APPENDICES

APPENDIX A1

Balance Sheet
As at 31 December 2007

	Note	2007 ₦ Million	2006 ₦ Million
Assets:			
External reserves	2	6,548,921	5,617,317
Nigerian Government securities	3	84,503	237,668
Loans and advances	4	361,437	94,947
Investments	5	33,603	26,915
Other assets	7	195,415	111,283
Fixed assets	8	133,695	127,898
		7,357,574	6,216,028
Liabilities:			
Deposits accounts	9	4,341,150	4,022,237
Central Bank of Nigeria instruments	10	1,564,366	949,406
Notes and coins in circulation	11	960,490	779,254
International Monetary Fund allocation of Special Drawing Rights		29,006	29,286
Other financial liabilities	13	237,826	110,680
		7,222,838	5,890,863
Capital and reserves:			
Share capital	16	5,000	5,000
General reserve fund	17.1	58,808	50,721
Fixed assets revaluation reserve	17.2	70,928	95,246
Foreign currency revaluation reserve	17.3	-	174,198
		134,736	325,165
Liabilities and equity		7,357,574	6,216,028

Chukwuma C. Soludo ______________ Governor

Sarah O. Alade ______________ Director

Joshua O. Omuya ______________ Director

Mohammed S. Garba ______________ Director of Finance

The accounting policies on pages 124 to 129 and notes on pages 130 to 142 form part of these statements.

APPENDIX A2

INCOME AND EXPENDITURE ACCOUNT
For The Year Ended 31st December, 2007

	Notes	2007 ₦' Million	2006 ₦' Million
Interest income	18	222,921	182,873
Interest expense	19	(90,345)	(58,242)
Net Interest Income		132,576	124,631
Realised loss on foreign currency	17	(72,433)	(15,557)
Other income	20	86,318	53,426
Total income		146,461	162,500
Operating Costs	21	(113,612)	(130,878)
Surplus before provisions		32,849	31,622
Net charge to provisions	15	(500)	(500)
Surplus available for appropriation		32,349	31,122
The following surplus distribution was made for the year			
Surplus available for appropriation		32,349	31,122
Transfer to general reserve		(8,087)	(5,187)
Transfer to Federal Government of Nigeria under s.5 (3) of the Central Bank of Nigeria Act 1991		(24,262)	(25,935)
Surplus retained for the year		NIL	NIL

The accounting policies on pages 124 to 129 and the notes on pages 130 to 142 form an integral part of these financial statements.

APPENDIX A3

STATEMENT OF CASH FLOWS
For The Year Ended 31st December, 2007

Cash flow generated from operating activities	Notes	2007 ₦ Million	2006 ₦ Million
Cash generated from operating activities	22	(29,914)	89,895
Surplus paid to the Federal Government of Nigeria		(28,798)	(6,378)
* Net cash (utilized by)/ generated from operating activities		(58,712)	83,517
Cash flow (utilized by)/generated from investing activities			
Purchase of fixed assets		(35,783)	(15,950)
Proceeds of sale of fixed assets		13,305	110
Additional investment in subsidiaries and associates		(6,669)	2,820
Deposit for shares in Africa Finance Corporation		(57,958)	-
Redemption of Promissory		(7,348)	-
Net (investment)/divestment from Government Bonds		153,165	(64,857)
		58,712	(83,517)

Due to its role in the creation and withdrawal of money, the Bank has no cash balances on its balance sheet

APPENDIX B1

SIGNIFICANT ACCOUNTING POLICIES

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

a. Basis of presentation

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

b. Consolidation

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

c. Foreign currency activities

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

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

d. External reserves

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

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

e. Loans and receivables

The following assets have been classified as loans and receivables for the purposes of assessing their recoverability: loans and advances; amounts due by liquidator of distressed banks; and other assets.

A specific credit risk provision is established to provide for Management's estimate of credit losses as soon as the recovery of an exposure is identified as doubtful. This provision is made for each account that is not performing in accordance with the terns of the related facility. The basis is as follows:

Interest and/or principal outstanding For over	Classification	Provision
90 days but less than 180 days	Substandard	10%
180 days but less than 360 days	Doubtful	50%
360 days and over	Lost	100%

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

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

When a loan is deemed not collectible, it is written off against the related provision for loan losses and subsequent recoveries are credited to income.

Risk assets in respect of which a previous provision was not made are written directly to income statement when they are deemed to be not collectible.

f. Investment securities

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

i. Long term investments

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

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

ii. Nigerian Government Securities

Nigerian Government Bonds represent debt instruments issued by the Federal Government of Nigeria (FGN) in which the Bank has invested. These bond issues are normally underwritten by the Bank and the investments arise as a result of crystallization of its underwriting commitment.
Treasury bills of the Federal Government of Nigeria are initially recorded at cost plus incidental costs and subsequently measured at amortized cost.

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

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

g. Fixed Assets

All items of fixed assets are initially recognized at cost. Cost includes expenditure that is directly attributable to the acquisition of the item.
Appendix B1 (Cont'd)

Subsequent measurement Fixed assets at historical cost

All fixed assets except for motor vehicles and Head Office building are carried at their valued amounts less subsequent accumulated depreciation. If an increase in the net book amount has occurred, it is recognized in the cost of the asset and a fixed assets evaluation reserve is created in equity. A decrease in net book value is recognized as a reduction in cost and first used to reduce the amount of any existing valuation surplus on the same item before being charged to income and expenditure account.

Subsequent measurement fixed assets at historical cost

Motor vehicles are stated at historical cost less accumulated depreciation except where there is a permanent significant change in the value of the asset.

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

Depreciation

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

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

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

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

h. Borrowings (loans)

Borrowings are recognized initially at their issue proceeds net of transaction costs incurred. Borrowings are subsequently stated at amortised cost.
Interest paid on borrowings is recognized in the income and expenditure accounts for the year on prorata basis.

i. currency in circulation

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

j. Central Bank of Nigeria instruments

Central Bank of Nigeria instruments comprise Promissory Notes and Special Nigerian Treasury Bills.

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

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

Special Nigerian Treasury Bills represent short term debt instrument of the Bank issued to commercial banks as a liquidity management tool. They are recognized at cost less any unamortized premiums/discounts.

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

k. Retirement benefits

The Bank operates a defined benefit plan and a contributory retirement savings scheme as required by the Pension Reforms Act of 2004 (PRA). A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the bank and the employees pay fixed contributions into a separate entity. The Bank contributes 15% of basics, housing and transport allowances of qualifying employees, while the employee contributes 7.5% on the same basis. The Bank has no legal or constructive obligation to pay further contribution if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

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

Actuarial losses and gains arising from adjustments and changes in actuarial assumptions are charged or credited immediately to income and expenditure account.

For defined contribution plans, the Bank pays contributions to privately administered pension plans on a mandatory basis. The Bank has no further payment obligation once the contribution has been paid. The contributions are recognized as employee benefit expense in the income and expenditure account.

l. Provisions

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

i. Internal Currency insurance

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

ii. Contingency

Contingency provision are determined on the basis of expert's valuation (where applicable) and/or the best estimate by Directors of the Bank of the probable resources required to meet the Bank's present obligations not accounted for in the financial statements.

iii. Self insurance schemes

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

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

m. Sale and repurchase agreements

The Bank has entered into repurchase agreements as part of its monetary policy activities. Securities purchased under agreements to resell are recorded under the heading "Loan and Advances "as loans and receivables. Securities sold under agreement to repurchase are disclosed as reverse repurchase agreement included in deposit accounts. The underlying Securities Purchased under repurchase agreements re not recorded by the Bank. Likewise, underlying securities sold under repurchase agreements; are retained in the books of the Bank.

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

n. Appropriations

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

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

o. Cash flow

For the purpose of the cash flow statement, no cash and cash equivalents are shown because of the Bank's role as central bank in the creation of money.

p. Revenue recognition

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

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

Fees and commissions, where material are amortized over the life of the related service. Otherwise fees, commissions and other income are recognized as earned upon completion of the related service. Dividends are recognized when the right to receive payment is established. Other revenue arising from the provision of services to clients is recognized on the accrual basis in accordance with the substance of the relevant transaction.

q. Currency issuance and management expenses

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

APPENDIX B2

Notes to the financial statements
For the year ended 31 December 2007

1. General Information

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

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

2. External reserves

	2007 ₦ Million	2006 ₦ Million
Convertible Currencies	6,548,776	5,617,217
IMF:		
- Reserve tranche	23	26
- Special Drawing Rights	103	55
Gold	19	19
	6,548,921	5,617,317
Convertible currencies comprise:		
Current account with foreign banks	1,225,378	1,213,258
Time deposits and money employed	3,984,065	3,933,810
Domiciliary accounts	587,028	304,949
Other foreign securities	652,771	92,028
Sundry currencies and travelers' cheques	99,534	73,172
	6,548,776	5,617,217

Included in convertible currencies is an amount of N2,626.36 million, (2006- N2,030.61 million), which represents the Naira value of foreign currencies held on behalf of customers in various foreign accounts for letters of credit transactions and other purposes. The corresponding liability for this amount is included in deposits.

APPENDIX B2 (CONT'D)

	2007 ₦ Million	2006 ₦ Million
Convertible currencies are further analysed by Currency as follows:		
United States Dollars	5,645,780	4,904,282
British Pounds Sterling	143,428	99,929
Euro	387,629	488,974
Japanese Yen	364,988	53,353
Others	6,951	70,679
	6,548,776	5,617,217

The market value of Gold held as at 31 December 2007 was N66.854 billion (2006 N60.588 billion).

3. Nigerian Government securities

	2007	2006
Nigerian Treasury Bills	5,951	23,276
Nigerian Treasury Bonds	78,428	214,270
Nigerian Development Stocks	124	122
	84,503	237,668

4. Loans and advances

	2007	2006
Repurchase agreements	-	3,019
Overdrawn balances & short term advances	362,390	90,502
Staff loans	2,699	2,332
Advances to Federal Mortgage Bank of Nigeria	9	9
Other loans	33,996	35,107
Long term loans	8,865	9,958
	407,959	140,927
Less: Provision for loan losses		
General	(3,651)	(905)
Specific	(42,870)	(45,075)
	361,437	94,947

APPENDIX B2 (CONT'D)

Overdrawn balances

Overdrawn balances represent overnight lending to commercial banks and are fully collateralized by Treasury Bills. The balances were fully repaid subsequent to year end.

Other loans

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

Long term loans

In 2001, the Bank approved the reduction of the interest rate on loans to some banks from 13.5% to 3%, extended the moratorium period to two years and increased the repayment period to five years. Balances outstanding have been fully provisioned:

		2007 ₦ Million	2006 ₦ Million
Long term loans:			
At 1 January		9,958	10,947
Repayment during the year		(1,093)	(989)
Provision for doubtful debts		8,865	9,958
5. Investments			
Investments in subsidiaries and associates:	%		
Bank of Industry	40	7,995	3,048
Abuja Commodity Exchange	57	408	408
Nigeria Deposit Insurance Corporation	60	1,380	1,380
Nigeria Agricultural Cooperative and Rural Development Bank	40	4,027	4,027
Nigeria Export Import Bank	50	7,972	6,250
Nigeria Security Printing and Minting Company Plc	77	13,250	13,250
		35,032	28,363
Provision for diminution in value of investments		(2,715)	(2,715)
		32,317	25,648
Other Investments:			
Agricultural Credit Guarantee Scheme Fund		1,200	1,200
Federal Mortgage Bank of Nigeria		60	60
Nigerian Interbank Settlement System		26	7
		1,286	1,267
		33,603	26,915

APPENDIX B2 (CONT'D)

	2007 ₦'million	2006 ₦'million
6. Amount due from liquidators of distressed banks		
All States Trust Bank Plc	11,457	10,000
Lead Bank	3,112	2,001
Assurance Bank	3,438	938
Hallmark Bank	107	-
Trade Bank	3,911	1,000
Metropolitan Bank	162	-
City Express	3,691	1,000
African Express bank	185	-
Gulf Bank	1,773	-
	27,836	13,939
Provision for doubtful balances	(27,836)	(13,939)

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

7. Other assets

	2007	2006
Due from Agricultural Credit Guarantee Scheme Fund	543	576
Africa Finance Corporation	57,958	-
Accrued interest receivable	35,128	32,645
Accounts receivable	35,285	10,205
Sundry receivables	66,619	38,425
	195,533	81,851
Provision for doubtful balances	(118)	(118)
	195,415	81,733

	2007	2006
Sundry receivables are further analysed as:		
CBN Small and Medium Enterprises (SME) accounts	4,717	4,717
International Monetary Fund local currency subscription	622	622
Prepayments	47,558	36,793
Cheques in clearing	-	3,507
Consumables	6	124
Others	13,716	22,212
	66,619	38,425

APPENDIX B2 (CONT'D)

8. Fixed Assets

	Land & building	Plants & equipment	Furniture & fittings	Computers	Motor vehicles	Capital work in progress	Total
	₦M	₦M	₦M	₦M	₦M	₦M	₦M
2007:							
Cost/valuation:							
At 1 January	90,377	21,646	4,180	6,076	5,721	28,040	156,040
Additions	-	3,835	195	376	1,384	29,993	35,783
Transfers in/(out)	-	331	-	-	6,894	(7,225)	0
Adjustment	381	5,750	(595)	40	(228)	-	5,348
Disposals	(24,186)	(132)		-	(462)	-	(24,780)
At 31 December	66,572	31,430	3,780	6,492	13,309	50,808	172,391
Accumulated depreciation:							
At 1 January	6,563	10,571	2,848	5,207	2,953	-	28,142
Charge for the yr.	1,887	3,613	711	788	872	-	7,871
Adjustment	(184)	5,584	(53)	(205)	409	-	5,551
Disposals	(2,396)	(79)	-	-	(393)	-	(2,868)
At 31 December	5,870	19,689	3,506	5,790	3,841	-	38,696
Net book value	60,702	11,741	274	702	9,468	50,808	133,695
2006:							
Cost/valuation:							
At 1 January	83,224	21,122	4,139	5,401	5,479	20,981	140,346
Additions	-	525	41	675	497	14,212	15,950
Transfers in/(out)	7,153	-	-	-		(7,153)	
Disposals	-	(1)	-	-	(255)	-	(256)
At 31 December	90,377	21,646	4,180	6,076	5,721	28,040	156,040
Accumulated depreciation:							
At 1 January	4,751	7,160	2,137	4,293	2,214	-	20,555
Charge for the yr.	1,812	3,413	711	914	929	-	7,779
Disposals	-	(2)	-	-	(190)	-	(192)
At 31 December	6,563	10,571	2,848	5,207	2,953	-	28,142
Net Book Value	83,814	11,075	1,332	869	2,768	28,040	127,898

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

APPENDIX B2 (CONT'D)

9. Deposit accounts

	2007 ₦ Million	2006 ₦ Million
Government deposits		
Current/settlement accounts	1,528,824	1,784,928
Domiciliary accounts	587,029	304,950
Other Accounts	2,039,335	1,725,662
Financial Institutions		
Current/settlement accounts	139,845	98,060
Bank's reserve accounts	136,117	108,637
	4,431,150	4,022,237

Other accounts are further analysed as follows:

	2007 ₦ Million	2006 ₦ Million
FGN PPT Naira funding account	984,765	1,148,223
Special reserve account	481	498
FGN excess crude oil proceeds (Naira funding) acc	678,349	223,869
Letters of credit consolidated account	228,147	197,433
FGN (External creditors) funding account	85,311	69,773
NNPC/ NAPIMS cash call account	6,353	6,353
Deposits for Naira draft account	23,930	60,433
Monetary policy stabilization account	4,617	4,617
Sundry accounts	27,382	14,463
	2,039,335	1,725,662

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

	2007 ₦ Million	2006 ₦ Million
Domiciliary accounts	587,029	304,950
Other accounts	2,039,335	1,725,662
	2,626,364	2,030,612

10. Central Bank of Nigeria instruments

	2007 ₦ Million	2006 ₦ Million
Central Bank of Nigeria Promissory Notes:		
At 1 January	14,156	13,939
Issues during the year	11,826	-
Claim awaiting issue of promissory notes	2,071	-
Redemption in the year	(7,565)	-
Accrued interest	97	217
At 31 December	20,585	14,156
Opening Market Operations (Own instruments)		
Central Bank of Nigeria Bills (Note 10(b))		
At 1 January	935,250	174,228
Issue during the year	3,818,749	1,815,422
Redemption during the year	(3,210,218)	(1,054,400)
At 31 December	1,543,781	935,250
	1,564,366	949,406

APPENDIX B2 (CONT'D)

(a) The CBN issued Promissory Notes to Ecobank Nigeria Plc, Afribank Plc and United Bank for Africa Plc as part of a Purchase and Assumption Arrangement over the private sector deposits and certain assets of Allststes Trust Bank Plc and Hallmark Bank Plc (Ecobank Nigeria Plc), Lead Bank Plc and Assurance Bank Plc (Afribank Nigeria Plc) and Trade Bank Plc, Metropolitan Bank Ltd, City Express Bank Plc, African Express Bank and Gulf Bank Plc (United Bank for Africa Plc). The Promissory Notes have tenors of 1 2 years and carry coupon rates of 6.90% - 13.50%. The last instrument will mature on 11 December 2009.

(b) Central Bank of Nigeria Bills represent bills of the Bank issued to commercial banks as a liquidity management tool. These instruments have tenors ranging from 7 days 365 days and carry discount rates ranging from 5.7% - 9.5% per annum.

	2007 ₦ Million	2006 ₦ Million
11. Notes and coins in circulation		
Notes	959,833	778,493
Coins	657	761
	960490	779,254
12. Employment benefit liabilities		
Defined benefit scheme		
At 1 January	-	-
Contributions	1,528	56
Provision for actuarial deficit	5,435	24,967
Remittances/Transfers to trustees	(1,528)	(25,023)
At 31 December	5,435	-
Defined contributory scheme		
At 1 January	-	-
Contributions	-	901
Remitted to trustees	-	(901)
At 31 December	-	-

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

The legacy scheme was actuarially assessed by the firm of Alexander Forbes Consulting Actuaries Nigeria Limited as at 30 June 2006 and an actuarial deficit of N19.067 billion determined as at 30 June 2004 was fully provisioned and funded.

APPENDIX B2 (CONT'D)

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

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

The trustee maintain a deposit account with the Bank with respect to contributions and as at 31 December 2007, the defined account balance was N813 million (2006:N540 million).

	2007 ₦ Million	2006 ₦ Million
13. Other financial liabilities		
Interest payable	1,414	928
Treasury bills on repurchase agreement	-	3,019
Accrued charges	18,539	24,004
Surplus payable to Federal Government of Nigeria (Note 14)	21,696	26,232
Sundry payables	141,412	11,930
Cheques in clearing	9,698	-
International Bank for Reconstruction and Development		
SME Loan	4,717	4,717
Bank of Tokyo Commodity loan	1	1
Other provisions (Note 15)	40,349	39,849
	237,826	110,680
14. Surplus payable to Federal Government of Nigeria		
At January	26,232	6,675
Surplus transferred from income and expenditure account	24,262	25,935
Paid during the year	(28,798)	(6,378)
At 31 December	21,696	26,232

APPENDIX B2 (CONT'D)

15. Other provisions

	At 1 January ₦ Million	Additional charge ₦ Million	At 31 December ₦ Million
2007:			
Contingency	32,709	-	32,709
Internal currency insurance funds	6,800	500	7,300
Agricultural credit fund	340	-	340
At 31 Dec	39,849	500	40,349
2006			
Contingency	32,709	-	32,709
Internal currency insurance funds	6,300	500	6,800
Agricultural credit fund	340	-	340
At 31 december	39,349	500	39,849

(a) Contingency provisions are determined on the basis of expert's valuation (where applicable) and/or the best estimate by Management of the Bank of the probable resources required to meet the Bank's present obligations not accounted for in the financial statements. Outstanding provision is in respect of promissory notes to be issued to liquidators of distressed banks.

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

(c) The provisions for capital projects are determined on the basis of budgeted and approved capital expenditure of the Bank. No additional provisions have been made in the current year.

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

16. Share capital

	2007 ₦ Million	2006 ₦ Million
Authorised share capital	100,000	5,000
Issued and fully paid up:		
At 1 Janary	5,000	3,000
Issue of shares	-	2,000
At 31 December	5,000	5,000

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

APPENDIX B2 (CONT'D)

17.1 General reserve fund	2007 ₦'million	2006 ₦'million
At 1 January	50,721	47,534
Transfer to share capital account via bonus issue	-	(2,000)
Transfer from appropriation account	8,087	5,187
At 31 December	58,808	50,721

17.2 Fixed assets valuation reserve		
At 1 January	95,246	95,246
Realised on disposal	(24,318)	-
At 31 December	70,928	95,246

The fixed assets valuation reserve represents increases in the net book value of fixed assets over the historical cost.

17.3 Foreign currency revaluation reserve	2007 ₦ Million	2006 ₦ Million
At 1 January	174,198	167,246
Net loss on revaluation during the year	(246,631)	(8,605)
Realized loss charge to profit and loss	(72,433)	158,641
At 31 December	72,433	15,557
	-	174,198

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

18. Interest income	2007 ₦'million	2006 ₦'million
Analysis by type		
Time deposits and money employed	188,743	139,311
Federal Government Securities	31,562	41,830
Loans and advances	2,616	1,732
	222,921	182,873
Analysis by source		
Bank	188,743	139,413
Non bank	34,178	43,460
	222,921	182,873
Analysis by geographical location:		
Domestic	34,178	43,562
External	188,743	139,311
	222,921	182,873

APPENDIX B2 (CONT'D)

	2007 ₦'million	2006 ₦'million
19. Interest expense		
Central Bank of Nigeria Instruments	77,267	57,387
Interest on Federal Government Treasury Bonds	8,378	855
Deposit accounts	4,700	-
	90,345	58,242
All interest was paid locally		
20. Other operating income		
Fees	24	48
Foreign exchange earnings	45,029	49,105
Commissions	113	454
Profit on sale of fixed assets	15,718	46
Liquidity Management subvention from FGN	25,000	-
Other income	434	3,773
	86,318	53,426
21. Operating expenses		
Currency issue expenses	39,980	48,333
Salaries and wages	17,841	11,242
Gratuity	398	1,257
Other staff expenses	2,690	1,945
Pension costs	6,963	25,924
Provision for bad and doubtful balances	14,367	13,750
Administrative expenses	14,649	13,285
Depreciation charge	7,871	7,779
Repairs and maintenance	8,408	7,065
Consultancy fees	68	-
Bank charges	113	160
Auditors fees	100	60
Directors' fees	74	73
Computer system development costs	90	3
	113,612	130,878

Included in pension costs is an amount of N 5.435 billion (2006:N 24.967 billion) being full provision for the actuarial deficit in the Bank's defined benefit scheme. See Note 12 for further details.

APPENDIX B2 (CONT'D)

22. Cash generated from/(utilized by) operating activities

	2007 ₦'million	2006 ₦'million
Reconciliation of surplus for year to cash generated from operating activities:		
Surplus available for appropriation	32,349	31,122
Adjustments for:		
Depreciation	7,871	7,779
(Profit)/loss on disposal of fixed assets	(15,718)	(46)
Realised Loss on foreign exchange currency	72,433	15,557
Previously unrecognized investment	-	(7)
Movement in provisions	-	500
Net cash generated from operating activities	96,935	54,905
Changes in working capital:		
Increase in external reserves	(931,604)	(1,781,884)
Decrease/(increase) loans and advances	(267,032)	(74,756)
Decrease in foreign currency revaluation reserve	(246,631)	(8,605)
Decrease/(increase) in other assets	(55,724)	(83,498)
Increase in deposit accounts	408,913	1,070,147
Increase in Central Bank of Nigeria instruments	614,960	775,178
Increase in notes and coin in circulation	181,236	136,878
Revaluation loss on IMF allocation of SDR	(280)	(2,377)
Increase/(decrease) in other financial liabilities	169,313	3,907
Cash generated from/ (utilised by) changes in working capital	(126,849)	34,990
Cash generated from/(utilised by) operating activities	(29,914)	89,895

23. Contingent liabilities and commitments

(a) Legal proceedings

There were a number of legal proceedings outstanding against the Bank as at 31 December 2007 with contingent liabilities of N158.589 billion (2006- N49.868 billion). No provision has been made as professional advice indicates that it is unlikely that any significant loss will arise.

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

APPENDIX B2 (CONT'D)

(b) Capital commitments

	2007 ₦ Million	2006 ₦ Million
Capital Commitments	24,430	6,721

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

24. Related party information

The Bank entered into banking transactions with related parties in the normal course of business. These transactions include loans, deposits and foreign currency transactions. All transactions with related parties were carried out at arm's length.

25. Comparatives

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

APPENDIX B3

Auditors' Report

We have audited the accompanying financial statements of the Central Bank of Nigeria as at 31December 2007 set out on page 134 to 136 which have been prepared on the basis of the significant accounting policies on 137 to142.

Directors' responsibility for the financial statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with Central Bank of Nigeria Act No.7 of 2007. This responsibility include: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

We have obtained all the information and explanations that to the best of our knowledge and belief were necessary for the purposes of our audit.

Opinion

In our opinion, the Bank has kept proper accounting records and the financial statements are in agreement with the records in all material respects and comply with the previsions of the Central Bank Act. No. 7 of 2007. The financial statements have been properly prepared in accordance with the accounting policies set out on pages 136 to 141 and on this basis give a true and fair view of the financial position of Central Bank of Nigeria as at 31 December 2007 and of its financial performance and cash flow for the year then ended in accordance with the Central Bank of Nigeria Act No. 7 of 2007.

Chartered Accountants	Chartered Accountants
Abuja, Nigeria	Lagos, Nigeria
27 February 2008	27 February 2008

APPENDIX C

GLOSSARY OF SELECTED TERMS

Approval in Principle: This refers to the granting of a permit to any financial institution to operate pending the time it would meet the necessary requirements for operation that would then qualify it for a formal licence.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Total Reserves the sum of required reserves and excess reserves.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Credit Risk

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

Market Risk

Market risk is the risk that the value of on-and off-balance sheet positions of a bank will be adversely affected by movements in market rates or prices such as interest rates, foreign exchange rates, equity prices, credit spreads and /or commodity prices resulting in a loss to earnings and capital. Some of the common market risks in our environment include the following:

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

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

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

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

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

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

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

APPENDIX D

POLICY CIRCULARS AND GUIDELINES ISSUED IN 2007

1. BANKING SUPERVISION

S/N		Name of Circular	Date Issued	Remarks
1	BSD/DIR/07/Vol/01	Submission of Returns Through the eFASS	January 2007	It would be recalled that the live-run of the electronic Financial Analysis and Surveillance System (eFASS) commenced with effect from October 3, 2006. The various returns were designed to enable the CBN/NDIC monitor effectively, the performance of the Reporting Institutions. The Management of the CBN has however noted with deep concern, the failure of many banks and discount houses to render most of the returns particularly the daily returns. All the institutions are hereby reminded that they must submit all their daily returns not later than 3.00 p.m. of the following working day. We wish to emphasize that this is the last reminder as failure to ensure compliance with the above with effect from January 29, 2007 would attract appropriate sanctions which would include, but not limited to, suspension from the WDAS and the decline of other requests for CBN approvals.
		Guidelines for Developing Risk Management Framework for Individual Risk Elements in Banks	September 2007	**INTRODUCTION** Banks are exposed to various risks in pursuit of their business objectives. The basic ones include credit, market, liquidity, and operational risks. Failure to adequately manage these risks exposes banks not only to losses, but may also threaten their survival as business entities thereby endangering the stability of the financial system. In view of the foregoing and in line with the global recognition of the imperative of effective risk management and control systems in banks, the CBN provides Guidelines to enable banks develop their respective strategy for managing each risk element as part of the overall strategy for evolving efficient risk management systems. These guidelines, which are organized by risk category, are flexible in the sense that banks can adapt them in line with the size and complexity of their business. The adoption of the guidelines will also facilitate banks' preparation for the implementation of the New Basel Capital Accord in due course. The Guidelines should be read in conjunction with the generic "Guidelines for the Development of Risk Management Processes" issued in December 2005. **2.0 POLICY STATEMENT** **2.1** It is the overall responsibility of the Board and Management of each bank to ensure that adequate policies are put in place to manage and mitigate the adverse effects of all risk elements in its operations. **2.2** Each bank should develop and implement appropriate and effective systems and procedures to manage and control its risks in line with its risk management policies. **2.3** Each bank should submit a copy of its Risk Management Framework (RMF) highlighting its assessment of each risk element and any amendments thereto, to the Central Bank of Nigeria and the Nigeria

Deposit Insurance Corporation for appraisal.

2.4 Bank should submit periodic reports/returns in respect of their risk management processes (RMP) as they relate to individual risk elements in their respect banks to the regulatory authorities as may be required from time to time.

3.0 KEY ELEMENTS OF RISK MANAGEMENT PROCESS

3.1 The key elements of an effect risk management process should encompass the following:

(a) Risk Management Structure with Board and Senior Management Oversight as an integral element;

(b) Systems and procedures for risk identification, measurement, monitoring and control; and

(c) Risk Management Framework Review Mechanism.

4.0 RISK MANAGEMENT STRUCTURE

4.1 A sound Risk management structure is important to ensure that the bank's risk exposures are within the parameters set by the Board. Such structure should be commensurate with the size, complexity and diversity of the bank's activities. The risk management structure should facilitate effective board and senior management oversight and proper execution of risk management and control processes. At the minimum, the structure should contain the following:

4.2 Board

4.2.1 The Board should be responsible for establishing the bank's overall strategy and significant policies relating to the management of individual risk elements to which it is exposed. At the minimum, the Board's responsibilities should include the following:

4.2.2 Defining the bank's overall strategic direction and tolerance level for each risk element.

4.2.3 Ensuring that the bank maintains the various risks facing it at prudent levels.

4.2.4 Ensuring that senior management as well as individuals responsible for managing individual risks facing the bank possess should expertise and knowledge to accomplish the risk management function.

4.2.5 Ensuring that the bank implements sound fundamental principles that facilitate the identification, measurement, monitoring and control of all risks facing it.

4.2.6 Ensuring that appropriate plans and procedures for managing individual risk elements are in place.

4.3 Board Risk Management Committee (BRMC)

4.3.1 The Board Risk Management Committee (BRMC) should be responsible for ensuring adherence to the bank's risk management policy and procedures as set out by the board as well as review the bank's risk strategy for appraisal by the board.

4.3.2 In order to secure the independence of the BRMC, the Chairman of the Board shall not be a member of the committee in line with the Cod of Corporate Governance for Banks in Nigeria.

4.3.3 Membership of the BRMC shall include at least two (2) non-executive directors, one of whom should be an independent director. One of the non-executive directors shall serve as Chairman.

4.3.4 The MD/CEO shall be a member of the BRMC in order to complement his oversight role as the Chief Executive Officer of the bank.

4.4 Senior Management

4.4.1 Senior management is responsible for the implementation of risk policies and procedures in line with the strategic direction and risk appetite specified by the board.

4.4.2 For the effective management of risks facing a bank, senior management should at the minimum be responsible for:

- The development and implementation of procedures and practices that translate the board's goals, objectives, and risk tolerances into operating standards that are well understood by the bank's personnel.
- Establishing lines of authority and responsibility for managing individuals risk elements in line with the Board's overall direction.
- Risk identification, measurement, monitoring and control procedures.
- Establishing effective internal controls over each risk management process.
- Ensuring that the bank's risk policies, appetite and tolerance are well documented and clearly communicated throughout the bank such that staff at all levels will be responsible for identifying with the bank's declared priority or risk management by recognizing real and anticipated risks in their normal course of duty and taking appropriate action. This will ensure that the bank's risk management culture is sustained throughout its operations.

4.5 Risk Management Committee

4.5.1 A Risk Management Committee at the operational level which has responsibility for driving the risk management function should be headed by a suitably qualified officer of top management cadre. The Committee shall be responsible for the review of the bank's risk management frameworks, identification of lapses and suggestion of corrective measures through the examination of balance sheet structure, portfolio limits and distribution, target markets/products, using macro economic data, environmental assessment and in-house statistics. The Committee shall have a reporting relationship to the Board Risk Management Committee in accordance with the Code of Corporate Governance for Banks in Nigeria Post Consolidation. Members of the Committee should, at the minimum, comprise the heads of relevant departments/units such as Operations, Treasury, Internal Audit/Inspection, Human Resources and Legal.

4.6 Risk Management Function

4.6.1 The Risk Management function should ensure effective management of the significant risks inherent in the operations of the bank. For each of the risks, the arrangements should cover the following areas, among others:

(a) Establishment of systems and procedures relating to risk identification, measurement and control and monitoring of loan and investment portfolio quality and early warning signals.

(b) Ensuring that risk remains within the boundaries established by the Board.

(c) Ensuring that business liens comply with risk parameters and prudential limits established by the Board.

(d) Remedial measures to address identified deficiencies and problems.

(e) Stress testing of the credit portfolio

(f) Risk reporting.

5.0 RISK MANAGEMENT PROCESSES FOR INDIVIDUAL RISK ELEMENTS

5.1 CREDIT RISK

5.1.1 Banks should have Credit Risk Management Procedures that are holistic. At the minimum, they should cover formulation of overall credit strategy, credit origination, administration, analysis, measurement and control. They should also include the risk review process and procedures for managing problem credits.

5.1.2 Formulation of Credit Strategy

5.1.2.1 The first step in developing the bank's credit strategy should be determination of its risk appetite. Thereafter, the bank should develop a plan to optimize return while keeping credit risk within the predetermined limits. Specifically, the credit risk strategy should clearly outline the following:

(a) The bank's plan to grant credit based on various client s segments and products, economic sectors and geographical location.

(b) Target market within each lending segment, preferred level of diversification/ concentration.

(c) Pricing strategy.

5.1.2.2 Strategy should provide continuity in approach and should be reviewed and amended periodically as deemed necessary.

5.1.2.3 The strategy should indicate credit risk identification methods include, amongst other, review of macro-economic indicators, thematic reviews, statistical modeling, data mining, internal credit policies and procedures, etc.

5.1.3 Credit Origination

5.1.3.1 Banks must operate within a sound and well-defined criteria for new credits as well as the expansion of existing credits. Credits should be extended within the target markets and lending strategy of the institution. The key feature of credit origination should be the assessment of the risk profile of the customer/transaction.

5.1.3.2 Banks should develop procedures that adequately capture salient issues regarding the borrower's industry; macro economic factors; purpose of the credit; source of repayment; tract record and repayment history of the borrower; repayment capacity of the borrower; the proposed terms and conditions and covenants; adequacy and enforceability of collaterals; and appropriate authorization for the borrowing.

5.1.4 Credit Administration

5.1.4.1 The credit administration function is basically a back office activity that supports and controls and extension and maintenance of credit. A typical credit administration unit should perform the functions of credit documentation, monitoring and maintenance of credit files, collateral and security documents as well as ensuring that loan disbursement and repayment conform to laid down policies.

5.1.5 Measuring Credit Risk

5.1.5.1 The measurement of credit risk is of vital importance in credit risk management. Banks should adopt qualitative and quantitative techniques to measure the risk inherent in their credit portfolio

5.1.5.2 To measure the credit risk, banks should establish a credit risk rating framework across all types of credit activities.

5.1.5.3 Among other things, the rating framework should incorporate the measurement of business risk (i.e. industry characteristics, competitive position, management, etc,), and financial risk (i.e., financial condition, profitability, capital structure, present and future cash flows, etc,).

5.1.5.4 The credit rating framework should be designed to also serve as a tool for monitoring and controlling risk inherent in individual credits as well as in credit portfolios of a bank or business line.

5.1.5.5 The risk rating should categorize all credits into various classes on the basis of underlying credit quality.

5.1.5.6 Risk ratings should be assigned at the inception of lending, and reviewed at least annually. Additionally, banks should review ratings whenever adverse events occur. The risk ratings generated should be subjected to review and validation by a superior officer.

5.1.5.7 As part of portfolio monitoring, banks should generate reports on credit exposure by risk grades. Adequate trend analysis should also be conducted to identify any deterioration in credit quality. Banks may establish limits for risk grades to highlight concentration in particular rating banks. It is important that the consistency and accuracy of ratings is examined periodically by a function such as a separate credit review group.

5.1.6 Managing Problem Credits

5.1.6.1 Banks should establish a system that helps identify problem loans ahead of time when there may be more options available for remedial measures. Once a problem loan is identified, it should be managed under a dedicated remedial process.

5.1.6.2 Banks should clearly set out how they will manage their problem credits. Responsibility for such credits may be assigned to the originating business function, a specialized workout section, or a combination of the two, depending upon the size and nature of the credit and the reason for its problems.

5.2 MARKET RISK

5.2.1 Each bank should put in place a set of systems and procedures appropriate to the size and complexity of its operations for identifying, measuring monitoring and controlling market risk.

5.2.2 Identifying Market Risk

5.2.2.1 In identifying the overall market risk of a bank, a detailed analysis of assets and liabilities should be conducted to assess the overall balance sheet structure of the bank.

5.2.2.2 Some of the common market risks in the Nigerian financial environment include interest rate, foreign exchange and equity price risks.

5.2.3. Measuring Market Risk

5.2.3.1 Accurate and timely measurement of market risk is necessary for proper risk management and control.

5.2.3.2 Each bank should evolve measurement processes which are capable of identifying and quantifying market risk factors that affect the value of traded and non-traded portfolios, income stream and other business activities using all available data.

5.2.3.3 Each bank may use acceptable techniques to measure its market risks. However, such techniques should depend on the nature, size and complexity of the business as well as data availability and integrity.

5.2.3.4 The measurement system in each bank should make it possible to:

(a) assess all material market risk factors associated with its assets, liabilities and off balance sheet positions

(b) utilize generally accepted financial concepts and risk measurement techniques; and

(c) have well documented assumptions and parameters.

5.2.3.5 Regardless of the measurement system, the usefulness of each technique depends on the validity of the underlying assumptions and accuracy of the basic methodologies used to model risk exposures in order to quantify the potential impact on the business. In addition, the integrity and timeliness of data relating to current positions are key elements of the risk measurement system.

5.3 Operational Risk

5.3.1 Each bank should put in place an appropriate set of systems and procedures for identifying, measuring, monitoring and controlling its operational risk.

5.3.2 Operational Risk Identification

5.3.2.1 Each Bank should identify the operational risk inherent in all types of transactions, projects, activities, processes and system. Banks should also ensure that before new products, activities, processes and systems are introduced or undertaken, the operation risk inherent in them is subjected to adequate assessment procedures.

5.3.2.2 Each bank should ensure that its operational risk identification process is robust and should be capable of considering potential risks.

5.3.3 Operational Risk Measurement

5.3.3.1 Banks should establish the processes necessary for measuring operational risks inherent in their operations. These processes should, at the minimum, require that:

(a) banks have ability to estimate the probability of the occurrence of an operational loss event and its potential impact. This entails an evaluation of group wide operational risk through a business impact analysis, and

(b) banks put in place effect internal reporting practices and systems that are consistent with the scope of operational risk defined by supervisors and the banking industry.

5.3.3.2 In order for its operational risk measurement process to be effective, each bank should have in place experience staff and an appropriate systems infrastructure that can identify and gather operational risk data.

5.3.3.3 Banks should consider establishing Key Risk Indicators (KRIs) in order to make the process of monitoring operational risks very robust. It is very important to establish triggers for the KRIs. A trigger indicates the value of the KRI beyond which the potential for the occurrence of the risks is very high. All breaches of the trigger should be reported to senior management for timely corrective action.

5.4 LIQUIDTY RISK

5.4.1 Liquidity Risk Management Procedures should be comprehensive and holistic. At the minimum, they should cover formulation of overall liquidity strategy, risk identification, measurement, monitoring and control process.

5.4.2 Formulation of Liquidity Strategy

5.4.2.1 Banks should formulate liquidity policies approved by the Board of Directors. While specific details vary across institutions according to the nature of their business, the key elements of any liquidity policy should include:

(a) Determining the bank's risk appetite and tolerance levels. Specifically, the liquidity risk strategy should clearly outline the following:

(i) Composition of assets and liabilities to maintain liquidity:

While the Board should provide the broad policy objective and strategic focus, the management should stipulate the proportion of each asset and liability component (i.e. asset/liability mix) that the bank should hold at all times to maintain the required level of liquidity for its operations.

(ii) Diversification and Stability of Liabilities

The Board of Directors and senior management should provide guidance relating to funding sources and ensure that the bank have diversified sources of funding dayto-day liquidity requirements and the determination of the stability of the liabilities/funding sources.

(iii) Access to Inter-bank Market.

The liquidity risk management strategy should indicate the ability of the bank to obtain funds in inter-bank and other wholesale markets as those markets constitute important sources of liquidity. However, in formulating such strategy, each bank should recognize the fact that its ability to access funds from these markets could be seriously impaired during crisis situation.

(b) Developing general liquidity strategy (short-and long-term), specific goals and objectives in relation to liquidity risk management, process for strategy formulation and the level within it is approved;

(c) Defining the roles and responsibilities of individuals performing liquidity risk, management functions, including structural balance sheet management, pricing, marketing, contingency planning, management reporting, lines of authority and responsibility for liquidity decisions;

(d) Designing a Contingency Funding Plan (CFP) to enable banks meet their funding needs under different stress scenarios. The CFP is a set of policies and procedures that serves as a blue print for a bank to meet its funding needs in managing liquidity risk in a timely manner and at a reasonable cost. The CFP should project the future cash flows and funding sources of a bank under different market scenarios including aggressive asset growth and/or rapid liability erosion. To be effective, it is important that a CFP should represent management's best estimate of balance sheet changes that may result from a liquidity or credit event. The CFP should be comprehensive in scope covering both asset and liability strategies.

(e) The strategy should provide continuity in approach and should be reviewed and amended periodically as deemed necessary. There should therefore be periodic stress testing of the assumptions underlying the liquidity strategy, the results of which should be reviewed and analyzed to evaluate the impact on the business.

5.4.3 Identifying Liquidity Risk

5.4.3.1 An effective mechanism should be put in place by banks for proper identification of liquidity risks through early warning indicators, which include the following:

(a) a negative trend or significantly increased risk in any area or product line;

(b) concentrations in either assets or liabilities;

(c) deteriorating in qualify of credit portfolio;

(d) a decline in earnings performance or projections;

(e) rapid asset growth funded by volatile large deposit ;

(f) a large size off-balance sheet exposure relative to capital; and

(g) a deteriorating third party evaluation about the bank

5.4.4 Measuring Liquidity Risk

5.4.4.1 An effective measurement system is essential for adequate management of liquidity risk. Consequently, banks should institute systems that enable them to capture liquidity risk ahead of time so that appropriate remedial measures could be prompted to avoid any significant losses. Some commonly used liquidity measurement techniques are outlined below:

(a) Cash Flow Projections

a.1 At the minimum, banks should adopt flow measures to determine their cash position. The cash flow projection should estimate a bank's inflows and outflows and net position (GAP) over a time horizon. The behavioural GAP report should use short-time frames to measure near term exposures and longer time frames thereafter. It is suggested that banks calculate daily GAP for the next one or two weeks, monthly. Gap for next six months or a year and quarterly thereafter.

(b) Liquidity Ratios Limits

(i) Banks may use a variety of ratios to quantify liquidity. These ratios can also be used to create limits for liquidity management. However, where ratios are used, they must be in conjunction with more qualitative information. The bank's asset-liability managers should understand how a ratio is constructed, the range of alternative information that can be placed in the numerator or denominator, and the scope of conclusions that can be drawn from ratios.

(ii) In addition to the statutory limits of liquid assets and cash reserve requirements, the board and senior management should establish limits on the nature and amount of liquidity risk they are willing to assume. The limits should be periodically reviewed and adjusted when conditions or risk tolerances change.

(iii) In order to have effective implementation of policies and procedures, banks should institute limits for risk. Balance sheet complexity should be used to determine how much and what types of limits a bank should establish over daily and long-term horizons. While limits will not prevent a liquidity crisis, limit exceptions can be early indicators of excessive risk or inadequate liquidity risk management.

6.0 MONITORING OF INDIVIDUAL RISK ELEMENTS

6.1 Each bank should establish risk monitoring processes to evaluate the performance of the bank's risk strategies/policies and procedures in mitigating individual risks being encountered.

6.2 The monitoring process should at the minimum cover the understanding the bank's exposure to individual risk elements, ensuring compliance and assessing the adequacy of each risk measurement system.

6.3 At the minimum, the following reports should be generated on a regular basis:

- Summaries of the bank's exposure to individual risk elements;
- Report of compliance with policies and the limit set by the Board and Management as ell as regulatory requirements'
- Summaries of findings of risk reviews of policies and procedures relating to individual risk elements as well as the adequacy of risk measurement system, including any findings of internal/external auditors or consultants.

6.4 The reports should reflect all identified problem areas and set appropriate time limit form corrective actions.

6.5 Breaches or exceptions to limits should be promptly reported to appropriate authorities, using appropriately set policy on reporting procedure for breaches and actions to be taken.

6.6 Report detailing bank's exposure to individual risk elements should be reviewed by the board on a regular basis.

7.0 CONTROLLING INDIVIDUAL RISK ELEMENTS

7.1 Establishing and maintaining an effective system of internal control, including the enforcement of official lines of authority and appropriate segregation of duties, is one of Management's most important responsibilities. The ban's internal control structure should, therefore, ensure the effectiveness of the process relating to the management of individual risk elements.

7.2 Persons responsible for risk monitoring and control procedures should be independent of the functions they review. Key elements of internal control process include internal audit and review, and an effective risk limit structure.

7.3 Internal audit process should include the need for each bank to review and validate each step of individual risk measurement process or technique. External auditors or consultants can also be used for the review.

7.4 The review should take into account the following:-

(a) Appropriateness or the bank's individual risk measurement systems given the nature, scope and complexity of the bank's activities;

(b) Accuracy or integrity of data being used in risk modeling;

(c) Reasonableness of scenarios and assumptions; and

(d) Validity or risk measurement calculations.

7.5 The control processes should also include determining and abiding by the bank's overall risk appetite and exposure limit in relation to its risk strategy.

7.6 Risk limits for business units should be compatible with the institution's strategies, risk management systems and risk tolerance.

7.7 Each risk taking unit must have procedures that are used to monitor activities to ensure that they remain within approved limits at all times.

7.8 The report of regular independent review and evaluation of the system of internal control should be forwarded to the supervisory authorities periodically.

8.0 RISK MANAGEMENT SYSTEM RIEVEW MECHANISM

8.1 Each bank should develop a mechanism for assessing and reviewing its risk management policies, processes and procedures for individuals risk management policies, processes and procedures for individual risk elements, at least quarterly, based on the main findings of the monitoring reports and the result of analysis of developments arising from external market changes and other environmental factors. The results of such review should be properly documented and reported to the Board for consideration ad approval.

8.2 Each bank should carry out a self-assessment of its risk management framework for each risk element and assign appropriate rating as regards the quality of its systems and procedures. Such scores should be measured against industry, regulatory and international benchmarks.

9.0 SUPERVISORY FRAMEWORK

9.1 GUIDELINES AND POLICIES

9.1.1 The CBN will issue guidelines to banks to develop their respective risk management polices and strategies.

9.1.2 The Supervisory Authorities will consider and assess the adequacy of each bank's risk management policies and strategies.

9.1.3 Banks will be required to review their risk management policies and strategies on a regular basis as the need arises.

10.0 FRAMEWORK FOR ASSESSING THE ADEQUACY OF INDIVIDUAL BANKS'S RISK MANAGEMENT POLICY

10.1 The Supervisory Authorities, in assessing the adequacy of a bank's risk management system, will focus on the following among others:

(i) bank's size and nature of operations;

(i) the bank's standing in the market

				(ii) the bank's Corporate Governance Environment in the area of: Calibre of directors; • Effectiveness of supervision by the Board; • Role of Board Risk Management Committee • Commitment of senior management to compliance and corporate ethics • Integrity, competence and independence of risk management function • Systems capabilities • Loss database and Loss Reporting (iii) the quality of the bank's policies and system for managing bank's specific risks. **10.2 ON-AND-OFF-SITE MONITORING OF BANK'S COMPLIANCE WITH THEIR RISK MANAGEMENT POLICIES** **10.2.1** Regular reviews of periodic returns from banks will give a good indication of bank's compliance with their policies and implementation of the strategies. **10.2.2** Examiners, at routine visits to the bank's will give their opinion as to whether the operations of banks are being carried out in accordance with the bank's risk management policies. Ad-hoc verification spot checks will be conducted as and when necessary.
2	BSD/DIR/GEN/ CIR/VOL.1/013	Guidelines for the Appointment of Independent Directors	October 2007	Following the introduction of the Code of Corporate Governance to banks operating in Nigeria effective April 3, 2006, the following guidelines are given to enable banks comply with Section 5.3.6 of the Code which states that "at least two (2) non-executive board members should be Independent Directors (who do not represent any particular shareholder interest and hold no special business interest in the bank) appointed by the bank on merit": **a. Definition** An Independent Bank Director, would be a member of the Board of Directors who has no direct material relationship with the bank or any of its officers, major shareholders, subsidiaries and affiliates; a relationship which may impair the director's ability to make independent judgments or compromise the director's objectivity in line with Corporate Governance best practices. **b. Qualifications for appointment** Realizing that the need for Independent Directors arose from the desire to have on the board of banks, directors who would express expert and independent views on issues in order to enthrone best Corporate Governance practices, the criteria for appointment of persons as independent directors are as follows;

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

An Independent Director should not:

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

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

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

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

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

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

c. Appointment

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

d. Responsibilities

Independent Directors are to:

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

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

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

e. Remuneration

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

				f. Performance Evaluation The independent consultants appointed by banks as spelt out in the Code of Corporate Governance to appraise board members and board's performances should equally appraise the performance of the Independent Directors at least once a year or more frequently as may be necessary, or due to changes in circumstances that may affect individual directors' independence. In addition to the above, CBN/NDIC Examiners will assess the performance of all directors during routine examinations. **g. Tenure** The term of office of an Independent Director shall be 4 years for a single term and a maximum of 8 years of two consecutive terms if re-elected upon the expiration of the first term. However, the Independent Director may resign before the expiration of his/her term. In this circumstance, the independent director shall submit a written letter of resignation spelling out the circumstances leading/surrounding the resignation, a copy of which should be sent to the CBN. The CBN may also review the appointment of an Independent Director if it is established that his/her independence is impaired by subsequent actions.
	BSD/DIR/GEN/ CIR/V.1/017	Circular to all Banks - Bank Mergers and Acquisitions	November 2007	The Central Bank of Nigeria has observed with keen interest recent developments in the financial system, including the efforts at further consolidation by banks. These attempts, which are based primarily on market considerations, are a welcome development as the reasons adduced are commendable. The CBN extols these initiatives but wishes to remind banks that the processes and procedures adopted must be carried out with regard for due4 process, professionalism and in compliance with the relevant laws governing banking. It is in this regard that banks are advised to be guided as follows: **1.** Any bank wishing to acquire or merge with another bank should initiate preliminary discussions with the target bank at the heist level, this is, at the level of the Board of Directors/key shareholders of the institutions. No further steps should be taken if majority shareholders of both banks are not in agreement with the planed merger or take-over; **2.** Upon the commencement of such discussions, the banks involved must notify the CBN in writing and obtain a "no objection" response before they proceed with further discussions/negotiations. Thereafter, they should continue to provide the CBN with regular updates on the progress made in the discussions; and **3.** Banks should at all times comply strictly with all relevant laws and regulations including the provisions of the Banks and Other Financial Institutions Act 11991 (as amended); Investments and Securities Act 1999; and the Companies and Allied Matters Act 1990, in the conduct of the transactions. For the avoidance of doubt, the CBN will not tolerate actions that are likely to precipitate crisis or instability in the Banking System and thus will not hesitate to bring to bear the full brunt of the law on any erring bank in line with its zero tolerance policy.

2 BANKING OPERATIONS

S/N	Circular Reference	Name of Circular	Date Issued	Remarks
2	BOD/DRO/GEN/ MPI/VOL.2/2	Re: Operationalization of the CBN Standing Facility	January 2007	Our Circular No. BOD/DRO/GEN/MPI/VOL.2 dated 11th December, 2006 on the above subject matter refers. It is expected that with the deployment of the RTGS System all deposit money banks (DMBs) and discount houses are now able to determine their end-of-day balances. Consequently, it is required that requests by DMBs and discount houses must indicate the exact amount to be deposited and no longer the balance to be set aside. For the avoidance of doubt, deposit instruction not backed by adequate funds shall be regarded as a failed transaction and will therefore not be remunerated. However, cash balances in excess of deposit requests or arising from failed transaction or where there is no deposit request at all, shall be remunerated at 0.10 per cent per annum.
	BOD/DIR/GEN/ CIR/VOL.II	Appointment of a New Printer under the Nigeria Cheque Printers Accreditation Scheme	February 2007	This is to inform you that Management of the Central Bank of Nigeria has, effective February 26, 2007, approved the appointment of Superflux International Limited as an authorized printer under the Nigeria Cheque Printers Accreditation Scheme (NICPAS). The company, like the others appointed earlier, is authorized to print background tablet and personalize/print MICR codeline and is located at No.3 Vori Close, Off ACME Road, Ogba, Ikeja Lagos. This brings to 12 the number of accredited printers.
	BOD/PSD/CIR/ GEN/VOL.1/	Automated Processing of NACS Inward Clearing Files	July 2007	To enhance efficiency in the payment and settlement system, the Central Bank of Nigeria recently reduced up-country cheque clearing cycle from six to four working days. And to build on this achievement, both local and up-country clearing cycles would be harmonized early next year. To achieve this, however, it is necessary for banks to automate the processing of electronic files received from NACS. Consequently, all banks are strongly advised to upgrade their clearing infrastructure in order to automate the processing of the NACS inward clearing files (Bank Posting File). Under this arrangement, a bank's processing system should be able to upload the inward (electronic) clearing files automatically after the clearing session. This would ensure that customers' accounts are updated immediately after each clearing session. We urge you to put this process in place before the end of October, 2007.
	BOD/DIR/GEN/ CIR/VOL.III	Banking Transactions Timeline	August 2007	Sequel to the meeting between the Central Bank of Nigeria (CBN) and its Stakeholders on August 9, 2007 on the above-named subject, the Management of the CBN has approved with immediate effect, the followings: Daily processing timeline for all transactions: To improve the CBN's service delivery to its customers, while facilitating the timely completion of bank-end processes and analysis of transactions, banks and discount houses are hereby enjoined to adhere to the following business timelines with immediate effect. **Activity** — **Timeline** T24/TIB Transaction Input Start — 8.00 am

				Transaction Input Cut-off 3.30pm CIFTS (RTGS) Transaction Start 8.30 am Transaction Cut-off 3.30 pm e-FASS Transaction Start 8.00 pm (Sunday) Transaction Cut-off 8.00 am (Saturday) Payment for foreign exchange winnings at wholesale Dutch Auction System (WDAS) Sessions Following our circular TED/AD/89/2006 on the above and the follow-up of stakeholders meeting on August 9, 2007 all authorized dealers banks' treasury bill holdings to pay for their foreign exchange winnings, in the event that the cash balances in their accounts with CBN at the time of settlement are insufficient to settle the forex winnings. The option to discount NTB holdings is to make-up the shortfall in DMBs cash balances with the CBN. Thus, where the combination of the funds in banks' current accounts and the value of NTB holdings, cannot cover the amount of forex demanded, the forex winnings shall be disqualified. All Deposit Money Banks and Discount Houses are advised to note the new timelines and the settlement arrangement for forex purchases for strict compliance.
	BOD/DIR/GEN/ CIR/VOL.III	Central Bank of Nigeria Banking Transactions Timeline	August 2007	In line with the decisions at the stakeholders meeting with relevant Ministries, Departments and Agencies (MDAs) on 6th August, 2007, Management of the CBN wishes to remind all MDAs that the mandates for payment and other official documents should be submitted to the CBN between 8 a.m. and 3.30 p.m. daily. For the avoidance of doubt, no mandates for payment and other official documents would be received after 4 p.m. This is to allow timely completion of back-end processes and analysis of transactions and thereby improve service delivery to CBN's customers. However, the above arrangement does not change the existing banking hall service hours of 8.00 a.m 3.00 p.m. (Monday) and 8.00 a.m. 1.30 p.m. (Tuesday Friday)
	BOD/DIR/GEN/ CIR/VOL.III	Establishment of Relationship Management Functions for Efficient Service Delivery	August 2007	Following, outcome of the July 2007 stakeholders meeting of the CBN, Ministries, Departments and Agencies (MDAs), the Deposit Money Banks (DMBs) and Discount Houses coupled with the need for continued efficient service delivery to customers, the Central Bank of Nigeria, has designated specific officers as customer relationship managers (CRM). \ The names of the officers with details below, have been selected as the CRMs for your organization to attend to and address all your banking operations service related enquiries to the CBN, as much as possible. The CRM issues will include transactions in money market, operations of the Real Time Gross Settlement (RTGS) cum Temenos Internet Banking (TIB), Cash Reserve Requirement (CRR), transactions affecting your current accounts, dealings in Government securities, account balances of Ministries, Department and Agencies of the

				Government and any other related banking services provided by the Bank. We urge you to please take advantage of this initiative, to help the CBN provide efficient services. Name: I. Ibrahim E.A. Okwoche Land Phone: 09-61638409 09-61638406 Mobile: 08033454577 08033000231 Email: bodrm4@cenbank.org
		Uniform Cut-off Dates for Determining Customs Month End Revenue Collection	September 2007	In order to have a consistent cut-off date and ensure minimal reconciliation problems, it has become necessary to adhere strictly to cut-off dates as agreed between the Office and the Nigeria Customs Service for purposes of FAAC components. As highlighted above, because of the present weekly transfers to pool accounts at the Head Office, the following should be adhered to: **1.** Where the month ends on a Friday, the cut-off date should be the following Monday. **2.** Where the month ends midweek e.g. Tuesday or Wednesday cut-off date should be the following Monday, since the branches standing order takes effect after end of week transaction on Fridays. Please note that this arrangement would remain in place pending when the CBN branches reconfigure their standing orders to reflect daily remittances to the Head Office Pool Account.
		Transfer of Customs Revenue Balances on Daily Basis to Pool Accounts through T24 Standing Order Module	September 2007	We write to request you to reset the T24 standing order for all customs revenue transit accounts operated in your branch from the current weekly transfers every Monday to daily transfers to pool account, Head Office, Abuja. The need to reset standing order has become necessary to facilitate timely remittance of collections to respective pool accounts at the end of each month, to enhance the operations of the Federation Account Allocation Committee (FAAC). You are please enjoined to liaise with ITD staff resident with your branch in resetting the standing order and inform us when action is completed.
	BOD/DIR/CIR/ 2007/GEN/03/001	Ensuring Timely Remittance of Government Revenue by Deposit Money Banks	November 2007	It would be recalled that the Central Bank of Nigeria (CBN), in 1999 delegated its retail banking role with government to the deposit money banks. Since then banks have been the main revenue collecting agents for government and its agencies. Under this arrangement all appointed banks are required to remit all revenue collections into the pool accounts at the CBN, within an agreed timeline. The CBN is however worried that notwithstanding the appeals to the revenue collecting banks, some do not remit their collections as and at when due especially the collection on behalf of the Nigeria National Petroleum Corporation (NNPC) from its depots all over the country. This has led to the postponement of the Federation Accounts Allocation Committee (FAAC) meeting dates in some instances; thus disrupting the distribution of revenue to the federating units. In addition, this unethical practice undermines the effective conduct of monetary policy given the size of the NNPC account.

				The CBN warns that it would no longer tolerate this attitude. Thus, all revenue deposits collected on behalf of NNPC from all its depots should be paid into the CBN within twenty-four (24) hours of the exact value date indicated on the NNPC payment instruction to banks, failing which the CBN shall debit the accounts of the affected banks in the CBN. Banks, whose accounts get overdrawn because of the direct debit, shall pay double the penalty for overdrawn accounts. In addition, defaulting banks risk being stopped from collecting revenue deposits for the NNPC and other parastatals.
	BOD/DIR/CIR/ 207/GEN/03/002	CBN Classifies FGN Bonds as Liquid Assets	December 2007	In order to help deepen the financial market, especially the bonds market, and enhance the information content of the yield curve for effective price discovery as well as bench-mark international best practices, the DMBs and the DHs are hereby informed that all FGN bonds actively traded on the secondary market, irrespective of tenor, would henceforth qualify as liquid assets. It would be recalled that hitherto, only FGN bonds with three years maturity or less were considered as liquid assets. By the new decision, all FGN bonds actively traded on the secondary market, shall: • qualify as eligible instruments for the computation of liquidity ratio of the deposit money banks; and • serve as collateral for lending/repo at the CBN window. The CBN however, will exercise discretion on the maturity class to admit for purposes of its monetary operations.
S/N	**Circular Reference**	**Name of Circular**	**Date Issued**	**Remarks**
3	OFD/DIR/CIR/ GEN/V04/001	To All Finance Companies: Renewal of Operating Licence	February 2007	As you are aware, one of the conditions for granting operating licence to finance companies is the membership and effective participation in the activities of the FINANCE HOUSES ASSOCIATION OF NIGERIA (FHAN), being the umbrella body for all finance companies operating in Nigeria. It has however, come to our attention that many of the finance companies have not been discharging their obligations to the umbrella association, especially in the payment of annual dues. To encourage effective participation of all finance companies in the activities of FHAN, any finance company applying for renewal of its operating licence shall, henceforth produce an evidence of payment of its annual dues and obtain a clearance from FHAN before the application for the revalidation of its operating shall be processed by the CBN.
		To the Chairmen, Directors, Managers and Staff of all Community Banks		**1. Submission of Applications for Conversion** The Microfinance Policy, Regulatory and Supervisory Framework for Nigeria, which was launched by Mr. President on 15th December, 2005 stipulated a two-year period ending 31st December, 2007 for all existing community banks (CBs) to convert to microfinance banks (MFBs). As the deadline for the conversion of existing CBs to MFBs gradually approaches, it has become necessary to advise all CBs that have already attained the minimum capital requirement of N20 million shareholders' funds, unimpaired by losses, for a unit MFB, or N1.0 billion

				shareholders' funds. unimpaired by losses, for a state MGB, to submit their applications for conversion immediately. This is to avoid bunching of applications towards the deadline. By the same token all CBs that are yet to attain the minimum capital requirement are also urged to expedite action and explore all legitimate options towards meeting the capital and documentation requirements for their conversion to MFBs, as stipulated in the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria and the Guidelines for Microfinance Banks in Nigeria. **2. Deadline for Conversion to Microfinance Bank** For the avoidance of doubt, it is necessary to categorically state that the 31st December, 2007 deadline for the conversion of CBs to MFBs is sacrosanct and will not be shifted for any reason. **3. The Merger Option for Conversion to Microfinance Banks** One of the options available to CBs for attaining the minimum capital requirement for conversion to MFBs, as stated in the CBN Circular No. OFID/DO/Cir/Vol.1/450 of 3rd February, 2006, is merger. A merger between two or more CBs is allowed, provided the merging institutions have jointly attained a minimum shareholders' fund of N20 million shareholder's fund, unimpaired by losses, for a unit MFB. One of the offices of the merging CBs, where it has its dominant activities shall be` the Head Office, while the other offices of the merging CBs shall be retained as approved Branches. However, additional (new) branches shall not be allowed for the emerging MFB, outside its state of dominant operations, until it has opened branches to cover tow-thirds of the Local Government Areas LGAs) in the state of dominant operation, where the Head Office is located. Mergers between two or more CBs, in different LGAs, within the same state is encouraged. However, in exceptional cases, mergers of CBs in neighboring states may be allowed, to take advantage of their proximity. Such peculiar situations will be considered on a case by case basis. This concession has been granted to preserve and ensure the sustenance of existing institutions. **4.** These clarifications have become necessary to correct the erroneous impression recently conveyed in some newspapers on these issues. All CBs are advised to be properly guided. Further clarifications may be directed to the undersigned.
	OFID/DIR/CIR/GEN/V.001/001	Warning to all Primary Mortgage Institutions, Community Banks/Microfinance Banks and Finance Companies on the Issuance of False/Forged Statements of Accounts	June, 2007	It has come to the notice of the Central Bank of Nigeria (CBN) that some primary mortgage institutions (PMIs) and community banks (CBs) microfinance banks (MFBs) have been issuing falsified or forged statements of accounts on behalf of their customers and non-customers, with a view to exaggerating or misrepresenting the financial standing of the affected persons. In particular, our attention has been drawn to false/forged statements of accounts issued by some PMIs and CBs for presentation to Embassies and high Commissions in support of applications for entry visa to the affected countries. These immoral, unethical and illegal acts undermine the integrity of the financial system in general and the other financial institutions (OFIs)

				sub-sector in particular. For the avoidance of doubt, any staff of any financial institution found to be engaged in this act shall be blacklisted and referred to the Police and the Economic and Financial Crimes Commission EFCC for further investigation and prosecution, while the affected institution shall be appropriately sanctioned.
		Important Notice To the Chairman, Directors, Shareholders, Managers and Staff of all Community Banks		As the deadline for the conversion of existing community banks (CBs) to microfinance banks (MFBs) fast approaches, it has again been considered necessary to advise all CBs that are yet to convert to MFBs to urgently re-capitalize, fulfill other requirements and submit their applications for conversion, or nor before 30th November, 2007, which is the new date approved for submission of application. This is to allow some lead time for processing all applications submitted. It is instructive to emphasize that the Central Bank of Nigeria (CBN) will publish the names of all CBs that have obtained either provisional approvals or final licences as microfinance banks by 31st December, 2007. Members of the public are hereby being put on notice that they should only transact business with the institutions on that list. Any member of the public who transacts any business with any institution which is not on that list, does so at his/her own risk. Members of the public are therefore to note that only CBs that are able to convert to MFBs as at that date (31st December, 2007) shall continue to be supervised by the Central Bank of Nigeria. Consequently, any community bank which is unable to convert and consequently fail to appear on the list shall automatically have its operating licence revoked and shall cease to operate after that date. All CBs that are yet to meet the conversion requirements are advised to expedite action, as the conversion deadline of 31st December, 20076 remains sacrosanct. Further clarifications on this may be directed to the undersigned.
		Important Notice To all Community Banks with Provisional Approval to Convert to Microfinance Banks		Following the incessant complaints by community banks (CBs) converting to microfinance banks (MFBs) regarding the registration and incorporation of their new names at the Corporate Affairs Commission (CAC), a meeting comprising the officials of the Central Bank of Nigeria and the CAC was convened to proffer solutions to some of the numerous complaints. Consequently, the following procedures and further concessions have been approved/granted by the CAC: **1.** The Commission has granted a waiver to penal charges for non-filing of prior returns up till November 2004 and a 50 per cent reduction thereafter. **2.** The Commission ahs also granted a special dispensation to community banks to deal directly with its officials to avoid unnecessary charges that would have been other wise incurred on consultancy and agency fees. In this regard, all CBs are to directly contact the Director, Registry Department, CAC, Abuja for necessary clarification and assistance. All community banks are therefore advised to utilize this direct access to the Commission and complete their conversion process on or before 31st December, 2007.

		Important Notice Final Notice on the Deadline for Conversion to Microfinance Banks		In furtherance of our earlier publications on the deadline for the conversion of existing community banks (CBs) to microfinance banks (MFBs), it has again be considered necessary to advise all CBs that are yet to convert to MFBs or meet the minimum capital requirement of N20 million to urgently re-capitalize, on or before 31st December, 2007. This publication serves as a final notice to all chairmen, directors, community development associations, shareholders and other officers of CBs that failure to meet this deadline will be interpreted to mean that the CB has either closed ship. Ceased to operate, is technically insolvent, or has resolved to exit. In the event that any of the CBs is unable to meet the minimum shareholders' fund, unimpaired by losses, of N20 million, such CB is required to submit the following documents to the Director, Other Financial Institutions Department, Central Bank of Nigeria, Lagos, on or before 31st December, 2007: **1.** Winding-up resolutions of the board of directors, ratified at a general meeting of shareholders; **2.** Statement of Assets and Liabilities; **3.** List of all depositors their addresses and the amounts to their credit; **4.** List of all creditors and the amounts owed to them; and **5.** Documentary evidence that all depositors and creditors have been settle (in that order) **6.** List of all debtors including their addresses and the amount owed to the CB; It is instructive to reiterate that the Central Bank of Nigeria (CBN) will publish the names of all CBs that have obtained either provisional approvals or final licences as microfinance banks by 31st December 2007. Members of the public are also to note that only CBs that are able to convert to MFBs as at that date (31st December, 2007) shall continue to be supervised by the central Bank of Nigeria. Consequently, any community bank which is unable to meet the requirement of N20 million minimum shareholders' fund, unimpaired by losses and consequently fail to appear on the list shall automatically have its operating licence revoked pursuant to Section 12 of BOFIA, 1991 (as amended) and shall cease to operate after that date. The letter conveying this information has been dispatched to the affected CBs. Further clarifications on this may be directed to the undersigned.
		Important Notice Appropriate Branding and Name Display by Microfinance Banks		It has come to the notice of the Central Bank of Nigeria that some microfinance banks play down the work "Microfinance" in their approved names in order to disguise the sub-sector in which they have been licensed to operate. This unwholesome action is capable of generating unnecessary confusion in the market. Consequently, all microfinance banks are required to ensure that their entire official name as approved by the Central Bank of Nigeria (CBN) and registered at the Corporate Affairs Commission (CAC) is boldly

				written on their sign-board, letter-headed papers, all banking instruments, branded documents and signages in same font style and size. For the avoidance of doubt, the work "Microfinance" should be in the same font style, size and colour as the work "Bank" along with the rest of the approved name (e.g. Anytown Microfinance Bank Ltd). All sign-boards, letter-headed papers, banking instruments, branded documents and signages which do not confirm to this specification should be replaced forthwith. Furthermore, a copy of the CBN licence of all MFBs should be glazed and displayed in a conspicuous location within the banking hall at its Head Office and all approved branches with immediate effect. Any microfinance bank that fails to comply with these directives shall be appropriately sanctioned, including the revocation of its licence in accordance with Section 12(e) of the Bank and Other Finance Institutions Act (BOFIA), 1991 (as amended).
		Important Notice Notice to Community Banks that Have closed Shop or Consistently Failed to Render Statutory Returns		The Central Bank of Nigeria (CBN) in its continued efforts of promoting the financial system soundness had recently carried out a final round of existence check to confirm the cessation of operations by some community banks (CBs) that had consistently failed to render statutory returns to the CBN before and after the launch of the Microfinance Policy for Nigeria on December 15, 2005. The outcome of the existence check revealed that 1456 CBs listed below had ceased operation and consequently have render banking services to members of the public. In line with its supervisory responsibility under the provisions of section 12 and 59 of the Banks and Other Financial Institutions Act (BOFIA), 1991 as amended, the CBN hereby directs that all chairmen and directors of the affected CBs, should within twenty one (21) working days from, the date of the first publication of this notice, forward to the Office of the Director, Other Financial Institutions Department (OFID) CBN, the following information on the CBs listed below: **1.** Statement of the Assets and Liabilities **2.** Comprehensive and verifiable list of depositors showing their names, addresses and the amounts in their favour. **3.** List of all debtors including their addresses and the amount owed to the CB; **4.** List of its asses (movable and fixed). The information listed in 1 to 4 above should be provided by the CBs as at the last date of their operations. The CBN hereby warns that all chairmen and directors of the affected CBs that fail to forward the required information as directed above shall be liable to prosecution in the appropriate law courts.