CENTRAL BANK
OF NIGERIA

BANKING SUPERVISION
ANNUAL REPORT
2007

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Banking Supervision

Annual Report

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The Banking Supervision Annual Report is a publication of the Banking Supervision and Other Financial Institutions Departments of the Central Bank of Nigeria. The publication reviews policy and operational issues affecting the financial sector and its regulators/supervisors, with the main objective of disseminating information on current issues.

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TABLE OF CONTENTS

PAGE

PAGE

LIST OF TABLES

LIST OF FIGURES

PAGE

FOREWORD

As part of efforts to make the banking system the fulcrum of the financial sector transformation under the FSS 2020 project, the CBN continued the strategic repositioning of the industry to enable it carry out its expected developmental function in the economy. In this regard, several intricate issues arising from the banking sector consolidation were addressed. The increase in size and the sophistication in the activities of banks underscored the need to institutionalize good corporate governance across the industry. To achieve this objective, efforts were made by the CBN to ensure compliance by banks, with the Code of Corporate Governance for Banks, through quarterly on-site verification of their submissions. Furthermore, the teething problem of integration in the emergent banks had been largely addressed, while the private sector depositors of banks under liquidation had been substantially settled.

With a good number of the banks expanding into other countries, one of the objectives of the reform programme of making Nigeria the financial hub of Africa was gradually being attained. On the flipside, however, the increased expansion and the cross-border operations exposed such banks to various risks as well as stretched regulatory capacity.

To ensure effective supervision and eliminate opportunities for regulatory arbitrage, the CBN and the NDIC issued a framework on consolidated supervision to the industry for stakeholders' comments and followed that up with the signing of memoranda of understanding with a number of foreign supervisory authorities. It is believed that a regime of consolidated supervision would reduce contagion risks and ensure a cost effective regulation of the entire financial system.

Also, the risk-based approach to the supervision of banks and discount houses finally came on-stream. With 2007 serving as a transition year, a hybrid of risk-based and compliance-based examination techniques was carried out in a number of banks. Continued collaboration with international development partners such as the IMF, DFID and OSFI culminated in the appointment of a Technical Advisor to the Governor of the CBN on Supervision. The CBN aims to implement RBS and Consolidated Supervision concurrently, preparatory to the adoption of Basel II.

At the Bankers' Committee level, a number of initiatives were taken during the year, aimed at improving professionalism and enhancing self-regulation in the banking industry. Banks were advised to adopt a common year end effective December 2008. Also, a bank systemic risk assessment of the Nigerian banking system was undertaken for the first time.

The failure by some banks to report their non-performing loans to the Credit Risk Management System at the CBN and the inability of others to confirm the credit status of intending borrowers before disbursing loans led to the increasing incidence of predatory borrowers. Concerned about this development, and to encourage industry self-regulation, the CBN embarked on the development of guidelines for the licensing of private credit bureaux in Nigeria.

The microfinance policy launched in December 2005 firmly took root with the conversion of community banks to microfinance banks. It is expected that the successful implementation of the microfinance policy would herald the advent of microfinance institutions capable of mainstreaming the informal financial sector, empowering the economically active poor and ensuring the success of government's poverty eradication programme.

In an effort to further strengthen the legal framework, the CBN Act was re-enacted in 2007 to give the CBN more independence and operational autonomy, and redefine its core mandate.

With the various initiatives being put in place by the CBN, the vision of building a virile financial system that would support the economic development of Nigeria and integrate its economy with the rest of the world, remained on course.

Tunde Lemo
Deputy Governor
Financial Sector Surveillance

PREFACE

The Banking Supervision Annual Report continues to serve as a medium for the dissemination of information on the activities of the supervisory departments of the CBN. The 11th edition, which captured the regulatory and supervisory activities in 2007, is presented in seven chapters.

The first chapter provides updates of developments in the financial system. It reports on the extent of cooperation among the regulatory and supervisory agencies in West and Central Africa and the improvements made to the eFASS by the CBN. Furthermore, the chapter contains an assessment of the level of compliance with the Code of Corporate Governance for Banks in Nigeria. Developments witnessed in the Other Financial Institutions (OFI) sub-sector, particularly the conversion of community banks to microfinance banks, were also reviewed.

Chapter two gives insights into further reform initiatives in the financial system. The chapter reviews, among other issues, the financial sector regulation aspect of the Financial System Strategy (FSS 2020), post-consolidation integration of banks and the resolution of failed banks' deposits.

As usual, the on-site and off-site activities of the Banking Supervision and Other Financial Institutions departments were highlighted in chapter three. An assessment of the extent of activities carried out indicated a satisfactory discharge of the mandates of the two departments in the year.

Current issues of interest to supervisors were discussed in chapter four. The increasing trend of e-banking culture in the country and its positive effects on the Nigerian Payments System; the first-ever rating of the Nigerian Banking System, by Fitch Rating; and the imperative of capacity building for microfinance bank (MFB) operators are some of the interesting topics contained in this chapter.

Chapter five highlights the status of the various frameworks being established to facilitate the effective supervision of financial institutions in Nigeria. Arising from the shortcomings of the CBN Credit Bureau, there have been growing demands for the licensing of private sector-driven credit bureaux. The framework for consolidated supervision and the need for the licensing of private credit bureaux are discussed in this chapter. In addition, the chapter documents the salient issues in the re-enacted CBN Act 2007.

Chapter six presents the operational performance trend of the 24 Deposit Money Banks in Nigeria and also provides a summary of the performance of the various institution-types of the other financial institutions sub-sector.

Chapter seven is devoted to a review of the supervisory capacity building efforts of the CBN during the year. Thus, various training courses aimed at addressing identified skill gaps in risk-based supervision, consolidated supervision, microfinance banking supervision, among others, were undertaken during the year.

Obviously, the 2007 Banking Supervision Annual Report is loaded with many interesting topics that make compelling reading.

We wish to express our profound gratitude to the various contributors to this edition of the Report and the Management of the CBN for its sustained support for this publication. We also commend members of the committee that handled the publication of this Report for their sacrifice and continued commitment to excellence, and sincerely solicit the thoughtful comments of readers, which in the past had facilitated far-reaching improvement in the quality of the Report.

Odufu I. Imala
Director,
Banking Supervision Department

Samuel A. Oni
Director,
Other Financial Institutions Department

Chapter One

DEVELOPMENTS IN THE FINANCIAL SERVICES INDUSTRY

1.01 UPDATE ON COOPERATION AMONG THE REGULATORY/ SUPERVISORY AGENCIES

Committee of Banking Supervisors of West and Central Africa

The Committee of Banking Supervisors of West and Central Africa (CBSWCA) held its 13th Annual General Meeting in Kinshasa, Democratic Republic of Congo, from October 30 to November 1, 2007. The three-day meeting was hosted by the Central Bank of the Democratic Republic of Congo (DRC). The forum was attended by 42 participants from Nigeria, Burundi, Liberia, Ghana, Guinea, The Gambia, Sierra Leone, DRC, Sudan, the WAMU Banking Commission and the Central African Banking Commission (COBAC). Observers from the Nigeria Deposit Insurance Corporation (NDIC) and the West African Monetary Institute (WAMI) were also in attendance.

The opening ceremony was presided over by Mr. J. C. Massangu Mulongo, Governor of the Central Bank of the Democratic Republic of Congo. In his speech, he recounted the core objectives of the Committee and lauded its activities, especially in the areas of regular contact and cooperation among member countries in matters of banking supervision, information exchange and sharing of experiences. He stressed the need for members to appreciate the revision of the 25 Core Principles for Effective Banking Supervision in the light of the coming into force of the Basel II on capital convergence and measurement.

Papers on Risk-Based Supervision, Rules and Implementation of Deposit Insurance in Banks and Other Financial Institutions were presented by resource persons from the French Banking Commission and the French Deposit Insurance Commission.

The outgoing Chairman of the Committee and Secretary-General of COBAC, Mahamat Mustapha, after expressing the Committee's gratitude to the Governor and authorities of the Central Bank of the Democratic Republic of Congo for accepting to host the meeting, noted that the Committee had succeeded in strengthening cooperation and facilitating the exchange of information among member states. He listed the following as the achievements during his tenure:

- Hosting of the meeting of the sub-committee on the harmonisation of prudential regulations among member states.

- Designing and hosting of the Committee's website, *www.csbaoc.org*.

- Organizing an FSI-assisted seminar in Brazzaville, on the Revised Core Principles for Effective Banking Supervision and Corporate Governance in Financial Institutions, with resource persons drawn from the Financial Stability Institute (FSI) of the Bank for International Settlement (BIS) and the Office of the Superintendent of Financial Institutions (OSFI), Canada.

- Designing and adopting a Charter for the Committee.

Mr. Kataliko Viranga, Director, Financial Intermediaries Department of the Central Bank of the Democratic Republic of Congo, was elected as the new Chairman of the Committee. He was expected to pursue the following mandates during his tenure:

- Continued harmonization of prudential regulation among member states;
- Design of the Committee's operating budget for 2009;
- Organisation of a seminar for junior supervisors; and
- Liaison with the Central Bank of The Gambia for the hosting of the next meeting in Banjul, The Gambia.

The CBSWCA, which was formed in Accra, Ghana in 1994, has continued to serve as a platform for the exchange of ideas among banking supervisory authorities of member states. The 14th Annual General Meeting of the Committee would be hosted by the Central Bank of The Gambia, in October 2008.

1.02 UPDATE ON eFASS

The eFASS, which was designed to enhance efficient on-line surveillance of financial institutions, was further improved in 2007.

With the release of the Data Submission System (DSS) version 1.1.1 in October 2006, banks and discount houses began to render returns in absolute figures without rounding in 2007. The DSS was upgraded to version 1.1.2 in December 2007. The major changes in the latest DSS were the introduction of Monthly Bank Returns (MBR) 810 (Deposits by Branch) and also changes in the amount ranges in Quarterly Bank Returns (QBR) 1200 and 1210 by creating new ranges in line with the NDIC Act 2007, which increased the insured deposit limit from x50,000 to x200,000.

The DSS enabled Reporting Institutions to automate the rendition of statutory returns, thus requiring less time and effort in the process. Consequently, the period for the submission of statutory returns to the CBN and NDIC would fall due as follows:

- Daily Returns – on or before 3 pm of the following day.
- Weekly Returns – on or before 3 pm of the second working day of the following week.
- Mid-Monthly Returns – on or before 3 pm of the following working day.
- Monthly, Quarterly and Semi-Annual Returns – On or before the 5th day after the month end. Where the 5th day falls on a weekend or public holiday, returns should be submitted on the last working day prior to the weekend/public holiday.

Deployment of the DSS to Bureaux de Change (BDCs) Operators

The rendition of returns by the BDC operators to Trade and Exchange Department (TED) went live in September 2007.

Software Requirement Specification (SRS) for Microfinance Banks

In order to incorporate the MFBs into the eFASS, the Software Requirement Specification (SRS) for the institutions were submitted to the vendor for development.

Other Institutions' Connectivity to eFASS Server

Further training of Finance Companies and Primary Mortgage Institutions' staff on the eFASS XML return template was conducted within the year. Concerted efforts were made to ensure that the institutions commence parallel rendition of returns to the eFASS by the middle of 2008.

Similarly, efforts were intensified to connect other reporting institutions like hotels, oil and gas service companies to the eFASS server.

eFASS Marketing and further upgrade

The eFASS software had been sold to the Bank of Ghana, while other central banks in Africa, Asia and South America showed interest in acquiring the software. Efforts were made to integrate the system with other third party applications in order to enhance its marketability.

It is expected that the eFASS would be upgraded to capture the requirement for Risk-Based and Consolidated Supervision.

In line with the eFASS system architecture, plans had reached an advanced stage to ensure the establishment of a replica server of the eFASS at the NDIC in 2008.

1.03 DEVELOPMENTS IN THE OTHER FINANCIAL INSTITUTIONS (OFI) SUB-SECTOR

As part of the on-going reforms in the Nigerian financial system, the OFI sub-sector witnessed some institutional developments in 2007. Highlights of the developments are indicated below:

Microfinance Banks

A total of 607 or 80.2 percent of the 757 community banks (CBs) in existence converted to microfinance banks (MFBs) in line with the microfinance policy, while the CBs that were unable to convert as at December 31, 2007, ceased to exist. With that development, the community banking system in Nigeria was strategically replaced with microfinance banks that were expected to contribute more positively to rapid economic growth through expanded access to finance by the economically active poor.

Seventy-six new applications for fresh MFB licences were received in 2007. This brought the total number of applications received, since the launch of the microfinance policy on December 15, 2005, to 122. Forty of the applications received final licences, 69 were granted approvals-in-principle (AIPs), while 13 applications were under processing as at the year end. The total number of approved MFBs as at end 2007 was 716.

Arrangements for the setting up of a certification programme for the training of supervisors, directors and operators of the MFBs had reached an advanced stage by end 2007.

Bureaux de Change

The liberalization of the foreign exchange market, which began in 2006 continued to rekindle interest in the activities of the BDCs sub-sector. Thus, 279 applications for BDC licenses were received in 2007, out of which 135 were granted final licences, 80 received AIPs, while 64 were at various stages of processing. The total number of BDCs in operation was 703 as at end 2007 as against 352 as at end 2006.

Finance Companies

In an effort to sanitize the finance companies (FCs) sub-sector, 14 illegal finance companies were sealed up during the year. Investigations into their activities by the relevant regulatory and security agencies in Nigeria were on-going as at December 31, 2007. To further strengthen and reposition the sub-sector, the CBN, in collaboration with the Finance Houses Association of Nigeria (FHAN), was developing proposals for the reform of the sub-sector.

Primary Mortgage Institutions

Deposit insurance was extended to the PMIs sub-sector by the NDIC in 2007. The trend of Deposit Money Banks (DMBs) acquiring existing PMIs continued in 2007, with the number of DMB-controlled PMIs rising to 10 as at December 31, 2007. Approval was granted to five PMIs to restructure their capital base, while a PMI undertook a rights issue in the capital market.

The mortgage sector reforms, initiated by the CBN, were being finalized with the specific objectives of:

(i) Enhancing the housing finance process to meet the challenges of funding the housing deficit gap, particularly to the low income groups in Nigeria.

(ii) Repositioning and strengthening the primary mortgage institutions sub-sector as a vehicle for housing and home-ownership delivery in Nigeria in consonance with the dictates of the National Housing Policy and mortgage business.

(iii) Promoting the development of an efficient secondary mortgage market appropriately linked with capital market to make housing finance accessible to a larger population as a means of economic empowerment.

(iv) Harnessing the opportunities presented by the banking industry consolidation, which has made the 24 existing banks to be better capitalized and more liquid for broader participation in mortgage financing through the emergence of mortgage-related institutions, products and services.

(v) Promoting rural housing programmes through market support incentives.

The Presidential Committee on Affordable Housing in Nigeria, which had the CBN as a member, submitted a draft report to the President during the year. The report identified the dearth of long-term funds, difficulty in accessing land and title to land, weak primary mortgage institutions, high cost of building materials, inadequate skilled labour and an obstructive legal framework as the main challenges to the affordable housing delivery to Nigerians.

1.04 COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE – THE JOURNEY SO FAR

The issuance of the Code of Corporate Governance for Banks in Nigeria by the CBN, in March 2006, expectedly posed compliance and monitoring challenges arising not only from the mandatory status of the provisions of the Code but also from the clear departure of some of the provisions from traditional industry practices. The mandatory status meant that regulatory authorities had to monitor and enforce compliance even as some provisions proved difficult for industry operators to adopt.

To ensure effective compliance with the Code, banks were mandated to render monthly status reports to the CBN, while on-site quarterly verification examinations were carried out to confirm the claims in the reports.

Significant progress was noted in banks' commitment to the principles of the Code and in their compliance with its provisions since its issuance.

- **Compliance and Challenges In 2007**

The level of compliance with some key provisions of the Code as at December 31, 2007, was as follows:

- **Government Equity Ownership**

The industry had largely complied with the provision that limits government equity in a bank to a maximum of 10 percent. At the introduction of the Code, seven banks had government holdings ranging from 10.49 percent to 72 percent. By end 2007, only two banks had holdings above the 10 percent threshold and both were making efforts towards full compliance.

- **Chairman/CEO Position and Family Membership of Board**

Two banks had positions with a semblance of an Executive Chairman; one had an Executive Vice Chairman while another had an organogram in which the management staff reported directly to the Chairman instead of the CEO. These anomalies had been rectified as at end 2007.

The case of two or more family members occupying sensitive positions of Chairman and that of CEO or Executive Director was found in three banks. In one other bank, two members of the same family occupied the position of a CEO and a Non-Executive Director who also doubled as the CEO of a significant subsidiary of the bank. In all these four cases, the banks had been advised to comply with the relevant provisions of the Code.

- **Size and Structure of Board**

There was full compliance with the provision of a maximum board size of 20, with a composition of more Non-Executive Directors.

- **Appointment of Independent Directors**

The industry was yet to comply with the requirements for the appointment of at least two independent directors on the board of each bank. The reason was largely due to the absence of a clear definition and the specifications of the qualifications for independent directors. However, with the expected release of the CBN guidelines for the appointment of such directors, compliance would improve.

- **Board Committees and Risk Management Strategy**

Under the requirements of the Code, banks complied with the provision for the setting up of various relevant board committees while the industry had shown a strong commitment to developing robust risk management frameworks. However, there was still a lot to be done in monitoring the actual implementation of the risk management strategies.

- **Board Performance Evaluation**

Some banks submitted reports on their boards' performance appraisal and even had them published in their annual statements of accounts. Majority of the banks were, however, yet to put in place the procedure for such appraisal. The main reason given by the banks was the difficulty of getting suitable consultants for the job. The CBN was developing, as at the end of the year, the criteria for selecting such consultants.

- **Tenor of Directors**

Considering that the Code was introduced in March 2006, the provision on the tenor of directors, which specified a maximum 3 terms of 4 years for each director, was not in breach as at end 2007. Nevertheless, there were agitations that directors who had 'over-stayed' prior to the release of the Code should not enjoy the maximum term limit provided therein.

- **Data Integrity and Disclosure Requirements**

Data integrity and disclosure requirements remained a challenge. There were reported cases of misreporting and false rendition of returns in violation of not only the provisions of the Code but other regulatory guidelines. Such breaches, however, continued to attract appropriate sanctions/penalties and regularizations according to the law.

- **Compliance Procedure and Whistle-blowing**

All banks have appointed Chief Compliance Officers who were to ensure compliance with regulations by their institutions and also report governance breaches to the relevant authorities.

The appointment of independent directors would, hopefully, improve whistle-blowing procedure in the industry.

- **Internal Controls:**

The appointment of internal auditors in the industry was largely in line with the provision of the Code. However, the reporting relationship of the Chief Internal

Auditor, to a large extent, had not changed from the traditional practice of reporting to the CEO as opposed to the Audit Committee prescribed in the Code.

The challenge in the years ahead would be to move the industry not only towards full compliance with the Code but to have corporate governance as part of the institutions' culture.

Chapter Two

REFORMS IN THE FINANCIAL SYSTEM

2.01 POST CONSOLIDATION CHALLENGES

The reform in the Nigerian banking sector, which commenced in 2004, fundamentally improved the scope and potentials of the sector and enhanced its ability to perform developmental roles in the economy. With the conclusion of the first phase of the exercise in December 2005, the overall performance of the banking system greatly improved, as Nigerian banks played more prominent roles in the West African sub-region through the establishment of foreign branches and subsidiaries. The operations of the capital market equally deepened following the positive fallout of the reform programme. The market capitalization of the Nigerian Stock Exchange as at end 2007 was in excess of x13 trillion, while the market had also become investors' choice destination.

The sustenance of the benefits of the reform programme was, however, threatened by a number of post consolidation challenges, most of which were not fully envisaged during the implementation period.

Some of the challenges as well as the efforts made by the CBN to deal with them were as follows:

The Challenge of Size

The emergence of large-sized banks through mergers and acquisitions posed challenges of integration, acculturation, capacity building, service delivery, and boardroom and management squabbles.

In order to institute a strong corporate governance culture in the emerged banks, the CBN issued the code of corporate governance for banks and sustained its implementation through periodic monitoring.

Challenge of Performance

Shareholders' expectations following the conclusion of the consolidation programme imposed a grave challenge to both the operators and regulators. As a result of the forecasts in banks' prospectus for public issues during the reform period, banks created high shareholder expectations of bumper dividend payments and capital appreciation. Profit and dividend payout motives, therefore, rose to uncomfortable heights.

The inability of some banks to meet these expectations in the short-run began to create shareholder disaffection while there was undue pressure on banks to out-perform one another and pay unsustainable dividends as promised during the consolidation period.

The CBN monitored these developments and took appropriate measures just as the Nigerian Stock Exchange commenced investigation into the activities of some companies that were alleged to have manipulated their share prices.

Challenge of Effective Sector Support of the Economy

The banking sector reforms and the Pension Act 2004 opened several opportunities for banks to finance big ticket projects in the manufacturing, energy, oil and gas sectors as well as carry out developmental activities that would support the economic transformation of the country. However, the manufacturing sector argued that the big size of post consolidated banks ought to reflect economies of scale and low cost of capital. They argued that the existing rates regime did not support the sector and expected the CBN to intervene on the high lending rates.

However, the Authorities had always responded that under the deregulated economic regime, interest rates were market determined. Any regulatory intervention, therefore, would distort the gains of consolidation.

The Challenge of Regulation and Supervision

In order to sustain the achievements of the consolidation programme, bank supervisors would require robust tools and skills to cope with the increasing supervisory challenges arising from the rapid development of the financial sector.

In this regard, the CBN commenced the strengthening of its supervisory capacities through various training programmes. It also adopted a risk-based supervisory model to optimize resource allocation. Equally, the need to comply fully with the 25 Basel Core Principles for Effective Banking Supervision (BCPs) and the New Capital Accord became more compelling than ever before.

At the expiration of the December 31, 2005 deadline, for the conclusion of the consolidation programme, the 14 failed banks had their licences revoked and the NDIC was appointed as their liquidator.

Liquidation of the 14 Failed Banks

Obtaining the necessary court orders to effect their liquidation posed a major challenge in meeting the CBN promise of paying all private sector depositors in the affected banks in spite of the adoption of Purchase and Assumption option in the liquidation process. However, as at end 2007, significant success as detailed in Section 2.02 were achieved. Furthermore, the definition and determination of what constituted private sector deposits remained a big challenge, considering the various petitions/claims by some members of the public.

Updating the Legal Framework

The need to update the legal framework, namely the Central Bank Act 1991, the Banks and Other Financial Institutions Act (BOFIA) 1991, the NDIC Act 1998 and the Dud Cheques Act had become evident at the commencement of the reform programme. While the CBN Act 2007 and the NDIC Act 2006 were eventually re-enacted, amendments to the BOFIA and the review of the Dud Cheque Act remained a challenge.

The legal backing for the establishment of the proposed Asset Management Corporation of Nigeria (AMCON), which was a needed vehicle to manage the non-performing assets of post consolidation banks, had still not been enacted as at December 31, 2007.

The successes attributable to the Nigerian banking system would be whittled down if commensurate supervisory efforts were not focused at addressing the challenges arising from the reform programme. It was for that reason that the CBN, in 2007, devoted enormous supervisory resources at tackling the challenges.

2.02 RESOLUTION OF FAILED BANKS: SETTLEMENT OF PRIVATE SECTOR DEPOSITORS

Following the revocation of the banking licences of the 14 failed banks, the CBN handed the banks over to the NDIC to seek necessary court orders for their liquidation.

The NDIC was to adopt the Purchase and Assumption (P&A) liquidation option so as to give effect to the CBN guaranteed full payment to private sector depositors of the failed banks. The payment was expected to be concluded within 90 days of the date of the revocation of the banking licences of the affected banks.

The tortuous legal process and other litigation challenges frustrated the plan to resolve the issues within the planned period. However, as at end 2007, the NDIC, in collaboration with the CBN, had achieved the following milestones:

i. Status of Court Orders:

Out of the 14 banks whose licences were revoked, final court orders were obtained to commence the winding-up of 11; provisional court orders were also obtained in respect of two while no court order had been obtained for one. The status of the court processes in respect of the 14 banks as at end 2007 was:

Banks for which final court orders were obtained:

- Allstates Trust Bank Plc
- Lead Bank Limited
- Trade Bank Plc
- Assurance Bank Plc
- City Express Bank Limited

- Metropolitan Bank Limited
- Hallmark Bank Plc
- African Express Bank Plc
- Gulf Bank Limited
- Eagle Bank Limited
- Liberty Bank Plc

Banks with provisional court orders

- Fortune International Bank Plc
- Triumph Bank Plc

Bank without court order:

- Societe Generale Bank (Nigeria) Limited (SGBN)

ii Resolution Efforts

As at end 2007, the NDIC had resolved the private sector depositors of 10 of the 11 banks for which final court orders had been obtained for their liquidation. Consequently, x72.69 billion or 80.77 percent of the private sector deposits had been assumed out of the total of x89.99 billion while 53.17 percent had been accessed to date by various private sector depositors. The details were as shown in Table 1:

Table 1
Resolution of Private Sector Deposits

	Acquiring Bank	Assumed Bank	Assumed Private Sector Deposits X	Value Of Assets Cherry Picked X	NDIC Premium Released X	Promissory Note Released By CBN X	Total Deposits Equivalent Accessed (2)+(3)+(4) X
1	Ecobank	Allstates	22,265,323,237	2,699,165,274	1,650,000,000	11,376,779,695	15,725,944,969
2	UBA	Trade Bank	7,327,995,000	1,644,434,000	250,000,000	3,910,679,558	5,805,113,558
3	Afribank	Lead Bank	7,336,028,000	1,016,501,000	270,000,000	4,677,276,913	5,963,777,913
4	Afribank	Assurance	5,091,120,000	1,754,135,588	370,000,000	1,872,803,842	3,996,939,430
5	UBA	Metropolitan	1,048,640,709	250,391,690	46,185,000	162,066,912	458,643,602
6	UBA	City Express	7,808,236,528	680,032,000	102,000,000	1,700,000,000	2,482,032,000
7	Ecobank	Hallmark	12,045,315,966	10,758,715,956	-	107,000,000	10,865,715,956
8	UBA	African Express	997,848,629	150,000,000	-	185,000,000	335,000,000
9	Zenith	Eagle	890,807,327	1,110,291,179	Not applicable	Not applicable	Not applicable
10	UBA	Gulf	7,880,990,812	450,000,000	-	1,773,000,000	2,223,000,000
	TOTAL		**72,692,306,208**	**20,513,666,687**	**2,688,185,000**	**25,764,606,920**	**47,856,167,428**

iii Other Issues

During the year, the NDIC declared a liquidation dividend of 33 kobo in respect of the public sector deposits from the proceeds of the sale of the assets of Trade Bank Plc (in liquidation). In line with the principle of subrogation, the sum of x573 million was paid to the CBN in view of the x3.91 billion Promissory Notes it had issued in respect of the private sector deposits of that bank.

With the achievements so far recorded, it was expected that the objective of paying-off all private sector depositors would be fully realized.

2.03 POST-CONSOLIDATION INTEGRATION OF BANKS

Arising from the banking consolidation, the integration of processes, culture, systems and people became a major challenge. To underscore the importance the CBN attached to the seamless integration of banks' operations and people, a circular was issued in 2006, to guide the process while an integration committee was set up to monitor compliance.

The circular required that the banks should furnish the CBN with monthly updates of their integration efforts, while the CBN, on its own, carried out quarterly on-site monitoring of the banks' integration programme.

The verification of the integration efforts of banks was rated over a performance grid of 100 percent, covering such aspects as Information Communication Technology, operations, people and culture issues, and corporate governance.

As at end 2007, the categorized levels of integration of the banks showed that:

- 15 banks attained between 80 and 95 percent level of integration indicating that they had substantially complied with the provisions of the CBN circular on integration. These banks would require less supervisory attention as regards the CBN confirmation of their integration processes.

- Three banks attained between 70 and 80 percent level of integration, which indicated that the CBN needed to monitor them to substantial level of integration.

- One bank attained 52 percent level of integration, due to board problems which resulted in the appointment of a new board by the CBN. The bank needed intensive on-site and off-site monitoring of its integration process.

A major outstanding integration issue was the industry-wide incomplete implementation of Enterprise-wide Risk Management Framework. The CBN would continue to take appropriate steps to ensure full business integration of the consolidated banks at the earliest possible time.

2.04 CONVERSION OF COMMUNITY BANKS (CBs) TO MICROFINANCE BANKS (MFBs)

The inauguration of the Microfinance Policy in December 2005 resulted in the requirement that all existing CBs should convert to MFBs before end 2007. In this regard, the Regulatory Guidelines for Microfinance Banks in Nigeria was issued by the CBN to provide guidance on the Policy.

Various other circulars and guidelines on the conversion requirements and other related matters were issued by the CBN. In particular, the circular dealing with conversion, apart from the x20 million minimum capital requirements for converting banks, stipulated personnel and management information systems upgrade as preconditions for conversion to MFBs.

To give effect to these requirements, all CBs were directed to submit to the Other Financial Institutions Department (OFID), their conversion programmes with clear timelines, within three months of the launch of the Policy, for assessment and monitoring. Relationship officers were mandated to maintain close contact with the banks in order to assess, on a monthly basis, progress made by the institutions towards conversion. Furthermore, workshops were organized over the conversion period to sensitize operators not only on the requirements, but also the benefits of the Policy.

Conversion Challenges

A glaring observation in the conversion programmes received from the CBs was the gross under-capitalization of most of the institutions. The major challenge for conversion was, therefore, the requirement for all converting CBs to shore up their capital base to a minimum of x20 million, in addition to ensuring appropriate personnel and management information systems upgrade. As the deadline drew closer, the minimum capitalization requirement became a real threat to the transition of many of the CBs to MFBs. Thus, applications for conversion from CBs came in trickles into OFID up to the first quarter of 2007. That caused the CBN to carry out extensive mentoring exercises, intended to persuade existing shareholders and potential investors in CBs to take up interest in the recapitalization of institutions in their localities. Not only were the mentoring exercises, intended to elicit commitment from the stakeholders in the community banks towards the conversion programme, they also enabled the CBN to assess first hand, the peculiar problems of the various banks.

Apart from the recapitalization challenge, various other difficulties such as inability to package relevant documentation for the conversion, like feasibility reports and high stamp duties on capital increase, were observed. As much as expedient, the CBN offered necessary assistance and guidance to the institutions to minimize the observed difficulties.

In spite of the apparent difficulties faced by the banks, the CBN reiterated the irreversibility of the December 31, 2007, deadline for conversion and directed all converting CBs to forward their applications latest by the end of September, 2007. Expectedly, the last quarter of the year witnessed an influx of applications as banks rushed in to beat the December 31, 2007, deadline.

At the close of business on December 31, 2007, a total of 607 CBs successfully converted to MFBs. Efforts would be sustained in the coming years to ensure that the institutions upgrade their personnel and management information systems in order to enhance their effectiveness for microfinance service delivery.

2.05 FINANCIAL SECTOR REGULATION AND THE FSS 2020

Growth and development are the key economic objectives of all countries. Recognising its potentials, Nigeria embarked on a strategic plan to grow its economy to be among the 20 largest economies in the world by the year 2020. To achieve this, lessons were drawn from the successes of the South East Asian and the BRIC countries (Brazil, Russia, India and China). These countries leveraged on the successful transformation of their financial systems.

The CBN took up the challenge of leading the financial sector regulators to bring about the required regeneration of the sector to make it stronger, more resilient and capable of playing a more significant role in boosting national development and making Nigeria the financial hub of Africa.

The strategic blueprint that resulted from the deliberations of consultants engaged by the CBN outlined a coordinated roadmap aimed at integrating the ongoing economic reforms in the various facets of the economy. That was with a vision of creating the safest and the fastest growing financial system among emerging markets and the mission of driving rapid and sustainable economic growth in Nigeria and Africa. The project was tagged the “Financial System Strategy 2020” (FSS 2020).

The objectives of FSS 2020 are to:

- Develop a shared vision and an integrated strategy for the nation’s financial system;
- Develop market and infrastructure strategies that would align fully with the strategic intent of the overall system;
- Create a performance measurement framework and evolve a partnership of all key stakeholders to implement the strategy; and
- Establish a harmonious and collaborative environment for the development and delivery of the strategy.

Strategy Process

Two major committees, the Steering Committee, which served as the apex decision making body, and the Technical Committee, were constituted to form the project team. The project team was further divided into sub-groups, each covering the following segments of the financial system:

- Money and credit market;
- Capital market;
- Regulation;
- Central banking;
- Mortgage;
- Insurance;
- Quality assurance;
- Communication and branding;
- Information and Communication Technology;
- Human capital development;
- Legal; and
- Small and medium enterprise.

The Technical Committee had responsibility for harmonizing inputs from the various sub-groups.

Attention was devoted to the organizational structure or the form financial supervision should take. The arguments oscillated between two extremes; a separate regulator for each sector of the financial system or an integrated regulator for the entire financial system.

It was the consensus of the project team that the current regulatory structure of the financial system, comprising a quartet of banking, insurance, pension and capital markets, each having a separate regulator, had become unfashionable, inefficient, wasteful and counter-productive. The Committee observed that the advent of universal banking in Nigeria and the increasing globalization of financial services led to the emergence of complex financial conglomerates, which pose the following challenges to regulation:

- Weak coordination among regulators in the financial system, notwithstanding the creation of Financial Services Regulation Coordinating Committee (FSRCC);

- Ineffective information technology infrastructure to aid surveillance of the financial system;

- Over-reliance on statutory or prescriptive regulation as opposed to facilitative regulation; and

- Increasing cost of supervision.

To address these challenges, the project team came up with initiatives intended to entrench a sound regulatory system that would emphasize the need to play by the rules in order to evolve a financial system that would support a sustainable economic development. The main thrust of the initiative was to harmonise the present piecemeal legislations into a comprehensive statutory enactment, empowering the FSRCC to play a coordinated supervisory role in the financial system.

The first phase of the envisaged consolidation of regulatory bodies would commence with the integration of banking, insurance, pensions and securities supervision under a single regulator to be known as the Financial Services Commission (FSC). The CBN would be left to concentrate on monetary policy, currency management, foreign exchange management and foreign reserve management functions.

Additionally, the structure of Self Regulatory Organizations (SROs) would be reviewed to enable them assume greater roles in their respective spheres.

The FSS 2020 report highlighted possible impediments to the effective take-off of a virile financial system. Central to this is the presence of fragmented regulatory bodies that make supervision difficult and create opportunity for regulatory arbitrage.

The proposed regulatory initiative under the FSS 2020 project, therefore, was intended to create a one-stop integrated regulatory system that would ensure effective oversight of the entire financial system.

The CBN constituted a committee to draft the proposed bill for onward transfer to the National Assembly via the Attorney-General of the Federation. The expeditious passage of the law and provision of adequate funding would assist immeasurably in facilitating the achievement of the FSS 2020 Project and realizing Nigeria's dream of being the financial hub of Africa.

Chapter Three

SUPERVISORY ACTIVITIES IN 2007

3.01 OFF-SITE SUPERVISION OF BANKS AND DISCOUNT HOUSES

The CBN continued to adopt appropriate measures in the supervision of banks and discount houses to ensure a safe and sound financial system. During the year, the off-site supervisory activities focused on the following major areas:

(i) Analysis of Statutory Returns

The analysis of statutory returns of banks and discount houses was done electronically on a regular basis through the electronic Financial Analysis and Surveillance System (eFASS). The objective of the analysis was to ascertain the financial condition and performance of the institutions, using financial indicators such as asset quality, liquidity, capital adequacy, earnings and loan to deposit ratios. Where there were areas of regulatory concern, the institutions' attention was usually drawn to such, through letters or meetings with their top management/board of directors.

(ii) Assessment of Board and Management

The CBN, in collaboration with other regulatory and security agencies, scrutinised all appointees to the boards and top management positions of banks and discount houses to ensure that only fit and proper persons ran the affairs of the institutions. In that regard, the CBN, approved the appointments of 35 persons into the boards and top management positions of some banks and discount houses, and turned down the appointment of a few others on grounds of insufficient experience and unfavourable references, among others. Four resignations from boards and top management positions of some banks were recorded during the same period, while the CBN dissolved the board of a bank and appointed an Interim Management Committee to oversee its affairs.

(iii) Approval of Financial Statements

As required by the BOFIA, the financial statements of banks and discount houses were approved by the CBN for publication.

(iv) Branch Network

The CBN granted approvals for the opening of branches and cash centres. The total number of branches and cash centres in operation as at December 31, 2007, was 4,579 as against 3,468 in the preceding year. Branch expansion was closely monitored to ensure that banks did not use depositors' funds for such investments, and invariably, such exercise was assessed against the banks' executive capacity to manage the branches.

(v) Credit Risk Management System (CRMS)

As at December 31, 2007, the web-enabled CRMS database had an outstanding balance of x2.127 trillion, involving 51,696 borrowers, as against x1.553 trillion with a customer base of 48,896 in the preceding year. In absolute terms, both the Naira value and the number of borrowers recorded a significant growth, reflecting the acceptability of the scheme and the growing confidence of the public in the banking system.

(vi) Blacklisting

One officer from a regulatory institution was blacklisted by the CBN for unethical practice and professional misconduct.

(vii) Public Complaints against Banks

Several complaints against banks were received from customers and referred to the Ethics and Professionalism Sub-committee of the Bankers' Committee for adjudication. Most of the complaints were centered on excess charges by the banks.

(viii) Discount Houses

The performance of the five discount houses in the country was monitored through their statutory returns to the CBN.

(ix) Fraud and Forgeries

In 2007, a total of 1,371 cases of fraud and forgeries amounting to x9.61 billion were reported by various banks, out of which x2.87 billion was successfully perpetrated.

(x) Enforcing Statutory Requirements

(a) **Liquidity Requirement**

Banks and Discount Houses compliance with the prescribed minimum liquidity ratio of 40 and 60 percent, respectively, was closely monitored on daily and monthly basis. It was observed that some of the banks failed to meet the liquidity ratio for some months during the period under review while the loan to deposit ratio exceeded the regulatory benchmark of 80 percent. In the month of December 2007, two banks failed to meet the minimum prescribed liquidity ratio of 40 percent.

(b) **Capital Adequacy Requirement**

The capital adequacy requirement of banks and discount houses was also monitored on a continuous basis throughout the year. In the month of December 2007, three banks failed to meet the minimum prescribed capital adequacy ratio of 10 percent.

(c) **Cash Reserve Requirement (CRR)**

Towards the achievement of monetary stability, the CBN continued to utilise cash reserve requirement (CRR) as a tool for monetary control, to complement the Open Market Operations. The subsisting CRR of three percent, which came into effect in November 2006, was maintained throughout 2007 and was calculated on a two-weekly interval with effect from January 2007.

3.02 ON-SITE SUPERVISION OF BANKS AND DISCOUNT HOUSES

The banking industry witnessed the merger of two banks during the year, which reduced the number of banks from 25 to 24. The 24 banks and five discount houses were examined by the CBN and the NDIC. While the CBN examined 14 banks and five discount houses, the NDIC examined 10 banks. The examination methodology was a hybrid of compliance and risk-based supervision (RBS). This was a deliberate strategy to migrate fully to RBS in the coming years. The examination involved the determination of the significant activities, inherent risks and impact thresholds of the institutions.

The major findings of the examinations included:

(i) Risk Assessment

The examinations revealed that most banks were yet to put in place an Enterprise-wide Risk Management Framework (ERMF) that would have enabled Examiners to determine the effectiveness of their risk mitigation measures.

It was noted, however, that a number of strategic initiatives had been put in place by some banks to adequately mitigate risks inherent in their operations and reposition them for market competition.

(ii) Capital Adequacy

Notwithstanding the adequacy of capital in most of the banks examined, some of them raised additional funds through the capital market. That was to enable them compete effectively in the banking industry and engage in off-shore expansion.

(iii) Risk Asset Quality

In some cases, credit administration was poor, lacking adequate credit monitoring that would have ensured prompt recovery and hence good asset quality. In other cases, credit facilities were allowed to operate above limits while draw-down on facilities was allowed without full execution of loan agreements. Other lapses observed included: lack of quarterly review of facilities to enable effective monitoring and control by management, excessive bank charges, non-disclosure of all insider-related facilities and concentration of credits in a few customers, especially at the branch level.

(iv) Board and Management

Board oversight was less than satisfactory in some of the banks examined. Meetings of some of the Board committees were infrequent while the minutes of such meetings were too sketchy to enable Examiners appraise the contributions of the Committee members. Insider-related facilities were abused in a few of the banks in terms of performance and disclosure, in violation of the Code of Corporate Governance.

(v) Earnings

Most of the banks reported increased earnings due to improved capital base, branch expansion and introduction of new products.

(vi) Liquidity Management

There was no clear-cut liquidity management strategy in some of the banks, thereby exposing them to the risk of liquidity crisis.

(vii) Anti-Money Laundering Control

Some lapses were noted in banks' compliance with the provisions of the Money Laundering (Prohibition) Act, 2004. These included non-observance of the know-your-customer (KYC) principle, failure to fully report international transfer of funds of $10,000 and above, lack of full awareness of controls among employees and failure to include money laundering audit in the audit programme. The CBN, however, continued to collaborate with the Nigerian Financial Intelligence Unit (NFIU) on the assessment of banks' anti-money laundering control.

(viii) Foreign Exchange Operations

A review of the foreign exchange transactions revealed that there were differences between the open position and the aggregate nostro account balances, which the affected banks were required to explain and reconcile. Poor record keeping, non-compliance with rules and regulations in the submission of the list of customers that failed to submit shipping documents 90 days after negotiation, and failure to distribute interest on off-shore accounts to eligible customers, were some of the other lapses observed in banks' foreign exchange operations.

(ix) Contraventions

The CBN imposed and enforced sanctions on banks and discount houses that contravened the provisions of BOFIA and other regulatory guidelines. Observed contraventions for which the offending banks were penalized included:

a. Non-implementation of recommendations contained in the previous examination reports.

b. Non-display of interest rates and published accounts.

c. Non-adherence to foreign exchange regulations such as failure to report to the CBN, customers who defaulted in the submission of shipping documents 90 days after negotiation.

d. Failure to obtain CBN approval for investment in subsidiaries and overshooting of statutory aggregate investment limit of 25% of shareholders' funds, unimpaired by losses.

Overall, the banks continued to enjoy the benefits of consolidation, which gave them the latitude to compete effectively, both locally and internationally, as well as capacity building in terms of recruitment and training of staff for more efficiency and optimal utilization of resources. It was expected that most of the lapses observed would be corrected before the next examination cycle.

3.03 SUPERVISION OF OTHER FINANCIAL INSTITUTIONS

As at December 31, 2007, a total of 1,454 other financial institutions, comprising 716 Microfinance Banks/Community Banks, 87 Finance Companies (FCs); 99 Primary Mortgage Institutions (PMIs); 552 Bureaux De Change (BDCs); and five Development Finance Institutions (DFIs) were in existence. The number represented an increase of 25.56 percent over the total of 1,158 institutions in 2006.

Pursuant to the CBN regulatory and supervisory mandate over these institutions, on-site examinations were carried out on 407 OFIs, made up of 377 MFBs/CBs, nine PMIs, seven FCs, 12 BDCs and two DFIs during the period.

The key developments recorded in the sub-sector in 2007 were highlighted as follows:

Micro Finance Banks (MFBs)

A total of 596 community banks converted to MFBs in 2007, bringing to 607 the total number of CBs that met the requirement for conversion to microfinance banks. Of the 607 converted CBs, 528 were given provisional approvals, while 79 obtained final licences. The successful conversion of 607 or 80.2 percent of the 757 CBs in existence as at year-end 2006 was a culmination of concerted efforts by the CBN, including an extensive enlightenment/mentoring exercise involving visits and meetings with the key stakeholders of the community banks. On the other hand, 76 new investors applied for fresh MFB licences during the year, bringing the total number of applications from new investors to 122, of which 40 received final licences, 69 were granted approvals-in-principle, while 13 applications were still being processed as at the year end.

The on-site examinations carried out on the CBs revealed mainly low capitalization, poor asset quality and dearth of skilled personnel. The problem of low capitalization was, however, surmounted by many CBs, through fresh capital injections, in the course of their conversion to MFBs during the year.

Primary Mortgage Institutions (PMIs)

A total of 75 PMIs were examined in 2007 compared with 28 examined in 2006. Regular prudential returns, on the other hand, were received from 82 PMIs compared with 85 in 2006. Eighteen PMIs were penalized for late and non-rendition of returns and non-submission of audited accounts for approval.

The number of PMIs that met the prescribed minimum paid-up capital requirement of x100 million rose to 74 in 2007, as against 45 in 2006, representing an increase of 64 percent. Also, 35 PMIs complied with the prescribed minimum mortgage assets to total assets ratio of 30 percent as against 15 in 2006, representing an increase of 133 percent. In addition, 61 and 73 PMIs satisfied the prescribed minimum liquidity ratio of 20 per cent and capital adequacy ratio of 10 percent as against 55 and 66 PMIs in 2006, representing increases of 10.90 percent and 10.60 percent, respectively. Approval was given to four PMIs to access the National Housing Fund (NHF) with Federal Mortgage Bank of Nigeria (FMBN).

Finance Companies (FCs)

Existence checks on the 87 finance companies in the records of the CBN revealed that only 76 were still active. The list of these finance companies was subsequently published for public information and guidance.

Nine finance companies were examined in 2007. The major regulatory issues observed in the examination reports included under-capitalisation, overtrading, high incidence of loan default and poor loan recovery, low liquidity, poor level of earnings and high expenditure profile.

Bureaux De Change (BDCs)

Consequent upon the liberalization of the operations of the BDC sub-sector in 2006, 268 fresh applications for BDC licences were received in 2007, compared with 196 in 2006, thus bringing the total number of applications to 475 as at

December 31, 2007. Two hundred operating licences and 15 approvals-in-principle were granted, while 53 others were at various stages of processing. As at December 31, 2007, the number of BDCs in operation rose to 552 from 352 as at December 31, 2006, representing an increase of 56.82 percent.

Development Finance Institutions (DFIs)

Regulatory/supervisory oversight over the DFIs sub-sector covered the five institutions, namely: Bank of Industry (BOI), Federal Mortgage Bank of Nigeria (FMBN), Nigerian Export Import Bank (NEXIM), Nigerian Agricultural, Co-operative and Rural Development Bank (NACRDB) and Urban Development Bank (UDB).

Due to the irregular rendition of returns, on-site examination was employed as a major supervisory tool during the year. With the exception of BOI, which was not examined in 2007, the general trend was one of deteriorating asset quality.

The overdependence on equity in funding operations and weak corporate governance continued to undermine performance in some of the DFIs. Efforts were, however, being made to reverse the trend through institutional reform initiatives and privatization/commercialization of the institutions.

3.04 HIGHLIGHTS OF THE ACTIVITIES OF THE BANKERS' COMMITTEE

The activities of the Bankers' Committee in 2007 covered the following areas:

Agricultural Credit Support Scheme (ACSS)

The guidelines on the operations of the ACSS were reviewed by the Committee to address the following challenges facing the scheme:

- Non-inclusion of out-grower farmers (i.e. farmers contracted by corporate bodies to ensure steady raw materials to meet production schedule).
- Integration of processing with farming.
- Specification on the treatment of long gestation projects.

It was also recommended that apart from establishing agricultural credit units in banks, a revolving fund should be established to cater for the six percent interest rebate by banks.

Bank Rating

The Bankers' Committee promoted the rating of banks by Fitch Rating. Some banks had, on their own, subjected themselves to rating and quite a number had impressive ratings. The Nigerian banking system was also rated for the first time in 2007. (See Section 4.04)

Self Regulation

The Committee, through its sub-committee on Ethics and Professionalism, decided 44 cases and amicably resolved 59 others. Three cases were in court and five were appealed.

Some of the disputes originated from lapses on the part of the banks or misunderstanding of the terms of contracts by customers. The sub-committee continually educated banks on how to maintain cordial relationships with customers and among themselves.

Merit Award

The Bankers' Committee annual merit award could not hold in 2007 as the Committee was reviewing the scope of the award and the criteria for the selection of awardees.

Security

In furtherance of the commitment made by banks to assist the police improve security in banks, the Bankers' Committee took delivery of 20 Armoured Personnel Carriers. These were to be formally handed over to the Nigeria Police in the first quarter of 2008.

Harmonization of Job Titles in the Banking Industry

The Bankers' Committee observed that job titles, particularly at the top echelon of some banks were rather diverse and unconventional. It, therefore, became necessary to harmonize job titles across the banking industry. The following nomenclatures were, accordingly, approved by the CBN and communicated to the banks:

S/N	CONVENTIONAL TITLES	ACCEPTABLE EQUIVALENT
1	Managing Director / CEO	Managing Director / CEO
2	Deputy Managing Director	Deputy Managing Director
3	Executive Director	Executive Director
4	General Manager	Senior Vice President
5	Deputy General Manager	Vice President
6	Asst. General Manager	Assistant Vice President
7	Principal Manager	Principal Manager
8	Senior Manager	Senior Executive Associate

Titles like 'Group Director', 'Regional Director' or 'Regional Chief Executive' were not permissible designations in the banking industry. The objective of the harmonization was for simplicity and comparison across banks.

Common Year-End for Banks

The Bankers' Committee agreed to harmonize the various financial year-ends of banks effective 2008. The new year-end for banks would be December 31, and the details of implementation were expected to be rolled out early in 2008.

Banks' Investment in Africa Finance Corporation (AFC)

There was impressive investment in the AFC by banks in Nigeria. The AFC, which had since commenced operations with an initial paid-up capital of US $1.0 billion, had six banks on its board based on the strength of their investments, which ranged between US $50 million and US $100 million.

Small and Medium Enterprises Equity Investment Scheme (SMEEIS)

The Bankers' Committee formally scrapped the SMEEIS following a resolution unanimously adopted in an emergency meeting held during the year. The Scheme, which was initiated by the Committee in 1999, and became operational in 2001, suffered criticism as a result of the wide gap between the funds set aside and the amount utilized. Apart from the said gap, it was observed that both the banks and the entrepreneurs generally preferred direct loans to equity investments.

The x37 billion unutilised funds were to be transferred to the Micro Credit Development Fund. Under the new arrangement, the set-aside fund would be made available for on-lending to entrepreneurs through microfinance institutions. Under the new policy, the proportion of banks' profit after tax set aside for the fund was reviewed downward from 10 to five percent.

Overall, the Bankers' Committee continued to justify its relevance as a veritable self-regulatory organ in the Nigerian banking industry.

Chapter Four

ISSUES IN SUPERVISION

4.01 ELECTRONIC BANKING: A CATALYST FOR AN EFFICIENT PAYMENTS SYSTEM

The Payments System

The payments system, as an arrangement that facilitates the transfer of monetary value among transacting parties, to a large extent, impacts on the stability of the financial system. It is for this reason that the payments system continually emerges as a platform for measuring the effectiveness of monetary policy implementation.

Components of the Payments System

The two major components of the payments system are the retail and wholesale payments.

Retail payments involve high volume of transactions with low monetary value typically among non-bank users of the payments system. The vehicles through which the retail payments are made include:

- Cheques.
- Debit and credit cards.
- Prepaid cards.
- Automated Teller Machines (ATMs).
- Mobile payments.
- Electronic Funds Transfer at Points of Sale (EFTPOS).

On the other hand, wholesale payments involve the exchange of large values usually among banks. It includes critical payments such as inter-bank transfers, securities and foreign exchange transactions.

Efficiency, Reliability and Safety of the Payments System

The payments system is considered to be efficient where it facilitates timely exchange of value with least cost to users, system providers and the economy. The reliability of the system is measured by the ease of its availability and integrity in effecting payments without errors. The system is safe, where it effectively mitigates such inherent risks as liquidity, credit, operational and legal risks.

Understanding the implications of the rapidly evolving technological innovations in the payments system is a challenge to regulators. The smooth functioning of the system requires that appropriate risk management processes should be put in place by the monetary authorities.

Electronic Banking

Electronic banking essentially falls within the retail aspect of the payments system as it entails the provision of small value banking products and services through electronic channels. Such products and services include deposit-taking, lending, account management, financial advisory, electronic money, payment cards and electronic bills payment.

The devices through which electronic banking products and services are provided to customers include payment cards (debit, credit, pre-paid etc), ATMs, Point of Sale (POS) terminals, the internet, phones, personal computers and financial transactions switches.

Pre-issuance Period of the Electronic Banking Guidelines

Prior to the issuance of the Electronic Banking Guidelines in Nigeria, electronic purse schemes operated by Valucard Nigeria Plc and Smartpay Nigeria Limited, in conjunction with some Nigerian banks, were the prevalent e-money features.

A survey conducted by the CBN in September 2002, to determine the level and types of e-banking activities by Nigerian banks, revealed that electronic banking was at its infancy. There were only seven ATM machines in operation nationwide while a few banks offered one form of e-banking activity or the other.

Post-issuance Period of the Electronic Banking Guidelines

The issuance of the Guidelines in August 2003, the banking consolidation exercise, the entrance of new players into the e-banking/payments arena and improvement in telecommunication services combined to provide a boost for the electronic banking landscape in Nigeria. There was a phenomenal growth in electronic banking services offered by the banks that emerged after the consolidation exercise.

An appreciable number of new players including transactions switching companies, card scheme operators, international card associations, ATM consortium, international money transfer operators, domestic money transfer operators using scratch cards, became active in the e-payments system. Also, in existence were a number of proprietary bank cards and ATMs.

To promote interoperability and the wider usage of the various types of payment cards being issued in the country, four transactions switching companies were licensed by the CBN while The Nigerian Inter Bank Settlement System Plc (NIBSS) was, in 2007, designated the national switch onto which all other switches must interconnect.

The total number of ATMs deployed was 3,700 while the number of POS was over 6,700 as at end 2007. This development, coupled with the growth in the number of transactions switching companies, had seen the volume and value of card transactions increased from 2,158 and x8.94 million as at December 2002 to 16.15 million and x138 billion, respectively, by December 2007.

The number of Nigerian banks issuing international cards such as MasterCard and Visa, increased from just one prior to 2003 to seven by end 2007, while eight others were in the process of being licensed. The volume and value of dollar denominated transactions also significantly increased from 40,329 and $10,606 as at end December 2005 to 404,697 and $25,905,865, respectively by end December 2007.

An efficient, reliable and secure e-banking/payments system is critical to the soundness of the financial system, the efficiency of the financial markets, and economic growth and development. With the rapid technological advancement and increasing consumer demand for more efficient service delivery, the Nigerian financial landscape gravitated towards a more efficient payments system.

Despite the progress that has been achieved, Nigerians remained high users of currency notes and coins. Therefore, there was the need to encourage a more active use of e-payments. Beyond building the e-payment infrastructure, broader issues revolving around the problem of physical infrastructural deficiencies such as power and telecommunications; building public awareness and confidence, promoting greater convenience; as well as reviewing business and operating practices, needed to be addressed.

4.02 BANK CHARGES: SUPERVISORY CHALLENGES

Banks all over the world have the primary function of accepting deposits, creating loans and rendering other financial services. They earn a margin from the difference between lending and deposit rates; and from various other charges, commissions and fees.

In Nigeria, the Bankers' Committee is charged with the responsibility of drawing up acceptable charges applicable to various products and services provided by banks. These charges are contained in a booklet known as "Guide to Bank Charges". The Guide serves as a reference in case of charge-related disputes between banks and their customers.

The Guide is divided into the following 11 sections:

- Interest on Deposits;
- Interest/lending fees;
- Commission on Turnover;
- Commission on Bonds, Guarantees and Indemnities;
- Foreign Exchange Commission;
- Commission on Bills for Collection;
- Straight Forward Handling of Documents;
- Commission on Inward and Outward Letters of Credit;
- Commissions on Internal Transactions;
- Fees on Electronic Banking; and
- Miscellaneous Income.

Although most of the charges provided for in the Guide are negotiable, the intense competition within the industry and the pressure to satisfy shareholders tended to frustrate adherence to the provisions of the Guide. Most banks found it convenient to impose multiple charges which were not provided for in the Guide. These extraneous charges invariably attracted reactions and petitions from the banking public.

The Supervisory Challenge

One of the major challenges to supervision was the reluctance of banks to adhere strictly to the provisions of the Guide. The spate of petitions on excess bank charges posed a serious challenge to the regulatory authorities as a lot of resources were deployed to the investigation and resolution of petitions.

It was observed that cost of credit was escalated by various other charges, and that had been one of the factors responsible for the non-performing facilities in the banking system, as borrowers' repayment ability is further tasked.

Although bank charges were usually legitimate rewards for products and services rendered by the banks, excess charges constituted a problem that brought a lot of challenges to both the banks and the regulatory authorities. Excess bank charges should be discouraged in the interest of the Nigerian economy.

4.03 THE NEED FOR CAPACITY BUILDING FOR OPERATORS OF MICRO FINANCE BANKS (MFBs)

The introduction of the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria led to the emergence of 716 microfinance banks as at end 2007, through the conversion of community banks and the licensing of new institutions.

As the microfinance revolution was just emerging in Nigeria, there was the need for the development of a critical mass of sustainable microfinance institutions, with strong organizational structures and management resources. The starting point was to identify the characteristics of the MFBs that have emerged, their peculiar challenges and hence the appropriate capacity building initiative required to re-orientate/re-focus these institutions to meet the microfinance policy thrust.

Features of the Emerged MFBs

The microfinance banks that emerged could be grouped into two categories, with each group exhibiting features that were not fully compatible with the policy objectives.

In the first category were community banks that converted to MFBs. Operators in this category were still exhibiting the vestiges of the defunct community banking system, evidenced by poor corporate governance, insider abuse, poor risk management system and weak internal controls. These prevented them from fully imbibing the concepts and methodology of microfinance. Additionally, their poor compensation package could not attract qualified personnel and has resulted in acute skill gaps. The need for intensive capacity building to avoid the pitfalls which characterized the operations of the erstwhile community banks, therefore, became paramount.

The second category, the newly established MFBs, comprised institutions with better organizational structures, stronger capital base and more qualified staff, with skills in commercial banking. These institutions exhibited the requisite drive, efficiency, innovativeness and professionalism, which were mostly lacking in the first category of MFBs.

The bane of this category of MFBs was that their owners were highly enthused by another opportunity to actualize their dreams of owning a bank, following the strict requirement created by the consolidation of the commercial banking sector. Consequently, they tended to run the institutions like commercial banking set ups, characterized by flamboyant business premises and structures. There was, therefore, an urgent need for an intensive re-orientation to enable them imbibe strict microfinance culture and principles, as a prerequisite for meeting the policy objectives.

Identified Skill-gaps and the Challenges Facing the MFBs

Specifically, the identified skill-gaps and challenges facing the MFBs included the following:

- *Poor Understanding of the Microfinance Concept*

There was poor understanding of the concept of lending against character and cash flow by the operators.

- *Inadequate Knowledge and Skill*

Many operators of MFBs had poor knowledge and skills in microfinance lending models, methodology and service delivery systems.

- *Product Design and Pricing*

Lack of innovativeness and creativity in the design and pricing of microfinance products and services.

- *Identification of target market*

Many operators of the emerged MFBs were unable to properly identify their target market and clientele, which should be the economically active poor and low-income groups.

- *High operational cost*

Arising from the poor state of public infrastructure coupled with their appetite for huge cost outlay, many of the newly established MFBs were not operating profitably.

- *Poor Risk Management System*

The requisite skills for effective risk management was lacking in many MFBs.

- *Weak Internal Controls*

Although the peculiarities of the MFBs business call for strong internal control measures, not many of the institutions had such controls in place.

- *Corporate Governance*

The corporate governance procedure in many MFBs was inadequate.

- *Regulatory Guidelines for MFBs*

There was a poor understanding of the regulatory guidelines for MFBs, thus resulting in avoidable infractions.

Against the above, it was apparent that the MFBs would require strong re-orientation and continuous capacity building to prevent them from de-railing and set them on the right track.

It was in that regard that the CBN decided to institute the microfinance certification programme, which was intended to build the needed knowledge and skills for the operators in order to transform microfinance banks in Nigeria into formidable poverty reduction institutions.

4.04 BANK SYSTEMIC RISK REPORT OF THE NIGERIAN BANKING SYSTEM

The conclusion of the first phase of the Nigerian banking system reform and the need for international peer review and comparison necessitated the decision of the Bankers' Committee to promote a bank systemic risk assessment of the Nigerian banking system.

The exercise focused on a global appraisal of Banking System Indicator (BSI) and Macro-Prudential Indicator (MPI). Fitch Rating, which had developed competence in that area, was, therefore, engaged to carry out the assessment. Consequently, the first ever Bank Systemic Risk Report on the Nigerian banking system was issued at end September 2007. The Report was based on data for 2004 to 2006. Preliminary assessment of the impact on MPIs of developments in 2007 was given based on the Fitch Rating forecasts and trends to date. The major components of the rating and the highlights were as follows:

Banking System Indicator (BSI)

The BSI measured the intrinsic banking system quality, or strength, and was derived from Fitch Rating's long-standing and current individual rating of banks. In the measurement of system quality, the process tried to highlight systemic weakness, which might trigger the need for shareholders' or government's support.

A system quality or strength was measured on a scale calibrated from A to E as indicated below:

A	Very high
B	High
C	Adequate
D	Low
E	Very low

The report showed that the Nigerian banking system for the first time had a BSI rating of D.

Macro-Prudential Indicator (MPI)

The MPI highlighted potential systemic stress, which could materialise up to three years, after an early warning signal/indicator.

It also explained, in an objective manner, the existence and severity of a set of macroeconomic circumstances that had been shown to activate a majority of past episodes of banking system distress and in some cases full-blown systemic crisis.

The process identified the impact of rapid credit growth, the ratio of private sector credit to GDP and the real exchange rate or real equity or property prices above long-run trend values by certain trigger amounts. In the report, MPI was rated on a scale of '1 to 3' or 'low to high' potential vulnerability as explained below.

MPI 3 (High Vulnerability)

This indicated a ratio of private sector credit to GDP that was more than five per-cent above trend; and either a real equity or property prices more than 40 percent above trend or a real effective exchange rate more than nine percent above trend.

MPI 2 (Moderate Vulnerability)

Here, the ratio of credit to GDP was either above or close to its trigger value and other indicators were close to or above their trigger values, respectively.

MPI 1 (Low Potential Vulnerability)

The assessment was based on three years annual data with a trigger in any of the three years being relevant to a country's MPI score. The three-year horizon was designed to be long enough to take account of the time it could take for banking system stress to emerge.

Nigeria, under this evaluation criterion, was categorised under MPI '1'. The rating indicated low potential vulnerability of the banking system to systemic stress. The strict interpretation of MPI '1' rating was that the banking system in Nigeria was not yet operating at its full potential and that its core function of financial intermediation was sub-optimally performed. Unlike the assessment under BSI that reflected improvements, there were four changes in MPI scores, all of which showed deteriorations.

Systemic Risk Matrix

The Systemic Risk Matrix was an analysis of the two systemic risk indicators (BSI and MPI) to emphasise their complementarity. High MPI scores were of most concern where the banking system was weak. Weaker banking systems were less able to absorb increased stress of the type that a high MPI may portend.

It implied, therefore, that for a given BSI, countries with higher MPI scores presented more cause for concern; and for a given MPI, countries with weaker BSI scores suggested potentially more problematic situations.

Way Forward for the Nigerian Banking System

The report, for the first time, included Nigeria in both the BSI and MPI analysis. The inclusion of Nigeria was an indication of the confidence the Nigerian banking system had started to enjoy as a result of the reforms that were started in 2004. The BSI measured the intrinsic strength of a banking system devoid of any potential support and Nigeria was rated 'D'. The rating, though interpreted as 'low' should not be viewed from an extreme perspective. Given the positive developments that occurred in the Nigerian banking system within the last six months of 2007, the outcome of various efforts by banks to raise additional capital through the capital market, increase their balance sheet size, improve overall profitability, massive inflow of direct foreign investment into the banking system and other positive fundamentals would improve the strength of the banking system.

The financial indicators as at end June 2007, showed that the GDP increased from about x10.2 trillion in 2004 to over x20.2 trillion in 2007, with total balance sheet size, evidenced by total assets of the banking system, increasing from about x3.21 trillion to over x8.39 trillion within the same period. The imperative was that total assets to GDP ratio increased from 29.73 percent in 2004 to 39.2 percent as at June 30, 2007. Similarly, the shareholders' funds of the banking system, which was x327 billion as at end June, 2004 significantly rose to x1.085 trillion as at end June 2007. The total value of the shareholders' funds was expected to further increase if the efforts by a number of banks to raise additional equity capital through the capital market were factored in. On the profitability index, the total banking system profitability increased from x22 billion as at end June 2004 to N68 billion as at end June 2007, depicting an increase of over 209.09 percent.

Given the positive outlook, it was expected that, the above efforts when galvanised by the industry and the regulator, the Nigerian banking system would be rated better in Fitch Rating's next assessment, in March 2008.

The Nigerian banking system MPI '1' score was understandable being the first assessment and also given the key facts on the non-performing loan ratio, and risk weighted capital ratio indicated in the report. However, the latest quantum and quality of credit to the private sector as at end June 2007 as a percentage of the GDP was encouraging. Real exchange rate, which had been stable over a period of more than 18 months, had started to appreciate. The growth in industry credit as at June 2007 and the sustainability of its quality would be adequate to earn the industry an MPI rating of '2' by end March 2008.

The Nigerian banking system has become more robust and better strengthened to cope with systemic stress without any intrinsic intervention by the sovereign state. The interplay of the BSI and MPI would place Nigeria within strong emerging market economies, with a banking system strong enough to withstand stress.

Chapter Five

FRAMEWORK FOR SUPERVISION

5.01 UPDATE ON THE IMPLEMENTATION OF RISK-BASED SUPERVISION (RBS)

Efforts towards the full implementation of RBS continued in 2007. To address the concerns raised by stakeholders, especially on the complexity of risk assessment, the CBN/NDIC Technical Committee on Supervision further reviewed the RBS framework with a view to simplifying it. Key issues addressed in the latest amendment included:

Identification of Significant Activities and their Inherent Risks

The focus of the amended RBS framework was the need to identify the significant activities and the core business areas of banks, which typically include:

- Deposit mobilization;
- Asset creation; and
- Fee-based activities.

In respect of each significant activity, the inherent risk would be determined as part of the process of risk assessment of the bank. Activities were deemed significant if:

- They constituted at least five percent of the bank's adjusted capital.
- They contributed at least five percent to the bank's total income.
- Deposit generated from a particular source accounted for at least 10 percent of the bank's total deposit liability.
- They contributed at least 10 percent of the bank's net income before tax.
- At least 10 percent of the bank's total assets were accounted for by the particular activity.
- At least 10 percent of the bank's total risk weighted assets were accounted for by a particular activity.

- Provisioning made in respect of a particular activity represented at least 10 percent of the total provisions made by the bank.

Risk Assessment

The control risks in the initial framework were redesignated as "Risk Management Control Functions". After the impact assessment of banks and the identification of their significant activities, the inherent risk in each significant activity would be assessed and aggregated, and the final outcome classified as low, medium or high. Thereafter, the aggregate risk would be matched with the quality of the risk management control functions to arrive at the overall net risk of the bank. Adequacy of capital and the quality of the bank's earnings would be assessed and used to moderate the overall net risk to determine the bank's composite risk, which would inform the intensity of the risk mitigation programme to be designed for the bank.

The Risk Management Control Functions are:

- Quality of Risk Management Systems;
- Internal Audit/Control;
- Compliance; and
- Board and Senior Management Oversight.

Revision of the RBS Examination Manual

The RBS Examination Manual was revised in May 2007, to reflect the changes made to the RBS framework. Specifically, the revised manual contains guidance on the assessment of risks in the significant activities, examining the effectiveness of the Risk Management Control Functions and the adequacy of capital and quality of earnings. Additionally, the risk assessment factors in the initial framework were retained as an appendix to the revised edition.

Other Matters

i. Constitution of RBS Implementation Committee

In November 2007, the Banking Supervision Department constituted an in-house RBS Implementation Committee to drive the implementation process. However, the activities of the Committee were put on hold in the wake of the appointment of a Technical Advisor to the Governor on Supervision by the IMF.

ii. Hybrid Examination of Banks

To demonstrate understanding of the RBS framework and test the workability of the examination manual, the CBN, starting from October 2007, carried out the examination of banks and discount houses on a hybrid basis, which involved the employment of both compliance and RBS approaches to supervision.

With the revision of the RBS framework and the examination manual, coupled with the consistent capacity building initiative, and the appointment of a Technical Advisor to give the CBN hands-on guidance, everything was set for the full commencement of the risk-based approach to the supervision of financial institutions.

5.02 DEVELOPMENT OF CREDIT BUREAUX IN NIGERIA

The distress and the resultant bank failures witnessed in the Nigerian banking industry in the late 1980s and early 1990s were largely attributed to the poor quality of risk assets coupled with ineffective loan recovery mechanism. The concern of the CBN over bank failures resulting from bad loans, coupled with the need to enrich the risk management process in the financial system, became paramount and led to the establishment of the CBN-managed credit bureau known as “Credit Risk Management System” (CRMS) in January 1998.

Credit bureaux are essential elements of the financial infrastructure that facilitate access to finance. A borrower’s credit history provides information for objective decision-making on whether or not to grant credit. There are basically two types of credit bureaux:

- The public credit bureau, which is usually owned and operated by the government through its agent; and
- The private sector-owned credit bureau.

The CBN Credit Bureau (CRMS)

The paucity of credit information had inhibited objective classification of credits. Consequently, the need for a central database, from which consolidated credit information on borrowers could be obtained, became imperative.

It was against the above background that the CRMS was established and given legal backing by the CBN Act. The enabling legislation empowered the CBN to obtain from all banks, returns on all credits with a minimum outstanding balance of x 100,000 (now x 1 million and above), for compilation and dissemination by way of status reports to authorized institutions.

The CBN, by circular No. BSD/PA/7/97 dated December 31, 1997, formally informed banks of the commencement of operations of the CRMS with effect from January 1, 1998. The circular mandatorily required all banks to:

- Obtain, from the Credit Bureau, a CRMS borrower's code number in respect of all customers enjoying credit facilities of x1 million and above.

- Render monthly credit returns to the Credit Bureau on all customers with facilities of x1 million and above. The returns are rendered on-line.

- Ensure that before a credit of x1 million and above is granted to any customer or an additional credit that would increase the outstanding credit exposure to x1 million and above, the lending bank must obtain a credit report from the Credit Bureau on such customer.

- Ensure that credits are granted to borrowers on whom favourable credit reports have been issued by the CRMS.

Violations of the provisions of the Act and Circular by any bank are sanctionable.

The ultimate aim of the CRMS was to ensure that only customers whose facilities were performing could obtain new loans, thereby checkmating the activities of predatory bank debtors who borrow from one bank to another without the intention of repaying.

As at the end of December 2007, the CRMS database had the following figures:

1	Total number of borrowers (x1million and above)	23,626
2	Total number of credit facilities	28,852
3	Total outstanding credits (x'000)	x2,127,799,205

Contentious Issues about the CRMS

The commencement of CRMS operations in January 1998 generated some controversies. These included the necessity, desirability, CBN involvement and operational modalities of the CRMS, and the mandatory requirement for banks to have recourse to the bureau for credit information.

Other issues of concern included:

- The ability of the CBN to obtain information about the customer without infringing upon their privacy or interfering in the lending functions of banks.
- The ability of the CBN to address such matters as morality, confidentiality and secrecy in the banker-customer relationship.
- The ability of privately operated credit bureau to manage the sensitive information at their disposal.
- The issue of cost implications involved in the operation of credit bureau (membership, subscription, fees etc);
- Ensuring reliability, and integrity of data/information upon which credit reports were issued.
- The fact that its operations were limited to banks as against a normal credit bureau that should capture all sectors of the economy.
- The CBN CRMS captured credits of x1million and above as against best practices where there were no limits in terms of amounts to be captured by a credit bureau.

Having assessed the contentious issues about the CRMS, the need for the establishment of a private credit bureau as an additional tool that would enhance monitoring of credit exposure of banks, became imperative. Consequently, Section 57 of the CBN Act 2007, empowered the CBN to license and regulate private credit bureaux in Nigeria.

Establishment of Private Sector Credit Bureaux

A committee was set up by the Banking Supervision Department to prepare guidelines that would define the licensing, operational and regulatory requirements for private sector-run credit bureaux in Nigeria.

In preparing the guidelines, the Committee took cognizance of best practices in credit bureau operations as well as the peculiarities of the Nigerian environment. Also, inputs and contributions were received from various stakeholders including the World Bank MSME Project, the IFC, corporate organizations and individuals that had indicated interest in credit bureau operations in Nigeria.

Unlike the CBN CRMS, privately-run credit bureaux would cover all sectors of the economy and provide credit reports on all individuals or corporate bodies enjoying any type of facility in the country. Thus, the private sector-run credit bureaux would complement the CBN CRMS in the monitoring of credits in the financial system.

Going by the plan of the committee, private credit bureaux were expected to commence operations in Nigeria in 2008.

5.03 CONSOLIDATED SUPERVISION FRAMEWORK

The CBN continued the build up towards the implementation of consolidated supervision of banks in Nigeria.

The consolidation in the Nigerian banking system, promoted the emergence of financial conglomerates, engaged in cross-border and cross-sector operations. That precipitated the need for consolidated supervision in order to monitor the risks inherent in such operations. To that end, the CBN, in conjunction with the NDIC, commenced the move towards addressing such supervisory concerns with the development of a consolidated supervision framework for banks in Nigeria.

The proposed framework was expected to achieve the following supervisory objectives:

- Ensuring that no banking activity goes on without supervision, irrespective of location, thus eliminating regulatory arbitrage.
- Eliminating double leverage/gearing in the computation of capital adequacy of conglomerates.
- Ensuring that all the risks incurred by a banking group are evaluated and controlled on a global basis.
- Enabling the CBN to identify quickly, emerging problems for prompt corrective measures.
- Assisting supervisors to gauge early, the effect of potential adverse events on banking organizations and on the financial system.

The draft framework encompassed the following issues and principles in consolidated supervision:

- Accounting Consolidation.
- Quantitative & Qualitative Consolidated Supervision.
- Group Structures & Inherent Risks.
- Intra-group Transactions & Exposures.
- Large Exposures & Connected Lending.

- Capital Adequacy Assessments, Large Exposures, Connected Lending and Liquidity Gaps on Group-wide Basis.
- Group Corporate Governance & Management Oversight.
- Risk Management.
- Fit & Proper Persons Principles.
- Information Sharing Arrangements among the Various Financial Sector Supervisors.
- Cross Border Supervision.

The CBN, during the year, released the draft framework for comments, inputs and suggestions by stakeholders.

As part of the build-up towards the implementation of consolidated supervision, the CBN sponsored various capacity building programmes to equip its officials with the requisite knowledge, skills and competencies on the subject. The CBN, in conjunction with the Office of the Superintendent of Financial Institutions (OSFI), Canada, organized regional seminars on consolidated supervision in March and November 2007, in Abuja and Lagos, respectively. The seminars drew participants from all the regulatory agencies in Nigeria as well as The Gambia and Sierra Leone.

In addition, the CBN received support and assistance from its development partners. The IMF, under its Technical Assistance Programme (TAP), in partnership with the UK Department for International Development (DFID), engaged a Technical Advisor to the CBN on RBS and Consolidated Supervision.

The CBN, during the year, also began the process of harmonizing the accounting year end of entities within banking groups. A census of banks' subsidiaries and their accounting year ends was taken during the year, in addition to the CBN directive to all banks, to harmonize their accounting year ends. A co-terminus accounting year end of banks and their subsidiaries was expected to facilitate a more realistic analysis and assessment of the results of operations of the banking group.

5.04 UPDATE ON THE REVIEW OF THE CBN AND BOFI ACTS

The proposed amendments to the CBN and the Banks and Other Financial Institutions (BOFI) Acts were predicated on several factors. Key among them was the inability of the Acts to meet the challenges of supervision and regulation, despite the earlier amendments thereto. Furthermore, developments in the economy had expanded the regulatory and supervisory responsibilities of the CBN, thus, challenging the applicability and adequacy of the provisions of the Acts. The developments included:

- The expansion of the regulatory and supervisory responsibilities of the CBN;
- The adoption of universal banking;
- The fight against economic crime, which had assumed a global dimension in recent times, thus underscoring the need for proactiveness in the fight against crimes such as money laundering; and
- The on-going reform programme in the country and the need to refocus the CBN in order to strengthen its capacity for effective service delivery.

The proposed amendments to the CBN Act sought to redefine its core function of ensuring monetary stability to include price stability; increase the percentage of the operating surplus to be transferred to the general reserve at the end of a financial year from one-sixth to one-quarter; redefine the reporting line of the CBN; exempt it from the payment of levies, charges, dues, rates or any financial contribution; expand the frontier of investments allowable for the external reserves; ensure mandatory reference to the CBN Credit Bureau by banks; enhance the membership of the Financial Services Regulation Coordinating Committee (FSRCC); and discontinue the management of public debts by the CBN, among others.

As regards the amendment to the BOFIA, the desire was to review penalties for contraventions to make them serve as effective deterrents to offenders; define significant shareholding and issues related to such shareholders; empower the

CBN Governor to remove erring bank and other financial institutions' officials from office; establish an administrative process for the liquidation of closed banks with minimum judicial involvement; empower the CBN Governor to constitute a Crisis Management Unit as well as order the examination of specialized banks when necessary; and establish the supremacy of the BOFIA over other Acts, in respect of institutions supervised by the CBN.

Although the expectation of the CBN was that, both Bills, having been forwarded by the Federal Executive Council to the National Assembly (NASS) as executive bills, would be considered and passed together, only the CBN Bill was passed into law in 2007.

The salient provisions of the CBN Act re-enacted in 2007 were as follows:

- The core mandate of the CBN was redefined to ensure monetary and price stability, under Section 2;
- The authorized share capital of the CBN was increased from x300 million to x100 billion, under Section 4(1);
- The percentage of the operating surplus to be transferred to the general reserve at the end of a financial year was increased from one-sixth to one-quarter, under Section 5;
- The membership of the Board of Directors of the CBN was expanded to include the Accountant-General of the Federation, under Section 6;
- The appointments of the Governor, the Deputy Governors and non-executive directors were subject to confirmation by the Senate while the removal of the Governor was also subject to Senate confirmation, under Sections 8, 10, and 11. The Governor was, also, required to appear before the National Assembly periodically to present a report on the activities of the CBN;

- The Monetary Policy Committee, a body established to facilitate the attainment of price stability is formally constituted with membership drawn from within and outside the CBN, under Section 12;

- The operational autonomy of the CBN was clearly expressed in line with international best practice, under Section 13;

- To stem the abuse of the national currency, the Naira; increase its active life and promote confidence in its usage as a medium of exchange, refusal to accept the Naira, trading in Naira notes and coins, spraying of the Naira and all such abuses have been criminalized and appropriate sanctions imposed, under Sections 20 and 21;

- To provide the needed flexibility and expand the frontiers of investments allowable for the external reserves, the CBN was empowered to invest part of the external reserves by way of loan or debenture in any suitable development financial institution subject to appropriate limitations, under Section 24;

- The CBN might enter into arrangements for the sharing and exchange of information with other regulatory bodies particularly those outside Nigeria for supervisory purposes, under Section 33. The provision would be particularly useful in relation to the supervision of conglomerates and off-shore banking entities;

- The Act set limits for the financing of deficits, which was a major source of inflation and a negation of the objective of price stability, under Section 38;

- The CBN was empowered to develop efficient and robust systems of transactions settlement including electronic payment systems, under Section 47;

- The CBN was required to furnish the National Assembly with its annual accounts and financial statements, under Section 50; and

- The CBN was empowered to licence and regulate the activities of Credit Bureaux, and strengthen the credit system in banks by making it mandatory for them to obtain credit information about prospective borrowers, under Section 57.

Meanwhile, the CBN and other stakeholders eagerly await the passage of the proposed amendments to the BOFI Act during the current legislative session.

Chapter Six

PERFORMANCE TRENDS IN THE BANKING SYSTEM

6.01 BALANCE SHEET STRUCTURE AND GROWTH RATES IN BANKS

The total assets of the banking sector increased, by 55.37 percent or x3.73 trillion, from x6.74 trillion in 2006 to x10.47 trillion in 2007. As in 2006, banks' funds were held in cash and due from other banks, while advances/ leases, which constituted the largest component of total assets grew from x2,081 billion in 2006 to x3,802 billion (36.32 percent) in 2007.

The major components of liabilities also witnessed increases. Total deposits, other liabilities, and paid-up capital and reserves rose by 55.81 per cent, 86.33 per cent and 64.36 percent, respectively.

The aggregate balance sheet of the banking industry from 2003 to 2007 and the individual components are presented below:

Table 2
Aggregate Balance Sheet Structure of the Banking System

	Dec. 31 2007		Dec. 31 2006		Sept. 30 2005		Dec. 31 2004		Dec. 31 2003		Annual Growth Rates				
	x Billion	%	x Billion	%	x Billion	%	x Billion	%	x Billion	%	2007 %	2006 %	2005 %	2004 %	2003 %
Cash & Due From banks	1,802	17.21	2,066	30.66	1,034	23.56	935	27.56	833	30.09	(12.78)	99.81	10.59	12.24	8.28
Call & Placements	438	4.18	135	2.00	230	5.24	102	3.01	133	4.80	224.44	(41.30)	125.49	(23.31)	16.93
Government Securities	1,584	15.13	1,048	15.55	665	15.15	573	16.89	339	12.25	51.15	57.59	16.06	69.03	(9.56)
Short Term Funds	491	4.69	263	3.90	238	5.42	104	3.07	82	2.96	86.69	10.50	128.85	26.83	-
Advances/Leases (Net)	3,802	36.32	2,081	30.88	477	33.65	1,133	33.39	915	33.06	82.70	40.89	30.36	23.83	26.93
Investments	892	8.52	430	6.38	194	4.42	105	3.09	91	3.29	107.44	121.65	84.76	15.38	131.42
Other Assets	1,006	9.61	450	6.68	368	8.38	281	8.28	241	8.71	123.56	22.28	30.96	16.60	(5.16)
Fixed Assets	454	4.34	265	3.93	183	4.17	160	4.72	134	4.84	71.32	44.81	14.38	19.40	15.20
TOTAL ASSETS	**10,469**	**100.00**	**6,738**	**100.0**	**4,389**	**100.00**	**3,393**	100.00	**2,768**	**100.00**	**55.37**	**53.52**	**29.35**	**22.58**	**11.64**
Liabilities:															
Total Deposits	5,363	51.23	3,442	51.08	2,546	58.01	1,797	52.96	1,409	50.90	55.81	35.19	41.68	27.54	10.42
Money at Call and Taking	254	2.43	57	0.85	70	1.59	54	1.59	65	2.35	345.61	(18.57)	29.63	(16.92)	-
Due to other Banks	198	1.89	689	10.23	57	1.30	47	1.39	66	2.38	(71.26)	1,108.77	21.28	(28.79)	198.77
Other Borrowed Funds	1	0.01	67	0.99	67	1.53	61	1.80	23	0.83	(98.51)	-	9.84	165.22	61.62
Other Liabilities	2,685	25.65	1,441	21.39	1,091	24.86	1,080	31.89	910	32.88	86.33	32.08	1.02	18.68	0.40
Long Term Loans	257	2.45	1	0.01	4	0.09	3	0.09	3	0.11	25,600.00	(75.00)	33.33	-	-
Paid-Up Capital	153	1.46	170	2.52	171	3.90	141	4.16	121	4.37	(10.00)	(0.58)	21.28	16.53	20.35
Reserves	1,558	14.88	871	12.93	383	8.73	210	6.19	171	6.18	78.87	127.42	82.38	22.81	25.75
TOTAL	**10,469**	**100.00**	**6,738**	**100.00**	**4,389**	**100.00**	**3,393**	**100.00**	**2,768**	**100.00**	**55.37**	**53..52**	**29.35**	**22.58**	**11.64**
Off-Balance Sheet	2,581	24.65	1,380	20.48	859	19.57	664	19.57	625	22.58	87.03	60.65	29.37	6.24	24.12

Figure 1
Aggregate Balance Sheet

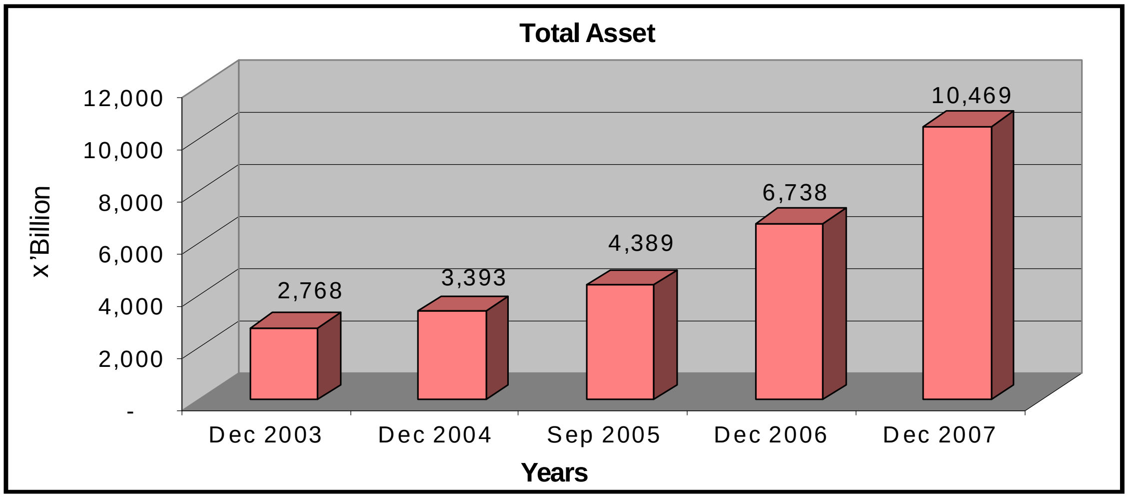


Figure 2
Composition of Assets in 2003

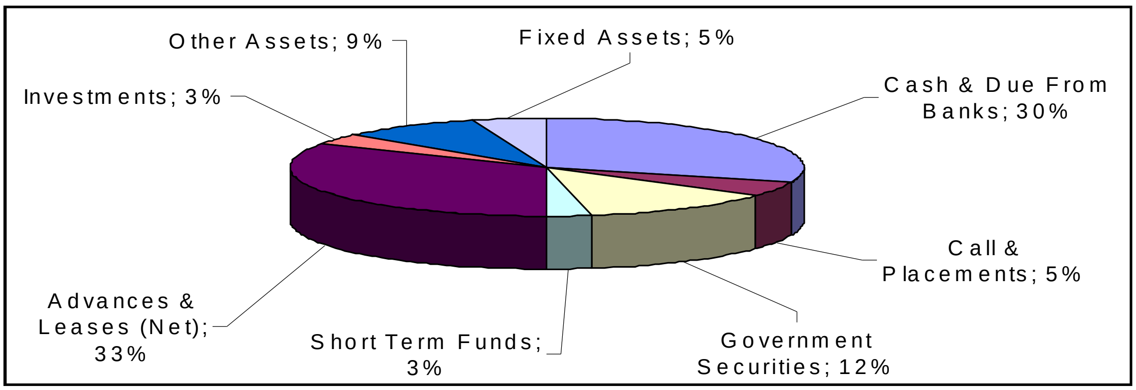


Figure 3
Composition of Assets in 2004

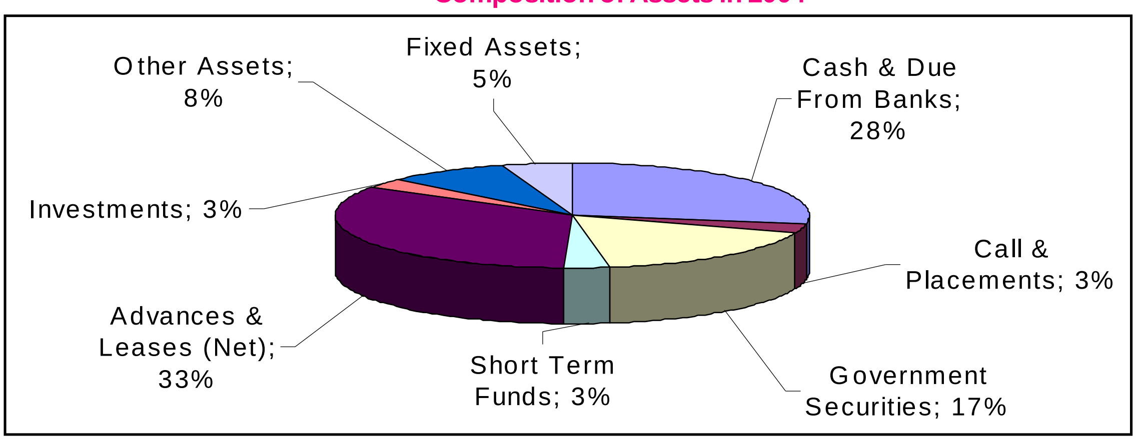


Figure 4
Composition of Assets in 2005

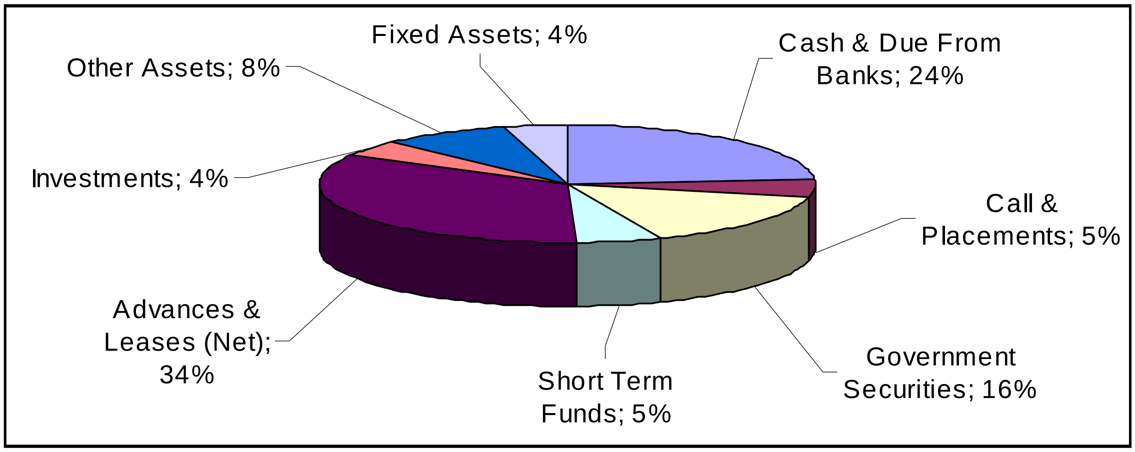


Figure 5
Composition of Assets in 2006

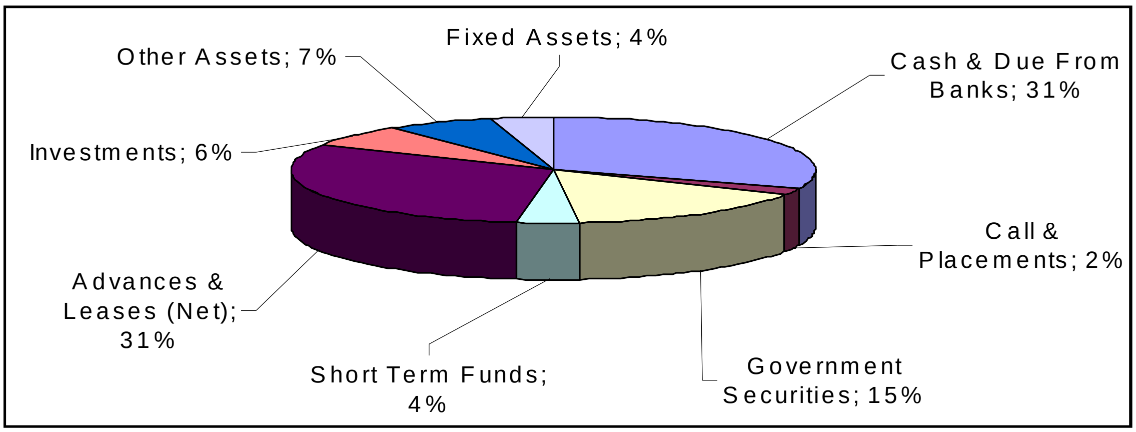


Figure 6
Composition of Assets in 2007

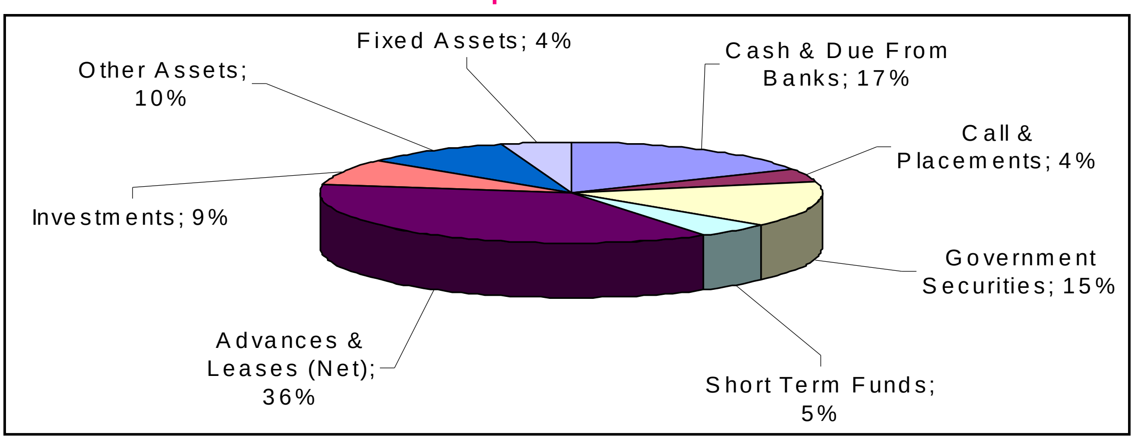


Figure 7
Composition of Liabilities in 2003

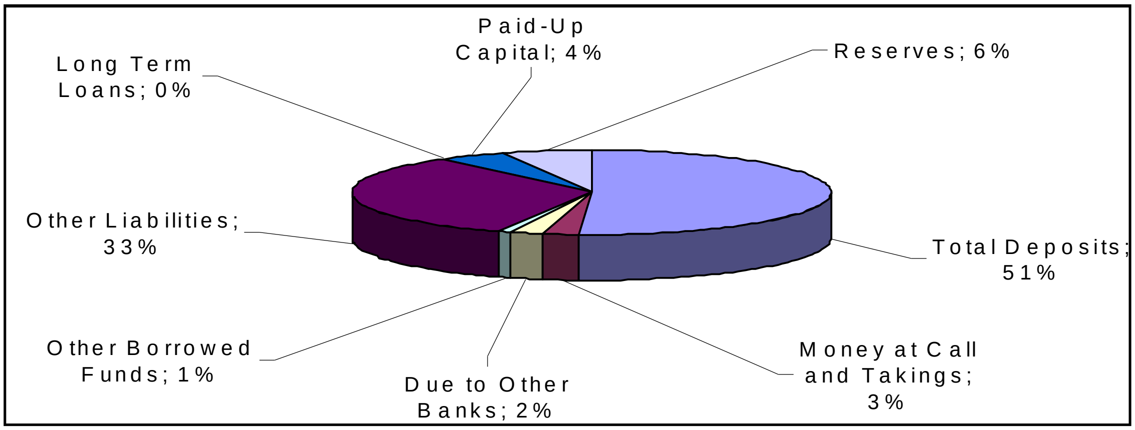


Figure 8
Composition of Liabilities in 2004

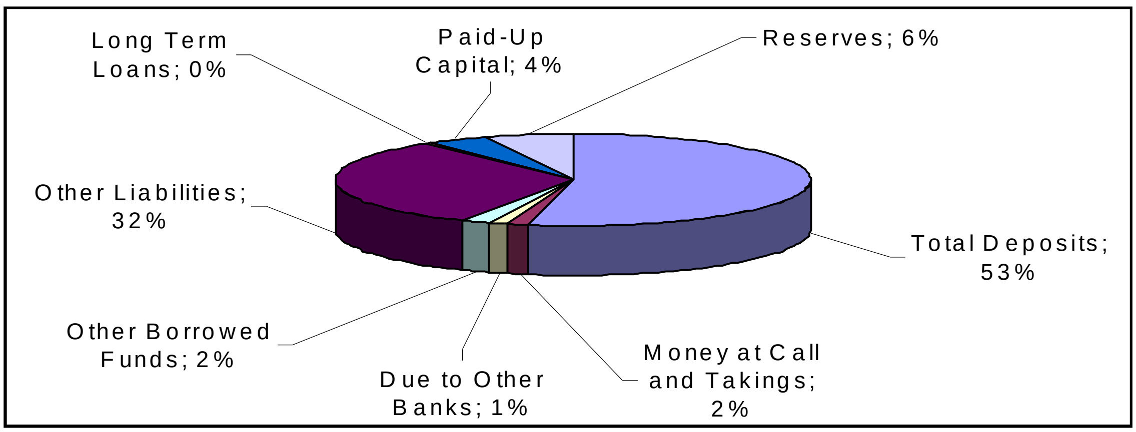


Figure 9
Composition of Liabilities in 2005

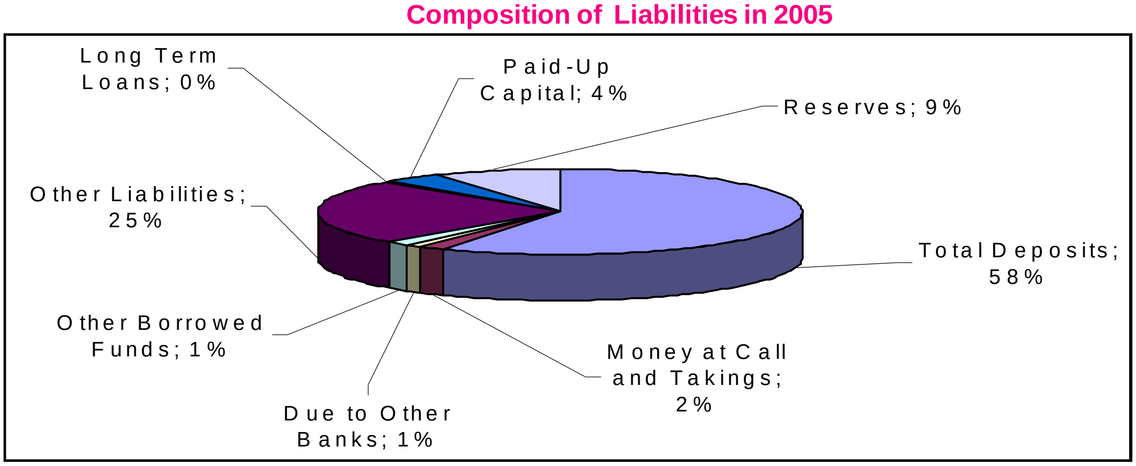


Figure 10
Composition of Liabilities in 2006

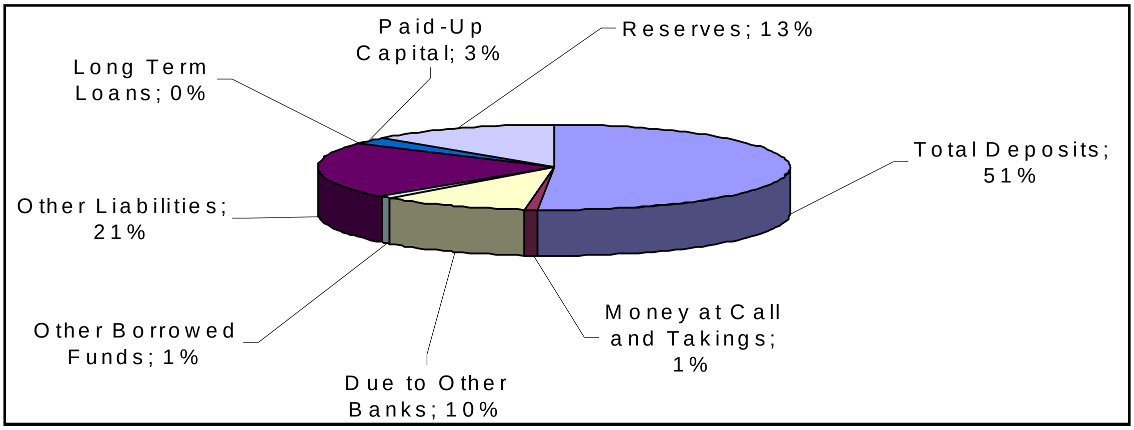
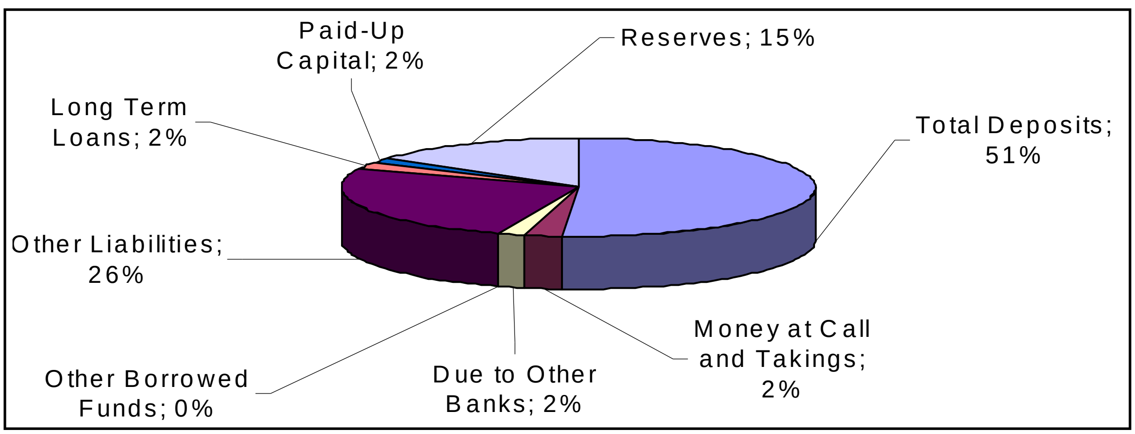


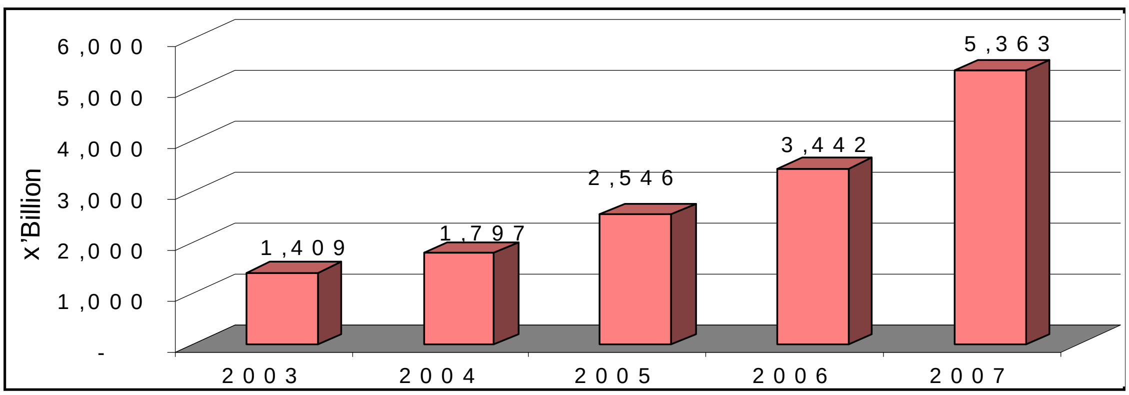
Figure 11
Composition of Liabilities in 2007



6.02 DEPOSIT LIABILITIES AND LIQUIDITY IN BANKS

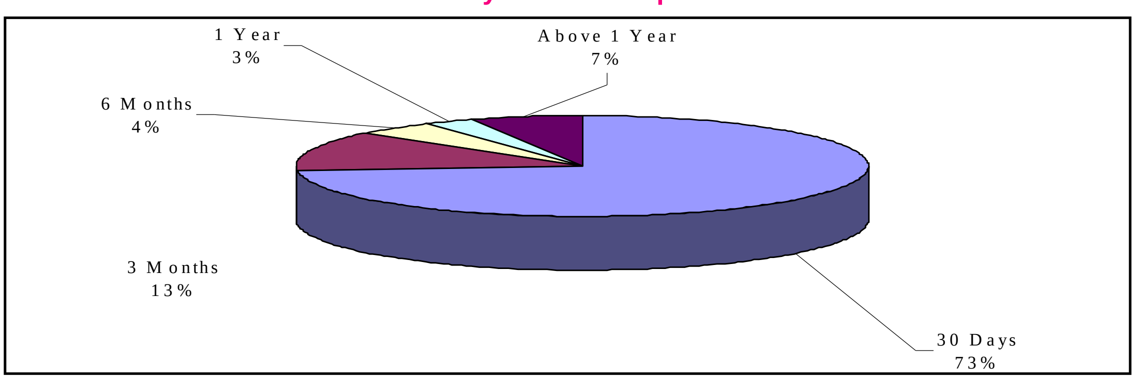
In 2007, the aggregate deposits in the banking sector continued to grow. It grew from x1.4 trillion in 2003 to x1.8 trillion in 2004, x2.5 trillion in 2005, x3.4 trillion in 2006 and 5.4 trillion in 2007. The observed trend reflected a growth rate of 10.4 percent in 2003, 27.5 percent in 2004, 41.7 percent in 2005, 35.2 percent in 2006 and 55.8 percent in 2007.

Figure 12
Aggregate Deposits



About 74 percent of the deposits of the banking sector matured within 30 days – an indication that there was paucity of long-term deposits in the sector

Figure 13
Maturity Profile of Deposits in 2007



Demand deposit remained the major type of deposit available to banks. It accounted for x2.5 trillion or 46.9 per cent of the total deposit liabilities as against x1.6 trillion or 46.4 per cent in 2006, x1.2 trillion or 46.8 percent in 2005, x0.8 trillion or 44.5 percent in 2004 and x0.6 trillion or 46.1 percent in 2003.

Figure 14
Composition of Deposits in 2003

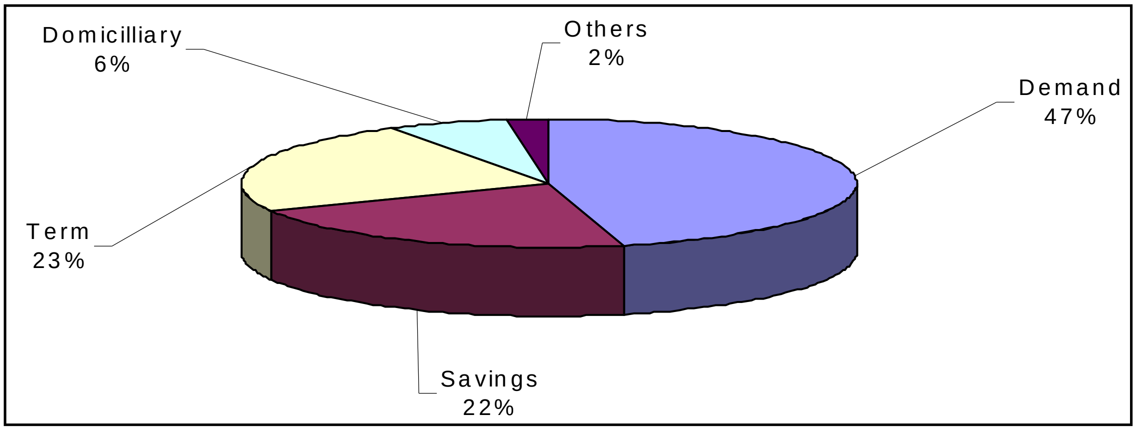


Figure 15
Composition of Deposits in 2004

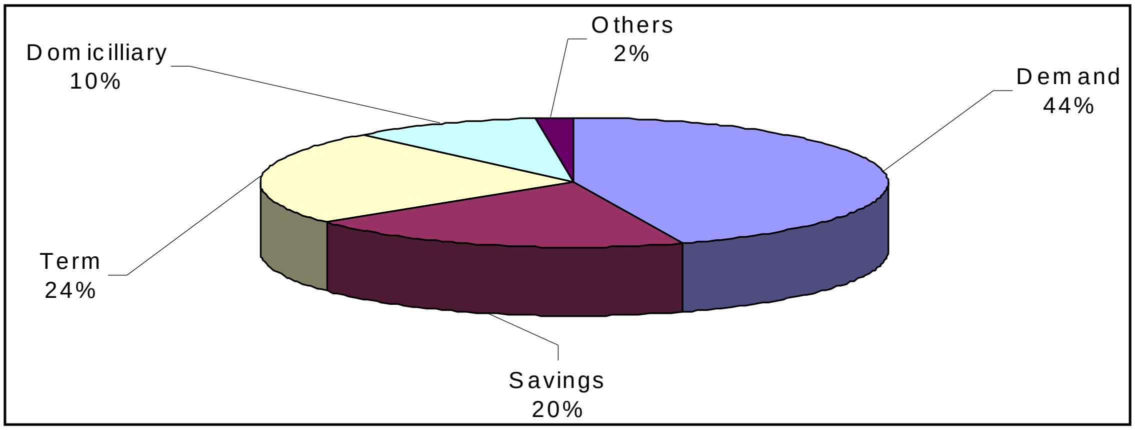


Figure 16
Composition of Deposits in 2005

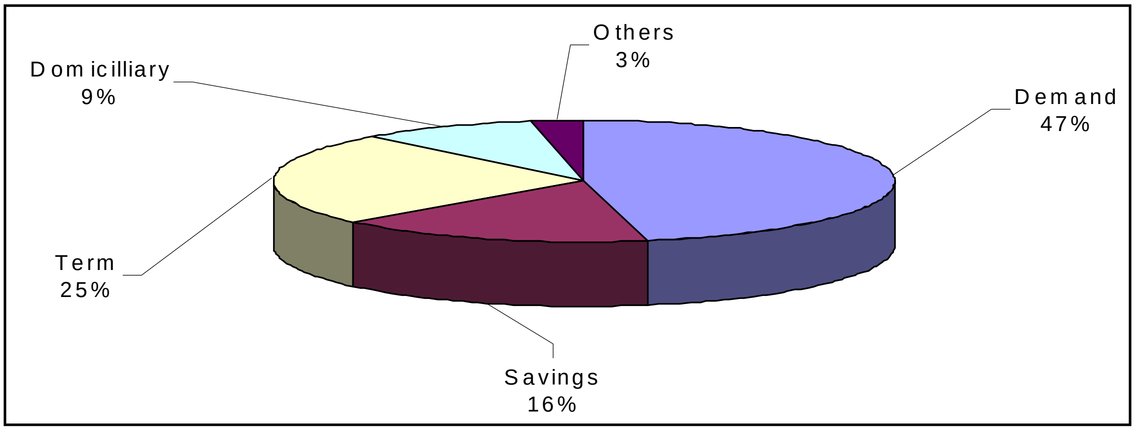


Figure 17
Composition of Deposits in 2006

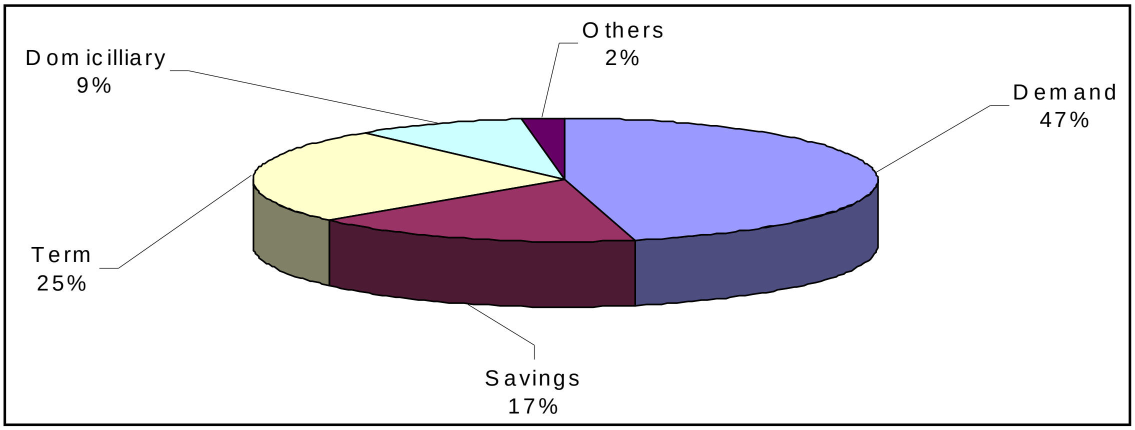
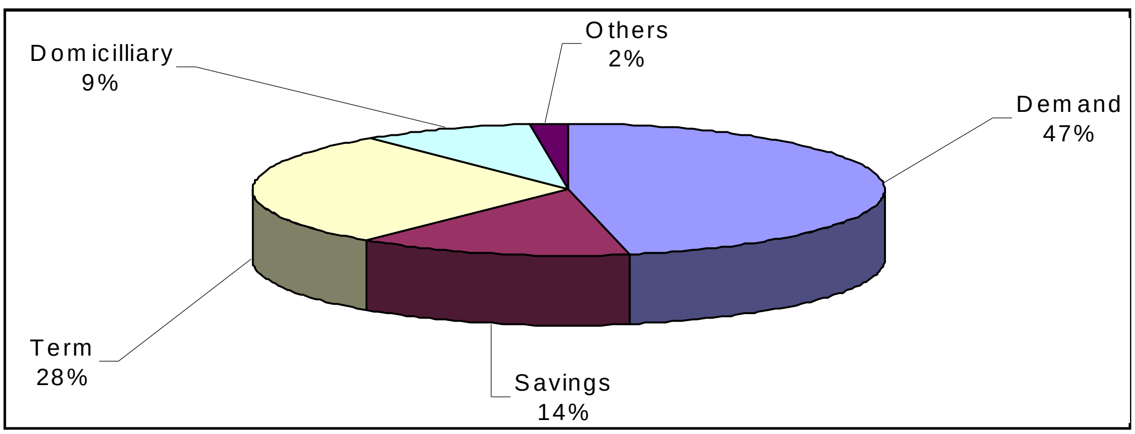
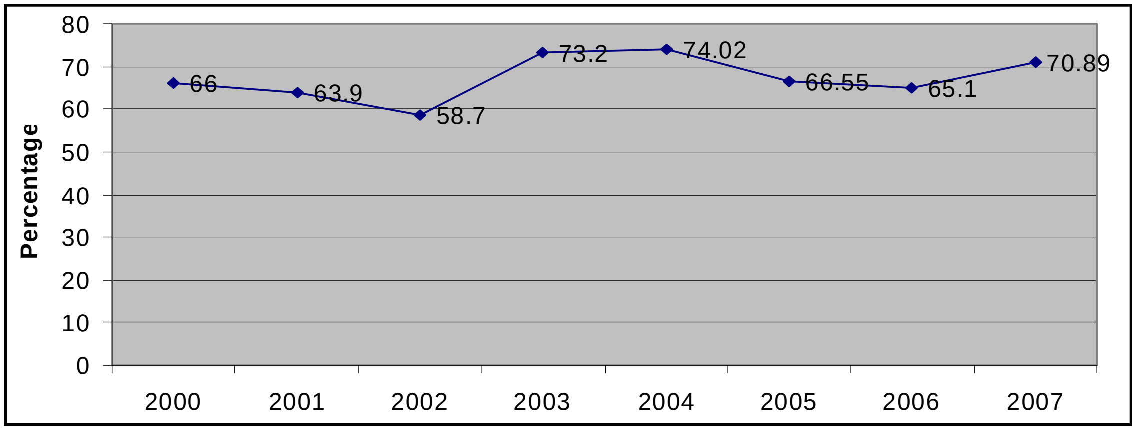


Figure 18
Composition of Deposits in 2007



During the year, the statutory minimum liquidity ratio requirement for banks remained at 40 percent while the specified liquid assets, for the purpose of liquidity ratio computation for banks, were cash and due from banks, short-term government instruments, placements with discount houses and inter-bank placements. The average liquidity ratio of the industry was 60.85 percent as at December 31, 2007.

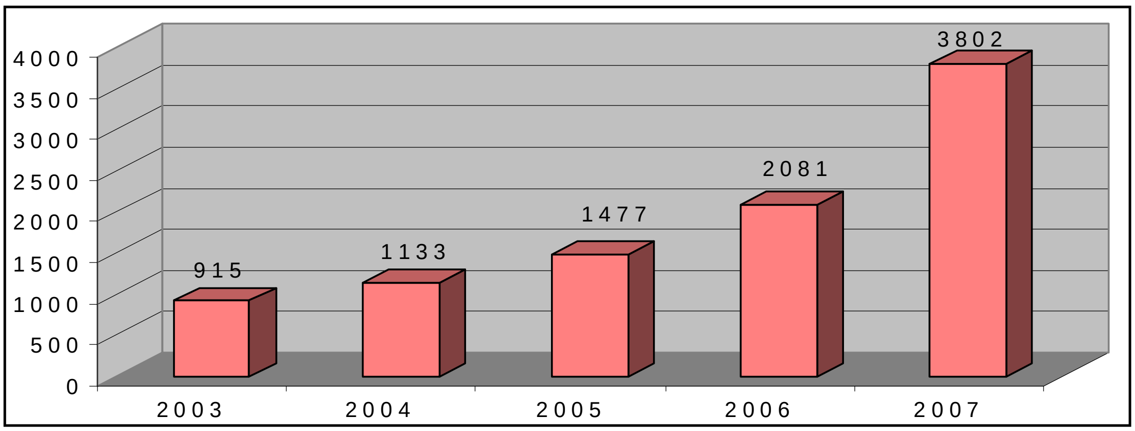
Figure 19
Aggregate Credit to Deposits Ratio



6.03 ASSETS QUALITY IN BANKS

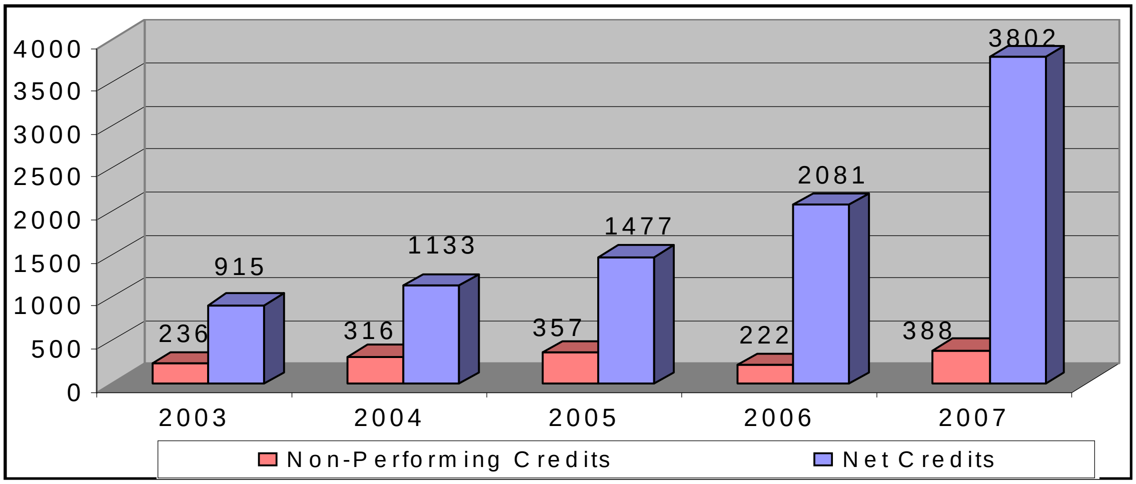
The assets quality of the banking sector improved in 2007. As in the previous years, loans and advances, which stood at x3.8 trillion as at December 2007, and constituted 36.3 percent of the banking sector aggregate assets of x10.5 trillion, were the largest earning assets during the period. Total credit recorded a growth rate of 26.9 percent in 2003; 23.8 percent in 2004; 30.4 percent in 2005; 40.9 percent in 2006 and 82.7 percent in 2007.

Figure 20
Loans & Advances and Growth Rate



The non-performing credits increased from x0.2 trillion in 2006 to x0.4 trillion in 2007. The ratio of non-performing credits to total credits of 8.44 percent during the review period was far below the trigger level of 35 percent for setting up a Crisis Management Unit as stipulated in the Contingency Planning Framework for Systemic Distress. The ratio was lower than 21.6 percent, 18.12 percent and 8.77 percent recorded in 2004, 2005, and 2006, respectively

Figure 21
Non-Performing Credits to Total Credits



Provision for bad and doubtful debts grew from x0.2 trillion in 2003 to x0.4 trillion in 2007. The ratio of bad debt provision to total credits decreased from 24.8 percent in 2003 to 22.6 percent in 2004, 19.1 percent in 2005 and 6.3 percent in 2006. It however increased to 8.1 percent in 2007.

6.04 CAPITAL ADEQUACY OF BANKS

At the end of December 2007, all the 24 banks met the required minimum shareholders' funds of x25 billion. Against the risk-weighted assets level of x8.2 trillion, the total qualifying capital of x1.7 trillion, represented a capital adequacy ratio (CAR) of 20.9 percent. This position was satisfactory when compared with the required minimum CAR of 10 percent. The capital adequacy ratio, however, recorded a decrease when compared with 22.6 percent recorded in 2006. The decrease was as a result of the significant growth in risk weighted assets and provision for bad and doubtful debts.

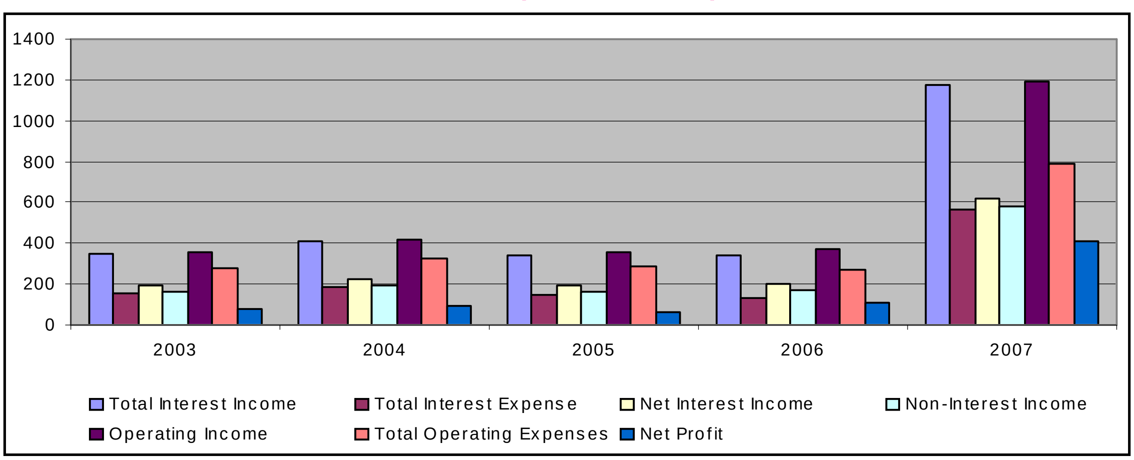
6.05 EARNINGS AND PROFITABILITY OF BANKS

All the earnings and profitability indices showed that the total revenue of the banking industry increased in 2007 relative to 2006. The improved revenue reflected largely the increase in net interest income, non-interest income and profit before tax.

Table 3
Earnings and Profitability of Banks
(End December)

	2003 Amount x billion	2004 Amount x billion	2005 Amount x billion	2006 Amount x billion	2007 Amount percent	2003	2004	2005	2006	2007
						Percerntage Growth				
Interest Income	349	412	340	339	1,178	(9.59)	18.05	(17.48)	(0.29)	386
Interest Expenses	154	188	147	135	562	(8.33)	22.08	(21.81)	(8.16)	168
Net Interest Income	195	224	193	204	616	(10.55)	14.87	(13.84)	5.70	218
Non-Interest Income	161	184	159	171	577	36.44	14.29	(18.04)	7.55	118
Operating Income	356	418	352	375	1,193	5.95	17.42	(15.79)	6.53	336
Operating Expenses	282	322	290	270	786	12.80	14.18	(9.94)	(6.90)	250
Profit Before Tax	74	96	62	105	407	(14.00)	29.73	(35.42)	50.00	86

Figure 22
Earnings and Profitability of Banks
(End December)



6.06 MARKET SHARE OF TEN LARGEST BANKS

During the period, the ten largest banks held 71.4 percent of the banking system total assets and 70.6 percent of the industry deposit liabilities as against 72.3 percent and 71.5 percent of assets and liabilities, respectively, in 2006. Also, their share of total credits increased from 66.6 percent in 2006 to 74.15 percent in 2007. In terms of capitalization, the ten banks controlled 76.6 percent in 2007 as against 58.5 percent in 2006.

6.07 EFFICIENCY OF OPERATIONS OF BANKS

The efficiency of operations in the banking industry increased in 2007. In terms of pricing and yield on earning assets, the industry recorded a ratio of 6.3 percent in 2007 as against 8.4 percent in 2006. The banking industry also recorded increases in return on assets and equity from 1.6 percent in 2006 to 3.3 percent in 2007 and 10.6 percent in 2006 to 23.8 percent in 2007, respectively. The table below highlights the various ratios which measure the operating efficiency of the banks.

Table 4
Efficiency of Nigerian Banks from 2003 to 2007
(Percent)

Efficiency Measures	2003	2004	2005	2006	2007
Interest Margin	55.87	54.37	5.59	60.15	52.25
Yield on Earnings Asset	4.74	14.17	9.85	8.35	6.28
Return on Assets	2.67	3.12	1.85	1.61	3.89
Return on Equity	25.52	27.35	12.97	10.6	23.84
Efficiency Ratio	49.02	77.03	39.97	71.43	65.90

Source: Bank Analysis System

Figure 23
Pricing and Yield on Earning Assets of Banks

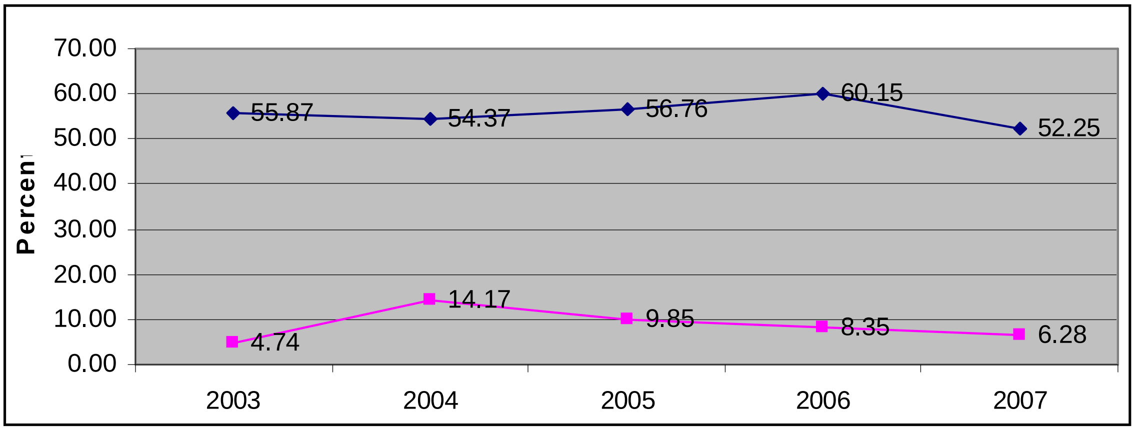
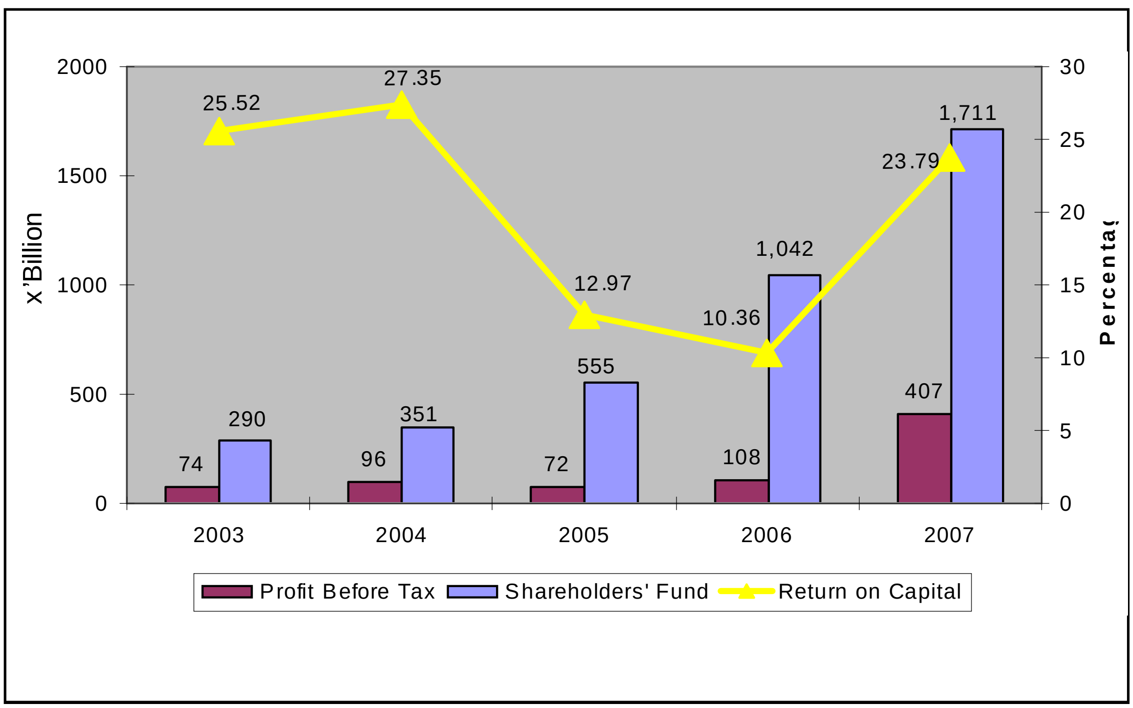
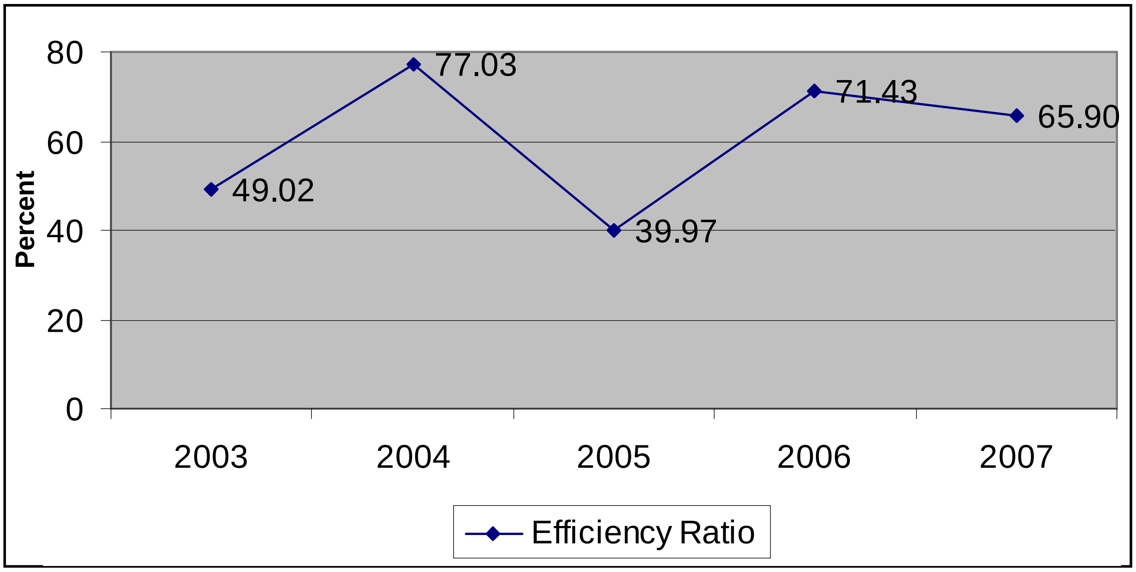


Figure 24
Return on Capital Employed



In terms of cost efficiency, it recorded improvements in 2007. The cost efficiency ratio, which is a measure of the operating expenses against operating income, was 65.9 percent in 2007 as against 71.43 percent in 2006.

Figure 25
Efficiency Ratio of the Banking System



6.08 PERFORMANCE TREND IN OTHER FINANCIAL INSTITUTIONS SUB-SECTOR IN 2007

The Other Financial Institutions sub-sector witnessed significant growth in 2007 as all the key financial indicators of the institutions in the sub-sector showed improvement. The trends in the financials of the various institutions in the sub-sector are highlighted below:

a) Community Banks (CBs)/Microfinance Banks (MFBs)

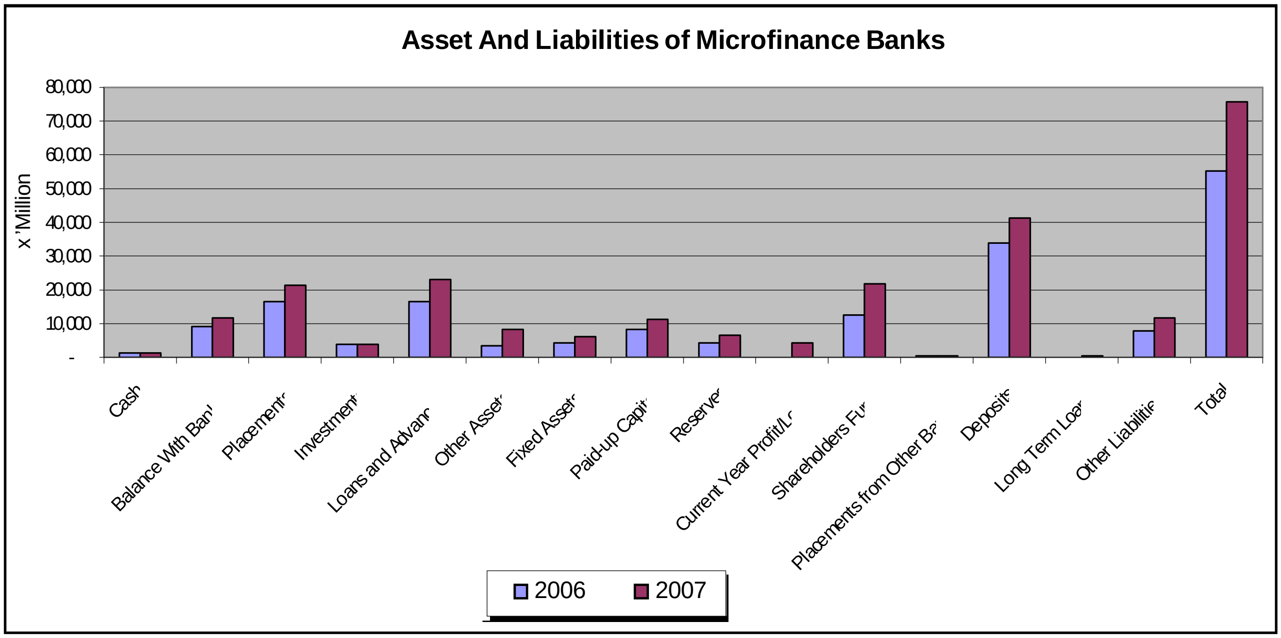
The asset base of CBs/MFBs which stood at x55.1 billion in 2006 grew by x20.4 billion or 37.2 percent to x75.5 billion in 2007. Credit expansion also improved as loans and advances stood at x22.9 billion in 2007 compared to N16.5 billion in 2006 indicating a growth of x6.4 billion. Similarly, balances with other banks rose by 32.4 percent to x11.8 billion. Investors increased their stakes in CBs/MFBs as paid-up share capital grew by 34.9 percent to x11.2 billion in 2007 from x8.3 billion in 2006. In like manner, shareholders' funds rose from x12.7 billion to x21.8 billion, a growth of x9.1 billion or 71.1 percent. Details of CB/MFBs' financial statistics are shown in Figure 1 below.

Table 5
Assets And Liabilities Of MFBs (Formerly Community Banks)
(End-December)

Assets And Liabilities Of MFBs (Formerly Community Banks) (End-December)						
ASSETS	**2006 x'000**	**%**	**2007 x'000**	**%**	**VARIANCE**	**% CHANGE**
Cash	1,326,530	2.4	1,410,122	1.9	83,592	6.3
Balance with Banks	8,916,057	16.2	11,801,327	15.6	2,885,270	32.4
Placements	16,336,033	29.7	21,381,543	28.3	5,045,510	30.9
Investments	3,868,176	7.0	3,715,676	4.9	(152,500)	(3.9)
Net Loans and Advances	16,498,646	30.0	22,850,226	30.2	6,351,580	38.5
Other Assets	3,657,646	6.6	8,141,945	10.8	4,484,299	122.6
Fixed Assets	4,453,018	8.1	6,249,078	8.3	1,796,060	40.3
TOTAL ASSETS	55,056,106	100.0	**75,549,917**	100.0	20,493,811	37.2
FINANCED BY:						
Paid-up Capital	8,303,005	15.1	11,203,112	14.8	2,900,107	34.9
Reserves	4,316,915	7.8	6,436,420	8.5	2,119,505	49.1
Current Year Profit/Loss	128,719	0.2	4,171,238	5.5	4,042,519	3,140.6
Shareholders' Fund	12,748,639		21,810,770	28.9	9,062,131	71.1
Placements from Other Banks	482,870	0.9	290,500	0.4	(192,370)	(39.8)
Deposits	34,008,796	61.8	41,217,713	54.6	7,208,917	21.2
Long Term Loans	185,889	0.3	497,881	0.7	311,992	167.8
Other Liabilities	7,629,912	13.9	11,733,053	15.5	4,103,141	53.8
TOTAL LIABILITIES	55,056,106	100.0	**75,549,917**	100.0	20,493,811	37.2

Source: Audited Accounts

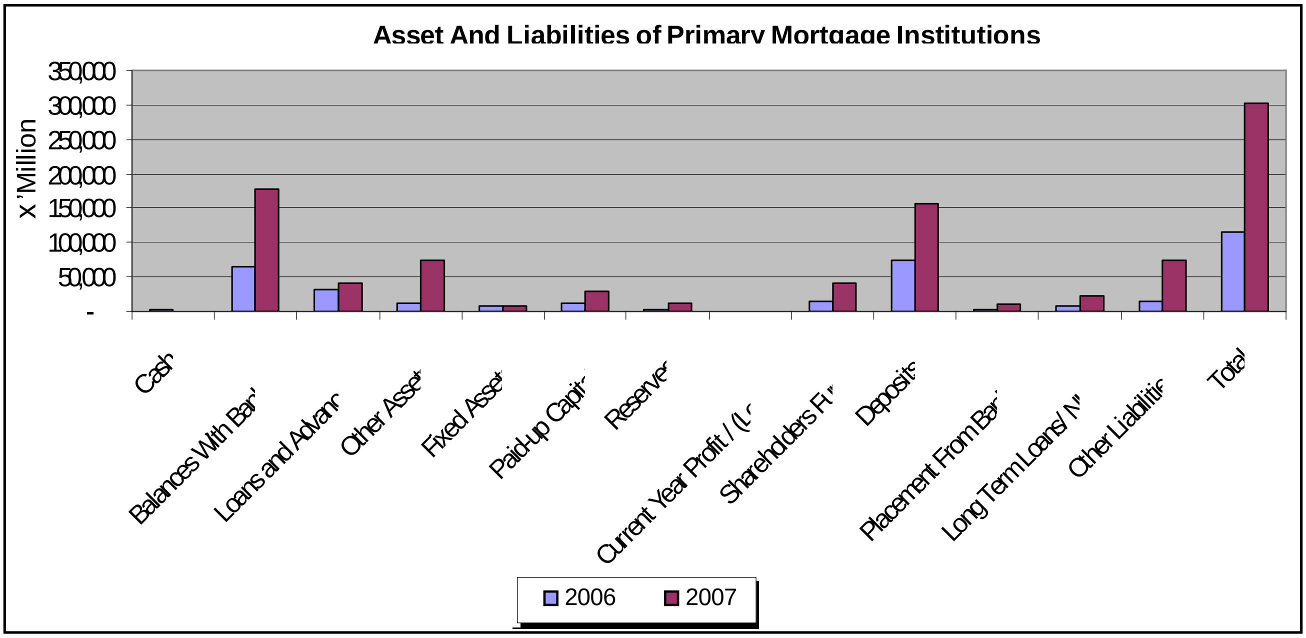
Figure 26
Assets And Liabilities Of MFBs (Formerly Community Banks)
(End-December 2007)



b) Primary Mortgage Institutions

The total assets of the PMIs rose sharply from x114.4 billion in 2006 to x302.3 billion in 2007 representing a growth of x187.9 billion or 164.2 percent. Balances with banks remained the largest component of the assets with 59 percent in 2007 compared to 56.5 percent in 2006 while financing of mortgages remained low as loans and advances constituted only 26.2 percent in 2006 and declined to 13.5 percent in 2007. The PMIs' assets in 2007 were financed from Deposits (x155.9 billion), Other Liabilities (x74.7 billion), Paid-up Capital (x28.0 billion) and Long Term Loans (x22.8 billion). The shareholders funds of PMIs increased by 158.4 percent to x40.2 billion in 2007 from x15.6 billion while Long Term Loans/NHF grew from x7.6 billion to x22.8 billion. Figure 2 shows the financial statistics of the PMI sub-sector.

Figure 27
Assets and Liabilities of Primary Mortgage Institutions

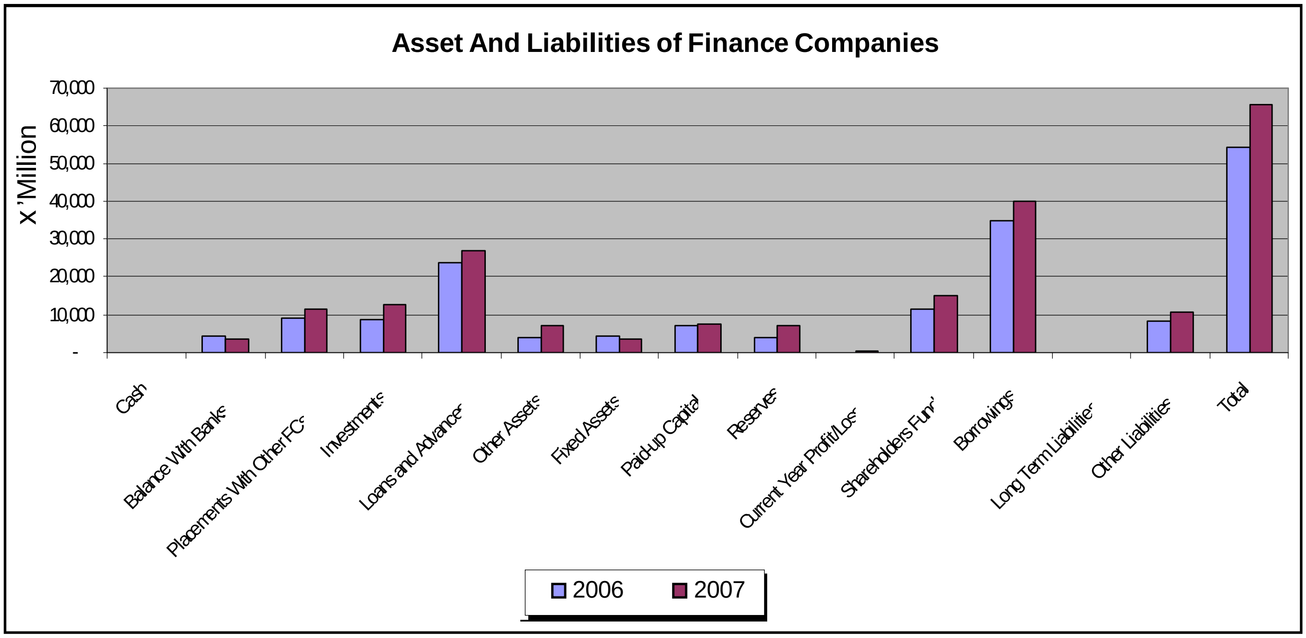


c) Finance Companies (FCs)

The total assets/liabilities of the FCs increased from x54.3 billion in 2006 to x65.8 billion in 2007, representing an increase of 21.18 percent. Loans and Advances increased by 12.5 percent from x23.8 billion in 2006 to x26.8 billion in 2007. Placement with other FCs increased by 23.11 percent from x9.3 billion in 2006 to x11.46 billion in 2007.

Total borrowings increased by 15.31 percent from x34.6 billion in 2006 to x39.9 billion in 2007, while shareholders' funds increased by 30.26 percent from x11.4 billion in 2006 to x14.85 billion in 2007. Investible funds that accrued to the sub sector during the period under review increased by x11.5 billion. The funds were sourced mainly from borrowings of N5.3 billion, in other liabilities of x2.7 billion and shareholders' funds of x3.6 billion, among others, and were utilised mainly to increase investments by x4.0 billions, Loans and Advances by x2.9 billion and Placement with other FCs by x2.2 billion. Details of the financial statistics are shown in Figure 3.

Figure 28
Assets and Liabilities of Finance Companies



d) Development Finance Institutions (DFIs)

The total assets and shareholders' fund of the four reporting DFIs namely BOI, NEXIM, FMBN and NACRDB, stood at x143.09 billion and x20.33 billion (net) respectively as at end December 2007.

An analysis of the assets indicated the following breakdown:

	Total Assets x billion	**Shareholders' Fund x billion**
BOI	32.19	9.29
NEXIM	20.96	10.8
FMBN	49.79	(2.55)
NACRDB	40.15	2.79
Total	143.09	20.33

Chapter Seven

CAPACITY BUILDING

7.01 CAPACITY BUILDING FOR SUPERVISION

In the quest to transform CBN to a knowledge institution, efforts were sustained at developing human capital through various training activities. A breakdown showed that 677 training slots were utilized in 2007, comprising of 599 local slots and 78 foreign slots. The figure compared to a total of 194 slots in 2006. The major areas of training were risk-based supervision, financial markets/products, anti-money laundering and corporate governance. The courses were held across Africa, Asia, Europe and North America.

A conference of Bank Examiners was held at Gateway Hotel, Abeokuta, Ogun State on 14th – 16th February, 2007. The theme of the conference was *Post Consolidation Challenges.* It was attended by various stakeholders in the banking industry.

7.02 CAPACITY BUILDING ON CONSOLIDATED SUPERVISION AND RBS

In continuation of its capacity building efforts, the CBN organized a training programme on RBS in March 2007 for its Examiners and those of the NDIC, with more than 300 participants. Also, with the technical assistance from the Office of the Superintendent of Financial Institutions (OSFI), Canada, two runs of a seminar on Consolidated Supervision were organised by the CBN, in May and September 2007, in Abuja and Lagos, respectively. Furthermore, a course on risk management in banks, which was sponsored by the CBN for selected officers of all the banks, took place in Lagos in June 2007.

7.03 SEMINAR FOR JUDGES

The Committee held the 7th edition of the Annual National Seminar on Banking and Allied Matters for Judges from December 3 - 5, 2007, in Abuja. The theme of the seminar was, 'Towards a Safe and Sound Financial System'. The aim of the seminar was to create a forum for interaction between the banking sector and the Judiciary where both parties could discuss critical issues affecting their mutual operations in order to build a sound financial system. Participants were drawn from the Judiciary, covering the 36 states of the Federation and the FCT, staff of the NDLEA, Judicial officers from the National Judicial Institute and legal officers of deposit money banks.

Paper presentations during the seminar covered the following:

- Emergence of e-business in Nigeria: Challenges and Solutions for the Judiciary.
- Efficacy of the Civil Procedure Rules in Advancing the Ideals of the Commercial Divisions of State High Courts: A case study of Lagos State.
- Contending Issues and Challenges in Judicial Intervention in Bank Liquidation Process.
- Aviation Financing: Statutory and Legal Challenges.
- The Role of the Judiciary in Nigeria's Financial Sector Reforms.
- The Roles and Responsibilities of Legal Officers in the Observance of Credit Management Policies, Standards and Codes.

The communiqué, which was issued at the end of the seminar called for the amendment of the Evidence Act to provide for the admissibility of electronic/digital documents in Nigerian courts and to provide for a legislation to facilitate effective investigation and prosecution of e-business offences in order to reduce fraud in e-business.

Appendices

Appendix 1
Circulars

09 61636405
09 61636418

BSD/DIR/CIR/07/VOL/01 23 JANUARY, 2007

CIRCULAR TO ALL BANKS AND DISCOUNT HOUSES
SUBMISSION OF RETURNS THROUGH THE eFASS

It would be recalled that the live-run of the electronic Financial Analysis and Surveillance System (eFASS) commenced with effect from October 3, 2006.

The various returns were designed to enable the CBN/NDIC monitor effectively, the performance of the Reporting Institutions. The Management of the CBN has however noted with deep concern, the failure of many banks and discount houses to render most of the returns particularly the daily returns.

All the institutions are hereby reminded that they must submit all their daily returns not later than 3.00 pm of the following working day. We wish to emphasize that this is the last reminder as failure to ensure compliance with the above with effect from January 29, 2007 would attract appropriate sanctions which would include, but not limited to, suspension from the WDAS and the decline of other requests for CBN approvals.

O. I. Imala
Director, Banking Supervision Department

CENTRAL BANK
OF NIGERIA

09-61636403
09-61636418

BSD/DIR/CIR/07/V.1/11 **27th August, 2007**

Circular To All Banks:

The Draft Framework For The Consolidated Supervision Of Banks In Nigeria

In keeping with global trend and current best practice in supervision, the Central Bank of Nigeria in conjunction with the Nigeria Deposit Insurance Corporation have developed the attached draft framework for the consolidated supervision of banks in Nigeria as a complement to the risk-based supervisory framework earlier released to the Nigerian banking industry in 2005. Amongst others, the framework is aimed at addressing the following supervisory objectives:

1. Ensuring that no banking activity goes on without supervision, irrespective of location, thus eliminating regulatory arbitrage.

2. Eliminating double leverage/gearing in the computation of capital adequacy of conglomerates.

3. Ensuring that all the risks incurred by a banking group, no matter where they are booked will be evaluated and controlled on a global basis.

4. Enabling the CBN/NDIC to identify more quickly, emerging problems and work with banking organizations and other supervisors as appropriate, to take prompt corrective measures on the issues.

5. Helping supervisors to gauge earlier, the effect of potentially adverse events on banking organizations and on the financial system in general.

The document, which is in four chapters, can also be accessed electronically on the CBN website at *www.cenbank.org.* Being an exposure draft, your views, suggestions and constructive criticisms are welcome, to further enrich the document. This should be forwarded to the Director of Banking Supervision within two weeks from the date of this circular.

It is envisaged that the final document will serve as a useful guide to supervisors and operators alike as the Nigerian banking system moves towards the adoption and implementation of consolidated supervision.

I.D. ABDULLAHI
For: DIRECTOR OF BANKING SUPERVISION

09-61636403
09-61636418

BSD/DIR/CIR/V1/011 **September 24, 2007**

CIRCULAR TO ALL BANKS:

GUIDELINES FOR THE DEVELOPMENT OF RISK MANAGEMENT FRAMEWORKS FOR INDIVIDUAL RISK ELEMENTS IN NIGERIAN BANKS

It would be recalled that, in August 2006, the draft of the above document was issued to the stakeholders for comments and suggestions. The feedback received was quite helpful in reviewing the document which has now been finalized. The document contains minimum requirements meant to assist banks in developing their risk management frameworks.

Consequently, the Central Bank of Nigeria by this circular, formally releases the guidelines, which can also be accessed electronically at the CBN website **www.cenbank.org.**

G. A. OLADEJOBI
FOR: DIRECTOR OF BANKING SUPERVISION

09-61636412
09-61636418

BSD/DIR/GEN/CIR/VOL.1/013 **OCTOBER 26, 2007**

CIRCULAR TO ALL BANKS
GUIDELINES FOR THE APPOINTMENT OF INDEPENDENT DIRECTORS

INTRODUCTION

Following the introduction of the Code of Corporate Governance to banks operating in Nigeria effective April 3, 2006, the following guidelines are given to enable banks comply with Section 5.3.6 of the Code which states that **"at least two (2) non-executive board members should be Independent Directors (who do not represent any particular shareholder interest and hold no special business interest in the bank) appointed by the bank on merit":**

a. Definition

An Independent Bank Director, would be a member of the Board of Directors who has no direct material relationship with the bank or any of its officers, major shareholders, subsidiaries and affiliates; a relationship which may impair the director's ability to make independent judgments or compromise the director's objectivity in line with Corporate Governance best practices.

b. Qualifications for appointment

Realizing that the need for Independent Directors arose from the desire to have on the board of banks, directors who would express expert and independent views on issues in order to enthrone best Corporate Governance practices, the criteria for appointment of persons as independent directors are as follows;

i. Compliance with Section 257(1) of the Companies and Allied Matters Act (CAMA), 1990 as amended, the Banks and Other Financial Institutions Act (BOFIA) of 1991 as amended or/and any other relevant law.

An Independent Director should not:

ii. provide financial, legal or consulting services to the bank or its subsidiaries/affiliates or had done so in the past 5 years;

iii. be a current or former employee who had served in the bank in the past and none of his immediate family members should be an employee or former staff of the bank at the top management level in the preceding 5 years;

iv. borrow funds from the bank, its officers, subsidiaries and affiliates;

v. be part of management, executive committee or board of trustees of an institution, charitable or otherwise, supported by the bank;

vi. serve on the Board of a subsidiary of the bank;

vii. Furthermore, an Independent Director should have sound knowledge of the operations of listed companies, the relevant laws and regulations guiding the industry, a minimum academic qualification of first degree or its equivalent with not less than 10 years of relevant working experience**.** Candidates should have proven skills and competencies in their fields.

c. Appointment

Banks should nominate/appoint their Independent Directors subject to CBN's approval as obtained currently. The CBN will appraise the candidates on the basis of the laid down criteria for the appointment of Independent Directors.

d. Responsibilities

Independent Directors are to:

i. employ neutral, specialized/expert skills towards achieving a balance of knowledge, skills, judgment and other directional resources bearing in mind that neutrality of views and quality of debate are very crucial in enthroning good Corporate Governance practices;

ii. serve as a check on the management of banks by providing unbiased and independent views to Boards of banks and represent minority shareholder's interests;

iii. help the Boards of banks to get the most out of its businesses by providing objective inputs to strategic thinking and decision making, while ensuring full compliance with statutory rules and regulations.

e. Remuneration

The remuneration of the Independent Director should be limited to his/her sitting allowance, fees and reimbursable(s) incurred in the ordinary course of the business of the bank.

f. Performance Evaluation

The independent consultants appointed by banks as spelt out in the Code of Corporate Governance to appraise board members and board's performances should equally appraise the performance of the Independent Directors at least once a year or more frequently as may be necessary, or due to changes in circumstances that may affect individual directors' independence. In addition to the above, CBN/NDIC Examiners will assess the performance of all directors during routine examinations.

g. Tenure

The term of office of an Independent Director shall be 4 years for a single term and a maximum of 8 years of two consecutive terms if reelected upon the expiration of the first term.

However, the Independent Director may resign before the expiration of his/her term. In this circumstance, the independent director shall submit a written letter of resignation spelling out the circumstances leading/surrounding the resignation, a copy of which should be sent to the CBN. The CBN may also review the appointment of an Independent Director if it is established that his/her independence is impaired by subsequent actions.

I. D. ABDULLAHI
FOR: DIRECTOR, BANKING SUPERVISION DEPARTMENT

09-61636401
09-61636418

BSD/DIR/GEN/CIR/V1/014 **November 1, 2007**

CIRCULAR TO ALL BANKS AND DISCOUNT HOUSES

REDUCTION IN THE PERIOD FOR SUBMISSION OF THE STATUTORY RETURNS TO THE CBN AND NDIC

The deployment of the Data Submission System (DSS) of the electronic Financial Analysis and Surveillance System (e-FASS) in all banks and discount houses, has led to the automation of data extraction for the purpose of returns rendition thus, requiring less effort by banks and discount houses to submit their statutory returns.

In view of the above and the need to provide timely information to the regulatory authorities, the period for the submission of statutory returns to the CBN and NDIC has been reduced to fall due as follows:

1. Daily Returns - On or before 3:00 p.m. of the following working day

2. Weekly Returns - On or before 3:00 p.m. of the second working day of the following week

3. Mid-Monthly Returns On or before 3:00 p.m. of the following working day

4. Monthly, Quarterly and Semi-Annual Returns - Should be submitted on or before the 5th day after the month end. Where the 5th day happens to be a week end or a public holiday, returns should be submitted on the previous working day.

This Circular takes immediate effect and please NOTE that non-compliance with the specified periods would attract appropriate sanctions.

O. I. IMALA
DIRECTOR OF BANKING SUPERVISION

09-61636403
09-61636418

BSD/DIR/GEN/CIR/VOL.1/015 **November 8, 2007**

CIRCULAR TO BANKS AND OTHER FINANCIAL INSTITUTIONS

COMPLIANCE WITH KNOW YOUR CUSTOMER (KYC) REQUIREMENTS AND BANKS WEEKLY MONEY LAUNDERING REPORTS TO THE NFIU USING XML SCHEMA TEMPLATE

All banks and other financial institutions operating in Nigeria are by this circular reminded of the need to ensure full compliance with customer identification requirements in line with Section 3 of Money Laundering Prohibition Act, 2004, CBN KYC Directive, 2001 and KYC Manual, 2003.

Accordingly, banks and other financial institutions are required to demand and obtain complete identification information /evidence from all their customers (existing and intending). This will enable the banks to render effective money laundering (ML) returns to the Nigerian Financial intelligence Unit (NFIU) through the XML Schema Template currently being used by them to render ML returns.

Consequently, where customers fail to cooperate with the banks/institutions, they should suspend further transaction on such account(s) until full compliance is achieved.

This directive is to be complied with within two weeks from the date of this circular, failing which appropriate sanctions will be imposed on erring banks.

O. I. IMALA
DIRECTOR OF BANKING SUPERVISION

09-61636403
09-61636418

BSD/DIR/GEN/CIR/V.1/017 November 20, 2007

CIRCULAR TO ALL BANKS – BANK MERGERS & ACQUISITIONS

The Central Bank of Nigeria has observed with keen interest recent developments in the financial system, including the efforts at further consolidation by banks. These attempts, which are based primarily on market considerations, are a welcome development as the reasons adduced are commendable.

The CBN extols these initiatives but wishes to remind banks that the processes and procedures adopted must be carried out with regard for due process, professionalism and in compliance with the relevant laws governing banking. It is in this regard that banks are advised to be guided as follows:

1) Any bank wishing to acquire or merge with another bank should initiate preliminary discussions with the target bank at the highest level, that is, at the level of the Board of Directors/key shareholders of the institutions. No further steps should be taken if majority shareholders of both banks are not in agreement with the planned merger or take-over;

2) Upon the commencement of such discussions, the banks involved must notify the CBN in writing and obtain a "no objection" response before they proceed with further discussions/negotiations. Thereafter, they should continue to provide the CBN with regular updates on the progress made in the discussions; and

3) Banks should at all times comply strictly with all relevant laws and regulations including the provisions of the Banks and Other Financial Institutions Act 1991 (as amended); Investments and Securities Act 1999; and the Companies and Allied Matters Act 1990, in the conduct of the transactions.

For the avoidance of doubt, the CBN will not tolerate actions that are likely to precipitate crisis or instability in the Banking System and thus will not hesitate to bring to bear the full brunt of the law on any erring bank in line with its zero tolerance policy.

O. I. IMALA
DIRECTOR OF BANKING SUPERVISION

09-616 36403
09-616 36418

BSD/DIR/GEN/CIR/V.1/018 December 7, 2007

CIRCULAR TO ALL BANKS & DISCOUNT HOUSES:
HARMONIZATION OF JOB TITLES IN THE BANKING INDUSTRY

Some banks designate their personnel, particularly the top management staff, with job titles that are different from the conventional ones. While the practice may not be bad in itself, it may be difficult for the public and third parties to know the level of authority and responsibility such designations depict. For simplicity and comparison across banks, it has become necessary to harmonise such designations with those already well known. Accordingly the Central Bank of Nigeria has approved the harmonisation of job titles in the banking industry as follows:

S/N	Conventional Titles	Acceptable Equivalent
1	Managing Director / CEO	Managing Director/ CEO
2	Deputy Managing Director	Deputy Managing Director
3	Executive Director	Executive Director
4	General Manager	Senior Vice President
5	Deputy General Manager	Vice President
6	Asst. General Manager	Assistant Vice President
7	Principal Manager	Principal Manager
8	Senior Manager	Senior Executive Associate

- Banks are reminded to note that section 5.2.2 of the Code of Corporate
- Governance for Banks disallows the creation of the position of Executive
- Vice-Chairman and requires that the position of the Chairman of the
- Board must be separate and distinct from that of the Chief Executive Officer.

- Titles like "Group Director" or "Regional Director" are also not permitted designations in the banking industry.

All institutions are to note that this directive takes effect from the date of this circular

O. I. IMALA
DIRECTOR OF BANKING SUPERVISION

IMPORTANT NOTICE ON THE DEADLINE FOR CONVERSION OF EXISTING COMMUNITY BANKS (CBs) TO MICROFINANCE BANKS (MFBs)

TO THE CHAIRMEN, DIRECTORS, MANAGERS AND STAFF OF ALL COMMUNITY BANKS

1. Submission of Applications for Conversion

The Microfinance Policy, Regulatory and Supervisory Framework for Nigeria, which was launched by The President, Chief Olusegun Obasanjo, GCFR on 15th December, 2005 stipulated a two-year period ending 31st December, 2007 for all existing community banks (CBs) to convert to microfinance banks (MFBs).

As the deadline for the conversion of existing CBs to MFBs gradually approaches, it has become necessary to advise all CBs that have already met the minimum capital requirement of x20 million shareholders' funds, unimpaired by losses, for a unit MFB, or x1.0 billion, for a state MFB, to submit their applications for conversion immediately. This is to avoid bunching of applications towards the deadline.

By the same token, all CBs that are yet to meet the minimum capital requirement are also urged to expedite action and explore all available options towards meeting the capital and documentation requirements for their conversion to MFBs, as stipulated in the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria and the Guidelines for Microfinance Banks in Nigeria.

2. Deadline for Conversion to Microfinance Bank

For the avoidance of doubt, it is necessary to categorically state that the 31st December, 2007 deadline for the conversion of CBs to MFBs is sacrosanct and will not be shifted for any reason.

3. The Merger Option for Conversion to Microfinance Banks

One of the options available to CBs for attaining the minimum capital requirement for conversion to MFBs, as stated in the CBN Circular No. OFID/DO/CIR/Vol.1/

450 of 3rd February, 2006, is merger. A merger between two or more CBs is allowed, provided the merging acquisition institutions have jointly attained minimum shareholders' funds of x20 million, unimpaired by losses, for a unit MFB. One of the offices of the merging CBs, where it has its dominant activities shall be the Head Office, while the other office(s) of the merging CBs shall be retained as approved Branches. However, new branches shall not be allowed for the emerging MFB, outside its state of dominant operations, until it has opened branches to cover two-thirds of the Local Government Areas (LGAs) in the state of dominant operation, where the Head
Office is located.

Please feel free to contact the Central Bank of Nigeria for further clarification and assistance should the need arise.

Director, Other Financial Institution Department,
Central Bank of Nigeria, Lagos.

CENTRAL BANK OF NIGERIA IMPORTANT NOTICE TO THE CHAIRMEN, DIRECTORS, COMMUNITY DEVELOPMENT ASSOCIATIONS SHAREHOLDERS, MANAGERS AND STAFF OF ALL COMMUNITY BANKS AND THE GENERAL PUBLIC

In furtherance of our earlier publications on the deadline for the conversion of existing community banks (CBs) to microfinance banks (MFBs), it has again been considered necessary to advise all CBs that are yet to convert to MFBs or meet the minimum capital requirement of N20 million to urgently re-capitalize, on or before 31st December, 2007.

This publication serves as a final notice to all chairmen, directors, community development associations, shareholders and other officers of CBs that failure to meet this deadline will be interpreted to mean that the CB had either closed shop, ceased to operate, is technically insolvent, or has resolved to exit. In the event that any of the CBs is unable to meet the minimum shareholders' fund, unimpaired by losses, of N20 million, such CB is required to submit the following documents to the Director, Other Financial Institutions Department, Central Bank of Nigeria, Lagos, on or before 31st December, 2007:

1. Winding-up resolutions of the board of directors, ratified at a general meeting of shareholders;

2. Statement of Assets and Liabilities;

3. List of all depositors their addresses and the amounts to their credit;

4. List of all creditors and the amounts owed to them; and

5. Documentary evidence that all depositors and creditors have been settled (in that order)

6. List of all debtors including their addresses and the amount owed to the CB;

It is instructive to reiterate that the Central Bank of Nigeria (CBN) will publish the names of all CBs that have obtained either provisional approvals or final licences as microfinance banks by 31st December, 2007.

Members of the public are also to note that only CBs that are able to convert to MFBs as at that date (31st December, 2007) shall continue to be supervised by the Central Bank of Nigeria. Consequently, any community bank which is unable to meet the requirement of x20 million minimum shareholders' fund, unimpaired by losses and consequently fail to appear on the list shall automatically have its operating licence revoked pursuant to Section 12 of BOFIA, 1991 (as amended) and shall cease to operate after that date.

The letter conveying this information has been dispatched to the affected CBs. Further clarifications on this may be directed to the undersigned.

S. A. Oni
Director, Other Financial Institution Department,
Central Bank of Nigeria, Lagos.

CENTRAL BANK OF NIGERIA

IMPORTANT NOTICE

**TO THE CHAIRMEN, DIRECTORS,
MANAGEMENT AND STAFF
OF ALL MICROFINANCE BANKS IN NIGERIA**

It has come to the notice of the Central Bank of Nigeria that some microfinance banks play down the word “Microfinance” in their approved names in order to disguise the sub-sector in which they have been licensed to operate. This unwholesome action is capable of generating unnecessary confusion in the market.

Consequently, all microfinance banks are required to ensure that their entire official name as approved by the Central Bank of Nigeria (CBN) and registered at the Corporate Affairs Commission (CAC) is boldly written on their sign-boards, letter-headed papers, all banking instruments, branded documents and signages in the same font style and size. For the avoidance of doubt, the word “Microfinance” should be in the same font style, size and colour as the word “Bank” along with the rest of the approved name (e.g. Anytown Microfinance Bank Ltd).

All sign-boards, letter-headed papers, banking instruments, branded documents and signages which do not conform to this specification should be replaced forthwith. Furthermore, a copy of the CBN licence of all MFBs should be glazed and displayed in a conspicuous location within the banking hall at its Head Office and all approved branches with immediate effect.

Any microfinance bank that fails to comply with these directives shall be appropriately sanctioned, including the revocation of its licence in accordance with Section 12(e) of the Bank and Other Financial Institutions Act (BOFIA), 1991 (as amended).

S. A. Oni
Director, Other Financial Institution Department,
Central Bank of Nigeria, Lagos.

CENTRAL BANK OF NIGERIA

IMPORTANT NOTICE

**TO THE CHAIRMEN, DIRECTORS,
SHAREHOLDERS, COMMUNITY DEVELOPMENT ASSOCIATIONS,
MANAGERS, STAFF OF THE UNDERLISTED COMMUNITY BANKS
AND THE GENERAL PUBLIC.**

NOTICE TO COMMUNITY BANKS THAT HAVE CLOSED SHOP OR CONSISTENTLY FAILED TO RENDER STATUTORY RETURNS

The Central Bank of Nigeria (CBN) in its continued efforts of promoting the financial system soundness had recently carried out a final round of existence check to confirm the cessation of operations by some community banks (CBs) that had consistently failed to render statutory returns to the CBN before and after the launch of the Microfinance Policy for Nigeria on December 15, 2005.

The outcome of the existence check revealed that 145 CBs listed below had ceased operation and consequently have stopped to render banking services to members of the public. In line with its supervisory responsibility under the provisions of sections 12 and 59 of the Banks and Other Financial Institutions Act (BOFIA), 1991 as amended, the CBN hereby directs that all chairmen and directors of the affected CBs, should within twenty one (21) working days from the date of the first publication of this notice, forward to the Office of the Director, Other Financial Institutions Department (OFID) CBN, the following information on the CBs listed below:

1. Statement of the Assets and Liabilities
2. Comprehensive and verifiable list of depositors showing their names, addresses and the amounts in their favour.
3. List of all debtors including their addresses and the amount owed to the CB;
4. List of its assets (movable and fixed)

The information listed in 1 to 4 above should be provided by the CBs as at the last date of their operations. The CBN hereby warns that all chairmen and directors of the affected CBs that fail to forward the required information as directed above shall be liable to prosecution in the appropriate law courts.

The required information should be forwarded to the:

Director, Other Financial Institutions Department (OFID)
9TH Floor, New Building,
Central Bank of Nigeria
Tinubu, Lagos

Or

Director, Other Financial Institutions Department.(OFID)
Wing A, 6th Floor,
Central Bank of Nigeria
Head Office, Central Business District
Abuja,
Further clarifications on this matter may be directed to the undersigned.

S. A. Oni
Director, Other Financial Institutions Department,
Central Bank of Nigeria, Lagos.

Appendix 2

Major Financial Indicators of Individual Banks

Banks	Year	Paid-up Capital	Shareholder Fund x' Million	Total Assets x' Million	Gross Loans & Advances x' Million	Provision for Bad Debts x' Million	Deposit Liabilities x' Million	Profit Before Tax x' Million	Number of Contraventions x' Million
Banks with Year-Ends Between January and March									
1. Access Bank Nigeria Plc	2003	1,350	2,365	22,582	7,135	629	9,309	811	3
	2004	1,500	2,703	31,342	12,341	879	22,724	952	2
	2005	4,056	14,072	66,918	17,942	1,758	32,608	751	13
	2006	6,978	28,894	174,554	60,941	6,830	110,879	1,119	4
	2007	3,489	28,385	328,615	118,297	10,546	205,235	8,043	1
2. Afribank Nig Plc	2003	552	6,546	83,144	33,845	8,625	61,195	2,471	4
	2004	1,104	5,317	70,578	26,482	7,404	57,989	1,566	3
	2005	2,354	21,387	95,754	30,543	9,192	61,601	231	3
	2006	2,554	27,059	131,270	48,22	10,940	94,816	3,695	4
	2007	2,554	28,296	182,722	83,760	12,437	142,277	5,081	7
3.First Bank of Nig. Plc	2003	1,270	25,040	320,578	92,935	36,899	193,995	13,393	-
	2004	1,751	38,621	312,490	117,123	39,002	207,181	14,106	1
	2005	1,976	44,672	377,496	147,511	32,838	265,378	15,145	1
	2006	2,619	58,996	538,145	190,004	14,347	391,169	19,831	-
	2007	NA	NA	NA	NA	NA	NA	NA	
4. Guaranty Trust Bank Plc	2003	1,250	9,661	83,311	31,556	893	51,068	4,145	5
	2004	1,500	11,618	119,698	45,198	1,522	74,222	4,833	0
	2005	2,873	30,895	167,898	67,179	2,144	95,564	7,005	-
	2006	3,000	36,446	305,081	86,958	3,481	212,834	10,025	2
	2007	4,000	47,433	478,369	116,682	2,977	290,792	15,350	4

Banks	Year	Paid-up Capital	Shareholder Fund x' Million	Total Assets x' Million	Gross Loans & Advances x' Million	Provision for Bad Debts x' Million	Deposit Liabilities x' Million	Profit Before Tax x' Million	Number of Contraventions x' Million
5. IBTC Chartered Bank Plc	2003	1,000	5,881	23,947	9,604	225	8,182	1,688	5
	2004	2,000	5,794	26,872	9,618	138	10,544	1,711	6
	2005	2,935	14,275	34,568	13,670	183	10,886	3,013	5
	2006	6,029	31,515	110,782	58,132	8,065	57,073	5,418	1
	2007	6,250	35,107	146,978	65,107	8,341	78,316	6,185	0
Banks with Year-Ends Between January and March									
6. Intercontinental Bank Plc	2002	1,794	7,484	47,797	14,556	2,049	35,584	2,380	3
	2003	1,794	8,611	71,412	23,187	1,533	50,245	3,414	NA
(14 months to 28th February 2005)	2005	1,794	32,576	164,348	55,306	2,707	110,014	6,706	1
	2006	5,362	53,911	360,903	170,035	11,097	252,281	11,030	NA
	2007	5,362	59,978	638,881	266,665	13,885	455,701	22,316	NA
7. Union Bank of Nig. Plc	2003	1,258	32,730	329,583	61,962	16,399	224,347	10,154	4
	2004	1,678	35,985	367,798	97,643	19,305	241,585	10,210	0
	2005	2,237	39,129	398,271	95,356	16,672	200,511	11,953	0
	2006	4,512	95,685	517,564	134,864	18,804	275,457	12,350	2
	2007	4,825	96,630	619,800	167,819	18,443	417,406	15,320	7
8. Wema Bank Plc	2,003	1,527	7,215	61,323	23,508	2,768	43,762	2,286	4
	2,004	1,555	7,729	71,424	41,766	5,159	55,072	1,420	8
	2005	4,452	24,259	97,909	54,493	8,310	61,285	1,002	12
	2006	4,962	20,540	120,109	75,383	21,681	85,605	(7,200)	NA
	2007	5,035	25,183	165,082	91,490	22,693	125,476	1,879	2

Banks	Year	Paid-up Capital	Shareholder Fund x' Million	Total Assets x' Million	Gross Loans & Advances x' Million	Provision for Bad Debts x' Million	Deposit Liabilities x' Million	Profit Before Tax x' Million	Number of Contraventions x' Million
Banks With Year-Ends Between April and June									
9. Bank PHB Plc	2003	1,839	2,231	20,155	8,678	478	14,988	303	0
	2004	1,839	2,847	25,027	9,011	812	20,015	885	2
	2005	4,311	12,660	51,671	19,850	1,237	21,893	1,055	-
	2006	9,653	28,490	156,00	41,841	4,700	109,87	3,484	0
	2007	3,218	36,128	378,949	106,234	6,076	307,887	10,159	0
10. Diamond Bank Plc	2003	1,082	4,993	59,287	15,932	1,420	42,147	5,030	0
	2004	1,540	6,520	69,062	19,500	1,055	43,391	7,004	3
	2005	3,038	20,710	125,675	41,805	1,584	75,166	3,522	-
	2006	3,802	34,970	223,048	81,306	3,376	144,570	5,292	0
	2007	4,700	53,892	312,250	102,775	6,390	211,635	8,793	0
11. Equitorial Trust Bank Ltd	2003	2,450	6,166	36,207	17,924	2,619	25,838	2,027	6
	2004	2,450	8,423	47,406	21,079	3,573	33,752	2,533	5
	2005	3,000	10,934	56,034	23,530	4,705	34,142	2,883	8
	2006	6,500	28,405	109,740	37,095	7,516	72,767	2,510	3
	2007	6,500	32,121	130,440	39,890	7,348	82,577	3,878	3

Banks	Year	Paid-up Capital	Shareholder Fund x' Million	Total Assets x' Million	Gross Loans & Advances x' Million	Provision for Bad Debts x' Million	Deposit Liabilities x' Million	Profit Before Tax x' Million	Number of Contraventions x' Million
Banks With Year- Ends Between April and June									
12. Fidelity Bank Plc	2003	1,189	2,515	22,517	7,881	706	16,888	1,085	3
	2004	1,534	3,520	27,552	11,014	1,278	19,340	1,078	-
	2005	4,275	9,125	34,953	15,676	1,784	20,572	1,564	3
	2006	8,232	25,597	119,986	46,398	7,737	78,648	3,587	4
	2007	8,232	29,757	217,144	76,999	6,762	176,681	4,403	1
13. First Inland Bank Plc	2002	1,602	3,690	13,064	4,801	249	8,677	601	2
	2003	1,602	3,800	20,910	8,165	519	14,355	609	1
	2004	1,602	4,363	29,917	10,320	707	23,920	821	1
	2006	4,844	18,279	106,252	50,663	23,826	61,380	(10,308)	NA
	2007	4,844	22,137	181,308	50,804	22,331	130,807	3,236	2
Eleven months to 28th February 2006 Fourteen months to 30th April 2007									
14. First City Monument Bank Plc	2003	1,500	2,559	15,164	6,414	580	9,216	57	0
	2004	1,500	2,757	23,736	8,641	735	18,019	265	0
	2005	2,226	7,216	51,318	12,556	1,120	26,857	1,093	3
	2006	4,751	25,163	106,611	26,311	7,240	70,297	3,640	0
	2007	4,751	30,969	262,806	86,824	3,247	187,991	10,675	1

Banks	Year	Paid-up Capital	Shareholder Fund x' Million	Total Assets x' Million	Gross Loans & Advances x' Million	Provision for Bad Debts x' Million	Deposit Liabilities x' Million	Profit Before Tax x' Million	Number of Contraventions x' Million
15. Unity Bank Plc	2003	1,199	2,148	24,545	10,243	3,183	14,909	561	5
	2004	1,516	2,516	25,702	11,836	3,789	18,430	554	1
	2005	1,668	2,759	33,179	15,340	4,058	24,743	459	-
	2006	21,753	30,76	131,03	58,666	21,643	79,683	2,37	NA
	2007	NA	NA	NA	NA	NA	NA	NA	NA
16.Zenith Bank Plc	2003	1,549	12,652	112,535	27,895	605	61,574	5,440	-
	2004	1,549	15,674	193,32	54,420	1,028	131,095	6,405	-
	2005	3,000	37,790	329,717	125,531	3,037	233,413	9,16	1
	2006	4,587	93,801	608,505	204,057	4,349	392,864	15,54	0
	2007	4,633	112,833	883,941	224,347	6,042	568,012	23289	NA
Banks With Year-Ends Between July and Sept									
17. Oceanic Bank Plc	2003	2,800	7,073	64,978	13,600	725	49,366	3,287	2
	2004	3,000	10,360	86,884	24,827	576	68,954	3,445	7
	2005	4,657	31,092	217,803	79,762	2,047	167,401	7,265	-
	2006	4,657	37,670	371,587	105,828	6,912	310,333	11,614	1
	2007	5,821	50,893	1,030,441	349,953	11,614	690,395	22,341	1
18. Skye Bank Plc	2003	1,524	2,342	20,934	8,909	450	16,109	854	1
	2004	1,524	2,953	25,998	11,314	1,148	20,913	918	7
	2005	2,264	4,447	31,991	13,123	1,000	22,623	743	4
	2006	3,752	26,083	174,197	87,379	15,661	125,472	2,091	NA
	2007	3,752	29,175	446,114	115,212	6,762	269,316	7,519	1

Banks	Year	Paid-up Capital	Shareholder Fund x' Million	Total Assets x' Million	Gross Loans & Advances x' Million	Provision for Bad Debts x' Million	Deposit Liabilities x' Million	Profit Before Tax x' Million	Number of Contraventions x' Million
19. Sterling Bank Plc	2003	832	3,353	24,609	11,889	760	15,376	233	6
	2004	1,243	5,629	27,222	12,515	1,546	17,021	1,089	1
	2005	1,873	5,779	44,123	15,306	1,001	17,747	299	5
	2006	5,276	26,319	111,197	48,207	9,261	75,026	429	25
	2007	5,276	26,800	145,975	54,999	9,041	106,934	605	
20. United Bank for Africa Plc	2003	1,275	13,767	200,995	50,178	4,102	142,427	4,816	0
	2004	1,275	18,059	208,806	58,855	2,719	151,929	5,608	5
	2005	1,530	17,702	248,928	70,086	2,476	205,110	6,239	0
	2006	3,530	47,621	851,241	116,963	9,769	757,407	12,514	0
	2007	5,748	164,821	1,102,348	334,919	14,690	897,651	22,827	0
Banks With Year-Ends Between October and December									
21. Ecobank Nig. Plc.	2003	1,523	3,519	27,314	9,715	1,445	19,979	1,111	1
	2004	1,740	4,413	37,642	13,075	2,012	28,643	1,317	4
	2005	5,413	26,737	67,653	22,367	3,236	32,452	2,265	-
	2006	10,827	29,321	132,091	54,682	2,384	84,041	5,012	1
	2007	10,827	34,822	311,396	121,023	4,842	222,885	10,096	0
22. Nigeria Int'l Bank Ltd	2003	1,500	8,795	77,636	26,822	4,922	37,684	4,823	2
	2004	1,500	12,373	66,247	21,564	5,623	42,067	5,351	-
	2005	2,763	28,120	86,979	30,675	3,087	44,969	4,366	-
	2006	2,794	33,813	112,272	38,190	2,700	61,062	10,555	5
	2007	2,794	35,032	135,879	44,984	2,598	79,135	8,413	0

Banks	Year	Paid-up Capital	Shareholder Fund x' Million	Total Assets x' Million	Gross Loans & Advances x' Million	Provision for Bad Debts x' Million	Deposit Liabilities x' Million	Profit Before Tax x' Million	Number of Contraventions x' Million
Banks With Year-Ends Between October and December									
23. Stanbic Bank Ltd	2003	1,000	1,531	12,166	3,190	197	,759	240	0
	2004	1,000	1,533	12,263	3,374	321	6,815	29	6
	2005	1,480	25,651	34,322	3,101	576	5,720	197	-
	2006	1,480	28,172	65,531	13,938	570	9,008	3,622	0
	2007	NA	NA	NA	NA	NA	NA	NA	NA
24. Standard Chartered Bank Ltd.	2003	2,458	3,633	26,254	6,658	71	14,527	1,057	1
	2004	2,458	4,960	34,724	9,168	185	23,526	1,565	0
	2005	NA	NA	NA	NA	NA	NA	NA	NA
	2006								
25. Spring Bank Plc		N/A	NA	NA	NA	NA	NA	NA	NA

Appendix 3
Glossary

GLOSSARY

ADB	-	African Development Bank
AFC	-	African Finance Corporation
AIP	-	Approval-in-Principle
AMCON	-	Asset Management Corporation of Nigeria
APC	-	Armoured Personnel Carriers
ATMs	-	Automated Teller Machines
BAS	-	Banking Analysis System
BDC	-	Bureaux de Change
BOFIA	-	Banks and Other Financial Institutions Act
BOI	-	Bank of Industry
CAC	-	Corporate Affairs Commission
CAR	-	Capital Adequacy Ratio
CB	-	Community Bank
CBN	-	Central Bank of Nigeria
CEO	-	Chief Executive Officer
CIBN	-	Chartered Institute of Bankers of Nigeria
COBAC	-	La Commission Bancaire de L'Afrique Centrale
CRMS	-	Credit Risk Management System
CRR	-	Cash Reserve Requirement
CTR	-	Currency Transaction Reports
DFI	-	Development Finance Institution
ECOWAS	-	Economic Community of West African States
eFASS	-	electronic Financial Analysis and Surveillance System
EFCC	-	Economic and Financial Crimes Commission
FATF	-	Financial Action Task Force
FBN	-	First Bank of Nigeria
FC	-	Finance Companies
FHAN	-	Finance Houses Association of Nigeria
FIRS	-	Federal Inland Revenue Service
FITC	-	Financial Institutions Training Centre
FIU	-	Financial Intelligent Unit
FMBN	-	Federal Mortgage Bank of Nigeria
FSA	-	Financial Services Authority

FSRCC	-	Financial Services Regulation Co-ordinating Committee
FSS	-	Financial System Strategy
GDP	-	Gross Domestic Product
ICPC	-	Independent Corrupt Practices Commission
ICT	-	Information Communication Technology
IDC	-	Industrial Development Corporation
IFC	-	International Finance Corporation
IFEM	-	Inter-bank Foreign Exchange Market
IMF	-	International Monetary Fund
IT	-	Information Technology
KYC	-	Know Your Customer
MFB	-	Microfinance Bank
MFI	-	Microfinance Institutions
MOFI	-	Ministry of Finance Incorporated
MOU	-	Memorandum of Understanding
MPD	-	Monetary Policy Department
MPR	-	Monetary Policy Rate
MRR	-	Minimum Rediscount Rate
MSME	-	Micro, Small and Medium Enterprise
NACOB	-	National Association of Community Banks
NACRDB	-	Nigeria Agricultural Co-operative and Rural Development Bank
NASS	-	National Assembly
NCCT	-	Non Co-operative Countries and Territories
NDIC	-	Nigeria Deposit Insurance Corporation
NDLEA	-	National Drug Law Enforcement Agency
NEXIM	-	Nigeria Export - Import Bank
NFIU	-	Nigeria Financial Intelligent Unit
NGO-MFI	-	Non-governmental Organisation-Microfinance Institution
NHF	-	National Housing Fund
NIBSS	-	Nigerian Inter Bank Settlement System
NIPOST	-	Nigerian Postal Service
NPL	-	Non-Performing Loan
NSE	-	Nigerian Stock Exchange

OECD	-	Organisation for Economic Co-operation and Development
OFI	-	Other Financial Institutions
OFID	-	Other Financial Institutions Department
OMO	-	Open Market Operations
OSFI	-	Office of the Superintendent of Financial Institution
P&A	-	Purchase and Assumption
P&L	-	Profit and Loss
PBT	-	Profit Before Tax
PEP	-	Politically Exposed Person
PER	-	Pre-Examination Returns
PLC	-	Public Liability Company
PMI	-	Primary Mortgage Institutions
PN	-	Promissory Note
RBS	-	Risk Based Supervision
RI	-	Reporting Institution
RMP	-	Risk Mitigation Programme
ROA	-	Return on Assets
ROE	-	Return on Equity
RTGS	-	Real Time Gross Settlement
SEC	-	Securities and Exchange Commission
SMEEIS	-	Small and Medium Enterprises Equity Investment Scheme
SMIEIS	-	Small and Medium Industries Equity Investment Scheme
STR	-	Suspicious Transaction Report
UBA	-	United Bank of Africa
UDB	-	Urban Development Bank
UOMA	-	La Commission Bancaire de L'Union Montetaire' L'Ouest
WAFSA	-	West African Financial Supervisory Authority
WAIFEM	-	West African Institute for Financial and Economic Management
WAMI	-	West African Monetary Institute
WAMU	-	West African Monetary Unit
WAMZ	-	West African Monetary Zone

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