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CENTRAL BANK
OF NIGERIA

BANKING SUPERVISION ANNUAL REPORT 2006

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Banking Supervision
Annual Report
2006

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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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FOREWORD

The civilian government inaugurated in 1999 inherited a fragile and vulnerable banking system, which was characterized, by low capitalization and inability to effectively support the real sector and stimulate economic growth. There was, therefore, a consensus that the prevailing unhealthy state of the banking industry required a drastic overhaul as a precursor for a full scale reform of the economy.

A daunting challenge faced by the monetary authorities was how to turn around the fragile banking sector. Thus, in July 2004, the CBN took a major policy decision to reposition the banking sector through a package of reforms, principal among which was the banking system consolidation. Towards this end, a minimum recapitalization to the tune of N25 billion was prescribed for all banks by the CBN. This was to be attained through fresh capital injection and/or mergers and acquisitions.

At the expiration of the 18-month timeline set for recapitalisation, which expired on December 31, 2005, twenty-five banks emerged out of the hitherto 89-bank structure. The consolidation of the system produced profound changes in terms of structure, size, ownership and public perception.

In particular, the consolidation programme encouraged huge foreign direct investment and enabled Nigerian banks to attract credit lines and other facilities from foreign banks. It also engendered greater competition among banks, which sharply reduced interest rates. Furthermore, the various incentives offered by the CBN such as the management of foreign assets by local banks, encouraged Nigerian banks to embark on further recapitalization in order to consolidate their financial base for purposes of enhanced competitive advantage. This market-induced consolidation was expected to further strengthen the Nigerian banking sector, reduce cost and make them more internationally active.

The immediate result of the enhanced capitalisation is that as many as 17 of the 25 banks in the system are now in the top 1000 banks in the world. Indeed, some of the banks have veered into international markets through the establishment of subsidiaries, particularly in the West African sub-region. Economic development impact is also gradually building up, with the renewed ability of the banking system to finance the real sector.

As envisaged, the consolidation of the banking system threw up new challenges, particularly, the imperative of seamless integration of people, processes and systems; corporate governance; and the supervision of complex business activities, arising from the emergence of financial conglomerates. To address these concerns, appropriate supervisory framework and capacity are being developed. In this regard, risk-based and consolidated supervision techniques have been adopted as the major tools for banking supervision. Collaboration with international development partners such as OSFI, FSA, and the Federal Reserve System is being intensified to build the needed supervisory capacity. Furthermore, in order to ensure the sustenance of the reforms, appropriate amendments to the CBN and BOFI Acts, which would confer greater autonomy and enhance effectiveness of the CBN, have been proposed to the National Assembly.

The banking sector reform is not limited to banking system consolidation. The over-riding objective of the monetary authorities is to install a banking system that is not only modern and efficient but one that would blend with global financial systems, in terms of competition and service delivery. Thus, far-reaching reforms are also being implemented in the payments system, foreign exchange and currency operations to ensure the overall efficiency of the Nigerian banking system.

A robust banking system is one which effectively caters for all segments of the society. Thus, following the inauguration of the microfinance policy, a number of microfinance banks were licensed in 2006. These institutions are expected to mainstream the informal sector into the formal financial system and provide expanded access to finance, to the economically active poor in the country.

The overall quest of the monetary authorities, however, remained the enthronement of Nigeria as the financial hub of Africa. To complement the banking sector reforms therefore, the CBN took a major initiative in 2006 to stimulate Africa's private-sector led investment growth through the promotion of the Africa Finance Corporation. The Corporation is expected to bridge the resource gap in financing investments, not only in Nigeria but the whole of Africa. There is, also a long-term objective to transform Nigeria into an international finance centre. Thus, work on the Financial System Strategy (FSS) 2020, initiated by the CBN, commenced during the year. The FSS 2020 is the blueprint for achieving the goal of transforming Nigeria into an international financial centre as Nigeria aims at becoming one of the top 20 economies in the world by the year 2020.

The success of the consolidation exercise cannot go without due acknowledgement of the collaboration and cooperation of all the stakeholders involved in the monumental reform. In this respect, agencies such as the Presidency, Federal Executive Council, National Assembly, Judiciary, NDIC, SEC, CAC, NSE, FIRS and various private sector agencies deserve commendation. Profound commendation also goes to the Banking Supervision Department, whose tireless and committed efforts resulted in a timely banking sector consolidation exercise.

The CBN, through appropriate policy initiatives, would continue to spearhead efforts towards the strengthening of the Nigerian financial system. In this regard, we warmly welcome useful advice as well as constructive criticism on policy measures that would assist us realize our dream of installing a world class financial services sector in Nigeria.

TUNDE LEMO
Deputy Governor
Financial Sector Surveillance

PREFACE

The 2006 edition of the Banking Supervision Annual Report which is the 10th in the series, highlights the activities of the surveillance departments and notable developments in the banking industry in the year under review.

The report is divided into seven chapters. Chapter one details developments in the financial services industry, which include updates on the electronic Financial Analysis and Surveillance System, the establishment of the Africa Finance Corporation and the cooperation among the various regulatory and supervisory agencies.

Chapter two documents the reforms in the banking system. It reports on the outcome of the banking sector reforms including how the problem of the banks that could not meet the stipulated minimum capital requirement was addressed under the Purchase and Assumption method. Also, the chapter highlights the imperative of corporate governance in banks and discusses the challenges of integration in consolidated banks.

Chapter three summarises the supervisory activities in banks and other financial institutions as well as activities of the Bankers' Committee in 2006.

Chapter four is devoted to such issues as the collaborative efforts between the CBN and the Nigeria Financial Intelligence Unit in the fight against money laundering and terrorists financing. Additionally, an update is given on the consolidated supervision of banks. The chapter also reports on the status of microfinance banking in Nigeria.

An update on the review of the BOFI and the CBN Acts is given in Chapter five while the newly issued Code of Corporate Governance for Banks in Nigeria is also highlighted.

A performance report on banks and other financial institutions is summarised in chapter six.

The concluding chapter reviews the efforts made by the CBN to improve supervisory capacity through training and manpower development. The chapter equally gives highlights of the conference/retreat held by both the Banking Supervision and Other Financial Institutions Departments during the year.

Our sincere gratitude goes to the contributors to this edition and the Management of the CBN for making the report a reality. Our appreciation also goes to the members of the Banking Supervision Annual Report Committee for their efforts. We are, indeed, indebted to all members of the reading public whose comments have assisted in improving on this report. As usual, we would appreciate comments that would further enhance the quality of future editions.

ODUFU I. IMALA
Director,
Banking Supervision Department

S. 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

Cooperation among the various regulatory and supervisory agencies was sustained during the year. Highlights of the activities of the various agencies are as presented below:

CBN/NDIC Committee on Supervision

The CBN/NDIC Committee on Supervision met eight times in 2006 and deliberated extensively on issues that affect effective supervision of the Nigerian banking system post consolidation. The following assignments were undertaken by the Committee:

- A comprehensive review of the framework for the risk-based supervision of banks in Nigeria.
- Issuance of guidelines for the development of risk management framework in banks as exposure draft.
- Submission of the Asset Management Corporation of Nigeria (AMCON) draft bill to the office of the Attorney General of the Federation for presentation to the National Assembly.
- Development of the draft framework for the consolidated supervision of banks in Nigeria.

In addition to the foregoing, the Committee successfully organized a workshop in May, 2006, to sensitize regulators and operators of banks on the framework for risk-based supervision in Nigeria. Over 150 staff from the CBN, NDIC and the banks participated in the workshop.

Committee of Banking Supervisors of West and Central Africa

The Committee of Banking Supervisors of West and Central Africa held its 12th Annual Meeting in Libreville, Republic of Gabon in October, 2006. The three-day meeting was hosted by the Banking Supervisory Authority of the Central African Economic and Monetary Community, the Central African Banking Commission (COBAC). The forum, which was for the exchange of ideas between banking supervisory authorities of member states of the Committee, was attended by 30 participants from Liberia, Ghana, Guinea, Nigeria, Sudan and Sierra Leone, the WAMU Banking Commission, the COBAC and the Financial and Banking Supervision Commission of Madagascar.

There were observers from the NDIC and the West African Monetary Institute (WAMI). Papers on Corporate Governance in Financial Institutions, Revised Core Principles for Effective Banking Supervision and International Financial Reporting Standards were presented by resource persons from the French Banking Commission and the International Banking and Financial Institute of Banque de France.

The opening ceremony was presided over by Mr. Rigobert Roger Andely, Deputy Governor of the Central African Economic and Monetary Community and Chairman of COBAC, who, in his speech, lauded the activities of the Committee, especially, in the areas of information exchange and sharing of experiences in banking, financial and regulatory challenges in member states. He underscored the importance of the 25 Core Principles for Effective Banking Supervision and the coming into force of the New Basel Accord on capital convergence and measurement.

The outgoing Chairman of the Committee and Secretary General of WAMU Banking Commission, after expressing the Committee's gratitude to the Gabonese and COBAC authorities, noted that the Committee had worked hard during its 12-year existence to strengthen cooperation and exchange of information among members through the annual meetings. He further reported on the implementation of the actions defined at the 11th Annual Meeting held in Dakar, Senegal, in August, 2005. In particular, he noted that much progress had been made in the harmonization of prudential regulations within the sub-region.

Mr. Mahamat Mustapha, Secretary General of COBAC, was elected as the new Chairman of the Committee. He was expected to pursue the following mandate during his tenure:

- Liaise with the banking supervisory authorities of Burundi, Cape Verde and the Democratic Republic of Congo on their membership of the Committee.
- Organise two training programmes in conjunction with the Financial Stability Institute of the Bank for International Settlement, Switzerland, the Toronto Leadership Centre and the IMF.
- Determine the date and venue of the next meeting in line with the Committee's guidelines.

1.02 UPDATE ON eFASS

eFASS Implementation

Following the upgrading of the electronic Financial Analysis and Surveillance System (eFASS), the parallel run commenced in March, 2006, with that quarter's returns while the daily returns from banks and discount houses followed suit on May 2, 2006. With effect from June, 2006, the Reporting Institutions (RIs) were requested to submit their Pre-Examination Returns (PER) on a monthly and quarterly basis as designed by the CBN/NDIC.

The parallel run provided an opportunity to address technical and user issues that emanated from the RIs. With the successful outcome of the parallel run, the live run of the eFASS commenced on October 3, 2006, with the daily online submission of reports by the RIs. In the same vein, the month of October, 2006, marked the beginning of the submission of monthly returns. Consequently, returns from banks were no longer received through the Banking Analysis System (BAS) with effect from that date.

Live-run of the CRMS

The Credit Risk Management System (CRMS) was migrated to the eFASS with effect from August 22, 2006, after series of tests were conducted to ensure that the migrated data was successfully captured. The eFASS/CRMS thereafter went live on August 28, 2006. The RIs were accordingly informed and have since commenced accessing and submitting returns through the system.

Training of Reporting Institutions

During the review period, a workshop was organized by the eFASS Implementation Committee, in Lagos and Abuja, for the Customs, Inspection Agents, Finance Companies, Hotels, Bureaux de Change and operators in the oil industry to acquaint them with the features and requirements of eFASS. A total of 238 participants, representing 187 institutions, attended the workshop.

Also, a six-day training session for banks and discount houses on eFASS/CRMS was organized in August, 2006 by the Implementation Committee to ensure accurate rendition of returns and a smooth cut-over of the CRMS to the eFASS.

CBN/NDIC User Training

As part of the capacity building strategy to ensure a smooth takeover of the eFASS from the developer, the staff of the CBN and the NDIC were sent to India on a four-week training in July, 2006. Thereafter, an eFASS user-training was conducted between August and December, 2006, at the CBN branch, Minna. A total of 723 users from the CBN and the NDIC benefited from the training.

New Requirements

Following the introduction of Microfinance banks into the financial system and the establishment of the Monetary Policy Department (MPD) in the CBN, the need to make necessary changes to the eFASS to accommodate the requirements of the new institutions' type and department became imperative. The concerned user-departments have been requested to forward their User Requirement Specifications for incorporation into the eFASS.

The operation of the eFASS has so far been smooth while RIs have been rendering their returns as required.

1.03 DEVELOPMENTS IN OTHER FINANCIAL INSTITUTIONS (OFIs) SUB-SECTOR

The on-going reforms of the Nigerian financial system witnessed some institutional developments in the OFI sub-sector in 2006. Key developments during the year are highlighted below:

Microfinance Banks

The implementation of the Microfinance Banking (MFB) Policy initiative launched in December, 2005, began in earnest in 2006, with the licensing of 14 new MFBs, the transformation of one non-governmental organization-microfinance institution (NGO-MFI) and the conversion of 4 existing community banks (CBs) to MFBs during the year. Other notable developments in the sub-sector included the following:

i. The modalities for conversion/transformation to MFBs as well as transitional arrangements for CBs were conveyed to stakeholders through circulars.

ii. The process for the establishment of a microfinance certification programme to build capacity for the MFB sub-sector in line with the policy thrust was initiated with a call for expression of interest to two training organizations, namely: Financial Institutions Training Centre and West African Institute of Financial and Economic Management, to develop a comprehensive curriculum for the programme.

iii. Sensitization workshops were held across the country to re-orientate converting/transforming CBs and NGO-MFIs to the MFB policy thrust. Similarly, conversion workshops aimed at capacity building in microfinance banking practice among operators were held during the year. These efforts were also complemented by the establishment of a help desk and a fast-track committee on conversion/transformation by the CBN. The workshops were devoted to, among others, sensitizing institutions, particularly CBs, towards realigning their business strategies to suit the micro credit market. Supervisors were also availed training opportunities to boost their regulatory and supervisory capacity.

iv. The CBN granted a waiver of application, change of name and licensing fees for all existing CBs converting to MFBs to lessen the financial burden of the regulator-induced conversion. Following an appeal by the CBN to the Corporate Affairs Commission (CAC), a 50 per cent waiver in the filing fees payable by converting CBs was granted. A similar appeal made to the Federal Inland Revenue Service (FIRS) for a 50 per cent reduction in the stamp duty payable by converting CBs was receiving consideration as at end-2006.

v. Efforts at facilitating on-line electronic rendition of statutory returns by rural-based CBs and MFBs, received a boost in the course of the year with negotiations for a strategic alliance between the CBN and Nigeria Postal Service (NIPOST). The initiative aims at leveraging on the existing structures and facilities of NIPOST in the integration of CBs into the eFASS network.

Bureaux de Change

As part of the efforts to expand access to foreign exchange and thereby eliminate the wide disparity in rates between the official and parallel foreign exchange markets, the CBN revised the foreign exchange policy to grant Bureaux de Change (BDC) access to the official foreign exchange window. The foreign exchange liberalization policy re-energized the BDC sub-sector and resulted in the influx of new applications for operating licence. Consequently, the number of licensed BDCs rose from 292 to 352 by end 2006.

Bureaux de Change

The challenge of providing affordable finance to meet the need for production of the housing stock on a sustainable basis, prompted the CBN to initiate a reform process, which would reposition the housing finance institutions to meet the policy targets stated below:

i. Provide alternative and affordable housing finance sources through the primary and secondary mortgage markets by year 2007.

ii. Increase the share of outstanding mortgage loans to GDP by at least one percent annually from 2007 to 20 percent by year 2020.

iii. Promote the participation of PMIs and estate developers in mass housing delivery to the low income group and reduce, by half, the current housing stock deficit estimated at 13 million units by year 2020.

iv. Promote linkage among all the stakeholders for an improved investment climate for housing sector development that would facilitate delivery of housing stock to middle and low income families at an annual rate of 400,000 units.

v. Promote the development of mortgage-related institutions, financial products and instruments to aid the unlocking of savings in housing investment to fund micro, small and medium enterprises (MSMEs), and agro-allied investments for poverty reduction through the creation of six million jobs by year 2015.

Furthermore, the CBN made inputs into the proposed amendments to the National Housing Fund, Federal Mortgage Bank of Nigeria and Mortgage Institutions Acts, which were before the National Assembly as at end-2006. It is hoped that the amendments, when passed into law, would strengthen and promote a private sector-led housing delivery.

Finance Companies

Collaboration between the CBN and the Finance Houses Association of Nigeria (FHAN), the umbrella body of finance companies, resulted in the inauguration of a code of ethics/professionalism committee for the sub-sector in 2006.

The reforms in the OFI sub-sector has started to yield positive results. Notably, the opening of the official foreign exchange window to the BDCs resulted in increased access to foreign exchange by end-users, which moderated demand pressure and facilitated the achievement of exchange rate convergence for the first time in over two decades. Similarly, the emergence of new MFBs has created expanded access to micro credit to the economically active poor.

1.04 THE ESTABLISHMENT OF THE AFRICA FINANCE CORPORATION

The desire to complement the banking sector reforms with a strong investment bank informed the conceptualisation of the Africa Finance Corporation (AFC) to support the developmental needs of the African economy. To actualize this initiative, the President of the Federal Republic of Nigeria constituted a technical committee with the following terms of reference:

i. determine the focus, objective and niche of the bank;
ii. define the scope of the bank's operations;
iii. determine the ownership structure of the bank;
iv. recommend and justify the initial capital base of the bank;
v. outline strategies for the bank's take off;
vi. develop the terms of reference for a full feasibility study of the bank; and
vii. take all necessary steps towards the actualization of the bank.

Based on the above terms of reference, the committee proposed the following structure for the AFC:

Structure of the AFC

The AFC would be established through an international agreement to be signed by intended shareholders and participating African countries including Nigeria.

The Corporation shall have an authorised share capital of US$2.0 billion consisting of ordinary shares of US$1.00 each with a proposed initial paid-up capital of US$1.0 billion. The Corporation would be private sector-led (minimum private sector holdings is 51 per cent) while public sector investment will only be through the Central Banks of the African countries. Therefore, the investment of the CBN and other public sector will be limited to a maximum of 49 per cent and this should reduce further when AFC raises additional capital through a public offer in the next two to three years.

The mission of the AFC is to become the world's leading investment bank for Africa, driving the fast-tracking of Africa's economic development through private sector business leadership, by proactively creating, acquiring and managing infrastructure, industrial and financial assets.

Objectives

Aside from the major objective of the Corporation in fostering economic growth and industrial development in African countries, it would also:

- support and promote the development of infrastructure in Africa through the provision of investment funds;
- facilitate African trade generally and export-oriented trade by African countries;
- contribute to the development of the energy and extractive industries in Africa;
- provide on-lending and refinancing facilities to African financial institutions; and
- engage in any kind of banking and/or financial business intended to promote investment in Africa.

Functions

To achieve its objectives, the Corporation shall exercise the following functions:

- grant direct loans and extend credit guaranteed by commercial documents, credit instruments or by any other form of security;
- guarantee transactions made by other reputable financial institutions;
- give open-ended or transaction-specific lines of credit to other reputable financial institutions;
- own, hold, purchase, sell, withdraw, make, draw, accept, endorse, discount and carry out any operation with promissory notes, bills of exchange, option certificates for the acquisition of shares and anyother securities or credit instruments in any country approved by the Board of Directors;

- act as an international financial agent;
- provide equity financing on such terms as may be approved by the Board of Directors;
- provide technical assistance for the preparation, financing and execution of development projects and programmes, including the formulation of specific project proposals;
- meet requests from African countries to assist them in the coordination of their development policies and plans with a view to achieving better utilization of their resources, making their economies more complementary, and promoting the orderly expansion of their foreign trade, and in particular, intra-regional trade;
- co-operate, in such manner as the Corporation may deem appropriate, within the terms of its Charter, with the United Nations, its organs and subsidiary bodies, and with other public international organizations/institutions, as well as national entities whether public or private, which are concerned with the investment of development funds in Africa, and to make such institutions and entities interested in new opportunities for investment and assistance;
- generally carry out any kind of banking, securities and financial operations; and
- undertake such other activities and provide such other services as may be incidental to the foregoing, which may advance its purpose.

Membership

Membership of the Corporation shall be open to:

- African states, represented by their respective central banks;
- African regional and sub-regional financial institutions;
- African public and private banks, financial institutions and private investors;
- international financial institutions; and
- international institutional and private investors.

The conditions governing eligibility to membership shall be determined by the

General Meeting of Shareholders of the Corporation. Members hip of the Corporation shall be acquired in accordance with the provisions of the Agreement upon subscribing for its common stock. All shareholders shall subscribe to the Agreement by affixing their signatures thereto or depositing with the Provisional Depository a letter of acceptance of the provisions of the Agreement.

A member state may subscribe directly for the common stock of the Corporation or designate its central bank or any other national entity or agency for all matters relating to the Agreement, including membership and subscription and the full exercise of rights attached to membership and the performance of the obligations of shareholders set forth in this Agreement.

Board of Directors

The Board of Directors shall have full powers to oversee the business of the Corporation and provide for its management in such manner as deemed expedient.

The Board shall compose of not more than 20 members elected by shareholders who shall not be representatives or their proxies. In the election of directors, the shareholders shall have due regard to high level of competence in economic, financial and trade matters.

Fiscal exemptions, financial facilities, privileges and concessions

The Corporation shall be accorded by each member state, a status not less favourable than that of a non-resident corporation, and shall enjoy all fiscal exemptions, financial facilities, privileges and concessions granted to international organizations, banking establishments and financial institutions by the member states.

The AFC would facilitate its expansion plans by partnering with institutions like IFC, ADB and IDC which already operate in the continent.

1.05 THE ROLE OF BANKS IN THE MANAGEMENT OF NIGERIA'S EXTERNAL RESERVES

Reserve management is the process by which foreign assets are managed in a manner that ensures the availability of funds, the prudent management of risks and the generation of a reasonable return on the funds invested. It ensures that foreign assets, usually in the form of Monetary Gold, IMF Tranche, Special Drawing Rights and foreign currencies, are controlled by government to meet the defined objectives of a country. The responsibility for reserve management is placed with an entity, normally the central bank of a country, to ensure that the objectives of maintaining foreign reserves are achieved.

In Nigeria, the CBN Act empowers the CBN to maintain external reserves to safeguard the international value of the Naira. Recent developments in managing Nigeria's external reserve by the CBN include the following:

- Restructuring of the reserve management operations in line with international best practices.
- Revision of the existing investment guidelines and development of a new investment policy.
- Development of an asset allocation strategy for the external reserves to optimize long-term returns, taking into consideration the risk tolerance of the CBN.
- Constitution of the Reserve Management Operations Committee in the Foreign Operations Department of the CBN.
- Engagement of additional counterparties for money market operations to reduce concentration and engender competition.
- Diversification of investments to include bonds and medium-term instruments.

In 2006, the CBN adopted a more aggressive strategy of encouraging local banks to partner with external fund managers, in the management of its external reserves. In this regard, the CBN offered to allow local banks to participate in the management of the external reserves subject to meeting the criteria set out in the "Guidelines for the Management of External Reserves through Partnership Arrangement between Local and Foreign Banks" issued in June, 2006.

Criteria for foreign banks

The Guidelines indicate that a foreign bank shall be eligible for appointment as a custodian or asset manager for the external reserves subject to:

- maintaining a minimum long and short-term ratings of AA- and AA+, respectively, in the case of a custodian, or A and A+, respectively, in the case of an asset manager. The ratings shall be by any two of the following international rating agencies:
    - Standard & Poor;
    - Fitch; and
    - Moody;
- having a minimum track record of five years in the provision of custodian and/or asset management services;
- maintaining at least a subsidiary in any of the OECD countries where the currency in that country is freely convertible; and
- the existence of custody/asset management approval by relevant off-shore regulatory authority.

In addition, any interested foreign bank that satisfies the above criteria must be willing to enter into a strategic alliance in the form of a partnership, but preferably a joint venture arrangement, with at least one local bank in order to develop internal capacity in foreign asset management. For this purpose, the joint venture arrangement requires the incorporation of a company either in Nigeria or an OECD country.

It is intended that the strategic alliance shall specify the details of the joint venture, the timelines within which the arrangement shall be implemented and the nature of support to be provided by the foreign partner. This should include capacity building in the area of asset management, including investment management, risk management, compliance procedures, custodial services and technical support.

The foreign bank shall be at liberty to partner with any number of local banks, while the local bank shall be required to furnish quarterly reports on the implementation of the partnership arrangement to the CBN.

There are three clearly specified mandates from which foreign banks custodians/asset managers may wish to choose.

S/No	Mandate	Eligibility Criteria
1	Asset Management plus Deposit Placement	• Foreign Bank • Subsidiary/Branch in Nigeria • No Partnership with Local Bank
2	Asset Management plus Deposit	• Foreign Bank • Subsidiary/Branch in Nigeria • Partnership with Local Bank
3	Asset Management	• Asset Manager (not a Bank) • No subsidiary/Branch in Nigeria • No Partnership with Local Bank

Criteria for local banks

The Guidelines also listed conditions that would qualify any local bank desiring to be an external reserve custodian/asset manager on a solo basis. These include the following:

- Maintenance of minimum shareholders' funds of $1billion.
- Having a branch/subsidiary of the local bank in an OECD country whose currency is convertible.
- Having a credit rating by two of the three international rating agencies listed earlier.

The following major mandates are applicable to a local bank:

S/No	Mandate	Eligibility Criteria
1.	Deposit Placement & Asset Management	• $1billion Shareholders' Funds • Partnership with Foreign Bank • Foreign Branch/Subsidiary • Asset Management Approval by Relevant Off-shore Regulatory Authority
2.	Asset Management	• $1billion Shareholders' Funds • Partnership with Foreign Bank • No foreign Branch/Subsidiary • Asset Management Approval by Relevant Off-shore Regulatory Authority
3.	Deposit Placement Mandate	• $1billion Shareholders' Funds • No Partnership with Foreign Bank • Foreign Branch/Subsidiary • No Asset Management Approval by Relevant Off-shore Regulatory Authority

Outcome of the Partnership

As at December 31, 2006, 14 local banks were partnering with foreign banks and asset managers, as indicated below:

S/No	Local Bank	Foreign Partner
1	Zenith International Bank Plc.	JP Morgan Chase Bank
2	First Bank of Nigeria Plc.	HSBC Bank Plc.
3	IBTC Chartered Bank Plc.	Credit Suisse
4	Fidelity Bank Plc.	Investec Asset Management
5	United Bank for Africa Plc.	UBS Global Asset Management
6	Union Bank of Nigeria Plc.	Blackrock
7	Ecobank Nigeria Plc.	ING Belgium S.A.
8	Access Bank Plc.	ABN AMRO
9	Oceanic International Bank Plc.	ComInvest of Commerzbank
10	Platinum Habib Bank Plc.	Fortis Investment Management
11	Guaranty Trust Bank Plc.	Morgan Stanley Investment Management Ltd.
12	Stanbic Nigeria Bank Plc.	The Bank of New York
13	Diamond Bank Plc.	Crown Agent Investment Management
14	Intercontinental Bank Plc.	BNP Paribas

So far, the CBN has allotted between $325million and $1billion to the 14 partnerships depending on the class of their mandate. Foreign bank custodians/asset managers that show interest in developing local capacity and partnering with Nigerian banks would be allotted more funds to manage.

Chapter Two

REFORMS IN THE BANKING SYSTEM

2.01 OUTCOME OF THE BANKING SECTOR REFORMS

The banking sector reforms, which focused on strengthening and consolidating the banking system, ended on December 31, 2005. At the conclusion of the exercise, the sector witnessed a lot of changes in terms of structure, size and ownership of banks.

Fewer but Larger Banking Organizations

Twenty-five banks emerged out of the 89 that existed pre-consolidation. The 25 banks are larger in terms of asset base, shareholders' funds, deposit base and branch network.

Large Inflow of Capital to the Banking Sector

Arising from the recapitalization requirement, a total of N360 billion was raised by banks in addition to total Foreign Direct Investment of US$652 million and GBP162,000.

Improved International Ranking for Nigerian Banks

The success of the programme has not gone unnoticed in the international arena as evidenced by the improved rating of Nigerian banks. In the rankings, 20 of the 25 Nigerian banks are now in the top 100 banks in Africa; 17 are in the top 40 banks; while four are among the top 10 in Africa. Seventeen of the 25 banks are in the top 1,000 in the world.

Relatively High Capital Base

The least capitalised Nigerian bank achieved a capital base of about x25 billion (US$188 million) as against x1.3 billion (US$10million) pre-consolidation. Similarly, the aggregate capitalization of the Nigerian banking system rose astronomically to x932 billion (US$7.3 billion) from x311 billion (US$2.4 billion) prior to the introduction of the consolidation programme. Thus, Nigerian banks could effectively finance big ticket transactions.

Greater Capability to Operate as Universal Banks

As a result of the merger of different institutions with expertise in diverse areas, Nigerian banks, in addition to playing their traditional roles, now have the capacity to engage in the provision of a broader range of financial services such as securities underwriting, insurance/brokerage services and real estate/mortgage financing.

Dilution of Ownership

The consolidation exercise has resulted in a considerable dilution in the ownership structure of banks thereby improving corporate governance practices.

Other outcomes of the banking sector reforms

Other outcomes associated with the programme include:

- The liquidity engendered by the inflow of funds into the banks induced a fall in interest rates while a substantial increase had been recorded in lending to the real sector.
- Increased access by banks to credit lines from foreign banks.
- With virtually all the banks being publicly quoted, there is a wider regulatory oversight, with the involvement of SEC and NSE.
- Regulatory resources would be focused on fewer but bigger banks.
- Greater public confidence in the industry due to “safety in bigness” perception by depositors.
- The banks now enjoy economies of scale, the benefits of which would be passed to their customers.
- The capital market has deepened significantly with increased liquidity and higher level of capitalization.
- Competition in the industry has increased with the market becoming more demanding and sophisticated, notwithstanding the reduction in the number of banks.

- Consolidation has strengthened Nigerian banks such that some of them are already establishing foreign subsidiaries in the ECOWAS sub-region, South Africa, USA and the UK. Thus, efforts at internationalizing their operations have commenced.
- The resultant stronger banks are now under pressure to efficiently deploy the huge resources available to them. This, expectedly, has triggered a round of expansionary activities.

Payment to Depositors of Failed Banks

Despite the success of the consolidation programme, 14 banks failed to meet the minimum capitalization requirement at the end of the consolidation exercise. Efforts are on-going to liquidate the banks and pay off the depositors. However, the payment to depositors had been hampered by the slow pace of obtaining final liquidation orders from the court and pending litigations.

Overall, the outcome of the banking sector reforms surpassed the expectations of stakeholders. The real sector of the economy is gradually benefiting through lower interest rates and hence higher capacity utilization. In addition, the banks would be capable of financing big ticket projects and investments in the economy.

2.02 CHALLENGES OF INTEGRATION IN THE CONSOLIDATED BANKS

The banking system consolidation invariably presented enormous challenges of integration of people, processes and systems in the merged institutions. The exercise would not be complete without proper integration of the various banking activities of the merging banks. Integration challenges faced were in the areas of board and management, strategy, branding, information communication technology systems, processes and procedures, infrastructure, people and culture, customer retention, products harmonization, risk management, legal and regulatory issues arising from the consolidation and rationalization of branches/subsidiaries.

Board And Management

The major board and management challenges were the composition of board and management for the merged institutions as well as the determination of an appropriate organizational structure and the manning levels. For instance, there were reported cases of top management of weak legacy banks in the merger arrangement being assigned roles and responsibilities inferior to their colleagues from the stronger banks, which resulted in low morale, poor team spirit and poor corporate governance.

Strategy

Strategic issues that needed to be addressed in some of the banks included the development of vision, mission and core values as well as corporate strategy. The major challenge is in defining a new strategic thrust which requires timely communication to all members of staff to ensure their buy-in as well as mobilize them towards the bank's new direction.

Branding

Branding issues centered on the development and deployment of a new brand identity for a bank. In some cases, where some of the legacy institutions had experienced business problems, the branding effort which was aimed at regaining customers' confidence became an issue.

Information/Communication Technology Systems

The focus of ICT integration was to have a unified single information processing platform. A serious concern was how to deal with the cut-over/transition from legacy operating platforms to a single platform in a prompt and seamless manner with minimal disruption of customer service.

Harmonization of Processes And Procedures

Arising from the deployment of a single operating platform was the need to embark on the harmonization of processes and procedures across the bank. Some of the issues in this area include:

- development and deployment of new operations manual;
- issuance of unified cheque books to customers;
- unification of clearing system;
- rationalisation of correspondent banks – local & foreign;
- consolidation of customers' accounts; and
- deployment of harmonized operations-related forms and documents.

Infrastructure

Integration issues in terms of infrastructure include rationalization of:

- head offices;
- branch outlets; and
- banks' assets.

People & Culture

One of the critical challenges of integration was people and culture of the merging banks which include:

- synchronisation of staff grading and structure;
- ensuring the right mix of staff in terms of quality and quantity;
- developing a human capital management policy; and
- change-management issues.

Customer Retention

Another major challenge in the integration process is the risk of customer defection arising from customers' dissatisfaction with new terms and conditions, different from those subsisting prior to the consolidation.

Product Harmonization

Most banks have also had to confront the challenge of harmonising their products. In most cases, best features/practices from similar products offered by the merged institutions have had to be extracted and re-branded to depict the identity of the new organization. This has seen the industry witnessing an unprecedented launch/re-launch of an array of products, most of which were targeted essentially at deposit mobilization.

Risk Management

Many banks have had to contend with portfolio improvement activities ranging from resolving litigations to aggressive recoveries, loan restructuring and dealing with cases of insider-related abuses resulting in huge non-performing insider-related credits in legacy institutions, post consolidation. The risk management challenges include:

- consolidation of the risk asset portfolio of the merged banks;
- fresh due diligence and comprehensive review of the risk asset portfolio of the new bank;
- development and adoption of a new credit policy;
- constitution of Board and Management Credit Committees;
- institutionalization of effective risk management systems;
- dealing with inherited liquidity problems; and
- institutionalization of effective asset/liability management mechanisms.

Legal & Regulatory Issues

Legal and regulatory challenges include:

- cumbersome process of securing approval for intellectual property – vision and mission statements, core values, brand logo, etc;
- resolving litigations carried over from legacy banks;
- post merger valuation adjustments; and
- harmonization of accounting dates.

Rationalization of Subsidiaries

The integration challenges in the area of rationalization of subsidiaries include:

- determination of the subsidiaries to keep or dispose of in the light of a bank's strategy;
- merger of similar subsidiaries;
- protection of the interest of the minority shareholders; and
- streamlining the directorship of subsidiaries.

The post-consolidation challenges arising from integration are fairly common amongst the merged institutions. However, integration of banking activities is considered a gradual process which cannot be achieved immediately or in one fell swoop. As at end 2006, most of the banks that emerged from the consolidation were at different stages/levels of integration as revealed by the on-site examination conducted by the CBN.

2.03 THE IMPERATIVE OF SOUND CORPORATE GOVERNANCE IN NIGERIAN BANKS

The banking sector consolidation programme was a development that fundamentally changed the Nigerian banking landscape and marked an important milestone in banking supervision and regulation.

It was, therefore, inevitable that the emergent banking system would throw up new challenges that portend profound implications for the safety, soundness and stability of the banking system. To address this concern, the CBN took some proactive measures aimed at fostering the emergence of a safe, sound and reliable banking system founded on sound corporate governance principles, by issuing a code of corporate governance on April 1, 2006.

The fall of Barings Bank, Worldcom, Enron, etc taught the corporate world that no institution is too big to fail. A common denominator in these monumental corporate failures was their poor corporate governance culture. Similarly, in Nigeria, non-adherence to sound corporate governance principles was identified as a major cause of the failure of the 14 banks, whose licenses were revoked by the CBN in January, 2006. This disturbing situation was captured succinctly in the new Code of Corporate Governance for banks issued by the CBN, where it was rightly stated that:

- Corporate governance in Nigeria was at a rudimentary stage, as only about 40 percent of quoted companies, including banks, had in place, formalised codes of corporate governance.
- Poor corporate governance was one of the major factors in virtually all known instances of distress experienced by financial institutions.

Good corporate governance requires probity, transparency and accountability. It often helps to assure that business strategies are consistent with safe and sound operational practices and thus, can act as the first line of defence against excessive risk-taking.

Post-Consolidation Corporate Governance Challenges

It is a known fact that majority of mergers world-wide failed due to inability to integrate people, processes and culture. The emergence of bigger banks in Nigeria was bound to task the skills and competencies of board and management in increasing shareholder-value and balance same against other stakeholders-interest in a competitive environment. These and other post-consolidation issues and challenges as anticipated by the CBN informed the issuance of the Code of Corporate Governance to the banking sector.

Regulatory attention in the last one year has, therefore, been focused essentially on ensuring that banks comply with the Code. The CBN had taken the following measures to ensure strict compliance:

i. Making compliance with the provisions of the Code mandatory;
ii. Banks were required to forward monthly returns to enable the CBN determine, from time to time, the level of compliance;
iii. On-site visits were undertaken by Examiners to verify banks' level of compliance;
iv. Sanctions which may include monetary penalties, non participation in certain operations and suspension of a bank's license could be imposed for non-compliance with the provisions of the Code; and
v. The CBN, in conjunction with the FITC, organised a training programme for non-executive directors of banks to enable them appreciate their oversight responsibilities and equip them with basic knowledge of financial control and risk management.

Essentially, poor corporate governance culture could result in a rapid collapse of an institution. Therefore, total compliance by banks with the CBN Code is a prerequisite for the effective sustenance of the banking system.

The CBN would continue to monitor and encourage the observance of good corporate governance principles by banks in order to make them efficient, effective, responsive and accountable entities that contribute to the safety, soundness and stability of the financial system.

2.04 RESOLUTION OF FAILED BANKS UNDER THE PURCHASE AND ASSUMPTION METHOD

As at December 31, 2005, when the first phase of the banking sector reform programme ended, 14 of the former 89 banks were unable to either consolidate or raise their capitalization to the required minimum of ₦25 billion. Consequently the CBN revoked their operating licences on January 16, 2006 and appointed the NDIC as the official liquidator.

The NDIC, in accordance with the provisions of its Act, proceeded to the courts to obtain winding-up orders, prior to the commencement of the liquidation process. In 2006, the Corporation obtained nine final and two provisional court orders while none had been obtained for three of the failed banks.

Adoption of the purchase and assumption resolution method

In consideration of a resolution approach that would be in the best interest of the depositors of the failed banks, the CBN/NDIC adopted a modified variant of the Purchase and Assumption (P&A) resolution option. Under this arrangement, healthy banks were invited to take up private sector deposit liabilities in exchange for a portion of the failed banks' assets. In order to facilitate the process and in pursuance of its responsibility of promoting and sustaining public confidence in the banking system, the CBN guaranteed the portion of the deposits assumed by issuing Promissory Notes (PNs) while the NDIC would transfer the value of the insured deposits to the acquiring bank(s).

In line with the above, the NDIC invited healthy banks to assume the private sector deposits and, in return, cherry-pick the assets of the failed banks for which it had obtained final court orders to liquidate. By end-2006, four failed banks had been acquired under this arrangement. The CBN had, so far, issued PNs to cover the difference between the assumed private sector deposit liabilities and the assets of the failed banks cherry-picked by the acquiring healthy banks, as shown below:

S/N	FAILED BANKS	ACQUIRING BANKS
1	Allstates Trust Bank Plc.	Ecobank Nigeria Plc.
2	Assurance Bank Ltd.	Afribank Plc.
3	Lead Bank Ltd.	Afribank Plc.
4	Trade Bank Plc.	United Bank for Africa Plc.

Meanwhile, series of consultations are on-going between the CBN and the NDIC to agree that, having guaranteed payment to private sector depositors under the P&A resolution option, the principle of subrogation should apply. This principle implies that the CBN would claim liquidation dividends of the private sector depositors to be declared by the NDIC when the remaining assets would have been realized, to the extent of the PNs issued by it.

Following the above arrangement, a number of successes have been recorded. However, legal issues and challenges attendant to the resolution of the failed banks had slowed down the process. Nevertheless, concerted efforts were being made to speedily resolve all outstanding legal issues and litigation with a view to fast-tracking the liquidation process.

Chapter Three

SUPERVISORY ACTIVITIES IN 2006

3.01 OFF-SITE SUPERVISION OF BANKS AND DISCOUNT HOUSES

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 on a regular basis through the Bank Analysis System (BAS), to ascertain their financial condition and performance, using financial indicators such as asset quality, liquidity, capital adequacy, earnings and loans to deposits ratios, up to October, 2006, when the eFASS went live. Where there were areas of regulatory concern, the attention of the institutions concerned was usually drawn to such, through letters or meetings with their top management and/or board of directors.

ii. Assessment of Boards and Management

The CBN, in collaboration with other regulatory and security agencies, continued to scrutinise all appointees to the boards and top management positions of banks and discount houses to ensure that only fit and proper persons run the affairs of the institutions. In this regard, the CBN, during the year under review, approved the appointment of 80 persons into the board and top management positions of some banks and discount houses. The appointments of a few others were turned down on the ground of insufficient experience and unfavourable references, among other reasons. Twenty-eight resignations from boards and top management positions of some banks were recorded during the same period.

iii. Appraisal and Approval of Financial Statements

A total of 26 audited financial statements of banks and discount houses were approved for publication. The CBN continued to conduct income audits as part of the approval process.

iv. Branch Network

The CBN granted approval for the opening of 433 branches and cash centres during the period. The total number of branches and cash centres in operation as at December 31, 2006, was 3,468. Branch expansion was closely monitored to ensure that banks did not use depositors' funds for such investments.

v. Credit Risk Management System (CRMS)

As at December 31, 2006, the web-enabled CRMS database had an outstanding balance of x1,553.4 billion, involving 48,894 borrowers, as against x1,388.1 billion and 34,366 borrowers in the preceding year. In absolute terms, both the Naira value and the number of borrowers grew, reflecting the growing confidence of the public in the banking system.

vi. Blacklisting

The CBN blacklisted one officer of a bank, for unethical practices and professional misconduct.

vii. Public Complaints against Banks

During the year under review, several complaints were received and referred to the Ethics and Professionalism Sub-committee of the Bankers' Committee for adjudication.

viii. Discount Houses

The performance of the five discount houses in the country was monitored through the daily, weekly and monthly statutory returns submitted to the CBN.

ix. Fraud and Forgeries

As at December 31, 2006, 1,193 cases of fraud and forgery, involving over x4.6 billion and various other sums of foreign currencies were reported by various banks. Six hundred and twelve of the cases, amounting to over x2.6 billion were reported to have been successful.

x. Enforcing Statutory Requirements

a. Liquidity Ratio

Following the successful consolidation of the banking sector, there were no critical cases of liquidity failure in the year.

b. Capital Adequacy Requirement

The capital adequacy requirement of banks and discount houses was monitored on a continuous basis throughout the year . In the month of December, 2006, one bank 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 CRR as a tool for monetary control, to complement the Open Market Operations. The subsisting CRR of five percent was further reduced to three percent from November, 2006.

3.02 ON-SITE SUPERVISION OF BANKS AND DISCOUNT HOUSES

All the 25 banks and five discount houses were examined in 2006. The CBN examined 19 banks and five discount houses while the NDIC examined six banks.

The examinations covered the prudential regulations, foreign exchange operations, information technology and anti-money laundering controls while other challenges associated with consolidation such as systems integration, human resource re-alignment and compliance with the Code of Corporate Governance were also appraised. The major findings of the examinations included:

i. Board and Management Oversight

In some of the banks examined, sound corporate governance was yet to be fully imbibed. Board and management oversight was inadequate while effective risk management was lacking.

ii. Earnings

Most of the banks reported increased earnings arising from improved capital base and enhanced ability to expand their operations.

iii. Liquidity

Improved liquidity was recorded by majority of the banks which made it possible for them to expand and grow their loan portfolio. However, there was a mismatch in the maturity profile of assets and liabilities in most cases.

iv. Anti-Money Laundering Controls

Minor lapses were noted in banks' compliance with the provisions of the Money Laundering (Prohibitions) Act, 2004, which included the non observance of some of the rules guiding the know-your-customer (KYC) principles, failure to report some international transfer of funds of $10,000 and above, lack of full awareness among employees of some of the banks and, in some cases, failure to include the money laundering audit in banks' audit programmes.

v. Foreign Exchange Operations

A review of the sources and utilization of foreign exchange by some of the banks revealed variances between open position and aggregate balances of their nostro accounts, which required explanation and reconciliation of their funds flow statements. Also, poor record keeping, non compliance with rules and regulations in the submission of list of customers that failed to submit shipping documents 90 days after the relevant letters of credit have been negotiated and failure to update specimen signature files for the various pre-shipment agents were observed. Other lapses noted were duplication and non-reconciliation of nostro accounts and non-repatriation and distribution of interest on off-shore accounts.

vi. Contraventions

Some observed contraventions for which the offending banks were penalized were as follows:

- Non-implementation of recommendations in the previous Examination Reports.
- Failure to adhere to CBN circular reference BSD/FE/48/Vol.6/304 dated March 29, 1990, in respect of the minimum information to be contained in a credit file.
- Non-adherence to foreign exchange regulation such as failure to report to the CBN, customers who defaulted in the submission of shipping documents 90 days after negotiation.
- Failure to obtain the prescribed documentation for some letters of credit and invisible trade transactions.
- Failure to adhere to CBN Circular reference BSD/DO/CIR/VOL.1/2001/22 of November 29, 2001, by using unconfirmed letters of credit to import finished goods, etc.

Overall, there was remarkable stability in the banking industry during the year.

3.03 SUPERVISION OF OTHER FINANCIAL INSTITUTIONS (OFIs)

The CBN intensified its supervisory oversight over institutions in the OFI sub-sector to ensure the overall safety and soundness of the financial system. The major highlights of the supervisory actions are indicated below:

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

Two hundred and ninety-one CBs were examined in 2006, compared to 226 in 2005. From the examination reports, several of the CBs were yet to attain the minimum capital base of x20 million required for conversion to MFBs. There were indications of weak board oversight, unsound management and poor asset quality in some institutions. It was also observed that CBs preferred to place funds with deposit money banks rather than create loans and advances. Specifically, the sum of x25.3 billion or 45.9 per cent of the aggregate total assets of x55.1 billion were held in banks as placements. This attitude by the CBs negated the cardinal mandate of the institutions to avail credits facilities to the lower end of the financial market.

The total number of CBs in operation remained at 757 in 2006 as no new CB was licensed owing to the adoption of the microfinance policy, which would phase out community banks from the financial system by December 31, 2006.

b) Primary Mortgage Institutions (PMIs)

Eighty-five, out of the 91 PMIs in operation, rendered returns in 2006. Of this number, 74 met the prescribed minimum paid-up capital requirement of x100 million as against 45 in 2005, representing an increase of 64 percent. Sixty-one PMIs satisfied the prescribed minimum liquidity ratio of 20 percent in 2006 as against 55 in 2005. Similarly, 73 PMIs attained the prescribed capital adequacy ratio of 10 percent as against 66 PMIs in 2005.

Thirty-five or 41.2 percent of the 85 reporting PMIs complied with the prescribed minimum mortgage assets to total assets ratio of 30 percent as against 15 or

19.7 percent in the previous year, indicating an improvement in their efforts at fulfilling the mortgage financing role. Due to the anticipated reform in the PMI sub-sector, no new PMI was licensed in 2006.

Seventy-five PMIs were examined in the year. The examination reports indicated weak board oversight and non-existent succession plans in some institutions. Eighteen PMIs were penalized for late and/or non-rendition of prudential returns and audited accounts during the year. Four PMIs remained inactive while five obtained regulatory approval to restructure.

Four PMIs were granted approval during the year to access the National Housing Fund (NHF) with the Federal Mortgage Bank of Nigeria (FMBN).

c) Finance Companies (FCs)

Fifty-six FCs were examined in 2006.The major regulatory issues observed included under-capitalization, over-trading, high incidence of loan default, ineffective loan recovery, low liquidity, low level of earnings and high expenditure profiles. Six FCs were found to be inactive and did not render the statutory prudential returns, while two others were being restructured. Considerable strides were, however, made in the self-regulation of the sub-sector. Through greater collaboration with the umbrella organization of the industry, Finance Houses Association of Nigeria (FHAN), a code of ethics/professionalism committee was inaugurated for the sub-sector. The number of licensed FCs remained at 112 as no new license was granted in 2006.

d) Bureaux de Change (BDCs)

Routine examination was conducted on all the 292 licensed BDCs during the first quarter of 2006 to confirm, in particular, their operational status.

The examinations revealed that the BDCs were generally characterized by poor record keeping, inadequate staffing and infrastructure. Eighty BDCs met the minimum paid-up capital of x 10 million.

The liberalization of the operations of the sub-sector in March, 2006, re-energized the BDC sub-sector. One hundred and ninety-six fresh applications for licences were received, out of which sixty were approved and eighty-six AIPs granted in 2006. Consequently, the number of licenced BDCs in operation as at December 31, 2006, was 352 as against 292 as at December 31, 2005, indicating an increase of 20.54 percent.

e) Development Finance Institutions (DFIs)

Returns were received from all the five DFIs in operation, in contrast to four in the preceding year. Three of the institutions, NEXIM, FMBN, NACRDB, were examined during the year. A review of the examination reports revealed dwindling profitability due to poor asset quality.

3.04 HIGHLIGHTS OF THE ACTIVITIES OF THE BANKERS' COMMITTEE

In 2006, the Bankers' Committee continued to be geared towards the repositioning of the banking system. Highlights of the activities are discussed below.

International Rating

The CBN, through the Committee, encouraged banks to submit themselves to reputable international agencies for credible ratings, in order to establish their relative strength, using some universally acceptable parameters. Twenty of the 25 existing banks were ranked among Africa's top 100 and four of them were in the top 10. Seventeen of the banks made the world's top 1,000. A number of them received global patronage from foreign investors in their debut into the international capital market where they successfully sourced and arranged funds through the issuance of bonds and other capital market instruments.

Reserve Management

Consequent upon the banking sector consolidation, banks were encouraged to partner with reputable overseas banking institutions and fund managers to manage part of the nation's foreign reserve.

To qualify, banks have to attain a capitalization level of $1 billion. A number of banks had put in place, measures to fulfill this condition and had signed Memorandum of Understanding (MoUs) with foreign partners. The local banks were encouraged to insist on meaningful apprenticeship in the reserve management, which would ultimately equip them with the wherewithal to manage funds for banks in the sub-region and other parts of Africa.

The Payments System

The New Cheque Standard was adopted by all banks with over 70 percent of their customers having migrated to it. Accreditation of printers for the new cheque design was also completed.

Plastic money received wide patronage, with the inter-switch processing 7.3 million card transactions in November, 2006. Also, four million electronic cards were reportedly issued in November, 2006, while 1,249 ATMs were installed. The number of mastercards issued was 13,560.

A national switch network, which would interface Nigeria and other ECOWAS countries, was embarked upon by the Nigeria Inter-bank Settlement System (NIBSS) during the year.

The Real Time Gross Settlement (RTGS) went live during the year. There was also a noticeable increased patronage of the Nigeria Payments System website *(www.nigeriapaymentsystem.org.ng)* where issuers of dud cheques are featured by the banks. The Economic and Financial Crimes Commission (EFCC) has been empowered to access the site.

The Bankers' Committee mandated the Chartered Institute of Bankers of Nigeria to sensitize the public on the implications of issuing dud cheques.

Banks were encouraged to print a disclaimer clause on the front of their cheque booklets to which customers must consent as authority for the banks to report them to the law enforcement authorities in the event that they issued dud cheques.

Bank Charges

The Bankers' Committee set-up a sub-committee to look into the persistent complaints by banks' customers on excessive bank charges. To address these complaints, it was decided that in all credit-related transactions, banks must disclose to the borrower the lending rate and must limit all other charges, which must be explicitly stated, to a maximum of 2 percent per annum. Banks were also advised to adhere strictly to the Guide to Bank Charges.

Interbank Market

Following the replacement of the Minimum Rediscount Rate (MRR) with the Monetary Policy Rate (MPR) by the CBN, the MPR was established at 10 percent. Banks were expected to deposit their surplus funds with the CBN at 300 basis points below the MPR while those that were short of funds were to borrow at 300 basis points above the MPR, thereby creating a maximum range of 600 basis points between deposit and borrowing from the CBN. The CBN formally informed the banks of the abolition of the MRR+4 percent as the maximum lending rate.

Bank Security

In furtherance of its commitment to complement the effort of the Police in securing and protecting the banks from armed robbery attacks, the Bankers' Committee approved the procurement of 26 Armoured Personnel Carriers (APCs) and also established a Bank Security Trust Fund, to which all banks were committed.

Seminar For Judges

The Committee held its Annual National Seminar on Banking and Allied Matters for Judges in December, 2006. The seminar, which was the sixth edition, attracted participants from the banks, Judiciary, Nigeria Police, NDLEA, ICPC, etc. Relevant issues affecting all the stakeholders were adequately addressed.

Small And Medium Enterprises Equity Investment Scheme (SMEEIS)

The total fund set aside by the banks under the aegis of the Bankers' Committee was x38.2 billion. The value of confirmed investment by banks was x17 billion in 248 projects. The projects cut across Manufacturing (including printing and publishing), Tourism and Leisure, Services and Information Technology, which attracted 39.6; 20.6; 15.5; and 10.3 percent, of the total investments, respectively.

There was no penal withdrawal of overdue un-invested SMEEIS funds from the banks for investment in Nigerian Treasury Bills during the year. This development demonstrated increased compliance with SMEEIS guidelines by the banks.

A venture capital company, investing funds set-aside for SMEEIS on behalf of some banks, recorded the first successful voluntary exit from the scheme by a beneficiary. This development has eliminated speculation by skeptics that banks that provided equity funds under the scheme might take over the beneficiary companies from their owners.

Self-Regulation

In 2006, the Committee, through its sub-committee on Ethnics and Professionalism, resolved 106 cases, which included the spill-over from the previous year. Two hundred and sixty cases were at various stages of resolution. One case went to court after the decision of the sub-committee while four were appealed against. This statistics underscores the self-regulatory mechanism that the Committee put in place as its decisions were largely accepted by contending parties.

Banks were encouraged to set up a customer care unit where complaints could be speedily addressed to promote a good bank-customer relationship.

The Bankers' Committee continues to provide a forum for bank executives to share information and experience.

Chapter Four

ISSUES IN SUPERVISION

4.01 UPDATE ON THE CONSOLIDATED SUPERVISION

As part of efforts to fully comply with the Basel Core Principles, especially in the light of the current banking sector reforms, the CBN/NDIC Executive Committee on Supervision developed a draft framework for the consolidated supervision of banks in Nigeria.

Two important developments reinforced the need for the supervision of banks on a consolidated basis in Nigeria. First, the liberalisation of the financial services industry, following the adoption of universal banking in 2001, led to the emergence of financial supermarkets, typified by institutions in the same group, engaged in banking, insurance and securities business. Second, is the on-going banking sector reforms, a key element of which requires banks to maintain a minimum capitalization of x25 billion, which was expected to engender the emergence of stronger banks with potentials for transforming into financial conglomerates.

Arising from the banking sector consolidation and buoyed by their robust capital base, Nigerian banks have taken advantage of local and global market opportunities by expanding their activities within and outside their traditional areas of operations. Financial groupings have thus emerged, combining banking, insurance, securities business etc. The banks have, in recent times, shown a heightened appetite to establish off-shore presence, especially in the West African sub-region.

These financial groupings, no doubt, involve the interflow of financial resources and connected transactions, thus, bringing with them, supervisory challenges.

These include contagion risk, more complex and often non-transparent ownership structures, which make them more difficult to manage than individual institutions. Consequently, consolidated supervision has become an effective method for the simultaneous capture of the financial state of institutions that make up a group.

Inter-Agency Cooperation

As part of the build-up towards the commencement of consolidated supervision of banks in Nigeria, the CBN convened a meeting of the chief executives of all the regulatory agencies in Nigeria during the year to enlist their support and cooperation as well as map out strategies for the way forward. The meeting became necessary against the backdrop of an earlier attempt by the CBN to commence consolidated supervision, which was stalled due to the absence of an enabling legal framework.

From the issues discussed at the meeting, it was resolved as follows:

- A solo-plus approach to consolidated supervision of group entities should be adopted. This, in effect, implies that the institutions would be supervised on a solo basis under the purview of the respective regulators, but complemented by a general qualitative assessment of the group as a whole.
- There is need to harmonize the accounting year-end of entities within a financial group as well as synchronise the examination timetable by the various regulatory agencies to make the reports useful and relevant.
- There is need to strengthen the existing Memorandum of Understanding (MoU) on cooperation and information sharing among the various regulatory agencies.
- There is need to facilitate the enactment of the Financial Services and Market Act as part of the Financial System Strategy (FSS) 2020.
- There is need to sponsor capacity building programmes for officials of the

regulatory agencies on an on-going basis under the aegis of the Financial Services Regulation Coordinating Committee (FSRCC).

- The FSRCC should meet more regularly to discuss issues on consolidated supervision.

Capacity Building

With the on-going preparations for the implementation of consolidated supervision, the CBN sponsored various capacity building programmes to equip its officials with requisite knowledge, skills and competencies. In furtherance of its commitment in that regard, the CBN, in conjunction with the Office of the Superintendent of Financial Institutions (OSFI), Canada, planned to hold a regional seminar on consolidated supervision in the first quarter of 2007. In addition, the IMF has expressed its readiness to offer technical assistance to the CBN in the area of capacity building.

Cross-Border Supervisory Cooperation

The CBN, during the year, began the process of signing a Memorandum of Understanding (MoU) with the Reserve Bank of South Africa on information sharing and supervisory cooperation. It is expected that the MoU would facilitate effective cross-border supervision between Nigeria and South Africa, given the presence of South African banks in Nigeria and the interest being shown by Nigerian banks to commence banking business in South Africa.

The emergence of financial conglomerates with diverse business activities has made consolidated supervision imperative. All efforts would be geared towards its implementation to complement risk-based supervision of banks.

4.02 MICROFINANCE BANKING IN NIGERIA – THE JOURNEY SO FAR

Recognizing the latent capacity of microfinance in economic transformation, and encouraged by the emergence of highly successful and fast growing Microfinance Institutions (MFIs) around the world, the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria; and the Guidelines for Microfinance Banks in Nigeria were issued by the CBN to promote the development of the sub-sector.

Policy Objectives

The principal objective of the Policy is to create Microfinance Banks (MFBs) that are financially stable, self-sustaining and form an integral part of the communities in which they operate, with the potential to attract more resources and expand services to their customers.

Awareness creation and capacity building

Considering the fact that knowledge on microfinance principles and best practices was at the rudimentary stage in Nigeria, particularly among Community Banks (CBs), prospective practitioners and even regulators, the task of awareness creation, enlightenment, and capacity building were considered crucial. Thus, immediately after the launching of the Policy, the CBN took the following steps to bridge the knowledge gap:

- Issuance of circulars on the procedures and requirements for conversion/ transformation of existing CBs to MFBs.
- Held awareness seminar for all existing CBs in Lagos in June, 2006.
- Establishment of a help desk in the Other Financial Institutions Department (OFID) to facilitate the conversion process.
- Constitution of a fast track committee in OFID for the conversion of existing CBs to MFBs.
- Organized conversion workshops, between July and September, 2006, for OFID staff, stakeholders and CBs that had met the x20 million minimum capital requirement for conversion.
- Held quarterly meetings with the National Association of Community Banks

(NACOBs) and participation at meetings of the zonal/state chapters of NACOBs during which the issue of conversion was made a priority.

Other Developments

To reduce cost and facilitate the conversion of CBs to MFBs, the following additional steps were taken by the CBN:

- Waiver of the processing, licensing and change of name fees payable by CBs converting to MFBs.
- Removal of the requirement to deposit the shortfall in capital requirement with the CBN for existing CBs converting to MFBs.
- Secured necessary approval from the Corporate Affairs Commission for a reduction in filing fees payable by CBs converting to MFBs while a similar waiver on stamp duties is being awaited from the Federal Inland Revenue Service.
- Commenced the process of setting up the certification programme for regulators as well as the executive management and directors of MFBs under the auspices of the Inter-agency Committee on Microfinance Policy Implementation, in collaboration with the West African Institute for Financial and Economic Management (WAIFEM) and the Financial Institutions Training Centre (FITC). The framework for the certification programme has since been approved by the National Microfinance Policy Consultative Committee.

Status of applications received

As at December 31, 2006, 40 applications for new MFB licence were received, including one from a transforming NGO-MFI. Of this number, five final licences and 10 approvals-in-principle, which include the NGO-MFI, were granted. The remaining 25 were at various stages of processing.

In addition, 144 applications for conversion were received from CBs that met the minimum capital requirement. Of these, none had been granted final licence, while four were granted provisional approvals. The remaining 140 require further guidance and mentoring to correct the deficiencies observed in their documentation and generally prepare them for conversion to MFBs. Apart from these, 381 conversion plans were submitted by CBs that had not met the minimum capital requirement. These plans would be monitored until the institutions meet the requirements for conversion.

Challenges

The implementation of the Policy would pose the following challenges:

- Ensuring that, in addition to meeting the minimum capital requirement, converting CBs are completely re-orientated towards microfinance principles and best practice.

- Ensuring that as many CBs as possible are converted to MFBs before the stipulated deadline of December 31, 2007, with a good geographical spread, without compromising standards.

- Continuous capacity building for the emerging MFBs to impart necessary skills that would ensure that they are run in a safe, sound and professional manner.

- Ensuring the availability of suitable management information system, which is eFASS compatible, to facilitate prompt and accurate on-line rendition of returns for effective off-site surveillance.

- Addressing the problem of infrastructure in rural-based MFBs, such as electricity and ICT connectivity and exploring the possibility of rendering returns on-line through CBN branches or NIPOST, leveraging on the CBN/NIPOST Strategic Alliance.

- Need to up-scale the skills and competencies of supervisors in the licensing process, appraisal of microfinance business plans, principles and practice of microfinance and risk-based supervision.

Prospects

The future outlook for the sub-sector includes the following:

- It is estimated that about 50 new MFBs would have been licensed and at least 400 CBs would convert to MFBs by December 31, 2007. These estimated 450 MFBs would reach out and expand access to finance to the unbanked and vulnerable groups, empower the active poor to alleviate poverty and create wealth, thereby stimulate employment generation, economic growth and development.

- A critical mass of skilled microfinance operators would be developed through the certification programme to stimulate and drive the envisaged rapid growth of the sub-sector.

- The informal sector would gradually be brought into the mainstream financial sector while linkages between MFBs and universal banks as well as DFIs would steadily be established. In addition, access to wholesale funds, such as the proposed Microfinance Development Fund and the 10 percent of the Small and Medium Enterprises Equity Investment Scheme (SMEEIS) earmarked for micro enterprises, would expand outreach of the emerging MFBs.

Exit Procedure

CBs that are do not meet the capital requirement and therefore unable to convert to MFBs by December 31, 2007, would be required to go into voluntary liquidation and comply with the exit procedure as provided in the CBN circular on the subject matter.

Critical success factors

In order to achieve the desired objectives of the Policy, the following factors are critical:

- Effective capacity building for regulators, operators and service providers to up-scale their skills, quickly bridge knowledge/skill gaps and entrench professionalism.
- Establishment of an efficient and credible certification programme for regulators and operators with high standards, benchmarked on international best practice and curricula.
- Setting up a window for MFBs in eFASS for on-line reporting.
- Promotion of the establishment of credible rating agencies specializing in microfinance, to carry out institutional assessment for licensed MFBs and NGO-MFIs aspiring to transform to MFBs.

- Promotion of the establishment of a self-regulating MFB umbrella association.

The Microfinance Policy is an important policy instrument to increase access of the un-served and vulnerable groups to financial services through the establishment of MFBs. The progress made so far, as well as the challenges in implementing the Policy, show that access to microfinance would be a critical factor in the growth and development of the Nigerian economy.

4.03 COLLABORATION BETWEEN CBN AND NFIU IN THE FIGHT AGAINST MONEY LAUNDERING AND TERRORIST FINANCING

In Nigeria, the persistent threat of money laundering and terrorist financing through the financial system has been effectively managed by the sustained collaborative efforts of all relevant regulatory agencies. Since the late 1990s, the CBN, in collaboration with the NDLEA, later with the EFCC and currently with the Nigeria Financial Intelligence Unit (NFIU) have worked assiduously to address this twin menace.

The NFIU came into operation in January, 2005 following the recommendations of a 10-man Technical Committee made up of representatives of the CBN, NDIC, Nigerian Police, EFCC and the private sector. The activities of the Unit are covered under the EFCC Act, 2004 and the Money Laundering (Prohibition) Act, 2004.

The roles of the NFIU and the CBN

The core mandate of the NFIU is to serve as the country's central agency for the collection, analysis and dissemination of financial intelligence information regarding money laundering and terrorist financing. Specifically, the functions of the NFIU are to:-

- Receive and collect Currency Transactions Reports (CTRs) and Suspicious Transactions Reports (STRs) and other information relevant to money laundering and terrorist financing activities from financial institutions and designated non-financial institutions.
- Receive reports on cross-border movement of currency and monetary instruments.
- Analyze and assess the information and reports received.
- Review supervisory reports and criminal referrals.
- Maintain a comprehensive financial intelligence database for information collection and exchange with counterpart FIUs and law enforcement agencies around the world.

- Maintain a network and information link with the regulatory authorities and law enforcement agencies in Nigeria.
- Advise the government and regulatory authorities on the prevention and combating of economic and financial crimes.
- Liaise with compliance officers and enforce compliance culture in financial institutions.
- Provide financial intelligence reports/statistics in the investigation and prosecution of offenders under the relevant laws.
- Trail money transactions in banks and other financial institutions.

Financial institutions are central to the activities and success of the NFIU. The CBN, being the apex regulatory organ of these institutions, would be required to play a crucial collaborative role with the NFIU. In this wise, the CBN would ensure that:

- all Money Market Operators comply strictly with the provisions of the Money Laundering (Prohibition) Act, 2004;
- money laundering returns [CTRs and STRs] are accurately and timely rendered;
- the financial system adheres strictly to the KYC principles and prevents its network from being used for money laundering;
- financial institutions develop programmes to cover Politically Exposed Persons [PEPs]; and
- erring financial institutions are penalized.

Current efforts

In order to effectively perform these roles, the CBN held a number of meetings with the NFIU on areas requiring cooperation, such as the implementation of KYC, record keeping, rendition of statutory returns by financial institutions and capacity building. The CBN monitors banks for the prompt reporting of lodgments of x1million and above for individuals and x5million and above for corporate bodies as well as international funds transfers of $10,000 and above.

The CBN would also ensure that financial institutions are aware of the risk factors associated with PEPs' activities. PEPs include individuals in position of political power, senior government, military, judicial, and political officers, senior executives; and their family members and close associates. Indicators of increased risk in this respect include:

- Unexplained sources of wealth;
- Lack of verifiable sources of income;
- Receipts of large sums from government entities and state owned institutions; and
- Sources of wealth described as commission earned on government contracts.

Apart from the off-site surveillance of banks, the CBN conducts routine examination of the institutions. Since the establishment of the NFIU, such examinations have been jointly conducted with officials of the NFIU where they concentrate on money laundering investigations. Their reports are now a sub-set of the full report on banks that are examined. Where infractions are observed, appropriate penalties are imposed on the erring institutions.

Similarly, banks are to cooperate in reporting suspicious transactions using indicators provided by the World Bank, which include:

- Large cash deposits.
- A series of small cash deposits.
- Cash deposits from unrelated third parties.
- Significant increase in cash deposits.
- Cross border funds transfer.
- Unrelated third party funds transfer.
- Departing from established patterns.
- Lack of concern about risk.
- Lack of concern for cost, fines and penalties.

In June, 2006, the FATF removed Nigeria from the list of Non-Cooperative Countries and Territories (NCCTs) in acknowledgement of the progress made by the country in implementing anti-money laundering reforms. Indeed, the establishment of the NFIU was a major precondition for the removal of Nigeria from the FATF list of NCCTs.

The collaborative efforts of the CBN and the NFIU in the fight against money laundering and terrorist financing are being sustained and intensified.

Chapter Five

FRAMEWORK FOR SUPERVISION

5.01 UPDATE ON THE REVIEW OF THE CBN AND BOFI ACTS

Mindful of the importance of a robust legal framework in guiding the conduct of stakeholders in the financial system, the CBN kept tab on developments on the proposals for amendments to the CBN and BOFI Acts, which had been presented to the National Assembly for its consideration and passage into law.

To ensure that the proposals for amendment received the desired timely attention, they were presented to the National Assembly as Executive Bills. However, only the bill to repeal and re-enact the CBN Act passed the first and second reading in the House of Representatives in 2006, after which it was sent for public hearing. The hearing was aimed at gathering divergent views and expertise on the proposed amendments. The CBN presentation at the hearing reiterated the reasons for the proposed amendments to include ensuring that the CBN conforms to international best practice and strengthening its capacity to carry out its core functions. The CBN also used the forum to provide details on the proposed amendments, which included:

- an increase in the Bank's Authorised Capital from x300 million to x100 billion;
- modification of the membership of the Board of Directors to include the Accountant General of the Federation;
- spelling out the qualifications for the Governors and Deputy Governors as well as members of the CBN Board;
- statutorily establishing the Monetary Policy Committee and its membership;
- reviewing the yearly allocation from the CBN operating surplus to the general reserve fund from one-sixth to one-quarter;

- management of the country's external reserves;
- defining the scope of the institutions to which the Bank can issue guidelines;
- deficit financing and the limit of financing budget deficit by the CBN;
- liquidity management;
- review of the developmental functions of the CBN;
- prohibition of the abuse of the Naira;
- flexibility in the imposition of fines for contraventions of the provisions of the Act;
- universal banking, regulation of the credit bureau; and
- exemption of the CBN from the payment of taxes, etc.

There were presentations by other stakeholders such as the Chartered Institute of Bankers of Nigeria (CIBN) and the Corporate Affairs Commission (CAC) at the forum. The CIBN suggested the removal of the Accountant General of the Federation as a board member failing which the inclusion should be justified through the assignment of specific responsibilities to the office and strengthening the independence of the CBN. The presentation by the CAC, suggested, among others, that the minimum qualification for the Secretary to the Board of the CBN should be properly spelt out and the definition of "mutilated notes" should be provided in the Act.

The House Committee on Banking and Currency organised a retreat during which it considered the amendment to the CBN Act with differences still persisting in the following areas:

- Section 6(3)(a) of the CBN Act which empowers the Board of the CBN to consider and approve the budget of the Bank, a function the Committee would prefer to be transferred to the NASS.

- Section 9 of the CBN Act on the appointment of the Governor and Deputy Governors. In this regard, the Committee would prefer subjecting the appointment of only the Governor to the confirmation of the Senate while the

President would appoint the Deputy Governors without recourse to the NASS. The Committee would also prefer the removal of the Governor to be subject to the approval of a two-third majority of the Senate.

- Section 13(3) on quorum for the meeting of the Board, which the Committee would want amended to read “Seven members of the Board, three of whom shall be Directors other than the Governor and the Deputy Governors” shall constitute a quorum for Board meetings.

- Section 14(3) on the stipulation of the salaries, fees, wages or other remuneration or allowances of employees of the Bank by the Board, which the Committee would want to be made subject to the approval of the Revenue Mobilisation, Allocation and Fiscal Commission.

- Section 30 of the Act on the developmental functions of the CBN, which the Committee would also want amended by the insertion of a proviso on the limit of the equity/debenture investment by the CBN in institutions incorporated for money and/or capital market development.

- Section 52 on the review of fines by the CBN was also an area of difference as the Committee opined that only the NASS should wield such powers.

Other areas, which attracted the special attention of the Committee included the need to redraft Section 11(2), which deals with the disciplines for qualification as directors, Section 14(2) on the qualification of the Secretary to the Board, and Section 20 on the need to prescribe penalty for the rejection of the Naira as legal tender.

The proposed amendments were yet to be considered by the committee of the whole House as at end 2006.

5.02 UPDATE ON THE IMPLEMENTATION OF RISK BASED SUPERVISION

Efforts towards the full implementation of the risk-based supervision (RBS) of banks continued in 2006. In February, 2006, the CBN/NDIC Executive Committee on Supervision constituted a committee to draft a risk-based supervision manual. The committee noted key areas in the existing RBS framework that could hinder its effective implementation. These included the following:

- Unwieldy number of risk elements.
- Complexity in risk assessment.
- The framework not being user-friendly.

The Committee, therefore, recommended that the RBS framework should be revised to make it operable. In June, 2006, the RBS framework was reviewed to accommodate the recommendations of the Committee that drafted the RBS manual. The review covered the following areas:

A. Reduction in the number of risk elements

The risk elements were reduced from 20 to nine, made up of six business risks and three control risks, as indicated below:

- **Business Risks**
  i.Strategy Risk
  ii.Credit Risk
  iii.Market Risk
  iv.Operational Risk
  v.Liquidity Risk
  vi.Legal Risk

- **Control Risks**
  i.Risk Management Systems
  ii.Internal Audit/Control
  iii. Compliance

B. Reduction in the number of supervisory objectives

The revised framework is premised on the twin supervisory objectives of promoting the stability and soundness of the banking system and ensuring consumer protection. A reduction in financial crimes, listed as one of the supervisory objective in the old framework, was discarded in the revised draft.

C. Risk assessment of banks

Whereas the old framework provided for the classification of the impact assessment of banks into high, medium-high, medium, medium-low and low risks, the revised framework simplified the classification into low, medium and high risk buckets.

In November, 2006, the committee reviewed the draft supervision manual to align it with the revised framework. Some of the observations made included the classification of control elements as risks and the non-recognition of the moderation effect of earnings and capital on the risk assessment process.

The Revised Risk-Based Supervision Manual

The manual is to provide guidance to supervisors and enhance the overall supervisory process. It provides specific guidelines for:

- off-site and on-site examination procedures to be used in the assessment of a bank's risk profile and soundness of operations, which may lead to the early detection of potential threats which, if allowed to continue, might result in a deterioration in the condition of a bank;
- evaluating the adequacy of a bank's policies and procedures, the degree of compliance with them, and the adequacy of its internal controls;
- evaluating the work performed by internal and external auditors;
- evaluating the performance of the board of directors and the top management staff; and
- preparing a set of working papers that support a bank's risk assessment, the examiners' comments and the overall conclusion regarding the condition of the bank and the quality of its management.

Structure of the Manual

The manual is structured into five key areas as highlighted below:

- Overview - this gives a summary of the inherent risks to which a bank would be exposed.
- Risk assessment factors - these include a number of decision factors which the supervisor should consider when evaluating the potential risks to the bank.
- Off-site examination procedures – these include an outline of the documents that should be reviewed and the procedures that should be followed during the review.
- Risk-to-objective assessment questionnaire – this is a set of questions to assist the supervisor in determining the level of risk under the various risk-to-objective factors defined in the RBS Framework.
- On-site examination procedures – these are procedures to be performed at the bank's premises.

Supplementary examination modules

The following five modules are included in the manual for supervisors' use in the event that any of these activities present significant risk to a bank:

- Cash and bank balances.
- Investment.
- Fixed assets.
- Other assets.
- Other liabilities.

Steps in the examination process

Off-site Surveillance Process:

? Prepare an impact assessment of the bank under consideration and transfer the results to the risk map;

? Perform risk assessment of each of the risk elements and post to the risk-map.

? Determine the overall risk score for each of the applicable risk-to-objective and transfer the score to the risk map for the bank;

? Discuss significant findings with the bank;

- Develop a risk mitigation programme (RMP);
- Evaluate and validate the risk assessment and the RMP;
- Communicate the results of the assessment and RMP to the bank; and
- Perform an on-going assessment and document response to risk escalation.

On-site Examination Process:

On-site visitation would be required at the following stages of the framework:

- Full-scope examination
- Risk assessment
- Development of RMP
- Implementation of the RMP
- Commencement of a new assessment cycle

Sensitisation workshops were organised for bank supervisors by the CBN and the NDIC, in conjunction with local and foreign trainers, in May, 2006. Additionally, in September, 2006, the Office of the Superintendent of Financial Institutions (OSFI), Canada, conducted two seminars on the implementation of risk-based supervision as part of its technical assistance to the CBN. The programmes exposed supervisors to the OSFI model and enabled them to draw comparison with the FSA approach, which is highly emphasized in the current RBS framework.

The revision of the RBS framework and the drafting of an examination manual, coupled with the commencement of large-scale capacity development for supervisors represent significant milestones in the eventual implementation of the risk-based approach to the supervision of banks in Nigeria. The approach will no doubt assist in the channeling and conserving of resources and ensure a more focused regulation. It is expected that the review of the framework and the manual would be a continuous process.

5.03 CODE OF CORPORATE GOVERNANCE FOR BANKS IN NIGERIA

The integration of processes, IT, culture and people arising from the banking sector reform of 2005, heightened corporate governance challenges in the Nigerian Banking System. Consequently the CBN issued a Code of Corporate Governance for Banks in Nigeria to enhance and complement the effectiveness of the earlier codes issued by both SEC and the Bankers' Committee for the industry. The new code was made mandatory rather than voluntary.

In releasing the code, an exposure draft was first issued to all stakeholders within and outside the country for comments. The Bankers' Committee was particularly involved in the emergence of the final document, which came into effect on April 3, 2006.

The document outlines weaknesses and challenges of corporate governance in Nigeria and states best practices that banks are mandated to comply with. Weaknesses identified include:

- Ineffective Board oversight.
- Overbearing influence of Chairman or MD/CEO, or that of the position of Chairman/CEO combined, especially in family-controlled banks.
- Weak internal controls.
- Non-compliance with rules and regulations.
- Poor risk management practices.
- Technical incompetence, poor leadership and administrative inability.
- Ineffective management information system.

The challenges highlighted in the Code include:

- Technical incompetence of Board and Management
- Increased levels of risk
- Ineffective integration of entities after mergers & acquisitions
- Poor integration and development of information communication technology

- Inadequate management capacity
- Insider-related lending
- Rendition of false returns
- Non-disclosure of material information

The provisions of the Code made provisions covered the following issues:

Provisions of the code

i. **Equity Ownership in Banks**: Government equity holding was limited to 10 percent in any bank while individual/corporate private investors require regulatory approval to have more than 10 percent holding.

ii. **Structure and Composition of Board and Board Committees:** Maximum board size of 20 members was specified for each bank, two of whom must be independent directors. The positions of Chairman and CEO are not to be combined by any one person and two members of the same extended family would not be allowed to hold executive board membership in a bank at the same time. Appointments to boards were to be made strictly on merit.

iii. **Board Oversight Functions:** To enhance board oversight functions, regular training and education of members was institutionalized. Also, the board should have the latitude to hire independent consultants to advise it on certain issues of importance and the cost borne by the bank.

iv. **Tenure of directors:** To ensure both continuity and injection of fresh ideas, the tenure of non-executive directors had been limited to a maximum of three terms of four years each.

v. **Code of Conduct for Directors and Conflict of Interest:** Adherence to the existing Code of Conduct for directors was emphasized and board members were expected to make full disclosure in respect of companies/ entities/persons related to them that are service providers to their banks.

vi. **Board Performance Appraisal:** To ensure a focused, purposeful and successful board, a performance appraisal of the board's activities is to be carried out by an external consultant on an annual basis.

vii. **Management Reporting Relationships:** The Code recognized the need for clearly defined lines of responsibility and hierarchy such that officers would be held accountable for duties and responsibilities attached to their offices.

viii. **Data Integrity and Disclosure Requirements:** Zero tolerance on false rendition of returns was stated while Chief Executive Officers (CEO) and Chief Finance Officers of banks were to be held accountable for infractions. Sanctions including removal from office and blacklisting were specified.

ix. **Compliance Procedures and Whistle-blowing:** Banks should appoint compliance officers to monitor and report compliance with the Code. There should also be dedicated lines for whistle-blowing by all stakeholders with respect to breaches/unethical behaviour.

x. **Risk Management Procedures and Internal Controls:** The Code emphasized the risk oversight functions of the Board and required that the Head of Internal Audit report directly to the Audit Committee rather than the CEO.

xi. **Role and Tenure of Auditors:** External auditors were excluded from performing non-audit functions such as book-keeping, consultancy and actuarial services for the banks they audit. Also, their tenure was limited to a maximum period of 10 years after which they would not be eligible for appointment by the same bank until after another 10 years.

Monitoring and compliance with the code

To ensure effective monitoring of compliance, a checklist of the provisions of the Code was developed.

By June, 2006, the banks' scorecard showed that most of the provisions of the Code, which had hitherto not been complied with, had been strongly noted for compliance. A verification exercise on the status of compliance of the banks was carried out in December, 2006. Although, the exercise revealed that much progress had been made by the banks in their compliance status, continuous monitoring would be required to enforce and sustain compliance.

In addition, the following issues, namely: government equity ownership with a compliance deadline of March, 2007, family membership of boards, appointment of independent directors and director-related non-performing facilities were noted to present supervisory challenges.

The full details of the code is on the CBN website *www.cenbank.org.*

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 53.5 percent or x2.4 trillion, from x4.4 trillion in 2005 to x6.7 trillion in 2006. As in 2005, banks' funds were held in cash and due from other banks, while loans and advances, had grown by x1 trillion or 99.7 per cent and x0.6 trillion or 40.9 per cent to x2.1 trillion and x2.1 trillion, respectively, in 2006. The levels attained represented 30.7 per cent and 30.9 per cent of the total banking assets, in 2005 and 2006, respectively.

The major components of liabilities also witnessed increases. Total deposits, other liabilities and paid-up capital/reserves rose by 51.1 per cent, 21.4 per cent and 87.8 per cent, respectively.

The aggregate balance sheet of the banking industry from 2002 to 2006 and the individual components are presented below:

Table 1
Aggregate Balance Sheet Structure of the Banking System

ASSETS	Dec. 31 2006		Sept. 30 2005		Dec. 31 2004		Dec. 31 2003		Dec. 31 2002		2006	2005	2004	2003
	Amount x Million	Percent	Amount x Million	Percent	Amount x Million	Percent	Amount x Million	Percent	Amount x Million	Percent	Percentage Growth			
Cash & Due From banks	2,065,518 135,006	30.65 2.00	1,034,123	23.56	935,286	27.57	769,416	31.04	648,283	31.91	99.74	10.57	12.27	8.28
Call & Placements	1,311,113	19.46	230,217	5.24	101,756	3.00	113,302	4.57	140,894	6.94	-41.36	126.24	-23.19	16.93
Government Securities & Short-term funds			902,665	20.56	677,595	19.97	466,020	18.80	275,170	13.55	45.25	33.22	60.77	-9.56
Advances/Leases (Net)	2,080,698	30.88	1,476,875	33.65	1,133,230	33.40	721,063	29.09	639,277	31.47	40.89	30.32	23.81	26.93
Investments	430,578	6.39		4.42	104,702	3.09	39,296	1.59	19,649	0.97	121.83	85.38	15.14	131.42
Other Assets	449,951	6.68	368,205	8.39	280,630	8.27	254,183	10.25	208,092	10.24	22.20	31.21	16.41	-5.16
Fixed Assets	265,128	3.93	183,141	4.17	159,741	4.71	115,837	4.67	100,025	4.92	44.77	14.65	19.70	15.2
TOTAL ASSETS	**6,737,992**	100.00	**4,389,327**	100	**3,392,940**	100.00	**2,479,117**	100.00	**2,031,390**	100.00	53.51	29.37	22.58	11.64
Liabilities:														
Total Deposits	3,441,884	51.08	2,546,056	58.01	1,795,840	52.93	1,281,427	51.69	1,000,433	49.25	35.18	41.78	26.92	10.42
Due to Banks	746,553	11.08	127,100	2.90	101,887	3.00	43,000	1.73	83,479	4.11	487.37	24.75	-20.69	198.77
Borrowed Funds	1	0	66,958	1.53	60,886	1.79	13,526	0.55	13,403	0.66	-100.00	9.97	178.51	61.62
Other Liabilities	1,440,788	21.38	1,090,793	24.85	1,080,274	31.84	906,484	36.56	761,446	37.48	32.09	0.97	18.70	0.4
Long Term Loans	67,251	1	3,900	0.09	3,032	0.09	1	0.00	214	0.01	1624.38	28.63	8.99	-
Paid-Up Capital	170,495	2.53	170,924	3.89	140,768	4.15	100,276	4.04	75,170	3.70	-0.25	21.42	16.65	20.35
Reserves	871,020	12.93	383,596	8.74	210,253	6.20	134,403	5.42	97,245	4.79	127.07	82.44	24.43	25.72
TOTAL LIABILITIES	**6,737,992**	100.00	**4,389,327**	100	**3,392,940**	100.00	**2,479,117**	100.00	**2,031,390**	100.00	53.51	29.37	22.58	11.64
Off-Balance Sheet	1,379,841	20.48	859,126	19.57	663,738	19.56	503,896	20.33	375,305	18.48	60.61	29.44	6.13	24.12

Source: Banks Monthly Returns to the CBN

Figure 1
Aggregate Balance Sheet

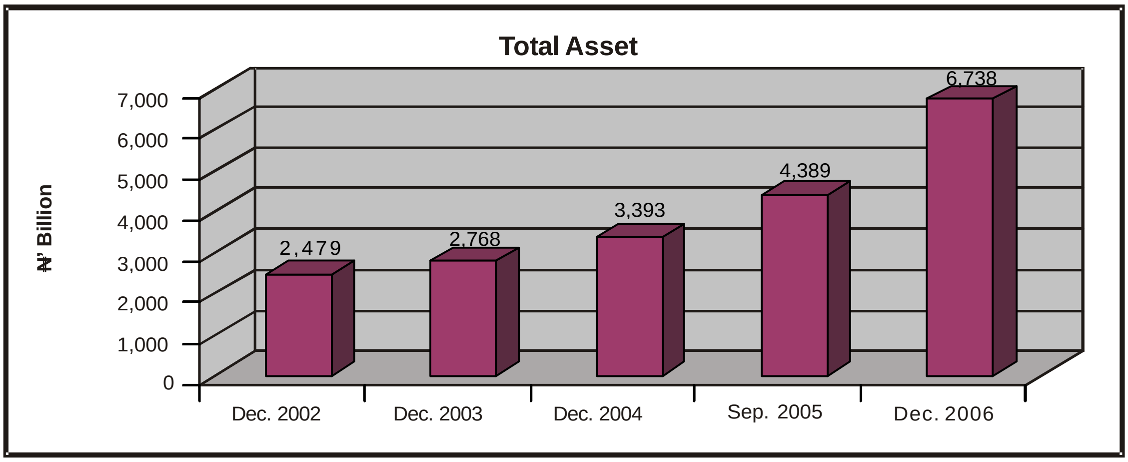


Figure 2
Composition of Assets in 2002

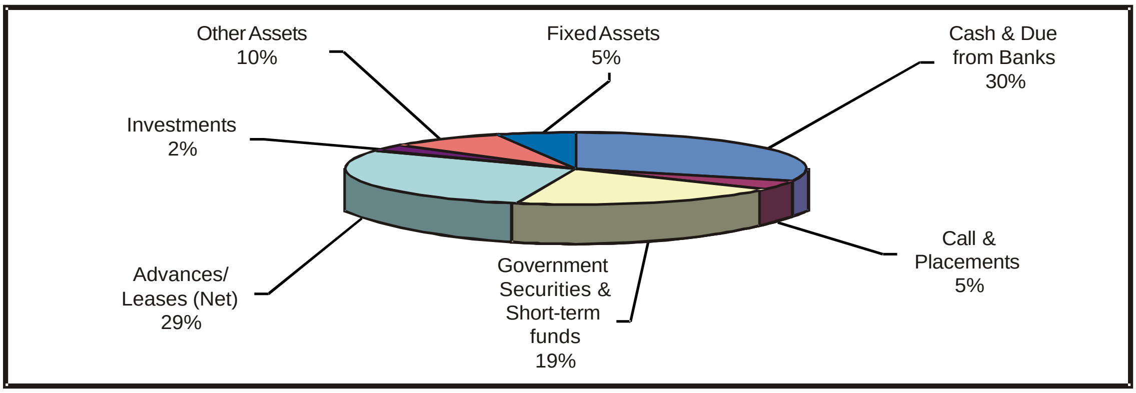


Figure 3
Composition of Assets in 2003

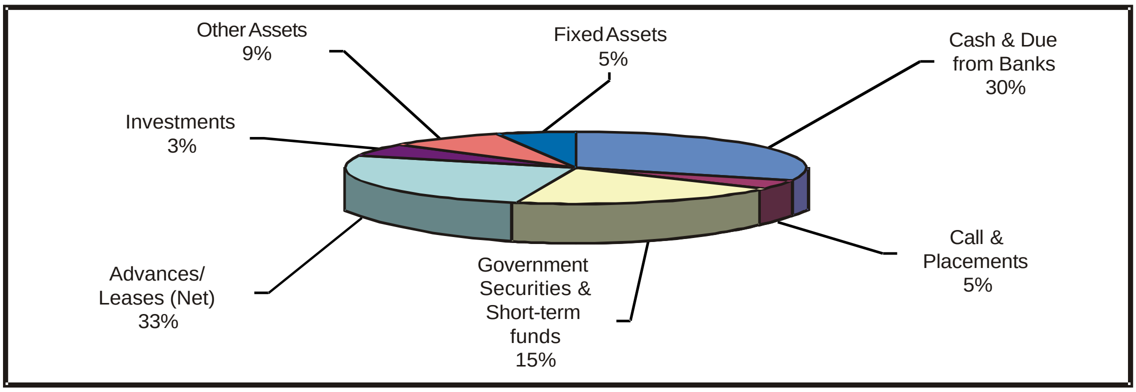


Figure 4
Composition of Assets in 2004

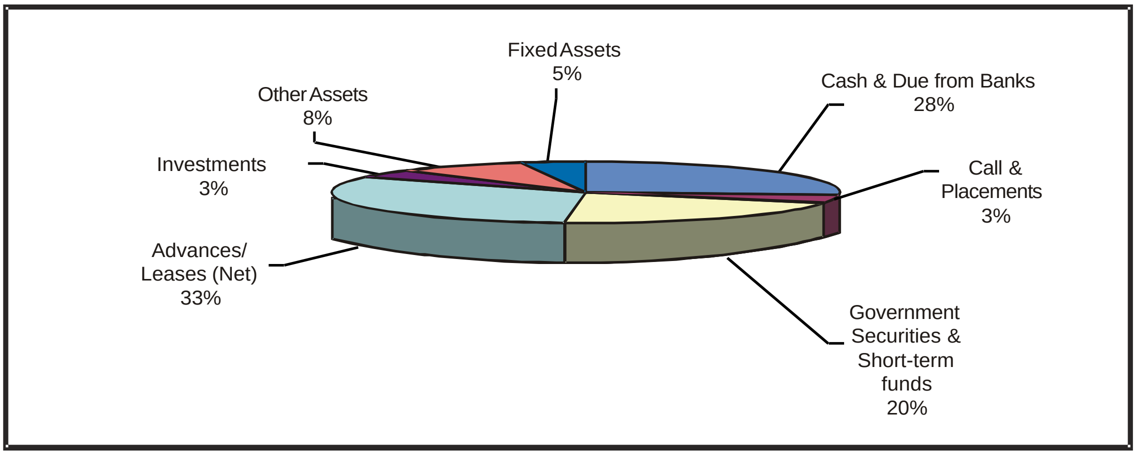


Figure 5
Composition of Assets in 2005

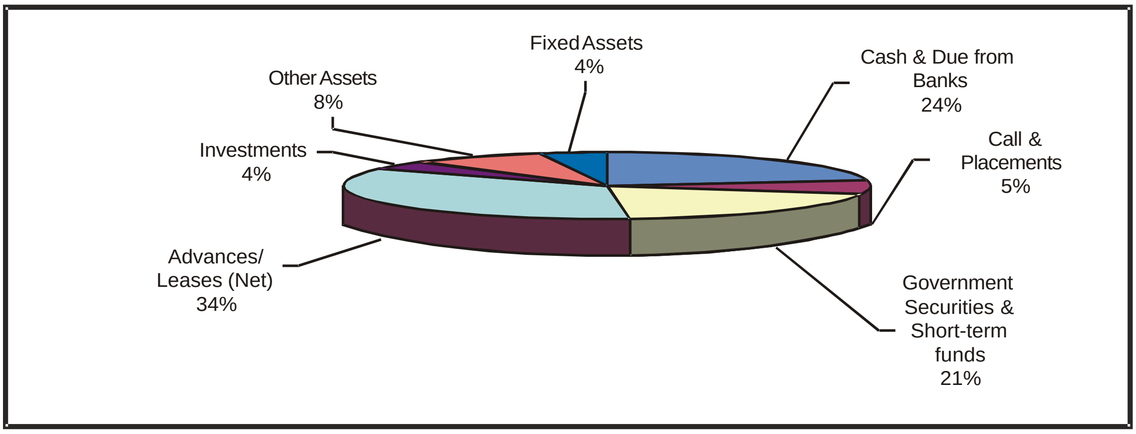


Figure 6
Composition of Assets in 2006

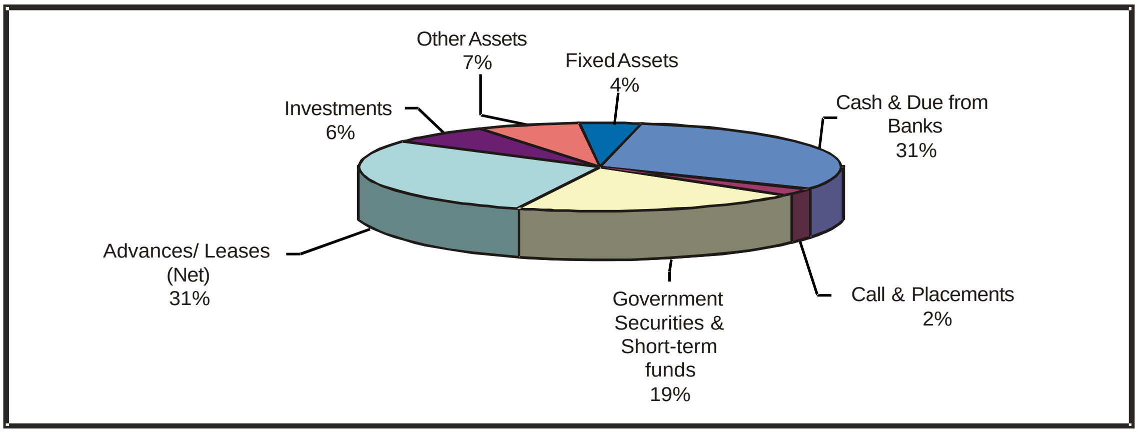


Figure 7
Composition of Liabilities in 2002

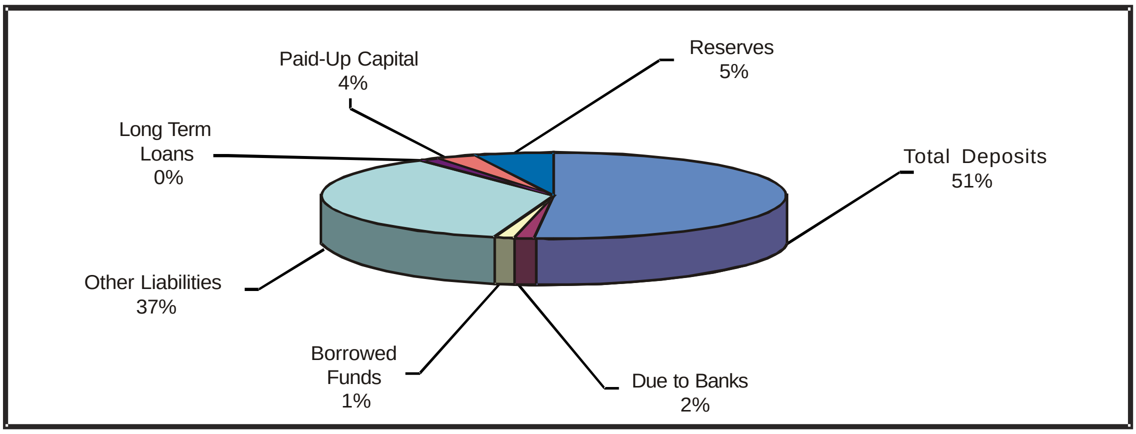


Figure 8
Composition of Liabilities in 2003

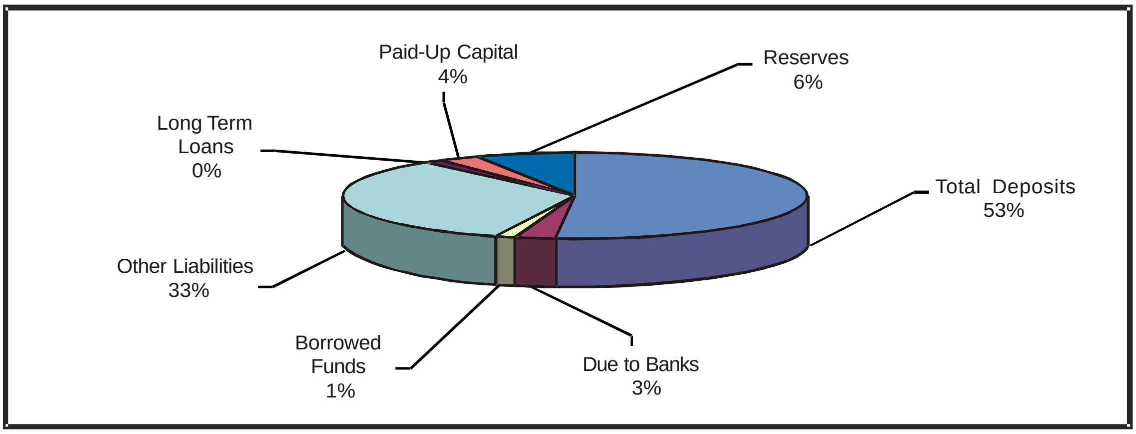


Figure 9
Composition of Liabilities in 2004

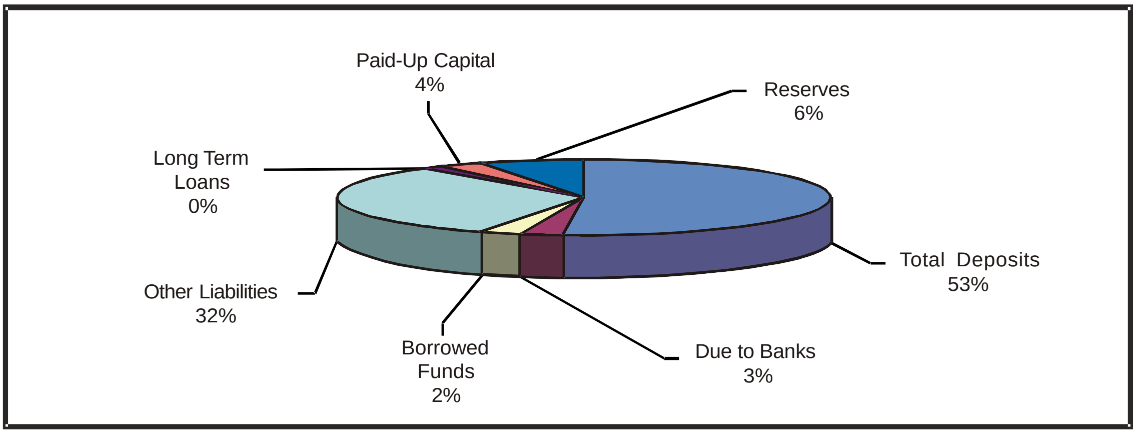


Figure 10
Composition of Liabilities in 2005

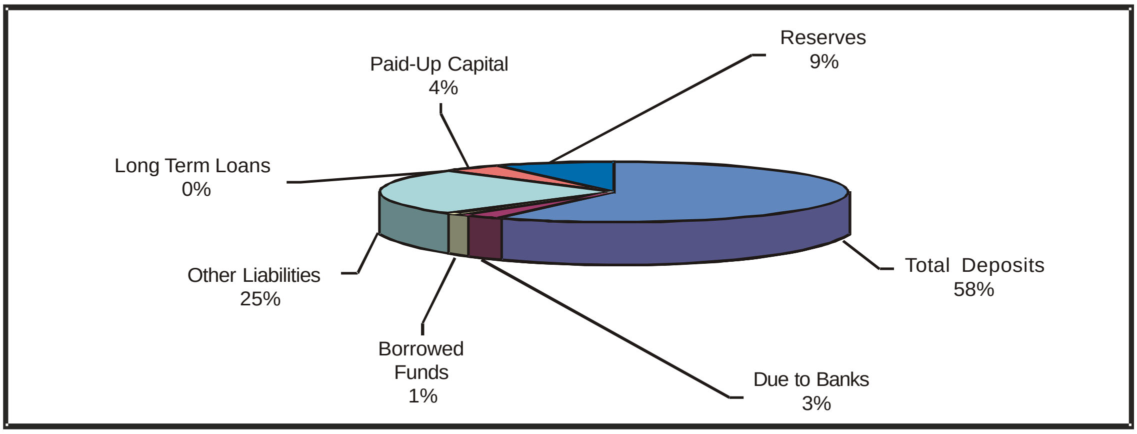
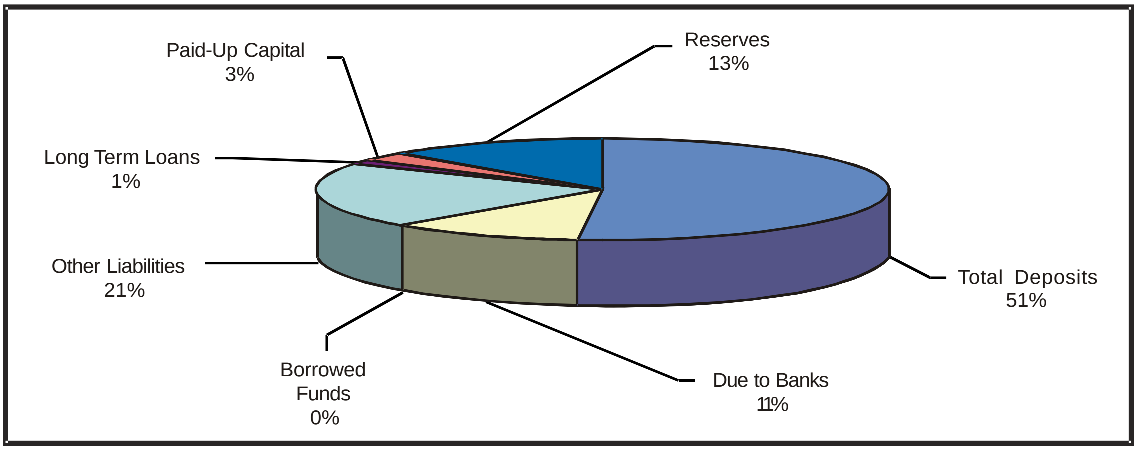


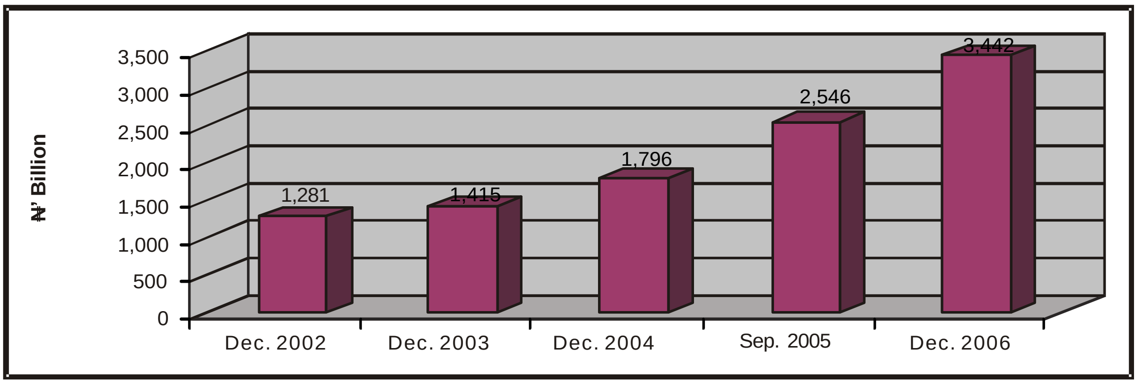
Figure 11
Composition of Liabilities in 2006



6.02 DEPOSITS AND LIQUIDITY IN BANKS

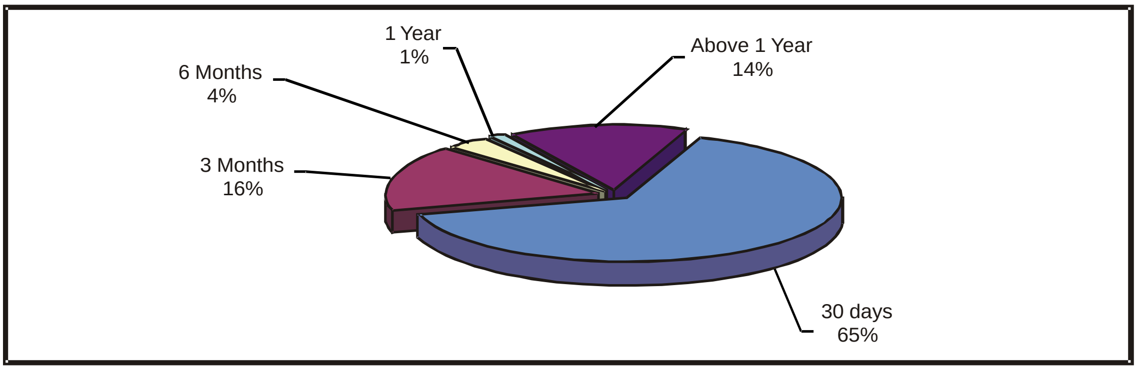
In 2006, the aggregate deposits in the banking sector continued to growth. It grew from x1.3 trillion in 2002 to x1.4 trillion in 2003,x1.8 trillion in 2004,x2.6 trillion in 2005 and x3.4 trillion in 2006. The observed trend reflected a growth rate of 28.1 percent in 2002, 10.4 percent in 2003, 26.9 percent in 2004, 41.8 percent in 2005 and 35.2 percent in 2006.

Figure 12
Aggregate Deposits



More than 65 percent of the deposits of the banking sector matured within 30 days – an indication that there was paucity of long-term deposits in the banking system.

Figure 13
Maturity Profile of Deposits in 2006



Demand deposit remained the major type of deposit available to banks. It accounted for x1.6 trillion or 47.0 percent of the total deposit liabilities as against x1.2 trillion or 46.2 percent in 2005, x0.8 trillion or 44.4 percent in 2004 and x0.6 trillion or 42.9 percent in 2003.

Figure 14
Composition of Deposits in 2002

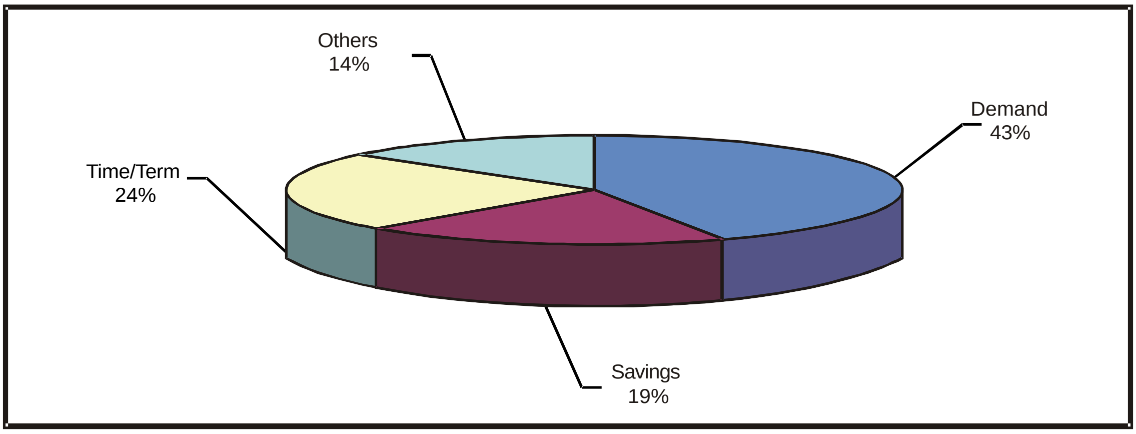


Figure 15
Composition of Deposits in 2003

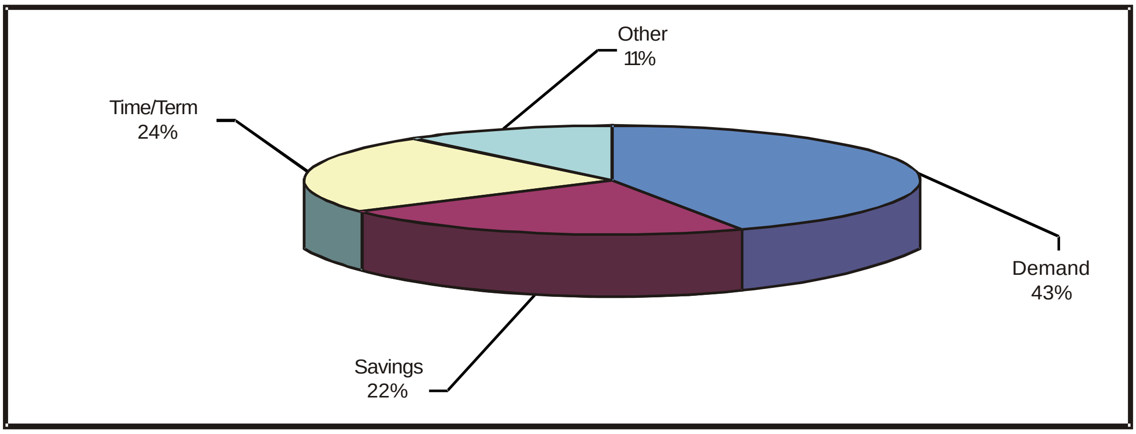


Figure 16
Composition of Deposits in 2003

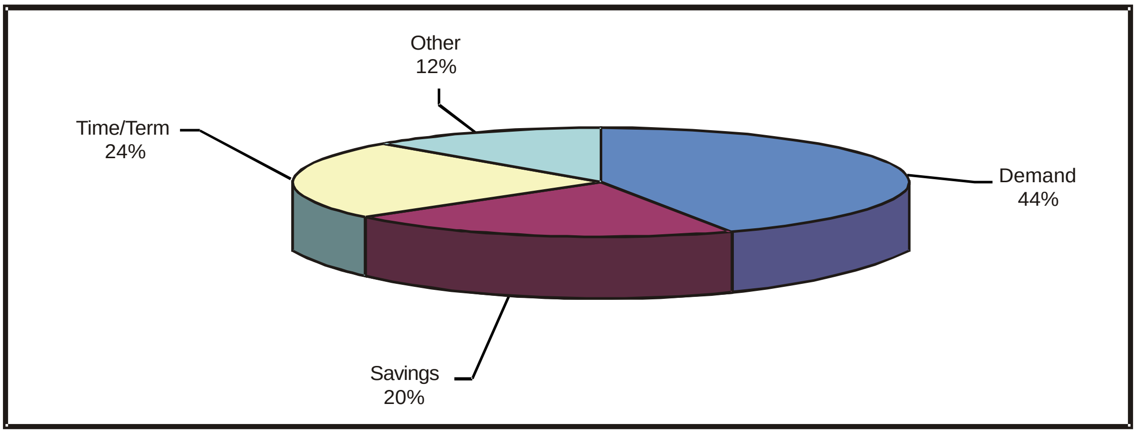


Figure 17
Composition of Deposits in 2005

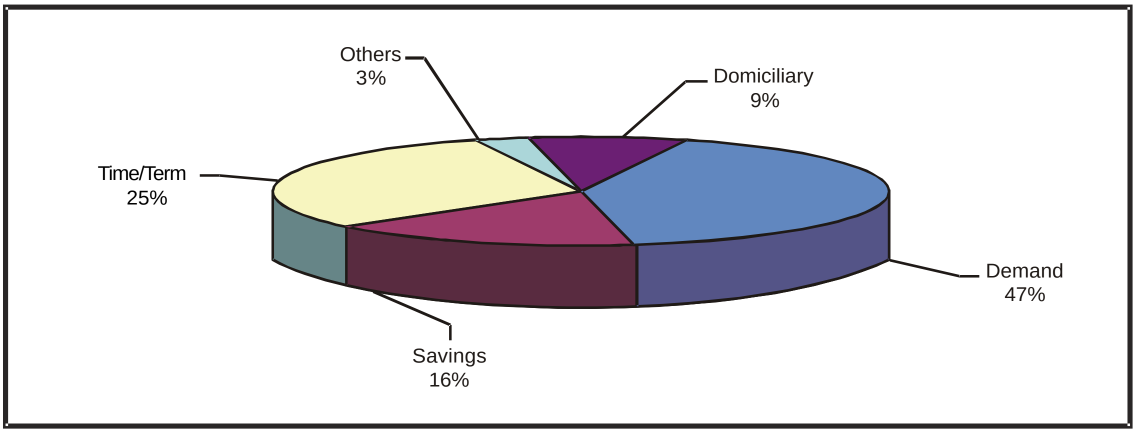
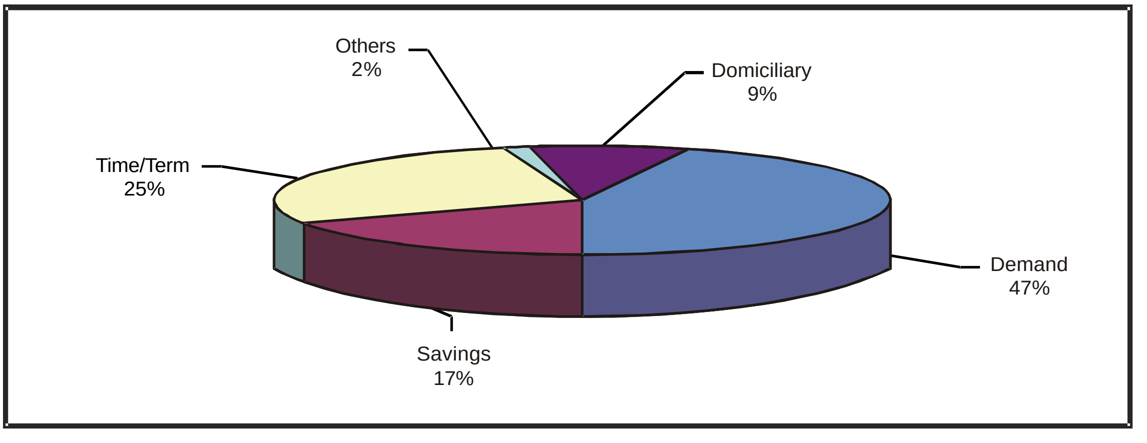
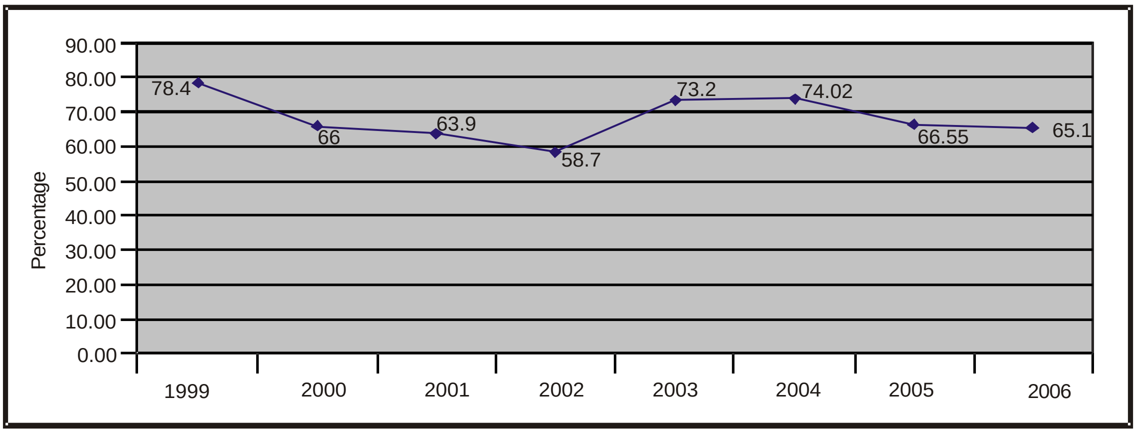


Figure 18
Composition of Deposits in 2006



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, placement with discount houses and collaterized inter-bank placements. The average liquidity ratio for the industry was 65.08 percent as at December 2006.

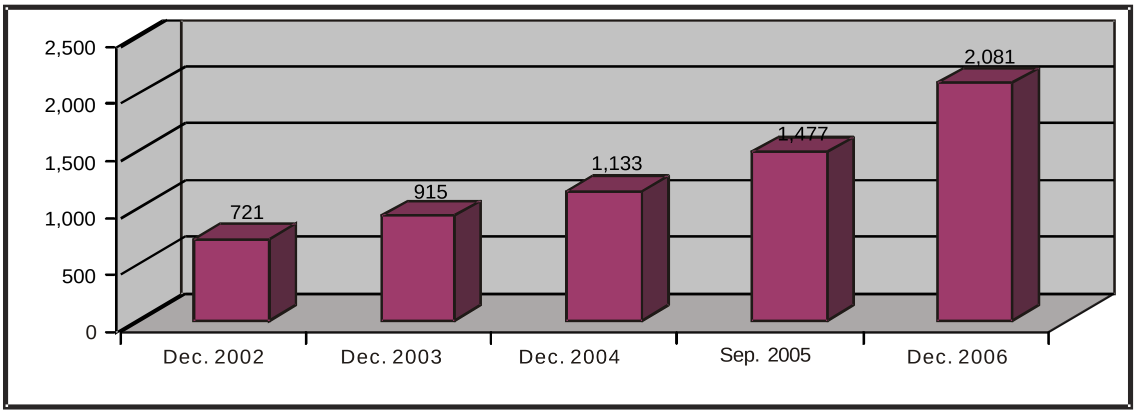
Figure 19
Aggregate Credit to Deposit Ratio
(End December)



6.03 ASSETS QUALITY IN BANKS

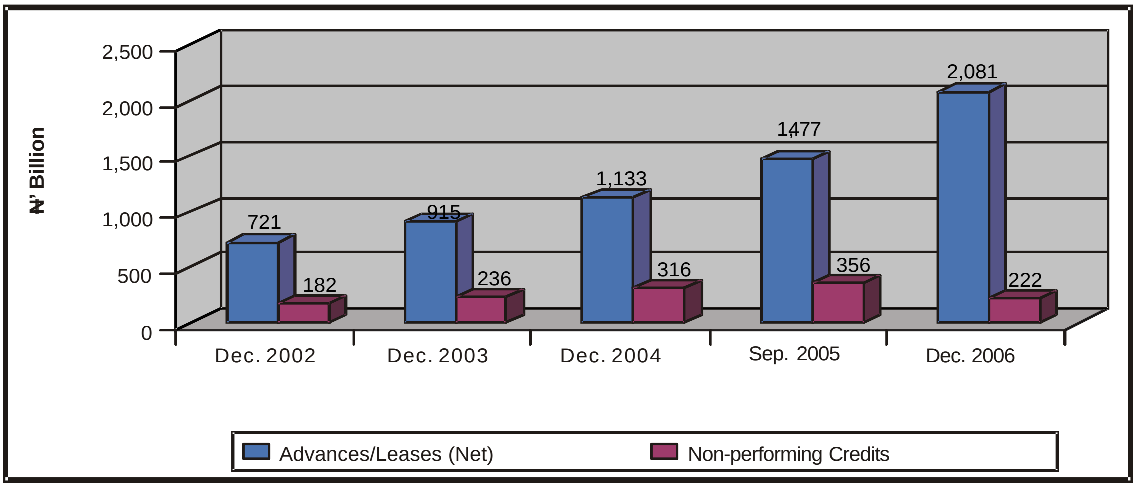
The assets quality of the banking sector improved marginally in 2006. As in the previous years, loans and advances, which stood at x2.1 trillion as at December 2006, and constituted 30.9 percent of the banking sector aggregate assets of x6.7 trillion, were the largest earning assets during the period. Total credit recorded a growth rate of 12.8 percent in 2002; 26.9 percent in 2003; 23.8 percent in 2004; 30.3 percent in 2005; and 40.9 percent in 2006.

Figure 20
Loans & Advances and Growth Rate



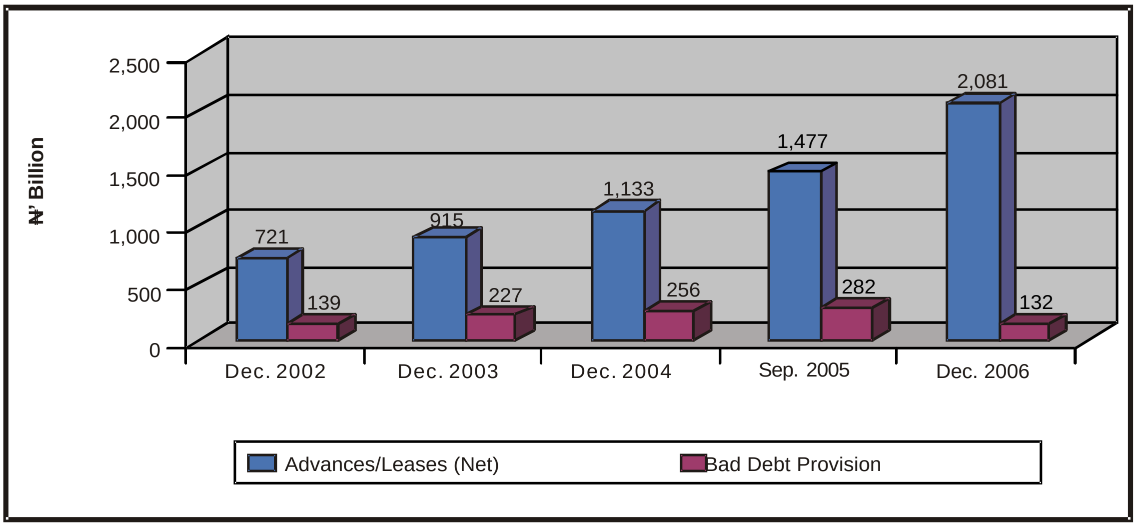
The non-performing credits, however, decreased fromx0.4 trillion in 2005 to x0.2 trillion in 2006. The ratio of non-performing credits to total credits of 8.77 percent during the review period was far below the trigger level of 35 percent for setting up a Crisis Management Unit as stipulated in the Contingency Planning Framework for Systemic Distress. The ratio was, however, lower than 20.5 percent, 21.6 percent and 24.1 percent recorded in December 2003, 2004 and 2005, respectively.

Figure 21
Non-Performing Credits to Total Credits



Provision for bad and doubtful debts which grew from x0.1 trillion in 2002 to x0.2 trillion in 2003, x0.3 trillion in 2004 and x0.3 trillion in September 2005, however, decreased to x0.11 trillion in 2006. It recorded an annual decrease of 53.2 percent in 2006. The ratio of bad debt provision to total credits increased from 14.9 percent in 2002 to 24.8 percent in 2003. It, however, decreased to 22.6 percent in 2004, 19.1 percent in 2005 and 6.3 percent in 2006.

Figure 22
Bad Debt Provision to Total Credits



6.04 BANKS CAPITAL ADEQUACY

As at the end of December 2006, all the 25 banks met the required minimum shareholders' funds of x25 billion. Against the risk-weighted assets level of x4.6 trillion, the total qualifying capital of x1.0 trillion, represented a capital adequacy ratio (CAR) of 22.6 percent. This position was satisfactory when compared with the required minimum CAR of 10 percent. Also, the capital adequacy ratio recorded an increase when compared with 17.8 percent recorded in December, 2005. The increase was as a result of the significant growth in operating capital achieved after the consolidation programme.

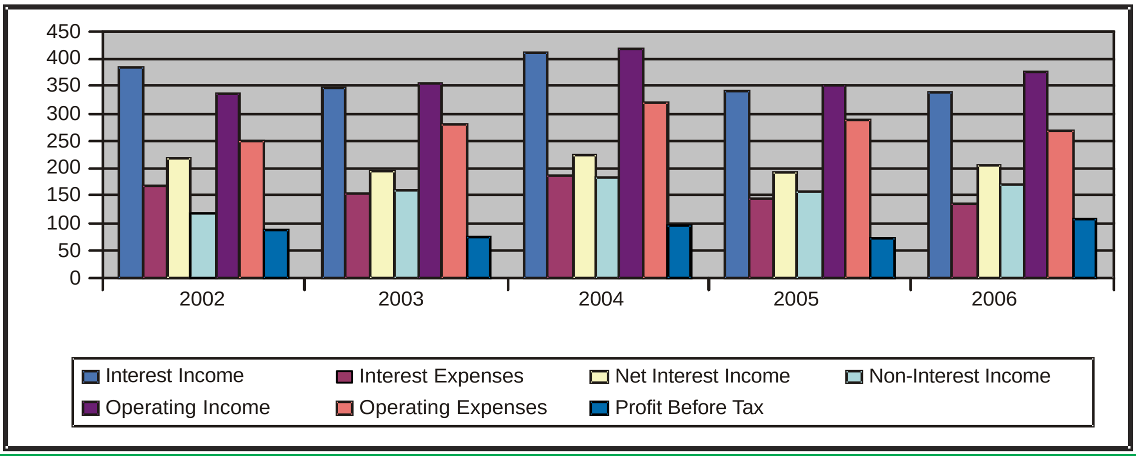
6.05 EARNINGS AND PROFITABILITY OF BANKS

All the earnings and profitability indices showed that the total revenue of the banking industry in 2006, increased relative to 2005. The improved revenue reflected largely the increase in net interest incomex(0.01 trillion), non interest income (x0.012 trillion) and profit before tax (x0.04 trillion).

Table 2
Earnings and Profitability of Banks
(End December)

	2002 Amount x billion	2003 Amount x billion	2004 Amount x billion	2005 Amount x billion	2006 Amount x billion	2003	2004	2005	2006
						Percentage Growth			
Interest Income	386	349	412	340	339	-9.59	18.05	-17.48	-0.29
Interest Expenses	168	154	188	147	135	-8.33	22.08	-21.81	-8.16
Net Interest Income	218	195	224	193	204	-10.55	14.87	-13.84	5.70
Non-Interest Income	118	161	184	159	171	36.44	14.29	-13.59	7.55
Operating Income	336	356	418	352	375	5.95	17.42	-15.79	6.53
Operating Expenses	250	282	322	290	270	12.80	14.18	-9.94	-6.90
Profit Before Tax	86	74	96	72	108	-14	29.73	-25	50.00

Figure 23
Earnings and Profitability of Banks
(End December)



6.06 MARKET SHARE OF THE TEN LARGEST BANKS

In 2006, First Bank of Nigeria (FBN) Plc had the highest asset and deposit base followed by Zenith Bank Plc while Intercontinental Bank Plc had the highest equity capital base and also followed by Zenith Bank Plc, contrary to the position in 2005, when FBN had the largest asset base and United Bank for Africa (UBA) Plc had the largest capital and deposit base.

During the same period, the ten largest banks, ranked according to their assets base, held 72.3 percent of the banking system total assets and 71.5 percent of the industry deposit liabilities as against 58.4 percent and 63 percent of assets and deposit liabilities, respectively, in 2005. Also, their share of total credits increased slightly from 52 percent in 2005 to 66.6 percent in 2006. In terms of capitalization, the ten big banks controlled 58.5 percent as against 59 percent in 2005.

Table 3
Market Share of the Ten Largest Banks

	BANK	Total Assets x' billion	Market Share Percent	Capital & Reserves x' billion	Market Share Percent	Total Deposit x' billion	Market Share Percent	Total Credit x' billion	Market Share Percent
1	First Bank Of Nigeria Plc	1275	18.92	59.00	5.66	497	14.44	164	7.88
2	Zenith Bank Plc	708	10.51	95.32	9.15	422	12.26	236	11.34
3	Union Bank Of Nigeria	629	9.34	94.01	9.03	209	6.07	163	7.83
4	Intercontinental Bank Plc	525	7.79	145.52	13.97	305	8.86	263	12.64
5	United Bank for Africa Plc	443	6.57	47.62	4.57	266	7.73	77	3.70
6	Guaranty Trust Bank Plc	325	4.82	36.42	3.50	192	5.58	791	3.80
7	Oceanic Bank International Plc	305	4.53	36.51	3.51	222	6.45	23	5.91
8	Diamond Bank Plc	234	3.47	34.97	3.36	132	3.83	102	4.90
9	Access Bank Plc	233	3.46	28.89	2.77	97	2.82	88	4.23
10	Skye Bank Plc	194	2.88	31.47	3.02	119	3.46	91	4.37
	Total	**4,871**	72.29	**609.73**	58.54	**2,461**	71.50	**1,386**	66.60
	Industry	**6,738**	100.00	**1041.52**	100.00	**3,442**	100.00	**2,081**	100.00

Source: eFASS, CBN

Figure 24
Market Share of Assets by the Ten Largest Banks in Nigeria in 2006

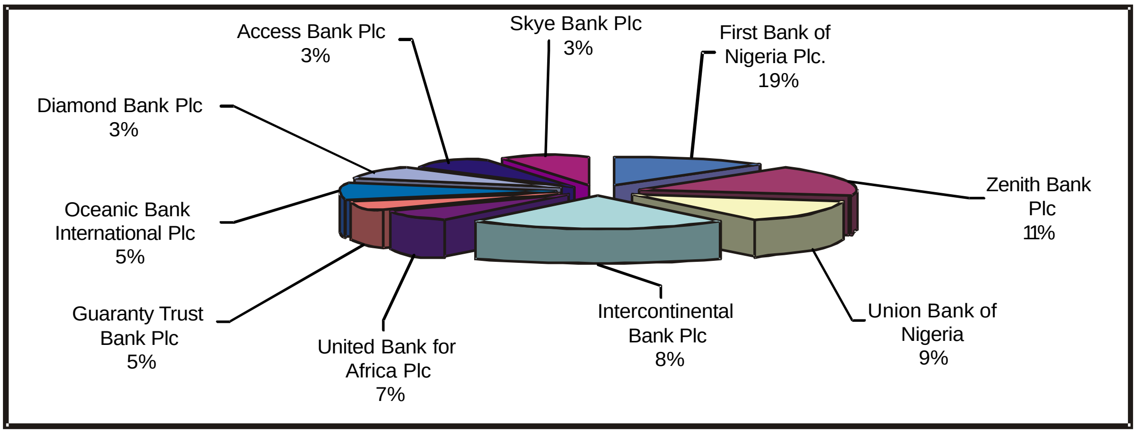


Figure 25
Market Share of Deposit Liabilities by the Ten Largest Banks in Nigeria in 2006

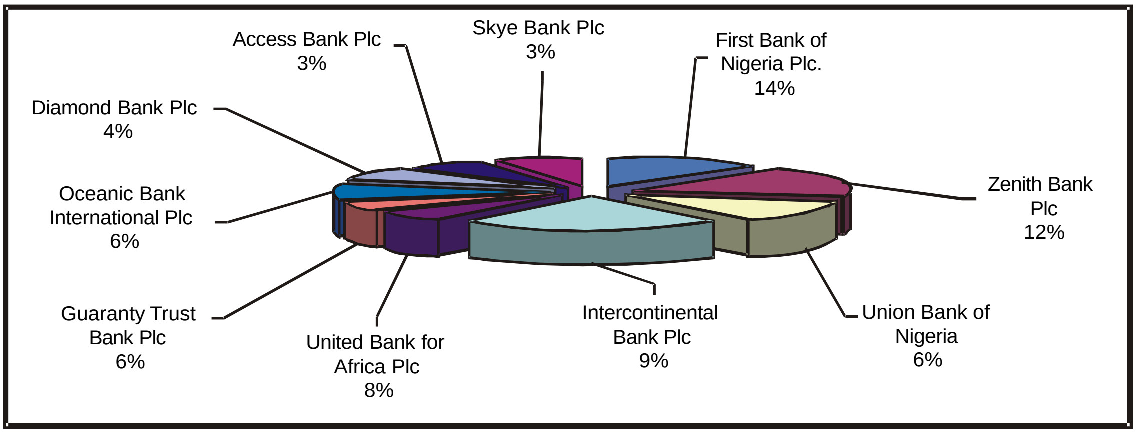


Figure 26
Market Share of Credit by the Ten Largest Banks in Nigeria in 2006

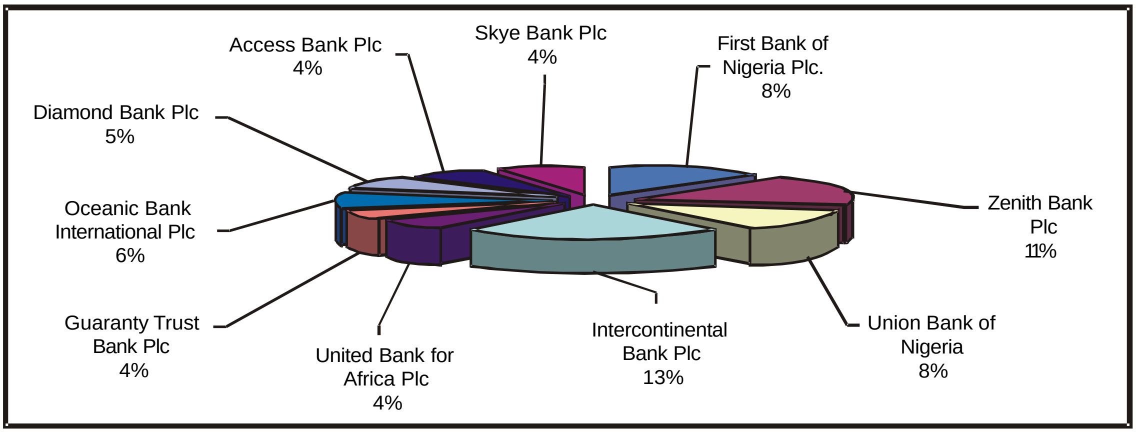


Figure 27
Market Share of Total Unimpaired Capital by the Ten Largest Banks in Nigeria in 2006

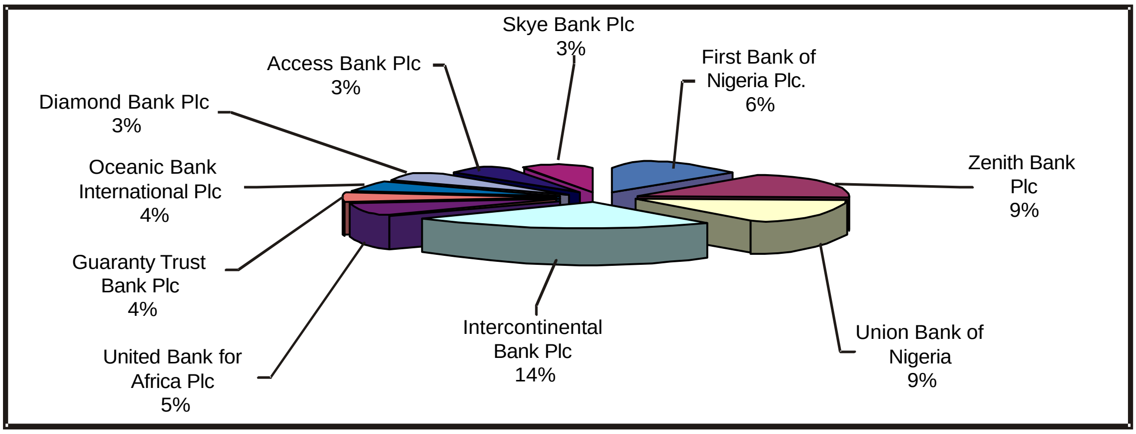
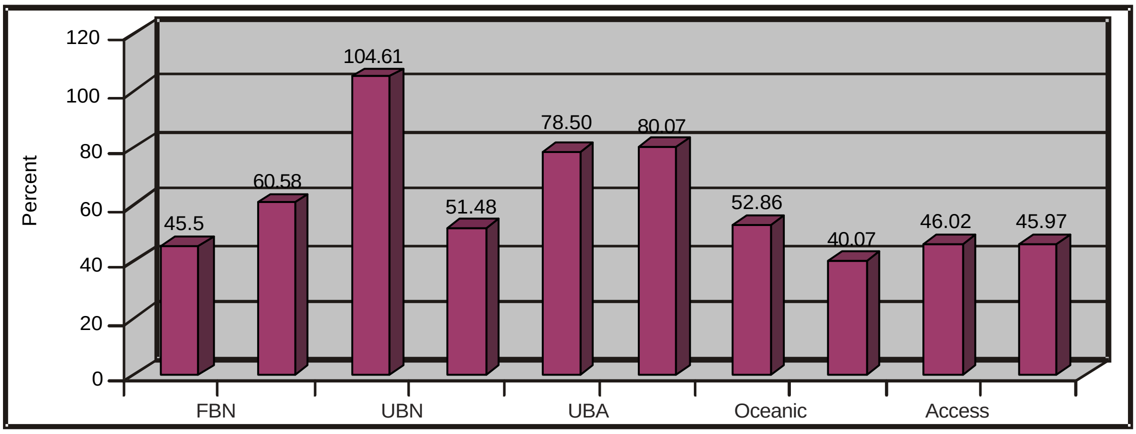


Figure 28
Liquidity Ratio of the Top Ten Largest Banks In Nigeria In 2006



6.07 EFFICIENCY OF OPERATIONS IN BANKS

The efficiency of operations in the banking industry declined in 2006. In terms of pricing and yield on earnings assets, the industry recorded a ratio of 8.4 percent in 2006, as against 9.9 percent in 2005. The banking industry also recorded a very low return on assets and equity to the tune of 1.6 percent and 10.6 percent, respectively, in 2006. The table below highlights the various ratios which measure the operating efficiency of the banks.

Table 4
Efficiency of Nigerian Banks in 2002 to 2006
(Percent)

Efficiency Measures	2002	2003	2004	2005	2006
Net Interest Margin	56.48	55.87	54.37	5.59	60.15
Yield on Earnings Assets	6.42	4.74	14.17	9.85	8.35
Return on Assets	3.47	2.67	3.12	1.85	1.61
Return on Equity	36.60	25.52	27.35	12.97	10.6
Efficiency Ratio	49.60	49.02	77.03	39.97	71.43

Source: eFASS, CBN

Figure 29
Pricing and Yield on Earning Assets of Banks

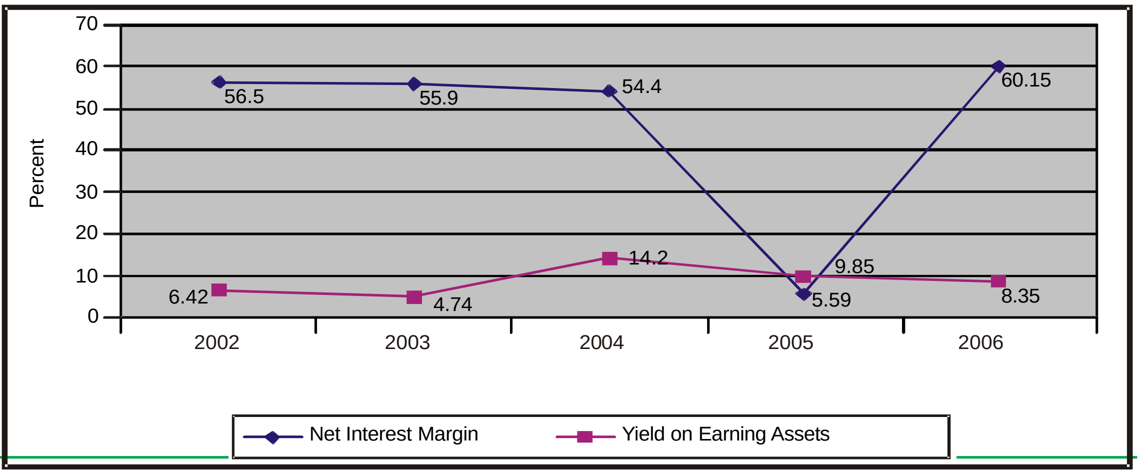
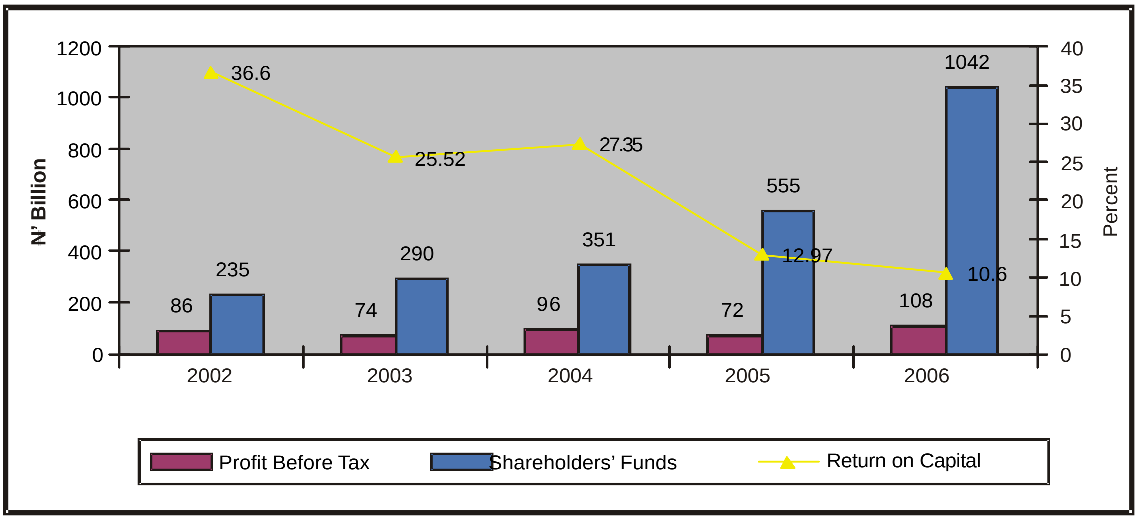
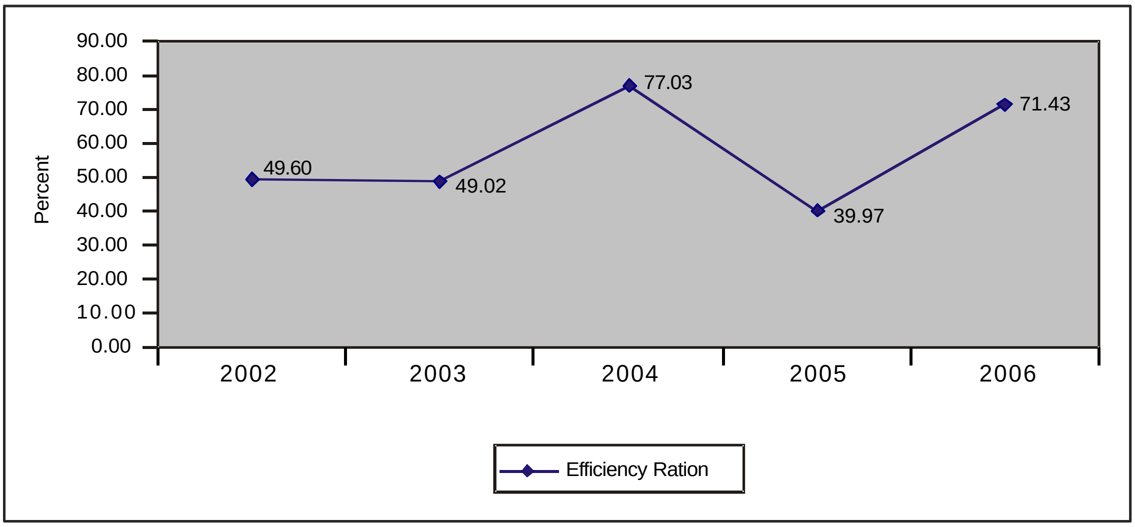


Figure 30
Return on Capital Employed



In terms of cost efficiency, it recorded marginal performance in 2006 relative to 2005. The cost efficiency ratio, which is a measure of operating expenses against operating income, was 71.4 percent in 2006 as against 40 percent in 2005.

Figure 31
Efficiency Ratio of the Banking System



6.08 TRENDS IN OTHER FINANCIAL INSTITUTIONS SUB-SECTOR IN 2006

All the key financial indicators of institutions in the OFIs sub-sector exhibited general growth in 2006. The trend in various institution types are highlighted below:

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

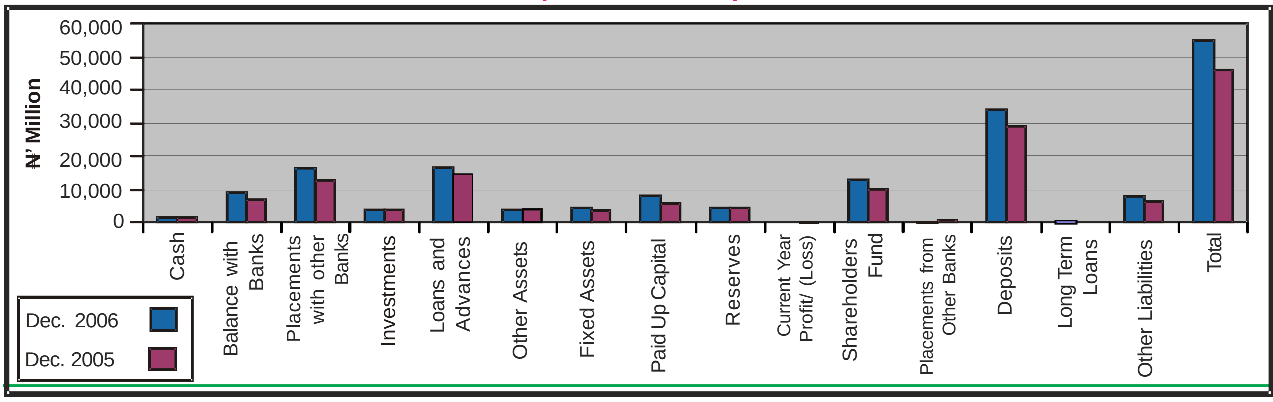
The total assets/ liabilities of the reporting CBs increased from x46.1 billion in 2005 to x55.1 billion in 2006, indicating an increase of x9.0 billion or 19.5 percent. The paid-up share capital increased by 43.7 percent from x5.8 billion in 2005 to x8.3 billion 2006, while the shareholders' fund increased by 23.9 percent from x10.3 billion in 2005 to x12.7 billion in 2006. Loans and advances granted by the reporting banks increased from x14.6 billion in 2005 to x16.5 billion in 2006, indicating an increase of 13.4 percent while investments rose to x3.9 billion in 2006 from x3.6 billion in 2005. Table 5 and figure 32 indicate the aggregate financial statistics of the CB/MFB sub-sector.

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

ASSETS	2006 x'000	PERCENT	2005 x'000	PERCENT	VARIANCE N'000	PERCENT CHANGE
Cash	1,326,530	2.4	1,188,870	2.6	137,660	11.58
Balance with Banks	8,916,057	16.2	6,655,253	14.4	2,260,804	33.97
Placements with Other Banks	16,336,033	29.7	12,659,724	27.5	3,676,309	29.04
Investments	3,868,176	7.0	3,594,136	7.8	274,040	7.62
Net Loans and Advances	16,498,646	30.0	14,547,435	31.6	1,951,211	13.41
Other Assets	3,657,646	6.6	3,970,210	8.6	(312,564)	(7.87)
Fixed Assets	4,453,018	8.1	3,447,088	7.5	1,005,930	29.18
TOTAL ASSETS	55,056,106	100.0	46,062,716	100.0	8,993,390	19.52
FINANCED BY:						
Paid-up Capital	8,303,005	15.1	5,776,486	12.5	2,526,519	43.74
Reserves	4,316,915	7.8	4,277,650	9.3	39,265	0.92
Current Year Profit/Loss	128,719	0.2	222,570	0.5	(93,851)	(42.17)
Shareholders' Fund	12,748,639		10,276,706		2,471,933	24.05
Placements from Other Banks	482,870	0.9	546,887	1.2	(64,017)	(11.71)
Deposits	34,008,796	61.8	28,723,438	62.4	5,285,358	18.40
Long Term Loans	185,889	0.3	94,454	0.2	91,435	96.80
Other Liabilities	7,629,912	13.9	6,421,231	13.9	1,208,681	18.82
TOTAL LIABILITIES	55,056,106	100.0	46,062,716	100.0	8,993,390	19.52

Source: Community Banks Quarterly Returns

Figure 32
Assets And Liabilities Of Community Banks
(End December)



CENTRAL BANK
OF NIGERIA

a) Primary Mortgage Institutions (PMIs)

The total assets of PMIs, which stood at N99.9billion as at 31st December 2005, rose by 14.5 percent to x114.4 billion in 2006. The investible funds accruing to the PMIs totaled x14.9 billion compared with x19.9 billion in 2005. The funds were sourced mainly from capital (x2.5 billion), reserves (1.3 billion), deposits (x1.9 billion), placements from banks (x2.1 billion), long-term loans/NHF (x2.8 billion) and other liabilities (x3.6 billion). The inflows were utilized to increase bank balances (x6.0 billion) and loans advances (x7.5 billion).

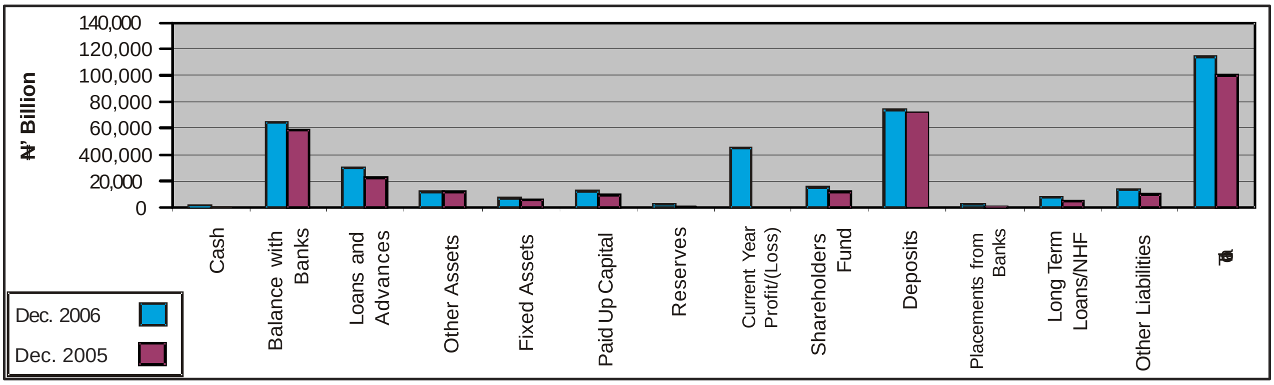
Total capitalization of the PMI sub-sector rose from x11.6 billion in 2005 to x15.6 billion in 2006, representing an increase of 34.5 percent. Table 6 and figure 33 give the aggregate financial statistics of the PMI sub-sector.

Table 6
Assets And Liabilities Of Primary Mortgage Institutions
(End December)

ASSETS	DEC. 2006 x '000	PERCENT	DEC. 2005 x '000	PERCENT	VARIANCE x '000	PERCENT CHANGE
Cash	1,301,848	1.1	785,993	0.8	515,855	65.6
Balances with Banks	64,576,370	56.5	58,581,571	58.6	5,994,799	10.2
Loans and Advances	30,013,573	26.2	22,473,750	22.5	7,539,823	33.5
Other Assets	11,653,692	10.2	12,131,850	12.1	(478,158)	(3.9)
Fixed Assets	6,847,925	6.0	6,007,175	6.0	840,750	14.0
TOTAL	114,393,408	100.0	99,980,339	100.0	14,413,069	14.4
FINANCED BY:						
Paid-up Capital	12,566,029	11.0	10,071,062	10.0	2,494,967	24.8
Reserves	2,941,055	2.6	1,670,753	1.7	1,270,302	76.0
Current Year Profit/(Loss)	44,565	0.0	(140,101)	0.0	184,666	(131.8)
Shareholders' Fund	15,551,649		11,601,714		3,949,935	34.0
Deposits	74,214,803	64.9	72,330,376	72.3	1,884,427	2.6
Placements from Banks	3,096,488	2.7	1,000,833	1.0	2,095,655	209.4
Long Term Loans/NHF	7,562,238	6.6	4,723,578	4.7	2,838,660	60.1
Other Liabilities	13,968,230	12.2	10,323,838	10.3	3,644,392	35.3
TOTAL	114,393,408	100.0	99,980,339	100.0	14,413,069	14.4

Source: Primary Mortgage Monthly Returns

Figure 33
Assets And Liabilities Of Primary Mortgage Institutions
(End December)



a) Finance Companies (FCs)

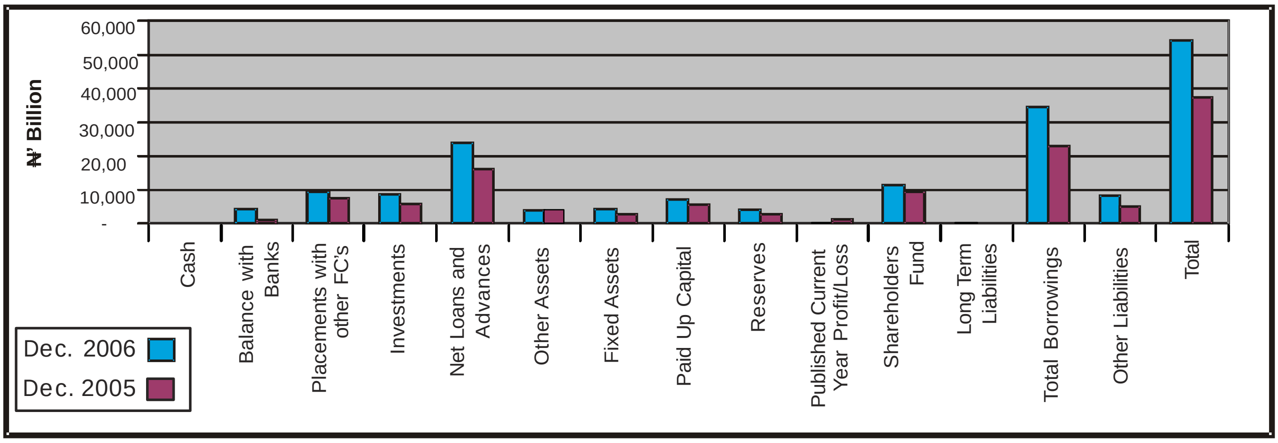
Fifty-nine of the 112 licenced FCs rendered returns in 2006, compared with 81 in 2005. The total assets/ liabilities of the FCs increased from ₦37.5 billion in 2005 to ₦54.3 billion in 2006, representing an increase of 44.8 percent. Investible funds available to the FCs in the year amounted to ₦17.9 billion. The funds were sourced mainly from borrowings which increased by ₦11.9 billion, capital and reserves ₦2.9 billion and a growth in the other liabilities of ₦3.0 billion. The accrued funds were used to fund balances with banks (₦3.1 billion) and loans and advances (₦7.6 billion).

Assets And Liabilities Of Finance Companies
(End December)

ASSETS	2006 x '000	PERCENT	2005 x '000	PERCENT	VARIANCE x '000	PERCENT CHANGE
Cash	21,684	0.1	60,618	0.1	(38,934)	(64.23)
Balances with Banks	4,199,028	7.7	1,084,537	2.9	3,114,491	287.17
Placements with Other FC's	9,293,376	17.1	7,431,038	19.8	1,862,338	25.06
Investments	8,755,126	16.1	5,756,399	15.4	2,998,727	52.09
Net Loans and Advances	23,845,759	43.9	16,251,347	43.4	7,594,412	46.73
Other Assets	3,861,801	7.1	2,801,393	7.5	1,060,408	37.85
Fixed Assets	4,341,274	8.0	4,075,381	10.9	265,893	6.52
TOTAL	54,318,048	100.0	37,460,713	100.0	16,857,335	45.00
FINANCED BY:						
Paid-up Capital	7,098,869	13.1	5,456,107	14.6	1,642,762	30.11
Reserves	4,086,748	7.5	2,853,305	7.6	1,233,443	43.23
Published Current Year Profit/Loss	185,782	0.3	1,177,197	3.1	(991,415)	(84.22)
Shareholders' Fund	11,371,399		9,486,609	0.0	1,884,790	19.87
Long Term Liabilities	147,470	0.3	-	60.9	147,470	-
Total Borrowings	34,647,122	63.8	22,797,506	13.8	11,849,616	51.89
Other Liabilities	8,152,057	15.0	5,176,598		2,975,459	57.48
TOTAL	54,318,048	100.0	37,460,713	100.0	16,857,335	45.00

Source: Finance Company Quarterly Returns

Figure 34
Assets And Liabilities Of Finance Companies
(End December)



d) Development Finance Institutions (DFIs)

The five Development Finance Institutions (DFIs) under the supervisory purview of the CBN: 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), recorded mixed performance in 2006. Specifically, returns were received from five DFIs in contrast to four in the preceding year. The total assets of the five reporting DFIs showed an increase of x34.2 billion, or 45.1 percent, over the level in the preceding year. Analysis of the aggregate asset base of the five institutions also indicated that NACRDB accounted for x40.9 billion or 37.2 percent of the total assets, while FMBN, NEXIM, BOI and UDB, respectively, recorded 34.8 percent, 16.1 percent, 11.0 percent and 1.0 percent of the total assets.

Cumulative loan disbursements by the five institutions increased marginally from x168.1 billion in 2005 to N169.7 billion, representing an increase of x1.6 billion, or 0.9 percent during the review period. The composition of the loan disbursements indicated that UDB had the highest loan facility, with a total of x128.2 billion or 75.6 percent. NACRDB, FMBN, NEXIM and BOI accounted for x17.2 billion or 10.2 percent, x9.8 billion or 5.8 percent, x8.0 billion or 4.7 percent and x6.4 billion or 3.8 percent, respectively.

With the exception of BOI, the general deteriorating trend in asset quality continued as the decline in the ratio of performing assets to non-performing assets increased in 2006.

The combined capitalization for the five DFIs stood at x21.8 billion as at December 31, 2006. The paid-up share capital of NEXIM however, increased by x3.8 billion from x6.7 billion in 2005, to x10.5 billion in 2006, through additional capital injection by the MOFI and the CBN. Shareholders funds in FMBN and NACRDB were negative.

Chapter Seven

CAPACITY BUILDING FOR SUPERVISION

1.01 TRAINING AND DEVELOPMENT

The CBN continued to place emphasis on building the capacity of its supervisors, especially in risk-based supervision and microfinance banking.

Local Courses

As part of the capacity building efforts of the CBN, 131 bank supervisors attended various local courses including Risk-based Supervision, Supervision of Microfinance Institutions and all levels of Bank Examiners' courses.

Attention was also given to the training of bank supervisors on the use of eFASS, which is a new IT initiative to enhance financial sector surveillance.

Overseas Courses

Sixty-three supervisors attended various foreign courses. These included the Examination Management, Loan Analysis, Introduction to Examination schools organized by the Federal Deposit Insurance Corporation, USA; The Leadership Programme of the Toronto International Leadership Centre, Toronto, Canada; Risk-based Supervision course organized by the Office of the Superintendent of Financial Institutions, Ottawa, Canada; and the Introduction to Microfinance course run by the School of Applied Microfinance, Kenya.

The CBN would continue to sustain its efforts at capacity building in order to adequately equip supervisors to cope with the increasing challenges of supervision.

7.02 2006 BANK EXAMINERS' CONFERENCE

The Bank Examiners' Conference, which was originally slated to hold in November, 2006, had to be shifted, due to logistic reasons. The conference was, therefore, held at the Gateway Hotels, Abeokuta, from February 14 to 16, 2007, with the theme **Post-Consolidation Challenges**.

The Director, Banking Supervision Department, delivered the welcome address in which he recalled that prior to the banking industry consolidation, the banking system was plagued by numerous structural and operational problems. He noted that the reform was intended not only to address the problems but also to reposition the banks to effectively compete in the global financial market. He reminded Examiners that though the programme had turned around the banking system and changed the financial landscape for the better, the challenges to sustain the momentum and deal with post-consolidation issues are enormous. These challenges, he said, include the implementation of risk-based supervision, consolidated supervision of banking groups, enforcement of the code of corporate governance, adoption of the new capital accord, implementation of the new regulations in the foreign exchange market and the enforcement of the contingency planning framework for systemic banking distress. He, therefore, urged the Examiners to use the conference as an opportunity to exchange ideas and explore ways of moving the banking industry and the entire financial system forward.

In his goodwill message, Mr. G. A. Ogunleye, the Managing Director, Nigeria Deposit Insurance Corporation (NDIC), noted that the bank consolidation programme has brought to the fore the need for effective collaboration among safety-net participants. He further observed that the first phase of the consolidation programme was a success and all those who participated in the process deserved commendation. He, however, noted that there are post-consolidation challenges that we must all work together to address. He opined that the Code of Corporate Governance issued by the CBN would assist in overcoming the emerging challenges.

In his keynote address titled **Building on Our Integrity and Competence and Reaching for New Heights**, the Governor of the CBN, Professor Chukwuma Soludo, represented by Mr. Tunde Lemo, Deputy Governor, Financial Sector Surveillance, observed that the Banking Supervision Department has played, and continues to play, a vital role in fulfilling one of the core mandates of the CBN- the promotion of a safe and sound banking system. He explained that the consolidation programme was a huge success culminating in positive international rating of Nigerian banks. According to him, 20 of the 25 Nigerian banks are now in the top 100 banks in Africa; 17 are in the top 40 banks; four are among the top 10 in Africa while 17 are in the top 1000 in the world. He observed that the programme has thrown up enormous challenges, which included implementing a risk-based supervision framework consistent with international best practice; adoption of the Basel II capital framework to strengthen financial stability by encouraging sound risk management practices; and developing strong codes and standards to enhance public perception and confidence in the regulator. He, therefore, advised that banking supervision should be part of the safeguard against banking system crisis and urged Examiners to discharge their duties in a manner that is consistent with the core mandate of promoting the soundness and stability of the financial system.

In addition to the paper on the main theme, five others were presented, namely: Implementing Risk-Based Supervision: Challenges and Prospects; The Challenges of Monitoring Compliance with Corporate Governance in Financial Institutions; Overcoming the Challenges of Integration in the Consolidated Nigerian Banking Industry; Impact of Banking Sector Reform on the Nigerian Economy; and Consolidated Supervision of Banks: Challenges for the Regulators. Also, a paper on the Monetary Policy Implementation Framework was presented by Dr. (Mrs.) S. Alade, Director, Banking Operations Department, CBN.

The Managing Director/Chief Executive Officer of UBA Plc, Mr. Tony Elumelu, MFR, presented the theme paper titled **Post-Consolidation Challenges** in which he looked at the post-consolidation challenges from the point of view of the industry operators, regulatory agencies and other stakeholders, and summarised that the real post-consolidation challenge is in the ability of the Nigerian banking sector to:

- support larger and deeper financial markets that can handle multiple and large-ticket dollar deals;
- better integrate our economy with the global financial system;
- create a leading African competitive financial system, in terms of, efficiency, depth and reach;
- support the local economy with loans sourced locally and overseas;
- take active steps to promote reinvestment in the industry to sustain, enrich and deepen growth; and
- strengthen risk management frameworks;

He suggested an assessment of the impact of consolidation on the behavior of market operators with a view to ensuring that actions taken so far were geared towards the long term sustainability of the industry. He called for the full and accelerated implementation and coordination, among all regulatory bodies, of the post-consolidation support programmes.

The second paper,**Implementing Risk-Based Supervision: Challenges and Prospects**, was presented by the Managing Director, H. Pierson Associates and Regional Director, Global Association of Risk Professionals, Mrs. Eileen C. Shaiyen. She noted that the main supervisory objectives of the RBS framework is to promote stability and soundness of the banking system and ensure consumer protection while the RBS was fashioned to sharpen supervisory focus on the activities or institutions that pose the greatest risk to banks and other financial institutions and/or the financial system.

In her paper, **The Challenges of Monitoring Compliance with Corporate Governance (best practices) in Financial Institutions**, Mrs. Affiong M. Amana, Managing Director, Pulse Communications Limited observed that without a system of laws guiding communal existence and organizational operations, every society or organization tends to move towards disorder. It is, therefore, essential to establish and communicate the principles of governance and put in place a system of checks and balances to ensure commitment to compliance with the laws governing corporate or communal existence. She reviewed the role of Bank Examiners in compliance monitoring and advised that they should apply themselves to the task of working closely with the Internal Control Department of banks as well as the Board of Directors to ensure that appropriate governance and risk management processes are put in place. According to her, it is the duty of Bank Examiners to discuss with not just the management but the Board of Directors through specific Board Committees problems detected during supervision. She added that monitoring compliance is a collective responsibility and urged the CBN to forge and strengthen partnerships with relevant institutions to ensure a complete and effective monitoring of compliance in the financial system.

The fourth paper, **Overcoming the Challenges of Integration in the Consolidated Nigerian Banking Industry**, was presented by Mr. Mike Chukwu, Managing Director/Chief Executive Officer, Spring Bank Plc. He reviewed the challenges inherent in the various elements of post-consolidation integration process which include strategy, branding, information/communication technology system, banking operations and processes, infrastructure, people and culture, customer retention/harmonization, risk management, legal and regulatory issues arising from the consolidation and rationalization of subsidiaries. In order to overcome these challenges, he said, the following ingredients are key to the successful implementation of the integration process:

- harmony in the Board of Directors;
- competent and open-minded Executive Management;
- focus on the business-import of the integration process by all concerned;
- speedy execution of the integration strategy;
- customer loyalty and understanding; and
- support of the regulators.

The Managing Director/Chief Executive Officer, Guaranty Trust Bank Plc, Mr. Tayo Aderinokun, presented the fifth paper, **Impact of Banking Sector Reform on the Nigerian Economy**. He stated that the current banking reform agenda was designed to strengthen all areas of banking, although the recapitalization issue ultimately took the centre stage. He reviewed the gains and pains of the reform and concluded that Nigeria's image has been positively enhanced by the implementation of the reform. He, however, pointed out that the banking sector alone cannot develop the Nigerian economy; there has to be significant improvement in other sectors, particularly infrastructure, power and energy, education, health, transportation, security and the legal framework. He advised that the CBN should endeavour to vigorously pursue all the 13-point agenda of July, 2004, so as to ensure that the reform exercise is not just a one-stop action.

In his paper, **Consolidated Supervision: Challenges to the Regulators**, Dr. J.A. Afolabi, Deputy Director, Research Department, NDIC explained that consolidated supervision is a comprehensive approach to banking supervision, which seeks to evaluate the strength of an entire group, taking into account all the risks, which may affect a bank, regardless of whether such risks are carried in the books of the bank or the related entities. He said effective consolidation means that the supervisor must be aware of the ownership structure, the overall organizational structure, corporate governance and risk management systems and all material risks within a financial conglomerate. He reviewed the historical perspective of and issues in consolidated supervision and concluded that the implementation of consolidated supervision comes with challenges, which should be addressed to facilitate the institutionalization of the system.

He opined that the challenges of consolidated supervision are enormous and shall continue to be on the upward trend because of the ever growing tendencies and complications of the financial landscape. He called for the immediate completion of the development of an appropriate framework for consolidated supervision and advised that the accounting and banking professions and all the relevant agencies should further articulate standards to facilitate effective implementation of the new supervisory approach.

Generally, the conference afforded Examiners ample opportunity to brainstorm and interact with themselves, on the one hand and the operators, on the other. The next conference/retreat comes up in October, 2007.

7.03 2006 OFID RETREAT

Introduction

The Other Financial Institutions Department (OFID), held its 2006 retreat at the Gateway Hotels, Abeokuta, Ogun State from November 9 -12, 2006. The theme of the retreat was **"The Other Financial Institutions Sub-sector and Year 2020: Challenges for OFID"**

The main objectives of the retreat were to:

- create a shared understanding among staff of the department, of the potential challenges in view of sectoral reforms;
- develop major strategies and action plans to deal with these challenges; and
- enhance inter-personal interaction and teamwork within the department.

The Director of OFID, Chief S. A. Oni, delivered the welcome address in which he noted that participants were at the retreat to, among others, proactively envision the challenges ahead in the light of the ongoing reforms in the sub-sector. He highlighted some of the challenges which should agitate the minds of supervisors, such as the adoption of risk-based supervision and consolidated supervision. He then urged examiners to use the retreat as an opportunity to articulate candid ideas on all issues pertinent to the effective execution of the OFID mandate.

In his keynote address, Mr. Tunde Lemo, the Deputy Governor, Financial Sector Surveillance, noted that the Department's objectives, as articulated in its previous retreat, largely influenced the redefined mandate of the department. He, therefore, considered the 2006 retreat as an opportunity to reappraise the level of achievement of the goals/targets set at the previous retreat. He stated that the CBN, in collaboration with relevant stakeholders, had initiated some measures aimed at repositioning the Nigerian economy to become the hub of economic activities in Africa by 2020.

The Director, OFID, presented the theme paper, titled **"Challenges of OFI Regulation and the Future Direction"** in which he reviewed the general features of OFIs, current supervisory process, future outlook of OFIs, future regulatory and supervisory challenges and the techniques to be adopted to address the challenges. He posited that to develop appropriate regulatory and supervisory framework, the recommendation of the Basel II, would be generally adopted, addressing in the main, the three key pillars of minimum capital requirement, supervisory review process and market discipline.
The following papers were also presented at the Retreat:

- Primary Mortgage Institutions and Housing Delivery in 2020.
- Development Finance Institutions and the Adoption of Appropriate Prudential Standards/Guidelines.
- Accessibility to Financial Services by the Poor on a Sustainable Basis.
- Redefining the Role of Finance Companies in the Nigerian Financial System.
- Foreign Exchange Liberalization - Regulatory and Supervisory Challenges.

The second paper, **"Primary Mortgage Institutions and Housing Delivery in 2020"**, was presented by the Chief Executive Officer, Crown Realities Limited, Mr. C. Darl Uzu. He evaluated the current sources of housing finance and the need to develop housing finance in Nigeria. He deduced that the key issues in developing mortgage in Nigeria were:

- inefficient mortgage market infrastructure and institutions;
- sources of cheap long-term funds;
- structure of housing delivery; and
- the role of government.

The paper, **"Development Finance Institutions (DFIs) and the Adoption of Appropriate Prudential Standards/Guidelines,"** was presented by Mr. Paul Eluhaiwe, a Deputy Director in Development Finance Department of the CBN.

He noted that the desire to promote rapid economic development and narrow the technological gap between the developed and developing countries through the provision of long term capital led to the establishment of DFIs in many African countries. He, however, observed that DFIs were faced with the challenges of undue political interference, mismanagement, lack of adequate capacity, poor asset quality, dependence on government aid and subvention, lack of sound operational standards, weak corporate governance and lack of risk assessment and mitigation capability. He stressed that the adoption of sector-centric prudential standards/guidelines would go a long way in addressing the challenges.

In his paper, **"Accessibility of Financial Services to the Poor on a Sustainable Basis"**, Dr. Felix Ogbera, Associate Director & Head of Research, Nigerian Economic Summit Group explained that accessibility to finance could be viewed from the angle of 'lack of access'. Thus, availability, cost and range are the key factors in determining accessibility. He then described the active poor as the working poor people who were above the chronic poor person's level and enumerated why accessibility of financial services to the active poor was imperative. Finally, he recommended among others, that particular emphasis should be laid on the targeting of microfinance services to the economically active poor to expand general access to finance in the economy.

Mr. Albert Owolabi, a member of the ICAN Governing Council, in his paper, **"Redefining the Role of Finance Companies in the Nigerian Financial System"**, reviewed the background of finance companies and described them as secondary financial intermediaries, providing complementary services to those of banks in a developing economy. To energise the sub-sector, he proffered that finance companies should be permitted to engage in deposit-taking.

The paper, **"Foreign Exchange Liberalization - Regulatory and Supervisory Challenges"**, presented by Mr. K. O. Adaramewa, a Deputy Director in the Foreign Operations Department of the CBN, traced the Nigerian foreign exchange policy measures and regimes from the pre-SFEM era to the wholesale Dutch Auction System, which were adopted by the monetary authorities to enhance the efficiency in the market. He concluded by noting that it was desirable to create an atmosphere for free competition, while the process of foreign exchange liberalization should be gradual, taking into consideration the nature of the Nigerian economy, which is largely dependent on oil revenue as the main foreign exchange earner.

Three other in-house papers presented at the retreat were as follows:

i. Licensing of Microfinance Institution: The journey so Far by Mr. Femi Fabamwo (Deputy Director, OFID).
ii. Regulatory and Supervisory Challenges in Finance Companies by Mr. Willie Ogumba (Assistant Director, OFID).
iii. Pension Reform Act and its Implication for CBN staff by Mr. A. A. Sowunmi (Deputy Director, Human Resources Department).

The proceedings at the 2006 Retreat further prepared OFID staff for the future challenges of repositioning the OFI sub-sector.

Appendix

Appendix 1

Circulars

09-61636403 website: *www.cenbank.org.*
09-61636418

BSD/04/2006 **March 1, 2006**

TO ALL LICENSED BANKS

CODE OF CORPORATE GOVERNANCE FOR BANKS

The consolidation of the Nigerian banking industry has necessitated a review of the existing corporate governance code in view of the changed banking environment. Consequently, the exposure draft of a new code was released on January 5, 2006 for comments by all stakeholders and subsequently discussed at the meeting of the Bankers Committee on February 21, 2006.

The new code as now been released. To view the document, please visit *http://www.cenbank.org/documents/bsdpublications.asp.*

O.I. IMALA
DIRECTOR OF BANKING SUPERVISION

09-61636403
09-61636418

BSD/05/2006 **March 2, 2006**

CIRCULAR TO ALL BANKS

WAIVER OF TAX ON INTEREST EARNINGS FROM AGRICULTURAL LENDING BY BANKS

It will be recalled that the Bankers' Committee at an emergency meeting of February 6, 2006 agreed to reduce the interest rate on agricultural loans by banks provided that the Government would exempt them from paying tax on the interest earned on such facilities. Similarly, at the stakeholders' meeting on financing of agricultural held on February 7, 2006, this position was upheld and the interest rate on credit to agricultural sector was pegged at 14%.

In order to give effect to the resolution of the stakeholders, the President, C-in-C of the Federal Republic of Nigeria has magnanimously approved tax waiver on interest earnings from agricultural loans for the 2006 fiscal year. In addition, the CBN would subsidize the 14% interest rate for agricultural loans by 6% and the beneficiaries would pay the balance of 8%.

The above is in recognition of the significant role of agricultural sector in sustaining the country's economic growth.

It is hoped that banks would avail themselves of this generous incentive by Mr. President and redouble their efforts at lending to the agricultural sector to enable the Federal Government achieve the target growth rate of ten (10) per cent for the economy for fiscal 2006.

The Chairman of the Federal Inland Revenue Service has been appropriately informed about the directive of Mr. President in this regard.

O. I. IMALA
DIRECTOR OF BANKING SUPERVISION

09-61636403
09-61636418

April 12, 2006

BSD/08/2006

CIRCULAR TO ALL BANKS

THE UNETHICAL AND UNPROFESSIONAL PRACTICE OF DEMARKETING COLLEGUES/OTHER BANKS IN THE INDUSTRY BY SPREADING FALSE RUMOURS

When the banking industry had 89 banks, some of the weak institutions made efforts to demarket others by circulating false distress lists and negative information all in the name of competition. They were then warned at the Bankers Committee followed by CBN clarification to the public.

With the emergence of 25 strong banks, post consolidation and the existing large terrain for all to professionally and profitably do normal banking business for the growth of the economy, such practice is not only unacceptable but condemnable.

Information reaching the CBN indicates that the unethical and unprofessional practice of spreading false stories to demarket other banks has again started to emerge in the system. This shows that that the industry still harbours some operators/officers who still conduct themselves unprofessionally.

Consequently, the CBN hereby **WARNS** the staff of all banks to desist forthwith from this condemnable and unethical practice.

All banks' Chief Executive Officers are advised to **IMMEDIATELY** address all their staff to heed this warning as any proven case of demarketing by any means and spreading false rumours or negative comments against other banks will henceforth the sanctioned as follows:

i. The bank officer(s) involved in the exercise will be dismissed and blacklisted for unethical and unprofessional behaviour, and

ii. The banks' MD/CEO will be issued with a letter of warning by the Governor of the CBN and the letter will be made public, while a re-occurrence could also lead to such CEOs receiving a stiffer sanction.

All are advised to comply in the interest of the industry and the economy.

We are also inviting the general public to report any staff of a bank or banks involved in such unethical conduct to the CBN.

O. I. IMALA
DIRECTOR OF BANKING SUPERVISION

Tel: 09 61636401-3
Fax: 09 616 36418

May 04, 2006

BSD/06/2006

CIRCULAR TO ALL BANKS

CASH/LIQUIDITY MANAGEMENT

Following the recent consolidation of the banking sector, it has become imperative to draw the attention of the management of banks to the need for them to develop and implement robust liquidity management policies. Effective analysis and management of liquidity requires a bank's management to measure the liquidity position of the bank on an ongoing basis and to examine how funding requirements are likely to evolve under various scenarios, including adverse conditions.

In our circular, BSD/10/2003 dated July 31, 2003, we set out the minimum policies and procedures that each bank needed to put in place and apply within its liquidity management program, and the minimum criteria it should employ, to prudently manage and control its liquidity and associated risks. To ensure that the policies conveyed in the guidelines are being implemented, a weekly monitoring of the liquidity position of banks will now be undertaken to emphasize the concerns of the CBN.

Accordingly, banks are required to furnish the CBN with information on their liquid assets and liabilities (as selected) in the attached format. The information as at the end of every week should be faxed to the Director of Banking Supervision Department every Monday morning before 12 noon. Please note that the information will be independently verified through other sources including unscheduled spot checks.

O. I. IMALA
DIRECTOR OF BANKING SUPERVISION

09-61636403
09-61636418

August 16, 2006

BSD/13/06

CIRCULAR TO ALL BANKS AND OTHER FINANCIAL INSTITUTIONS

REPORTING OF SUSPICIOUS OR UNUSUAL TRANSACTIONS INVOLVING TERRORISM TO NIGERIAN FINANCIAL INTELLIGENCE UNIT (NFIU)

Further to our CBN Circular (BSD/08/2005) of April 11, 2005 requesting you to forward Suspicious Transaction Reports (STR) to the NFIU, it has become imperative to clarify that:

i. Suspicious and Unusual Transactions includes potential financing of terrorism; and

ii. Terrorism financing encompasses the use of legitimate or clean funds to commit or attempt to commit, facilitate or participate in the commission of both national and international terrorism.

You are therefore required to report all suspicious and unusual transactions relating to terrorism to NFIU. Any failure to ensure strict compliance wit this directive will be viewed as act of accessory to offences of terrorism in line with section 15 of EFCC (establishment) Act, 2004.

I. D. ABDULLAHI
For: DIRECTOR OF BANKING SUPERVISION

BSD/18/06

August 29, 2006

CIRCULAR TO ALL LICENSED BANKS

REVIEW OF THE EFFECTIVE DATE FOR THE REDUCTION OF GOVERNMENT HOLDING IN BANKS

Further to our circular ref: BSD/11/05 dated June 13, 2005 on the need to limit government's equity investment in banks to a maximum of 10% by December 2007, the management of CBN has reviewed the effective date for the implementation of the policy in view of recent developments. Banks are now to be in full compliance within the next six months i.e. not later than February 28, 2007

For the avoidance of doubt, the CBN reiterates that the aggregate shares held by all governments and government owned companies in any bank must not exceed 10% of the total shareholding of such bank with effect from February 28, 2007. This supersedes our earlier circular.

O. I. IMALA
DIRECTOR OF BANKING SUPERVISION

BSD/15/06

August 28, 2006

CIRCULAR TO ALL LICENSED BANKS

INVESTMENT IN THE FEDERAL MORTGAGE BANK OF NIGERIA x100 BILLION MORTGAGE-BACKED BOND

The Federal Mortgage Bank of Nigeria is in the process of issuing a x100 billion Mortgage-backed Bond, which would be freely tradable in the capital market. For the avoidance of doubt, the application of prudential regulations to such investment will apply as follows:

a. Single obligor limit

This prudential requirement applies only to credit exposures. It would not therefore, affect investment in the bond, which will be freely traded in the capital market.

b. 1% General loan loss provision

As in (a) above, this prudential requirement also applies only to credit exposures. Banks are however advised to take cognizance of paragraph 3.2(ii) of the Guidelines for the Practice of Universal Banking in Nigeria, which requires banks engaged in underwriting/issuing house activities to classify as loans, all securities acquired under such commitments but not disposed of within 12 months.

Banks are also expected to have sufficient shareholders fund to cover their investment in the bond and other capital market instruments they may be investing in.

c. Banks' investment in the bond to count as part of their liquid as sets in computing liquidity ratios

In line with current policy directive on the issue, FMBN Bonds of not more than three years tenor would qualify as liquid assets.

O. I. IMALA
DIRECTOR OF BANKING SUPERVISION

BSD/19/06

August 31, 2006

CIRCULAR TO ALL LICENSED BANKS

REDUCTION OF THE SINGLE OBLIGOR LIMIT FROM 35% TO 20%

It would be recalled that following the introduction of Universal Banking in the Nigerian banking system in year 2000 and the consequent removal of the dichotomy between commercial and merchant banks, a uniform Single Obligor Limit was adopted and pegged at 35% of banks' shareholders' fund unimpaired by losses.

Sequel to the conclusion of the first phase of the banking sector consolidation and the emergence of 25 banks with minimum capital base of 25 billion, the continued application of 35% as single obligor limit was considered unsustainable and an undue concentration of credit risk.

Consequently, in the light of current realities in the banking industry and in line with the risk-focused philosophy of the CBN, a review of the single obligor limit became necessary. Accordingly, the management of the Central Bank of Nigeria has approved a downward review of the single obligor limit from 35% to 20% with effect from 1st September, 2006.

In this regard, banks are required to reduce their exiting credit exposures which are in excess of 20% of their shareholders' fund unimpaired by losses, to a maximum of 20% within 12 calendar months from the effective date of this circular.

All banks are required to ensure compliance with this directive.

O. I. IMALA
DIRECTOR OF BANKING SUPERVISION

Our Ref: OFID/DO/CIR/Vol.1/450 February 3, 2006

Our: 234-1-2662483
Fax: 234-1-2668667

CIRCULAR

TO: ALL CHAIRMEN, DIRECTORS AND MANAGERS OF COMMUNITY BANKS AND THE PUBLIC.

REQUIREMENTS AND PROCEDURES FOR THE CONVERSION OF COMMUNITY BANKS (CBs) TO MICROFINANCE BANKS (MFBs)

Pursuant to the National Microfinance Policy, regulatory and Supervisory Framework for Nigeria, the following procedures and guildelines are provided for the conversion of Community Banks (CBs) to Micro Finance Banks (MFBs) in line with the requirements stipulated in the Regulatory and Supervisory Guidelines for MFBs:

1. Capital Requirements

- Minimum shareholders' funds of N20 million unimpaired by losses to operate a unit MFB.
- Minimum shareholders' funds of N1 billion unimpaired by losses to operate a state-wide MFB.

Note: Asset revaluation shall NOT be accepted for the purpose of meeting the minimum capital requirement.

2. Methodology for attaining the capital requirement

- Injection of additional capital by:
  a) the existing shareholders
  b) new investors
  c) combination of (a) and (b)
- Mergers ad acquisitions
  Mergers:
  (a) between two or more CBs
  (b) between a CB and another OFI or NGO-MFIs

Acquisition by:
(a) an individual
(b) a legal entity

Note: Any CB which has not attained the required minimum shareholders' funds at the time of application for conversion to MFB, shall be required to deposit the shortfall with the CBN.

3. Documentation Requirements

a) For CBs that have met the minimum capital requirement

The general requirements stipulated below shall apply.

General Requirements

- Proposed name of the new MFB
- Draft amended Memorandum and Articles of Association
- Latest audited accounts of the CB at the time of application.
- Five-year business plan
- A letter of undertaking to:

(1) Re-structure and up-grade the Board of Directors in line with the mandatory minimum qualifications and experience prescribed in the Regulatory and Supervisory Guidelines for MFBs.

(2) Up-grade the management and staff in line with the mandatory minimum qualifications and experience prescribed in the Regulatory and Supervisory Guidelines for MFBs.

That the MFB shall put in place the following before the commencement of operations:
(i) Appropriate management information system (MIS);
(ii) Internal controls and risk management procedures;
(iii) Manuals of operations;
(iv) That the top management of the institution shall posses the requisites certificate on microfinance management and practices from the Certification Institute within three years after take-off of the programme.

- A bank draft for the mandatory application fee
- A bank draft for the mandatory licencing fee

b) For CBs that have NOT met the minimum capital requirement

In addition to the general requirements in (3a) above:

i) The following documents shall be required where there is additional capital injection from existing shareholders:
   - A bank draft for the shortfall, where it exceeds N5.0 million.
   - A letter of intent to subscribed to the additional shares of the converting CB by the existing shareholders.
   - Evidence of payment for the additional shares by the significant shareholders, holding 5% and above of the total share capital.

ii) The following documents shall be required where there is additional capital injection fromnew shareholders:
   - A bank draft for the shortfall, where it exceeds N5.0 million.
   - A letter of intent to subscribe to the additional shares of the converting CB by the new investors.
   - Evidence of payment for the additional shares by the significant shareholders holding 5% and above of the total shares.
   - Certificate of capital importation issued by a bank in the case of foreign capital inflows.
   - Comprehensive curriculum vitae that is signed and dated of the significant shareholders owning 5% and above.

4. Merger and Acquisitions

a) Mergers:

In addition to the general requirements in (3a) above, the following documents shall be submitted:

- Resolution approving the merger by the Boards of Directors of each merging institution.
- Resolution approving the merger by the shareholders of the merging institutions at general meeting of members.

- Proposal/Agreement for the merger.
- Scheme of Arrangement with creditors.
- New ownership structure of the emerging MFB.
- Audited Statement of Affairs of the merged institution.

In the case of a merger, one of the offices of the CBs resulting from the merger shall become the head office and the other offices may become branches .

(b) Acquisitions:
Acquisition of a CB may be conducted by an individual or legal entity through a takeover of all or part of shares resulting in transfer of control of the CBs to the acquiring party.

In addition to the general requirements in (3a) above, the following documents shall be submitted:

- Acquisition Proposal and draft Deed of acquisition
- Evidence of resolution approving the acquisition at the general meeting of the shareholders
- Approved proposal and Deed of the acquisitions by Board of the CB and the party conducting the acquisition
- Full disclosure of the identity of the party conducting the acquisition
- Financial statements for the latest one fiscal year for a legal entity conducting the acquisition.
- Availability of financing for the party conducting the acquisition.
- A bank draft for the shortfall to meet the minimum capital requirement resulting from the acquisition of the CB.
- Draft amendment of the Memorandum and Articles of Association for the CB to be taken over in the acquisition.
- The number and par value of the shares of the CB to be taken over and composition of shareholders after acquisition.
- Estimated time frame for conducting the acquisition.

5. Additional Requirements

In addition to the foregoing, a converting CB may be required to fulfill other requirements as contained in the Regulatory and Supervisory Guidelines for MFBs and the Banks and Other Financial Institutions Act (BOFIA), 1991 as amended.

6. Further Information/Clarification

Further enquiries or clarification should be directed to the Director, Other Financial Institutions, Department, Central Bank of Nigeria, Lagos.
Telephone: 01-2662483, 09-61635640.

S.A. ONI
DIRECTOR
OTHER FINANCIAL INSTITUTIONS DEPARTMENT
CENTRAL BANK OF NIGERIA
FEBRUARY, 2006.

Our Ref: OFID/DO/MISC/Vol.1/451 February 3, 2006

Our: 234-1-2662483
Fax: 234-1-2668667

CIRCULAR

TO: ALL CHAIRMEN, TRUSTEES, OPERATORS AND THE PUBLIC.

REQUIREMENTS AND PROCEDURES FOR THE TRANSFORMATION OF NON-GOVERNMENTAL ORGANISATION-MICROFINANCE INSTITUTIONS (NGO-MFIs) TO MICROFINANCE BANKS (MFBs)

Pursuant to the National Microfinance Policy, Regulatory and Supervisory Framework for Nigeria, the following procedures and guidelines have been developed to guide the operators of the existing NGO-MFIs to transform to Micro Finance Banks (MFBs) in line with the requirements stipulated in the Regulatory and Supervisory Guidelines for MFBs:

1. Minimum Requirements

- An asset base of x20 million or equivalent in US Dollars.
- A report of an institutional assessment carried out by a rating agency acceptable to the Central Bank of Nigeria
- Statement of Assets and Liabilities, duly certified by an independent auditor.
- Separation of the socio-welfare functions of the transforming NGO MFI from the credit/financial services by creating a separate entity to operate as a MFB.
- A list of existing owners that contributed to the formation of its as sets and the distribution of assets, as well as the list of prospective shareholders.
- A written declaration from its development partners or donor agencies for the conversion of its assets into shares.

2. Documentation Requirement

The application for transformation of NGO-MFI shall be accompanied with the following documents:

i. Resolution of the Board of Trustees approving the transformation and stating its objectives.

ii. Detailed feasibility report including a business plan specifying what the MFB plans to achieve in the next five years.
iii. Draft Memorandum and Articles of association (MEMART).
iv. Signed detailed Curricula Vitae (CVs) of the proposed board members of the MFB.
v. Letters of commitment by the proposed directors to serve as board members and their shareholding, if any.
vi. Proposed name of the MFB.
vii. Institutional Assessment Report as at time of submission of the application.
viii. Statement of Affairs (Assets & Liabilities) for the latest one fiscal year at the time of the submission of the application for transformation.
ix. Certificate of capital importation issued by a bank in the case of foreign capital inflows.
x. A copy of the charter/constitution of the NGO-MFI
xi. A bank draft for the mandatory application fee
xii. A bank draft for the mandatory licencing

3. Incentives for Transformation

The following incentives shall be available to NGO-MFIs that transform to MFBs:

- Access to the State and Local Government funds to be established with 1% of their annual budget;
- Access to the National Micro Finance Development Fund
- Availability of the customers' deposit protection scheme of the Nigeria Deposit Insurance Corporation (NDIC);
- Access to additional funding through linkage programmes between univeral/development/specialized banks and the MFBs;
- Access to Re-financing and Re-discounting Facility (RRF) of the CBN;
- Access to the 10% portion of the Small and Medium Enterprises Equity Investment Scheme (SMEEIS) Fund set aside for microfinance;
- Access to the Agricultural Credit Guarantee Scheme Fund (ACGSF) by NGO-MFIs' customers;
- Access to the Interest Drawback Fund by the NGO-MFIs' customers.

4. Existing Branches and Organic growth

These procedures recognize the existence of NGO MFIs with inter-state multiple branches prior to the coming into effect of the new Microfinance Policy. The following transition arrangements are applicable to NGO-MFIs with existing branches:

(i) The NGO-MFIs shall locate its head office in a state in which it has the most dominate operations provided it meets other requirements for a State Microfinance Bank.

(ii) The existing branches in other states other than its dominant operating state shall continue to operate as its approved branches.

(iii) Upon transformation, no additional branch in other states shall be approved for the NGO-MFI until it has established branches in t least 2/3 of the local government areas of its dominant operating state.

(iv) The branches in other states of its operations shall be established organically and in its preferred spread until a 2/3 coverage is achieved, provided it meets the required shareholders' funds unimpaired by losses and availability of free funds.

5. Additional Requirements

In addition to the foregoing, a transforming NGO-MFI may be required to fulfill other requirements as contained in the regulatory and Supervisory Guidelines for MFBs and the Banks and Other Financial Institutions Act (BOFIA), 1991 as amended.

6. Further Information/Clarification

Further enquiries or clarifications should be directed to the Director, Other Financial Institutions Department, Central Bank of Nigeria, Lagos.
Telephone: 01-2662483, 09-61635640

S.A. ONI
DIRECTOR
OTHER FINANCIAL INSTITUTIONS DEPARTMENT
CENTRAL BANK OF NIGERIA
FEBRUARY, 2006.

CENTRAL BANK
OF NIGERIA

Our Ref: OFID/DO/CIR./Vol.1/457 22nd March, 2006

Our: 234-1-2662483
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CIRCULAR

TO: ALL CHAIRMEN, DIRECTORS AND MANAGERS OF ALL COMMUNITY BANKS

TRANSITIONAL ARRANGEMENT FOR CONVERSION TO MICRO FINANCE BANKS

Further to the CBN circular No. OFID/DO/CIR./VOL.1/450 dated 3rd February, 2006 on the requirements and procedures for the conversion of Community Banks to Microfinance Banks, the following transitional arrangements are provided for Community Banks (CBs) to convert to Microfinance Banks (MFBs) in line with the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria:

1. Procedures and Guidelines for Conversion

All CBs must comply with the specific and general requirements contained in the CBN circular dated 3rd February, 2006 on the requirements and procedures for the conversion of CBs to MFBs. Specifically, the conversion procedures to be adopted by the CBs shall depend on whether or not they have already met the minimum capital requirement and whether this shall be met through capital injection from existing or new shareholders, or through mergers and acquisition.

2. Conversion Plan

All CBs are required to submit an acceptable Conversion Plan, or a Scheme of Merger, or a Deed of Acquisition, depending on their chosen conversion path, to the Director, Other Financial Institutions Department (OFID), not later than 30th September, 2006. This must have been approved by the shareholders and the Boards of directors of the respective CBs and should be accompanied by the latest audited accounts and management accounts at the time of submission. The conversion programme should terminate with the issuance of an MFB licence by the CBN on or before 31st December, 2007. Therefore, appreciable time should be allowed for CBN licensing processes.

The Conversion Plan should address the following issues, among others:

- The programme for conversion, including how the required minimum capital would be raised, as well as milestones and timelines for the con version process.

- Plans to upgrade the Board of Directors, the management team, internal controls, management information system (MIS), as well as the procedures and manuals of operations, to that of an MFB.

- Plans for the Board and management to undergo the certification programme for microfinance banking.

- Plans for the Board and management to undergo re-orientation on the commercial vision of microfinance banking.

3. Progress Report on the Implementation of the Conversion Plan

In addition to the mandatory quarterly returns on their activities, all CBs are required to submit quarterly Progress Reports on the implementation of their conversion plan, merger or acquisition, with effect from the quarter ending 31 March, 2007. In addition, CBN Examiners shall monitor the implementation of the conversion during on-site examination and the examination report will feature an update.

4. Mergers

The CBN is favourably disposed to mergers between/among two or more CBs, or CBs and NGO-MFIs. Other institutions besides CBs that desire an MFB license shall be advised to comply with the exit procedures for deposit-taking institutions and, thereafter, submit a fresh application for an MFB licence, while submitting its current licence for cancellation.

Merging CBs shall decide in which location within the state the emerging MFB will start to operate from, before growing organically. The merging Cbs outside the chosen state shall become branches (subject to adequate capitalization), or cease to exist and the business(es) shall be moved to the chosen location. For this purpose, appropriate schemes of arrangement with the depositors, creditors and investors, share conversion criteria, as well as the shareholding structure before and after the merger, shall be clearly stated in the Scheme of Merger, for the purpose of obtaining prior approval of the CBN.

5. CBs with Existing Branches/Cash Centres in more than one state

A CB with existing branches in more than one state, which intends to convert to a MFB is likely to contravene the organic growth concept envisaged for MFBs. Such situation shall be treated on a case-by-case basis. Generally, in order to encourage the growth and sustenance of the existing institutions, such CBs shall be allowed to retain the existing branch(es)/cash centres. However, new branches shall not be allowed outside the chosen state, until the emerging MFB has opened brnaches in at least two-thirds of the total number of local government areas in the chosen state, subject to adequate shareholders' funds and the availability of free funds, including the minimum capital requirement for State MFBs, as stipulated under the organic growth concept.

6. Conduct of Directors

All Directors and Managers of CBs are advised to maintain a high level of integrity in all their dealings and conduct of the affairs of the CB they manage in accordance with the Code of Conduct for Directors which they signed. For the avoidance of doubt, all cases of misdemeanour or asset stripping shall attract sever sanctions and all culprits handed over to the Economic and Financial Crimes Commission (EFCC) for investigation, recovery of the assets and prosecution.

7. Exit Procedure

CBs that are unable to meet the conversion requirements as stipulated in the Micro Finance Policy and the *Regulatory and Supervisory Guidelines for MFBs in Nigeria* will be required to take the following steps:

7.1 Confirm in writing to the Director, OFID that the institution is unable to meet the stipulated requirements for conversion to MFBs, not later than 30th September, 2006

7.2 Pay back director-related loans in full and the evidence of the liquidation of the loan should be submitted to the Director, OFID, not later than 31st March, 2007.

7.3 Submit its plan for self liquidation to the Director, OFID not later than 31st March, 2007, incorporating:

7.3.1. A scheme of arrangement for the settlement of all depositors

7.3.2. A scheme of arrangement for the settlement of creditors

7.3.3. A programme for the recovery of all outstanding loans and advances.

7.3.4. The plan must ensure that depositors and other creditors are settled first (in that order) before shareholders.

7.4 Submit a list of all depositors and amounts deposited, a list of all creditors and the amount outstanding, the position of all outstanding insider-related loans and the position of all other outstanding loans and advances and their maturity, not later than 30th June, 2007.

7.5 Submit a written confirmation that all depositors and creditors have been settled, supported by verifiable evidence, by 30th September, 2007.

7.6 Submit its community banking license to the CBN for cancellation, on or before 31st December, 2007.

7.7 Comply with the relevant provisions of the Companies and Allied Matters Act, 1990 for winding up.

8. Further Information/Clarification

Further enquiries or clarification should be directed to the Director, Other Financial Institutions Department, Central Bank of Nigeria, Lagos.
Telephone: 01-2662483, 09-61635640

S.A. ONI
DIRECTOR
OTHER FINANCIAL INSTITUTIONS DEPARTMENT
CENTRAL BANK OF NIGERIA, LAGOS.

Our Ref: OFID/DO/CIR./Vol.1/458 31st March, 2006

Our: 234-1-2662483
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CIRCULAR

TO: ALL CHAIRMEN, DIRECTORS AND MANAGERS OF ALL COMMUNITY BANKS

RE: LATE SUBMISSION OF QUARTERLY RETURNS AND SECTORAL ANALYSIS OF LOANS AND ADVANCES

It has been observed that many community banks (CBs) fail to submit quarterly returns, or submit later than the 14th day of the following month in contravention of Section 58(2)(b) of Banks and Other Financial Institutions Act (BOFIA) 1991, as amended and section 5 (c) of the Revised Guidelines for the Operations of Community Banks. When submitted, the Schedule of Loans and Advances attached to the returns is not accompanied by the sectoral analysis of the loans and advances.

Consequently, all community banks are required to submit a Summary of Sectoral Analysis of Loans and Advances, in the attached format, along with the Schedule of Loans and Advances and ensure that their quarterly returns reach the Director, Other Financial Institutions Department not later than 14 days after the end of the succeeding month to which the returns relate.

Any quarterly return which is unaccompanied by the Summary of Sectoral Analysis of Loans and Advances, or fails to comply with the format, will not be processed and appropriate sanctions for non-submission meted out to the erring institution.

S.A. ONI
DIRECTOR
OTHER FINANCIAL INSTITUTIONS DEPARTMENT

ABC COMMUNITY BANK LIMITED
SUMMARY OF SECTORAL ANALYSIS OF LOANS AND ADVANCES

SECTOR	NO. OF LOANS	AMOUNT OF LOANS (x)
Agriculture & Forestry		
Mining & Quarry		
Manufacturing & Food Processing		
Trade & Commerce		
Transport & Communication		
Real Estate & Construction		
Rent/Housing		
Consumer/Personal		
Health		
Education		
Tourism & Hospitality		
Purchase of Shares		
Staff		
TOTAL		

CENTRAL BANK
OF NIGERIA

Our Ref: OFID/DO/CIR./Vol.1/459 18th April, 2006

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REMINDER

**CIRCULAR TO ALL COMMUNITY BANKS AND
PRIMARY MORTGAGE INSTITUTIONS
AND FINANCE COMPANIES**

RE: ILLEGAL CLEARING AND CONVERSION/DIVERSION OF THIRD PARTY CHEQUES

The attention of the Central Bank of Nigeria has again been drawn to incidences of illegal dealing and conversion/diversion of third party cheques belonging to parastatals, agencies, corporate bodies and individuals by some community banks. This fraudulent practice has resulted in huge financial losses o the affected institutions or individuals and is fast eroding the integrity and credibility of the financial system.

Accordingly, all non-bank financial institutions are hereby reminded of the CBN Circular No. OFID/DO/CIRC/VOL./387 of 29th April, 2004 as well as the Clearing House Rules and Procedures on third party cheques clearing. For the avoidance of doubt, all third party cheques should be forwarded to the paying bank through collecting/correspondent banks with a Caution Notice, regardless of the value of the cheque.

In addition, your attention is drawn to the provision of the Anti Money Laundering (Prohibitions) Act, 2004 and CBN Circular No. OFID/DO/CIR/VOL.1/423 dated 7th June, 2005, requiring all financial institutions to report any single transaction, lodgment, or transfer of funds in excess of x1.0 million and x5.0 million for individuals and corporate bodies respectively and to forward all complex, unusual and suspicious transactions to the Nigeria Financial Intelligence Unit (NFIU), 12, Ibrahim Taiwo Street, Asokoro, Aso Villa, Federal Capital Territory, Abuja. Tel. 09-6442101, Fax: 09-3144357. All financial institutions and also required to carry out due diligence on their customers and adhere strictly to the know your customer (KYC) principles at all times.

Any breach of these procedures leading to fraud or money laundering activities shall attract grave consequences and sanctions for the affected institutions and any officer involved shall be referred to the EFCC for prosecution in accordance with the existing law.

S.A. ONI
DIRECTOR
OTHER FINANCIAL INSTITUTIONS DEPARTMENT

CENTRAL BANK
OF NIGERIA

Our Ref: OFID/DO/CIR./Vol.1/484 11th September, 2006

Our: 234-1-2662483
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CIRCULAR

TO: ALL CHAIRMEN, DIRECTORS AND MANAGERS OF ALL COMMUNITY BANKS

WAIVER OF THE APPLICATION, LICENSING AND CHANGE OF NAME FEES FOR EXISTING COMMUNITY BANKS CONVERTING TO MICROFINANCE BANKS

In order to encourage existing Community Banks (CBs) to expeditiously convert to Microfinance Banks (MFBs), the Management of the Central Bank of Nigeria (CBN) has approved the waiver of application fees of x50,000 and x100,000, as well as licensing fees of x100,000 and x250,000 for all CBs converting to Unit and State Microfinance Banks, respectively. Also approved is a waiver of the change of name fee of x5,000 for any converting CB.

For the avoidance of doubt, all CBs converting to MFBs are no longer required to pay these fees. This gesture is to minimize the cost of documentation and other requirements for conversion by CBs to MFBs on or before 31st December, 2007. All CBs are to note that this concession would automatically lapse by 31st December, 2007.

S. A. ONI
Director
Other Financial Institutions Department.

Our Ref: OFID/DO/CIR./Vol.1/488 14th November, 2006

Our: 234-1-2662483
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CIRCULAR

**TO: ALL CHAIRMEN, DIRECTORS AND
MANAGERS OF ALL COMMUNITY BANKS**

FURTHER REQUIREMENTS AND PROCEDURES FOR THE CONVERSION OF COMMUNITY BANKS TO MICROFINANCE BANKS

The following amendment to the CBN Circular No.OFID/DO/CIR/VOL.1/450 dated 3rd February, 2006 has been approved by the Management of the Central Bank of Nigeria:

Removal of the requirement to deposit the shortfall in capital

The requirement contained in paragraph 3(b) (i) and (ii) of the circular under reference requiring Community Banks (CBs) converting to Microfinance Banks (MFBs) to submit ‘a bank draft for the shortfall in capital, where it exceeds N5.0 million’, has been removed.

Accordingly, CBs converting to MFBs are to deposit the shortfall in capital (the amount required to raise their Shareholders’ Funds unimpaired by losses to N20.0 million as per the latest approved audited accounts) with their correspondent bank and provide all relevant documentary evidence. Subsequently, capital verification would be carried out by CBN Examiners to ascertain the true capital position of the institution.

Such CBs are to submit the following documents when forwarding their applications for conversion to the CBN:

- Certified true copy of the Statement of Account obtained from their correspondent banks showing details of the lodgment of the additional capital.

- Copies of the instruments with which the deposits were made.
- Form C02 reflecting the additional capital.
- Letter of intent from each shareholder that the deposits were for shares in the affected institution.
- Copies of letters to shareholders conveying the allotment of additional shares
- Letter of undertaking from each significant shareholder, owning 5% or more of the total shares, that the funds were neither borrowed nor obtained through money laundering activity.

This measure has been introduced to ensure that converting CBs continue to have unfettered access to the increased capital for business transactions during the period of conversion. It is also designed to ensure that the conversion of existing CBs to MFBs is as seamless as possible.

S.A. ONI
Director
Other Financial Institutions Department.

Appendix 2

Major Financial Indicators of Individual Banks

Banks	Year	Paid-up Capital x' Million	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 2006:									
1. Access Bank Nigeria Plc	2002	1,350	1,944	11,343	4,980	658	6,475	-18	1
	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
2. Afribank Nigeria Plc	2002	552	4,332	73,088	31,138	5,405	56,955	2,231	3
	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	48,224	10,940	94,816	3,695	4
3. First Bank of Nig. Plc	2002	1,016	17,747	266,356	91,227	29,309	168,175	5,087	-
	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	-
4. Guaranty Trust Bank Plc	2002	1,000	7,950	59,292	18,217	617	31,373	3,107	4
	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
5. IBTC Chartered Bank Plc.	2002	1,000	3,936	20,578	10,210	185	8,910	1,503	3
	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

Banks	Year	Paid-up Capital x' Million	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
6. Intercontinental bank Plc (14 months to 28th February 2005)	2001	1,436	3,456	35,779	12,080	1,196	23,509	1,523	2
	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
	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
7. Union Bank of Nig. Plc	2002	1,258	30,302	275,194	61,962	17,568	204,347	7,490	7
	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
8. Wema Bank Plc	2002	779	3,768	44,101	17,093	1,291	32,775	2,294	1
	2003	1,527	7,215	61,323	23,508	2,768	43,762	2,286	4
	2004	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	NA	NA	NA	NA	NA	NA	NA	NA
Banks With Year-Ends Between April and June 2006:									
9. Bank PHB Plc	2002	1,000	798	13,305	4,496	91	9,921	151	-
	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	156,001	41,841	4,700	109,870	3,484	0
10. Diamond Bank Plc	2002	1,082	5,320	53,199	16,255	848	33,556	3,802	1
	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

Banks	Year	Paid-up Capital x' Million	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
11. Equitorial Trust Bank	2002	2,450	5,368	29,705	12,545	525	21,361	2,462	-
	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
12. Fidelity Bank Plc	2002	853	1,915	15,637	5,927	1,006	12,281	634	-
	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
13. First Inland Bank Plc	2001	628	1,197	10,078	5,593	268	7,857	658	0
	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
	2005	NA	NA	NA	NA	NA	NA	NA	NA
14. First City Monument Bank Plc.	2002	1,000	2,231	14,951	7,484	1,490	8,564	501	3
	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
15. Unity Bank Plc	2002	613	1,471	21,209	9,259	1,912	13,014	417	3
	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	NA	NA	NA	NA	NA	NA	NA	NA

Banks	Year	Paid-up Capital x' Million	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
16. Zenith Bank Plc	2002	1,027	9,306	92,563	20,665	439	50,134	3,999	-
	2003	1,549	12,652	112,535	27,895	605	61,574	5,440	-
	2004	1,549	15,674	193,321	54,420	1,028	131,095	6,405	-
	2005	3,000	37,790	329,717	125,531	3,037	233,413	9,165	1
	2006	4,587	93,801	608,505	204,057	4,349	392,864	15,154	0
Banks With Year-Ends Between July and Sept 2006:									
17. Oceanic Bank Plc	2002	2,000	5,565	53,294	11,272	673	40,028	3,121	1
	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
18. Skye Bank Plc	2002	1,524	2,053	12,632	5,400	280	8,779	523	2
	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	NA	NA	NA	NA	NA	NA	NA	NA
19. Sterling Bank Plc	2002	664	3,013	21,468	12,704	1,249	14,652	71	1
	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	2
20. United Bank for Africa Plc	2,002	850	9,782	198,680	41,150	4,787	131,866	2,238	-
	2,003	1,275	13,767	200,995	50,178	4,102	142,427	4,816	0
	2,004	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

Banks	Year	Paid-up Capital x' Million	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 2006:									
21. Ecobank Nig. Plc	2002	1,088	2,946	24,072	7,169	1,443	17,602	714	-
	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
\ 22. Nigeria Int'l Bank Ltd	2002	1,000	7,791	72,288	21,656	2,475	35,555	4,896	1
	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
23. Stanbic Bank	2002	1,000	1,393	6,798	2,178	221	2,892	123	3
	2003	1,000	1,531	12,166	3,190	197	3,759	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
24. Standard Chartered Bank Ltd	2001	915	656	2,130	585	6	813	(259)	0
	2000	1,166	1,617	18,428	2,490	24	11,416	768	1
	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
25. Spring Bank Plc		NA	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
ECOWA	-	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
ICAN	-	Institute of Chartered Accountants of Nigeria
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 Institute
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
NASS	-	NationalAssembly
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
NIBSS	-	Nigerian Inter Bank Settlement System
NIPOST	-	Nigerian Postal Service

NPL	-	Non-Performing Loan
NSE	-	Nigeria 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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