CENTRAL BANK
OF NIGERIA

BANKING SUPERVISION ANNUAL REPORT 2001

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

Any enquiry regarding the publication should be directed to the Director of Banking Supervision, Central Bank of Nigeria, Zaria Street, Off Samuel Ladoke Akintola Boulevard, P.M.B. 0187, Garki, Abuja - Nigeria.
Telephone: +234 9 3145313-4;
Fax: +234 9 2345325
E-mail: oiimala @ hotmail.com

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FOREWORD

The year, 2001, recorded various developments, changes and new beginnings in the financial system and the economy, on the domestic front, as well as world-changing events on the international scene.

The year opened with the formal commencement of Universal Banking [UB] in Nigeria, following the approval of its adoption in the previous year, by the Management of the Central Bank of Nigeria [CBN], in response to the trend in the world financial system, the imperatives of globalisation and financial deregulation, as well as the yearnings of the banking industry. Although a watershed event in the financial system, a misapprehension of UB had elicited mixed reactions from both the operators and regulators. While the banks that had clamoured for it received the event with applause, both the operators and regulators in the capital market and insurance sub-sectors, were less enthusiastic and even suspicious of the impact that the new banking system might have on their respective sub-sectors. This had generated subtle opposition from these quarters. It is heartening to note, however, that this opposition had waned as a result of a better appreciation of the system, in the course of the year.

The Other Financial Institutions Department, established by the CBN to undertake the supervision of finance companies, community banks, primary mortgage institutions, bureaux de change and development finance institutions, formally took off during the year, with offices in Lagos and Abuja. While it was engaged mainly with the acquisition of equipment, training of its examiners, conducting the headcount of institutions under its supervisory purview and preparation for the licensing of the viable and eligible institutions during the year, the department is poised to begin full-fledged on-site and off-site examinations in the coming year.

The perennial liquidity overhang, exacerbated during the year by the monetisation of the excess crude oil receipts and the proceeds from GSM licences, which threatened to overheat the economy, through exchange rates upswings and inflationary pressure, once again caused the CBN to review, upwards, the minimum rediscount rate, the cash reserve requirement and the liquidity ratio as well as introduce a complement to the treasury bill, the CBN Certificate, to curtail the liquidity problem.

During the year, the CBN issued various circulars and guidelines in response to various developments and the negative trends that emerged in the financial system. Such developments included the seemingly intractable malpractices by some banks in their foreign exchange operations, unrealistic profit levels and deposit target-setting by the banks, reckless-staff poaching, as well as increasing bank exposures to governments and their agencies. Some of the guidelines/ circulars issued to arrest these trends were generally discussed with the various interest groups, to explain the rationale and intent of the CBN's actions. It is hoped that the banks will comply strictly with the guidelines, for the good of the banking system and the economy in general.

The introduction of the much-awaited GSM system into the communication industry, during the year, has not only brought about a revolution in the utilities sector in such a short space of time, but is also expected, in due course, to boost the nation's GDP through employment generation and enhanced productivity of the other sectors of the economy. Added to the improvement in the utilities sector, was the enhanced power-generating capacity of the National Electric Power Authority [NEPA], which will further buoy the productivity of the economy.

The most significant event on the international scene was the terrorist attack on the World Trade Centre in New York on September 11, 2001. The incident, which was widely condemned by nations and individuals alike, resulted in the death of thousands of people comprising Americans and other nationalities. The attack has not only had an adverse effect on the American economies but also the economy of most nations of the world. The consequent efforts of the American government to combat terrorist organisations in both Afghanistan and other locations, received the support of the entire world. The CBN, on its part, issued various circulars to the banks, directing them to report the accounts of any known terrorist organisation, for the purpose of freezing same, in line with the US Executive Order 13224 and UNSCR 1373.

A conscious effort has been made in this fifth edition of the Banking Supervision Annual Report, to consolidate on the refreshing changes made in the fourth edition. While our commitment to the continued improvement in the aesthetics and contents of the Report is unwavering, we hope that the additional statistics introduced in this edition will meet the readers' expectations.

DR. SHAMSUDDEEN USMAN
Deputy Governor
Domestic Monetary and Banking Policy

PREFACE

Since its maiden edition in 1997, the Banking Supervision Annual Report has provided a veritable channel for disseminating information on the regulatory functions of the CBN, especially the activities of the Banking Supervision and Bank Examination Departments. The current edition has six chapters, which are further divided, into various sub-sections.

Chapter one deals with the developments in the financial services industry. It discusses the take-off of the newly created Other Financial Institutions Department, which is charged with the responsibility for supervising finance companies, bureaux de change, primary mortgage institutions, community banks and development finance institutions. It discusses the commencement of universal banking, lending to governments and their agencies, ethics and professionalism in the financial services industry, round-tripping of foreign exchange in the banking industry and its challenges to supervision, and liability and profit targeting.

Chapter two presents a comprehensive review of the supervisory activities of the Banking Supervision, Bank Examination and Other Financial Institutions Departments. Chapter three focuses on foreign borrowing for on-lending, staff poaching, harmonisation/standardisation of software, multiple directorship, and the role of external auditors in supervision.

Concerned about the signs of distress still present in the banking system, and in order to prevent a recurrence of the unpleasant events of the 1990s, the regulatory authorities have put in place a framework on contingency planning for systemic crisis for the Nigerian banking system. The framework prescribes actions to be taken in the event of any banking crisis. Also, the Basel Committee on Banking Supervision released a new capital accord to address the shortcomings in the 1988 Accord. These developments, and the IMF Financial Sector Assessment

Programme, are discussed in chapter four.

The performance trend of the banking sector in the year 2001, discussed in chapter five, shows that the year witnessed significant developments in the sector. The Cash Reserve Requirement (CRR) was raised from 10 percent to 12.5 percent, liquidity ratio from 35 percent to 40 percent, while the minimum paid-up capital for new banks was raised from x1 billion to x2 billion. The chapter has been enriched with three-year comparative figures on the balance sheet structure, earnings, capital adequacy, asset quality, liquidity, profitability, market share and efficiency of the banks.

The emphasis on capacity building, through staff training and development, was sustained in the year under review. This stems from the CBN's resolve to continuously enhance its examiners' skills to cope with their supervisory functions. Chapter six shows some of the courses attended by the examiners and also reviews the papers presented at the 8th Bank Examiners' Conference held in October 2001.

The Report had gained wide acceptance since its inception. Its continued publication would not have been possible without the support of the CBN Management, for which we are most grateful. We commend the Banking Supervision Annual Report Committee for the technical skills and professional competence that have been brought to bear on the compilation of this Report. We also thank the various international bodies for their comments, which have further challenged us to continuously improve on the standard of the Report. We look forward to more of such comments in the future.

A. S. BAMISILE
Director
Other Financial Institutions Department

M. A. BAMIRO
Director
Bank Examination Department

O. I. IMALA
Director
Banking Supervision Department

Chapter One

DEVELOPMENTS IN THE FINANCIAL SERVICES INDUSTRY

1.01 CREATION OF OTHER FINANCIAL INSTITUTIONS DEPARTMENT

The non-bank financial institutions came into greater focus with the deregulation of the financial system, but they had operated without supervision by the Central Bank of Nigeria. To promote the mobilisation of short-term funds in the economy, the government extended the licensing policy for banks to the other financial institutions. This, together with the embargo placed on the licensing of banks in 1991, resulted in an increase in the number of these institutions. The other financial institutions, which operate in the Nigerian financial market alongside conventional banks, include finance companies (FCs), bureaux de change (BDCs), primary mortgage institutions (PMIs) and specialised banks such as development finance institutions (DFIs) and community banks (CBs).

Mandate of OFID, its mission and vision

Sequel to the promulgation of the CBN Act 24 and the Banks and Other Financial Institutions Act (BOFIA) No. 25 in 1991, the need to regulate this rapidly growing sub-sector led to the creation of a department in the CBN known as the Other Financial Institutions Department (OFID), with the responsibility for supervising the other financial institutions. The department assumed its supervisory role in April 2001, with a vision to be proactive and efficient in the regulation and supervision of the specialised banks and other financial institutions (OFI) by ensuring a sound, safe, effective and efficient other finance institutions sub-sector in Nigeria. The mission of the department is to develop an appropriate regulatory/ supervisory framework and strategy that would guarantee the desired growth and efficient performance of the other financial institutions sub-sector, through adequate and effective surveillance and monitoring.

Functions of OFID

The department has responsibility for the off-site and on-site supervision of community banks, primary mortgage institutions, finance companies, bureaux de change and development finance institutions.

As part of its off-site supervisory activities, OFID carries out the following tasks:

(i) Processing of applications for licences in respect of OFIs.
(ii) Appraisal and approval of nominees into their Boards of Directors and top management positions.
(iii) Processing of applications for the transfer of shares and for increase in share capital.
(iv) Processing of requests for branch expansion, branch closure, office relocation and change of address.
(v) Appraisal of various statutory returns from OFIs.
(vi) Handling issues of default by OFIs in redeeming obligations.
(vii) Processing requests for the appointment or change of external auditors.
(viii) Approval of the audited annual financial statements of OFIs before publication.

Basically, its on-site examinations are intended to:

- assess the quality of the boards of directors , top management and staff;
- determine the adequacy or otherwise of the organisational structure;
- determine the adequacy and effectiveness of the internal control systems; and
- assess the quality of the assets and the going concern status of the OFIs.

Challenges facing OFID

The major challenges facing the department are the sanitisation of the other financial institutions sub-sector and the restoration of public confidence, which was shaken by the widespread distress in the sub-sector in the early 1990s. A vibrant, strong and sound OFI sub-sector would complement the effective and efficient implementation of monetary policy measures in the financial system.

Other challenges include:

(i) Building an appropriate legal framework for the regulation and supervision of OFIs. The department would have to initiate some legislative changes to facilitate the proper regulation and supervision of OFIs. This would require the repeal of the enabling Acts of the other supervisory agencies like the National Board for Community Banks (NBCB) and the Federal Mortgage Bank of Nigeria (FMBN), which had regulatory authority over CBs and PMIs, respectively, and amending the enabling Acts of the DFIs. Also, a review of the BOFIA should be carried out to specify appropriate penalties for infractions by the OFIs.

(ii) Establishing criteria to detect early symptoms of distress. This will entail the designing of a framework for the prevention of distress in the sub-sector.

(iii) Formulating appropriate distress resolution options for the OFIs.

Constraints of OFID.

The major constraint of OFID is the dearth of examiners. Due to the specialised nature of the OFIs, experienced examiners are needed to carry out off-site and on-site examinations of these institutions, which include 1013 CBs, 78 PMIs, 96 FCs, 248 BDCs and 6 DFIs, as at December 31, 2001.

Poised to sanitise OFI sub-sector.

The strengthening of the supervisory and regulatory framework of OFIs through the establishment of OFID will, no doubt, enhance their effectiveness and put the sub-sector back on the path of growth.

A vibrant OFI sub-sector would enable the CBN to be more efficient in the implementation of monetary policy, which will contribute towards ensuring a sound, safe, and efficient financial system in Nigeria.

1.02 LENDING TO GOVERNMENTS AND THEIR AGENCIES

Provisioning requirements for loans to governments.

The Central Bank of Nigeria on July 10, 2001, issued a circular reference BSD/DO/CIR/VOL.I/2001/13 (see appendix 1) to all licensed banks prescribing new provisioning requirements in respect of credits granted to all tiers of government and their agencies. The circular stipulates that credits to all tiers of government and their agencies would from the end of July 2001 attract 50 percent provision on performing credits and 100 percent for classified credits. The CBN took the decision pursuant to the provision of Paragraph 2.5 of the Prudential Guidelines and in line with its core function of promoting monetary stability and a sound financial system in Nigeria.

Lending as a banking function.

Lending is one of the primary functions of banks. For most customers, bank credit is the primary source of debt financing, while for banks, good loans are the most profitable assets. The fundamental objective of commercial and consumer lending is to make profit with minimal risk. Unfortunately, the exposure of banks to risk as a result of increased lending activities had reached unprecedented levels in recent years.

The enormity of credit risks had attracted the attention of all stakeholders in the banking industry and consequently had underlined the need to continue to maintain the integrity of the banking system. The CBN in 1990 issued the Prudential Guidelines, which prescribed the criteria for classifying and making provision on all credits granted by the banks.

Furthermore, in order to curtail credit expansion, the CBN prescribed cash reserve and liquidity ratio requirements as part of the regulatory policies, together with the minimum capital adequacy ratios to be maintained by the banks.

Such capital ratios restrict loan growth, although banks attempt to circumvent such requirements by engaging in off-balance sheet arrangements and financial guarantees.

Public Sector Lending in Nigeria

Bias of foreign owned banks triggered emergence of indigenous ones.

The pattern and philosophy of public sector lending in Nigeria is a function of the evolution of banking in Nigeria. The early banks, because of their foreign ownership structure, concentrated their lending activities in supporting the businesses of foreign merchants to the detriment of indigenous entrepreneurs. This lack of financial support for local businesses propelled the establishment of indigenous banks in Nigeria. Between 1929 and 1951, over 22 indigenous banks were established. However, most of them collapsed because of debt overhang, poor management, low capital and the financial shock induced by the recession of the 1930s, among other factors.

The enactment of the Banking Ordinance in 1952 streamlined the operations of banks in Nigeria. Between then and 1986 when the financial system was deregulated, government owned and/or regional banks dominated the banking industry. The Indigenisation Act of 1971 later ensured that the big private banks came under Federal Government control. The implication was that between 1952 and 1986, banking business in Nigeria was largely influenced by the Government. Political considerations and other exogenous factors, rather than commercial expediency, influenced the lending policy of most banks during that period. No wonder then that most loans granted to the public sector turned bad.

Prudential guidelines stemmed decadent lending.

The situation remained largely the same, until the introduction of the Prudential Guidelines in 1990, which resulted in huge provisioning in the financial year following the introduction of the Guidelines, with most banks declaring huge operational losses.

Delinquent public sector loans contributed to distress.

Unfortunately, the banking system seemed not to have learned from the contagious effect of government dominance in the credit portfolio of banks as unmitigated and ill-appraised credits continued to be extended to the public sector. As at June 30, 1995, the three tiers of Government and their agencies owed a total of x7.692 billion to the banking system. This, among other factors, contributed to the financial sector distress of the 1990s. The Nigeria Deposit Insurance Corporation (NDIC) in 1997 negotiated the repayment of this debt, with the Federal Government accepting to pay x2.649 billion on behalf of itself and other tiers of Government and their agencies, in full and final settlement of the public sector debt to the banking system. This amounted to a repayment of 34 kobo for each Naira owed.

Resurgence of lending to the public sector.

The resurgence of credit to the public sector, however, continued with the coming of democratic government in 1999. Total credit to Government and its agencies, which stood at x11 billion in June 2000, had ballooned to x46 billion by May 2001, prior to the issuance of the circular. The CBN became alarmed at the rising trend of the exposure of banks to the public sector and reasoned that, if it remained unchecked, any macro-economic shock that affected the income profile of Government could destabilise the financial system.

Justification for new provisioning requirement.

In 1999, public sector accounts, which before then, were domiciled at the CBN, were transferred to the banks. The implication was that the economy was awash with excess liquidity anytime the Federation Account Funds were distributed among the three tiers of government. On the other hand, politicians saw banks as a veritable platform for the provision of funds to meet their electoral promises. In the circumstance, the tempo of credit to the government sector reached an all-time high.

The CBN, on its part, envisioned that with the improvement in the statutory revenue allocation to the state governments, as a result of the rise in the price of oil in the international market, they would tailor their expenditure to the projected revenue. The banks were, therefore, expected to provide bridging finance to take care of short-term gaps in revenue and expenditure. Capital expenditure, for the provision of infrastructure and other long-term projects, was expected to be financed from the budget and borrowings from the capital market. By so doing, it was envisaged that the bond market would be reactivated and that the capital market would play a more prominent role during the democratic dispensation. The vision of a virile financial system that would efficiently allocate resources to all sectors of the economy and engender foreign investment inflow, however, was being undermined by the public sector debt profile. It was on the basis of these anomalies that the CBN issued the circular.

The intention of the circular was not to stop banks from lending to the public sector, but to enable them to adequately appraise such credits and be conscious of the antecedents of government as a borrower in the money market.

Market reactions to the circular.

The issuance of the circular was least expected by the banks, as they believed that they had struck a profitable accord with the government. The entire financial arrangement was such that the banks seemed, in the short-run, to be the overall beneficiaries, as they used government deposits in their vaults to extend credit to the same governments and their agencies. The opposition of the banking system to the circular was, therefore, understandable.

The grounds for opposing the circular, adduced largely by the banks and some of the state governments, included the following:

i) Various tiers of government and their agencies were differently managed with varied risks. Mention was made of such agencies as the Nigerian National Petroleum Corporation (NNPC) and Nigerian Telecommunications (NITEL) that were commercially run, with high levels of accountability. The application of the circular on credit to such agencies would therefore be unfair.

ii) The stringent provision of the circular would impede development in the banking system in Nigeria to the extent that it could trigger distress.

iii) The circular was discriminatory and contradicted the provisions of the prudential guidelines.

iv) The absence of a transition period for its implementation.

v) The implication of the circular on government bonds in the capital market, which many of the banks were involved in or considering.

In implementing the circular, the banks went ahead to recall immediately, most loans to state and local governments and forced compliance by hiking the corresponding interest rates. On the other hand, the state governments petitioned the Presidency that the circular was a deliberate policy to stifle them and prevent them from meeting their electoral promises.

The reaction to the circular was not all negative as messages of commendation on its issuance were also received.

CBN Clarifications

To address the apprehensions that followed the issuance of the circular, the CBN dialogued with the various stakeholders.

The CBN explained that, the circular, rather than casting a slur on the integrity of government to honour its obligations, sought to encourage private sector development and enhance the integrity and dependability of the banking system, free from government encumbrances.

Self-sustaining/ commercial entities not affected by circular.

Furthermore, within the ambit of the circular, agencies such as NNPC, NITEL, and NEPA, were not construed to be government agencies. In the context of the circular, government agencies were those establishments that depended entirely on government subventions for their sustenance. The argument that the circular discriminated against the Government as a borrower, was lame, as paragraph 2.5 of the Prudential Guidelines, states among others that "…licensed banks should note that the Central Bank of Nigeria reserves the right to object to the classification of any credit facility and to prescribe the classification it considers appropriate for such a credit facility"

For banks engaged in capital market activities, the circular was expected to be read in conjunction with paragraph 3.2(ii) of the Guidelines for the Practice of Universal Banking in Nigeria. The paragraph required banks engaging in underwriting/issuing house activities to classify as loans, all securities acquired under underwriting commitments and not disposed of within twelve months.

The CBN was determined to enforce compliance by ensuring that examination reports and external auditors expressed opinions on adherence to the circular by the banks. It was expected that the banks would gradually free themselves from the Government, as the dominant borrower in the banking system.

As a result of the circular, many state governments had gone to the capital market to float bonds for long-term development projects. Thus, the objective of the circular to focus attention on the capital market as a source of cheap and stable long-term finance was being achieved. The freed money market funds would thus be channelled to the private sector, the engine of growth in any economy.

1.03 UPDATE ON THE MERGER OF DEVELOPMENT FINANCE INSTITUTIONS

Mergers will give DFIs better focus.

Significant progress was achieved in the merger of various development finance institutions (DFIs), which had overlapping roles. The process, which commenced in year 2000, was an attempt to give the institutions a better focus and achieve a more rapid socio-economic development of the country. The highlight of the progress of the various mergers is presented below.

Bank of Industry (BOI)

The Bank of Industry Limited came into being in October 2001, by the merger of the Nigerian Industrial Development Bank (NIDB), the Nigerian Bank for Commerce and Industry (NBCI) and the National Economic Reconstruction Fund (NERFUND).

BOI to take off with ₦50 billion capital .

The new bank was to take off within the first quarter of 2002, with an initial capital of ₦50 billion, 40 percent of which was expected to be contributed by the Central Bank of Nigeria.

BOI to provide financial and advisory services to enterprises .

The primary function of the bank is to provide financial assistance for the establishment of large, medium and small scale projects as well as the expansion, diversification and modernisation of existing enterprises and the rehabilitation of ailing industries. Others include funds mobilisation, enterprise promotion and development, project appraisal, financing and implementation, investment supervision and loan recovery.

In readiness for its take-off, a management structure comprising the Managing Director and four Executive Directors has been put in place. It is expected that the bank will forge a strong and enduring partnership with the organised private sector (OPS) in discharging its mandate. To this end, the members of the private sector have been invited to come forward with inputs to the formulation of the bank's strategies. Also, in a move to start on a clean slate, the new bank is bent on recovering the debts owed the constituent institutions.

Nigeria Agricultural Cooperative and Rural Development Bank (NACRDB)

NACRDB was formed from the merger of Nigeria Agricultural and Cooperative Bank (NACB), Peoples Bank of Nigeria (PBN) and the Family Economic Advancement Programme (FEAP).

NACRDB will undertake commercial/development banking functions.

The bank would function as a commercial cum-development bank, take deposits and provide loans to individuals and cooperative societies for all classes of agricultural projects, trading, small scale, craftsmanship and other enterprises. The merger is aimed at streamlining the activities and functions of poverty alleviation institutions and agencies in Nigeria.

Nigerian National Mortgage Bank (NinamBank)

The proposed NinamBank originated from the merger of two institutions namely, Federal Mortgage Bank of Nigeria (FMBN) and the Federal Mortgage Finance Limited (FMFL).

NinamBank to engage in wholesale and retail mortgage business.

The implication of the merger is that NinamBank would operate as a wholesale and mortgage lending outfit. In view of the fact that the execution of the National Housing Fund (NHF) was one of the functions of FMBN, the report of the Committee on the merger recommended the establishment of a property development company (PDC) for site identification, appraisal and approval of projects. The need for the establishment of a PDC cannot be over-emphasised, as it would accelerate housing development and enhance the implementation of the NHF scheme.

1.04 UPDATE ON UNIVERSAL BANKING IN NIGERIA

The issuance of the Guidelines for the Practice of Universal Banking (UB) in Nigeria, in December 2000, ushered in a new era in banking. Banking business was re-defined by the Governor of the CBN to include, in addition to the existing traditional banking functions, the provision of insurance marketing services and capital market business.

Uniform licence for all banks.

Since the adoption of the concept with effect from January 1, 2001, the CBN commenced the immediate implementation of the Guidelines. Accordingly, it recalled the existing licences of all the commercial and merchant banks and issued them with new, uniform licences. The new licences allow the banks to choose which segment(s) of the financial market (i.e. money market, capital market, insurance business or any combination of these) they wish to operate in, after considering and evaluating appropriately their own competencies. However, they are required to comply with the requirements of the regulatory body of each of the sub-sectors. Based on this understanding, the CBN on January 4, 2001, issued a circular, referenced BSD/DO/CIR/VOL.1/02/2001, to all the banks specifying the requirements that should be met by the banks that intend to undertake retail banking activities. These requirements include putting in place, at the bank's head office and branches, to the satisfaction of the CBN, essential facilities for cashiering and clearing house activities, such as appropriate banking halls, cashier cubicles, strong rooms, loading bays and associated security facilities/arrangements. Other requirements include the assemblage of the necessary competent and experienced staff at all levels to cope with the new areas of banking operations. Such banks are also expected to procure an adequate insurance policy cover for the envisaged volume of cash transactions as well as secure the CBN's approval before the commencement of retail banking activities. Since the issuance of the circular, 8 banks as at December 31, 2001, have taken advantage of its provisions, to go into retail banking.

In the same vein, banks, which intend to undertake capital market activities or insurance business, are required to comply with the regulations put in place by the Securities and Exchange Commission and National Insurance Commission respectively.

Consequent upon the adoption and implementation of UB in Nigeria, the CBN, vide its circular BSD/DO/CIR/VOL.1/2001/5 (see appendix 2), extended the application of the Cash Reserve Requirement (CRR), which currently stands at 12.5 percent, to all banks, with effect from April 2001, to engender a level playing field. Prior to this date, merchant banks were exempted from the application of the CRR.

Proposals for the amendment of relevant laws to give legal backing to the adoption of UB have been submitted to the National Assembly, for its consideration.

1.05 ETHICS AND PROFESSIONALISM IN THE FINANCIAL SERVICES INDUSTRY

Ethics, professionalism, essential to all vocations/ professions.

The pursuit of ethics, professionalism and good corporate governance is world-wide and cuts across all vocations/professions. The areas where the concern for ethics is engaging practitioners/professionals, governments and various international organisations are vast and range from law to medicine, from cloning to the environment, from fishing to genetic engineering and from bank lending to securities trading.

All professions, as well as social groups, have their respective standards, codes and ethics of practice, which members must conform with, to ensure the enthronement of certain ideals, standards, modes of behaviour and hallmarks by which members are identified. Often juxtaposed with these standards and codes, are sanctions intended to discourage non-conformity.

The financial system of any country provides the catalyst, through financial intermediation, for productive activities to ensure economic growth and development. Thus, the state of any economy is often a reflection of the state of its financial system. This correlation cuts across the globe, being true in developed and developing economies alike.

The Nigerian financial system.

The Nigerian financial system comprises institutions, markets, regulatory bodies and instruments in the three major areas of financial services, viz: banking and related services, capital market and insurance services.

The banks and other financial institutions sub-sector is made up of the deposit-taking banks, development finance institutions, primary mortgage institutions and bureaux de change. The Central Bank of Nigeria, which is at the apex of the entire financial system, maintains supervisory control over this sub-sector while the Nigeria Deposit Insurance Corporation (NDIC) performs the complementary function of protecting depositors, thereby promoting confidence in the banking system through the deposit insurance scheme.

The capital market sub-sector comprises the stock exchange, issuing houses, stock broking firms, registrars, trustees, investment advisers and portfolio/fund managers. A commodities exchange is in the pipeline. The Securities and Exchange Commission (SEC) is the supervisory agency in this sub-sector.

The insurance sub-sector is supervised by the National Insurance Commission [NAICOM], while the major operators include the insurance companies, re-insurance companies, loss adjusters and brokers.

The Ministry of Finance is recognized as an integral part of the financial system, being the organ charged with the enunciation and implementation of the government's fiscal policy, which has a great influence on monetary policy.

All the regulatory agencies in the system, along with the Corporate Affairs Commission, come together under the aegis of the Financial Services Regulation Coordinating Committee [FSRCC], pursuant to the provision of Section 38A of the Central Bank of Nigeria Act No. 24 of 1991 [as amended], for the purpose of co-ordinating the supervision of the financial institutions.

An economy thrives, mostly, on a healthy financial system, while the financial system itself thrives on, among others, high ethical standards and professionalism. This is the reason why various laws, codes of conduct and other rules and regulations exist to regulate every segment of the financial system.

Ethics and professionalism in financial services as professed by the different sub-sectors embrace trust in banking, utmost good faith in insurance, and transparency in the capital market, which must be respected by all the stakeholders for the industry to command the needed confidence.

The pursuit of ethics and professionalism.

The financial services industry has various laws, guidelines and codes of ethics to guide the conduct of its practitioners. The Banks and Other Financial Institutions Act No 25 was enacted along with the Central Bank of Nigeria Act No 24 in 1991. Both laws have since been amended a number of times. The laws contain the "dos" and "don'ts" of the banking and allied services industry. They also have various provisions on the modes of behaviour expected of the shareholders, directors, managers and employees of the institutions, as well as the sanctions to be imposed for not conforming to such behaviour. In addition to the laws, the CBN issues circulars and guidelines every year to explain grey areas of the banking and other financial institutions laws, complement the laws and correct unhealthy trends in the sub-sector, in line with the powers conferred on it. To ensure that only fit and proper persons own and manage financial institutions, the CBN takes prospective shareholders, directors and top management staff of these institutions through the "fit and proper persons test" which involves, among others, obtaining status reports from financial institutions, financial sector regulators and past employers, security screening as well as the use of market information. Due to the special importance of the position held by bank directors, the "Code of Conduct for the Directors of Licensed Banks in the Management of the Business of the Bank" was put in place to guide their conduct and ensure that they act in the best interest of the depositors, customers and other stakeholders.

On the other hand, the employees of the CBN and the NDIC, in general, and their bank examiners, in particular, also have their codes of conduct. The examiners' code requires them to, among others, display exemplary conduct and maturity in carrying out their assignments, maintain the oath of secrecy regarding their findings in the course of their work, be objective in their reports. All banks have their staff/operational manuals designed to guide employees in conducting the business of the banks.

… in the banking industry.

The Chartered Institute of Bankers of Nigeria, which is statutorily charged with regulating the banking profession and education, has a code of conduct for the banking industry. In addition, the Institute has a disciplinary committee to investigate and redress violations of the code of conduct. In the same vein, the Bankers Committee, as a mark of its concern about the growing trend of unethical and unprofessional practices in the banking and finance business, which is capable of eroding trust and confidence in the industry, established a Sub-committee on Ethics and Professionalism in December 2000. The sub-committee, which comprised 15 members, was mandated to "identify practices considered unethical in the industry, develop an acceptable code of ethics and professionalism, and put in place an effective machinery for enforcing compliance with the code". The recommendations of the Sub-committee resulted in the publication of the "Code of Conduct and Professionalism in the Banking and Finance Industry" by the Bankers' Committee, in 2001. The code contains a list of practices and omissions considered unethical/unprofessional in the banking and financial services industry and the framework, including procedures and sanctions, for redressing them.

Other financial institutions carrying on banking-related activities, including finance companies, bureaux de change, community banks and primary mortgage institutions and [other] self regulatory organisations, do not only have guidelines to regulate their various activities, but also have associations for members e.g. Finance Houses Association of Nigeria [FHAN], Association of Bureaux de Change Operators of Nigeria [ABCON], Money Market Association of Nigeria, etc. These all have codes of conduct that they are required to adhere to. These associations also help the regulatory authorities by disseminating information from the regulators to their members and enforcing regulatory compliance.

… in the capital market sub-sector.

In the capital market sub-sector, which is supervised by the Securities and Exchange Commission [SEC], the Investments and Securities Act [ISA] No 45 of 1999 is the instrument for regulating activities in the market. The SEC and the Nigerian Stock Exchange, also issue guidelines to their operators. In addition, there are codes of conduct for various bodies and personnel of organizations engaged in different aspects of the capital market, such as the Dealing Members of the Nigeria Stock Exchange, Capital Market Operators and Investment Advisers/Portfolio Managers, as well as the employees of Capital Market Institutions, Issuing Houses, Registrars, Brokers/Dealers. Sanctions for violating these codes also apply. The large-scale reform in the capital market, in the recent past, was not only to improve the market infrastructure and efficiency but also to promote transparency, which is the cornerstone of ethics and professionalism in the capital market.

… in the insurance sub-sector.

The Code of Ethics and Practice for the Nigerian Insurance Industry states in Part A1 that "the business of insurance is founded on the principle of utmost good faith. This should be the dominant principle regulating the conduct of all insurance practitioners and companies in whatever aspect or class of insurance they may be engaged". Other aspects of the code cover the production of insurance business, underwriting practice, claims and regulations applicable to members of the Institute of Loss Adjusters of Nigeria. Overall, however, insurance business in Nigeria operates under the Insurance Act of 1991 and the supervision of the National Insurance Commission [NAICOM]. The Insurance Act embodies the regulations for the conduct of insurance business and prescribes penalties for violation of the regulations.

International concern.

In addition to the Nigerian laws, regulations and guidelines for the financial services industry, international organisations also have guidelines, codes of conduct and standards of practice for application by financial institutions and regulators, worldwide. Such organisations include the Bank for International Settlements, which, through its Committee on Banking Supervision undertakes studies and research into banking and related businesses and issues guidelines and principles for the regulation of various aspects of the activities of banks; the International Organisation of Securities Commissions [IOSCO], which carries out similar functions for the securities industry and the International Association of Insurance Supervisors [IAIS], for the insurance industry. These organisations co-operate and collaborate in certain areas of their activities, such as in the issuance of guidelines for the risk management of derivatives activities, the framework for the reporting of derivatives-related information to supervisory authorities, the disclosure of information on the trading and derivatives activities of banks and securities firms, as well as guidelines on the supervision of financial conglomerates.

Manifestation of unethical conduct.

From the foregoing, the concern for good conduct in the financial services industry has engaged both the practitioners and regulators alike. The industry is, consequently, steeped in laws, codes and guidelines. Running through all of them, is the need for honesty, transparency and professionalism on the part of all practitioners in the conduct of the business of their institutions and to eschew insider abuses, malpractices, insider dealing and self-serving dispositions. What is lacking in the industry is compliance with the various laws and codes of ethics. Unethical conduct manifests itself in various ways, including insider abuse, fraudulent dealings, irregularity/inaccuracy in the rendition of statutory returns, as well as window-dressing of accounts and other records.

The consequences of violating ethical standards by the industry are many, including loss of confidence and trust in the industry, loss of business for the institutions, shareholder/board/management disputes, operational losses, distress of the sector and liquidation of institutions, capital flight (worsened by lack of further foreign investment) and stagnation of the economy.

The systemic distress of the early 90s, which afflicted the Nigerian financial sector, was induced by insider abuse, widespread malpractices, and mismanagement of the institutions, among others, resulting in the liquidation of various banks and other financial institutions. In the thick of the distress, the government was compelled to enact the Failed Banks [Recovery of Debts] and Other Financial Malpractices in Banks Act of 1994. The Failed Banks Tribunals that were subsequently set up to try identified cases of malpractices, made shocking revelations of large scale violation of known codes of ethics, insider abuse, mismanagement of institutions and self-serving tendencies on the part of the owners, directors and managers of various financial institutions. In the same vein, the regulators in the insurance and securities sub-sectors undertook the sanitisation of their respective sectors through, among others, liquidation or direct management of ailing institutions. The system is yet to recover fully from the effects of that era. With a few signs of distress still lingering in the system, it is only a strong adherence to the highest standards of ethics, professionalism and good corporate governance that will ensure its healthy survival.

Imperative for ethical conduct.

The gains from maintaining high ethical conduct far outweigh the short-term benefits derivable from sharp practices. Empirical evidence from the financial system shows that the violation of the ideals on which the financial system is built is eventually uncovered and redressed, as seen from the cases of foreign exchange malpractices, which attracted various sanctions. There is, therefore, no gainsaying the fact that the financial services industry has much to benefit by upholding the tenets and ethics on which the efficient functioning of the industry is anchored. Such gains include:

- Increased confidence and trust in the financial system.
- Healthier institutions arising from increased confidence and investment in the system.
- Healthy competition, which will ensure steady development.
- Abatement of distress.
- Less regulation, less regulatory sanctions and continued deregulation of the industry.
- Steady development of the economy.
- Increased foreign exchange/capital inflow with positive effects on the exchange rate.
- Improved image of the country.

While all the operators in the system have a stake in upholding high ethical standards and are consequently enjoined to do so, it also behoves on the regulatory agencies, as well as the government, not only to avoid those actions that encourage the violation of regulations, but to promptly and firmly redress identified cases. In this regard, therefore, the regulatory authorities are taking steps to ensure that they:

(i) Are open and transparent in carrying out their functions.
(ii) Are more consistent in their policy formulation and implementation.
(iii) Avoid abrupt policy reversals.
(iv) Are firm in dealing with the violation of the rules and regulations by refraining from the withdrawal of sanctions already imposed for violations.
(v) Avoid double standards in dealing with institutions.
(vi) Encourage innovation by continued deregulation of the system.
(vii) Promote self-regulation by co-operating with self-regulatory organisations.
(viii) Consult with the operators before formulating policies, as is done through the Monetary Policy Forum of the Central Bank of Nigeria.
(ix) Co-operate with one another, in policy formulation and implementation to avoid regulatory arbitrage in the system that could be exploited to undermine the sector, as envisaged by the establishment of the Financial Services Regulation Co-ordinating Committee.

The strategic importance of the financial system to the growth of all sectors of the economy (industrial, service and social) and consequently the desired overall development of the country demands that the sector remains healthy. Thus, the prevalence of unethical and unprofessional conduct in the system, which was responsible for the distress suffered by the sector a few years back, is undesirable and inimical to the fulfilment of the role of the sector. It is, therefore, hoped that all stakeholders in the system have learnt from the lessons of the past. This can only be demonstrated by the strict observance of the laws, rules, regulations and codes that have been developed for the orderly conduct of business in the financial sector.

1.06 ROUND-TRIPPING OF FOREIGN EXCHANGE IN THE BANKING INDUSTRY AND THE CHALLENGES FOR SUPERVISION

Demand for foreign exchange, not reflected in real sector growth.

The Central Bank of Nigeria had observed, with concern, the high demand for foreign exchange in the Interbank Foreign Exchange Market (IFEM) without any appreciable or corresponding growth in the real sector of the economy during the year. The rising profile of the demand for foreign exchange continued to impact negatively on the exchange rate of the Naira to other currencies, with the former depreciating persistently despite various measures put in place by the CBN to curb speculative demand by the authorised dealers.

In an effort to stabilise the market and address the concern of the regulatory authorities, the CBN, in conjunction with the Nigerian Institute for Social and Economic Research (NISER), undertook a study of the informal foreign exchange market in 2001, with a view to, among others, determining the causes of the wide gap between the official and the parallel market rates. Based on its findings, the study group recommended that the bureaux de change (BDC) should be allowed to access foreign exchange directly from the CBN. Consequently, a committee was set up by the CBN to develop the framework for the involvement of BDCs. The Committee is expected to submit its report in the coming year.

Round-tripping of foreign exchange, uncovered in banks.

Also, spot checks were conducted on banks to determine the genuineness of their demand for foreign exchange on behalf of their customers. The outcome of the exercise was quite revealing, as some of the banks, in their desperate attempt to declare huge profits, were found to have been involved in glaring foreign exchange malpractices, particularly round-tripping. The round-tripping activities were fuelled by the wide margin that existed between the rates in the IFEM and the parallel market. The parallel market, therefore, became a profit haven for banks to make huge gains by diverting foreign exchange purportedly sourced on behalf of their customers, using spurious documentation. Some of the methods adopted by the banks in the unwholesome practices included:

- Forged documentation for letters of credit on imports.
- False payments for goods purportedly obtained on credit from overseas

suppliers under the Bills for Collection arrangement.

- Recycling of air tickets with the sole aim of procuring Business Travel Allowance (BTA) and Personal Travel Allowance (PTA).
- Outright transfer of funds abroad (capital flight).
- Non-disclosure to the CBN, of offshore bank accounts, which were used to record "free-funds" transactions.
- False payments for invisible trade transactions like aircraft maintenance, judgement debts, etc, using spurious documents.

The diversion of foreign exchange from its intended purposes was discovered to have been carried out by bank officials in collusion with some customers. In some instances customer's names were fraudulently used to procure foreign exchange without their mandates. The efforts of the CBN to curb these malpractices revealed that most of the banks examined, illegally acquired foreign exchange amounting to over $350 million between January 1999 and December 2001. Various sanctions and conditions imposed by the CBN on the affected banks included:

***Erring banks, sanctioned*.**

i) Temporary withdrawal of their authorised dealership licences
ii) Return to the CBN, in Naira, of the abnormal gains or profits made from the transactions.
iii) Barring the customers that colluded with the banks from purchasing foreign exchange from the IFEM.
iv) Directives to the banks involved to institute investigating panels to determine the culpability of their boards, management and staff.
v) Removal of the officials of banks involved in the malpractices
vi) Strengthening of the internal control procedures of the international operations of the affected banks.
vii) An undertaking to the CBN by the boards of the affected banks that such foreign exchange malpractices would not re-occur.

The CBN issued a circular in October 2001, which further spelt out more severe sanctions for banks that contravened regulations in the IFEM. The CBN has also strengthened the supervisory capability of its foreign exchange monitoring mechanism through the adoption of various proactive measures. In this regard, the co-operation of Pre-shipment Inspection Agents (PIAs) was enlisted on direct confirmation of documents (clean report of inspection (CRI), combined certificate of value and origin [CCVO], etc) issued by them in support of foreign exchange applications. Examiners are now required to pay particular attention to the documentation requirements for all imports, regardless of the amount involved. The regulations guiding foreign exchange transactions are being constantly reviewed to engender transparency on the part of the operators.

Need to embrace ethical standards.

Similarly, the operators are being encouraged through moral suasion, to shun unethical and/or unprofessional conduct in the interest of the economy. The periodic publication of the list of end-users of foreign exchange in Nigerian newspapers, by the CBN, and the introduction of destination inspection of imports by the Federal Government are expected to engender greater transparency in the market. Finally, close monitoring of the open position limits of the banks would continue to be carried out to ensure that they comply with the limits set for them, in order to avoid unnecessary foreign exchange risk.

The CBN will continue to intensify its efforts in controlling excess liquidity in order to maintain relative exchange rate stability. Proactive measures will be put in place to curtail the banks' spurious demand for foreign exchange while surveillance on foreign exchange transactions by the end users will be intensified to ensure the judicious use of the foreign exchange procured by them.

It is expected that the initiatives by the CBN, including the admission of BDCs into the formal foreign exchange market, will narrow the gap between the official and parallel market rates, as well as promote a more transparent reporting system and stability in the foreign exchange market.

1.07 LIABILITY AND PROFIT TARGETING BY BANKS

The concept of liability and profit targeting in banks has recently become an issue of great concern to the stakeholders in the financial services industry.

Profit targeting is the practice whereby an organisation sets or imposes an amount of profit to be achieved within a specified period of time. On the other hand, liability targeting requires the employee to mobilise a minimum amount of deposits over a period of time. Targeting carries conditions, which provide for sanctions and rewards. The practice is a veritable management tool, which if improperly used, can lead to some unintended problems.

Tactics employed in profit and liability targeting.

In an effort to achieve liability and profit targets, some of the banks employ all sorts of tactics and practices that are inimical to the financial system. Some of these include foreign exchange malpractices, offering high interest rates and high brokerage to attract deposits, particularly from the public sector, thereby driving up the lending rates.

Partly due to the unwholesome practices employed by these banks to achieve high profit targets, the supervisors in recent times, have had to carry out verification of the incomes reported by the banks, before approving their annual accounts for publication.

CBN's concern.

The very high entry qualifications for employment in banks, have been sacrificed by these banks on the altar of deposit mobilisation, by offering employment to attractive, but not necessarily qualified, female applicants to win customers for their banks. It was observed that the new generation banks, in particular, were in the habit of setting unattainable profit and liability targets for their staff. The practice has become the subject of abuse, rather than a motivational tool for performance. Some moral questions and their implications on falling standards have been raised, and have become the concern of the regulatory authorities. Consequently, it became imperative for the CBN to bring to the attention of the boards and managements of the banks, the ills of the unwholesome practice. It was on the basis of the foregoing that the CBN, during the year, held consultations with the operators in the financial system on the setting of profit and liability targets.

Consequences of profit and liability targeting.

Subsequently, a circular referenced BSD/DO/CIR/VOL.I/2001/25 (appendix 3) was issued in December 2001. The underlying reason for the circular was to pro-actively guide the operators to avoid the pitfalls of unguided rivalry and un-healthy competition. As identified by the circular, some consequences of such practices are:

(i) The female staff of the financial institutions are usually put under undue pressure thereby making them to compromise their moral values.
(ii) The "know your customer" requirement is usually compromised when handling new customers.
(iii) The operational staff are usually given very high profit targets which prompt them to engage in unethical practices
(iv) The careers of talented young men and women who fail to achieve the set targets are usually prematurely truncated, causing a lot frustration.

In conclusion, the CBN directed the banks to set realistic and achievable targets for both old and new staff and ensure that the unwholesome practices and, spe-cifically, the undesirable use of female staff was discontinued.

1.08 BANK LICENSING

In its continued effort to promote healthy competition and ensure the provision of qualitative banking services, to the vast majority of Nigerians, the CBN, in line with successive government's policies of deregulating the economy had, over time, licensed a number of banks and other financial institutions. By 1991 when an embargo was placed on the licensing of banks, the number of licensed banks peaked at 120.

Proliferation of financial institutions.

The proliferation of banks and other financial institutions (OFIs) brought about mixed developments in the system. On the one hand, it brought about keen competition with attendant innovations and, on the other, it over-stretched the limited number of qualified personnel in the industry, as a result of which recruitment and other standards were compromised. The compromise of standards, together with the rampant internal mismanagement, insider abuse, massive loan repayment defaults and macro-economic instability that prevailed in the main, led to the systemic distress that was witnessed between 1995 and 2000. A total of 33 terminally distressed banks had their licences revoked between 1994 and 2000 (2 in 1994, 2 in 1995, 26 in 1998 and 3 in 2000).

Thirty three banks liquidated between 1994 and 2000.

Four phases of bank licensing.

The licensed banks could be categorised as follows:

First generation:
Banks that were licensed before independence in 1960

Second generation:
Banks that were licensed between 1960 and 1980

Third generation:
Banks that were licensed between 1980 and 1991

Fourth generation:
Banks that were licensed from 1998 to date

A new bank licensing framework.

In 1998, the embargo which was earlier placed on the licensing of banks was lifted. Having learnt from the bitter experience of the past, and to forestall a repeat of the systemic distress that engulfed the financial sector, more stringent licensing requirements were introduced. This was to ensure that only those persons of proven integrity and good financial standing are allowed to participate in the ownership and management of banks. A part of what led to the demise of some of the banks was that the requirements for board and top management staff appointments were inadequate. Another loophole exploited was the absence of a mechanism for ascertaining the source of capital. Promoters were borrowing funds on short-term basis to float banks, only for the new banks to be stripped of these much-needed capital funds, shortly after the acquisition of a licence. Consequently, it became necessary to subject capital deposits to thorough checks to ensure that such deposits were from stable sources and were not in any way borrowed. Also, the requirements for appointments into board and top management positions were strengthened, both in terms of the minimum educational qualifications and the required years of experience.

In processing applications for new banking licences, the CBN holds meetings with the promoters of banks to seek clarification on issues that are not clear. In addition, discussions are held with the promoters and top management staff of the proposed banks before the final licence is issued. At such meetings, the implications of owning and managing a bank, as well as the respective roles the various stakeholders are expected to play, are highlighted. Also, the need to have in place, at all times, a good corporate governance structure and the need to avoid insider abuse, manipulation of records and other sharp practices, are emphasised. The promoters are also, at this meeting, required to give a final commitment as to whether or not they would still desire to pursue the project, having been told the implications of owning a bank.

Following the lifting of the embargo on bank licensing, the number of requests for bank licence rose astronomically. Most of the requests were, however, found to be frivolous, as most persons who posed as promoters had no funds to float banks. They were only desperate to have the initial Approval-In -Principle (AIP) and thereafter scout for serious investors.

Capital for new banks raised.

To check these phantom requests for banking licences, the paid up capital for new banks was further increased from x1 billion to x2 billion and the promoters were required to deposit such funds in an escrow account with the CBN before the issuance of the AIP. Application processing and licence fees were equally increased from x100,000 and x500,000 to x500,000 and x5 million, respectively.

Since the introduction of the new requirements, the number of requests for banking licences has declined.

The business of establishing a bank is undoubtedly a serious one and a lot of caution should be exercised. The new licensing requirements are not intended to scare away potential investors/promoters. Rather, they are to ensure that only serious-minded and credible promoters/investors, who have the required funds, technical expertise and are "fit and proper", are allowed to establish banks. The ultimate objective is to ensure a virile and healthy banking industry.

Chapter Two

SUPERVISORY ACTIVITIES IN 2001

The CBN, in discharge of its statutory responsibility of promoting monetary stability and a sound financial system continued the monitoring of the financial system, by a combination of off-site and on-site supervisory activities.

Off-site supervisory activities.

The off-site supervisory activities, during the year, focused on the following areas:

(i) ***Analysis of Statutory Returns***

This involved the analysis of the statutory returns of the banks, using financial indicators such as liquidity ratio, capital adequacy ratio, loans to deposit ratio, ratio of performing risk assets etc., to determine the banks' financial conditions.

(ii) ***Assessment of Boards and Management***

During the year, the Bank approved the appointment of 93 persons to the boards of various banks. Out of these, 33 were in executive capacity, while the other 60 were in non-executive capacity.

(iii) ***Licensing of New Banks***

Eight new applications were received during the year, thus bringing the total applications to 25, including the 4 that were earlier granted Approval-In-Principle (AIP) as at December 31, 2001. However, following the stringent conditions that were introduced in the year for granting new banking licences, only one applicant satisfied the prescribed conditions and was accordingly licensed.

(iv) ***Appraisal and Approval of Financial Statements***

As part of the efforts to ensure that banks published reliable results on their performance, the CBN conducted income audits prior to the approval of the banks' audited financial statements. This was against the backdrop of the jumbo profits declared by most banks in recent times vis-à-vis the performance of the other sectors of the economy.

A total of 102 accounts were approved for banks and discount houses during the year, out of which 7 were in respect of prior years. Eighty-five (85) of the accounts showed increases in profit while 17 others showed either a decline or outright losses.

(v) Branch Network

During the year, the CBN approved the establishment of 308 bank branches at various locations in the country.

(vi) Enforcing Statutory Requirements

(a) Liquidity Ratio

Banks are required to maintain a minimum percentage of their deposit liabilities in liquid assets. The minimum liquidity ratio, which was 35 per cent at the beginning of the year, was increased to 40 percent in March 2001, as a result of the excess liquidity that arose from the monetisation of the excess sales of crude oil. The compliance of the banks with this requirement was assessed on a monthly basis, through their monthly returns and spot checks**.** Some banks failed to meet the minimum requirement during the year. The highest number of 20 banks was recorded for the months of May, September and October, while the least number of 9 banks was recorded for the month of February. An increase in the number of banks that contravened the provision was observed from May following the upward review of the minimum required ratio from 35 percent to 40 percent**.**

(b) Capital Adequacy Requirement

A review of the capital adequacy of the banks revealed that 9 banks failed to meet the minimum capital adequacy requirement as at December 31, 2001. Accordingly, various amounts of additional capital injection were recommended.

(c) Cash Reserve Requirement (CRR)

Cash reserve is applied on the total deposit liabilities of a bank as a tool for monetary control to complement the Open Market Operations (OMO). During the year, the rate of CRR was reviewed upward from 10 percent in January to 11 percent in February and subsequently to 12.5 percent in March 2001. Also, following the adoption of universal banking, which eliminated the functional distinction between commercial and merchant banks, the erstwhile merchant banks were subjected to the CRR requirement. These developments, coupled with an increase in the banks' total deposit liabilities, resulted in an increase in the cash reserve balance with the CBN from x75.813 billion in December 2000 to x117.622 billion in December 2001.

On-site supervisory activities.

Out of the 95 banks and discount houses scheduled for routine examination by the supervisory authorities during the year, 68 were allocated to the CBN, while 27 were assigned to the Nigeria Deposit Insurance Corporation (NDIC). Sixty-three (63) banks and 3 discount houses were subsequently examined by the CBN while the NDIC completed the examination of 27 banks. In addition, special examinations were conducted on 7 banks while there were 56 follow-up examinations by the CBN, to monitor the institutions' compliance with the Examiners' recommendations. Apart from the examinations, several ad-hoc assignments, such as spot checks on foreign exchange activities and investigations, were carried out. The major findings included:

(i) Over-dependence on Government Funds by the Banks

It was observed that most banks had a large proportion of their deposits sourced from the government and its agencies. This development was considered unhealthy by the regulatory authorities due to the volatile nature of such funds. Accordingly, the institutions were advised to diversify their sources of funds.

(ii) Lending to Public Sector by Banks

The sourcing of deposits from the government opened an avenue for credit creation by the banks to the public sector. The incidence of default, which may arise due to changes in macro-economic circumstances, prompted the issuance of circular No. BSD/DO/CIR/VOL.I/2001/13 on lending to government and its agencies (see appendix 1).

(iii) Foreign Borrowings

The liquidity profile of some banks revealed an increasing recourse to foreign borrowings. This development would require adequate supervisory oversight to control the offshore financing risks, commercial risks and other risks associated with foreign loans.

(iv) Credits

There was substantial growth in credit creation, which necessitated correspondingly huge general provisioning requirements. In particular, there was a noticeable increase in the volume of insider related credits in some banks. More worrisome, however, was the increasing incidence of those, which were non-performing. Generally the assets showed a marginal improvement in quality.

(v) Capital Adequacy

Some banks had their operating capital eroded by huge provisioning requirements for non-performing assets and were advised to inject fresh funds to sustain their operations. Generally, however, most banks met the minimum capital adequacy requirement.

(vi) Violation of Regulation

Several banks failed to meet the minimum information requirements prescribed by the CBN Circular No. BED/DO/CIR/VOL.1/11 of March 1995, in respect of their credit printouts. A few banks breached the single obligor limits in their lending. There were also cases where some banks exceeded their foreign exchange open position limits as prescribed by the CBN, while some failed to render the required returns in accordance with the provisions of the Money Laundering Act of 1995.

(vii) Foreign Exchange Lapses/Malpractices

Many banks were found deficient in the record-keeping and documentation of their foreign exchange activities. Of particular concern, was the disbursement of foreign exchange by some banks based on spurious documents. All the offending banks were sanctioned appropriately.

(viii) Overdrawn Current Accounts with the CBN

Some banks' current accounts with the CBN, were persistently overdrawn due to illiquidity occasioned by a shrinking deposits base, assets/liabilities mismatch and poor assets quality. Such banks were closely monitored, and in some cases, subjected to special examinations. Appropriate remedial actions were also prescribed for the banks.

(ix) Other Lapses

Other shortcomings included unsound management policies, lean management structures, inactive and ineffective inspection departments and poor credit administration.

Generally, however, there were indications of industry-wide growth in assets base, improvement in assets quality and rising gross earnings profiles in the banks.

SUPERVISION OF OTHER FINANCIAL INSTITUTIONS

Re-capitalisation of Other Financial Institutions

In exercising the powers conferred on it by section 59 [1] [b] of BOFIA 1991 as amended, the CBN, in 1999 reviewed the minimum paid up capital requirements for other financial institutions (OFIs). The review was necessitated by developments in the economy, which called for sufficiently higher capital to absorb and cushion the risks associated with the businesses in the sub-sector. The institutions concerned were notified through various circulars and given time-frames within which to comply. The Institutions affected were:

(a) Community Banks (CBs)

(b) Primary Mortgage Institutions (PMIs)

(c) Finance Companies (FCs)

(d) Bureaux de Change (BDCs)

The CBN, through various circulars, directed these institutions to increase their minimum paid-up capital as follows:

Table A

Institution	Circular Reference and Date	Old Capital x	New Capital x	Compliance Date
Community Banks	BSD/SURV.65/VOL.V/66 of November 1999	3 million	5 million	August 31, 2001
Primary Mortgage Institutions	BSD/OFID/PMI/VOL.1/75 of September 1999	20 million	100 million	August 31, 2001
Finance Companies	BSD/OFID/FIN/VOL.1/99 of April 1999	5 million	20 million	April 30, 2001
Bureaux de Change	BSD/CR/4/99 of September 1999	Nil	10 million	August 31, 2001

In complying with these directives, the institutions were allowed to inject fresh funds through one or a combination of rights issue, private placement, capitalisation of reserves and conversion of long-term loans and debentures into equity. The same circulars, however, cautioned the institutions against capitalisation through either assets revaluation or capital contribution in kind.

At the expiration of the times allowed for these institutions to re-capitalise, the Other Financial Institutions Department (OFID), commenced a verification exercise to confirm their existence and compliance with the requirements. The capital verification of finance companies and BDCs was yet to be concluded as at the end of the year. The highlights of the report in respect of the CBs and PMIs are provided below:

Community Banks

A total of 1,013 CBs were covered in two inspection exercises carried out in October 2000 and October/November 2001. Of these, 747 or 74 percent were in operation while 266 or 26 percent were either inactive or had closed shop.

The field reports also showed that at the expiration of the deadline, only 133 or

Two hundred and eighty two community banks for licence.

13 percent of the CBs had met the new minimum paid-up capital of x5 million. Similarly, 385 or 38 percent had paid-up capital of between x3 million and x4.99 million, while 495 or 49 percent were yet to meet the previous paid-up capital of x3 million. More importantly, some CBs, which met the x3 million mark, had their shareholders' funds eroded by accumulated losses, resulting from sticky credits. At the end of the review exercise, 282 CBs qualified for licensing, 465 were given six months to rectify observed weaknesses while 266 had their provisional licences withdrawn. (See tables B and C below).

Table B: Summary of the Minimum Paid-up Capital of CBs as at November 30, 2001.

Paid-up Capital x	Number of CBs	%
5 million and above	133	13
3 million - 4.99 million	385	38
Below 3 million	495	49
Total	**1,013**	**100**

Table C: Summary of Recommendations.

Schedule	Recommended Action	1st Inspection	2nd Inspection	Total	%
1	For Licensing	232	50	282	28
2	Given 6 months to rectify weakness	391	74	465	46
3	Provisional Licence to be withdrawn	147	119	266	26
Total		**770**	**243**	**1,013**	**100**

Problems facing the community banks.

The inspection reports revealed that the community-banking sub-sector was facing a myriad of problems. Prominent among the factors affecting the CBs were:

(a) Inadequate Capitalisation

The pre-licensing exercise revealed that most of the CBs' inability to meet the stipulated minimum paid-up capital of x5 million was due mainly to the provisions in the Community Banking Act which restricted individual shareholdings in a CB to a maximum of 5 percent and the mandatory provision that at least 30 percent of the shares must be acquired by Community Development Associations (CDAs). The CBs have argued that these provisions served as limiting factors against interested individual investors, who were willing to acquire substantial shares in the CBs.

In view of the above, the National Board for Community Banks (NBCB), in a letter to the Governor of the CBN, requested for the extension of the deadline on the minimum paid-up share capital of CBs to December 2002. The NBCB argued that the present shareholding structure whereby 30 percent of the shares were reserved for the CDA and not more than 5 percent shares for individuals was a serious factor inhibiting the re-capitalisation of most of the CBs. The request was being considered by the CBN.

(b) Poor Management Team

A majority of the CBs that were located in remote areas with limited infrastructural facilities found it difficult to attract and remunerate the right calibre of staff to manage the banks efficiently. In many instances, the CBs relied on a few retrenched/retired staff of some of the distressed conventional banks and primary/secondary school teachers available in their localities. Most of these staff were usually not qualified and lacked the necessary capabilities to manage the CBs. There were arrangements in the pipeline to assist in the training of the staff of the CBs by the CBN.

Primary Mortgage Institutions

The capital verification exercise was carried out between October and November 2001. Out of a total of 78 institutions visited, 68, or 87 percent, were in operation while 6, or 8 percent, had abandoned the mortgage business and 4, or 5 percent, had closed shop. The exercise also revealed that only 15, or 19 percent, of the 68 in operation, had met the minimum capital, 34, or 44 percent, had concluded plans towards meeting the capitalisation requirement while the capital position of 14, or 18 percent, was unconfirmed due to poor record-keeping. Also, 5, or 6 percent, had accepted capital contributions in kind, in contravention of the provisions of the circular BSD/OFID/PMI/VOL/15 (see table D below).

Table D: Summary of Findings from Capital Verification Exercise.

Category	Findings	No. of PMIs	%
A	Those with paid up capital of N100 million and above	15	19
B	Those that had asset swap for shares	5	6
C	Those with concrete capitalisation plan	34	44
D	Those that are in existence but unconfirmed capital position	14	18
E	Those no longer in mortgage business	6	8
F	Those that have closed shop	4	5
	TOTAL	**78**	**100**

A review of the situation showed that most of the PMIs were experiencing problems in meeting the capitalization requirement within the stipulated period. A request by the Mortgage Banking Association of Nigeria for an extension of the deadline for the re-capitalisation of the PMIs, was being considered by the CBN.

Chapter Three

ISSUES IN SUPERVISION

3.01 FOREIGN BORROWING FOR ON-LENDING BY NIGERIAN BANKS

Upsurge in foreign borrowing by banks.

Foreign borrowing by Nigerian banks refers to the facilities obtained by Nigerian banks from institutions outside the country. Such borrowing is either in the form of direct credit lines or other arrangements such as credit and export guarantees, for the purpose of financial intermediation. In recent times, the number of banks involved in such borrowing, and the quantum of funds, have witnessed an upsurge.

As against the former practice of foreign institutions lending through development finance institutions backed by government guarantees, the recent trend is a shift towards private sector lending through banks. This shift is in line with the new orientation of the multilateral agencies and other external creditors, arising from their past experiences of irrecoverability of the facilities.

Among the reasons for the rise in foreign loans to Nigerian banks are the growing confidence in the Nigerian state and the economy, as a result of the recent changes in the regulatory and legal environment occasioned by the reform of the financial sector, and the return to civil rule after several years of military rule.

The sources of foreign loans include, multilateral agencies such as the International Finance Corporation (IFC), African Export-Import Bank (AFREXIM), the Netherlands Financievings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO), and the African Development Bank (ADB).

Benefits of foreign borrowing.

Some of the benefits of foreign borrowing are as follows:

- It serves as a veritable source of additional funds to finance projects and promote private sector involvement in the development of the economy.

- It is an avenue for cheaper funds, as the interest rates thereon are much lower than the interest rates on the local currency denominated loans,
- It provides an opportunity for the local banks to access a wider pool of foreign currency than would have been available locally, thereby enhancing their ability to meet the needs of their customers.
- It reduces the pressure on the country's foreign exchange reserves as the external funding replaces the foreign exchange that would otherwise have been purchased from the Inter-bank Foreign Exchange Market.
- It aids the financial services sector in its role of driving the real sector of the economy, which is central to the development of the country.
- It is a necessary help to the local industry, especially the oil sector, which has become very important.

Regulatory concerns.

In spite of these benefits, the CBN expressed concern over the implications of such arrangements. Such concerns include the following:

- The need to integrate the borrowings into the external debt policy of the country, which will among others, regulate the limit of exposure to foreign lenders based on established parameters.
- The adverse effect of the preponderance of debt over equity in banks. This concern is further supported by the fact that the country, as a developing economy, is more susceptible to external shocks that could emanate from capital reversals.
- The long-run problem of debt servicing associated with the loans, which could affect the economy and ultimately, the country's relationship with the external creditors.
- The exchange rate risk usually associated with loans in foreign currency.
- Concentration of the loans in the oil sector to the detriment of other sectors of the economy.
- The effect of the monetisation of the huge short- term inflows on liquidity and monetary policy.
- The capitalization of the banks and their capacity to manage the risks associated with the facilities.
- The need to instil financial discipline in the banks and also ensure that the

loans are channelled to the productive sectors of the economy.

- Possible mismatch of the funds and the credits to be extended therefrom and the consequences on a bank's financial position.

Considering the fact that the huge debt overhang of the country today arose primarily from such borrowings, which initially appeared manageable, the CBN in performing its role of ensuring a sound financial system issued adequate guidelines via its circular reference BSD/DO/CIR/VOL.1/2001/22 in November 2001, after due consultation with the operators (see appendix 4).

While the CBN, like other stakeholders in the economy, appreciates the importance of the inflow of funds from foreign lenders, the guidelines are considered necessary to the banks that are engaged in this activity.

The guidelines have, therefore, been developed bearing in mind that for the benefits of the facilities to impact on domestic growth, the activities of the banks on the one hand, and those of the regulators on the other, must be properly coordinated.

3.02 STAFF POACHING IN THE NIGERIAN BANKING INDUSTRY

Management and banking sector distress.

The Nigerian banking industry, in the 1990s, witnessed a re-occurrence of the distress syndrome that had affected the system in the 1930s. While the distress of the 1930s was traceable to such factors as inadequate capitalisation and regulation, managerial incompetence, inappropriate corporate governance structures, reckless use of depositors' funds, over-trading and politicisation, the distress of the last decade was traceable to similar factors which could be broadly classified as internal and external. The internal factors such as management incompetence, under-capitalisation, interference by owners in the management of the institutions, weak internal controls and insider abuses were, however, identified as the key factors responsible for the demise of the institutions. A study conducted into the probable causes of distress in most institutions had further highlighted the importance of the quality of management in an institution's survival.

Staff poaching as a survival strategy.

The deregulation of the economy through the introduction of the Structural Adjustment Programme in 1986 led to a rapid growth in the number of licensed banks from 46 in January 1986 to 90 as at December 2001. This left the banking industry with multi-faceted human capital problems among which was the dearth of skilled manpower. The banks, therefore, resorted to the poaching of staff in their efforts to attract the required manpower to manage their institutions. Staff poaching, in this context, refers to the luring of personnel from one bank to another.

Poaching, per se, might not be considered undesirable, especially by the affected staff. The advantages of poaching, depending on the angle from which it is viewed, may include:

- An opportunity for advancement in the industry in terms of benefits and promotion for the staff that is being poached and opportunity for those left behind to fill the resultant vacancies or for new staff to be recruited.

- It presents an opportunity for the organisation to review and restructure or optimise its operations.

However, for the system as a whole, there are certain discernible consequences, which could be considered negative. These include:

- Disruptions in the operations of the organisation that has suffered the 'brain drain' as it is left with the problems of recouping, recruiting and training of new staff. Added to this, is the risk of critical information that could be taken away by the disengaging staff.

- The unwillingness and/or reluctance of some institutions to train their staff because of the constant threat of exit. Without doubt, capacity building in the industry becomes the worse for it.

- Promotion of mediocrity, in some instances, as less qualified staff are hurriedly upgraded to fill the vacancies created by the exit of the more qualified staff.

- Difficulties experienced by the smaller banks in attracting and retaining qualified and experienced staff as a result of the competitive salary structure in the industry.

Regulators perspective on staff poaching.

The concern of the Central Bank of Nigeria and the practitioners in the industry, centre mainly on the long term effects of poaching.

The effort to address the issue led to the issuance of the circular referenced BSD/DO/CR/VOL.I/2001/23 (appendix 5) on staff poaching in the Nigerian banking industry. The circular, which was a result of the CBN's consultation with practitioners in the industry, recognizing the inevitability of staff mobility, for diverse reasons, not only sought to prevent too frequent staff movement but also to make the adverse effects of poaching more manageable. In this wise, the circular, among other things, sought to:

(i) Encourage the banks to build the stock of human capital in the banking industry by establishing minimum standards for staff training. In order to douse the fears of exit by such trained staff, it suggested that the affected staff could be bonded to the institutions for an agreed specified period. Also, restraints that require staff to refund a percentage of the training costs, should they opt to leave within a specified period, could be applied.

(ii) Explore the synergic opportunities that could be exploited through the establishment of joint training institutions with other banks and/or in conjunction with such established institutions like the Financial Institutions Training Centre and the Chartered Institute of Bankers of Nigeria.

(iii) Stem the tide of staff movement between the banks to a reasonable degree by adhering strictly to the standards set in another circular referenced BSD/DO/CIR/VOL.1/01/2001 (appendix 6) in the area of qualification and experience. It, therefore, suggested that staff, who do not meet the minimum number of years of experience but move to other institutions, should do so on the same grade.

(iv) Advise the managements of the institutions, to improve on staff retention policies through job enrichment and enhancement. This, it is hoped, will not only provide employees with opportunities to improve their skills but will also challenge them and stimulate their abilities.

(v) Encourage the banks to consider the re-absorption of ex-staff of liquidated institutions, who are still capable and willing to work.

The guidelines on the pre-qualification for appointment to the boards and top management positions in the banks and the circular on staff poaching in Nigerian banks were issued in an attempt to check the myriad of human capital problems in the banking industry in Nigeria as a result of the dearth of experienced personnel. While it may yet be too early to measure the degree of success or otherwise of the guidelines, it is pertinent to mention that the implementation, which depends on both the operators and the regulators, will in no small measure resolve some of the management problems currently afflicting the banking industry.

3.03 HARMONISATION/STANDARDISATION OF SOFTWARE IN BANKS

Banks acquire new software packages.

Towards the turn of the last millennium, most of the banks, especially those of the first generation, used the opportunity of the year 2000 date-change to acquire new packages in order to enhance their banking applications. These packages embedded new and enhanced functionality that made them superior to earlier versions. The implementation of such systems occasioned the overall re-engineering of the operations of the affected banks.

Beside the Y2K-induced change, keen competition, coupled with advances in information and communication technologies, dictated that the inefficient banks streamlined their operations, if they were to survive in the new information age. It was no longer enough to merely computerise their operations. Systems networking involving Local Area Network (LAN), Wide Area Network (WAN), and even Internet linkage became operational imperatives as well as a survival strategy. The banks deployed huge funds to link up their branches on online, real-time networks, in spite of the daunting challenges such as erratic power supply, poor communications infrastructure, inadequate local input in the hardware and software chain, low information technology (IT) and education/awareness. Each bank deployed network solutions and architecture without regard to the overall compatibility of the systems within the industry. Thus, interfacing these applications for overall system synergy was difficult.

The supervisory challenge, posed by these developments, manifested in the need for supervisors to constantly catch up with the multiplicity of applications being deployed in the industry.

There was, therefore, the need to set some rules of conduct and harmonise/standardise the deployment of software packages in the banks, to engender uniformity and assist the regulatory authorities in their supervisory roles.

An array of banking software.

A survey of the major banking software deployed in 77 banks in the country revealed that they use different banking software (see table E).

Table E: Distribution of Banking Software in Selected Banks.

S/N	Application	Freq.	Cum. Freq.	% Distr.	Cum.%
1	BANKMASTER	15	15	19.48	19.48
2	PHOENIX	10	25	12.98	32.46
3	GLOBUS	14	39	18.18	50.64
4	FLEXCUBE	10	49	12.98	63.62
5	KAPITI	7	56	9.09	72.71
6	FINNACLE	4	60	5.19	77.92
7	FUTURE BANK	2	62	2.60	80.52
8	BBA	2	64	2.60	83.12
9	TEAM-UP	2	66	2.60	85.71
10	BASIS	1	67	1.30	87.01
11	MICRO BANKER	1	68	1.30	88.31
12	CEB	1	69	1.30	89.61
13	IBBS	1	70	1.30	90.91
14	ISBADD	1	71	1.30	92.21
15	P-SALE	1	72	1.30	93.51
16	BRANCH POWER	1	73	1.30	94.81
17	REN BANKER	1	74	1.30	96.10
18	DEVINE BANKER	1	75	1.30	97.40
19	PROGENIGS	1	76	1.30	98.70
20	CLIPPER	1	77	1.30	100.00

Source: Bank Survey 2001

From a supervisory perspective, it has become imperative that supervisors be empowered to access and interrogate these systems for a meaningful reporting and control. With so many applications being deployed, bank examiners' competence in all of them would virtually be difficult to attain. There is, therefore, the need to define software application standards that should include such criteria as:

Software standardisation criteria.

- software compatibility with existing applications and interrogation tools of the supervisors;
- compatibility with the rest of the banking system;
- compliance with the intellectual property rights of software owners; and
- appropriate hardware, software and data protection strategies by the acquiring bank.

The introduction of the Banking Analysis System (BAS), by the CBN a few years ago, for analysing and processing the statutory returns of the banks, necessitated the installation of the application software in all the banks, as well as the standardisation of systems, in terms of capacity, to enable them render returns in a standardised format. BAS, which is being web-enabled to allow remote access to and from financial institutions, has helped to shorten the processing time for returns.

In the same vein, the Credit Risk Management System (CRMS), which went live in 1998, was designed to generate accurate and reliable credit information on bank borrowers from a central database. This has considerably reduced the incidence of credit extension to customers who have no capacity to repay and/or already have non-performing/abandoned loans in the other banks.

Banking industry to benefit from standardisation.

The above illustrates the advantage that the banking industry can gain from harmonization/standardization of software in the system. Although the need to continually update and sharpen the technical skills of examiners cannot be overemphasised, the situation would also be assisted if the banks could collaborate with one another in their choice of banking applications.

3.04 MULTIPLE DIRECTORSHIP IN BANKS

The Nigerian financial sector has undergone several transformations as a result of various changes in government policies. Such policy changes include the promulgation of the Investment Act of 1995 and the Nigeria Investment Promotion Commission (NIPC) Act No. 16 of 1999, which among others, allow 100 percent local or foreign ownership of most businesses, the progressive review of the minimum paid-up share capital of the banks to x1 billion and recently, the adoption of Universal Banking. The above had led to changes in the ownership structure of various financial institutions, which continued to reposition themselves through the establishment of financial subsidiaries. In order to protect their interests in the subsidiaries, the shareholders usually appoint director(s) to the boards of these institutions.

Legal provision on multiple directorship in banks.

Section 19(2) of the Banks and Other Financial Institutions Act 1991, as amended, provides that:

"Except with the approval of the Bank, no bank shall have as a director any person who is a director of -

(a) any other bank;

(b) companies which amongst themselves are entitled to exercise voting rights in excess of ten per cent of the total voting rights of all the shareholders of the bank."

Subsequently, the CBN issued a circular, BSD/CS/23/VOL.1/19, in 1992 to the effect that:

(i) No person shall hold directorship positions in more than two banks (that is one merchant and one commercial).

(ii) Where a person is already a director in one or two privately owned bank(s) either by virtue of being a shareholder or a nominee director, such a person shall not accept another appointment in a government-owned bank unless he or she first relinquishes the directorship in one of the privately owned banks.

(iii) Where a bank has a subsidiary or manages another bank under a technical agreement, the banks in the group shall be taken as one for the purpose of determining the number of the banks in which an individual could hold directorship position.

Item (iii) of the above guidelines was very explicit in that a holding company was allowed to have some of its board members on the board of the subsidiary. With the guidelines, an individual was allowed to sit on the board of more than one bank. The essence of this was that the appointed director was to protect the interest of the holding bank in the subsidiary bank. It was, therefore, envisaged that the appointment of such a director would not cause a conflict in any way since the director was there to protect the interest of the holding bank. The implementation of the circular ensured that no individual was allowed to serve as a director in more than two banks.

This restriction was informed by the following considerations:

- The need to reduce or possibly eliminate conflict of interest.
- The fact that the banks almost offer the same type of services in the same market.
- The need to reduce sharp practices.
- Reduction of undue influence of one director on the others.
- To guard against arbitrage practice by the banks with common directorship.

Developments that warranted change of policy.

With the economic philosophy of deregulation, the restrictions on equity holdings were removed consequent upon the promulgation of the NIPC Act, which was intended to facilitate greater inflow of foreign capital into Nigerian enterprises. With respect to the banking industry, the measure was intended to assist in the recapitalisation of the banks by encouraging credible investors, local and foreign, to bring additional resources and sound management into the industry.

The above led to some financial institutions investing in financial subsidiaries, and consequently appointing director(s) of the holding bank, to the board of such subsidiaries. However, some of these individuals were found to be on the boards of as many banks or financial institutions as the number of their subsidiaries.

Furthermore, universal banking recently came on stream and removed the dichotomy that existed between the commercial and merchant banks. If the provision remained as it was, it would have implied that directors who were serving in two banks, of which one was formerly a merchant bank and the other a commercial bank, would have had to resign from one of the boards. This was bound to have been resisted by the directors, especially, where they had substantial investment. The alternative would have been for them to appoint nominees to represent them on such boards. There was, therefore, the need to review the existing regulations.

Consequently, a new circular referenced BSD/DO/CIR/VOL.I/ 2001/11 (appendix 7), which allows an individual to hold directorship positions in not more than two banks, was issued in May 2001. Furthermore, the banks in a group are considered separate entities for the purpose of determining the number of banks in which an individual could hold directorship positions. The CBN will ensure strict compliance with the provisions of the circular.

3.04 THE ROLE OF EXTERNAL AUDITORS IN THE SUPERVISION OF BANKS

The major objective of regulation in the banking industry is to protect the interest of depositors who are the primary stakeholders in the industry. The banking sector plays a central role in the economic development of any nation and is, therefore, one of the most regulated sectors.

Auditors' role, complementary to supervision.

The regulation of the banking sector, as enunciated in the banking laws [the Banks and Other Financial Institutions Act (BOFIA) 1991 as amended, in Nigeria], is usually coordinated by the central banks. However, other regulators/supervisors collaborate to ensure that the arduous responsibilities of banking regulation are properly coordinated. While central banks/supervisory agencies are directly responsible for the supervision of the banks for the attainment of this objective, auditors are statutorily responsible for the auditing of these institutions, which is complementary to supervision.

It was in recognition of the responsibilities of supervisors and auditors that the Basle Committee on Banking Supervision, in conjunction with the International Auditing Practices Committee, issued in February 2001, a consultative paper on how the relationship between banking supervisors and the banks' external auditors can be strengthened to their mutual advantage. The approaches of the regulators and auditors, though different, are aimed at ensuring the soundness and viability of the banking system.

To underscore the need for collaborative efforts, the New York State Society of Certified Public Accountants (CPAs) sponsored a panel discussion between bank regulators and external auditors in order to stem the dwindling relationship between the two parties since they need each other to be effective and efficient in reviewing/determining the financial soundness of the banks.

The primary responsibility of external auditors is to express an opinion as to whether the published financial statements of the bank give a true and fair view of the banks' financial position and are prepared, in all material respects, in accordance with the existing financial reporting requirements and standards. To strengthen the auditors to perform this onerous responsibility, Section 29 of (BOFIA), empowers the CBN to approve the appointment of auditors as well as appoint a suitable person to fill the vacancy, in case a bank fails to appoint one.

On the other hand, the supervisor's cardinal responsibility is the promotion of monetary stability and a sound financial system. In pursuit of this responsibility, the CBN relies on the auditors' work in approving the accounts of the banks since their opinion helps to give credibility to the financial statements.

Communication between the auditors and the management of the banks and the domestic report submitted by auditors, also provide the supervisors with valuable insight into the various aspects of a bank's operation. It is in this regard that the BOFIA empowers the CBN to cause the auditors to forward the domestic report on the banks not later than three months after the end of the financial year. In many respects, therefore, the supervisor and the auditor have complementary concerns regarding the same matters, although the focus of their concern may be different.

The International Auditing Practices Committee and the Basle Committee share the view that greater mutual understanding and where appropriate, communication, improve the effectiveness of bank auditors and supervisors to their mutual benefit.

Regulators' expectations.

The expectation of the regulatory authorities from external auditors over the years, have included the need to:

- express an independent opinion on the audited financial statements;
- report on the adequacy and effectiveness of internal control systems of the auditees;
- report promptly to the regulators, issues of supervisory concern in the activities of their client;
- co-operate and collaborate closely with bank supervisors;
- exhibit a high sense of responsibility and integrity in dealing with the institutions they audit;
- report on compliance/non-compliance with banking laws and circulars is-

sued by the regulatory bodies; and

- submit domestic reports on the banks.

The extent to which the auditors have met these expected roles might be argued. However, the industry performance, financial analysts' perception and the overall state of the economy, tend to suggest that the auditors have not entirely performed their roles creditably. This view is reinforced by the audit opinions on the financial statements of some banks, which were "unqualified" whereas the reality showed fundamental problems that threatened the existence of such banks.

Between 1994 and 1998, 31 banks had their licences revoked by the CBN as a result of terminal distress, which arose mainly from insider and other abuses. The audit reports on some of these banks were not "qualified".

The consequences of the liquidation of the banks included the erosion of public confidence in both the auditors and the regulators, and that had adversely affected the integrity of the auditors as well as the supervisors and their effectiveness in regulating the banks.

A communication channel between the CBN and external auditors of banks, established.

The need to enhance communication between the CBN and the external auditors culminated in the holding of the maiden meeting between the two parties in June 2001. The forum agreed to meet quarterly to enable the two parties work together to nurture a healthy and orderly development in the financial sector.

It is imperative to mention that far-reaching decisions that are of mutual interest to both the supervisors and auditors were taken at these meetings. Some of these included:

- Forwarding of all circulars emanating from the regulatory authorities directly to the external auditors.
- Allowing the auditors to be present at examiners' exit meetings with the banks, to acquaint them with happenings in the bank, before the release of the examination report.
- Meeting between the regulators and the external auditors before the commencement of audit work in order to update the auditors with relevant in-

formation on the events in the institutions, since the last audit.

- Forwarding of examination reports to external auditors.
- The presence of auditors when examination reports are being presented to the boards of the banks by the regulatory bodies.
- Cooperation by the auditors in enforcing the recently issued contingency plans for systemic distress.
- Avoidance of loan delinquency by auditors in order to protect their integrity and independence.

Auditors collaboration with the CBN.

In the past, the collaboration and co-operation between the supervisors and the auditors had facilitated the supervisory process. For instance, in 1999/2000, the CBN engaged some auditors to undertake additional tasks that contributed to the performance of its supervisory responsibility, by farming out the pre-licensing inspection of community banks.

Supervisors and auditors face similar challenges.

With the improvement in information technology, the supervisors and external auditors in many respects now face similar challenges, and as stated earlier, their roles are being perceived as more complementary now than ever before. All these require greater collaboration and cooperation, if the system is to be effectively and efficiently regulated.

3.06 EFFECTS OF ECONOMIC CRIME IN THE FINANCIAL INDUSTRY

Economic crime has been described as the manifestation of a criminal act done either solely or in an organised manner with or without associates or groups, with an intent to earn wealth through illegal means, carrying out of illicit activities which violate the laws of the land and other regulatory/statutory provisions governing the economic activities of the government and its administration.

Economic crime erodes confidence in the financial system.

Economic crime can erode the confidence in the financial system of a country; threaten the integrity of government, its programmes and institutions, thereby undermining national security, law and order. On the whole, the overwhelming presence of economic crime can make such a country unattractive to investors. Irrespective of the sophistication of the methods adopted by criminals, the common characteristics of the crime include cheating, lying and stealing.

Types of economic crime.

Economic crime includes official corruption, looting of public funds, frauds, smuggling, drug trafficking, money laundering, larceny, forgery and counterfeiting, some of which are briefly described below:

Fraud

This is the use of deception to obtain some financial advantage. It could be due to a fall in social values and personal traits, among others. Frauds are perpetrated through falsification of documents relating, but not limited to, electronic funds transfers, insurance, securities and investments. Misappropriation of cash and deposits through manipulation, fraudulent encashment of negotiable instruments, misapplication of lending proceeds and opening of letters of credit without proper documentation, among other forms of fraud, are now common occurrences in the banks.

Advance fee fraud [a k a '419'], is perpetrated through a deliberate distortion and misrepresentation of facts with the aim of deriving financial benefits from the unsuspecting but greedy and, often, gullible victims. The crime has gained prominence, especially with the advancement in information technology.

Theft

Copyright infringement, information piracy and theft of intellectual works have been enhanced by the advancement in information technology. Designer labels, video and computer software are often stolen. Unless there is a check on the violation of copyright, artists and inventors will be deprived of their royalties, thereby discouraging innovation and further invention .

Smuggling

This is another form of economic crime, which affects the financial services industry by way of unrecorded trade. It is facilitated by forged customs receipts, registration papers and letters of credit on motor vehicles, contraband petroleum products etc, imported into or exported out of a country. Smuggling results in tax evasion, violation of customs laws and impacts adversely on the capacity utilisation of the local industries. It distorts national statistics and ultimately deprives government of essential revenue on the affected goods.

Drug Trafficking

Drug trafficking is of immense concern to the Nigerian government, not only for the image and security problems associated with it, but for its socio-economic, physical and mental health hazards on the citizens. It is one of the most organised crimes, which respects no international borders.

Bribery

There is no society or culture, which is free from the reality of the damage caused by bribery and corruption. The essence of corruption is the gains that accrue to the perpetrators at the expense of the society. In Nigeria, it has devastating consequences on economic growth and national development, discouraging foreign investment and aid. The effect of this is the weakening of the economy, which consequently lowers the living standard of the populace.

A promise, offer or receipt of cash, gifts, favours, sharing of inside-information, etc., that influence actions or decisions of an individual, amounts to bribery and therefore a corrupt practice. This crime is often perpetrated easily by individuals charged and entrusted with authority and control of government properties and resources.

Money Laundering and Grand Corruption

Money laundering and related crimes have attracted greater attention in recent times. Any crime, be it extortion, terrorism, drug, arms and human trafficking, fraud, bribery and corruption, etc, that generate huge proceeds, creates the need for laundering. Laundering takes place in order to avoid the proceeds from being used as evidence against the perpetrators of the offence.

Money laundering obliterates trail of economic crime.

Money laundering can be said to be a process by which monies, sourced from illicit activities, are brought into the formal economy and used for legitimate purposes. It has the three-stage operation of placement, layering and integration, involving both physical and electronic movements of the proceeds in order to dissociate and distance the perpetrators from the crime, by obscuring and disguising the trail through complex financial transactions. The major aim is to foil pursuit and to later make the laundered money available to the criminal.

The starting point is where the perpetrators of crime act to legitimise the origins of their illegal monies. They invest the proceeds in such business as retail services, stocks, auto-sale and even real estate development. In the 1990s, many in the auto-sales business were accused of money laundering by the authorities, while about x1 billion was realised by the government from the sale of landed properties of corrupt officials. Moreover, crime proceeds which involve large sums of money are either transferred out of the country through the banking system or physically, by an intermediary. Sometimes, perpetrators employ professional fund-managers abroad who help to establish offshore companies/trusts. Several other schemes are devised to further ensure that laundered money moves through the international financial system to the extent that its origin becomes difficult to trace.

In order to disguise the illegal monies abroad, the proceeds commence other journeys through the international payment system. The activities involved here are often facilitated by a third party collaborator in the original crime of bribery, looting of public funds and corruption.

The last stage is where the illegal proceeds are moved homeward as 'clean" money to be used for business purposes (i.e. capital importation). Available records, in Nigeria, show that laundered money, originating from corrupt practices, hardly goes beyond the second stage. It is for this reason that billions of Nigeria's money is still stashed in overseas banks. Over US$2 billion, corruptly acquired, has been frozen through court orders while the country is keeping a tab on such other monies abroad.

The problems and the grave danger economic crimes pose to the economy are enormous and of great concern to the Federal Government. Of recent, Nigeria had been adjudged by the Financial Action Task Force (FATF) as one of the non-co-operative countries or territories in the fight against money laundering. Prior to FATF's assessment, Transparency International had categorised Nigeria as one of the most corrupt countries in the world.

Two of the major impacts of economic crime on the financial industry are reputational and operational risks.

Impact of economic crime on the financial industry.

Reputational Risk

Confidence is still very much at the heart of the relationship between financial institutions and their customers. Where a financial institution's involvement in economic crime becomes public knowledge, the confidence that exists between the institution and its principal customers is likely to be adversely affected. Its ability to retain the existing business and to attract new ones can be under trial. It may also face the spectre of law suits from parties, who believe that they have suffered losses by the institution's negligent conduct of its affairs. Reputational risk has the potential of causing a run on the financial institution, thus disrupting its business.

Operational Risk

Where a financial institution lends to a customer or holds assets in a company linked with illegal activities, it runs the risk of losing those assets. Deposits that are traceable to the proceeds of crime are likely to be more volatile. Such deposits have the potential to be disruptive in the institution's asset and liability management.

Other effects of economic crime include fuelling of inflation, uneven distribution of resources, undermining of developmental efforts, weakening of morals and commitment of citizens, creation of elitism and a thriving parallel economy. The adverse impact of economic crimes on the operation of financial institutions should, therefore, provide strong incentives for them to discourage the use of their services by persons engaged in illicit activities.

On the international scene, a number of the world's largest banks such as Citicorp, Barclays, Union Bank of Switzerland (UBS), have announced the adoption of new anti-money laundering guidelines. The action was taken in the aftermath of concerns about the growing number of cases in which some well-known banks were linked to high profile cases of money laundering. They recognised that illicit activities, if allowed to thrive within the financial system, could generate negative consequences for the system as a whole. The banks have agreed to accept, as clients, only those persons 'whose sources of wealth and funds can be reasonably established to be legitimate". The guidelines require the banks to pay particular attention to businesses emanating from the so-called high-risk countries, having inadequate money laundering standards or are associated with high levels of crime and corruption. They are also required to scrutinise the accounts of clients whose business activities are known to be susceptible to money laundering, who are public office-holders, politicians or senior government officials.

The International Monetary Fund (IMF) is increasingly giving recognition to the role of financial sector soundness in macro-economic stability. The quality of financial sector supervision has also come under close scrutiny and increased attention of the IMF. The Fund has realised the importance of countries attaining high levels of competence in the regulation of financial sector activities.

The United Nations Convention against Trans-national Organised Crime (TOC) has effectively consolidated many of the anti-money laundering mechanisms into one international legal instrument. It is instructive to note that many of the issues addressed in several international conventions, which were not legally binding, now have the full force of an international legal instrument.

Nigeria had long realised the adverse effects of economic crime and the fact that it was in her interest to actively participate in the fight when she took the following notable measures:

Nigeria's effort in combating economic crime.

- The establishment of the National Drug Law Enforcement Agency (NDLEA) to check drug trafficking and the associated money laundering.
- The establishment of a special fraud unit within the Nigeria Police Force, charged with the responsibility of investigating and prosecuting cases bordering on criminal deception or advance fee fraud.
- The setting up of the Money Laundering Surveillance Unit in the Central Bank of Nigeria in 1994. The Unit is charged with the primary responsibility of ensuring that the banks and other financial institutions comply with the provisions of the Money Laundering Guidance Notes, Money Laundering Act and observe the "Know Your Customers" directives issued by the CBN.
- The enactment of the Failed Banks (Recovery of Debts) and Financial Malpractices in Banks Act No 18 of 1994.
- The promulgation of the Money Laundering Act No 3 in 1995, which criminalizes the laundering of the proceeds of organised crimes and checks the incidence of financial malpractices in and outside the country.
- The promulgation of the Advance Fee Fraud and other Fraud Related Offences Act No 13 in 1995.
- The appointment of a Special Adviser to the President on Drugs and Financial Crimes and the establishment of the high-powered Inter-Ministerial Committee on Crimes.
- The establishment of the Financial Services Regulation Co-ordinating Committee (FSRCC), which comprises the Central Bank of Nigeria, Securities & Exchange Commission, National Insurance Commission, Corporate Affairs Commission and Federal Ministry of Finance. The committee co-ordinates the supervision of all the financial institutions in the country.
- The establishment of the National Agency for Foods, Drugs Administration and Control (NAFDAC) in 1993 to control the quality of products imported into the country
- The establishment of the Independent Commission on Corrupt Practices to implement the anti-corruption law of the Federal Republic of Nigeria.
- The preparation of a blue-print to provide guidelines and modalities for

the implementation of the National Drug Control Master-plan for Nigeria.

It is pertinent to note that these measures were taken to repair the incalculable damage done to Nigeria's image by economic crime. Nigeria is currently reviewing her money laundering laws with the aim of addressing the observed deficiencies.

In May 2000, the Federal Government of Nigeria, in collaboration with the United Nations Office on Drug Control and Crime Prevention (UNODCCP), organised an international conference on corruption and organised crime. Also, in August 2001, Nigeria, through the major regulators in the economy, organised the first national seminar on economic crime. The country has regularly been represented in the international symposium on economic crime held at Jesus College, Cambridge, United Kingdom.

Why economic crimes persist.

Despite the various approaches in the fight against economic crime, it continues to persist because of the following:

- The phenomenal advances in technology, which have exposed our economy to various forms of economic crime. The increasingly sophisticated methods, used by the perpetrators in their nefarious activities, place them some steps ahead of the law enforcement agents.
- The anonymity enjoyed by the operators in the unregulated business activities, facilitate the perpetration of economic crime.
- The failure of other countries to implement the existing United Nations anti-money laundering measures such as the resolution against illicit traffic in narcotic and psychotropic substances in 1988 and the recommendations of the Financial Action Task Force (FATF) on money laundering is also inhibiting the fight against economic crime.
- Limited technology and infrastructure at the disposal of the regulatory and law enforcement authorities in the country make detection of crimes and prosecution of criminals extremely difficult.

Issues in new strategy formulation.

In the light of the above, the Federal Government has seen the need to develop new strategies to fight economic crime. To this end, the following issues were being considered:

Co-operation with Other Nations

The trans-national nature of economic crime makes cooperation with other nations very imperative. For the expeditious handling of economic crime cases, there should be collaborative and consultative efforts with the law enforcement agencies in other jurisdictions. The mechanism to extradite offenders should be strengthened by incorporating the principle of reciprocity in the domestic laws to ensure that offenders face the law.

Capacity Building

It is also important to enhance the capacity of the law enforcement officers in the fight through appropriate training in new techniques. The domestic policing should move from the present traditional enforcement tactics to the aggressive investigative methods including the use of undercover operations to nip the crime in the bud.

Institutional Infrastructure

The government should create an independent and a specialised national agency that will make use of financial intelligence and data-communication in the field of economic crime. This Agency will also co-ordinate the activities of other bodies and serve as a clearing house on matters relating to economic crime.

Public Awareness

Public awareness should be created on the negative effects of economic crime. Information and knowledge should be shared with citizens, public and private businesses on the types and means of preventing economic.

Disclosure of Transactions

Heavy cash and suspicious transactions should be reported by financial institutions, carefully analysed by the regulatory authorities and appropriate actions taken in order to make the tracing of illegal monies possible.

Legal Framework

The confiscation of assets in order to prevent the perpetrators of economic crime from retaining and using the proceeds of their criminal activities should be supported by international conventions backed by domestic legislation. If this is done, it will serve as a deterrent and prevent the reinvestment of economic crime proceeds in furtherance of criminal activities. The various law enforcement agencies, legislations and the administration of justice should be reviewed, re-positioned and harmonised to stop these activities in the country.

The fight against economic crime can only be won with the co-operation of every citizen, particularly, in the area of detection, investigation and prosecution. The tackling of its trans-national dimension requires a focused and co-ordinated response, which demands both domestic and international actions.

3.07 UNIVERSAL BANKING AND ITS CHALLENGES TO OTHER SECTORS OF THE FINANCIAL SYSTEM

Universal banking commences in Nigeria.

Following the approval-in-principle granted by the CBN Management in 1999 for the introduction of Universal Banking (UB) and the subsequent issuance of the relevant guidelines in December 2000, the practice of UB was adopted in Nigeria with effect from January 1, 2001.

The concept and practice of UB differ from one jurisdiction to another, depending on what is considered most suitable for the environment. In some economies, UB includes the rendering of both financial and non-financial services while in some others, the focus is on rendering various financial services directly or indirectly. In Nigeria, the practice extends beyond the rendering of traditional banking services. It includes capital market activities as well as insurance business undertaken either directly or through the establishment of subsidiaries. Consequently, a bank may choose to specialise in any of the identified areas.

In view of this development, the supervision of the banks by the CBN, would involve the Securities and Exchange Commission (SEC) and the National Insurance Commission (NAICOM). While the CBN supervises banking activities, SEC oversees the capital market operations and NAICOM, the insurance activities.

Reactions to universal banking.

There were mixed reactions from the regulators and operators of the other financial services sub-sector following the adoption of UB in Nigeria. While some operators lauded the CBN initiative and saw it as a challenge, others saw it as a ploy by the banking sector to take over their market. This reaction was common to both the insurance and capital market operators.

The weak operators in the insurance and capital market business, entertained fears of either being forced out of business or losing their experienced professionals to the banks with attractive remuneration packages. The strong and dynamic companies on the other hand, see the banks' participation in insurance and capital market activities as lending credibility to these sub-sectors, considering that the banks have larger capital, wider branch network and better IT facilities. This category of institutions, which are characteristically more stable, believe that with more strategic repositioning and improved remuneration packages for staff, they would be able to compete effectively with the banks and even enjoy the benefits that go with the added credibility brought into the sub-sector by the banks.

From the regulatory point of view, both SEC and NAICOM welcomed the introduction of universal banking because of the benefits that will accrue therefrom. Presently, both agencies are not registering new companies but rather advising the banks to invest in the existing ones. This strategy is aimed at strengthening the weak companies while the strong would reposition themselves for effective competition in the industry/market.

Challenges to the insurance and capital market sub-sectors.

The NAICOM, however, also expressed its opposition to the lead regulator status accorded the CBN in the Guidelines for the practice of UB in Nigeria, but preferred a situation where each sub-sectoral regulator controlled its sub-sector and co-ordination, effected at the Financial Services Regulation Co-ordinating Committee (FSRCC) level. This position of NAICOM was as a result of the fear of being subordinated to the CBN.

The adoption of UB in Nigeria poses several challenges. With the entry of the banks into the insurance and capital markets, the two sub-sectors are confronted with the issue of adequacy of capital. In this regard, therefore, NAICOM has proposed an increase in the capital requirement of insurance companies from ₦20 million to ₦100 million while SEC is considering a similar step for capital market operators.

The availability of adequate manpower is another area of challenge. The participation of the banks in these sub-sectors will induce poaching of qualified and experienced professionals from existing insurance companies and institutions involved in capital market activities. Such organisations, not only have to grapple with the problem of such a loss, but also have to embark on capacity building to remedy the situation.

Most banks today have invested heavily in infrastructure such as telecommunications, information technology and power necessary for efficient operation. The involvement of the banks in insurance and capital market activities will ginger other players in the sub-sectors to acquire similar infrastructure that would make them compete favourably with the new entrants.

Supervisory challenges.

Challenges also exist in the area of regulatory/supervisory capacity in these sub-sectors. The entry of the banks into insurance business and capital market activities has obvious implications for supervisory capacity, as more professionals will be required for adequate surveillance of the increasing number of operators/institutions and activities/transactions. Capacity building, both in the areas of manpower and infrastructure, therefore, becomes a sine qua non.

Another challenge is the need to forestall regulatory arbitrage. Under UB, financial conglomerates will emerge, which would require an all-embracing surveillance framework to prevent the problem of contagion. To achieve this, regulators should undertake consolidated supervision of banking groups to ensure that the exposure of all the entities in the group are assessed and the risks arising from other group members are monitored. This underscores the need for greater participation in the activities of the FSRCC. In this forum, regulators can exploit opportunities to share information that will help to check malpractices and contagion in the sub-sectors.

In the face of inadequacy of capital, firms operating in the capital and insurance markets are challenged to adopt appropriate strategies such as mergers and acquisitions, to enable them remain in business. This will, however, require a change in the attitude of Nigerian entrepreneurs, who are often reluctant to dilute ownership and lose control of their firms.

Having successfully adopted UB, it is expected that all the stakeholders in the industry will, over time, adjust and reposition themselves, in order to reap the benefits accruable from the system.

Chapter Four

FRAMEWORK FOR SUPERVISION

4.01 THE FRAMEWORK FOR CONTINGENCY PLANNING FOR BANKING SYSTEMIC CRISIS

Past experiences with bank failure.

The history of financial distress in the Nigerian banking system dates back to the 1930s when about 21 bank failures were recorded, prior to the establishment of the Central Bank of Nigeria in 1958. The first financial crisis was attributed to a number of reasons including the under capitalisation of banks, weak management, inappropriate corporate governance structures, reckless use of depositors funds, excessive growth and lack of regulation and supervision. The second financial crisis in Nigeria, which started in 1989 with the identification of eight distressed banks, worsened gradually with 31 banks being liquidated by 1998.

The ability of the supervisory agencies to prevent, contain, manage and resolve the distress syndrome was severely handicapped by the absence of a comprehensive regulatory framework for distress/crisis management.

It was against this background that the CBN and the NDIC decided in December 2001, to put in place the framework on Contingency Planning for Banking Systemic Crisis for the Nigerian banking system, in line with best practices in other jurisdictions.

Systemic crisis defined.

The CBN and the NDIC adopted the Toronto Leadership Forum's definition of systemic crisis as "... those situations where the solvency and/or liquidity of many or most of the banks have suffered shocks that have shaken public confidence." Specifically, a systemic distress would be said to have occurred when at least two of the following situations arise:

- the banks that are critically distressed control 20 percent of the total assets in the industry;

- 15 percent or more of total deposits are threatened; and
- 35 percent of the banking system's total loans are not performing.

Structure of contingency planning framework.

The framework for contingency planning consists of a set of identified policies, actions and processes necessary for the prevention, management and containment of banking systemic crisis. Thus, its implementation will enable the supervisory authorities reduce the likelihood of the occurrence of a systemic distress by sharpening supervisory processes, inducing self-regulation among the banks, lowering the cost of crisis resolution and providing requisite advance consideration and agreements by all stakeholders.

The structure of the framework consists of:

a) an evaluation of the supervisory policies and processes in determining the financial condition of the banks and a robust safety net;

b) guidelines for developing contingency plans by the banks;

c) established thresholds for supervisory intervention incorporating appropriate action plans; and

d) a defined composition and functions of a Crisis Management Unit.

Determining the financial condition of banks.

The supervisory agencies cannot effectively deal with systemic banking crisis without an in-depth knowledge of the condition of the banks they supervise.

The main focus in determining the condition of the banks prior to a crisis situation is to enable supervisors promptly distinguish between the banks which have good chances of emerging from any crisis and those that are terminally distressed.

A major characteristic of a systemic crisis is that the financial condition of a bank could worsen rapidly due to deteriorating economic conditions and/or a run. In essence, there will be the need to quickly and incisively diagnose the condition of the the banks in the system whenever there is a systemic crisis. In that regard, supervisors should ensure that the banks adopt realistic accounting policies and standards in generating their financial statements to facilitate the valuation of their assets and liabilities.

In the event of a systemic crisis, there may be the need to simultaneously determine the condition of all the banks. In embarking on such an exercise, the supervisors should appraise their capacity such that whenever it is necessary, they can out-source to supplement in-house capacity. The out-sourcing should focus on external auditors/consultants skilled in bank assessment and valuation. However, the banks' auditors should be excluded for objectivity. Where necessary, independent valuers may be co-opted for a more realistic assessment of the banks' assets.

After an objective assessment of the condition of the banks, using all the existing financial criteria and ratios, including the maintenance of proper records, which portray the realistic value of the banks' assets and liabilities, all the banks in the system should then be classified in accordance with a uniform bank rating system. This exercise will yield a first-class assessment that can be useful in establishing supervisory priorities while supporting a decision by the CBN/NDIC in providing liquidity and triggering actions to restructure or take-over the control of the banks, amongst others.

Thresholds for supervisory intervention.

The objective of explicit thresholds for regulatory/supervisory intervention is to ensure consistency and a more systematic approach to distress resolution, which are essential for maintaining overall stability in the financial sector. The condition, timing, and type of intervention can have serious implications on the sector. The design and application of interventions should create adequate incentives for all stakeholders to exercise caution and act prudently.

Below, are conditions in a bank, which may warrant supervisory intervention to mitigate the risk of systemic crisis. Corresponding supervisory actions have also been suggested. These actions are in addition to those stipulated in the relevant sections of the BOFIA. These should be fully disclosed to all the stakeholders for

Condition of a Bank	Restriction/Supervisory Action
1. CAPITAL ADEQUACY:	
a. Under capitalised banks (i.e. banks with Capital Adequacy Ratio (CAR) greater than or equal to 5 percent but less than the prescribed minimum level of 8 percent).	◆ Conduct special examination. ◆ Restrict dividend distribution. ◆ Restrict investment in other subsidiaries/related companies (investment in SME is exempted). ◆ Restrict investment in fixed assets.
b. Significantly under capitalised banks (i.e. banks with CAR less than 5 percent but equal to or greater than 2 percent).	◆ Restrict new lending to recoveries (zero based lending). ◆ Request for business plan on how fresh funds are to be injected into the bank. ◆ CBN should review business plan within two weeks and communicate to the bank its acceptability or otherwise. ◆ Fresh capital must be injected not later than 3 months from the time the business plan was accepted by the CBN. ◆ The CBN should make the final capital call on the bank within 4 months from the time of acceptance of the business plan. ◆ Within two months after the final capital call, CBN may takeover the management and control of the bank and hand it over to NDIC. ◆ The CBN may appoint the NDIC, which may consider the following options: ✓ Re-capitalisation and re-structuring by new investors.

Condition of a Bank	Restriction/Supervisory Action
	✓ Create incentives for healthy banks to take over the sick ones ✓ Encourage private debt factoring companies to take over the bad debts of banks. ✓ Recommend the revocation of licence.
c. Critically under capitalized (i.e. banks with CAR less than 2 percent).	◆ Take over management and control and/or revoke the licence.
d. Insolvent banks (i.e. banks that have negative CAR).	◆ Revoke the licence.
2. LIQUIDITY:	
a. **<u>Fairly Illiquid Bank</u>**	
✍ A bank that records a liquidity ratio greater than 20 percent but less than or equal to 25 percent. ✍ A bank, which suffers clearing operation losses for 5 consecutive days (i.e. adverse clearing settlement position without adequate cover to the extent that recourse had to be made to the clearing collateral). ✍ A bank whose account with CBN was overdrawn, and not covered on the next working day consecutively for five working days within a month.	◆ Invite management for a discussion on its plans to improve liquidity. ◆ Request the bank to realize assets that do not qualify for inclusion in the liquidity ratio computation.

Condition of a Bank	Restriction/Supervisory Action
b. **Significantly Illiquid Bank**	
✍ A bank that records a liquidity ratio greater than 10 percent but less than or equal to 20 percent. ✍ A bank with overdrawn CBN account not covered the next working day for seven times within a month. ✍ A bank that is a net taker of up to 25 percent of its total deposits. ✍ The bank's ratio of total loan portfolio to total deposits is 20 percentage points above existing prudential ratio for three consecutive months. ✍ A bank that incurs clearing operation losses continuously for 10 days.	◆ The CBN to conduct spot checks to investigate the problem of the bank. ◆ Invite the board and management for discussion. ◆ Advise the bank to divest from subsidiaries or related companies. ◆ Solicit for short-term liquidity support from NDIC.
c. **Critically Illiquid Bank**	
✍ A bank that records liquidity ratio equal to or less than 10 percent. ✍ A bank that is unable to meet its maturing obligations. ✍ A bank which suffers clearing operation losses for 15 continuous days or up to 20 days during a calendar month.	◆ Change management and/or board. ◆ Suspend the bank from clearing until it makes good its clearing position.

Below are the proposed responsibilities of the CMU, its membership, and list of

Condition of a Bank	Restriction/Supervisory Action
✍ A bank with overdrawn CBN account not covered the next working day, for more than 10	
d. **<u>Systemic Illiquidity</u>** Systemic illiquidity could be said to have occurred when: ✍ Banks that hold 10 percent of the total assets in the industry have applied for liquidity support from the CBN/NDIC. ✍ 10 percent of the banks in the system are having adverse clearing settlement positions, which are not promptly covered and are drawing on their clearing collaterals. ✍ 15 percent of total deposits in the system are threatened due to banks' inability to honour obligations. These could be due to macro economic shocks or changes in government policy.	◆ Financial support and other lender of last resort actions.
3. MANAGEMENT: Any of the following shortcomings in the management of a bank will warrant supervisory intervention. a. Failure of the management to act within limits of authority. b. Continuous violation of laws, rules and regulations, monetary policies or banks' charter or by-laws. c. Squabbles among shareholders, directors and officers.	◆ Invite management and board for discussion. ◆ Change in board and/or management of the bank by CBN. ◆ Removal and sanction of erring officers. ◆ A referral process that will submit suspected improper or illegal activities for review and possible prosecution.

related to crisis manage

a. Condition of a Bank	b. Restriction/Supervisory Action
d. Irregularities in the handling of assets and liabilities accounts such as kiting, lapping, theft, misappropriation, where possible losses can impair paid-up capital or are equal to 20 percent of shareholders' funds. e. Long-standing industrial action preventing normal/regular operations. f. Persistent petition against management. g. Late or non-publication of accounts.	
4. ASSET QUALITY:	
a. **Fairly Unacceptable Assets Quality** ✍ Where the proportion of non-performing credits to total credits is 10 percent above the tolerable limit of 20 percent. ✍ Where 20 percent of non-performing credits are insider related. ✍ Where more than 20 percent of total credits are insider-related.	◆ Request for action plan from management to address the problem within six months. ◆ CBN to conduct a special/target examination to determine the factors responsible for the non-performing credits. ◆ Officers to be sanctioned for improperly booked loans.
b. **Critically Unacceptable Assets Quality** ✍ Where the ratio of non-performing credits to total credits is 20 percent above the tolerable limit. ✍ Where 25 percent of non-performing credits are insider related. ✍ Where 50 percent of total credits are insider-related.	In addition to the three steps above, the CBN/NDIC may direct that: ◆ The bank should recall improperly booked loans. ◆ The director(s) should be removed/ blacklisted for non-performing insider credits. ◆ Further loans to subsidiaries/related companies be stopped (where the subsidiary/related company is unhealthy).

Condition of a Bank	Restriction/Supervisory Action
	◆ Loans to subsidiary/related companies be recalled. ◆ Bank should divest from the subsidiary/related companies where the activities of the subsidiary/related companies are inimical to the health of the bank. ◆ Loans that are apparently irrecoverable should be written off.
5. EARNINGS: a. Where a bank records losses for two consecutive quarters. b. Where there is a drop in net operating income by 20 percent, relative to the previous year. c. Where a bank's operating expenses rise by 20 percent, relative to the previous year.	◆ Write management to ◆ Invite management to discuss lapses.
6. INTERNAL CONTROL: a. Absence of manual of operations in a bank. b. Absence of programmed review of bank's operations guidelines (operations manuals should be reviewed at least once in two years). c. Rising trend of frauds/forgeries.	◆ Write management to draw their attention to the lapses. ◆ CBN to conduct a target examination to review the bank's internal control processes and operating manuals.

GUIDELINES FOR BANKS IN DEVELOPING THEIR OWN CONTINGENCY PLANS

Many banks had not sufficiently assessed the risks associated with the loss or extended disruption of business operations to fully appreciate the need for contingency planning. The regulatory authorities, therefore, needed to direct the operators to prepare their contingency plans.

Need for contingency planning by banks.

As the banks rely less on core deposits as a stable funding source and rely more on secondary sources of funding, the need for contingency plans becomes more critical.

The adoption of contingency plans will assist the banks in the following ways:

i] Minimise disruption of service to their customers

ii] Minimise financial loss due to disruptions

jj] Ensure a timely resumption of normal operations in the event of a disaster.

Policy

The board of directors and senior management of financial institutions are responsible for:

i] establishing policies, procedures and responsibilities for comprehensive contingency planning; and

ii] reviewing and approving the institution's contingency plans annually, and documenting such reviews in board minutes.

Back-Up Liquidity

A contingency plan should include procedures for making up cash flow shortfalls in adverse situations. The banks have, available to them, several sources of such funds, including previously unused credit facilities. Depending on the severity of the liquidity problem, a bank may choose or be forced to use one or more of these sources. The plan should spell out as clearly as possible the amount of funds a bank has available from these sources, and under what scenarios it could use them. The banks must be careful not to rely excessively on back-up lines and need to understand the various conditions, such as notice periods, that could affect the bank's ability to access quickly such lines. Indeed, the banks should have contingency plans for periods when their back-up lines become unavailable.

The banks should consider under what circumstances and for what purposes they would establish committed lines of funding, for which they pay a fee, which will be available to them under abnormal circumstances if uncommitted facilities fail.

Action Plan for Some Selected Parameters

In addition to these broad guidelines, the banks will be required to make specific plans for addressing deterioration in some selected parameters. These are listed below:

Condition of a Bank	Action Plan
1. CAPITAL:	
Capital Impairment a. Where the paid-up capital is impaired by losses.	The bank's contingency plan must address how it intends to inject additional capital from: ◆ existing shareholders; ◆ the capital market and/or new investors (private placement); and ◆ secondary sources i.e. debenture/ preference shares. Such a plan should be specific, realistic, achievable and time bound.
2. LIQUIDITY:	
Illiquidity a. Clearing operation losses continuously for 5 days. b. Bank's liquidity ratio is below the prescribed minimum level twice in the last six months. c. A bank borrows from the Interbank, an amount equal to 25 percent of its deposit liability. d. The bank's ratio of total credits to total deposits is 20 percentage points above prudential ratio as at the end of the preceding quarter.	The plan should address the following areas: ◆ Standby agreement with other banks/other financial institutions, which they can fall on. ◆ Balance sheet restructuring, where the problem is medium/long term in nature. ◆ Possession of cash drawing facility (CDF) at the CBN. ◆ Overnight drawing facility with other institutions. ◆ Mitigating persistent clearing operation losses. ◆ Additional sources of liquidity information should include confirmed lines of credit and loans available for sale, including types and volume.

Condition of a Bank	Action Plan
	◆ The plan should identify vulnerable liabilities and alternative funding sources.
3. MANANAGEMENT: a. Continuity of top management and board. b. Personnel protection.	The bank must put in place a succession plan in the event that it loses any member of its executive management. The bank must develop emergency preparedness procedures to ensure the protection of the employees in the event of an emergency while at work. An evacuation and protective area procedure should be established for the bank. To be considered also, is a list of records and assets that need to be secured, without endangering the employees.
4. ASSET QUALITY: a. Improper booking of credits. b. Where non-performing credits exceed 20 percent of total credits.	The plan should articulate how to: ◆ effect accelerated debt recovery; ◆ address compliance with procedures by officials of the bank; ◆ review the credit manuals and various credit committee approval levels; and ◆ undertake a periodic review of off-balance sheet transactions.
5. EARNINGS: a. Reported losses for two consecutive quarters. b. Drop in net operating income of at least 20 percent from the previous one year.	◆ The plan must specify how to address losses. ◆ The plan should identify the causes of the loss e.g. excessive overheads or expensive cost of funds. ◆ The plan must address the need to improve earnings.

<table>
<tr><th>Condition of a Bank</th><th>Action Plan</th></tr>
<tr><td colspan="2">6. INFORMATION TECHNOLOGY</td></tr>
<tr><td>The Management is responsible for. controlling the IT and its use in the organisation. The continued availability of advanced IT is integral to effective management decision making.</td><td>The plan is an extension of the bank’s internal control and physical security meant to guarantee continued operations and data recovery when the bank’s information system becomes disrupted or inoperative and must include the following:
◆ Provision for off-site back-up of critical data files software, hardware, documentation, as well as alternative means of processing information.
◆ Provision to implement any change (s) in user method necessary to accomplish alternative processing should the need arise.
◆ Arrangement for periodic testing to demonstrate and document its efficiency.
◆ Continuous review of the adequacy of the hardware/software system.
◆ The establishment of a damage assessment team, which will be responsible for determining the extent of the disaster and the restoration of the site.
◆ The establishment of a back-up team for the off-site hardware and software.</td></tr>
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Establishing a crisis management unit .

The Crisis Management Unit (CMU) is an ad-hoc, single purpose body meant to deal with any emergent systemic crisis. However, because of its contingent nature and the need to act with speed, its composition and responsibilities have to be identified in advance. The CMU should have absolute control over matters related to the crisis and have the authority to take appropriate decisions. Thus, for the CMU to deal with crises speedily, it must have the required power and authority.

The success of the CMU in handling any crisis is contingent on the existence of an adequate mechanism for determining the actual financial condition of the banks. This should be supported by a reliable databank on the financial condition, which is regularly updated. The accounting rules and standards should also accurately reflect the the banks' assets and liabilities as well as results of operations. Finally, the effectiveness of management should be reasonably determined.

Responsibilities of the crisis management unit

Below are the proposed responsibilities of the CMU, its membership and list of events that can trigger it into action.

i] Overall management of the crisis by coordinating the actions of the regulatory/supervisory agencies of any sub-sector of the financial services industry.

ii] Adopting an inter-agency approach on issues related to crisis management and resolution by establishing a single channel of communication. In the event of any crisis situation, it will also prepare official statements early so as to avoid misinformation.

iii] Establishing credibility and restoration of confidence in the banking industry.

iv] Conducting mock exercises to prepare staff for any crisis.

v] Taking any other action that may be necessary for the attainment of its objectives.

Events that would warrant the take-off of the CMU.

The occurrence of at least two of the following events would trigger the take-off of the CMU:

i] Where the banks that are critically distressed control 20 percent of the total assets in the banking system.

ii] When 15 percent or more of total bank deposits are threatened.

iii] When 35 percent of the banking industry's total loans and advances are non-performing.

Considering the responsibilities of the CMU and the authority to be vested in it, membership includes the:

Membership of the CMU.

a]	Governor, Central Bank of Nigeria	Chairman
b]	Minister of Finance	Member
c]	Managing Director/CEO, NDIC	Member
d]	Director General, Securities and Exchange Commission	Member
e]	Commissioner for Insurance	Member

The Secretariat of the CMU is in the CBN.

It was expected that the CPG for systemic crisis would be released to the banks in the first quarter of 2002. All the banks would be required to put in place an appropriate contingency plans within 6 months of the release of the guidelines.

4.02 THE NEW CAPITAL ACCORD

A risk sensitive approach to capital measurement.

The 1988 Capital Accord focused on the total amount of bank capital, which was vital in reducing the risk of bank insolvency and the potential cost of bank failure to depositors. Building on the 1988 Accord, the New Capital Accord was proposed to improve safety and soundness in the financial system by placing more emphasis on banks' internal controls and management, the supervisory review process and market discipline. The proposed Accord, which is less prescriptive, would provide approaches, which would be more comprehensive and more sensitive to risks than the 1988 Accord, while maintaining the overall level of regulatory capital. The spectrum of approaches would range from simple to advanced methodologies for the measurement of both credit and operational risks in determining capital levels. It would provide a flexible structure in which the banks, subject to supervisory review, would adopt approaches that best fit their level of sophistication and risk profile.

Programme to sensitise the system.

In spite of the various reviews and amendments to the 1988 Accord, the rules governing the determination of risk-based capital adequacy in Nigeria had not changed since they were introduced in 1990. Following the release of the second Consultative Package of the New Capital Accord by the Basel Committee on Banking Supervision, it became necessary to begin a sensitisation programme for supervisors and operators of the Nigerian banking system ahead of its adoption and implementation in the year 2005/(6). It was against this background that the CBN and the NDIC decided that a framework should be put in place to sensitise the banks and the supervisors to the New Accord.

Consequently, a Committee was constituted with the following terms of reference:

(i) Review of the key elements (i.e. minimum capital requirements, supervisory review process and market discipline) of the New Capital

Accord and identification of their implications for the Nigerian banking system.

(ii) Organise workshops on the New Accord for operators and supervisors.

(iii) Recommend criteria for the recognition and selection of external credit rating agencies.

(iv) Propose new regulation on capital and the time frame for implementation.

(v) Suggest steps that would facilitate effective supervisory review processes with a view to harmonising them with the contingency planning framework.

(vi) Propose the minimum disclosure requirements to facilitate market discipline.

Overview of the 1998 Accord.

The 1988 Capital Accord was a major development in bank capital regulation. It explicitly linked capital requirements to a bank's quantum and degree of risks. It also established minimum capital requirements that were internationally comparable. It required that the banks held, as capital, at least 8 percent of their risk-weighted assets. Four risk weights or risk buckets were created namely, claims on governments (0 percent); claims on banks (20 percent); residential mortgage claims (50 percent) and claims on consumers and corporations (100 percent). The Accord thus provided a benchmark for the assessment of the banks by market participants.

Weaknesses of the 1998 Accord.

The 1988 Accord had some weaknesses, which included the following:

1. It presented a broad-brush risk weighting structure, which, at best, was a crude measure of economic risk. This was primarily because the degrees of credit risk exposure were not sufficiently calibrated to adequately differentiate between borrowers' differing default risks.
2. It gave room for regulatory capital arbitrage and the exploitation of the differences between true economic risk and the risk measured under the Accord.
3. The Accord covered only credit risk.
4. The 1988 Accord failed to reward risk mitigating efforts with only a minimal relief for collateral.

Need for a new accord.

Beyond the weaknesses stated above, the rationale for a new accord stemmed from the need for more flexibility and risk sensitivity. The 1988 Accord focused on a single risk measure but the new accord covers effective bank-level management, supervision and market discipline.

The 1988 Accord provided, essentially, only one option for measuring, managing and mitigating risk. The new framework, on the other hand, provides a spectrum of approaches for the measurement of both credit and operational risks in determining the capital requirements. It has also introduced the element of flexibility to the choice of measure, subject to supervisory review.

The New Capital Accord consists of three mutually reinforcing pillars namely the minimum capital requirement, supervisory review and market discipline.

i) **Pillar 1: Minimum Capital Requirements**

The minimum capital requirements comprise three fundamental elements, viz: a definition of eligible regulatory capital, which remains the same as outlined in the 1988 Accord; the risk-weighted assets and the minimum capital to risk weighted assets. The fundamental elements of the 1988 Accord remain unchanged. It is the measurement of risks embodied in the risk-weighted assets that the New Accord addresses.

Credit Risk

There are two broad methodologies for calculating capital requirements for credit risks: the standardised approach and the internal ratings based (IRB) approach.

(i) The Standardised Approach

The standardised approach is more or less a revision of the 1988 approach to credit risk in which assets are assigned risk-weights to be based on the ratings of external credit assessment agencies.

(ii) The Internal Ratings Based (IRB) Approach

The IRB approach aligns, more accurately, the capital requirements of a bank with the intrinsic credit risk to which it is exposed. It relies on the bank's own internal assessment of its counter-parties and exposures. Both foundation and advanced methodologies of the approach have been developed. The measurement of credit risk capital requirement under the New Accord assumes an evolutionary approach, through which path, a bank is expected to progress towards ultimately adopting the credit risk modelling approach.

The New Accord allows a wider range of credit mitigants to be recognised, subject to minimum conditions of legal certainty, non-material correlation between the credit quality of the obligor and the value of the collateral, and a robust process and procedure to control risk.

The New Accord also recognises asset securitisation. The Basel Committee posited that in order for an originating bank to remove securitised assets from its balance sheet for purposes of calculating risk-based capital, the bank must transfer the assets legally or economically via a true sale.

Operational Risk

This is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. The framework presents three methods for calculating capital charge for operational risk in a continuum of increasing sophistication and risk sensitivity. These are the basic indicator approach, the standardised approach and the internal measurement approach. A fourth approach, the loss distribution approach, is being developed.

ii) **Pillar 2: Supervisory Review Process**

The supervisory review process is intended to ensure that the banks have adequate capital to support all the risks in their business and also to encourage them to develop and use better risk management techniques in monitoring and managing risks.

iii) **Pillar 3: Market Discipline**

The third pillar deals with disclosure requirements and recommendations for the banks. The over-arching principle states that the banks should have a formal disclosure policy approved by the board of directors. This policy should describe the bank's objective and strategy for the public disclosure of information on its financial condition and performance. In addition, the banks should implement a process for assessing the appropriateness of their disclosure, including the frequency of disclosure.

Issues and challenges of the New Accord.

In the course of the review of the New Accord, a number of issues and challenges that the Nigerian financial system would have to address in its implementation were identified. Some of the issues were:

(i) External Credit Rating Agencies

The New Accord places significant reliance on the services of the external credit rating agencies, especially in the standardised approach. It is obvious that rating business is at its infancy in Nigeria. For the twin objectives of simplicity and risk sensitivity of the framework to be achieved, an enabling environment for the sub-sector has to be created. Fortunately, the Investment and Securities Act provides for the licensing of rating agencies by the Securities and Exchange Commission. The Accord also sets the criteria for their recognition. There may be the need to solicit for a sovereign rating for Nigeria.

(ii) Data Availability

The successful implementation of any aspect of the New Accord requires a lot of data especially on the various types of risks to which the banks are exposed. The problem with record keeping, accuracy and timeliness of data is still prevalent in the Nigerian financial system. The issue of data availability has to be addressed. In fact, one of the reasons the implementation date of the Accord was fixed for 2005 was to allow for the relevant data to be accumulated. The proposed workshop would be a suitable forum to alert the operators and the other stakeholders in the financial system to update their data.

(iii) Transparency

This had been a recurring problem, which could frustrate the efforts of the supervisors to implement the New Accord. The Bankers Committee's efforts towards addressing this problem, through its Ethics and Professionalism Sub-Committee, should assist in enhancing transparency. The evolutionary nature of the New Accord increasingly cedes more responsibilities in the measurement of capital adequacy to the operators. Consequently, a bank would have to convince the supervisor of improvements in its risk management techniques to migrate to a higher level in the evolutionary ladder. With the present terrain of opacity, most of the banks might remain at the lowest rung of the ladder in their capital measurement approach.

(iv) Capacity Building

The technical capability of the supervisor is very vital to the successful implementation of the Accord. The knowledge of most examiners in the area of risk assessment in Nigeria is limited. The supporting documents of the New Accord need understanding and that informed the recommendation on the need to train supervisors adequately. It is also likely that the market will rely on the supervisory authorities to provide the relevant training for the operators. All of these call for extensive training of examiners.

(v) Disclosure Requirement

With the detailed disclosure requirement in Pillar 3, most of the current regulatory documents and circulars would need to be reviewed. Therefore, such documents as the Prudential Guidelines, the Statement of Accounting Standards (SAS) 10 and SAS 15, the circulars on various operational activities such as the issuance of bankers' acceptances and commercial papers, would need to be revisited.

(vi) Populating the Credit Risk Management System (CRMS) Database

The CRMS is a veritable tool, which should come handy in the implementation of the New Accord but for the system to be more relevant, its database should be populated. This could only be achieved with the cooperation of the operators. The fact that they had not lived up to expectation is an extension of the problem of transparency in the system.

(vii) Risk Categorisation of Obligor Groups

There are some recommendations in the New Accord that may need to be modified to suit the peculiarity of the Nigerian environment. For instance, the public sector entities are expected to be risk-weighted the same way as the banks. It is doubtful if this stand can be taken in the Nigerian situation, bearing in mind the high default rate in that sector. However, if the Nigerian banks are to operate in the global market, the uniformity of risk-weighting, worldwide, has to be observed.

(viii) Choosing from a Menu of Approaches

The New Accord provides alternative and evolutionary ways of measuring capital adequacy. The choice would depend on the level of sophistication of the bank. The import of this issue is that guidelines would have to be put in place for the implementation of each alternative approach. Besides, decisions have to be made on which of the various alternative approaches this jurisdiction would settle for. The natural starting point in Nigeria would be the basic level - the Standardised Approach.

Comments on the set of consultative documents released in January 2001 were received till the end of May 2001, while the final package was still being expected as at the end of the year. It was expected that all the banks would abide with the New Accord within a specified period of time.

The Basel Committee expects the implementation of the New Accord to commence in 2005. This would allow for necessary amendments to the legislative framework and for any changes that might be necessary to processes, procedures and information systems to be effected. Also, time would be required to build up the required data bank for the extensive statistical records that most of the aspects of the new package would require. Supervisors would need time for training and adaptation of the new package to suit local conditions.

New Accord to take effect 2006.

4.03 THE IMF FINANCIAL SECTOR ASSESSMENT PROGRAMME

Focus of the FSAP.

The first phase of the IMF Financial Sector Assessment Programme (IMF-FSAP) took place in December 2001. The task of the IMF Mission was essentially to assess compliance by the various agencies in the Nigerian financial sector with international standards and codes. Ahead of the arrival of the team, questionnaires on compliance with the core principles for the various segments of the financial system were forwarded for completion by the relevant agencies. The questionnaires covered the Basel Core Principles for Effective Banking Supervision, the International Association of Insurance Supervisors (IAIS), Insurance Core Principles, the International Organisation of Securities Commissions (IOSCO) Objectives and Principles of Securities Regulation, Core Principles for Systematically Important Payment Systems (SIPS) and the Code of Good Practices on Transparency in Monetary and Financial Policies (MFP). There were also questionnaires on moneychangers and pension systems.

Criteria for assessment.

The assessment of the Core Principles for Effective Banking Supervision was based on two sets of criteria: the essential and the supplementary. The response to the questionnaires represented a self-assessment by the Nigerian authority. Against this and the additional information and documents provided, the IMF Mission would carry out its own assessment. The preliminary findings would be made available for comments during the second phase of the FSAP.

The Code of Good Practices on Transparency in Monetary and Financial Policies was said to be parallel to the Code of Good Practices in Fiscal Transparency developed in 1998. The code, popularly referred to as the MFP Transparency Code, identified desirable transparency practices for the central banks, in their conduct of monetary policies, and for the central banks and other financial agencies, in their conduct of financial policies. For the purpose of the Code, transparency refers to “an environment in which the objectives of policy, its legal, institutional and economic framework, policy decisions and their rationale, data and information related to monetary and financial policies, and the terms of agencies’ accountability, were provided to the public on an understandable, accessible and timely basis”. Transparency practices listed in the code, therefore, focused on:

1. The clarity of roles, responsibilities and objectives of the central banks and financial agencies.
2. The process for formulating and reporting monetary policy decisions by the central banks, and financial policies by the financial agencies.
3. The public availability of information on monetary and financial policies.
4. The accountability and assurances of integrity by the central banks and financial agencies.

The case for transparency, according to the supporting document to the Code, was based on two premises. First, the effectiveness of monetary and financial policies could be strengthened if the goals and instruments of policy were made known to the public and if the authorities could make a credible commitment to meeting them. In making available more information about monetary and financial policies, good transparency practices would promote the potential efficiency of the markets. Second, good governance would call for the central banks and financial agencies to be accountable, particularly where the monetary and financial authorities are granted a high degree of autonomy.

Four dimensions of transparency.

The questionnaire for the assessment of observance of the MFP Transparency Code was based on four broad dimensions of transparency, which needed to be considered in formulating disclosure practices. These were, the means of disclosure, timeliness of disclosure, periodicity of disclosure and quality and content of disclosure.

Means of Disclosure

The various means of disclosure were grouped into four broad categories. These were, official public documents, media or representative public bodies, direct disclosure to the public and other means of disclosure.

Timeliness of Disclosure

This refers to the time lag between the occurrence of an event and the public release of information on it.

Periodicity of Disclosure

This refers to the frequency of public release of information on a particular event/ issue.

Quality of disclosure

This refers to specific requirements related to the form and content of publicly released information explicitly set forth in the MFP Transparency Code.

The assessment was not limited to only the sectors of the financial system under the supervision of the Central Bank of Nigeria. Apart from the Nigerian Deposit Insurance Corporation, the questionnaires were served on other agencies like the Securities and Exchange Commission and the National Insurance Commission. The mission also held meetings with some selected banks and non-bank financial institutions. The second phase, which would come up in February 2002, was expected to cover an even wider scope.

Chapter Five

PERFORMANCE TRENDS IN THE BANKING SECTOR

Monetary policy measures reviewed.

The year 2001 witnessed significant developments in the financial sector. The universal banking (UB) system took off in January 2001, thus expanding the frontiers of the industry as the banks were allowed to engage in any or a combination of money market activities, capital market activities and/or insurance marketing. However, the banks were required to comply with the provisions of the prescribed guidelines for their preferred area(s) of activities. In response to emerging economic problems, the CBN reviewed some existing monetary measures, which impacted on the operations of the banks. These measures included raising the cash reserve ratio (CRR) from 10 percent to 12.5 percent, increasing the minimum liquidity ratio from 35 percent to 40 percent and the minimum rediscount rate (MRR) from 16.5 percent to 18.5 percent. At the same time, it prescribed a provision of 50 percent on performing and 100 percent on non-performing credits to all the tiers of government and their agencies and prohibited the transfer of Interbank Foreign Exchange Market (IFEM) funds among the banks. The minimum paid-up capital for new banks was raised from ₦1.0 billion in 2000 to ₦2 billion, with effect from January 2001, while that for the existing banks remained at ₦500 million. The number of banks in operation increased from 89 to 90, as one new bank was granted licence to operate during the year. Below are the highlights of the industry's performance in 2001.

5.01 BALANCE SHEET STRUCTURE AND GROWTH RATES

Aggregate assets increase.

In the year 2001, the total assets of the banking sector increased by 16 percent from ₦1,748 billion in 2000 to ₦2,031 billion. Unlike in the year 2000 when loans and advances constituted the major asset item, in 2001, the banks held most of their funds in liquid assets followed closely by loans and advances. Cash and bank balances due from other banks, which increased by 44.8 percent from ₦447 billion in 2000 to x648 billion in 2001, was 31.9 percent of total assets while loans and advances was 31.5 percent. This was attributable to the upward review of the CRR and the minimum liquidity ratio during the year. On the other hand, the ranking of the major components of the liabilities remained the same. The banks realised 49.3 percent of their funds from customers' deposits, followed by other liabilities, which contributed 37.4 percent. The aggregate balance sheet structure of the banking sector for the years 1999, 2000 and 2001 is shown in table F and illustrated graphically in figure 1 below, while appendix 9 shows the major financial indicators of individual banks in the year 2001. Also, figures 2 to 7 show the composition of assets and liabilities for the three years, 1999, 2000 and 2001.

Table F: Aggregate Balance Sheet Structure of the Banking Sector

		31 Dec 1999		31 Dec 2000		31 Dec 2001		% Growth 2000	% Growth 2001
		Amount Nm	**%**	**Amount Nm**	**%**	**Amount Nm**	**%**		
ASSETS	Cash and Due from Other Banks	325,595	27.5	447,744	25.6	648,283	31.9	37.5	44.8
	Money at Call and Placements	69,234	5.8	138,942	7.9	140,894	6.9	100.7	1.4
	Government Securities & Other Short Term Funds	206,330	17.4	330,998	18.9	275,170	13.6	60.4	-16.9
	Loans and Advances/Leases (nets)	419,919	35.5	567,433	32.5	639,277	31.5	35.1	12.7
	Investments	8,836	0.7	13,315	0.8	19,649	1.0	50.7	47.6
	Other Assets	98,309	8.3	172,603	9.9	208,092	10.2	75.6	20.6
	Fixed Assets	56,273	4.8	77,137	4.4	100,025	4.9	37.1	29.7
	Total Assets	**1,184,496**	**100.0**	**1,748,172**	**100.0**	**2,031,390**	**100.0**	**47.6**	**16.2**
LIABILITIES	Total Deposits	535,856	45.2	859,438	49.2	1,000,433	49.3	60.4	16.4
	Due to Other Banks	92,865	7.8	99,029	5.6	83,479	4.1	6.6	-15.7
	Other Borrowed Funds	5,572	0.5	7,434	0.4	13,403	0.7	37.3	80.3
	Other Liabilities	456,809	38.6	656,254	37.4	761,446	37.4	43.7	16.0
	Long Term Loans	-	-	-	-	214	0.0	-	-
	Shareholders' Equity (unadjusted)	46,566	3.9	58,812	3.6	75,170	3.7	26.3	27.8
	Reserves	46,828	4.0	67,205	3.8	97,245	4.8	43.5	44.7
	Total Liabilities	**1,184,496**	**100.0**	**1,748,172**	**100.0**	**2,031,390**	**100.0**	**47.6**	**16.2**
	Off-Balance Sheet Items	**188,110**		**269,012**		**375,305**		**43.0**	**39.5**

Source: Bank Analysis System, CBN (un-audited)

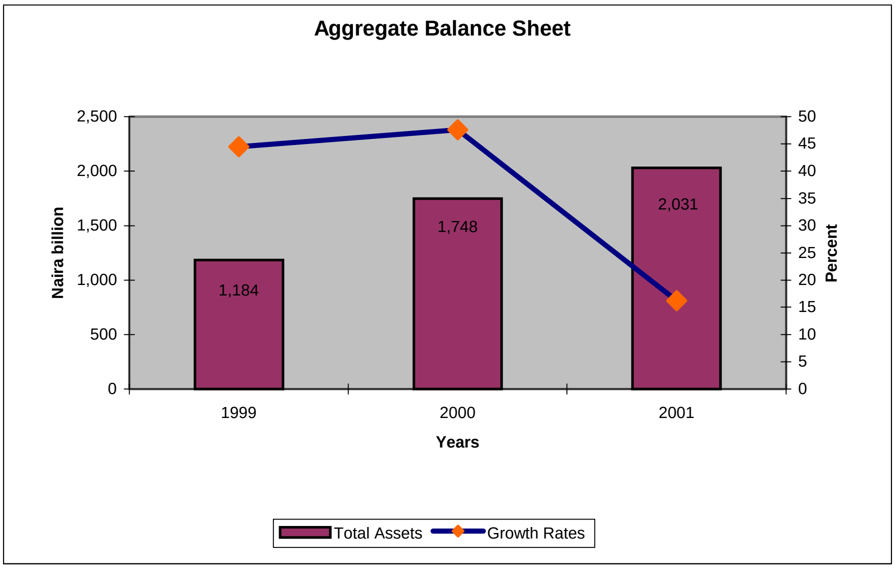


Figure 1

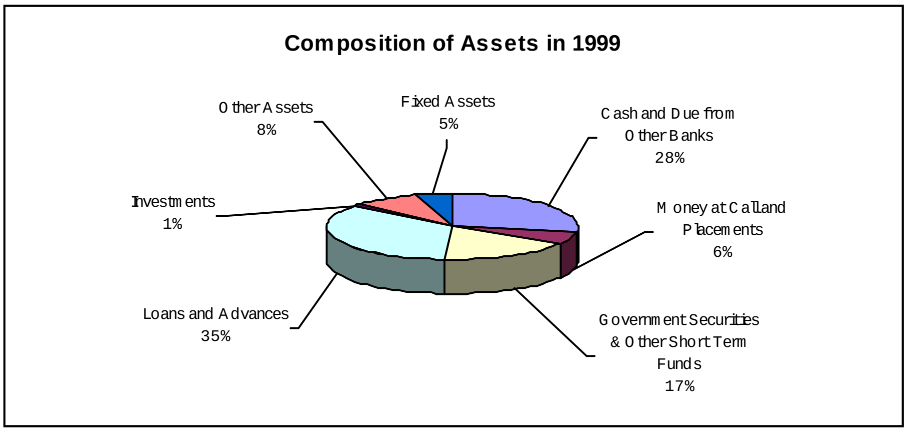


Figure 2

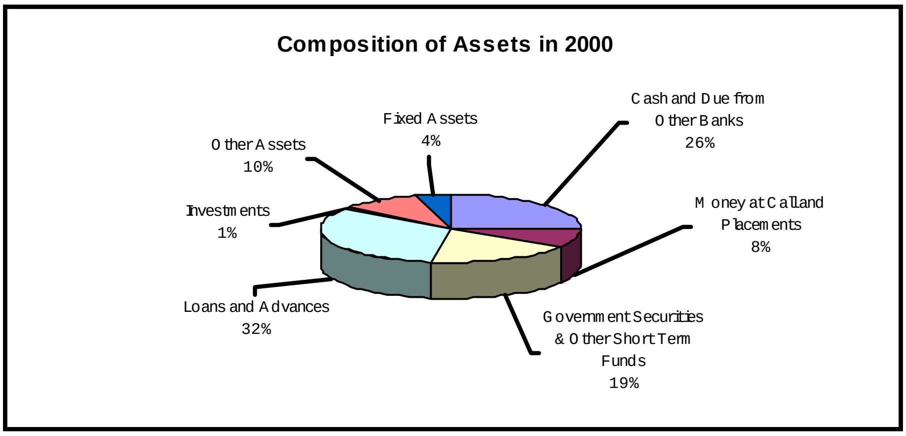
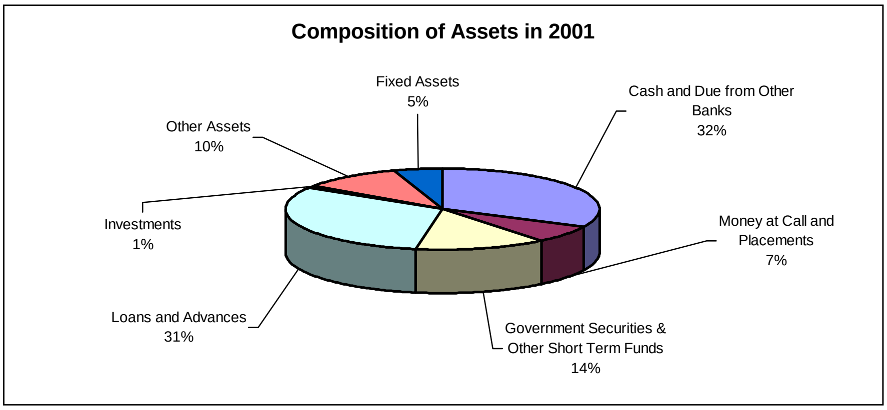


Figure 3

Figure 4



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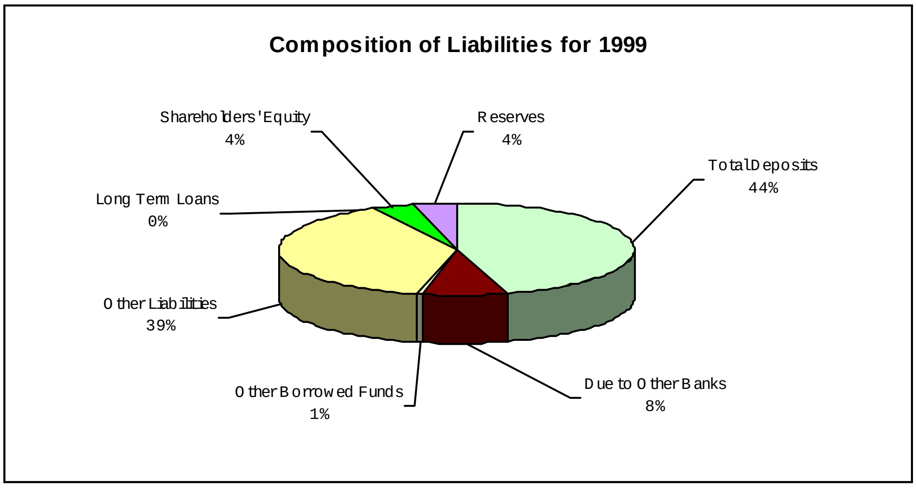

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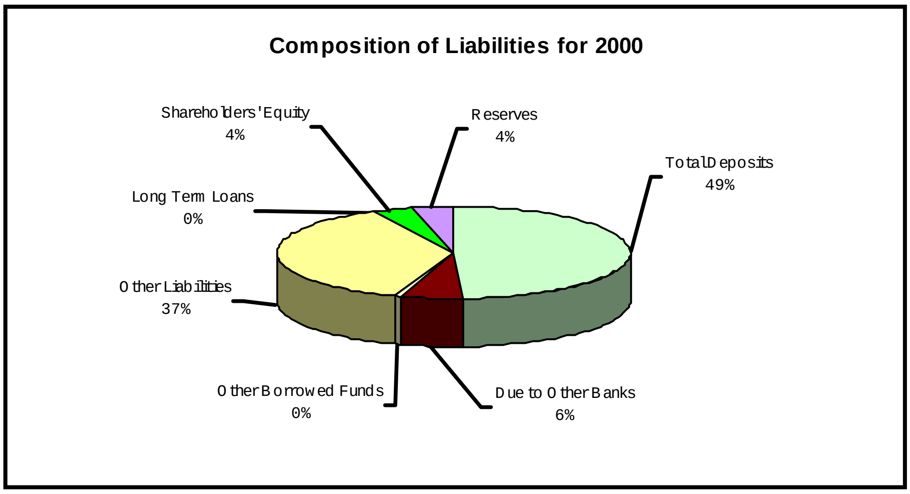
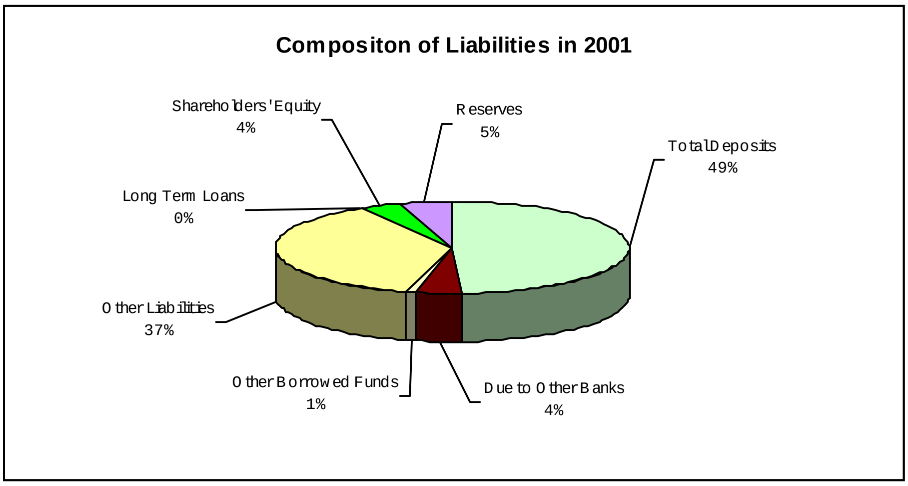


Figure 7

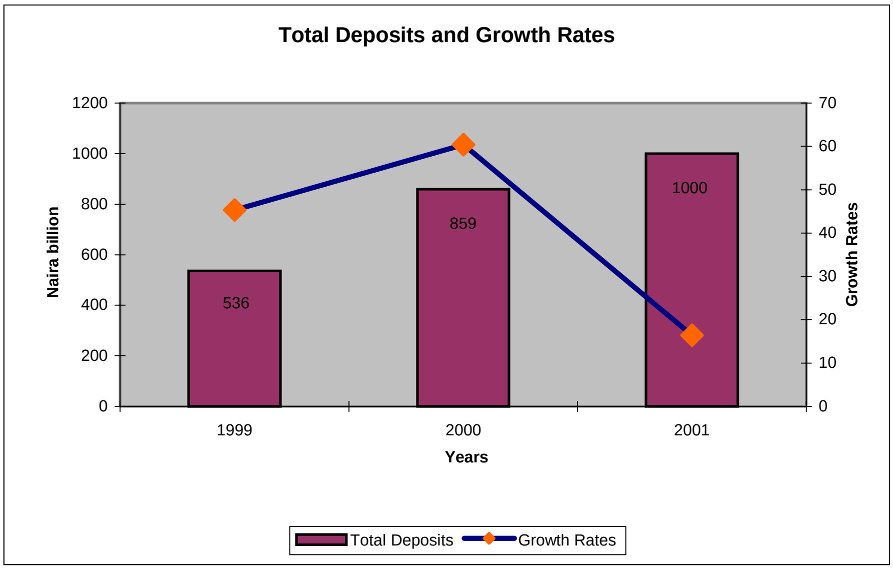

Compositon of Liabilities in 2001
Shareholders' Equity 4%
Reserves 5%
Total Deposits 49%
Long Term Loans 0%
Other Liabilities 37%
Other Borrowed Funds 1%
Due to Other Banks 4%

5.02 DEPOSITS AND LIQUIDITY

Total deposits increase by 16.4 percent.

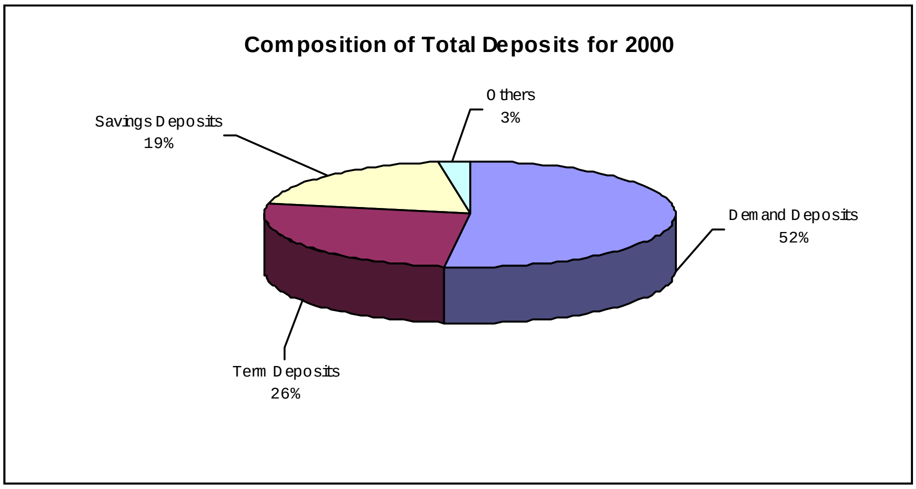
Total deposits showed an increasing trend from x536 billion in 1999 to x859 billion in 2000 and x1,000 billion in 2001. This indicated a growth rate of 45.3 percent in 1999, 60.4 percent in 2000 and 16.4 percent in 2001. See figure 8.

Figure 8



Demand deposits continued to be the largest type of deposits available to the banks. It contributed x469 billion or 47 percent of the total deposits in 2001 (2000: x446 billion or 52 percent). Figures 9 and 10 show the composition of total deposits for 2000 and 2001.

Figure 9



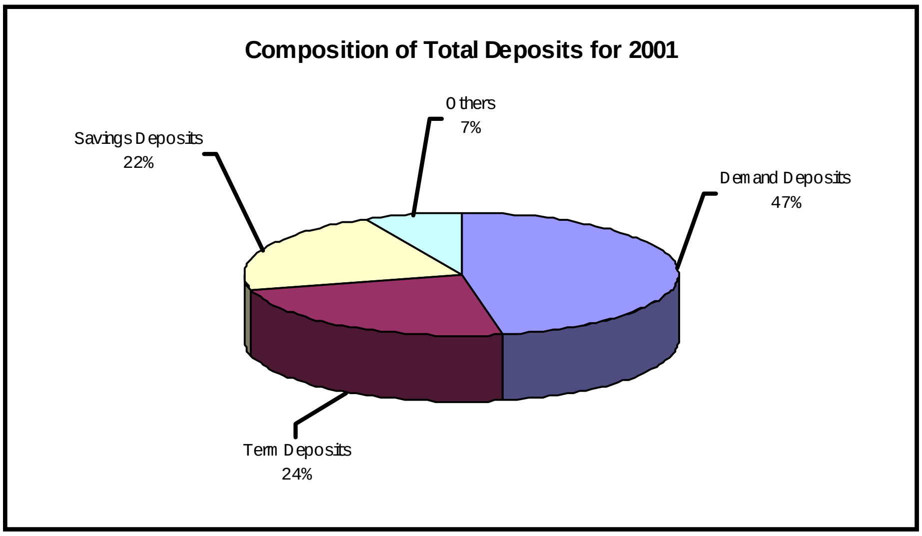


Figure 10

The minimum liquidity ratio requirement was increased from 35 percent to 40 percent during the year. Though the average industry liquidity ratio for 2001 was 53.3 percent, 30 banks could not meet the required minimum. With aggregate credits to deposits ratio as high as 63.9 percent, the banks engaged in over-trading thus putting further pressure on their liquidity. However, the banks are gradually walking out of this situation as depicted by the declining trends. The aggregate credits to deposits ratio of 78.4 percent recorded in 1999 decreased to 66.0 percent and 63.9 percent in 2000 and 2001, respectively. See Figure 11.

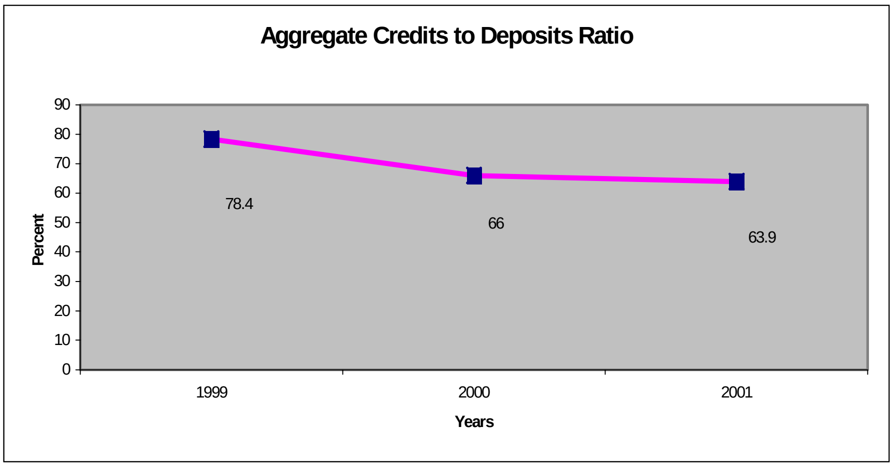


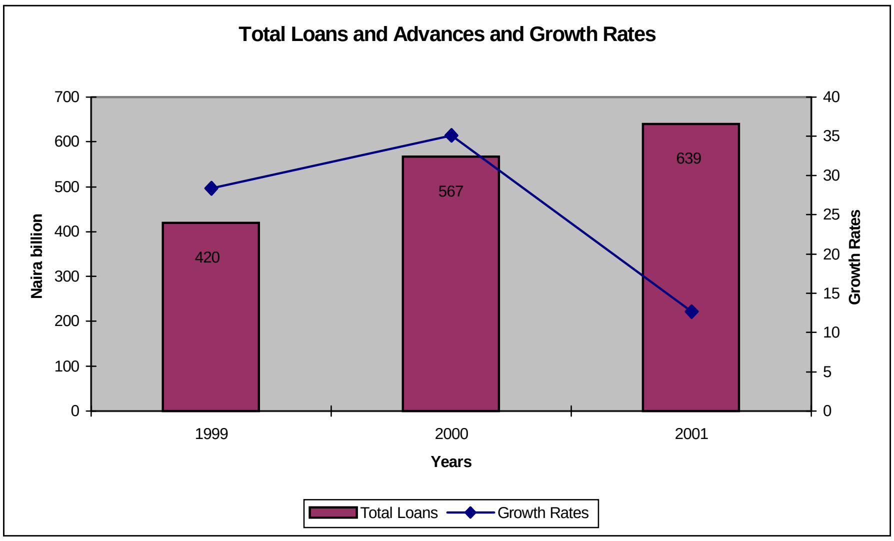
Figure 11

5.03 CREDITS AND ASSET QUALITY

Loans and advances grew by 12.7 percent.

The growth rate in the industry's loans and advances accelerated till the year 2000, but then declined in 2001. As shown in figure 12, the growth rate increased from 28.4 percent in 1999 to 35.1 percent in 2000 but dropped to 12.7 percent in 2001. The decline was largely as a result of the increase in the cash reserve requirements, which limited investible funds.

Figure 12



In absolute terms, however, total credits, showed an increasing trend from x420 billion in 1999 to x639 billion in 2001.

Marginal improvement in asset quality.

The asset quality of the banking industry improved marginally in 2001. Although the non-performing credits increased from x101 billion in 1999 to x126 billion in 2001, the ratio of non-performing credits to total credits (gross) reduced from 21 percent in 1999 to 16 percent in 2001.

Bad debts provisions increased from x64.5 billion in 1999 to x85 billion in 2000 and x94.2 billion in 2001, which showed percentage increases of 31.7 percent and 10.8 percent. However, when compared with the total credits, the ratio declined from 13 percent in 1999 and 2000 respectively, to 12 percent in 2001.

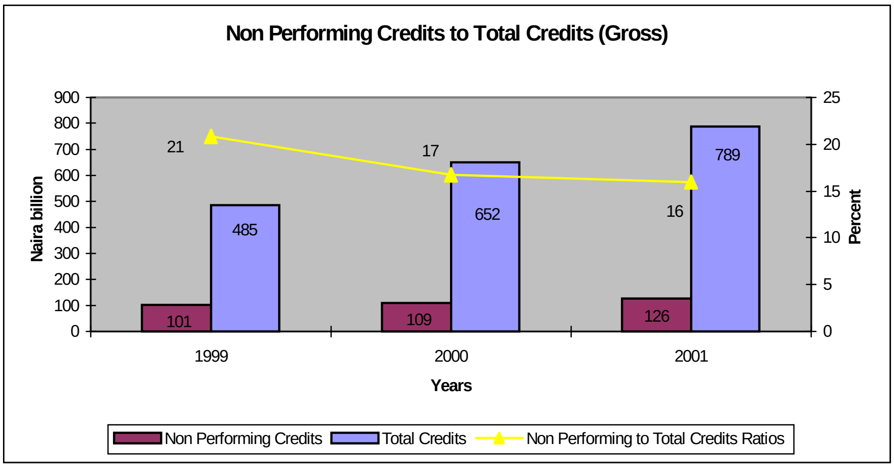


Figure 13

See figures 13 and 14.

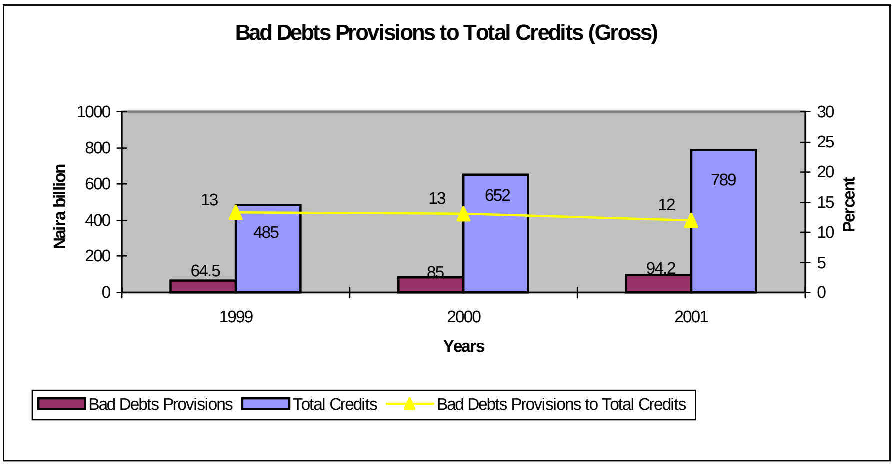


Figure 14

5.04 CAPITAL ADEQUACY

Capitalisation of banking industry improves.

The capitalisation of the banking industry continued to improve as more banks had total capital and reserves substantially in excess of the statutory minimum requirement of 8 percent of risk-weighted assets. As shown in table I, 81 banks or 90 percent of the banks in operation as at December 31, 2001, were well capitalised as against the 77 banks or 88 percent, in

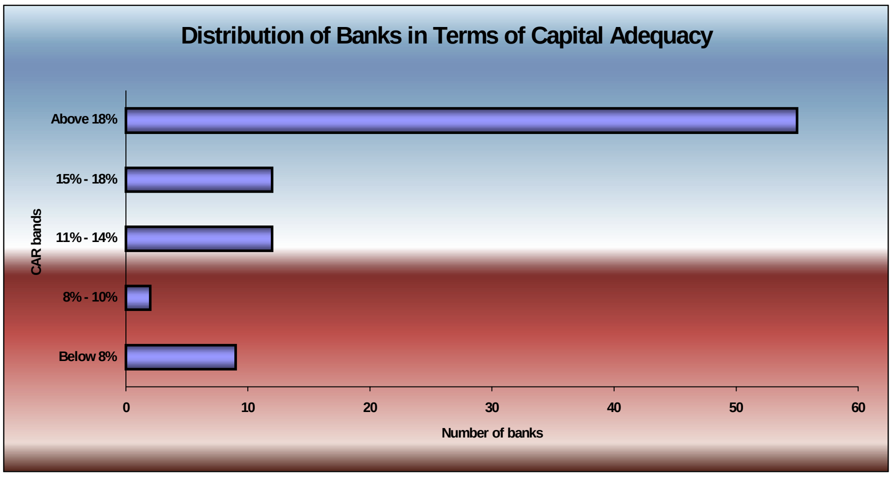
Table I: Capital Adequacy of Banks

	1999		2000		2001	
	Number of Banks	**%**	**Number of Banks**	**%**	**Number of Banks**	**%**
Above minimum required capitalisation	69	79	77	88	81	90
Below minimum required capitalisation	18	21	11	12	9	10
Total	**87**	**100**	**88**	**100**	**90**	**100**

Source: Bank Analysis System, CBN (un-audited)

the previous year. Figure 15 shows the distribution of the Nigerian banks in

Figure 15



terms of their capitalisation as at the end of 2001.

5.06 PROFITABILITY

Profitability drops.

Based on the risk weighted assets level of x1,065 billion, the total unimpaired capital funds for the industry of x173 billion and Capital Adequacy Ratio of 16.2 percent, was well above the prudential minimum of x85 billion and 8 percent, respectively.

Generally, the banks' profits declined in 2001. The profit before tax (PBT) of the banking industry increased from x24 billion in 1999 to x44 billion in 2000 and thereafter dropped to x23 billion in 2001. For most of the banks, income from core banking functions was not sufficient to cover operating expenses and provisions. However, 14 out of the 90 banks recorded net losses in the period under review. During the year, the banks

Table G: Earnings and Profitability of Banks

	31 Dec 1999	31 Dec 2000	31 Dec 2001	% Growth 2000	% Growth 2001
	Amount Nm	Amount Nm	Amount Nm		
Interest Income	40,169	58,826	86,000	46.4	45.8
Interest Expenses	18,115	26,048	41,000	43.8	57.7
Net Interest Income	22,054	32,778	45,000	48.6	36.4
Non-Interest Income	15,032	26,084	31,000	73.5	19.2
Operating Expenses	28,844	38,611	54,000	33.9	38.5
Profit Before Tax	24,520	44,330	23,000	80.8	-47.7

Source: Bank Analysis System, CBN (un-audited)

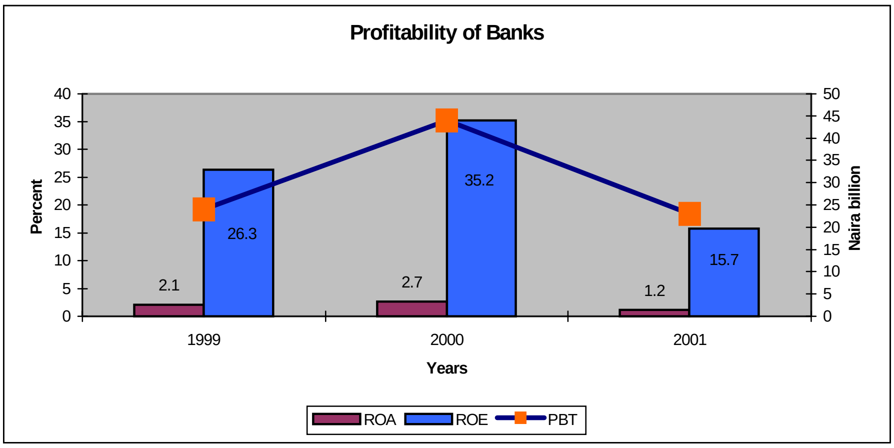


Figure 16

5.08 MARKET SHARE

Top ten banks control 53 percent of deposits and 51 percent of assets.

expanded their operational bases and also acquired modern equipment to enhance the efficiency of their operations, resulting in increases in operating expenses from ₦28.8 billion in 1999 to ₦54.0 billion in 2001 (see table G).

Figure 16 illustrates the declining profitability of the banks in terms of return on assets (ROA), return on equity (ROE) and profits before tax (PBT).

Table H: Market Share of Top Ten Banks

	Bank	**Total Capital**		**Total Assets**		**Total Deposit Liabilities**		**Total Credits**		**Liquidity Ratio**
		N'billion	Market Share %	N'billion	Market Share %	N'billion	Market Share %	N'billion	Market Share %	
1	First Bank Nigeria Plc (FBN)	17	10.4	258	11.9	106	10.6	92	11.7	50.8
2	Union Bank Nigeria Plc (UBN)	14	8.5	202	9.3	103	10.3	66	8.4	52.7
3	United Bank for Africa Plc (UBA)	8	4.9	132	6.1	75	7.5	40	5.1	22.9
4	Afribank Nigeria Plc	3	1.8	102	4.7	51	5.1	29	3.7	47.8
5	Bank of the North Limited (BON)	3	1.8	95	4.4	48	4.8	43	5.4	4.6
6	Allstates Trust Bank Limited	2	1.2	67	3.1	36	3.6	15	1.9	42.8
7	Zenith International Bank Limited	7	4.3	75	3.5	35	3.5	19	2.4	81.1
8	Diamond Bank Limited	4	2.4	60	2.7	29	2.9	20	2.5	44.5
9	Guaranty Trust Bank Plc	4	2.4	59	2.7	25	2.5	18	2.3	34.0
10	Citibank Nigeria Limited	4	2.4	52	2.4	23	2.3	21	2.6	37.7
	Total (Top 10)	**66**	**40.2**	**1,102**	**50.8**	**531**	**53.1**	**363**	**46.0**	
	Total Industry	**164**	**100**	**2,170**	**100**	**1,000**	**100**	**789**	**100**	**53.3**

Source: Bank Analysis System, CBN (un-audited)

First Bank of Nigeria Plc (FBN), continued to be the largest bank in Nigeria, in terms of capital, total deposit liabilities, total assets, and total credits. Table H shows the top 10 banks by their respective market shares.

The top ten banks controlled 53.1 percent of the market for deposit liabilities

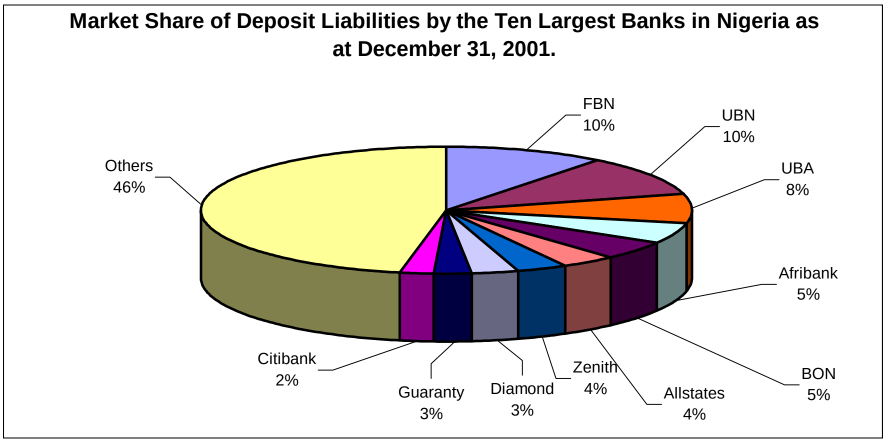


Figure 17

while their share of total credits was 46.0 percent. With unimpaired capital contribution of about 37.1 percent of the capitalisation of the banking system, they

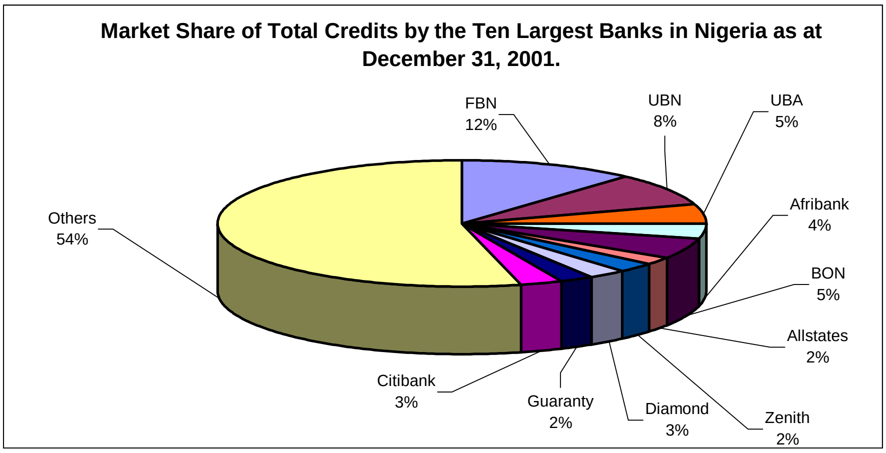


Figure 18

generated 50.8 percent of the system's total assets. See figures 17 to 20.

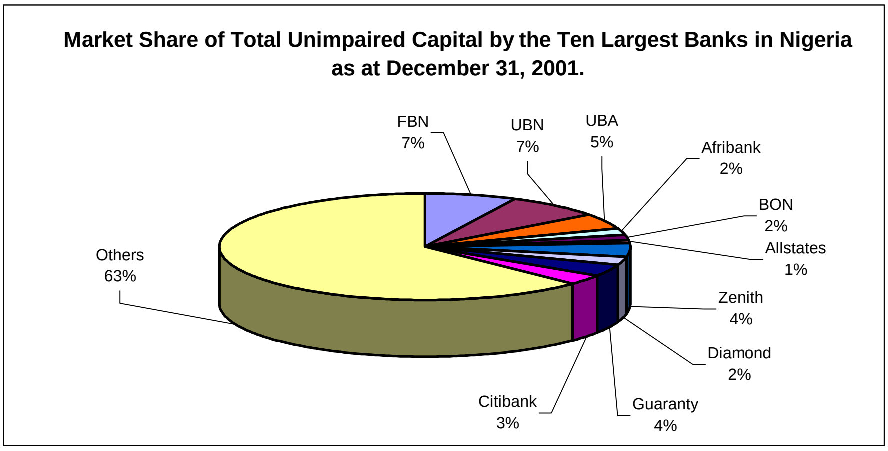


Figure 19

Figure 20

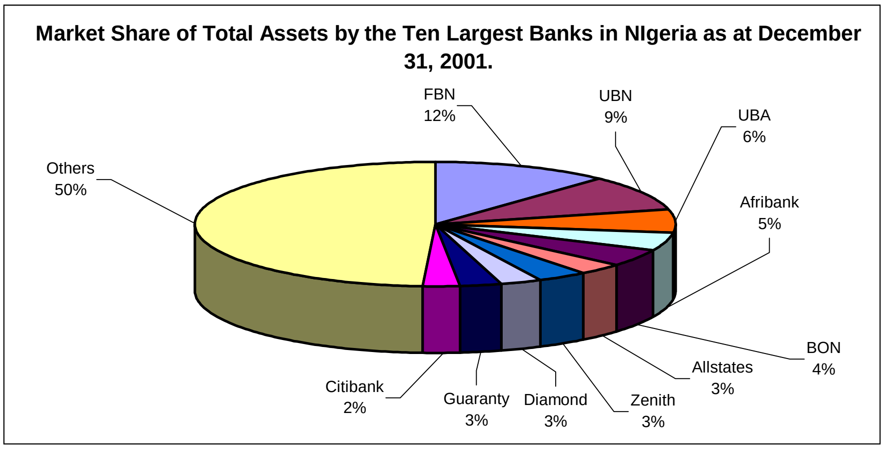
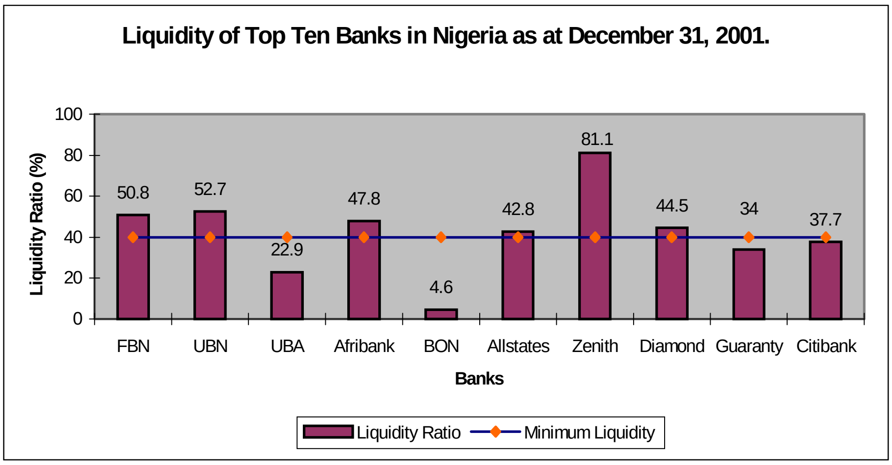


Figure 21



The liquidity ratio of the top ten banks as at December 31, 2001 ranged from 4.6 percent to 81.1 percent, as shown in figure 21 below.

5.09 EFFICIENCY OF OPERATIONS IN BANKS

Table J shows the various ratios, which measure the operating efficiency of the banks. Generally, the efficiency of the banking industry improved marginally in 2001.

Table J: Efficiency of Nigerian Banks in 1999, 2000 and 2001

Efficiency Measures	31 Dec 1999 %	31 Dec 2000 %	31 Dec 2001 %
Net Interest Margin	4.0	3.8	4.1
Yeild on Earnings Assets	7.3	6.6	7.8
Return on Assets	2.6	3.0	1.2
Return on Equity	28.0	37.5	14.0
Efficiency Ratio	77.9	66.6	71.1

Source: Bank Analysis System, CBN (un-audited)

In terms of pricing and yield on earning assets, the declining performance of banks, which was experienced in the year 2000, was reversed. Net interest margin increased from 3.8 percent in 2000 to 4.1 percent in 2001 as banks, in a bid to make their operations more profitable, marked up their interest margins. Consequently, the yield on earning assets improved from 6.6 percent in 2000 to 7.8 percent in 2001.

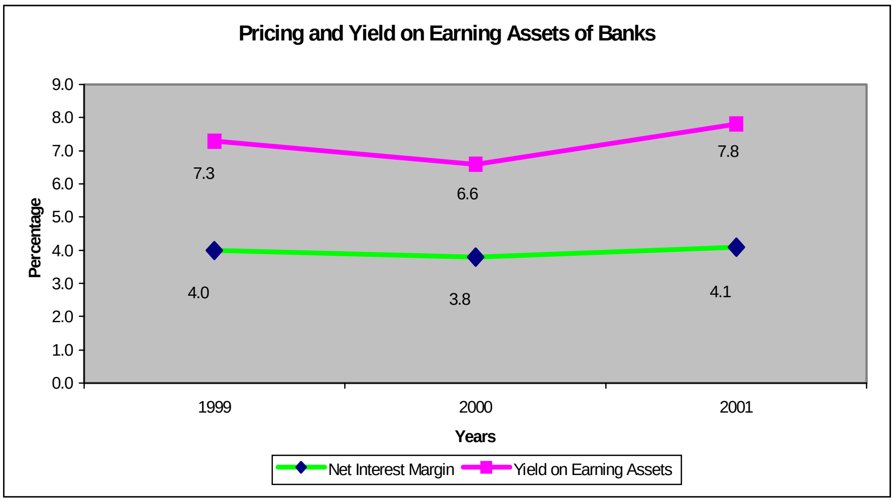


Figure 22

With declining profitability and increasing assets base, the return on assets of the banking industry decreased from 3.0 percent in 2000 to 1.2 percent in 2001. Similarly, the return on capital employed declined from 37.5 percent in 2000 to 14.0 percent in 2001. See figures 23 and 24.

Figure 23

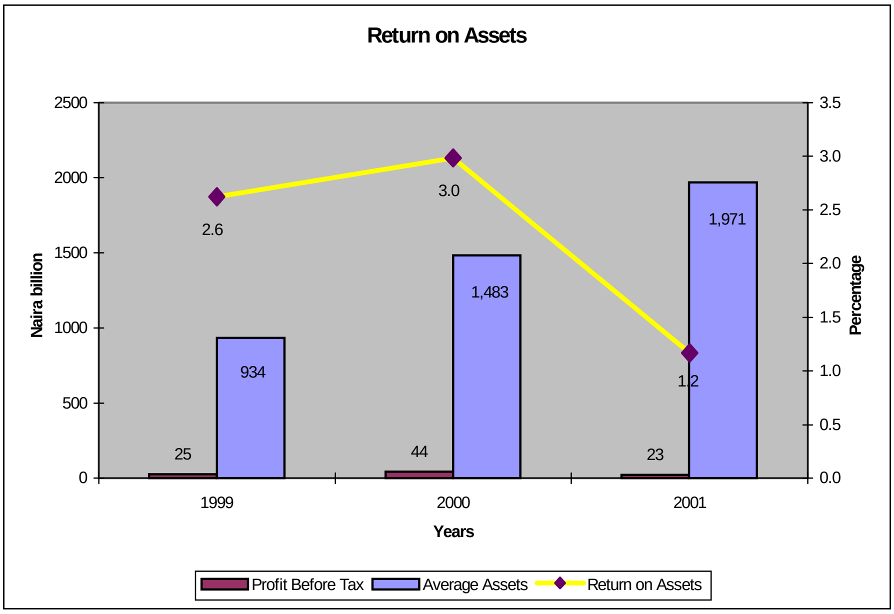
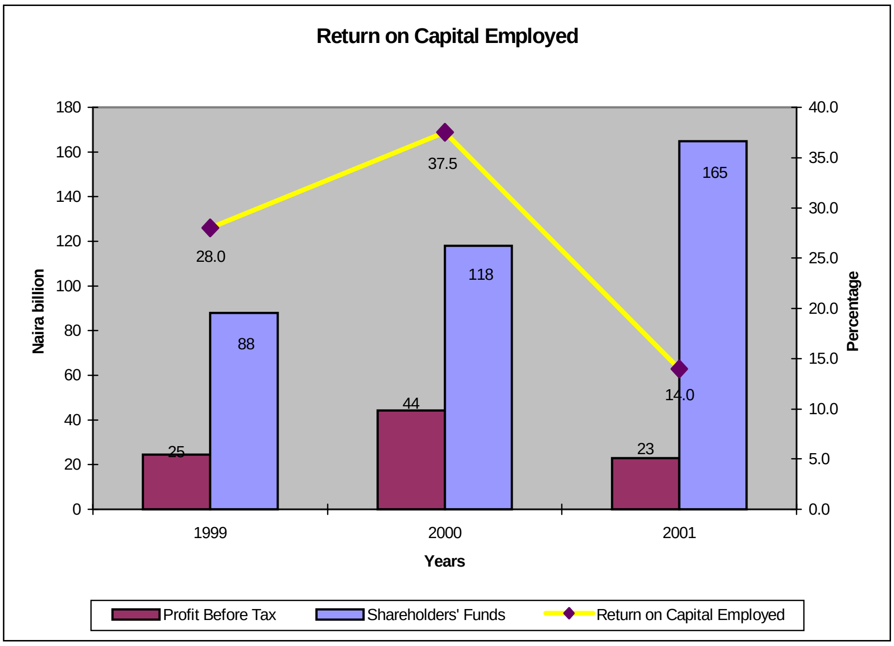


Figure 24



In terms of cost efficiency, the performance of the banking industry improved. The efficiency ratio, which is a measure of the total overhead expenses against operating income, increased from 66.6 percent in 2000 to 71.1 percent in 2001.

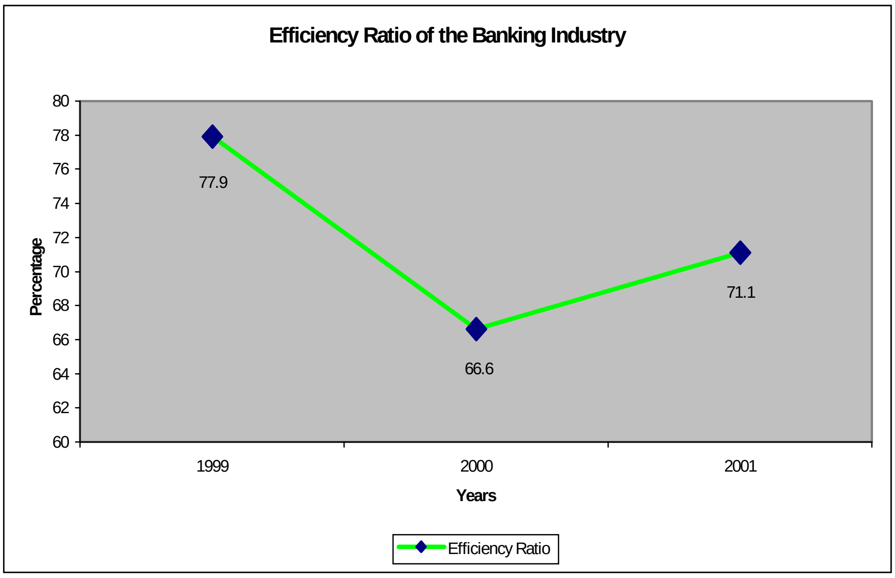


Figure 25

Generally, the banking industry recorded an improved performance, over the previous year, as shown by its assets growth, deposit mobilisation, earnings profile, etc. With the improved performance, however, the industry witnessed a drop in profitability. This was largely due to increased overheads, as the banks enlarged their operational bases to reverse the declining trend. It is hoped that their efforts will yield positive results.

Chapter Six

CAPACITY BUILDING FOR SUPERVISION

6.01 TRAINING

The emphasis on capacity building through staff training and development was sustained in the year 2001. This was in line with the conscious effort to continuously improve the skills of supervisors to cope with the ever-increasing demands and sophistication in the financial services sector.

In this regard, bank examiners courses (foundation, levels I, II, and III) were organized with 64 staff in attendance. A good number of staff attended other local courses such as Bank Inspection and Internal Audit in a Computerised Environment, Securities for Bank Lending, Financial Derivatives, Issues in Money and Capital Markets, Report Writing for Auditors, etc. Many staff also attended various courses organised by the Personnel Department of the CBN.

Induction Course

In September 2001, a one-week induction course was organized by the newly created Other Financial Institutions Department (OFID) for its staff. The Course was directed at providing the basic knowledge needed in undertaking examinations and processing of returns. The topics covered included Internal Control Systems, Accounting Systems, Review of Banks and Other Financial Institutions Act, Regulatory Documents/Reports, Ratios, Examiners Ethics, Code of Conduct for Examiners, as well as Report Writing. A total of 127 staff from the Department and 20 staff from Bank Examination Department, attended the course.

The facilitators were drawn from experienced staff of the supervisory departments.

Overseas Courses

During the year, 69 members of staff attended overseas courses while one member of staff undertook study tours to USA, Mexico, India and Bangladesh on micro-finance in the emerging markets. Also, the Directors of the Banking Supervision, Bank Examination and Other Financial Institutions Departments attended the Jesus College International Seminar on Economic Crime.

The overseas courses were basically on bank inspection/internal audit, risk management in banks and bank examination. The courses were selected to meet the requirements of the departments to build technical capacity for examination and supervision.

In general, significant steps had been taken in providing the required training needs. The high level of information technology (IT) on which operations would be driven in the departments in the near future, means that a lot more is required to be done in the area of specialized training, if supervisors are to meet the expectations of stakeholders.

Efforts would continue to be made to ensure full utilisation of available resources to maximise the benefits of the training programme and enable supervisors to cope with the challenges in the dynamic financial sector.

6.02 The 2001 Bank Examiners' Conference

The 8th Annual Bank Examiners' Conference was held at the Gateway Hotel, Abeokuta, Ogun State from October 24 to 26, 2001.

The Deputy Governor (Domestic Monetary and Banking Policy), Dr. Usman represented by the Director of Bank Examination Department, Alhaji M. A. Bamiro, in his keynote address, observed that the CBN, in pursuance of its statutory mandate, recently authorised licensed commercial and merchant banks operating in the system to engage in universal banking (UB). This epochal development, he added, came after several years of agitation by some banks, especially the merchant banks, for a level playing field for all operators in the banking sub-sector. It was against this background, he noted, that the choice of the subject "**Universal Banking: Challenges & Prospects for the Nigerian Banking Industry"** as the main theme was both timely and highly commendable.

In addition to the paper on the main theme, three others were presented, namely Offshore Borrowing & Guarantees by Banks in Nigeria: Implication for Portfolio Management; The Challenges of Bank Examination in IT Environment: the Need for On-Line Electronic Data Monitoring; and Contingency Planning for Systemic Distress.

The Director-General, Securities & Exchange Commission, Mallam Suleiman Ndanusa, presented the theme paper. He observed that the changes in the global financial landscape in the past two decades had no doubt, brought about the adoption of universal banking in a number of countries, including Nigeria. He added that the justification for the separation of functions between the banks, securities and insurance firms continued to weaken while the line between their businesses had become increasingly blurred with time. He defined a universal bank as a financial conglomerate, which provides banking, securities and insurance services directly or through subsidiaries. He noted, however, that there were both narrow and broad definitions of universal banking, but Nigeria had adopted the narrow option.

He observed that UB, as a global phenomenon, had come to stay in Nigeria and therefore, all regulators should be concerned with the challenges and develop the supervisory framework. To the examiners, the operators and the public, the challenges posed by UB, according to him, included:

1. The need for capacity building on insurance and capital market operations for the supervisors.

2. Adequacy of capital to meet exposure for increased risk.

3. Enhancement of professionalism, transparency and efficiency to cope with competition.

4. Resolution of conflict of interest.

To mitigate these challenges, he advocated:

- Adequate and separate record keeping in all areas of operations.
- Organisational structures, which clearly distinguish lines of authority.
- Attributable income and cost, which would be clearly separated and appraised.
- Consolidated supervision among all the regulators.
- Enhancement of regulatory capacity.
- The need for self-regulation to complement formal regulation.
- The need to conduct more in-depth analysis of risks.
- The need to align local practices with best global practices.
- The need to encourage mergers/acquisitions and macro-economic stability.
- Understanding the laws operating in the different sub-sectors i.e. the Investment and Securities Act, CBN Rules and Regulations and the Insurance Act.
- Improvement in IT.
- The introduction of innovative products.
- Transparent and speedy judicial process.
- Good corporate governance.
- The need for a paradigm shift in monetary policy strategy, away from the

current bank-based approach, to a market or holistic approach.

He concluded that, if the challenges posed could be mitigated, the benefits of UB, such as, economies of scale and diversification, promotion of mergers and acquisitions of financial institutions in different sub-sectors, greater competition, capacity to attract foreign banks and capital institutions into Nigeria, would be greatly enhanced.

The second paper, Offshore Borrowing and Guarantees by Banks: Implications for Portfolio Management, was presented by the President of Afrexim Bank, Mr. Chris Edordu. He observed that offshore borrowing and guarantees by the banks could significantly impact on foreign capital inflow in the development process, as it augmented domestic savings and boosted growth, thus enhancing export promotion and development of financial markets. He added that, Nigeria and other developing countries in Africa had routinely received foreign capital inflow easily in the 1980s but, sovereign risk rather than corporate risk had later become a major obstacle in accessing off-shore financing. However, with the democratisation, globalisation and free trade processes now in focus, foreign banks and export credit agencies, he stated, had started to show more interest in Nigeria.

He emphasised that, although the Nigerian banks managed their offshore facilities effectively in the 1980's, there was need for caution, taking into consideration the experience of bank failures in the 1990s, the Asian experience, offshore financing risks, currency risks or exchange rate risks and other associated risks. He concluded that these risks could be mitigated through structured finance, alternate risk transfer, credit judgement and constructive regulation aimed at financial development, apart from emphasising compliance and financial stability.

In his paper, the Challenges of Bank Examination in an IT Environment: the Need for On-line Electronic Data Monitoring, Mr. Chris C. Ekeigwe, Founder and Managing Consultant, EDP Audit and Security Associates, observed that a well-orchestrated electronic banking system would give a bank some competitive edge but the opportunities presented by IT equally posed significant risks to an insured financial institution. He added that, Examiners were the nomads and road warriors of the auditing profession, who move from one organisation to another, where they had to contend with a variety of systems and multiple platform changes. He emphasised the need for Examiners to acquire relevant IT skills to adequately handle technology risks, conduct e-examination and face challenges of loss of visible audit trails in electronic systems.

He suggested that examiners must have the right audit tools as a critical success factor for effective electronic on-line data monitoring. He added that for the Examiners to be more effective, laptops, computer assisted audit techniques (CAATS) and more training on the use of CAATS must be provided. Examiners, he added, must be registered as members of Nigeria Internet Group and be granted access to the CBN's website.

He concluded that electronic audit capability was a market place imperative, as there was no alternative means to doing bank examinations right. Finance industry regulatory agencies needed to adopt technologies that would help them in accessing the systems of the financial institutions. He stated that the failure to adopt appropriate technologies would leave a dangerous gap in the public interest protection cycle. To uphold public trust, he added, examiners must perform proficiently to ensure the safety and soundness of the financial institutions.

In the fourth paper, Contingency Planning for Systemic Distress, Mr. O. I. Imala, Director of Banking Supervision Department, CBN reviewed the concept of systemic distress and concluded that it resulted from the failure of individual banks to introduce their own contingency plans.

He observed that the financial distress in the Nigerian banking system in the 1930s and 1990s was due to the inability of the supervisory agencies to contain, manage and resolve the distress syndrome which resulted from the absence of a comprehensive regulatory framework for distress/crisis management. Against this background, he added that the CBN/NDIC Committee on Supervision had reviewed the Toronto Leadership Forum's Framework on Contingency Planning for Banking System Distress with a view it to adapting to the Nigerian financial system in line with best practices.

Systemic distress/crisis, he added, is defined as those situations, where the solvency and/or liquidity of many or most banks have suffered shocks that have shaken public confidence. He emphasised that it could arise when at least two of the following conditions would arise:

- Where the banks that are critically distress control 20% of the total assets in the industry.
- Fifteen (15) percent or more of total deposits are threatened.
- Thirty-five (35) percent of the banking system total assets are not performing.

He, therefore, stressed that the banks would be required to put in place their own contingency plans for capital and liquidity restoration amongst others, while Bank Examiners would be expected to evaluate the adequacy or otherwise of such plans.

He further observed that the framework for contingency planning consists of a set of identified policies, actions and processes necessary for the prevention, management and containment of banking system crises. He reasoned therefore, that its implementation, would enable the supervisory authorities to reduce the likelihood of the occurrence of a systemic distress by sharpening supervisory processes, inducing self-regulation among the banks' management, lowering the cost of crisis resolution and providing requisite advance consideration and agreements by all stakeholders.

The Governor, represented by Deputy Governor, International Operations, Mr. Ernest Ebi, in his closing address, noted that the introduction of UB in Nigeria had generated some controversy. He stated that the operators of insurance companies openly criticised and opposed the introduction of UB, feeling threatened that the licensed banks, with huge capital base, would capture a substantial part of their market share, which might result in their loss of business and income.

Contrary to this assumption, he said, UB was not synonymous with insurance business, as the concept in its broadest sense entailed much more than was commonly appreciated. He further observed that since the CBN introduced UB into the financial system in 2001, a level playing field for all licensed banks in the financial system had been provided. He therefore, said that consolidated supervision had become imperative and enjoined the Examiners to brace up to the enormous challenges.

APPENDICES

APPENDIX 1

09-3145313-4
09-2345325

BSD/DO/CIR/VOL.I/2001/13

CIRCULAR TO ALL BANKS

GRANTING OF CREDIT TO ALL TIERS OF GOVERNMENT AND THEIR AGENCIES

It will be recalled that one of the causes of the financial sector distress of the 1990s was the debt over-hang, which resulted from the inability of all tiers of Government and their agencies to service their indebtedness to the banking system. As a result of this, the NDIC on behalf of the banks negotiated the debts with the Federal Government in 1997.

The result of the negotiation was the acceptance by the Federal Government to pay the sum of N2.649 billion, out of the total indebtedness of N7.692 billion as at June 30, 1995, in full and final settlement, on behalf of itself and other tiers of Government.

Notwithstanding these ugly experiences of the recent past, the unrestricted granting of credit to all tiers of Government and their agencies has recently been on the increase, in spite of the substantial revenue accruing to the governments from statutory allocations. The Central Bank of Nigeria, therefore hereby expresses grave concern over this development and draws the attention of **ALL LICENSED BANKS** to the consequences of future default.

Pursuant to its function of promoting monetary stability and a sound financial system in Nigeria, the Central Bank of Nigeria in line with paragraph 2.5 of the Prudential Guidelines hereby notifies all banks that all credit to all tiers of Government and their agencies shall, with effect from the end of July, 2001, attract a 50% provision on performing credits and 100% for classified credits.

O.I. IMALA
DIRECTOR OF BANKING SUPERVISION

APPENDIX 2

09-3145313-4
09-2345325

March 26, 2001

BSD/DO/CIR/VOL.I/2001/5

CIRCULAR TO ALL BANKS

RE: CASH RESERVE REQUIREMENT FOR ALL BANKS

It would be recalled that the decision to exempt merchant banks from the cash reserve requirement was in recognition of the differences in the operations of the two classes of banks as restricted by the CBN.

However, with the coming on stream of universal banking with effect from January 1, 2001, whereby banks are free to engage in activities in any area of their choice, it has become imperative to review the application of cash reserve requirement for the desired level playing field.

Consequently, with effect from April 2001 monthly returns, ALL banks will be subjected to the cash reserve requirement

O.I. IMALA
DIRECTOR OF BANKING SUPERVISION

APPENDIX 3

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December 5, 2001

BSD/DO/CIR/VOL.I/2001/25

CIRCULAR TO ALL BANKS

PROFIT AND LIABILITY TARGETING BY BANKS

The recent consultations and dialogue with the operators in the industry, regarding the setting of profit and liability targets, revealed that the practice is a veritable management tool, which if improperly used, can lead to some unintended problems as currently observed. Consequently, it has become imperative to bring the following to the attention of the Managements and Boards of banks:

1. That unrealistic and unachievable targets create instability in the system through unhealthy rivalry.

2. It has become a common phenomenon that banks, particularly the new generation ones, engage in setting unattainable profit and liability targets for their staff.

3. The practice has become the subject of abuse, rather than a motivational tool for performance.

The implications of the above are far-fetched, raising a lot of moral questions and lowering of professional standards, which include:

(i) The undesirable use of female staff who are put under undue pressure and exposed to all sorts of dangers/temptations, which can cause them to compromise their moral values.

(ii) New customers without credibility or whose sources of wealth are not verified are often recorded thereby compromising the "know your customer" requirement.

(iii) Opening of new customers' accounts without meeting the minimum requirements.

(iv) Operational staff are usually given very high profit targets, which prompt them to engage in unethical practices such as illegal forex transactions.

(v) The rules, regulations and guidelines of the regulatory authorities are flouted by the banks, and various objectionable devices are used to inflate charges/interest on customers' accounts, resulting in increasing complaints from the customers/public in recent times.

(vi) The careers of talented young men and women who failed to achieve the set targets are terminated or truncated, leading to a lot of frustration in the process.

In order to address the above repercussions, the Central Bank of Nigeria hereby expresses its concern over the development, and accordingly advises that **realistic** and **achievable** targets should be for both old and new staff in the banks. Furthermore, some level of moderation should be introduced to arrest the observed, unwholesome practices and specifically the undesirable use of female staff should stop.

O.I. IMALA
DIRECTOR OF BANKING SUPERVISION

APPENDIX 4

09 3145313-4
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BSD/DO/CIR/VOL.I/2001/22 November 29, 2001

CIRCULAR TO ALL BANKS

GUIDELINES FOR FOREIGN BORROWING FOR ON-LENDING BY NIGERIAN BANKS

1. Preamble

Following the consultations and dialogue with the operators in the industry regarding the procurement of foreign loans for on-lending by Nigerian banks, the following guidelines are issued in order to coordinate the process in an effort to ensure that the full benefits are reaped while managing the inherent risks. The concern of the Central Bank of Nigeria which is borne out of various factors such as the quantum of such loans vis-a-vis the capacity of the institutions, the terms and conditions of the facilities, etc and our experiences in the recent past in terms of the inherent foreign exchange risk have been taken into account. Accordingly, the roles and expectations of the operators and the Central Bank of Nigeria are spelt out hereunder:

2. Processing of Foreign Loans

Banks are NOT required to notify the CBN before entering into negotiations with foreign lending institutions. It is however expected that banks will submit the details of the arrangement, such as the terms and conditions of the loan, including the tenor, moratorium (if any), interest rates applicable and other relevant information to the Banking Supervision Department of CBN before signing the agreements and draw down. Banks are encouraged to facilitate the development and growth of the real sector by negotiating loans with 2 to 3 years moratorium for the financing of medium and long-term projects. Also, banks should increasingly explore the possibility of attracting capital inflow in the form of equity participation by the foreign lending institutions because of technical know-how and management expertise.

3. Documentation

The borrowing banks, are expected at all times to comply with the Federal Government's external borrowing policy and the documentation requirements specified by the Trade and Exchange Department of the CBN in its circular to all authorized dealers ref: TED/AD/30/96 of May 29, 1996.

4. Disbursement of Loans

Where the lending institutions do not specify clearly the areas/institutions to which such loans are to be channelled, the borrowing banks should, in disbursing such loans, ensure that they do so to projects/institutions that have the ability to generate foreign exchange that will be used to service the loan.

Banks are therefore advised not only to thoroughly appraise such projects taking into consideration, project completion and success, but also ensure that adequate cash flows for debt servicing are generated in foreign currency.
Banks are also advised to avoid concentration in lending in terms of sectors of the economy and/or institutions being lent to.

5. Single Obligor Limit

In on-lending the funds, banks are expected at all times, to keep their risk exposure to any customer within the single obligor limit as specified by the CBN.

6. Total Exposure

The aggregate borrowing of a bank from foreign institutions shall not exceed 200% of its shareholders funds unimpaired by losses.

7. Guarantee of Facilities by the CBN

The Central Bank of Nigeria **WILL NOT** serve as a guarantor to any bank seeking to borrow from external financial institutions, as such transactions should be seen purely as commercial relationships between the parties concerned. Therefore, there should be no clause in the loan agreement seeking to commit the CBN on repayment in the event of a default.

8. Repayment of Loans

Funds for the repayment of the loans, including the interest element shall not be sourced from the CBN except in cases where the borrowing bank provides evidence that, in addition to the certificates of capital importation issued, the facilities were tied to projects that were capable of conserving foreign exchange through local production of goods/services, which would otherwise have been imported.

9. Rendition of Returns to Regulatory Authorities

Banks are to render returns to the Director of Banking Supervision on a quarterly basis on the level of their loan from foreign institutions and the amount of lending to their customers there from. Such returns, which are to be rendered in the attached format is in addition to the statutory quarterly returns and the present reports made by banks in the Monthly Bank Returns 300 and 913. Banks are also required to render returns on loans with medium to long tenor to the Nigerian Investment Promotion Commission.

10. Accounting Treatment

Where a bank obtains direct facilities (i.e. foreign loans in its own name for lending to customers), the transaction should be reported “on balance sheet” and would be treated as part of the bank’s total liabilities.

O.I. IMALA
DIRECTOR OF BANKING SUPERVISION

APPENDIX 5

09-3145313-4
09-2345325

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CIRCULAR TO ALL BANKS

STAFF POACHING IN THE NIGERIAN BANKING INDUSTRY

As the shortage of experienced personnel in the banking industry became more acute, banks have engaged all sorts of strategies to attract talented staff from rival institutions. Although poaching may not be considered bad by the affected staff because it represents a means of advancement, it has some negative consequences on the system as a whole.

Some of such identified consequences include, but are not limited to the following:

1. Poaching if not properly checked can be injurious to the operations of the organisation that suffers the “brain drain” as it is left with the additional burden of having to recruit/retrain new staff. Added to this is the risk that critical information that may later be used as a competitive card may be taken from the organisation to the new one.

2. Another major area of concern has been the reluctance of some banks to train their staff because of the constant threat of the staff leaving, after being sufficiently trained. Secondly, the institution may itself decide to be the predator by offering inducements to lure away personnel that have been trained by other institutions. Either way however, the industry is not the better for it, as capacity building is totally neglected.

3. Poaching of staff, in some instances leads to mediocrity, as the exit of competent staff usually results in the promotion of available staff over and above their levels of competence to fill the ensuing vacuum.

4. The salary structure in the industry, which has made it difficult for smaller institutions to attract and retain staff, is also consequence of the stiff competition brought about by staff poaching.

The Central Bank of Nigeria in an attempt to manage the effect of the above stated consequences has expressed some concerns as stated in its circular, BSD/DO/CIR/VOL.01/2001 of January 2001, on the Pre-qualifications for appointment to Board and Top Management positions in Nigerian banks. It is,

however, sad that most banks' managements and boards do not appreciate the intention of the CBN, as they continue to encourage poaching among themselves.

There, in order to squarely address this human capital problem in the industry, the banks are advised to implement the following, as recently agreed by the Bankers Committee:

(a) Establish minimum standards for every grade of staff in the area of training which should be strictly adhered to.

(b) Explore the possibility of establishing joint training institutions with other banks, in a bid to reap the synergies of such ventures. In this regard, it is suggested that banks should liaise with established institutions like the FITC and CIBN, in order to review their programmes and make them more current and relevant.

(c) Stem the tide of staff movement among banks to a reasonable degree by:

   (i) Setting and adhering to standards in the area of the qualification and experience required for positions.

   (ii) Bonding of staff trained to the institutions that sponsored such training for a number of years.

   (iii) Ensuring that the movement of staff who have not met the set minimum number of years from one bank to another is on the same grade.

(iv) On the other hand, the managements of banks are advised to improve on their staff retention policies through job enrichment and enhancement.

(d) The managements of banks are also implored to consider the absorption of ex-staff of distressed institutions who have not been indicted and are still capable and willing to work in order to beef up the level and quality of manpower in the industry.

(e) Needless to say, bank examiners will check during routine examinations to ensure that all banks are abiding by the provisions of this circular.

<u>O.I. IMALA</u>
DIRECTOR OF BANKING SUPERVISION

APPENDIX 6

09-3145313-4
09-2345325

January 4, 2001

BSD/DO/CIR/VOL.I/01/2001

CIRCULAR TO ALL BANKS

PRE-QUALIFICATION FOR APPOINTMENT TO BOARD AND TOP MANAGEMENT POSITIONS IN NIGERIAN BANKS

1. In its determination to ensure that only sound management teams are installed in banks for a sound financial system, the Central Bank of Nigeria hereby informs the banks that henceforth, it will approve only qualified and experienced staff for executive positions in the banks. This has become very necessary, in view of the increasing number of banks and the expansion of the old ones, as well as the serious staff poaching going on in the industry. In the light of the above, the following minimum qualifications will be required of candidates intending to occupy the following top management and Board positions in Nigerian banks:

a) **Managing Director**

Must possess a minimum of first degree in disciplines like Economics, Accountancy, Banking, Finance or in any other field backed by a Masters in Business Administration (MBA) or an acceptable professional qualification in Banking or Accountancy. The candidate must also have a minimum of 20 years post qualification experience 15 of which at least must have been in the banking industry and at least 10 at top/senior management level. In addition, the candidate must demonstrate evidence of experience in several areas of banking operation.

b) **Executive Director**

Same academic or professional qualifications as in (a) above with a minimum of 18 years post qualification experience, 13 of which, at least, must have been in the banking industry and at least 7 at top/senior management level.

In addition, the candidate must demonstrate evidence of experience in several areas of banking operations.

c) **Deputy Managing Director (where applicable)**

The same requirements as Executive Director but must have served as an Executive Director in a bank for a minimum period of two years.

d) **General Manager**

First degree in Economics, Accountancy, Finance and Banking or Business Administration or an acceptable professional qualification in Banking or Accountancy. The candidate must have acquired a minimum of 15 years post qualification experience 10 of which at least, must have been in the banking industry. There must be evidence of experience in more than three major areas of banking operation.

e) **Deputy/Assistant General Manager**

The same academic/professional qualification as in (d) above and a minimum of 12 years post qualification experience 8 of which, at least, must have been in the banking industry. There must be evidence of experience in more than two major areas of operations in banks.

f) **Nominal (Non-Executive) Directors**

In view of the fact that bank directors (executive and non-executive) are jointly responsible for the acts of commission and omission of their colleagues, nominal directors must have the ability to interpret and appreciate reports and make meaningful contributions to board deliberations. In view of the above, banks are encouraged to consider seriously among other factors:

- Candidates with first degrees or their equivalents and appreciable experience/exposure.
- Candidates with lower qualifications but with evidence of efficient

management/directorship in well run organisations supported by the organisations' audited/published accounts.

- The Bank will conduct a thorough enquiry on all top management candidates and proposed directors to determine their suitability. In addition, there must be good references from at least (3) three top management staff of any bank in Nigeria/abroad or previous employers to vouch for the integrity of proposed appointees. Finally, it should be noted that "top/senior management" for this purpose starts from the grade of Assistant General Manager in a bank.

The above requirements take immediate effect.

O.I. IMALA
DIRECTOR OF BANKING SUPERVISION

APPENDIX 7

3145313-4
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May 31, 2001

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CIRCULAR TO ALL BANKS

MULTIPLE DIRECTORSHIP IN BANKS

Further to our circular BSD/CS/23/VOL.I/19 dated January 7, 1992 on the above subject and following the adoption of universal banking in Nigeria, it has become necessary to amend the guidelines for the nomination of Directors for the boards of banks as follows:

[a] No person shall hold directorship positions in more than two (2) banks.

[b] Where a bank has a subsidiary or manages another bank under a technical agreement, banks in the group shall be considered as separate entities for the purpose of determining the number of banks in which an individual shall hold directorship positions.

[c] Where a person is already a director in more banks than is permitted by this circular, such a person shall arrange within three (3) months from the date of this circular to relinquish the directorship in any of the banks to comply with this circular.

O.I. IMALA
DIRECTOR OF BANKING SUPERVISION

Appendix 8: Major Financial Indicators of Individual Banks' Performance

	Banks	Paid-Up Capital N'million	Share-holders' Funds N'million	Total Assets N'million	Gross Loans and Advances N'million	Provision for Bad Debts N'million	Deposit Liabilities N'million	Profit Before Tax N'million	Number of Contraventions
	Banks with Year-Ends Between October & December 2000								
1	African Express bank Plc	750	348	1,004	981	978	366	10	12
2	African International Bank Ltd	1,000	(2,144)	19,158	9,568	5,479	17,759	(3,652)	1
3	Assurance Bank Ltd	-	-	-	-	-	-	-	-
4	Bank of the North Ltd	600	3,175	51,548	31,182	2,555	42,130	1,400	6
5	Co-operative Dev. Bank Plc	512	1,096	7,394	2,717	390	5,391	333	2
6	Ecobank Nig. Ltd	653	2,215	19,021	5,692	663	13,080	737	0
7	Eko Int. Bank Plc	573	869	10,104	4,348	1,044	6,842	194	0
8	First City Monument Bank Limited	1,000	2,001	17,497	6,500	364	8,128	1030	0
9	Gatewaybank Plc	934	779	4,456	1,530	242	2,797	259	5
10	New Africa Merchant Bank Plc	69	(466)	170	231	195	393	4	0
11	New Nigeria Bank Plc	51	907	6,488	836	8	2,480	(119)	3
12	Omegabank Plc	516	1,318	11,386	4,312	799	7,688	381	1
13	Stanbic Bank	500	738	4,332	1,866	177	2,203	128	0
14	Standard Chartered Bank Nig. Ltd	915	656	2130	585	6	813	(259)	0
15	Trans Int. Bank Plc	588	905	13,082	3,698	720	8,759	263	3
16	Tropical Commercial Bank Plc	600	262	4,388	2,750	746	3,638	(175)	3
17	Trust Bank of Africa Ltd [Merchant Bankers]	500	667	2,677	1,670	107	1,527	73	2
	Banks with Year-Ends Between January & March 2001								
18	Midas Merchant Bank	505	69,843	2,022	1,426	716,573	1,293	25	6
19	Access Bank Nigeria Plc	600	919	8,001	3,488	693	4,832	116	1
20	Afribank Int. Limited [Merchant Bankers]	510	1,026	5,682	3,466	423	3,787	191	1
21	Afribank Nigeria Plc	552	2,823	71,839	21,122	6,527	58,287	1,090	0

	Banks	Paid-Up Capital N'million	Shareholders' Funds N'million	Total Assets N'million	Gross Loans and Advances N'million	Provision for Bad Debts N'million	Deposit Liabilities N'million	Profit Before Tax N'million	Number of Contraventions
22	Centre Point Bank Plc	564	624	2,295	1,121	604	1,448	114	1
23	Chartered Bank Plc	508	1,776	23,870	7,848	544	17,093	837	0
24	Citizens Int'l Bank Ltd	568	1,524	34,831	10,058	2,115	28,271	1,011	24
25	City Express Bank	503	1,232	15,672	4,787	482	9,990	700	0
26	Continental Trust Bank Ltd	1,500	14,119	16,448	6,200	411	11,176	469	1
27	Co-operative Bank	700	1,355	14,991	6,119	1,122	12,253	303	5
28	Devcom Bank Ltd	750	1,608	5,312	2,744	155	2,962	550	3
29	FBN [Merchant Bankers]	900	1,736	11,455	4,362	830	8,473	409	0
30	First Bank of Nig. Plc	813	17,093	212,901	57,685	11,574	148,279	6,201	0
31	First Interstate Merchant Bank	545	732	3073	846	111	1,877	101	3
32	Fortune Int. Bank Plc	1,000	1,144	11,089	7,065	857	8,908	949	5
33	FSB Int. bank Plc	610	3,819	30,314	14,196	1,412	16,472	1,358	0
34	Guaranty Trust Bank	750	3,941	40,819	12,667	594	24,139	2,050	
35	Gulf Bank	1,000	1,679	13,090	5,186	858	10,781	660	0
36	Hallmark Bank Plc	700	2,588	231	9,380	1,548	16,597	1,253	1
37	Inland Bank Ltd	1,125	2,259	13,834	6,237	1,008	8,957	283	0
38	INMB Bank	575	724	2,978	1,382	77,307	1,738	167	1
39	International Trust Bank	500	189	4,957	2,286	1,048	4,353	52	0
40	Investment Banking & Trust Co.	600	3,109	10,448	5,287	237	3,813	1,065	0
41	Lead Bank Ltd	605	1,627	11,914	5,858	176	7,409	1,008	0
42	Liberty Bank Plc	800	1,025	9,092	5,788	1,218	7,345	(697)	1
43	Lion Bank Plc	500	1,061	7,738	2,538	324	4,740	364	4
44	Magnum Trust Bank Plc	500	829	10,420	3,112	249	8,770	362	3
45	Manny Bank	750	1,341	5,539	2,486	334	2,766	361	0
46	MBC International Bank Ltd	649	1,187	9,926	3,194	564	5,373	201	0

	Banks	Paid-Up Capital N'million	Share-holders' Funds N'million	Total Assets N'million	Gross Loans and Advances N'million	Provision for Bad Debts N'million	Deposit Liabilities N'million	Profit Before Tax N'million	Number of Contraventions
47	NAL Bank Plc	531	2,870	17,480	6,742	824	7,675	461	
48	Nationalbank Ltd	905	1,132	6,164	2,765	1,764	1,954	53	2
49	Pacific Bank Ltd	647	947	3,702	1,767	173	1,727	243	2
50	Peak Merchant Bank	500	813	6,557	2,634	347	4,997	253	2
51	Prudent Bank Plc	500	706	5,099	2,068	119	2,896	203	2
52	Regent Bank Ltd	1,000	1,002	2,207	518	5	673	11	0
53	Trade Bank Plc	510	774	10,792	4,805	1,414	9,113	210	1
54	Triumph Merchant Bank Plc	999	644	4,891	1,898	318	2,778	200	0
55	Union Bank of Nigeria Plc	629	13,786	214,885	45,835	8,910	170,977	7,058	0
56	Union Merchant Bank (**18 months**)	650	907	6,103	1,934	865	4,613	384	2
57	United Bank for Africa Plc	850	8,427	187,248	31,041	7,935	133,135	1,585	0
58	Universal Trust Bank Plc	886	2,760	29,846	10,813	1,936	18,967	1,373	1
59	Wema Bank Plc	675	2,596	38,813	14,799	2,588	29,631	800	3
	Banks with Year-Ends Between April & June 2001								
60	Broad Bank Nig. Limited	1,820	1,099	4,106	1,035	568	3,242	(203)	1
61	Diamond Bank Ltd	721	4,086	47,372	15,798	421	32,398	2,225	0
62	Equitorial Trust Bank Ltd	1,300	3,708	26,171	12,039	781	19,214	2,111	0
63	Fidelity Bank Plc	544	1,300	12,715	2,882	552	9,323	442	1
64	First Atlantic Bank Ltd	628	1,197	10,078	5,593	268	7,857	658	0
65	Global Bank Plc	500	877	8,181	4,635	819	6,578	502	6
66	Marina Int'l Bank Ltd	500	872	3,807	2,056	78	2,167	277	3
67	NUB International Bank Ltd	623	623	1,113	1,790	1,790	37	18	2
68	Platinum Bank Ltd	1,000	686	8,453	2,813	28	6,924	137	0

Banks	Paid-Up Capital N'million	Share-holders' Funds N'million	Total Assets N'million	Gross Loans and Advances N'million	Provision for Bad Debts N'million	Deposit Liabilities N'million	Profit Before Tax N'million	Number of Contraventions
69 Societe Generale Bank Nig. Ltd	557	1,142	16,621	5,033	980	14,470	595	3
70 Zenith Int. Bank Ltd	1,026	6,725	60,190	13,029	409	30,688	2,802	0
Banks with Year-Ends Between July & December 2001								
71 ACB International Bank Plc	-	-	-	-	-	-	-	-
72 Allstates Trust Bank Plc	689	2,477	35,540	7,592	934	27,499	1,660	
73 Capital Bank International Ltd	800	1,167	10,712	4,303	740	6,834	293	0
74 Citibank Nigeria Ltd	1,000	6,675	48,598	18,533	1,803	23,915	4,408	0
75 Eagle Bank Limited	726	228	1,508	1,191	1,164	774	(50)	
76 Equity Bank of Nig. Ltd	639	1,800	15,995	6,904	1,599	11,784	1,025	3
77 Fountain Trust Bank Plc	531	968	7,652	2,163	480	4,636	685	3
78 Guardian Express Bank Plc	-	-	-	-	-	-	-	-
79 Habib Nig. Bank Ltd	907	2,256	29,262	8,868	1,604	20,755	1,452	0
80 Intercity Bank Plc	613	1,120	17,850	6,930	933	13,127	328	0
81 Intercontinental Bank Ltd	1,436	3,456	35,779	12,080	1,196	25,509	1,523	6
82 International Merchant Bank Plc	876	1,633	8,787	2,999	118	4,905	323	1
83 Metropolitan Bank Ltd	510	860	7,558	3,172	573	5,569	477	0
84 Nigerian-American Bank Ltd	500	1,228	5,061	3,157	95	2,135	286	3
85 NBM Bank Ltd	1,000	1,468	7,071	2,780	381	4,498	264	1
86 Oceanic Bank	1,005	3,378	32,321	7,573	394	23,388	2,474	0
87 Reliance Bank Ltd	-	-	-	-	-	-	-	-
88 Savannah Bank Plc	-	-	-	-	-	-	-	-
89 Societe Bancaire Nig. Ltd	541	90	3,000	1,693	775	2,000	(615)	0
90 Standard Trust Bank Ltd	1,250	4,303	60,522	22,894	1,648	52,158	2,133	

APPENDIX 9

GLOSSARY

FC	-	Finance Companies
BDC	-	Bureaux de Change
PMI	-	Primary Mortgage Institutions
CB	-	Community Bank
CBN	-	Central Bank of Nigeria
BOFIA	-	Banks and Other Financial Institutions Act
OFID	-	Other Financial Institutions Department
OFI	-	Other Financial Institutions
NBCB	-	National Board for Community Banks
FMBN	-	Federal Mortgage Bank of Nigeria
DFI	-	Development Finance Institution
PLC	-	Public Liability Company
NDIC	-	Nigeria Deposit Insurance Corporation
NNPC	-	Nigerian National Petroleum Corporation
NITEL	-	Nigerian Telecommunication
NEPA	-	National Electric Power Authority
BOI	-	Bank of Industry
NIDB	-	Nigerian Industrial Development Bank
NBCI	-	Nigerian Bank for Commerce and Industry
NERFUND	-	National Economic Reconstruction Fund
OPS	-	Organised Private Sector
NACRDB	-	Nigeria Agricultural Cooperative and Rural Development Bank
CPA	-	Certified Public Accountant
FATF	-	Financial Action Task Force
UBS	-	Union Bank of Switzerland
IMF	-	International Monetary Fund
TOC	-	Trans-national Organised Crime
NDLEA	-	National Drug Law Enforcement Agency
FSRCC	-	Financial Services Regulation Co-ordinating Committee
NAFDAC	-	National Agency for Foods, Drugs Administration and Control
UNODCCP	-	United Nations Office on Drug Control and Crime Prevention
CAR	-	Capital Adequacy Ratio

CDF	-	Cash Drawing Facility
CMU	-	Crisis Management Unit
SAS	-	Statement of Accounting Standards
CRMS	-	Credit Risk Management System
SIPS	-	Systematically Important Payment Systems
MFP	-	Monetary and Financial Policies
FSAP	-	Financial Sector Assessment Programme
NISER	-	Nigerian Institute for Social and Economic Research
BTA	-	Business Travelling Allowance
PTA	-	Personal Travelling Allowance
PIA	-	Pre-shipment Inspection Agents
CRI	-	Clean Report of Inspection
CCVO	-	Certificate of Value and Origin
AIP	-	Approval-In-Principle
OMO	-	Open Market Operations
IT	-	Information Technology
CDA	-	Community Development Association
IFC	-	International Finance Corporation
AFREXIM	-	African Export-Import Bank
ADB	-	African Development Bank
LAN	-	Local Area Network
WAN	-	Wide Area Network
BAS	-	Banking Analysis System
NIPC	-	Nigeria Investment Promotion Commission
NACB	-	Nigeria Agricultural Cooperative
PBN	-	Peoples Bank of Nigeria
FEAP	-	Family Economic Advancement Programme
FMFL	-	Federal Mortgage Finance Limited
NHF	-	National Housing Fund
PDC	-	Property Development Company
UB	-	Universal Banking
CRR	-	Cash Reserve Requirement
WAI	-	War Against Indiscipline
WAIC	-	War Against Indiscipline and Corruption
SEC	-	Securities and Exchange Commission

NAICOM	-	National Insurance Commission
FHAN	-	Finance Houses Association of Nigeria
ABCON	-	Association of Bureaux de Change Operators of Nigeria
IOSCO	-	International Organisation of Securities Commissions
IAIS	-	International Association of Insurance Supervisors
IFEM	-	Interbank Foreign Exchange Market
MRR	-	Minimum Rediscount Rate
PBT	-	Profit Before Tax
ROA	-	Return on Assets
Roe	-	Return on Equity
FBN	-	First Bank of Nigeria
UBA	-	United Bank of Africa
BON	-	Bank of the North