monitoring Tools that have the Capability to Monitor the normal spending trends of a Card Holder as ell as Automatically Stop Abnormal Transactions that are Perceived to be Fraudulent. The Block shall only be Lifted by Express Instruction by the Card Holder. • The Use of Temporary Staff, i.e Students on Industrial Attachment/Vacation Job, NYSC Members and Contract Staff for Card Management and Issuance/Distribution of PIN Mailers should be stopped forthwith.	30/8/2010

7		Circular on Compliance with Due Diligence in the Deployment of Point of Sale (POS) Terminals: The Circular Stipulated that the Deposit Money Banks should: • Conduct Proper KYC on all their Merchants with POS • Set Merchants Limits Based on the Volume of Business/Commercial Activities • Set Customer Limit Based on Card Class • Instruct Merchants to Enforce Cardholder's Identification at the Point of Payment for Transactions above a Specific Limit as Agreed Between the Bank and the Merchant.	19/10/2010
8		**Circular to All Approved Mobile Payments Scheme Operators: The Circular Stipulated that the Sixteen Mobile Payment Scheme Operators should observe the following:** • A four-month, closed pilot run in no more than four Locations, one Urban Area and Three Rural Area • The Pilot run should be limited to not more than 5,000 Participants and not more than 100 agents. • Not to commence Media Campaign during the Pilot Run.	13/12/2010