CENTRAL BANK OF NIGERIA

BANKING SUPERVISION ANNUAL RERPORT 2005

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Banking Supervision
Annual Report
2005

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

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TABLE OF CONTENTS

PAGE

FOREWORD

Safety and soundness of the financial system remain one of the key mandates of the Central Bank of Nigeria (CBN). This informed the revolutionary effort by the CBN to strengthen banks, re-focus and reposition them to meet the global challenges and play a pivotal role in supporting the growth of the Nigerian economy.

The year, 2005, witnessed increased activities by banks towards meeting the stipulated minimum capital base announced by the CBN in July 2004. On its part, the CBN recorded remarkable successes in its supervisory efforts, particularly in the banking sector consolidation.

To meet the minimum capital base, more banks went to the capital market during the year to raise additional funds. About x406 billion was raised by banks at the expiration of the deadline, of which the sum of N360 billion was verified and accepted by the CBN. However, the CBN directed banks that had not gone to the market as at September 30, 2005 to shelve the idea since proceeds of any fresh public offer could not be utilized for the purpose advertised in the prospectus, and the required capital verification could not be concluded by the deadline of December 31, 2005.

To simplify the processes of approving mergers and acquisitions, the CBN revised the Procedure Manual for Processing Applications for Bank Mergers and Acquisitions in March 2005. Indeed, mergers and acquisition proved to be the preferred approach by banks, in the consolidation programme. Out of the twenty-five banks that emerged after the programme, only six were stand-alone banks, as the remaining nineteen were groups consisted of 69 banks. The licenses of the remaining 14 were withdrawn and the Nigeria Deposit Insurance Corporation (NDIC) was directed to obtain necessary court approvals to wind them down.

In recognition of the narrow scope and the largely reactive nature of the current compliance-based approach to the supervision of banks, the CBN took a step to switch to risk-based supervision, seen to be more robust and better suited to the changing financial landscape. To flag-off the process, the CBN, during the year, directed all banks to develop their internal risk management processes. Also, the final draft of the Framework for Risk-based Supervision of Banks was forwarded to banks in December, 2005, for their input.

The threats of money laundering to global financial systems once again came to the fore during the year 2005. To underscore the need to check this menace, banks were required in 2005 to adhere strictly to the provisions of the “Know Your Customer” manual for banks and other financial institutions issued in December, 2003. The manual is intended to serve as a further guide to banks and other financial institutions in Nigeria on the procedures necessary for the indepth knowledge of their customers.

Perhaps, the most significant issue of regulatory concern in our banking system today remains corporate governance. With the profound changes in the banking industry, the time has never been more auspicious to charge banks to be more transparent, accountable and build a culture of ethics and professionalism. Toward achieving this, the CBN issued a new Code of Corporate Governance to be complied with by the directors and top executives of banks.

The large, un-banked informal sector makes the transmission of monetary policy difficult. Also, the existing community banking structure does not support the opening up of the rural areas, owing largely to their small size and fragile nature. Therefore, the CBN conceived of the idea of re-licensing them as microfinance banks. The microfinance policy was accordingly issued by the CBN in December 2005.

The larger size and the increasing complexity of operations have seen banks playing in insurance and capital market activities. This means that they are operators in multiple regulatory jurisdictions. The CBN, in collaboration with other regulatory authorities in the financial industry, has intensified efforts towards enthroning a consolidated supervision regime that will harmonize the processes and co-ordinate supervisory responsibilities across jurisdictions.

The year 2005, was a turning point in the history of the Nigerian banking industry. The successes recorded were widely applauded and globally acclaimed to be unprecedented. I am optimistic that the efforts deployed so far would be sustained and the rebirth of the new banking system will herald a growing, virile and structurally functional economy.

TUNDE LEMO
DEPUTY GOVERNOR
FINANCIAL SECTOR SURVEILLANCE

PREFACE

This edition of the Banking Supervision Annual Report catalogues the supervisory activities of the financial sector surveillance departments of the Central Bank of Nigeria (CBN) and other topical financial sector issues in contemporary times. The report is outlined in seven chapters.

Chapter one provides an update on the integration of supervision in the West African Monetary Zone (WAMZ), the existing cooperation between the regulatory/supervisory bodies, as well as a progress report on the implementation of the web-enabled electronic financial analysis surveillance system (e-FASS). The chapter also details developments in the Other Financial Institutions sub-sector in 2005.

Chapter two deals with the reforms in the banking system. It expounds on the consolidation in the Nigerian banking system, the regulatory processes and approvals involved, the recapitalization and capital verification activities, and the regulatory action taken with respect to banks that were not able to consolidate. It concludes with an overview of the post- consolidation structure of the Nigerian banks and the post consolidation challenges in the banking system.

Chapter three considers the supervisory activities of the Banking Supervision and Other Financial Institution Departments of the CBN. It also reports on the self-regulatory efforts of the CBN through the Bankers' Committee.

Chapter four deals with current issues in the supervision of the financial sector. It discusses the consolidated supervision of the banking system, the emergence of microfinance banks and the regulatory challenges involved, the regulatory measures instituted on anti-money laundering and combating the funding of terrorism, amongst others.

Chapter five reviews the framework for the supervision of banks and other financial institutions in Nigeria. Contained herein, is an update on the review of the Central Bank of Nigeria and Banks and Other Financial Institutions Acts, the entailments of the risk- based supervision of the financial sector, an overview of the new microfinance policy and the regulatory frameworks in place.

Details of the performance of the Nigerian banking system in 2005 are documented in chapter six. Using effective presentation aids, the chapter provides an insight to the liquidity, capital adequacy, profitability and efficiency levels in the banking and other financial institutions sector of the economy. Unlike in the previous editions, much of the statistics presented in this chapter relates to the 89 banks in the system as at September 30, 2005.

Chapter seven captures the capacity building efforts of the supervisory departments in 2005. As human capital development remains a key factor in the CBN drive towards entrenching a stable and sound financial sector, the departments' continued thrust in capacity building presents a befitting conclusion for the Report.

Finally, we wish to express our profound gratitude to the contributors to this edition of the Annual Report and the Management of the CBN for keeping the vision alive. We commend the Banking Supervision Annual Report Committee for maintaining the high standard and solicit for comments from readers that would help us to improve on the quality of the Report.

O. I. IMALA	**S. A. ONI**
DIRECTOR	*DIRECTOR*
BANKING SUPERVISION DEPT.	*OTHER FINANCIAL INSTITUTIONS DEPT.*

Chapter One

DEVELOPMENTS IN THE FINANCIAL SERVICES INDUSTRY

1.01 UPDATE ON THE INTEGRATION OF SUPERVISION IN THE WEST AFRICAN MONETARY ZONE (WAMZ)

WAMZ countries have continued to strengthen their supervisory systems. The year 2005 began with a study on the state of preparedness of member countries for the monetary union, which is crucial to achieving a sound financial sector required for effective monetary policy by the West African Central Bank (WACB), when the proposed monetary union takes off.

Adoption of WAFSA

The institutional arrangement for banking supervision in the WAMZ has been approved and the West African Financial Supervisory Authority (WAFSA) adopted as the centralized agency responsible for banking supervision and regulation in the zone while Nigeria was selected as the host country. The primary mandate of WAFSA is to ensure prudential management, including allocating supervisory resources, developing capacity, articulating supervisors' compensation schemes, ensuring professional integration and closing problem banks. This centralized framework is to relieve the common central bank of moral hazard problems and allow full concentration on its primary objective of price stability. It will also facilitate the long-term goal of merging the WAMZ and the West African Economic and Monetary Union (WAEMU) within the framework of the ECOWAS Monetary Cooperation Programme. The consideration of WAFSA statute has reached an advanced stage. This statute contains WAFSA objectives and organization, composition of the board, appointment, tenure and dismissal of directors/principal officers, role of central and national offices, and financing arrangements. WAFSA would operate independently, but in close collaboration with the WACB.

As observance of the core principles for effective banking supervision is an indicator for a sound financial sector, extensive actions were implemented to bring the supervisory systems into compliance with all the essential Basel Core Principles (BCPs). This strategy has the ultimate goal of preparing the countries for participation in the centralized framework of banking supervision in the zone.

Improvement in BCP assessment and compliance

A new zone-wide assessment of the BCPs supported by FIRST Initiative of the UK clearly indicates that additional improvement has been made following the recommendations of an earlier study in 2003. There was an improvement of 25 percent on the principles assessed during the year. On the average, countries were materially non-compliant or non-compliant with 5 BCPs, especially in the areas of supervisory resources, market risk, consolidated supervision, anti-money laundering, and resolution of problem banks. A detailed analysis shows that The Gambia fully complied with 15 BCPs and largely complied with 10, while Nigeria and Sierra Leone each fully met 10 and largely satisfied 15 and 11 principles, respectively. Ghana met six BCPs and largely complied with 15, while Guinea satisfied three and largely met 14. Although extensive actions were taken, additional improvements are expected after the completion of the current legal and regulatory reforms in the countries. The outstanding areas of non-compliance or material non-compliance in a majority of the countries are: Principle 12 on market risk, Principle 13 on other risks, Principle 15 on anti-money laundering (only Nigeria complied), Principle 20 on consolidated supervision (where applicable) and Principle 22 on remedial measures.

Overall, the WAMZ countries have continued to improve their compliance with the BCPs. Nevertheless, it is suggested that the countries would implement a strengthened agenda for attaining full compliance with the BCPs, which include implementation of a capital charge for market risk, disaggregation of risks, risk-based information systems, group risk management for conglomerates, and adoption of international accounting standards. Countries would also be encouraged to adopt uniform regulations and procedure manuals for credit risk, prudential standards for liquidity, capital adequacy and open positions for foreign currency and common training programmes. Additionally, more efforts are needed on corporate governance, sensitisation on Basel II, contingency planning, and improving supervisory resources.

1.02 UPDATE ON THE COOPERATION AMONG THE REGULATORY/SUPERVISORY AGENCIES

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

CBN/NDIC Committee on Supervision

The Committee met six times in 2005 and deliberated extensively on the risk-based supervisory framework, which is an integral part of the Nigerian banking system reform agenda. In this regard therefore, the Committee prepared:

Outcomes

- guidelines setting out generic issues on the development of Risk Management Process to guide the Board and Management of banks to identify, measure, monitor and control all risks inherent in their activities; *(see www.cenbank.org)*

- a detailed implementation programme of the framework to include transitional issues and suggested timelines and deliverables that would culminate in the commencement of the risk-based supervision in September 2006; and

- guidelines on individual risk elements (credit risk, market risk, operational risk and liquidity risk) to guide banks in the development of their risk management framework.

Financial Services Regulation Coordinating Committee (FSRCC)

The Committee met six times in 2005 and some of the issues discussed included:-

Issues Discussed

- Arbitration of inter-member disputes arising from regulatory arbitrage.
- Follow up on the introduction of the Public Interest Disclosure Act,

"The Whistle Blowing Legislation" for the Nigerian financial sector.

- Amendments to the relevant laws of members.
- Implementation of reforms in the banking sector.
- Promotion of inter-agency cooperation and information sharing through the hosting of the Committee's website.
- Waivers on fees charged by members for the purpose of the consolidation in the banking sector.

Workshop on Reforming the Financial Sector

The Financial Market Development Sub-committee of the FSRCC organized, in April, 2005, a three-day workshop with the theme "**Reforming The Nigerian Financial Services Sector To Meet The Challenges of The National Economic Empowerment and Development Strategy (NEEDS)"**.

The core objectives of the workshop were to:

- review the role of the financial services sector in micro-enterprise financing;
- consider further reforms and innovations needed in the financial sector to boost economic growth and development;
- identify a framework for effective functioning of the financial markets as agencies for poverty eradication; and
- harness the potentials of regional integration for sustainable national growth.

At the end of the workshop, the participants resolved to:

- propose the enactment of an appropriate legislation to ensure the continuity of NEEDS beyond 2007;
- ensure access to financial resources by the poor through microfinance institutions, community banks and other relevant channels;
- recommend the reduction of the liquidity ratio and cash reserve requirements in order to improve the ability of financial institutions to meet the funding requirements under NEEDS;

- advise the CBN to explore the possibility of placing some of the nation's external reserves with Nigerian banks;
- advise government to sustain the policy of financing budget deficit through the floatation of FGN bonds;
- propose the enactment of an appropriate legislation to give backing to the nation's economic reforms;
- recommend the admission of the Nigerian Pension Commission as a member of the FSRCC; and
- advise regulatory authorities to ensure strict compliance with the corporate governance code.

Committee of Banking Supervisors of West And Central Africa

11th Annual Meeting of CBSWCA

The Committee of Banking Supervisors of West and Central Africa held its 11th Annual Meeting at the headquarters of the Central Bank of West African States (BCEAO) in Dakar, Senegal, in August, 2005.

The three-day meeting was attended by senior officials of the banking supervision departments of the central banks of eight countries (Burundi, Ghana, Guinea, The Gambia, Liberia, Nigeria, Sierra Leone, and the Democratic Republic of Congo) as well as the three Banking Commissions (Central African Banking Commission, the Madagascar Banking and Financial Commission and the West African Monetary Union Banking Commission).

There were observers from the Nigeria Deposit Insurance Corporation (NDIC); West African Monetary Institute (WAMI); as well as resource persons from the Basel Committee on Banking Supervision (BCBS), Switzerland; the IMF and the International Banking and Financial Institute of Banque de France.

The opening ceremony was presided over by Mr. Charles Konan Banny, Governor of the Central Bank of West African States (BCEAO) and

Chairperson of the WAMU Banking Commission. He highlighted the importance of supervision, the efficiency of which depends on constant adaptation of tools to changes in risk factors, continuing professional training of supervisors as well as compliance with global banking regulation marked by the coming into force of the New Basel Accord on capital convergence and measurement.

Earlier on, the outgoing Chairman of the Committee, Mr. Odufu Ignatius Imala, remarked that the meeting provided a forum for an in-depth analysis of the challenges confronting member countries and particularly, the war against money laundering and the financing of terrorism, development and supervision of microfinance institutions, as well as the implementation of effective payments systems. He further reported on the implementation of the action plan defined at the 10th Annual Meeting held in Abuja in September, 2004.

Members expressed satisfaction with the publication of the papers of the tenth meeting in Abuja, Nigeria. Also, the level of interest and participation in the workshop organized in Banjul, The Gambia, by the Committee in collaboration with the Financial Stability Institute of the Bank for International Settlement, Switzerland, in April, 2005, was commended.

The representatives of the Basel Committee, International Banking and Financial Institute of the Banque de France and the IMF presented papers on the implementation of the New Capital Accord and financial stability exercises.

Challenges to Basel II migration

The participants admitted that migration to Basel II required thorough preparatory work, pragmatic approach, active participation of banks and exchange of information with home supervisors of foreign banks. In their view, the adoption of Pillars 2 and 3 on prudential supervision and market discipline was considered a priority, compared to the implementation of the more sophisticated risk and capital adequacy assessments defined under

Pillar 1. They also opined that implementing the New Accord requires adequate skills both in banks and supervisory agencies, as well as the granting of full powers to supervisors to enforce regulatory norms, which would be the result of a dynamic cooperation process between banks and supervisors.

Election of a New Chairman

Mr. Mamadou Diop, Secretary-General of the WAMU Banking Commission, was elected as the new Chairman of the Committee, with the following mandate:-

- Clarification of the objectives and mission of the permanent secretariat hosted by the Central African Banking Commission.

- Harmonisation of prudential regulations within the West and Central African sub-region. In this regard, a sub-committee comprising the Central African Banking Commission, the WAMU Banking Commission, Nigeria, Burundi, Democratic Republic of Congo and the WAMI was formed.

- Implementation of two training programmes:-
  - "Credit Risk and Pillar 2 of the New Capital Accord" - Abuja, November 8-10, 2005.
  - "Risk-based Supervision" to be organized by WAMU in conjunction with the Financial Stability Institute, Switzerland on a date and venue to be determined later.

- Determination of date and venue of the next meeting in line with the Committee's guidelines.

1.03 UPDATE ON e-FASS

The electronic Financial Analysis Surveillance System (e-FASS), the supervision software, could not go live in 2005 as scheduled because of the banking sector consolidation programme. However, substantial progress was made in the implementation process as follows:

User Acceptance Test

The first phase of the User Acceptance Test, which commenced in 2004, was carried out using both simulated data and data obtained from selected Reporting Institutions (RIs). Phase II commenced on February 28, 2005. A Data Submission System (DSS) that is largely acceptable to the user departments was released in April 2005. These departments tested their various reports and approved the outputs as reflective of the Software Requirements Specification (SRS). Consequently, all users signed-off on July 8, 2005, and the FASS Committee of Directors (FASSCOD) approved the commencement of the one year warranty with effect from August 1, 2005.

e-FASS Workshop For Reporting Institutions

A workshop on the DSS for RIs was conducted in April, 2005. A total of 287 staff from 100 financial institutions (87 banks, 5 discount houses, 3 development finance institutions and 5 others) attended. Another workshop was organized for other financial institutions in May, 2005, while one day training was conducted for Inspection Agents in June 2005. Furthermore, a train-the-trainer course was conducted for 25 staff of CBN and NDIC in August, 2005. These staff were expected to train other staff of the user departments in 2006.

Help Desk

A help desk was mounted in Lagos between June and July, 2005, to resolve issues emanating from the conversion programme being written by the RIs.

Twelve RIs (10 banks and 2 discount houses) rendered 32 different returns in the DSS and these were further used to test-run the system.

Circular on Extended Mark-Up Language (XML)

In order to ensure the integrity of data from the RIs, a circular, requiring all the RIs to map their financial data directly from their applications to the XML, was issued in June, 2005.

Connectivity

Extranet telecommunications gateway and network security have been installed while installation of the backup was yet to be completed. Four service providers have established secure connections to the gateway while the twelve RIs established connections to the CBN through the four (4) service providers.

A meeting was held with Nigerian Postal Service (NIPOST) to explore the possibility of using post offices as connection bays for some OFIs that may not be able to afford connectivity through the private service providers. The aim was to have connectivity with the CBN through selected post offices in all the state capitals by the second quarter of 2006.

Pilot Run

A pilot run of the system was conducted in November, 2005, for the twelve RIs that have established connection. At the end of the exercise, ten banks and one discount house were able to render various returns.

It is expected that once the installation of extranet gateway communication between the CBN and the remaining banks is completed, the system would go live.

1.04 DEVELOPMENTS IN THE OTHER FINANCIAL INSTITUTIONS (OFIs) SUB-SECTOR

Restructuring of OFIs

As part of the preparation for the overall reform of the financial services industry, a restructuring of the OFIs sub-sector commenced in 2005, to reposition the OFIs to proactively deal with the downscaling effect of the banking sector consolidation programme. Some of the developments in the OFIs sub-sector were the requirements for community banks (CB) to convert to microfinance banks (MFB), the drafting of a code of ethics and professionalism for primary mortgage institutions (PMI) operations and the review of the regulatory guidelines for bureau de change (BDC).

Launching of Micro-finance Policy in Nigeria

A Microfinance Policy, Supervisory and Regulatory Framework for Nigeria was launched on December 15, 2005. In line with this policy, all CBs are required to convert to MFBs within two years to enable them provide financial services to the economically active poor who traditionally are not served by the conventional financial institutions. As part of the capacity building efforts for the supervision of the emergent MFBs, a training programme on risk-based supervision of microfinance institutions was organised by the CBN in collaboration with USAID/PRISMS and GTZ-EoPSD in December, 2005.

Verification Exercise

Verification of the operational status of 328 OFIs, made up of 248 CBs, 14 FCs, 8 PMIs and 58 BDCs, was carried out during the year through consultants. It was discovered that 178 CBs, 7 FCs, 4 PMIs and 21 BDCs were no longer in operation. Specific institutional developments are presented below:

i. Community Banks

Development in Cbs

- Four new CBs namely, Omu Community Bank Limited, Anchorage Community Bank Limited, Prosperity Community Bank Limited and

Southwest Community Bank Limited were granted licence, thus bringing the total number of licensed CBs to 547.

- A total of 383 audited accounts for the year ended December 31, 2004 were approved in 2005.

- Pre-licensing inspection was conducted on 171 CBs.

- In order to address the poor presentation of the audited accounts by CBs, the CBN organized workshops on the preparation of financial statements for directors, external auditors and top management of CBs.

- In view of the impending conversion of all CBs to MFBs, the minimum paid-up capital of CBs was increased to x20 million. Consequently, CBs earlier granted approval-in-principle were requested to forward the difference between their capital deposits with the CBN and the new minimum paid-up capital or apply for the refund of their deposits.

ii. Primary Mortgage Institutions

Sequel to the setting up of a forum to promote self-regulation among the PMIs and improve interaction with the supervisory authorities, the Committee of Mortgage Institutions of Nigeria (COMIN), comprising the CBN, NDIC, FMBN and Chief Executives of all PMIs, developed a code of ethics and professionalism for PMI operators.

Other developments in the PMI sub-sector were:

- One new PMI, Adamawa Savings & Loans Limited, was granted final licence.
- The restructuring of six PMIs was also approved during the year.
- Forty-five PMIs met the minimum paid-up capital requirement of x100 million as at December 31, 2005, as against 34 as at end of 2004.

iii. Finance Companies

The activities of finance companies (FCs) improved slightly in 2005 compared to the performance in the previous year. Final operating licences were granted to three new FCs namely, Mayfield Finance Limited, Treasures and Trust Limited and KC Finance Limited. This brought the number of licenced FCs to 112 as at end 2005 from 109 as at end 2004.

iv. Bureaux de Changes

The activities of parallel market operators continued to impact negatively on the performance of BDCs. Consequently, the CBN constituted an inter-departmental committee in August, 2005, comprising Trade and Exchange, Research and Statistics, Banking Supervision, Foreign Operations and Other Financial Institutions Departments to review the operations of BDCs, the current regulatory requirements and the existing guidelines. The review was aimed at formulating policies to curb the activities of parallel market operators and improve the regulation and smooth operation of the sub-sector. Two BDCs were cleared to participate in the purchase and sale of Travellers' Cheques (TCs), bringing the number of participants in the sale of TCs to 26 as at December 31, 2005.

v. Development Finance Institutions

The supervision of Development Finance Institutions (DFIs) witnessed positive development during the period under review following the increase in the number of institutions that rendered statutory returns for off-site review. Five, out of the six DFIs rendered returns in 2005. On-site examinations carried out on four of the DFIs during the year revealed common institutional problems. Erosion of capital due to huge loan loss provisions remained an issue of regulatory concern.

Asset Quality Concern

In all the DFIs, the quality of risk assets continued to decline. For instance, 68.4, 73.0 62.0 and 46.0 percent of the total credit portfolio of NACRDB, BOI, FMBN and NEXIM, respectively were delinquent. The persisting poor asset quality and the attendant huge loan loss provisions had continued to erode the capital of the institutions, with the FMBN reporting negative shareholders' funds of x12.7 billion.

As a consequence of the poor asset quality, earnings had continually declined, with outright operating losses recorded by the NACRDB and FMBN. A combination of factors, namely weak credit policies and loan administration, poor funds management, deviation from core operations, weak human resource capacity etc accounted for their dismal performance.

Efforts were, however, being made by the major shareholders of the institutions, namely CBN and Federal Ministry of Finance, to reposition the institutions for better performance. In this regard, appropriate reforms, such as the recapitalization and restructuring of the scope of activities of the institutions are being undertaken. For instance, FMBN is already diversifying its activities into mortgage refinancing, mortgage securitization and mortgage-backed securities. In addition, the bank has planned to float a x100 billion bond on the Nigerian Stock Exchange.

It is expected that when the envisaged reforms are firmly entrenched, the institutions would be returned to the path of profitability.

Overall, the promotion of self-regulation in the OFIs, through their various umbrella associations, and the introduction of sanctions resulted in improved efficiency in the institutions and facilitated better supervision of the sub-sector in 2005.

Chapter Two

REFORMS IN THE BANKING SYSTEM

2.01 CONSOLIDATION IN THE NIGERIAN BANKING SYSTEM

Need for Reforms

Reforms have been a regular feature of the Nigerian banking system. They are usually introduced either in response to the challenges posed by factors and developments such as systemic crisis, deregulation, globalization and technological innovation or as proactive measures both to strengthen the banking system and prevent systemic crisis, as is the case in the current reforms.

The current reforms, widely referred to as consolidation of the banking system, are part of the broad on-going national economic reforms.

RATIONALE FOR BANKING SYSTEM REFORM IN NIGERIA

Characteritics of Nigeria Banking Sector prior to the Reforms

A sound banking system must, inter alia, be able to facilitate economic development, provide a platform for sound monetary policy implementation as well as ensure price stability. However, the structure of the Nigerian banking system, pre-consolidation, inhibited its effective performance as it was characterized by a number of structural and operational inadequacies. The desire to remedy these inadequacies provided the *raison d'etre* and the impetus for the current reforms. The inadequacies included low capital base, large number of small banks with relatively few branches, poor rating of some of the banks, weak corporate governance including inaccurate reporting and non-compliance with regulatory requirements, declining ethics and huge non-performing insider-related credits. Others included over-dependence on public sector deposits and foreign exchange trading as well as the neglect of small and medium scale enterprises. Thus handicapped, the Nigerian banking system was not in a position to meet the nation's ideal of a strong, competitive and stable banking system.

THE NATURE OF THE REFORM

Objectives of the Banking Sector Reform

Some of the objectives of the banking sector reform are as follows:

i. Minimum capitalization for banks to be x25 billion with full compliance on or before end-December, 2005.

ii. Consolidation of banking institutions through mergers and acquisition.

iii. Adoption of a risk-focused and rule-based regulatory framework.

iv. Adoption of zero-tolerance in the regulatory framework, especially in the area of data/information rendition and reporting.

v. The automation of the process of rending returns by banks and other financial institutions through the e-FASS.

vi. Strict enforcement of the contingency planning framework for systemic banking distress.

Actions Taken to Ensure Effective Implementation

In implementing the reform programme, the CBN took certain actions, which were aimed at ensuring that the primary objectives of the exercise were attained within the given time frame. The actions included:

i. issuance of guidelines and incentives to banks to guide and encourage implementation.
ii. establishment of the Technical Advisory Committee on Banking Sector Consolidation.
iii. establishment of a help desk at the CBN office in Lagos.
iv. establishment of the Banking Consolidation Implementation Committee.

v. collaboration with the Securities and Exchange Commission, Corporate Affairs Commission, Federal Inland Revenue Service and other relevant government agencies.
vi. issuance of the procedure manual and circular on consolidation timeframe and returns.
vii. debt forbearance for some banks to make them attractive for merger/acquisition.
viii. capital verification to ensure that no illicit or borrowed funds from the banking sector were used to finance the purchase of the bank shares.
ix. technical support from the IMF and other international agencies.
x. interactive meetings with banks to ascertain the progress made.
xi. establishment of the Consultative Committee on Banking Sector Reform at the highest level to monitor the implementation of the banking sector reform program. The membership of the Committee, chaired by the Governor of the CBN, included a representative of the Presidency, the Minister of Finance, Minister of Justice, Director-General of Securities and Exchange Commission, Director-General of Nigerian Stock Exchange, Registrar-General of Corporate Affairs Commission and the Managing Director of the Nigeria Deposit Insurance Corporation. The Committee was charged with the following functions, among others:

- Securing the cooperation of all stakeholders in the consolidation program;
- Determining an appropriate regime of incentives, including concessions, waivers and the terms and conditions for granting such incentives.

x. To prevent non-performing loans (NPLs) of the banking system from posing a big challenge to the restructured institutions, the CBN initiated the establishment of an Asset Management Corporation (AMC), which would purchase such NPLs. Efforts are still on-going to ensure the enabling bill is passed into law.

Some of the mergers and acquisition inevitably resulted in redundancies of human resources especially where skills and competencies were duplicated. The CBN took steps to ensure that the personnel whose services were no longer required were paid off in accordance with the terms of their employment.

The cooperation of the judiciary which was considered necessary for the achievement of the goals of the reform program, was secured by the Consultative Committee . It was thought that the understanding of the courts in the expeditious handling of cases in order to circumvent the tortuous legal process in respect of possible consolidation related litigations would greatly facilitate the realization of the objectives.

CHALLENGES OF THE REFORM PROCESS

Some of the immediate challenges of the reform include:

i. Lack of country experience and technical knowledge on large-scale consolidation;

Challenges

ii. Delinquent assets and non-performing loans of banks, which were capable of distorting the balance sheet of the emergent banks;

iii. Asset stripping;

iv. Enormous cost of consolidation, which initially discouraged the banks;

v. The possibility of inflow of laundered funds into the system and the inadequate supervisory capacity as a result of the plethora of capital verification exercises arising from recapitalisation by banks; and

vi. Dominant government ownership in some banks and its implication for corporate governance in emergent banks;

Post consolidation challenges anticipated included:

- ICT systems and cultural integration as a result of mergers and acquisition;
- Size and complexity of the mega banks; and
- Possible litigation.

BENEFITS AND COSTS OF THE REFORM PROGRAMME

Benefits of the Reform

The twenty-five banks that emerged from the consolidation exercise accounted for 93.5 percent of the deposit liabilities of the banking system. In the process of complying with the minimum capital requirement, x406.4 billion was raised by banks from the capital market, out of which x360 billion was verified and accepted by the CBN. The process also led to the inflow of FDI of US$652 billion and GBP162,000.

Other benefits include:

i. **Relatively High Capital Base:** The aggregate capitalization of the Nigerian banking system rose astronomically to x755 billion from N327 billion prior to the introduction of the consolidation programme. It is expected that Nigerian banks can begin to participate effectively in financing big ticket transactions, especially of the multinationals operating within the commanding heights of the economy – Oil & Gas, Telecommunications, Aviation, and hence help to meet their needs for loan capital.

ii. **Emergence of Larger Banks with Potential for Wider Branch Network:** The 89 banks in Nigeria as at the end of May, 2005, had a total of 3,382 branches. The existence of a relatively few number of bank branches has grave implications for economic development. Consolidation has resulted in fewer but bigger banks with large capital base which has put great pressure on the banks to embark upon branch expansion.

iii. **Greater Capability to Partner Internationally:** Consolidation has strengthened Nigerian banks such that the quantum of international commercial and financial transactions that passed through them has increased and more banks now have greater access to credit line from foreign banks.

iv. **Predominance of Listed Banks:** Almost all of the 25 banks which emerged from the consolidation are quoted on the stock exchange. Not only has this resulted in the dilution and wider spread of ownership, it has also reduced the presence of family-owned and controlled banks with its attendant insider abuses. Without suggesting that the existence of family controlled banks or other controlling shareholders in a bank is in itself inappropriate, we are of the view that this development will have a salutary effect on corporate governance.

v. **Corporate Governance:** The CBN, during the consolidation programme, released a draft code of corporate governance for banks in Nigeria to the industry and the general public for their inputs. The code when issued is expected to assist banks in enhancing their corporate governance frameworks. Similarly, it will assist regulators in assessing the quality and efficiency of those frameworks in banks.

Expectedly, there were costs associated with the reform programme. These included:

Costs of the Reform

- CBN/FGN support of over N40 billion especially in debt forbearance to some banks.
- Job losses which have been estimated numerically to be in thousands.

A strong capital base coupled with the adoption and effective implementation of a sound code of corporate governance in the industry would not only impact positively on the operational ability of each bank to continue as a going concern but would also stimulate growth in the Nigerian economy.

2.02 REGULATORY PROCESSES AND APPROVALS IN MERGERS AND ACQUISITIONS OF BANKS

As part of the efforts to ensure effective implementation of the consolidation programme, the CBN designed a comprehensive set of procedures to process requests for approvals for mergers and acquisition (M&A). The procedures were also aimed at monitoring the activities of the banks in the course of meeting the minimum capitalisation requirement, either by means of raising additional capital or through M&A.

Objectives of Regulatory Processes and Approvals

The processes were put in place to:

- promote transparency in the processing of regulatory approvals;
- ensure compliance with legal and statutory provisions;
- standardize the processing of banks' requests;
- minimize irregularities;
- minimize the processing time for requests and enhance efficiency; and
- ensure that funds allowed into the system were from legitimate and stable sources.

Statutory and Legal Framework

Paragraph 6.1 of 'The Guidelines and Incentives on Consolidation in the Nigerian Banking Industry issued by the CBN on August 5, 2004, provides that "banks should comply with the legal requirements on M&A as contained in Section 100 - 122 of the Investments and Securities Act (ISA) No 45 of 1999 and all other regulatory requirements".

Paragraph 6.2 also provides that "banks should obtain the prior approval of the Governor of the CBN before any merger and/or acquisition is consummated and/or announced". This provision is consistent with the requirements of Section 7 of the BOFIA.

Processing and Approval Stages

Three distinct activity phases characterize the consolidation programme each of which represents a regulatory and approval process.
These are:

i) Pre-merger Consent
ii) Approval-in-Principle
iii) Final Approval

Consolidation by means of merger involves the three stages while a takeover arrangement is limited to stages (ii) and (iii). For each phase of the approval process, there is a set of documentation and procedural requirements to be met by a bank.

Pre-merger Consent

Pre-merger consent is the CBN's preliminary approval granted to the banks intending to merge. The consent enables the merging banks to forward their application for merger to the Securities and Exchange Commission (SEC) in accordance with the provisions of the ISA for processing and approval.

The process involves ascertaining the suitability of the proposed name for the emerging entity in accordance with the requirements of Section 39(1)(a) and (2) of BOFIA. Also, information in the documents submitted is compared with CBN's records. If satisfied with the submission, a 'no objection' letter is issued to the applicant by the CBN.

Approval-in-Principle (AIP) for a Merger

Approval-in-principle represents the CBN's conditional approval of the merger or takeover. The AIP appears to be the most crucial of the three stages and requires intense regulatory appraisal. Fundamental issues relating to the organizational structure, board composition, shareholding structure, core elements of the merger or takeover agreement, including share exchange ratio and valuation, are closely examined at this stage. These elements are assessed in terms of their adequacy or otherwise for effective risk management and sound corporate governance.

The approval-in-principle stage requires an analysis of the financial and legal due diligence reports presented by each of the merging banks. A wide range of issues is usually considered in the diligence reports, including post-merger treatment of employees, treatment of material contingent liabilities and other operational issues of strategic importance to the consolidated banking institution.

Where a change of name, adjustments in authorized share capital and amendments to the Memorandum and Articles of Association of the successor bank are to be made, the changes are appraised against the background of the provisions of banking regulations and the financial effect on the capital structure of the enlarged bank. Additional capital injections were subject to the regulatory requirement of verification and approval by the CBN.

Verification of capital has always existed as a regulatory process. Its goal is to ensure that capital funds are from stable and legitimate sources. Capital verification became crucial in the consolidation programme as many banks accessed the capital market and other channels for long-term fund in their bid to recapitalise to x25 billion.

The process involves ascertaining the source(s) of the funds, the capacity of the investor, the account history, the balance in the account, relationship between the investor and the person paying for the investment (where they are different), and other factors which may be useful in assessing the stability and legitimacy of the source(s) of funding.

In a takeover arrangement, attention is also paid to the terms and conditions of the takeover.

Final Approval

The merging banks may make the application for final approval simultaneously to the CBN and the SEC. However, the final approval is only granted after the merger has been approved by SEC or in the case of a takeover, on presentation of the registration of the takeover bid by SEC to CBN. The final approval process involves the 'fit and proper person' test for board and top management members, evaluation of the structure and composition of the board and other corporate governance issues. The process also involves a comparison of the provisions of the scheme document in respect of staff disengagement or retention, with the same information provided in the schedules of disengaged and retained staff.

The CBN, finally, issues a banking licence to the successor bank (if a new name is adopted) upon obtaining a court order sanctioning the merger while the banking licences of the merging banks are returned to the CBN for cancellation.

After the court has sanctioned the scheme, the surviving or new bank is expected to file a number of corporate documents with the CBN within specified periods. These include the return of allotment, particulars of directors, registered office address, evidence of de-registration of the merging banks by CAC, opening statement of affairs, showing the details of the surviving entity's capital base, and schedule of staff to be disengaged, including the total severance package and mode of settlement.

2.03 RECAPITALISATION AND THE PROCESS OF CAPITAL VERIFICATION

Determination of Capital Requirements of Banks

The determination of the capital requirements of banks in Nigeria is one of the responsibilities conferred on the CBN by the BOFIA. Section 9 of the Act prescribes that the CBN shall, from time to time determine the minimum paid-up share capital requirement of banks licensed under the Act. It is as a result of this provision that the capital requirements for banks continued to be reviewed to enable them meet their risk appetites and operational requirements.

Recapitalization in the Nigerian banking system recently assumed greater prominence when the CBN on July 6, 2004 directed all the licensed banks to raise their shareholders funds to a minimum of x25 billion before end-December, 2005. Some of the objectives of this directive were to ensure that the banks have adequate capacity to:

Need for Strong Capital Base

- absorb possible operational losses;
- support the economic development of the country;
- play more effectively their intermediation functions;
- meet their expansionary drives; and
- compete effectively in the global financial market.

The banks responded to the directive on recapitalization by raising as at December 31, 2005, over x406 billion through rights issue, public issue and private placements.

CAPITAL VERIFICATION

Objectives

Capital verification is a regulatory action usually undertaken when a new bank is commencing business or an existing bank increases its capital. In carrying out the capital verification, the CBN seeks to ascertain the primary sources of the capital with the objectives of ensuring that:

- the capital is from safe and stable sources;
- the capital fund is real and not fictitious;
- monies invested by shareholders as capital are not from laundered, illicit or drug related sources in line with the recommendations of the Financial Action Task Force (FATF);
- shareholders comply with the circular of the CBN prohibiting borrowing from the banking system to recapitalize banks;
- investment in shares is in compliance with Section 22 of the Foreign Exchange (Monitoring & Miscellaneous Provisions) Act of 1995, which prohibits cash payment, whether denominated in foreign currency or not, for the purpose of acquisition of landed property, stocks, shares, debenture, etc but recommends payments for those items by means of a bank transfer or cheques drawn on banks in Nigeria;
- investors/shareholders are fit and proper persons; and
- shareholding by an individual or his/her related interests will not result in very significant holding as to create corporate governance problems.

THE PROCESS OF CAPITAL VERIFICATION

In carrying out the verification of capital to meet the stated objectives, the CBN may reject the investment of some shareholders based on the following:

Reasons for Rejection of Capital

i. **Cash Deposits:** Where in the course of verification, it is observed that large amounts of cash were deposited into an account to fund the payment of the shares taken up by the investor, the CBN could reject such an investment. The reason for the rejection would be that such cash deposits do not provide a trail to enable the CBN determine the source(s) of the funding. However, cash lodgments into accounts that are characteristic of the nature of the investor's line of business are usually allowed by the CBN.

ii. **Investment by Stockbroking Firms:** Investment by stockbroking firms present two challenges. The firms may be investing on own account or on behalf of their customers. Investment in the name of a firm would require that its financial capacity to undertake the quantum of claimed investment vis-à-vis the audited financial records and its level of indebtedness to the banking system is determined. Where any or both variables is/are negative, the investment is rejected. Where investment is on behalf of a firm's customer, the CBN scrutinizes the customer's account with the firm and the written authority of the customer to the firm.

iii. **Investment by Corporate Bodies:** Here, the CBN reviews the financial statements of the corporate investor, the bank balances, credit exposure to the banking system, board resolutions authorizing the investment and may lift the corporate veil to ascertain the individuals behind the investment.

iv. **Inflow of Funds from Overseas:** The CBN seeks to satisfy itself that there is adequate documentation such as certificate of capital importation, investor's foreign bank statement and SWIFT message to support the investment inflow.

v. **Staff Share Acquisition Loan Scheme:** Section 159 of the Companies and Allied Matters Act (CAMA) permits companies to grant loans to their staff for the purpose of acquiring its shares. The essence is to empower staff and elicit their commitment through corporate ownership. Banks achieve this by establishing staff share acquisition loan schemes which shall be approved by the CBN.

In the course of capital verification, the CBN seeks to ascertain that the basis of allocation of shares to staff is in tandem with the approved scheme, monthly deduction of the loan granted for the share acquisition had commenced on staff salaries and that the aggregate allocation to the staff scheme is not more than 10 percent of the total shares on issue.

vi. **Government and Its Agencies:** Government shareholding in the Nigerian banking system has always posed corporate governance challenges. As a result of this, the CBN pursues policies that discourage such investments. In this regard, a circular directing that, with effect from end-2007, aggregate government ownership in any bank shall not exceed 10 percent. In carrying out verification, the CBN also seeks to ascertain that:

- an Executive Council approval in the case of government or a board resolution for a parastatal authorizing the investment is in place;
- the account of the entity making the investment is properly funded;
- the investor is not indebted to the banking system; and
- the quantum of the investment would not pose corporate governance problems to the bank.

In order to harmonise the capital verification exercises conducted on the various banks for uniformity and consistency, a sub-committee of the Banking Consolidation Implementation Committee (BCIc) known as the Scrutiny Committee was constituted to serve as a quality control layer in the exercise.

Overall, the principal objective of the verification of banks' capital is to ensure that stable and sustainable funds are used to recapitalize the banking system.

2.04 REGULATORY ACTIONS ON FAILING BANKS DURING THE NIGERIAN BANKING SECTOR REFORM PROGRAMME

Resolution Strategies

As the deadline of December 31, 2005, approached, it became obvious that some banks would neither be able to align themselves with any bank or group for the purpose of consolidation nor raise their capitalization to the required minimum level. Such weak banks, therefore, presented a challenge that required prompt regulatory action so as to seamlessly conclude the reform agenda.

Normal resolution strategies such as those provided in the contingency planning framework would not be directly applicable because of the tight schedule. It, therefore, became imperative to design a separate package that would meet the exigency of the situation. Initial steps in the plan included monitoring and counseling of the affected banks up to the end of October, 2005.

STRATEGIES

In order to address the potential problems associated with the failing banks that could not recapitalize or consolidate the following strategies were articulated to proactively nip the problems in the bud:

i. Identification of the problem banks through off-site assessment of their financial status.

ii. Conduct of special examination to ascertain the true position of the bank.

iii. Where the special examination revealed that the board/management stands indictable for the deterioration of the bank, outside ordinary business down turn, the board was required to relinquish control.

iv. However, where the process had not been concluded, the CBN prevailed on SEC not to pass the allotment and the bank was denied access to the funds raised.

v. A meeting of the board of the failing bank, the CBN and the NDIC with the Economic and Financial Crime Commission (EFCC) in attendance was to be called, and where cases of gross insider abuse and mismanagement were established, the following actions were to be taken:

a. the CBN would replace the board;
b. the bank would be directed to recall all insider facilities;
c. members of the board/management found criminally liable would be handed over to the EFCC;
d. the new board would immediately call a meeting of the major depositors of the bank for briefing on the condition of the bank while redirecting the bank towards a successful merger/consolidation.

Proposed Resolution Option

In addition to the above strategies, the following resolution options were considered in handling the failing banks.

I. Open Bank Assistance [OBA]

Open Bank Assistance [OBA] is a resolution method in which an insured bank in danger of failing receives assistance in the form of a direct loan, an assisted merger, or the purchase of assets.

Under this option, the CBN and the NDIC would intervene in the merger talks and arrangements being made by the affected banks by facilitating a successful merger. This may involve the CBN providing forbearances such as debt relief. OBA can be adopted where:

a) the failure of a bank would pose a serious threat to the stability of the financial system and the national economy.

b) the cost of providing OBA may be less than the potential losses arising from a deposit payout.

II. Purchase and Assumption [P&A]

A purchase and assumption transaction or resolution is one in which a healthy bank or group of investors assume some or all of the obligations, and purchase some or all of the assets, of a failed or failing bank.

P & A may be adopted where:

a) the cost of its adoption is less than the estimated loss arising from a payout;
b) it is considered to be less disruptive compared to a payout;
c) it is considered to be in the best interest of the bank's depositors and would aid in the reconstruction of the bank or the disposition of its assets in an expeditious manner;
d) it can preserve the functions of the failed bank and help maintain the relationship of the depositors with the bank. Thus, it strengthens confidence in the system;
e) it covers all depositors, the timing of cash obligation can be stretched out, and it may preserve some jobs for staff of the failed bank;
f) it is the least expensive resolution approach and may not require any additional funds from government finances;
g) it can minimize market disruptions; and
h) it allows customers access to their deposits and they would not suffer any stoppage in banking services.

III. Bridge Bank

A bridge bank is a temporary bank established and operated by the regulatory authority to acquire the assets and assume the liabilities of the failed bank until a final resolution can be accomplished.

The bridge bank option could be used as a "stop gap" option if merger partners and acquirers cannot be found immediately for the affected banks.

A bridge bank may be established:

a) to maintain daily operations of a failed bank.

b) where the liquidator is reluctant to proceed with formal liquidation because either the failed bank is too large or there is not enough time to market the bank's assets to potential acquirers.

c) where the number of failed financial institutions is very large and the failures have occurred during a short period of time.

d) When a bank with an attractive franchise is in danger of failing before acquirers can be found.

e) if it offers timely resolution and the preservation of the functions of the failed bank when P&A is not immediately feasible.

f) if it reinforces confidence of depositors and creditors in the financial system.

g) where it can help prospective acquirers to assess the value of the bank from which they can base their bids.

IV. Liquidation

i. Voluntary Liquidation:

Shareholders of banks, who were not convinced of the merits of the consolidation programme or reluctant to inject fresh funds to meet the new capitalization requirement, were encouraged to petition for voluntary liquidation. However, the bank's assets must be able to substantially pay off its liabilities [depositors/creditors].

ii. Compulsory Liquidation

Where all efforts to bail out a failing bank did not yield the desired outcome, the CBN would revoke the operating licence and request the NDIC to proceed with the liquidation process.

The need to protect depositors and maintain public confidence in the banking system should be taken into consideration in adopting any of the options.

MEETINGS WITH SELECTED BANKS

The CBN in its bid to achieve a seamless implementation of the Banking Sector Reforms, especially as it affected banks that could not meet the x25billion capital requirement, held series of meetings with the strong banks/ groups and the failing banks in order to find a practicable resolution option. At one of the meetings, held on October 19, 2005, three of the options, P&A, the bridge bank and compulsory/voluntary winding up, were presented.

Efforts at ensuring a seamless implementation of the Reform Programme

In their reaction, the strong banks indicated interest in acquiring some of the failing banks under the P&A option, with certain conditions and forbearance from the CBN. This option was given priority over others as it was expressly provided for under the NDIC Act. Some failing banks opted for the bridge bank option. All the failing banks were, however, given up to October 28, 2005, to submit their final decision.

On November 14, 2005, eleven of the problem banks jointly presented a proposal for the formation of a bank to be known as Alliance Bank. Highlights of the proposal included:

- deposit-equity conversion,
- capital injections by existing and new investors,
- assets restructuring to shore up the combined shareholders' funds from a negative x13.3 billion to a projected x21.3 billion,
- operation in about 146 locations on-line with about 5,000 staff, and
- Eighty percent forbearance for the member banks after all insider-related facilities had been recovered.

These were to be concluded by December 20, 2005. Although there were doubts concerning the viability of the proposal as a result of the state of the constituent banks, the CBN, nevertheless, granted a pre-merger consent with conditions that each bank in the group should:

- hold an EGM on or before November 30, 2005, to pass the resolutions that it would pursue the new proposal provided by the alliance of the banks to establish a bridge bank and should the proposal fail, to surrender its operating licence to CBN;

- submit the resolutions and operating licence to the CBN;

- keep all funds realized for the capitalization in an escrow account with the CBN; and

- ensure that the proposal allows for reversibility of deposits that were converted into equity in the event of failure of the bank's programme.

On its part, the CBN was expected to seek the NSE and SEC exemption on the mandatory 21 days required for notice before EGM/AGM by all quoted companies to enable the banks in the group meet the November 30, 2005, deadline. It was agreed that if the group was able to recapitalize to the tune of x25 billion by December 14, 2005, the CBN would:

- receive the fund inflow in its escrow account,
- conduct immediate capital verification of the fund,
- appraise the group's strategic business plan as regards its organogram, management , board composition etc.,
- communicate decision to the promoters of the group and grant AIP if all conditions are satisfactorily met.

However, if the proposal failed, the CBN would take the following actions, which would equally be applicable to the other failing banks outside the group;

- hold a final meeting with the group on December 20, 2005, in order to confirm that there is no other way forward,
- dissolve the Board and Management of the banks immediately,

- select interim supervisory teams to :
  - take stock of assets,
  - establish any assets stripping,
  - confirm deposit liability and ascertain the insured portion,
- By December 31, 2005, final decision would be taken on banks whose operating licences are to be revoked.

By December 20, 2005, most of the group's plans were yet to be implemented. It, however, had deposited over N4 billion recovered from insider-related credits into an escrow account in the CBN. The group compassionately applied to the CBN to grant it an AIP to enable it concludes its merger proposals. The CBN granted a conditional AIP to the group.

As it became evident by December 30, 2005, that the group was not going to meet the conditions for the AIP as all of them were financially insolvent as at that date, the CBN accordingly withdrew the approval-in-principle. Banks in this group, in addition to the few others that were also financially insolvent had to undergo terminal resolution.

2.05 THE POST CONSOLIDATION STRUCTURE OF THE NIGERIAN BANKS – BENEFITS AND CHALLENGES

The Outcomes

As at December 31, 2005, 25 banks emerged from the consolidation exercise. It was apparent that 14 banks would exit from the system because of their inability to meet the reform requirement. At the end of the consolidation exercise, total capitalization of the 25 banks came to x755.0 billion, compared with the figure of x327 billion before the commencement of the programme in July 2004. The successful banks accounted for about 93.5 percent and 93.7 percent of the total deposit liabilities and assets of the banking system, respectively. The 14 banks accounted for 6.5 percent and 6.3 percent of the total deposit liabilities and assets, respectively, with a total branch network of 334, out of the total number of 3,135 branches.

The top ten banks in the new structure controlled 66.6 percent and 72.3 percent of the aggregate assets and total liabilities in the system respectively as compared with the pre – consolidation structure of 50.8 percent and 51.7 percent of aggregate assets and total liabilities, respectively.

BENEFITS

Some of the favourable effects expected to manifest in the post-consolidation era include:

Immediate and Expected Benefits

- Dilution of bank ownership to improve corporate governance, which would be further strengthened with the reduction of government holding in a bank to a maximum of 10 percent by February 28, 2007.

- The increase in the capital base of Nigerian banks has resulted in the availability of more funds which could be channeled to lending to the real sector. With higher single obligor limits, banks are better placed to grant facilities to finance huge projects both locally and internationally.

- The injection of additional capital into the sector would address the rampant cases of weak capital and enable banks to play more effective developmental roles in the economy.
- Virtually all the banks are now publicly quoted, resulting in more supervisory/regulatory oversight with SEC and NSE monitoring their activities.
- The capital market has become more liquid and deepened with increased activities in the stocks and shares of banks.
- The post consolidation banks in Nigeria would become more internationally competitive and would have more access to credit lines from foreign banks.
- There is the prospect of foreign investment inflow and foreign banks entrance into the country.

CHALLENGES

The Challenges

Challenges ranging from the sustenance of the growth in the system, compliance with international standards of operations, effects of exposure of financial institutions to a globalised business environment and the use of new devices by money launderers are likely to manifest in the post consolidation era.

The post consolidation era would witness the challenge of integrating the merging organizations' operations, customers, products and service offerings. The integration process would also involve careful staff selection and synchronization of operational procedures.

Furthermore, the operators have to contend with the alignment of goals and policies, management of different corporate cultures, staff turnover/poaching and increased competition, among others.

A great challenge in the post consolidation era would be the issue of corporate governance. The CBN has issued an exposure draft of the corporate governance code that would guarantee best practice in the board and top management of the banks.

Another challenge for the banks is capacity building to cope with the management of the increase in their risk profiles. This is equally applicable to the regulators as efforts are being geared towards implementing the risk-based approach to supervision.

Also, the ability to detect and prevent the misuse of wire transfer systems by money launderers, terrorists and other related criminals poses a serious challenge to the banking system. While these challenges would further task regulatory capabilities in the post consolidation era, it is expected that banks would ensure strict compliance with the KYC principles and anti-money laundering measures already in place.

Finally, a big challenge to the CBN is ensuring that banks are more transparent especially in the rendition of timely and accurate returns. The adoption and strict implementation of the zero tolerance policy for incomplete and misreporting would go a long way in that direction.

Generally, the banking sector reform has brought about a number of changes and benefits to the Nigerian financial system. However, some challenges are likely to be faced by the banks and the regulators in the post-consolidation era. In concretizing the benefits it is therefore imperative for the regulators and the operators to collaborate to sustain the gains of the reforms.

Chapter Three

SUPERVISORY ACTIVITIES IN 2005

3.01 OFF-SITE SUPERVISION OF BANKS AND DISCOUNT HOUSES

In order to ensure a safe and sound financial system, the CBN, continued to adopt appropriate measures in the supervision of banks and discount houses. In addition to the consolidation programme that took the centre stage during the year, the off-site supervisory activities, focused on the following major areas:-

(i) Analysis of Statutory Returns

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

(ii) Assessment of Boards and Management

The CBN, in conjunction with other regulatory and security agencies, continued to scrutinise all appointees to the boards and top management positions of banks and discount houses to ensure that only fit and proper persons run the affairs of the institutions. In this regard, the CBN, during the year under review, approved the appointment of 62 persons into the boards and top management positions of some banks and discount houses. It turned down the appointment of a few others on the ground of insufficient experience and unfavourable references, among others. Twenty-four resignations from the boards and top management positions of some banks were recorded during the same period while the CBN dissolved the boards of four banks and appointed Interim Management Committees.

(iii) Appraisal and Approval of Financial Statements

A total of 63 audited financial statements were approved for banks and discount houses, out of which 21 were in respect of prior years. To ensure that profits declared by the banks and discount houses were realistic, the CBN continued to conduct income audits before approving the accounts.

(iv) Banks and Branch Network

Eighty-three (83) branches and cash centres were approved during the period, bringing the total number of branches and cash centres in operation to 3,135. Branch expansion was closely monitored to ensure that banks do not use depositors' funds for such investments.

(v) Credit Risk Management System (CRMS)

As at December 31, 2005, the web-enabled CRMS database had a total of 56,092 credit facilities granted to 34,366 borrowers, which amounted to x1.382 trillion.

(vi) Contraventions

In line with the provisions of BOFIA, the CBN, continued to impose sanctions and enforce the payment of appropriate penalties on erring banks and discount houses.

(vii) Blacklisting

During the year under review, the CBN blacklisted six officers of banks, including a Chairman and a non-Executive Director, for unethical practices and professional misconduct.

(viii) Public Complaints against Banks

Ninety-three public complaints against banks, received during the year, were referred to the Ethics and Professionalism Sub-committee of the Bankers' Committee.

(ix) Discount Houses

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

(x) Fraud and Forgeries

As at November 30, 2005, 110 cases of fraud and forgeries totaling x1.5 billion were reported by various banks. Fifty-six of the cases, amounting to x1.38 billion, and representing 91.8 percent of the total amount were reported to have been successful.

(xi) Enforcing Statutory Requirements

(a) Liquidity Ratio

Banks' compliance with the prescribed minimum liquidity ratio of 40 percent was closely monitored on a monthly basis. Some banks failed to meet the minimum requirement during the year; the highest number of 26 banks was recorded in October, 2005, while the least number of 10 banks was recorded in January and February, 2005. Some banks suffered liquidity crisis as a result of the CBN withdrawal of public sector funds.

(b) Capital Adequacy Requirement

The capital adequacy requirement of banks and discount houses was also monitored on a continuous basis throughout the year. In the month of November, 2005, 16 banks failed to meet the minimum prescribed capital adequacy ratio of 10 percent.

(c) Cash Reserve Requirement (CRR)

Towards the achievement of monetary stability, the CBN continued to utilise CRR, applied on the total deposit liabilities of the banks, as a tool for monetary control, to complement the Open Market Operations. The subsisting CRR of 11 percent was, however, reduced to 5 percent as from October, 2005.

3.02 ON-SITE SUPERVISION OF BANKS AND DISCOUNT HOUSES

Fifty-six banks and five discount houses were examined by the CBN in 2005. In addition, two offshore branches of Nigerian banks were examined while a special examination was carried out in one bank. Thirty other banks were assigned to the NDIC for examination.

To ensure full compliance with the recommendations as contained in the examination reports, follow-up or monitoring examinations were carried out on some banks.

Apart from the foregoing activities, the utilization of foreign exchange allocations by banks was routinely monitored to ensure strict compliance with subsisting rules and regulations. Special foreign exchange examinations were carried out on 15 banks in addition to other ad-hoc inspections of banks.

Major Findings of the On-site Examinations

i. Credit Administration and Asset Quality

Weak credit administration continued to attract supervisory concern while the overall asset quality continued to deteriorate both in volume and severity, when compared to the previous year. Some of the observed lapses in credit administration included non-adherence to credit policies, poor credit appraisal/workout and unauthorized lending. Insider-abuse and poor corporate governance persisted despite strict regulations. These lapses resulted in an increase in the volume of non-performing assets and the huge provisioning requirements.

ii. Violations

Common infractions/contraventions of rules and regulations by banks included the breach of the “Know Your Customer principle”, non-training of staff on money laundering counter measures and failure to provide the minimum required information in the credit print-out.

3.03 SUPERVISION OF OTHER FINANCIAL INSTITUTIONS (OFIs)

The supervision of OFIs was intensified in 2005 through on-site and off-site surveillance activities to further sanitise the sub-sector. Presented below, are the highlights of the supervisory activities in the OFIs sub-sector during the year under review

a) Community Banks (CBs)

Two hundred and twenty-six CBs were examined in the period, compared to 185 in 2004. The examination reports confirmed that the asset quality of most CBs was poor, due largely to poor loan appraisal, weak credit administration, non-adherence to loan policies and insider abuse. This poor asset quality resulted in a high volume of non-performing loans and huge loan loss provisioning in the sub-sector. It was also observed that a large proportion of the CBs had not been fulfilling their developmental role, as funds were placed in universal banks in preference to the creation of credits. Most CBs, therefore, had excess liquidity.

In order to ensure compliance with the reporting requirement of e-FASS, more CBs computerized their accounting systems. In many instances, Board Committees were inactive while internal audit functions were either non-existent or weak. Also, several CBs had not met the minimum prescribed paid-up capital of x5 million.

b) Primary Mortgage Institutions (PMIs)

Fifty-five PMIs satisfied the prescribed minimum liquidity ratio of 20 percent. Fifteen or 19.7 percent of the reporting PMIs complied with the prescribed minimum mortgage assets to total assets ratio of 30 percent, thereby indicating that the PMIs did not fulfill their mortgage financing role satisfactorily in 2005. Seven PMIs were examined during the year, while returns were received from 76. Board oversight function was weak while succession planning was lacking.

c) Finance Companies (FCs)

Nineteen FCs were examined in 2005. The asset quality of most FCs was poor as shown by the high volume of non-performing loans and huge loan loss provisioning in the sub-sector. The paid-up capital of several FCs was also below the prescribed minimum of x20 million.

d) Bureaux de Change (BDCs)

A verification exercise conducted during the year revealed that several BDCs were either non-existent or were operating at very low activity levels. Thirty-eight BDCs were, however, examined in 2005. Most BDCs were observed to be operating as sole proprietorships, with no adherence to corporate governance principles. The activities of parallel market operators had adverse effect on the sub-sector. The operations of BDCs were, however, being reviewed by the CBN to further liberalise the foreign exchange market with a view to ensuring that their assigned role of providing foreign exchange for small scale users was fulfilled.

e) Development Finance Institutions (DFIs)

Four DFIs were examined in 2005. The examinations revealed that the risk assets of the DFIs were largely defective. The performance of DFIs in their core function of development financing was also not satisfactory as the management of most of them did not adopt appropriate lending methodologies peculiar to their institutions. Corporate governance ethics were largely ignored and the internal audit function was weak.

3.04 THE ACTIVITIES OF THE BANKERS' COMMITTEE

The Bankers' Committee maintained its complementary role in the implementation of monetary policy in 2005. The committee was involved in the following activities during the year.

Small and Medium Enterprises Equity Investment Scheme (SMEEIS)

The Bankers' Committee reviewed the operational guidelines of the SMEEIS to align it with global best practice and ensure its long-term sustainability. The review is expected to enhance disbursement under the scheme, thereby bridging the gap between the funds set-aside and the portion utilized. The changes brought about by the review include the following:

- The change in name from SMEEIS to SME Funding Scheme

- The mode of operation to a hybrid of debt and equity, with the loan interest subject to a maximum of 9 per cent.

In approving the modification, the Committee drew from the experiences of comparable economies. In addition, sensitisation campaigns were carried out in some major cities while capacity building workshops were held in some states of the Federation.

Microfinance

The Bankers' Committee participated in the packaging of the recently released National Microfinance Policy, Regulatory and Supervisory Framework, and also encouraged its members to embrace the policy.

Payments System

Another area in which the Committee made giant strides in 2005 was in the promotion of an efficient payments system. It set up a sub-committee to redesign the Nigerian Payments System, with the objective of establishing a payments system that is secure, efficient, reliable, cost-effective and consistent with the global best practices by April 1, 2006. Towards the achievement of its vision, the Nigeria Automated Clearing System was upgraded to support the proposed enhancement in the Nigerian Electronic Fund Transfer (NEFT) services. The Fund Transfer Settlement System (FTSS) was also upgraded to facilitate on-line delivery and retrieval of financial data by banks and discount houses.

The Sub-committee recommended the standardisation of cheques (in size, grammage, cheque number digits, encoding ink etc.) and the accreditation of their printers. The measures were designed to eliminate or at least substantially reduce incidents of fraud arising from cheque forgery and/or cloning.

The Committee played an active role in the preparation of an amendment bill for the Dishonoured Cheques Act. The aim is to seek stiffer sanctions for drawers of dishonoured cheques and thus dissuade the frivolous issuance of cheques on unfunded accounts. The Committee also created a website, *www.nigeriapaymentsystem.org.ng,* where banks are encouraged to place the names of drawers of dishonoured cheques.

The Committee continued to encourage member banks to issue new products in the form of plastic money (e-purse, debit cards and credit cards). Over 200,000 of such cards were issued by banks due largely to the deployment of about 400 ATMs in various parts of the country. The challenge of inter-operability between the issuers and service providers and inter-connectivity of delivery channels was considered. Efforts are being made to put in place a central switch, which would interconnect all switches. For large payments, the Real Time Gross Settlement (RTGS) application would complement the Nigeria Interbank Settlement System (NIBSS) Fastfund.

In order to facilitate large cash transactions, the Committee advocated the issuance of higher denominations naira notes and coins. The CBN, subsequently, issued x1,000 note denomination on October 12, 2005.

Self Regulation

In the area of self regulation, the Committee, through its Sub-committee on Ethics and Professionalism, resolved 46 out of 93 cases received in the year. Apart from dispute resolution between banks and their customers or between banks themselves, the cases brought to the fore some learning points, which exposed poor knowledge of some banking instruments and/or processes. The Committee has, therefore, found the forum very useful in the continuous education of its members to avoid disputes, especially, in their banker/customer relationships.

In its further drive towards self-regulation, the Bankers' Committee had put in place an Annual Merit Award for banks that excel in financing the Real and Export sectors of the economy.

Security

The Committee during the year held meetings with the Inspector-General of Police (IGP) to address the incessant cases of armed robberies in banks. The parley was a consequence of an earlier meeting between the Bankers' Committee Sub-committee on Security of Banks and the IGP. The meetings provided the opportunity for brainstorming, at the end of which short and medium-term strategies were adopted. Some of the strategies included:

- the formation of the Bank/Police Relations Committee at national and state levels,
- provision of security enlightenment programmes for bank employees,
- linking distress calls by banks to DPOs' offices, and
- the establishment of a special police squad for bank security.

Banks were also advised to protect sensitive information regarding specie movement and to ensure proper screening of prospective employees.

Seminar for Judges

The Committee held its Annual National Seminar on Banking and Allied Matters for Judges between November 23 and 25, 2005. The aim was to create a forum for interaction between the banking sector and the judiciary where both parties could discuss critically issues affecting their mutual operations.

Social Responsibility

The Committee, during the year, hosted the Chairman of the National Action Committee on AIDS (NACA) who presented a paper on “Banking Sector Response to HIV/AIDS in Nigeria”. The paper centered on the situation report of the dreaded scourge, backed with statistics of prevalence in the six geo-political zones of the country, the need for private sector involvement and the challenges for banks. The Chairman identified two ways, internal and external, in which the banking industry could be involved.

Internal engagement would include workplace policy, education/capacity building as well as prevention and care, while external engagement would include printing of apt messages on bank tellers and statements, funding of commercially viable business in areas of high HIV prevalence and getting involved in groups, bodies and fora that would influence policy/action on HIV/AIDS.

Chapter Four

ISSUES IN SUPERVISION

4.01 THE NEED FOR A CONSOLIDATED SUPERVISION FRAMEWORK

The Rationale for Consolidated Supervision

In Nigeria, the liberalization of the financial services industry following the adoption of universal banking in 2001, led to the emergence of financial conglomerates. In addition, the recent banking industry reform program in the country further promoted the emergence of "mega" banks with strong possibility of becoming financial conglomerates covering money, capital and insurance markets.

Consolidated supervision is desirable in group relationships because there may be risks to a regulated firm as a result of its membership of a group.

The primary objective of consolidated supervision is to evaluate the strength of an entire group taking into account all the risks (including those arising from the operations of related entities) that may affect the supervised entity in the group. This evaluation is regardless of whether those risks are carried in the books of the supervised entity or its related entities.

The main rationale for consolidated supervision is that it provides information on the integrity and adequacy of the capital of the firm and on concentrations of risks across different members of the group. Such risks include:

- The risks taken by other members of the group which may undermine the group as a whole.
- The financial risks caused by financial linkages with other members of the group (for example intra-group lending or intra group guarantees)

- The reputation risks, arising from losses or problems of the activities of other group members.

Proposed Framework for Consolidated Supervision in Nigeria

Objectives of the proposed framework

The proposed consolidated supervision framework, which would draw strongly from international best practices, is intended to achieve the following objectives:

i. Ensuring that no banking activity goes on without supervision, irrespective of location, thus eliminating regulatory arbitrage.
ii. Eliminating double leverage/gearing in the computation of capital adequacy of the conglomerate.
iii. Ensuring that all the risks incurred by a banking group, no matter where they are booked are evaluated and controlled on a global basis.
iv. Ensuring international legal co-integration particularly with regard to cross-border financial crimes and money laundering activities.
v. Enabling the apex regulator to identify more quickly, emerging problems and work with the banking organizations and other supervisors, as appropriate, to take prompt corrective measures on such issues.
vi. Helping supervisors to gauge earlier, the effect of potentially adverse events on banking organization and on the financial system in general.

The proposed consolidated supervisory framework comprises the following:

Components of the Proposed Consolidated Supervisory Framework

i. Consolidated Financial Statements(CFS)
ii. Consolidated Prudential Returns (CPR)
iii. Application of prudential regulations on capital adequacy, large exposures and liquidity gaps on group-wide basis.
iv. Information sharing arrangements amongst the various financial sector supervisors.
v. Cross border supervision.

Consolidated Financial Statements

i. Consolidated Financial Statements would be limited to groups where the controlling entity is a bank or parent financial institution having a bank as its subsidiary.

ii. As part of the Consolidated Supervision, audited Consolidated Financial Statements must be provided on an annual basis. The CFS should include the consolidated Balance Sheet, Profit and Loss account and notes to the accounts in accordance with International Accounting Standards (IAS) 21, 23 and 27.

iii. The parent company should consolidate all subsidiaries, domestic and foreign.

iv. Financial statements used in consolidating should be as at the same reporting date. Where the dates differ, the provision of IAS 21 which allows for the use of a six month old balance sheet of subsidiaries and adjustments for significant transactions/events within the intervening period should be adopted.

v. Consolidated Financial Statements should be prepared using uniform accounting policies and standards. Where it is not practicable, that fact should be disclosed and the proportions of items in the consolidated financial statements to which different accounting policies have been applied.

vi. For valuation purposes, investments in associates should be accounted for using the equity method of accounting in accordance with IAS 23.

vii. Valuation of unconsolidated subsidiaries and associates exempted under IAS 23 should be as prescribed by the CBN.

viii. Valuation of joint ventures should be under the "proportionate consolidation" method as per IAS 27.

ix. In addition to the CFS, a detailed representation of the ownership and corporate structure of the group must be provided. The relative holding of the parent company in each subsidiary and any holding amongst subsidiaries must be stated.

Consolidated Prudential Returns

i. Under consolidated supervision, banks/financial institutions would be required to prepare relevant prudential returns that would be submitted as part of the off-site reporting system. Returns should be submitted on a quarterly basis.

ii Group wide prudential returns consisting of consolidated Balance Sheet, Profit and Loss account, capital adequacy, large exposures, intra group exposures, liquidity mismatches and gaps, etc, should be prescribed and complied with on an on-going basis. The relevant supervisor shall develop the formats and specify other requirements for rendition of these returns.

iii For the purpose of Consolidated Prudential Returns, the consolidation may exclude companies engaged in insurance business and businesses not pertaining to financial services.

iv However, the e-FASS has been configured to take cognisance of the group exposures, capital adequacy parameters, the ratings of the group entities as well as other information requirements for the purpose of the consolidated supervision.

Application of Prudential Regulations on Capital Adequacy

The supervisory approach focuses on the parent holding company, although individual entities may continue to be supervised on a solo basis according to the capital requirements of their respective regulators. In order to determine whether the group as a whole has adequate capital, the assets and liabilities of individual companies are consolidated; capital requirements are applied to the consolidated entity at the parent company level; and the result is compared with the parent's (or group's) capital. The regulator of the parent company shall take responsibility for the calculation of group capital requirements and for the determination of capital adequacy across the financial conglomerate as a whole, without prejudicing the responsibilities of other supervisors for individual entities on a solo basis.

The assessment of capital adequacy on a group-wide basis is aimed at addressing the problems of double/multiple gearing or over-leveraging of capital which are common problems in the assessment of capital adequacy in relation to financial conglomerates.

Large Exposures

Banks and other credit institutions are subject to requirements which limit their exposures to a single obligor or group customers/connected clients to reduce the risk of concentration of credit risks. The restriction is usually a percentage of shareholders' funds.

The insurance houses, contrary to what obtains in banks and other credit institutions, have to comply with asset diversification rules or risk-based capital incentives directed towards asset diversification. This presupposes that, in theory, at least, it is possible for an insurance company to invest more than 100 percent of its own funds in one counter party. Securities companies are generally subject to increased capital charges if they have concentrated or illiquid positions.

Arising from such divergence in operational rules, the large exposure rules of the parent company' regulator should be applied to the group as a whole. Thus, where the parent is a bank, the single obligor limit of the banking regulator will apply to the consolidated bank.

Intra Group Exposure

Intra group exposures, both on and off-balance sheet, have liquidity and solvency implications on a conglomerate. These exposures may lead to undesirable contagion risks, impact negatively on the profitability of the group and encourage supervisory arbitrage or evasion of capital requirements. The lead regulator should, therefore, develop prudential returns format for reporting intra-group transactions.

Liquidity Mismatch/Gap

To effectively catalogue the liquidity risks faced by the group, the maturity profiles of the assets/liabilities of the group entities should be reported to the regulatory authorities, on a consolidated basis in accordance with the prescribed format. The appropriate prudential limits to address liquidity mismatch at the group level should be set by the regulatory authorities. Such limits should also be put in place at the entities' individual level in accordance with their respective assets and liabilities management strategies.

Cross Border Supervision

Regulators in different countries are faced with the difficulty of having contacts with, and responsibilities for, only a part of any given conglomerate because of the large scale differences in regulatory objectives, scope of regulatory powers and instruments at their disposal. Effective cross-border supervision would require the consideration of the following:

i. Improving the access of home supervisors to information necessary for effective consolidated supervision.

ii. Improving the access of the host supervisors to information necessary for effective host supervision.

iii. Ensuring that all cross-border banking operations are subject to effective home and host supervision.

Information Sharing

In the case of a financial conglomerate, intensive cooperation between supervisors is very essential. Supervisors should also have the right to exchange of prudential information. To facilitate this exchange of information, there is need to appoint a lead supervisor who would be responsible for gathering such information to give a perspective on the risks assumed by the group as a whole. The information gathering should include those on non-regulated entities.

Role of External Auditors in Consolidated Supervision

To promote high ethical and professional standards as well as encourage coordinated information sharing between external auditors and regulatory authorities of related entities for the purpose of consolidated supervision, rules and regulations shall be prescribed by the authorities to address the selection, appointment, reporting requirements and delisting of external auditors of banks and their subsidiaries.

Basically, consolidated supervision must be a complement to, and not a substitute for solo supervision. Effective consolidated supervision requires the cooperation of all stakeholders. In Nigeria, the Financial Services Regulation Coordinating Committee, as an umbrella body for the regulatory agencies, has been working assiduously to actualize effective consolidated supervision.

4.02 EMERGENCE OF MICROFINANCE BANKS: REGULATORY AND SUPERVISORY CHALLENGES

Introduction of Microfinance Policy in Nigeria

Following the introduction of the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria in December, 2005, the CBN is faced with the challenge of successful implementation of an enduring microfinance banking practice in Nigeria. The envisaged challenges are mainly in the areas of capacity building for regulators/supervisors and operators as well as the requirements for institutional development for policy sustainability.

i) Capacity Building for Regulators/Supervisors

Challenges for Regulation ands Supervision

Microfinance regulation and supervision are relatively new to the CBN. There is the urgent need to develop the capacity of regulators and supervisors in requisite skills, especially in the areas of general principles and practices of microfinance, risk-based supervision (RBS) of microfinance banks (MFBs), appraisal of institutional assessment and rating reports of transforming Non-governmental Organisations-Microfinance Institutions (NGO-MFIs) and operators' certification process.

The traditional lending practice of microfinance institutions, which is anchored on the character and cash flow of borrowers, and less emphasizes on collateral, presents peculiar risk profiles for the institutions. RBS shall, therefore, be adopted to measure and monitor the institutional risks and the performance of microfinance banks' operations. In this regard, apart from the training of supervisors in RBS techniques for microfinance banks, comprehensive guidelines for developing risk management policies for individual risk elements in MFBs would have to be introduced.

There is, therefore, a compelling need for supervisors to be adequately trained in the RBS methodology. The development of an RBS manual, specifically for microfinance banks, with appropriate early warning signals, and the comprehensive training programme in supervising MFBs, are imperative.

Appropriate reporting formats/procedures for microfinance banks would have to be instituted while there is the need to upgrade the skills of supervisors for the processing, analysis and interpretation of the returns rendered by MFBs. Related to this, capacity enhancement programmes in the understanding, interpretation and conduct of institutional assessment would be required for supervisors to enable them effectively appreciate the reports of the rating agencies, which would form part of the licensing requirements for transforming NGO-MFIs.

ii) Capacity Building for Operators

Need to develop executive capacity for operators

A profound weakness of community banks was the dearth of skilled management. To guard against this deficiency in the MFBs, the regulatory authorities would have to build the requisite skills and competencies for the directors and executive management of MFBs. In line with the MFB policy, therefore, recognized certification programmes for directors, executive management and operators of MFBs, as well as the local training providers would be developed.

In this regard, a certification institute would be established while benchmarks for skills and competencies for directors and executive management would be specified, as a deliberate effort to entrench competent management in MFBs.

Appropriate capacity building for MFB operators to enable them to adapt their credit methodologies to suit the various business models of the diverse and distinct characteristics of their micro-clients needs to be given considerable attention by regulators to ensure long-term sustainability of microfinance services.

Related to the foregoing, is the need to install robust management information systems that would not only support the great diversity of microfinance services but also facilitate supervisory functions. In this regard, the integration of MFB reporting systems into the e-FASS is an imperative.

Institutional Development

There is the need to build an enabling environment to ensure that microfinance is adequately integrated into the national financial system to provide the stimulus for growth and economic development.

Concerted institutional development effort by the CBN and all other stakeholders is vital to properly position emergent MFBs to make financial services accessible to the large and un-served segment of the potentially productive Nigerian population. Institutional developmental efforts would revolve around:

a) Institutional Assessment of NGO-MFIs

An institutional assessment of a transforming NGO-MFI is imperative to assess the institutional viability and, in particular, determine the assets created over the period of its existence as a basis for the allotment of shares to the prospective promoters of the transforming institutions. To ensure transparency, credibility and reliability of the institutional assessment process, it is necessary that professional rating agencies, specializing in microfinance, be engaged by the CBN to conduct independent institutional assessment of existing NGO-MFIs to assist the CBN in the transformation programme.

b) Stipulating Procedures for Conversion/Transformation

It is important that appropriate structures are put in place to ensure smooth transition. Accordingly, guidelines detailing requirements and procedures for the conversion of CBs and transformation of NGO-MFIs to MFBs would have to be issued and transitional arrangements for conversion/transformation made. Milestones for the conversion programme have to be set and strictly monitored.

c) Provision of Technical Assistance

There would be a need to provide technical assistance in the area of microfinance business development services, preparation of business models, installation and upgrade of management information systems, and credit bureau, among others.

d) Creation of Public Awareness

Most importantly, there is the need for the creation of public awareness on the objectives and benefits of the MFB concept through massive sensitization programmes, which should include the print and electronic media, road-shows, symposia, workshops, etc. The sensitization programmes would particularly be aimed at re-orientating and encouraging CBs and NGO-MFIs to speedily convert/transform to MFBs as well as bring on stream new institutions.

e) Supporting Mergers and Acquisition

The present level of capitalisation in the CB sub-sector suggests that most CBs may experience difficulty in raising their shareholders' funds to the minimum of N20 million required to convert to MFB by end-2007. Mergers and acquisition would, therefore, be actively encouraged and supported by the regulatory authorities as a deliberate effort to minimize the number of CBs that would have to exit the system.

a) Organic Growth

A major challenge in the policy is the applicability of the requirement for organic growth by institutions. The policy stipulates that an MFB would be required to open branches in at least two-thirds of the states of its dominant operations first, before being authorized to set up branches in another state of the Federation. The universal applicability of this requirement is a challenge given the fact that some CBs and NGO-MFIs already have branches across the states. The challenge of whether such institutions would have to wind down their existing nation-wide operations to one state and satisfy the two-thirds requirement before setting up in other states has to be addressed. The regulatory authorities are conscious of this challenge and intend to treat each case purely on merit.

g) Institutionalizing a Development Fund

The setting up of the Microfinance Development Fund, to provide the much needed pool of funds for MFBs, as envisaged by the Policy, also needs to be actualized. Setting up of an independent, efficient and effective Microfinance Fund for the country, the size of such fund and how to attract private sector investors into the fund would definitely pose an enormous challenge.

Other Challenges

Some social challenges would invariably arise as unintended consequences of the new policy. For instance, revoking the licences of CBs that are unable to convert, due to capital fund constraints, but which, ordinarily, could still render limited but valuable service to their host communities and such communities' cultural affiliation with the institutions, could result in social disenchantment and stifle the expanded outreach to financial services, which the MFB concept set out to foster. The CBN would fashion out exit procedures that should ensure minimal social disruptions.

The prompt inauguration of the Microfinance Policy Consultative Committee, to serve as the apex body that would give policy direction to the microfinance concept should go a long way in ensuring the long-term sustainability of the policy.

4.03 REGULATORY MEASURES ON ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM

The CBN as the apex regulatory of the Nigeria financial system, intensified the war aga money laundering and combating terrorist financing.

1. Regulatory Measures/Efforts

Efforts of the CBN

In accordance with the Financial Action Task Force (FATF) standards, the CBN had embarked on a number of measures on Anti-Money Laundering/ Combating Financing Terrorism (AML/CFT). As part of its statutory responsibilities of ensuring the safety, stability and soundness of the financial system, the CBN has continuously and vigorously pursued AML/CFT measures in all its ramifications. In this regard, the CBN has:

- organized various public enlightenment and training programmes on money laundering in collaboration with operators, other regulators in the financial system as well as law enforcement agencies. Financial institutions were also mandated to ensure continuous training of their staff on anti-money laundering controls.

- placed advertisements in over 80 newspapers and magazines in 12 different languages in 36 countries to forewarn individuals and corporate bodies in the international community about money laundering activities, drug trafficking and advance fee fraud.

- cooperated with and assisted local and foreign law enforcement agencies in the arrest and prosecution of 40 persons involved in financial crimes. Specifically, the CBN has always assisted and cooperated with the EFCC in the discharge of its mandate by seconding its staff to assist the Commission in carrying out investigations.

- complied with the recommendations of the FATF requiring financial institutions to carry out due diligence on customers when establishing and conducting business relationships by issuing guidelines on know Your Customer (KYC) emphasizing the "fit and proper" persons test on prospective investors and conducting capital verification to ascertain the source and stability of funds coming from such individuals or corporate organizations.

- played a major role in the establishment of the Economic and Financial Crimes Commission (EFCC) and the Nigerian Financial Intelligence Unit (NFIU), which is domiciled at the EFCC. The NFIU is responsible for receiving, collating and analyzing Suspicious Transactions Reports and conducting investigations on them.

To reduce the vulnerability of the financial system to money laundering and the financing of terrorism, the CBN Act has been amended to empower the Governor of the CBN to freeze accounts of suspects of money laundering and terrorist financing, while the EFCC Act empowers the agency to seize and confiscate assets acquired with laundered funds.

A Major Challenge

The focus of intense international scrutiny to protect the international financial system from the damaging activities of money launderers had forced the criminals to adopt more sophisticated techniques. The use of information technology and process integration which have become prevalent by banks could result in the increased patronage for money laundering and other illicit activities to speedily move funds electronically across the world. A major challenge facing the banking sector, therefore, is in preventing and detecting the misuse of wire transfers system by money launderers, terrorists and related criminals. It is, therefore, imperative to refocus attention and align regulatory measures on AML/CFT in this area with sustained vigour.

The pervasive ills threatening the global economy and security of national governments are the twin menace of money laundering and terrorist financing. It is, therefore, obvious that, in order to protect financial systems and ensure their continued operational safety, regulatory authorities must, more than ever before, brace up to their responsibilities and proactively address challenges posed by money laundering and terrorist financing. Efforts and measures required to establish a comprehensive anti-money laundering regime, would continue to be reviewed by the CBN with a view to making them more potent and effective.

Chapter Five

FRAMEWORK FOR SUPERVISION

5.01 UPDATE ON THE REVIEW OF THE CENTRAL BANK OF NIGERIA ACT 1991 AND THE BANKS AND OTHER FINANCIAL INSTITUTIONS ACT 1991

Several amendments have been proposed to the CBN and BOFI Acts, which among others, are to:

Objectives of the proposed amendments

- grant the CBN full autonomy and strengthen its processes for the performance of its core functions;
- align the provisions of the banking laws with international best practices in central banks and monetary authorities;
- improve the timeliness of service delivery by the CBN;
- permit the CBN to enter into agreements or memoranda of understanding with counterpart supervisors for supervisory and information sharing purposes;
- reflect the impact of improvements and developments in information technology; and
- review sanctions for contraventions to enable them serve as effective deterrent to offenders.

Some of the proposed amendments are highlighted below:

THE CBN ACT

Salientproposals

- Redefinition of core functions of promoting monetary stability to include price stability, under Section 2.

- Review of the percentage of the CBN operating surplus for each financial year that should be transferred to the general reserve from one-sixth to one-third, under Section 5.

- Reflection of the changes in the reporting line of the CBN consequent upon the return of the country to civilian rule, under Section 9.
- Exemption of the CBN from the payment of various levies, charges, dues, rates or any financial contribution under Section 23.
- Expansion of the frontier of investments allowable for the country's external reserves, under Section 24.
- Discontinuation of the management of publicly debts by the CBN in view of the creation of the Debt Management Office, under Section 27.
- Reduction of the amount of advance outstanding against the FGN as a percentage of the actual revenue of the preceding year, under Section 33.
- Enhancement of the membership of the Financial Services Regulation Co-ordinating Committee (FSRCC) to include the NDIC, under Section 38.
- Mandatory reference to the CBN Credit Bureau by banks, under Section 52.

THE BANKS AND OTHER FINANCIAL INSTITUTIONS ACT (BOFIA)

- Review penalties for contraventions to enable them serve as effective deterrent to offenders as provided for, under various sections.

- Definition of significant shareholding, extension of facilities to significant shareholders and transfer of significant shareholding in banks, under Section 7.

- The display of interest rates in banks as it affects profit and loss sharing banks, under Section 23.

- Introduction of a time frame for the submission of annual financial statements to the CBN by financial institutions, under Section 27.

- Empowerment of the CBN Governor to remove erring officials of banks and OFIs from office, under Section 37.

- Establishment of an administrative process for the liquidation of closed banks with minimum judicial involvement, under Section 37.

- Empowerment of the CBN Governor to constitute a Crisis Management Unit, under specified conditions, under Section 38.

- Empowerment of the CBN to approve the appointment to top management positions in banks and other financial institutions, under Section 44.

- Empowerment of the CBN Governor to order the examination of specialized banks, under Section 59.

- Supremacy of the BOFI Act over other Acts, in respect of institutions supervised by the CBN, under Section 60.

5.02 UPDATE ON THE IMPLEMENTATION OF RISK-BASED SUPERVISION

Release of guidelines on RMP

The guidelines for the development of risk management processes were released during the year. It posits that a bank's ability to evolve a comprehensive Risk Management Framework (RMF) is imperative for its strategic positioning. Such framework should therefore aim at ensuring that:

a) The individuals who take or manage risks clearly understand them.

b) The bank's risk exposure is within the limits established by the Board of Directors.

c) Risk taking decisions are explicit, clear and in line with the business strategy and objectives set by the Board of the bank.

d) The expected payoffs compensate for the risks taken.

e) Sufficient capital is available to cushion the loss arising from the risks taken.

The Board and Management of each bank have the overall responsibility of ensuring that adequate policies are put in place to manage and mitigate the adverse effects of risks in its operations. Therefore, the bank should develop and implement a system to manage and control risks in line with its risk management policies, which should be submitted to the CBN for approval.

The guidelines adopted a working definition of risk and defined the various types of risks such as credit risk, market risk, operational risk and liquidity risk that are faced by a banking organization.

The following broad issues are to be considered in evolving a risk management framework:

Issues to Be Considered In Evolving a Risk Management Framework

Risk Identification and Assessment: A management process should be put in place for prompt identification of all risk types faced by a bank and a periodic self assessment.

Risk Measurement: This is a system of measurement, which should graduate risk levels based on the scale or significance of the activity in relation to the bank's risk management goals and objectives. The risk measurement approach should include a scoring system (i.e. risk map) for all identified risks within and outside the bank.

Risk Mitigation and Control: A set of self-regulatory actions should be designed to determine the impact of risks and address the associated problems if and when they occur. The type of risk mitigation to be adopted by the bank would depend on the result of its self-assessment.

Process for developing a risk management framework

The framework should state the scope of risks, the processes and procedures to manage the risks, and the roles and responsibilities of individuals involved. It should be comprehensive enough to capture all risks and have flexibility to accommodate any change in business activities. At the minimum, the RMF should involve the following:

- Establishment of the bank's risk management goals and objectives.
- Identification of the bank's risk spectrum.
- Development of risk management strategies.
- Design of risk mitigation and control process.
- Establishment of strategies for implementation of controls or mitigation process.
- Monitoring of the effectiveness of the risk management process.
- Review of monitoring reports and the development of a feedback process for decision making.

The framework should include the establishment of a contingency plan to proactively address stress situations.

RESPONSIBILITY OF THE BOARD AND SENIOR MANAGEMENT

While the Board has the overall responsibility for the supervision of the Risk Management Process (RMP), it is the duty of senior management to transform strategic direction and policies set by the board into procedures and processes so as to institute an effective hierarchy to execute and implement those policies.

The Board

The Board has responsibility for:

- Establishing a formal written policy on the overall risk management system.
- Ensuring that adequate policies are put in place to manage and mitigate the adverse effects of both business and control risks in its operations.
- Ensuring compliance with established policy through periodic review of reports provided by management, internal and external auditors and the supervisory authorities.
- Ensuring the constitution of a Risk Management Committee at the Board level, which should be charged with the responsibility of overseeing the overall RMP of the bank.
- Ensuring the appointment of qualified officers to manage the risk function.
- Re-evaluating the programme on a periodic basis to accommodate major changes in internal or external factors.

Senior Management

The Senior Management on the other hand ensures:

- The implementation of the policies relating to risk management and communicating them through the organization. The policies should be embedded in the culture of the bank.

- That risks taken remain within the limits set by the Board and that any material exceptions to the programme are reported to the Board.

The full document on RMF is available on the CBN website *www.cenbank.org*

5.03 OVERVIEW OF THE MICROFINANCE REGULATORY AND SUPERVISORY FRAMEWORK FOR NIGERIA

Policy Background

Microfinance Policy: An Integral part of Banking Sector Reform

The inability of the Nigerian financial system to provide access to finance to a large segment of the population informed the need to mainstream and refocus the informal microfinance sub-sector. In Nigeria, the formal financial system provides financial services to about 35 percent of the economically active population while the remaining 65 percent is often served by the informal financial sector, through NGO-MFIs, moneylenders, friends, relatives, and credit unions. The non-regulation of the activities of some of these institutions has serious implications for the ability of the CBN to exercise its mandate of promoting monetary stability and a sound financial system.

In order to consolidate the on-going banking sector reforms, a microfinance policy was considered a veritable instrument to mainstream microfinance activities into the financial system. Accordingly, a Microfinance Policy, Regulatory and Supervisory Framework for Nigeria was formulated by the CBN and launched by Mr. President on December 15, 2005. The Policy introduces into the country's financial system, the practice of microfinance banking, which is aimed at offering an array of financial services to the economically active poor.

In the 1980s, similar Government efforts at providing access to financial services for the active poor as well as the rural entrepreneurs' segment of the Nigerian population through private sector initiatives resulted in the emergence of CBs and NGO-MFIs. However, the performances of these two categories of institutions have been poor due, largely, to inadequate capacity and weak capital base, in the case of CBs, and limited outreach, traceable to unsustainable sources of funds, on the part of NGO- MFIs.

Achieving the desired impact in the provision of access to financial services, on a sustainable basis, to the economically active poor, demands concerted effort and a more focused approach. As spelt out in the policy document, the challenge for developing an appropriate regulatory and supervisory framework for microfinance operations lies in the great diversity of institutions that offer microfinance services. A comprehensive framework, significantly based on micro-lending as an activity, was therefore considered better applicable to all supervised institutions that offer this service, regardless of whether they are licensed banks or new institutional form created specifically for microfinance.

Highlights of the Regulatory and Supervisory framework for MFB

The following are the highlights of the Microfinance Policy, Regulatory and Supervisory Framework.

Policy Objectives

The specific objectives of the microfinance policy are as follows:

i) Make financial services accessible to a large segment of the potentially productive Nigerian population which otherwise would have little or no access to financial services;

ii) Promote synergy and mainstream the informal financial sub-sector into the national financial system;

iii) Enhance service delivery by microfinance institutions to micro, small and medium entrepreneurs;

iv) Contribute to rural transformation; and

v) Promote linkage programmes between the universal/ development, specialized institutions and microfinance banks.

Policy Targets

Based on the listed objectives, the targets of the policy are to:

i) cover the majority of the poor but economically active population by 2020, thereby creating millions of jobs and reducing poverty;

ii) increase the share of micro credit as a percentage of total credit to the economy from 0.9 percent in 2005 to at least 20 percent in 2020, and the share of micro credit as a percentage of GDP from 0.2 percent in 2005 to at least 5 percent in 2020;

iii) promote the participation of at least two-thirds of the states and local governments in micro credit financing by 2015;

iv) eliminate gender disparity by improving women's access to financial services by 5 percent annually; and

v) increase the number of linkages among universal banks, specialized finance institutions and microfinance banks by 10 percent annually.

Policy Strategies

A number of strategies have been derived from the objectives and targets as follows:

i) license and regulate the establishment of Microfinance Banks (MFBs);

ii) promote the establishment of NGO- MFIs;

iii) promote the participation of Government in the microfinance industry by encouraging States and Local Governments to devote at least one percent of their annual budgets to micro credit initiatives administered through MFBs;

iv) promote the establishment of institutions that support the development and growth of microfinance service providers and clients;

v) strengthen the regulatory and supervisory framework for MFBs;

vi) promote sound microfinance practice by advocating professionalism, transparency and good governance in microfinance institutions;

vii) mobilize domestic savings and promote the banking culture among low-income groups;

viii) strengthen the capital base of the existing microfinance institutions;

ix) broaden the scope of activities of microfinance institutions;

x) strengthen the skills of regulators, operators and beneficiaries of microfinance activities;

xi) clearly define stakeholders' roles in the development of the microfinance sub-sector; and

xii) collaborate with donors, coordinate and monitor donor assistance in microfinance in line with the provisions of the policy.

Categories and Licensing of MFBs

In line with the microfinance policy, two categories of MFBs shall be licensed; the Unit MFB, with a starting capital base of x20 million, shall be licensed to operate and open branches in a local government area (LGA) while the State MFB with a minimum capital base of x1 billion, shall be licensed to operate branches within a state.

The existing 759 CBs (licensed and unlicensed) spread across the country, shall be required to convert to MFB in any of the two categories (Unit MFB or State MFB) within two years, ending December 31, 2007. Also, NGO-MFIs that meet the stipulated requirements of x20 million asset base and/ or 2000 membership base, shall be required to transform to the relevant category of MFB.

Other non-bank financial institutions that intend to participate in the delivery of microfinance service may either surrender their licenses and promote a new MFB or establish one as a subsidiary, by meeting the prescribed licensing requirements.

The regulation also prescribes licensing requirements and microfinance-specific prudential requirements, which include standards for portfolio classification, loan documentation, loan loss provisioning and write-offs for microfinance operations.

The licensing of MFBs shall be the responsibility of the CBN.

Organic Growth Path of MFBs

The policy recognises that the current financial landscape of Nigeria is skewed against micro, small and medium enterprises in terms of access to financial services. To address the imbalance, the policy framework aims at promoting an even spread of microfinance banks, their branches and activities to serve the un-served but economically active clients in the rural and urban areas.

In order to foster an organic growth path, a microfinance bank licensed to operate as a unit bank shall be allowed to open new branches in the same state, subject to meeting the prescribed prudential requirements and availability of minimum free funds of N20 million for each new branch. In other words, an MFB shall be required to have a reasonable spread in an LGA or state before moving to another location, subject to meeting all necessary regulatory and supervisory requirements. Furthermore, a unit MFB can attain the status of a State MFB by spreading organically from one location to another until it covers at least two-thirds of the LGAs of that State. A State MFB intending to commence operations in another state, shall obtain approval and be required to, again, grow organically by having at least x20 million free funds unimpaired by losses for each branch to be opened in the new state.

Permissible activities

An MFB shall be allowed to engage in the provision of normal but less sophisticated banking services to its clients, except the following:

i. foreign exchange transactions and international electronic funds transfer;

ii. cheque clearing activities;

iii. dealing in land for speculative purposes and real estate except for its use as office accommodation;

iv. allow any facility for speculative purposes; and

v. acceptance of public sector deposits except for the provision of payment services such as salary, gratuity and pension for the various tiers of government and the provision of loan disbursement services for the delivery of credit programmes of government, agencies, groups and individuals, for poverty alleviation on a non-recourse basis.

Ownership

Microfinance banks can be established by individuals, group of individuals, community development associations, private corporate entities and foreign investors. Significant ownership diversification shall be encouraged to enhance corporate governance of licensed MFBs.

Supervisory focus

Risk-based supervision shall be implemented to achieve a balanced growth, promote transparency, control risks faced by the institutions engaged in microfinance and eliminate barriers. It would focus mainly on:

i. corporate governance and ownership structure;
ii. lending methodology;
iii. borrower characteristics;
iv. appropriate management information system; and
v. internal control mechanisms and procedures.

Prudential Requirements

Some of the key prudential requirements in the policy are as follows:

i. Compulsory investment in Nigerian Treasury Bills (NTBs) of 5 percent of deposit liabilities.

ii. Liquidity ratio of 20 percent, including compulsory investment in NTBs.

iii. Capital funds adequacy of 10 percent.

iv. Limit of lending to a single borrower and related party. The maximum loan by an MFB to any individual borrower or director and /or related borrowers shall not exceed one percent of the MFB's shareholders' funds unimpaired by losses, while a group borrower is restricted to a maximum of 5 percent.

v. It shall be required that portfolio-at-risk (PAR) shall not exceed 2.5 percent of the credit portfolio at any given time for an MFB.

Special Prudential Standards

Some regulations common in traditional banking shall be amended at the discretion of the CBN from time to time, to accommodate the peculiarity of microfinance services, as detailed below:

a) Unsecured Lending limits

In accordance with the provisions of Section 20(2)(a) of BOFIA, any unsecured advances or loans or credit facilities of an aggregate amount in excess of fifty thousand Naira [x50,000.00] is not permitted. For the purpose of applying this regulation to MFB, group guarantees or third party guarantees of an individual acceptable to the MFB shall qualify as collateral for microfinance loans.

b) Loan Documentation Requirement

Given the nature of microfinance loan sizes and customers, collateral registration, financial statements of borrowers or evidence that those businesses are formally registered shall not be required.

c) Restriction of Co-signers as Borrowers

The restriction prohibiting a bank from lending to a person who has co-signed or otherwise guaranteed a loan from the same bank shall not apply to MFBs.

d) Reporting Requirements

The reporting requirements for microfinance banks shall be simplified to minimize administrative costs to them.

e) Cash Reserve Requirements

The mandatory cash reserve requirements [CRR] for banks shall not apply to an MFB, rather an MFB shall be required to have compulsory investment of 5 percent of its total deposit liabilities in NTBs which shall qualify as specified liquid assets in computation of its liquidity ratio.

Other Special Features of the Policy

Other special features of the policy are as follows:

i) National Microfinance Consultative Committee

A National Microfinance Consultative Committee (NMFCC) shall be constituted by the CBN to provide direction for the implementation and monitoring of the policy.

ii) Management Certification Programme

In order to bridge the technical skill gaps among operators of MFBs, and especially in the light of the peculiarities of microfinance service delivery models, the policy recognizes the need to set up an appropriate capacity building programme for MFBs. To this end, the CBN shall put in place a microfinance bank certification process to enhance the acquisition of appropriate microfinance operational skills by the top management teams/directors of MFBs.

iii) Establishment of a Microfinance Development Fund

In order to promote the development of the sub-sector and provide for the wholesale funding requirements of microfinance banks, a Microfinance Sector Development Fund shall be set up. The Fund shall provide necessary support for the development of the sub-sector in terms of refinancing facility, capacity building and other promotional activities. The Fund would be sourced from governments and through soft facilities from international development finance institutions as well as multilateral and bilateral development institutions.

iv) Institutional Assessment Report for NGO-MFIs

All transforming NGO-MFIs are required to undergo institutional assessment by rating agencies to determine the assets created over the period of their existence as a basis for the allotment of shares to the prospective promoters of the transformed institutions.

This policy framework was developed with strong stakeholders' participation. Efforts have been made to address possible gaps that led to the failure of past attempts of both the public and private initiatives at microfinance.

To further guide the implementation, appropriate circulars for the conversion of community banks and transformation of NGO-MFIs to MFBs would be issued by the CBN from time to time.

Chapter Six

PERFORMANCE TRENDS IN THE BANKING SYSTEM

6.01 BALANCE SHEET STRUCTURE AND GROWTH RATE IN BANKS

The first phase of the banking sector reform, which started in July, 2004, was concluded on December 31, 2005, with the number of banks reduced from 89 to 25.

In 2005, the total assets of the banking sector increased by 29.37 percent or x996 billion from x3.393 trillion in 2004 to x4.389 trillion in 2005. As in 2004, the banks held most of their funds in liquid assets and loans and advances. “Cash and due from other banks”, which increased by 10.57 percent from x935 billion in 2004 to x1.034 trillion in 2005, represented 23.56 percent of the total assets, while loans and advances represented 33.65 percent as against 33.40 percent in 2004.

Ranking of the major components of the liability remained largely the same. Banks sourced 58.01 percent and 24.85 percent of their funds from deposits and other liabilities, respectively.

The aggregate balance sheet of the banking industry from 2001 to 2005 and the individual components are illustrated below.

Table 1
Aggregate Balance Sheet Structure of the Banking System

ASSETS	Sept. 30 2005		Dec. 31 2004		Dec. 31 2003		Dec. 31 2002		Dec. 31 2001		2005	2004	2003	20
	Amount x Billion	Percent	Amount x Billion	Percent	Amount x Billion	Percent	Amount x Billion	Percent	Amount x Billion	Percent	Percent	Percent	Percent	Per
Cash & Due From banks	1,034,123	23.56	935,286	27.57	833,088	30.10	769,416	31.04	648,283	31.91	10.57	12.27	8.28	18.
Call & Placements	230,217	5.24	101,756	3.00	132,485	4.79	113,302	4.57	140,894	6.94	126.24	-23.19	16.93	-19.
Government Securities & Short-term funds	902,665	20.56	677,595	19.97	421,478	15.23	466,020	18.80	275,170	13.55	33.22	60.77	-9.56	69.
Advances/Leases (Net)	1,476,875	33.65	1,133,230	33.40	915,267	33.07	721,063	29.09	639,277	31.47	30.32	23.81	26.93	1
Investments		4.42	104,702	3.09	90,938	3.29	39,296	1.59	19,649	0.97	85.38	15.14	131.42	99.
Other Assets	368,205	8.39	280,630	8.27	241,071	8.71	254,183	10.25	208,092	10.24	31.21	16.41	-5.16	22.
Fixed Assets	183,141	4.17	159,741	4.71	133,450	4.82	115,837	4.67	100,025	4.92	14.65	19.70	15.2	1
TOTAL ASSETS	4,389,327	100	3,392,940	100.00	2,767,777	100.00	2,479,117	100.00	2,031,390	100.00	29.37	22.58	11.64	22.
Liabilities:														
Total Deposits	2,546,056	58.01	1,795,840	52.93	1,414,917	51.12	1,281,427	51.69	1,000,433	49.25	41.78	26.92	10.42	28.
Due to Banks	127,100	2.90	101,887	3.00	128,473	4.64	43,000	1.73	83,479	4.11	24.75	-20.69	198.77	-48.
Borrowed Funds	66,958	1.53	60,886	1.79	21,861	0.79	13,526	0.55	13,403	0.66	9.97	178.51	61.62	0
Other Liabilities	1,090,793	24.85	1,080,274	31.84	910,096	32.88	906,484	36.56	761,446	37.48	0.97	18.70	0.4	19.
Long Term Loans	3,900	0.09	3,032	0.09	2,782	0.10	1	0.00	214	0.01	28.63	8.99	-	-99.
Paid-Up Capital	170,924	3.89	140,768	4.15	120,679	4.36	100,276	4.04	75,170	3.70	21.42	16.65	20.35	3
Reserves	383,596	8.74	210,253	6.20	168,969	6.10	134,403	5.42	97,245	4.79	82.44	24.43	25.72	38.
TOTAL LIABILITIES	4,389,327	100	3,392,940	100.00	2,767,777	100.00	2,479,117	100.00	2,031,390	100.00	29.37	22.58	11.64	22.
Off-Balance Sheet	859,126	19.57	663,738	19.56	625,424	22.6	503,896	20.33	375,305	18.48	29.44	6.13	24.12	3

Source: Banks Returns to the CBN

Note: 2005 Statistics were as at September 30, 2005, when there were 89 banks in existence

BANK
RIA

Figure 1
Aggregate Balance sheet

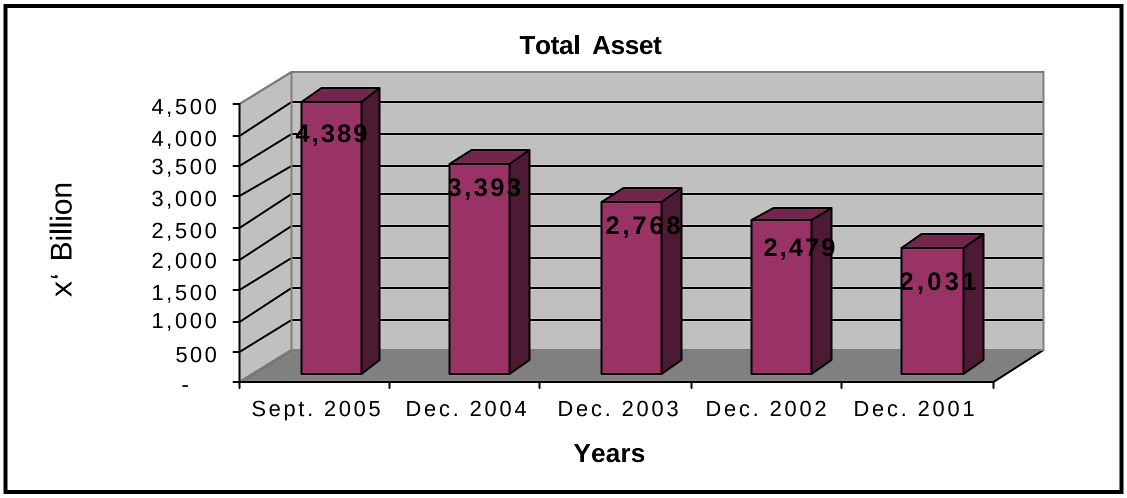


Figure 2
Composition of Assets in 2001

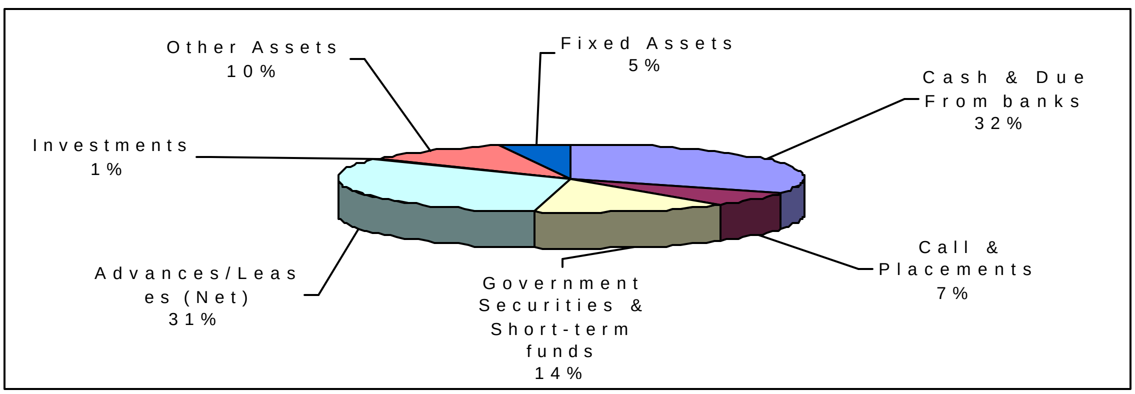


Figure 3
Composition of Assets in 2002

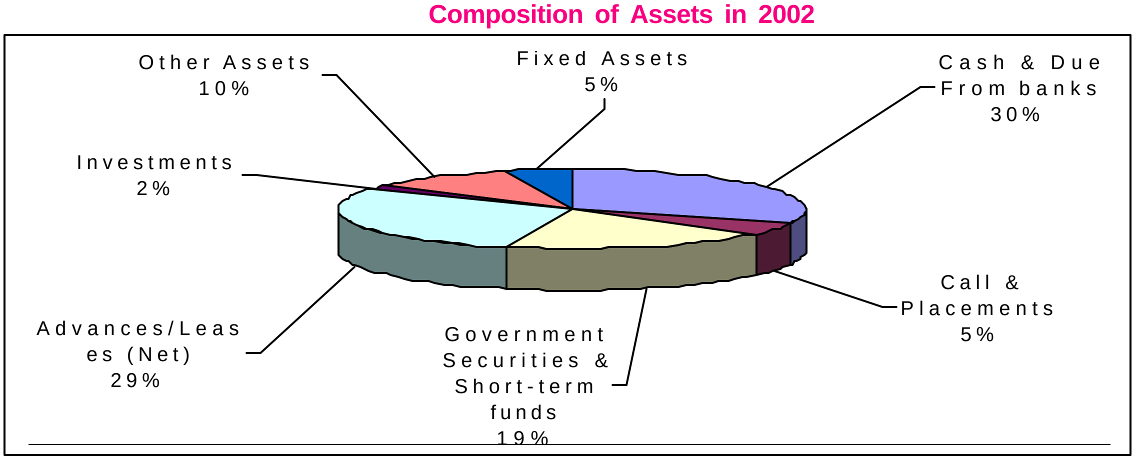


Figure 4
Composition of Assets in 2003

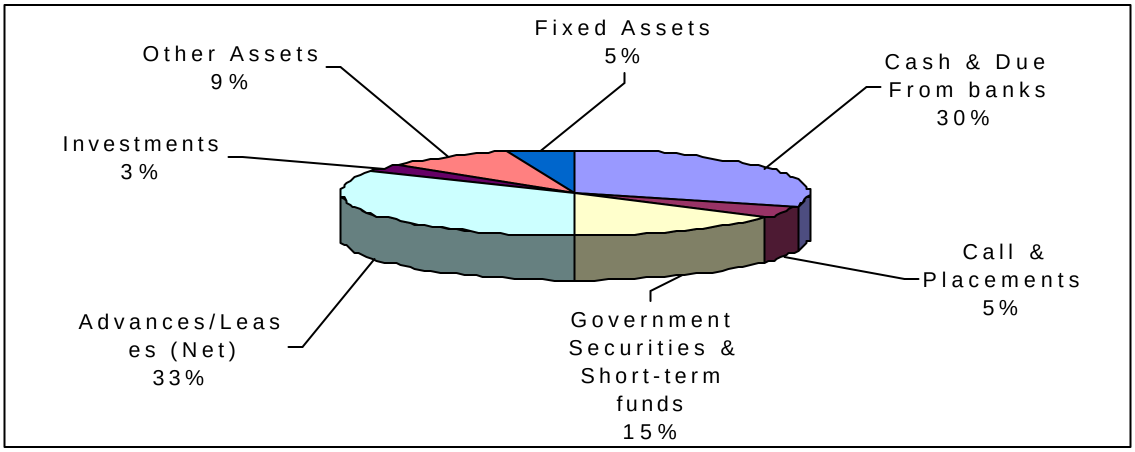


Figure 5
Composition of Assets in 2004

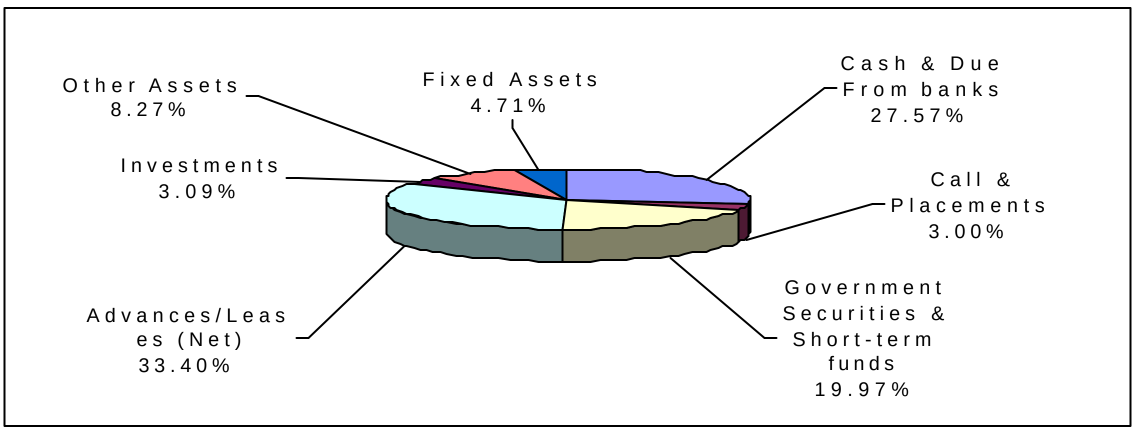


Figure 6
Composition of Assets in 2005

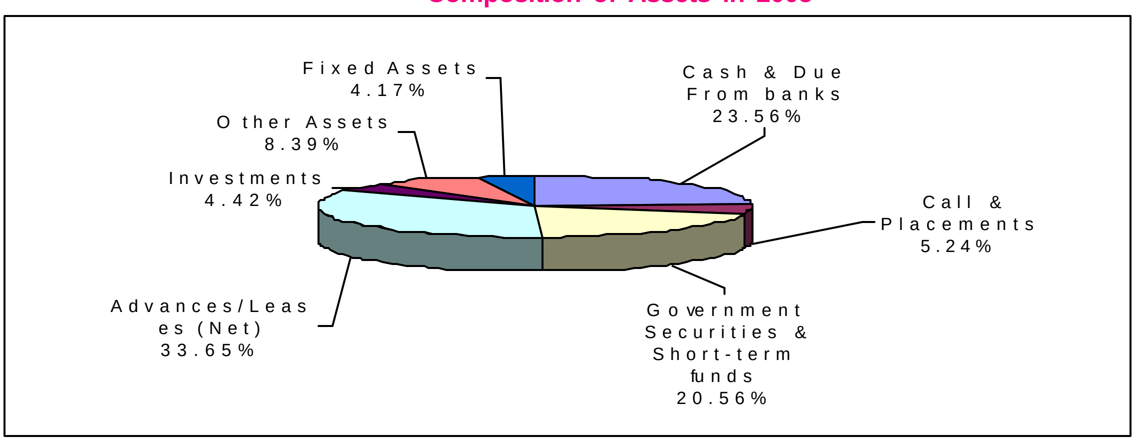


Figure 7
Composition of Liabilities in 2001

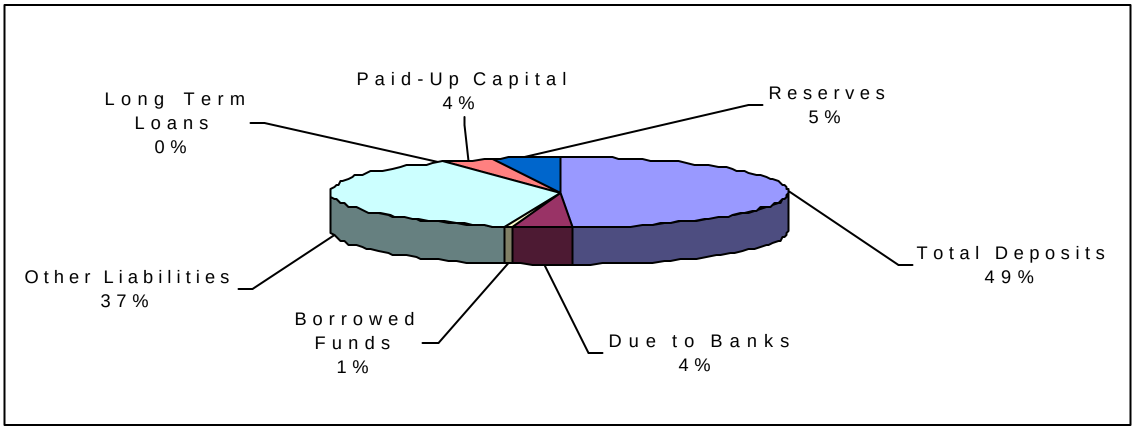


Figure 8
Composition of Liabilities in 2002

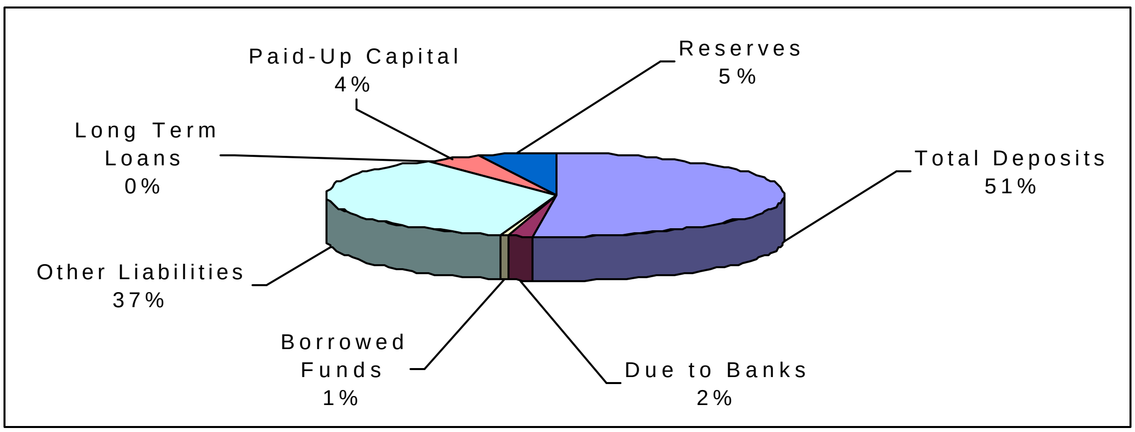


Figure 9
Composition of Liabilities in 2003

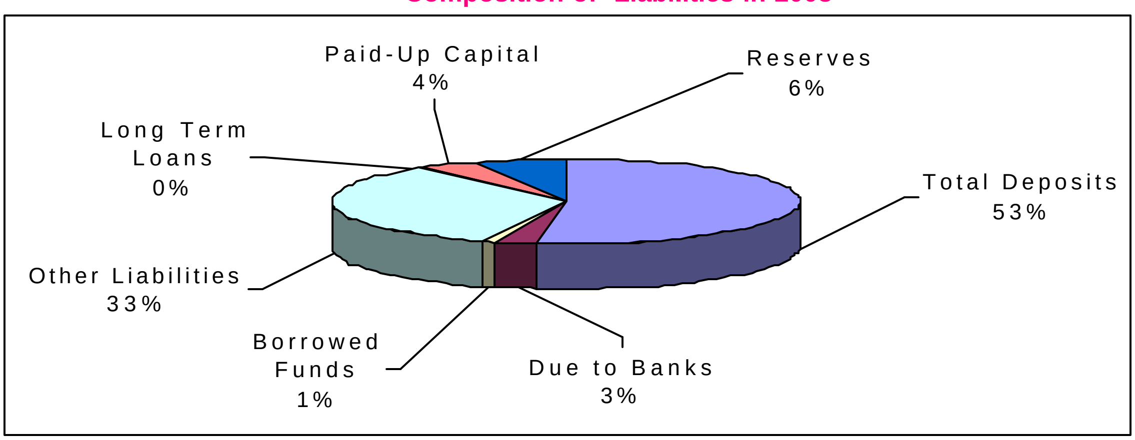


Figure 10
Composition of Liabilities in 2004

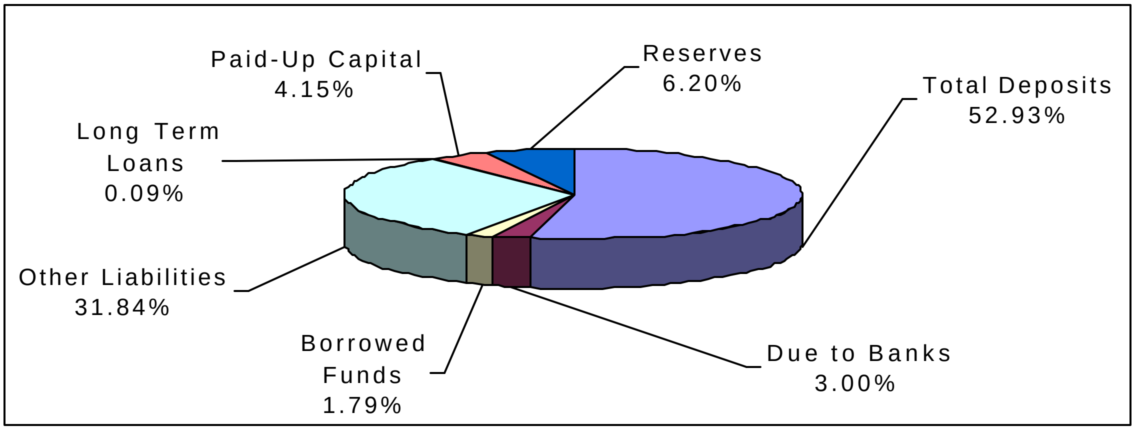
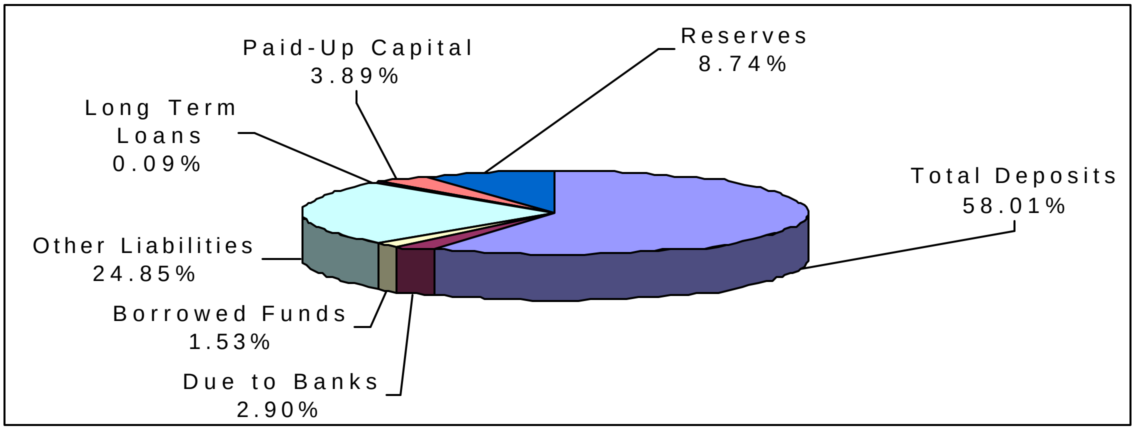


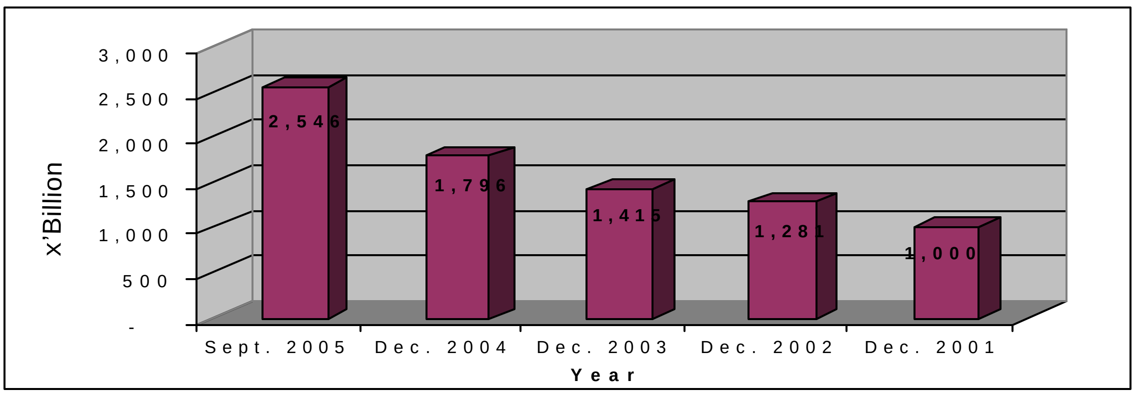
Figure 11
Composition of Liabilities in 2005



6.02 DEPOSITS AND LIQUIDITY IN BANKS

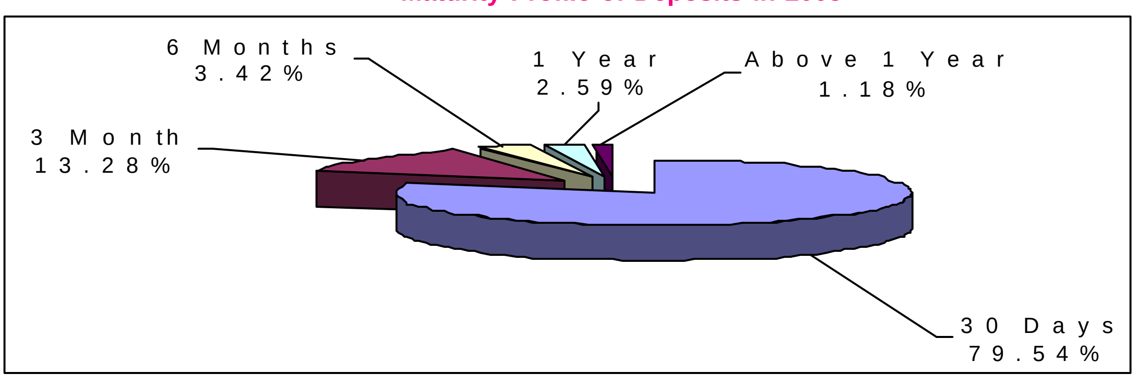
The aggregate deposits in the banking sector recorded an increasing trend from 2001 to 2005, having increased from x1 trillion in 2001 to x1.281 trillion in 2002, x1.415 trillion in 2003, x1.796 trillion in 2004 and x2.546 trillion in 2005. The above trend indicated a growth rate of 16.40 percent in 2001, 28.09 percent in 2002, 10.42 percent in 2003, 26.92 percent in 2004 and 41.78 percent in 2005.

Figure 12
Aggregate Deposits



The paucity of long-term deposits persisted in 2005. About 80 percent of the deposit of the banking sector matured within 30 days.

Figure 13
Maturity Profile of Deposits in 2005



Demand deposit still constituted the major type of deposit available to banks. It accounted for x1.19 trillion or 47 percent of the total deposit liabilities as against x800 billion or 45 percent in 2004 and x615 billion or 43 percent in 2003.

Figure 14
Composition of Deposit in 2001

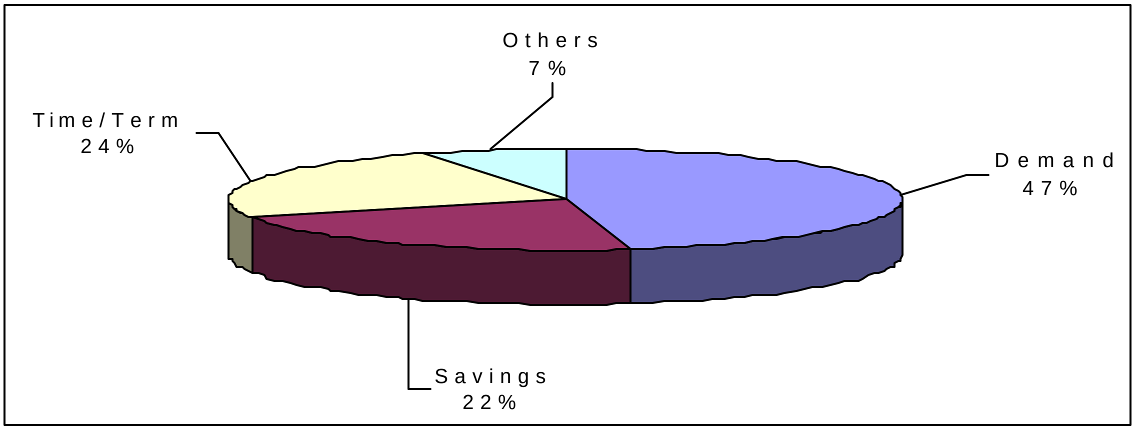


Figure 15
Composition of Deposit in 2002

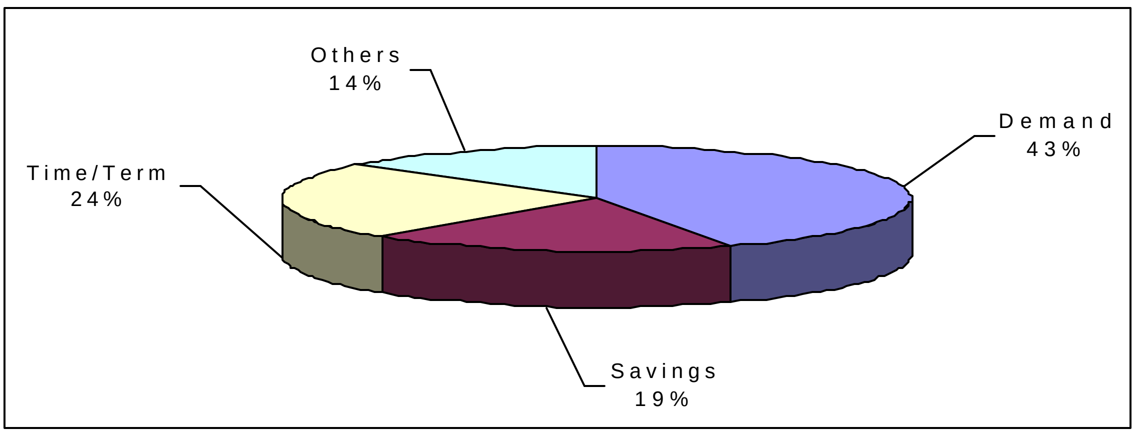


Figure 16
Composition of Deposit in 2003

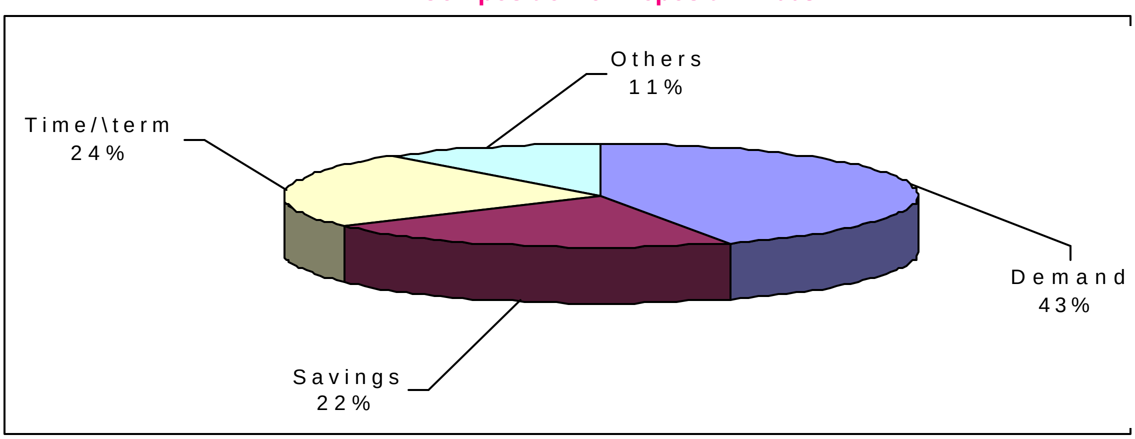


Figure 17
Composition of Deposit in 2004

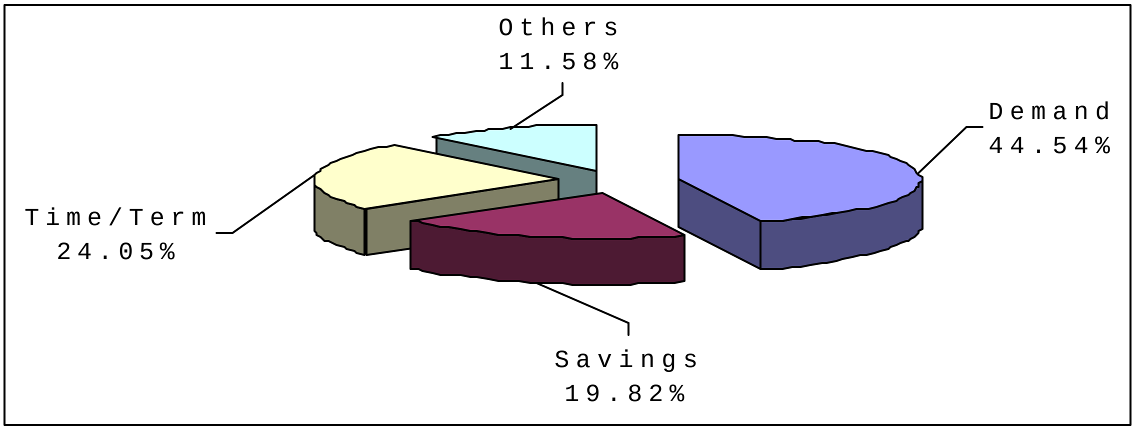
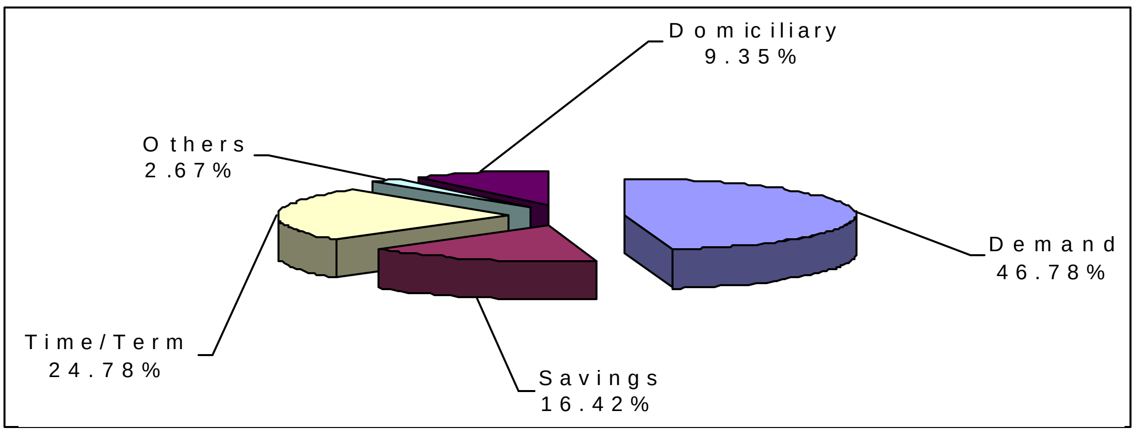
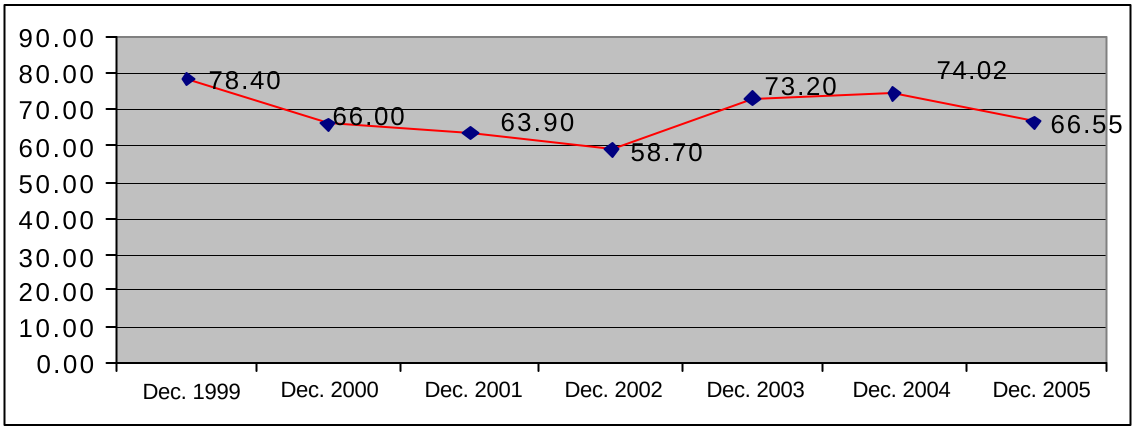


Figure 18
Composition of Deposit in 2005



The statutory minimum liquidity ratio requirement for banks remained at 40 percent during the year while the specified liquid assets, for the purpose of liquidity ratio computation for banks, were cash and due from banks, short-term government instruments, placement with discount houses and collaterized inter-bank placements. The average liquidity ratio for the industry was 41.25 percent as at September 30, 2005.

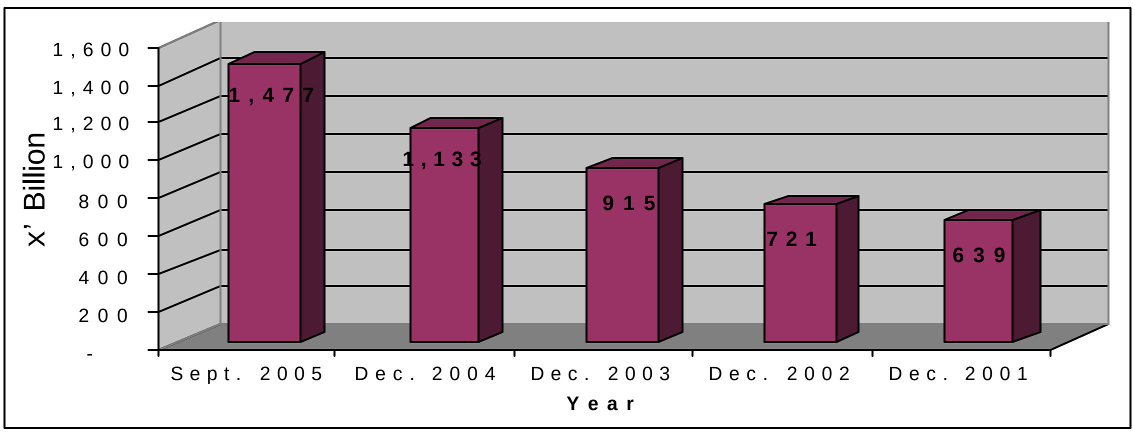
Figure 19
Aggregate Credit to Deposit (%)



6.03 ASSETS QUALITY IN BANKS

As in the previous years, loans and advances, which stood at x1.48 trillion as at September 30, 2005, and constituted 33.65 percent of the banking sector aggregate assets of x4.39 trillion, were the largest earning assets in 2005. Total credit recorded a growth rate of about 12.7 percent in 2001, 12.8 percent in 2002, 26.93 percent in 2003, 23.81 percent in 2004, and 30.32 percent in 2005.

Figure 20
Loans & Advances and Growth Rate



The assets quality of the banking sector deteriorated in 2005. The non-performing credits increased from x316 billion in 2004 to x356 billion in 2005. The ratio of non-performing credits to total credits of 24.1 percent during the review period was below the trigger level of 35 percent for setting up a Crisis Management Unit as stipulated in the Contingency Planning Framework for Systemic Distress. The ratio was, however, higher than the 20.45 percent and 21.6 percent recorded in December 2003 and 2004, respectively.

Provision for bad and doubtful debts increased from N94.2 billion in 2001 to x138.8 billion in 2002, x227 billion in 2003, x256 billion in 2004 and x282 billion in September 2005, showing annual increases of 47.3, 17.49, 12.78

and 10.16 percent, respectively. The ratio of bad debt provision to total credits increased from 11.9 percent in 2001 to 14.9 percent in 2002, 19.8 percent in 2003, 22.59 percent in 2004 and 19.09 percent in 2005.

Figure 21
Non-Performing Credit to Total Credit

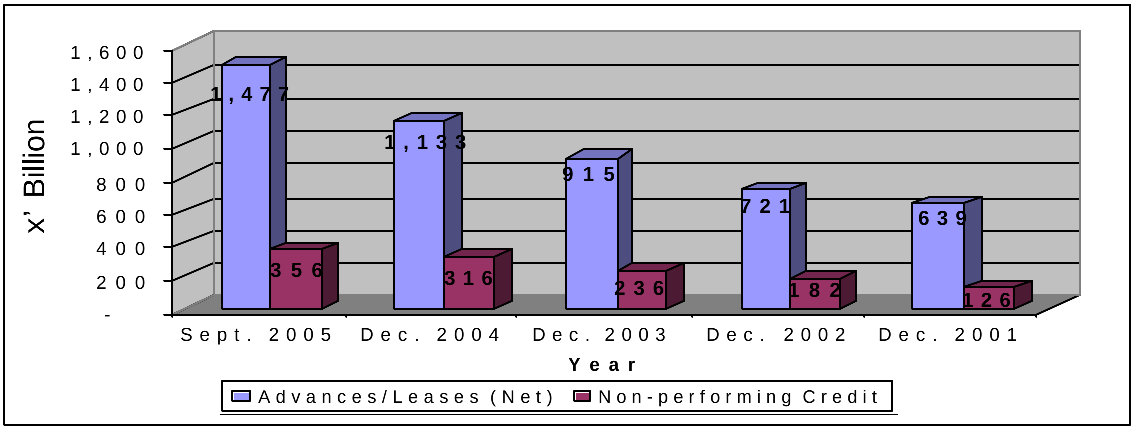
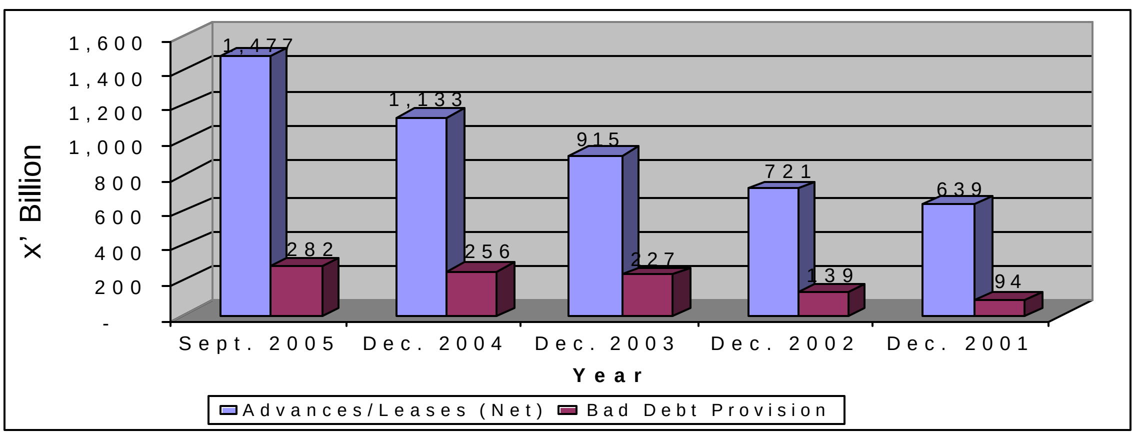


Figure 22
Bad Debt Provision to Total Credits



6.04 BANKS CAPITAL ADEQUACY

Twenty-five banks, as at the end of December 2005, met the required minimum shareholders' funds of x25 billion. Against the risk-weighted assets level of x3.05 trillion, the total qualifying capital of x543 billion, represented a capital adequacy ratio (CAR) of 17.83 percent. This position was satisfactory when compared with the required minimum CAR of 10 percent. Also, the capital adequacy ratio recorded an increase when compared with 14.17 percent recorded in December, 2004. The increase was as a result of the significant growth in operating capital

6.05 EARNINGS AND PROFITABILITY OF BANKS

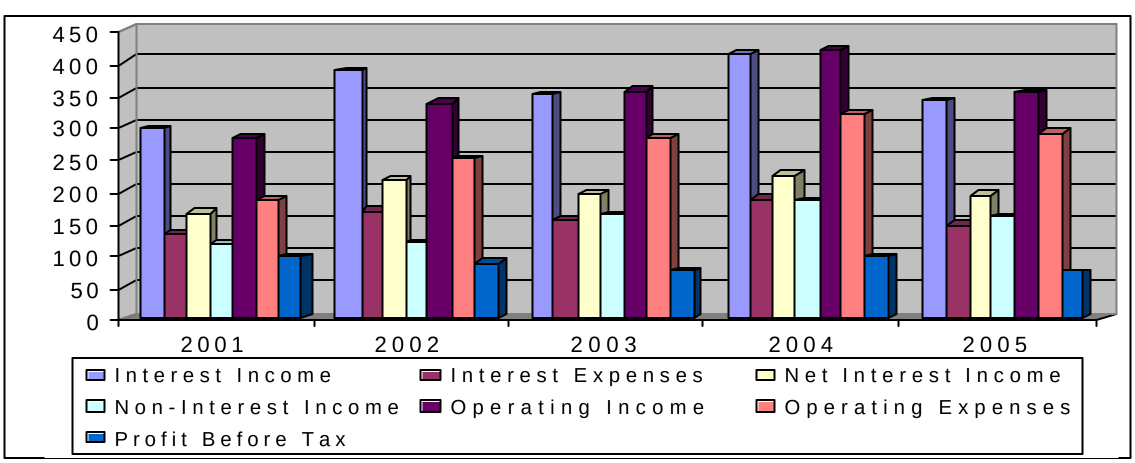
The banking industry recorded, in the first three (3) quarters of 2005, a gross income of x499 billion, net interest income of x193 billion, operating expenses of x290 billion and profit before tax of x72 billion. It, however, reported profit before tax of x96 billion in 2001, x86 billion in 2002, x74 billion in 2003 and x96 billion in 2004.

Table 2
Earnings and Profitability of Banks

	2001 Amount x billion	2002 Amount x billion	2003 Amount x billion	2004 Amount x billion	2005 Amount xbillion	Growth 2002 percent	Growth 2003 percent	Growth 2004 percent	Growth 2005 percent
Interest Income	296	386	349	412	340	30.41	-9.59	18.05	-17.48
Interest Expenses	131	168	154	188	147	28.24	-8.33	22.08	-21.81
Net Interest Income	165	218	195	224	193	32.12	-10.55	14.87	-13.84
Non-Interest Income	117	118	161	184	159	0.85	36.44	14.29	-13.59
Operating Income	282	336	356	418	352	19.15	5.95	17.42	-15.79
Operating Expenses	186	250	282	322	290	34.41	12.80	14.18	-9.94
Profit Before Tax	96	86	74	96	72	-10.42	-13.95	29.73	-25.00

Source: Banking Analysis System, CBN

Figure 23



6.06 MARKET SHARE OF TEN LARGEST BANKS

First Bank of Nigeria (FBN) Plc had the highest asset base while United Bank for Africa (UBA) Plc had the highest equity capital and deposit base in 2005, as against the position in 2004, when FBN had the largest deposit and capital base while Union Bank of Nigeria (UBN) Plc had the largest asset. The change in positioning was as a result of the merger of UBA Plc and Standard Trust Bank Limited.

The ten largest banks, ranked by their assets, held 58.42 percent of the banking system total assets and 63 percent of the industry deposit liabilities in 2005, as against 53.67 percent and 55.73 percent of assets and deposit liabilities, respectively, in the previous year. Also, their share of total credits increased slightly from 48.53 percent in 2004, to 52 percent in 2005. In terms of capitalization, the ten big banks controlled 59 percent as against 60.97 percent in 2004.

Table 3
Market Share of Ten Largest Banks

	BANK	Total Assets x' billion	Market Share Percent	Capital & Reserves x' billion	Market Share Percent	Total Deposit x' billion	Market Share Percent	Total Credit x' billion	Market Share Percent
1	First Bank of Nigeria Plc	438	9.98	44.68	8.05	291	11.43	200	10.15
2	United Bank for Africa Plc	419	9.55	46.84	8.44	292	11.47	96	4.87
3	Zenith International Bank Ltd	413	9.41	37.79	6.81	281	11.04	176	8.93
4	Union Bank of Nigeria Plc	333	7.59	39.11	7.05	162	6.36	127	6.45
5	Oceanic Bank International Plc	214	4.88	26.42	4.76	149	5.85	80	4.06
6	Intercontinental Bank Plc	206	4.69	32.15	5.79	136	5.34	97	4.92
7	Guaranty Trust Bank Plc	200	4.56	35.10	6.32	117	4.60	80	4.06
8	Diamond Bank Ltd	137	3.12	20.71	3.73	71	2.79	63	3.20
9	Afribank Nigeria Plc	107	2.44	21.41	3.86	63	2.47	47	2.39
10	Wema Bank Plc.	97	2.21	23.41	4.22	39	1.53	61	3.10
	Total	**2,564**	**58.42**	**327.62**	**59.03**	**1,601**	**63**	**1,027**	**52**
	Industry	**4,389**	**100.00**	**554.52**	**99.91**	**2,546**	**100.00**	**1,970**	**100.00**

Source: Banking Analysis System, CBN

Figure 24

Market Share of Assets by the Ten Largest Banks in Nigeria in 2005

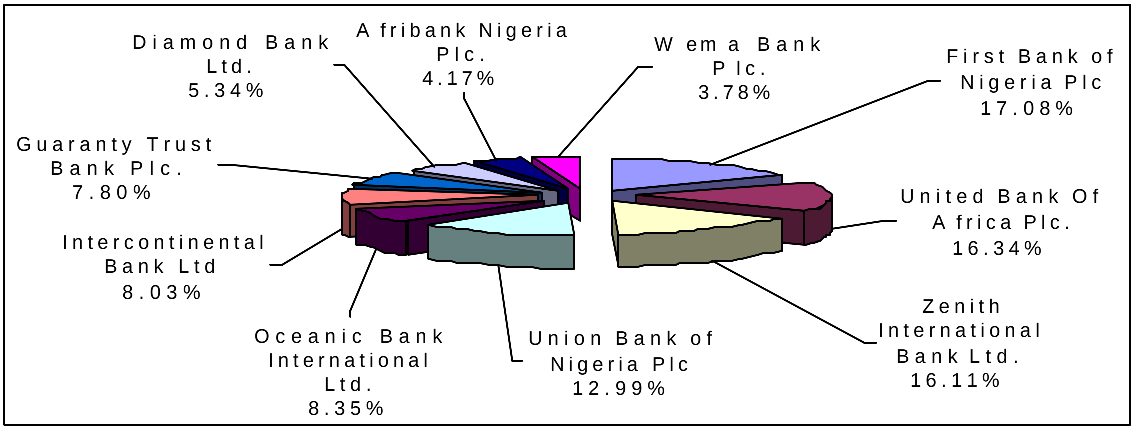


Figure 25

Market Share of Deposit Liabilities by the Ten Largest Banks in Nigeria in 2005

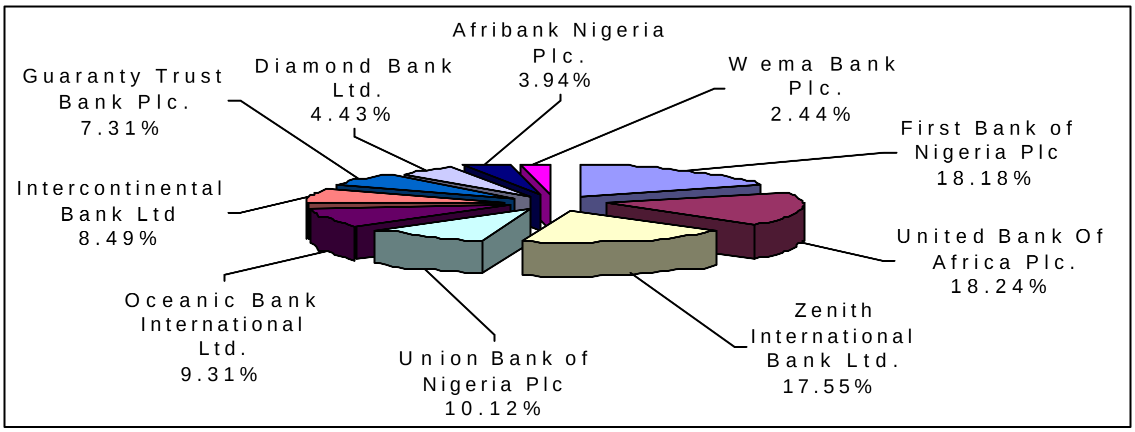
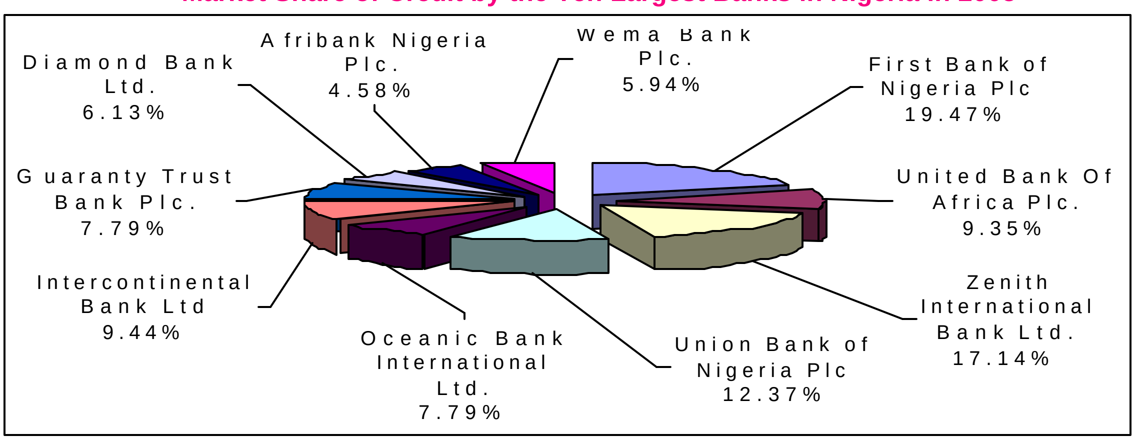


Figure 26

Market Share of Credit by the Ten Largest Banks in Nigeria in 2005



The liquidity ratio of the top ten banks in 2005 ranged between 39 percent and 89 percent.

Figure 27
Market Share of Total Unimpaired Capital by the Ten Largest Banks in Nigeria in 2005

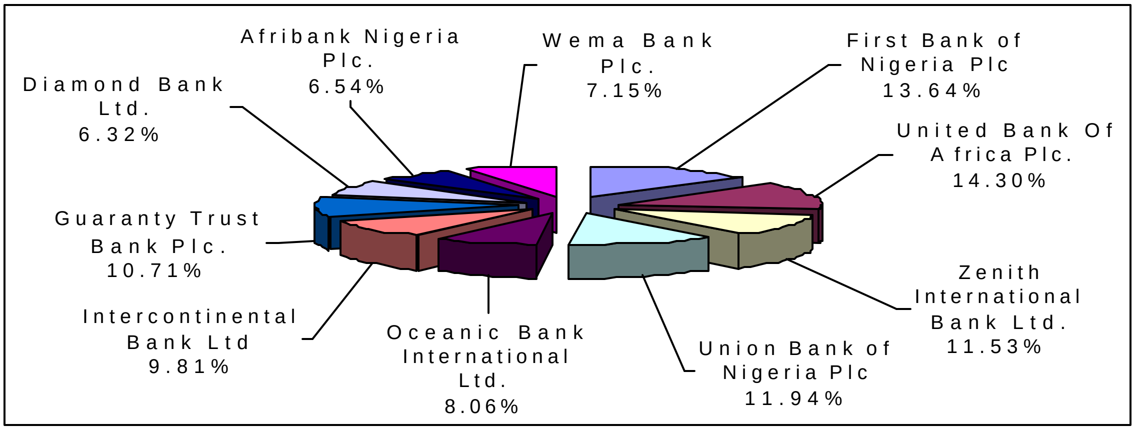
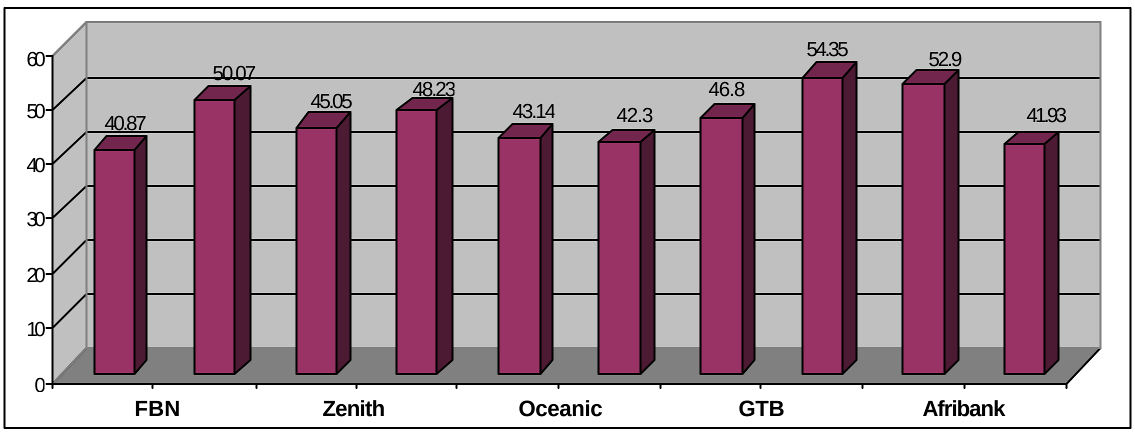


Figure 28
Liquidity Ratio of the Top Ten Largest Banks In Nigeria In 2005



6.07 EFFICIENCY OF OPERATIONS IN BANKS

Generally, the efficiency of the banking industry declined in 2005. The table below shows the various ratios, which measure the operating efficiency of the banks.

Table 4
Efficiency of Nigerian Banks in 2001 to 2005

Efficiency Measures	2001	2002	2003	2004	2005
Net Interest Margin	55.74	56.48	55.87	54.37	5.59
Yield on Earnings Assets	9.10	6.42	4.74	14.17	9.85
Return on Assets	4.73	3.47	2.67	3.12	1.85
Return on Equity	55.81	36.60	25.52	27.35	12.97
Efficiency Ratio	65.96	49.60	49.02	77.03	39.97

Source: Bank Analysis System

In terms of pricing and yield on earnings assets, the banking industry recorded a ratio of 9.85 percent in 2005 as against 14.17 percent in 2004. The banking industry also recorded a very low return on assets and equity to the tune of 1.85 percent and 12.97 percent, respectively in 2005.

Figure 29
Pricing and Yield on Earning Assets of Banks

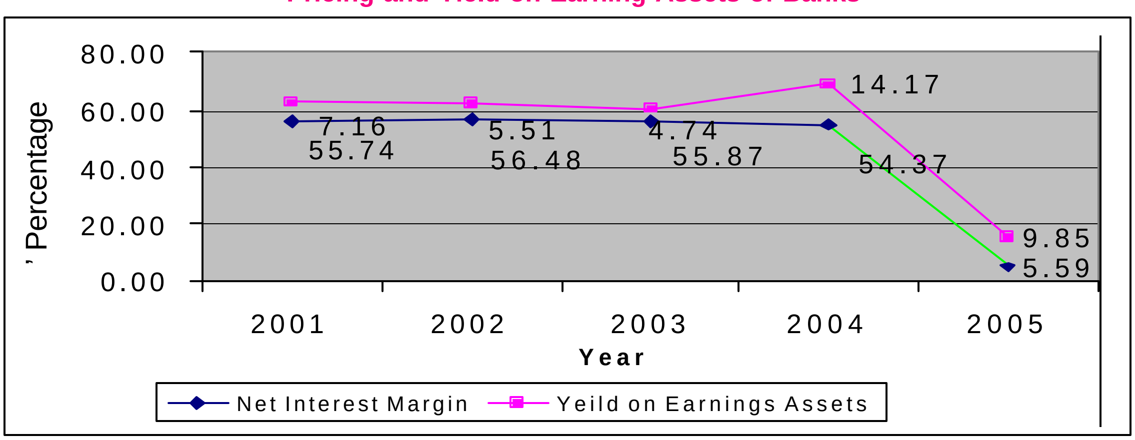
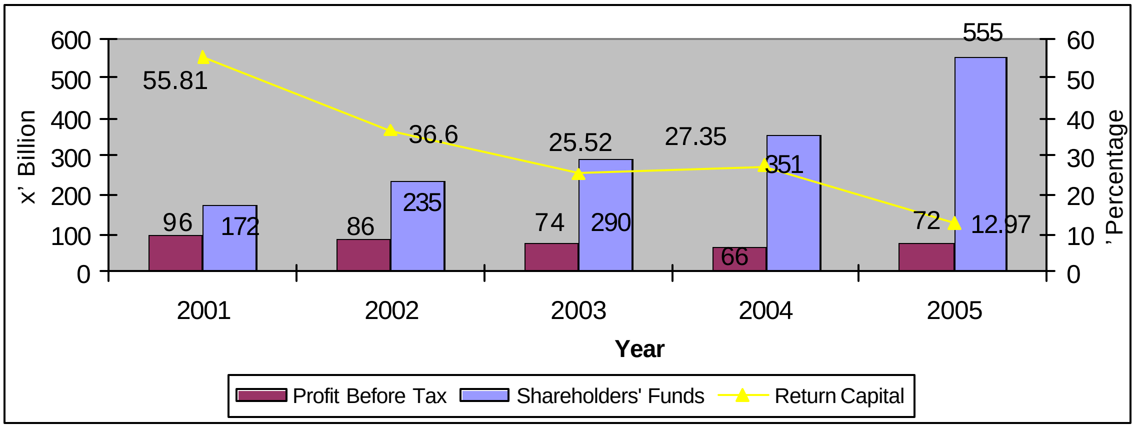
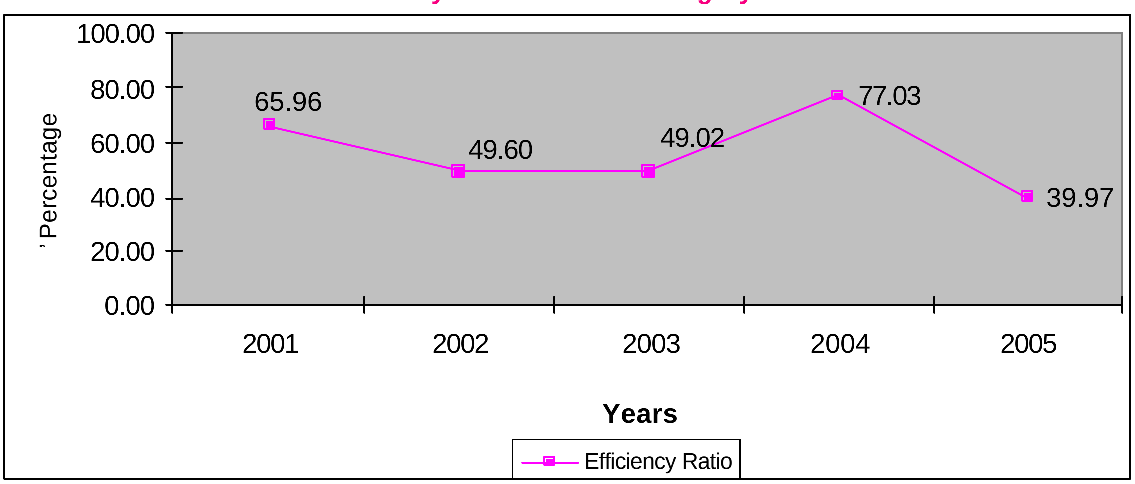


Figure 30
Return on Capital Employed



In terms of cost efficiency, the banking industry recorded relatively satisfactory performance in 2005. The efficiency ratio, which is a measure of operating expenses against operating income, was 39.97 percent for the year under review as against 77.03 percent in 2004.

Figure 31
Efficiency Ratio of the Banking System



6.08 TRENDS IN OTHER FINANCIAL INSTITUTIONS

The effort of the CBN at ensuring better supervision of OFIs yielded appreciable improvement in 2005. The operations of the sub-sector recorded a marginal growth during the year, details of which are highlighted below:

Community Banks (CBs)

The number of CBs that rendered statutory returns during the year rose by 17.9 percent, from 615 in 2004 to 725 in 2005. This increase was largely due to the implementation of approved sanctions and penalties for non-rendition of returns.

The total assets of the reporting CBs increased from ₦34.16 billion in 2004 to ₦82.87 billion in 2005, representing an increase of ₦48.7 billion or 142.6 percent over the level in 2004. Shareholders' funds of the banks increased by ₦9.95 billion or 122.0 percent to ₦18.11 billion, while loans and advances also increased by ₦17.15 billion or 151.1 percent to ₦28.5 billion. Investments, which amounted to ₦2.61 billion in 2004, rose to ₦3.59 billion in 2005.

The sectoral analysis of total loans and advances showed that Other Loans and Advances continued to dominate the lending portfolio. While these accounted for ₦23.75 billion or 83.3 percent of the total loans and advances, Transport and Communication accounted for ₦2.8 billion or 9.3 percent, Trade and Commerce ₦1.59 billion or 5.6 percent, Real Estate & Construction ₦214.8 million or 0.8 percent, while the balance of ₦149.5 million or 0.5 percent went to Agriculture & Forestry, Manufacturing & Food Processing and Mining & Quarrying. The average loans/deposit ratio increased from 53.0 percent in 2004 to 60.0 percent in 2005 indicating an increase in the extension of credits.

Primary Mortgage Institutions (PMIs)

Forty-five PMIs were confirmed to have met the minimum capital requirement of x100 million as at December, 2005, as against 34 recorded in 2004, representing an increase of 32.4 percent. Seventy-six PMIs rendered returns in December, 2005. Of this number, 15 complied with the minimum mortgage assets to total assets ratio of 30.0 percent, 55 met the minimum liquidity ratio of 20.0 percent, while 66 exceeded the prescribed capital adequacy ratio of 10.0 percent.

A review of the activities of PMIs indicated that the institutions maintained a steady growth in their operations during the year. The total assets of the sub-sector, which stood at x81.2 billion in 2004, rose by 23.1 perent to x99.98 billion in 2005. Investible funds available to the institutions totaled x19.88 billion compared with x19.56 billion in 2004. The funds were sourced mainly from deposit liabilities (x13.22 billion) and capital and reserves (x1.53 billion). The accrued funds were used to expand bank balances (x11.84 billion), loans and advances (x2.14 billion) and other assets (x4.47 billion) (see table 7).

Finance Companies (FCs)

Eighty-one FCs rendered returns in 2005, compared with 77 in 2004. The total assets of the FCs, which stood at x37.46 billion in 2005, showed an increase of 8.57 percent as against x34.5 billion in 2004. Investible funds which accrued to the FCs in the year amounted to ₦10.78 billion. The funds were sourced mainly through reduction in their equipment lease (x3.55 billion), an increase in reserves (x394.6 million) and a growth in total borrowings (x1.4 billion). The inflows were utilized to fund loans and advances (x5.24 billion), amongst others (see table 8).

Bureaux de Change (BDCs)

The activities of the bureaux de change sub-sector in 2005 were not significantly different from those of 2004. As in the previous year, only 126 of the 293 existing BDCs reported on their activities to the CBN. During the year, two additional BDCs were cleared to participate in the purchase and sale of Travellers' Cheques, bringing the total number cleared to participate to 26 from 24 in 2004.

Development Finance Institutions (DFIs)

On-site examinations were carried out on four DFIs within the year, namely, Nigerian Agricultural Co-operative and Rural Development Bank, Federal Mortgage Bank of Nigeria, Bank of Industry and Nigerian Export/Import Bank.

Table 5
Assets And Liabilities Of Community Banks
As At 31st December, 2005

ASSETS	DEC 2005 x'000	%	DEC 2004 x'000	%	VARIANCE	% CHANGE
Cash	1,619,672	2.0	962,750	2.8	656,922	68.23
Balance with Banks	17,567,745	21.2	5,033,261	14.7	12,534,484	249.03
Placements with Other Banks	12,659,724	15.3	9,229,503	27.0	3,430,221	37.17
Investments	3,594,136	4.3	2,612,690	7.6	981,446	37.56
Net Loans and Advances	28,504,769	34.4	11,353,827	33.2	17,150,942	151.06
Equipment Lease	-	0.0	8,288	0.0	(8,288)	-100.00
Fixed Assets	4,552,814	5.5	3,023,500	8.9	1,529,314	50.58
Other Assets	14,368,078	17.3	1,938,498	5.7	12,429,580	641.20
TOTAL ASSETS	82,866,938	100.0	34,162,317	100.0	48,704,621	142.57
FINANCED BY:						
Paid-up Capital	13,379,575	16.1	4,563,922	13.4	8,815,653	193.16
Reserves	4,505,149	5.4	2,185,526	6.4	2,319,623	106.14
Published Current Year Profit/(Loss)	222,571	0.3	1,407,001	4.1	(1,184,430)	-84.18
Shareholder's Fund	18,107,295		8,156,449		9,950,846	122.00
Placements from Other Banks	546,887	0.7	129,685	0.4	417,202	321.70
Deposits	47,523,670	57.3	21,407,885	62.7	26,115,785	121.99
Long Term Loans	94,454	0.1	100,583	0.3	(6,129)	-6.09
Other Liabilities	16,594,632	20.0	4,367,715	12.8	12,226,917	279.94
TOTAL LIABILITIES	82,866,938	100	34,162,317	100.0	48,704,621	142.57

Source: Audited Accounts

Figure 32
Assets And Liabilities Of Community Banks As At 31st December, 2005

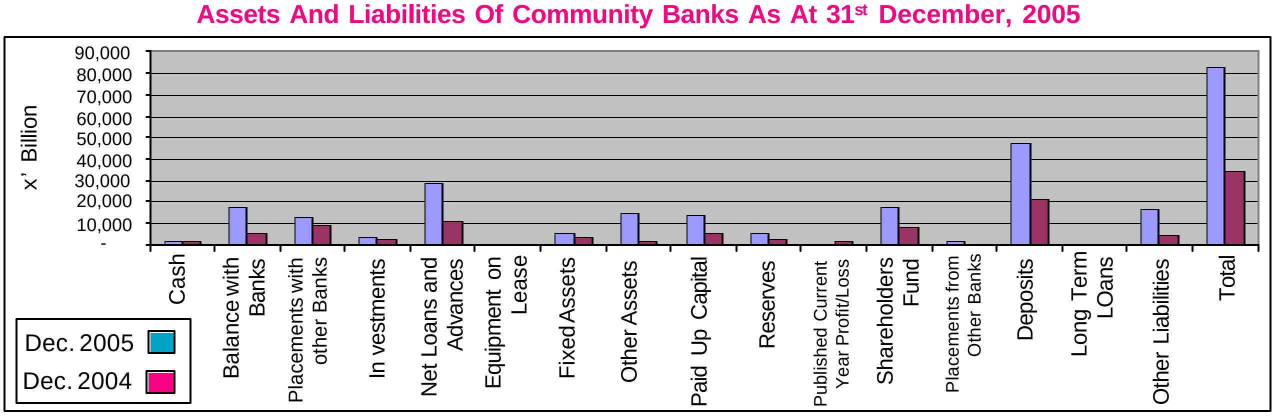


Table 6
Sectoral Analysis Of Loans And Advances Of Community Banks
As At 31st December, 2005

SECTOR	DECEMBER 2005 x'000	DECEMBER 2004 x'000
Agriculture and Forestry	69,915	483,079
Mining and Quarry	14,723	510,633
Manufacturing and Food Processing	64,861	331,825
Trade and Commerce	1,591,929	2,875,332
Transport and Communication	2,795,120	1,088,147
Real Estate and Construction	214,809	279,217
Others	23,753,412	5,785,594
TOTAL	**28,504,769**	**11,353,827**

Table 7
Assets And Liabilities Of Primary Mortgage Institutions
As At 31st December, 2005

ASSETS	DEC. 2005 x'000	PERCENT	DEC. 2004 x'000	PERCENT	VARIANCE x'000	PERCENT CHANGE
Cash	785,993	0.8	447,006	0.6	338,987	75.8
Balance with Banks	58,581,571	4.5	46,739,109	41	11,842,462	25.3
Loans and Advances	22,473,750	22.5	20,333,438	25	2,140,312	10.5
Other Assets	12,131,850	12.1	7,660,549	9.4	4,471,301	58.4
Fixed Assets	6,007,175	6	6,022,103	7.4	(14,928)	-0.2
TOTAL	99,980,339	45.9	81,202,205	83.4	18,778,134	23.1
FINANCED BY:						
Paid-up Capital	10,071,062	10.1	8,185,616	10.1	1,885,446	23.0
Reserves	1,670,753	1.7	2,026,554	2.5	(355,801)	-17.6
Current Year Profit/Loss	(140,101)	-0.1	254,499	0.3	(394,600)	-155.0
Shareholder's Fund	11,601,714		10,466,669		1,135,045	10.8
Deposits	72,330,376	72.3	59,114,805	72.8	13,215,571	22.4
Placements from Banks	1,000,833	1	1,337,893	1.6	(337,060)	-25.2
Long Term Loans/NHF Facilities	4,723,578	4.7	1,433,253	1.8	3,290,325	229.6
Other Liabilities	10,323,838	10.3	8,849,585	10.9	1,474,253	16.7
TOTAL	99,980,339	100	81,202,205	100	18,778,134	23.1

Figure 33
Assets And Liabilities Of Primary Mortgage Institutions As At 31st December, 2005

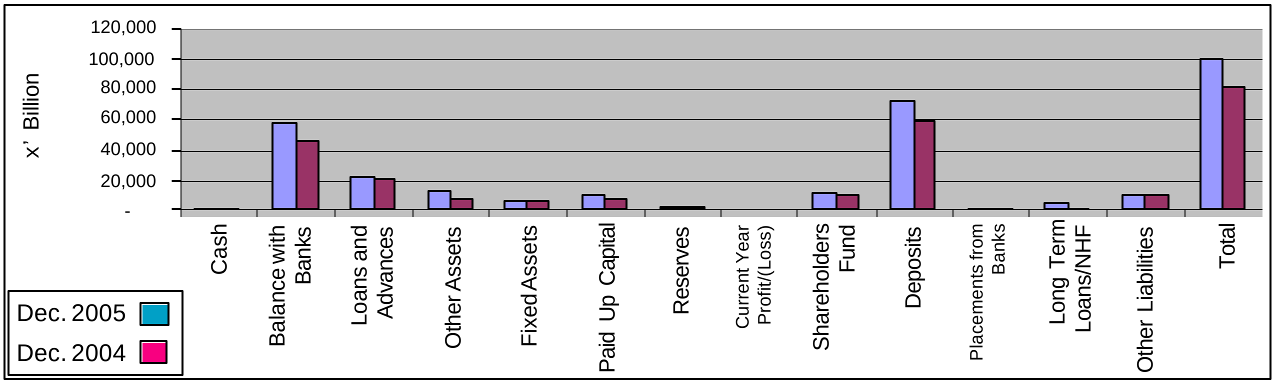
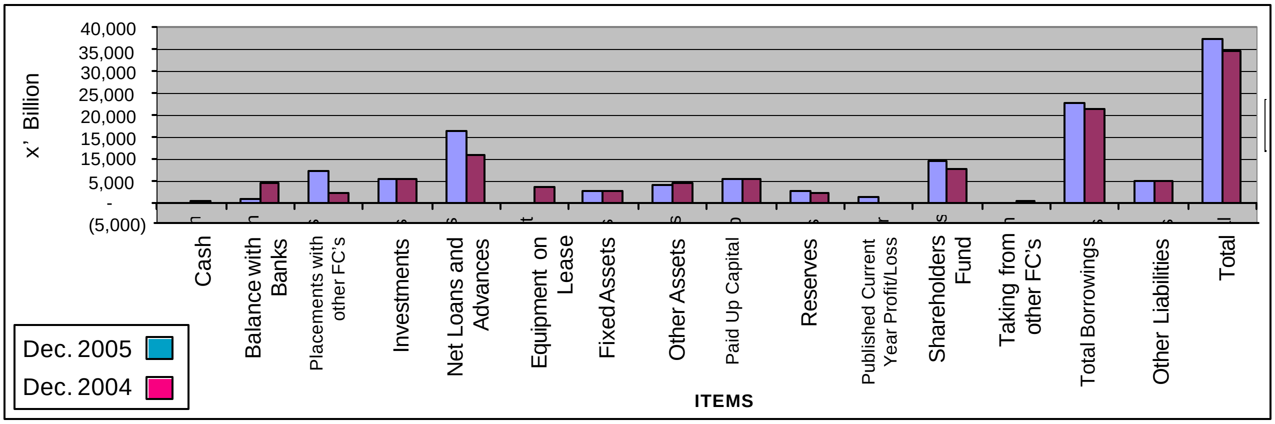


Table 8

Assets And Liabilities Of Finance Companies As At 31st December, 2005

ASSETS	DEC. 2005 x'000	PERCENT	DEC. 2004 x'000	PERCENT	VARIANCE x'000	PERCENT CHANGE
Cash	60,618	0.2	220,193	0.6	(159,575)	-72.47
Balance with Banks	1,084,537	2.9	4,471,290	13.0	(3,386,753)	-75.74
Placements with other FC's	7,431,038	19.8	2,455,364	7.1	4,975,674	202.65
Investments	5,756,398	15.4	5,488,867	15.9	267,532	4.87
Net Loans and Advances	16,251,347	43.4	11,008,958	31.9	5,242,389	47.62
Equipment on Lease	-	0.0	3,552,544	10.3	(3,552,544)	-100.00
Fixed Assets	2,801,393	7.5	2,688,978	7.8	112,415	4.18
Other Assets	4,075,381	10.9	4,618,399	13.4	(543,018)	-11.76
TOTAL ASSETS	**37,460,713**	100.0	34,504,592	100.0	(2,956,121)	8.57
FINANCED BY:						
Paid-up Capital	5,456,107	14.6	5,461,269	15.8	(5,162)	-0.09
Reserves	2,853,305	7.6	2,458,664	7.1	394,641	16.05
Published Current Year Profit/Loss	1,177,197	3.1	(161,843)	-0.5	1,339,040	-827.37
Shareholder's Fund	9,486,609		7,758,090		1,728,519	22.28
Taking from other FC's	-		145,128	0.4	(145,128)	-100.00
Total Borrowings	22,797,506	60.9	21,394,218	62.0	1,403,288	6.56
Other Liabilities	5,176,598	13.8	5,207,156	15.1	(30,558)	-0.59
TOTAL LIABILITIES	**37,460,713**	100	34,504,592	100.0	2,956,121	8.57

Figure 34
Assets And Liabilities Of Finance Companies
As At 31st December, 2005



Chapter Seven

CAPACITY BUILDING FOR SUPERVISION

1.01 TRAINING AND DEVELOPMENT

The CBN continued to accord priority to the training of its bank supervisors in order to update their skills in modern techniques of supervision.

Local Training

Series of courses were held in 2005, for bank supervisors. The four modules of the Bank Examiners' courses, Foundation, Levels I, II and III, were held, with a total of 291 participants. Of the number, 235 were from the CBN while the remaining 56 were drawn from the NDIC, NAICOM, NSE, FMBN, SEC and The Gambia.

Supervisors were also exposed to other local courses, seminars and workshops on consolidation, mergers and acquisitions, anti-money laundering and corporate governance. Worthy of mention, is the seminar organised by the CBN in collaboration with J.P. Morgan and HSBC, where pertinent issues on mergers and acquisitions were presented. This seminar was most auspicious given the banking sector reform embarked upon by the CBN.

As part of the efforts at building needed capacity for the regulation and supervision of emergent microfinance banks, the CBN, in collaboration with the USAID/PRISMS and GTZ-EoPSD organised a two-week course on the general principles of microfinance. A train-the-trainers module was also incorporated in the course to create a pool of potential trainers in microfinance within the CBN. Thirty supervisors attended the course.

Overseas Training

Twenty-nine members of staff attended courses in The Gambia, Sierra Leone, Republic of South Africa, U.K, Canada and USA in 2005. Fifteen supervisors attended the four courses organised by FDIC, USA namely, Examination Management, Loan Analysis, Financial Institutions Analysis and Introduction to Examination.

Six members of staff participated in the Office of the Superintendent of Financial Institutions (OSFI) and Toronto International Leadership Centre training programmes in Canada. Topics presented included consolidated supervision, arresting systemic crisis, legal and regulatory frameworks, corporate governance and risk-based supervision.

The CBN would sustain its efforts at capacity-building for bank supervisors in order to adequately equip them to cope with the increasing supervisory challenges.

Appendices

Appendix 1

Circulars

09 – 61636403
09 – 61636418

January 4, 2005

BSD/01/2005

CIRCULAR TO ALL BANKS

GLOBAL TERRORISTS : AL – FAQIH AND BATTERJEE

Further to our circulars on Anti-Money Laundering/Counter Terrorism Financing (AML/CTF), the two organizations stated above have been reported by the US Government to be involved in financing global terrorism.

Accordingly, we request you to please confirm within seven (7) days to the undersigned, the existence of accounts operated in your institution(s) in the names of the organizations and persons/entities related to them.

As usual, where accounts are not maintained for any of the organizations, persons/entities related to them, a NIL return should be submitted.

Thank you.

I.D. ABDULLAHI
For: DIRECTOR OF BANKING SUPERVISION

09-616-36403
09-616-36418

January 26, 2005

BSD/02/2005

CIRCULAR TO ALL BANKS:

EXTENSION OF THE PERIOD FOR SUBMITTING SCHEDULE OF ALLOTMENT

Further to the CBN circular Ref: BSD/G2/DD/Circ of November 4, 2004, on the above subject, and following the approval of the Securities and Exchange Commission (SEC) for an additional one (1) week in respect of the on-going re-capitalization, banks are hereby advised as follows:

- Banks should instruct Receiving Agents and Stockbrokers through whom payments are made for their shares to submit photocopies of the payment instruments, and a schedule containing the particulars of the subscribers to the issuing Houses not later than two (2) weeks from the close of the offer.

- Banks should also instruct the Registrar(s) to the offer to forward to the Director of Banking Supervision the master list of subscribers to the offer not later than four (4) weeks from the close of the offer.

- The issuing Houses are to collate the photocopies of payment instruments and a schedule containing the particulars of the subscribers submitted to them by Receiving Agents and Stockbrokers and forward them to the Director of Banking Supervision not later than four (4) weeks after the close of the offer.

- Banks are to ensure that both the Receiving Agents/Stockbrokers and issuing Houses comply with these guidelines so as to enable the CBN carry out capital verification on the payments for the shares and notify both the bank and the SEC within the seven weeks after the close of the offer.

- Any payment for shares that is not conclusively verified by the CBN Examiners during the period will be rejected and SEC will be notified accordingly.

O. I. IMALA
DIRECTOR OF BANKING SUPERVISION

09-616-36403
09-616-36418

February 1, 2005

BSD/03/2005

CIRCULARS TO ALL BANKS:

THE UNPROFESSIONAL ROLES OF BANKS IN FUNDS TRANSFER

In recent times the media has been replete with stories of unprofessional activities by banks in facilitating the movement of criminally acquired funds.

The release of the Know Your Customer (KYC) Guidelines and Manual Ref: BSD/DO/CIR/VOL.I/01/24 of November 28, 2001 and BSD/14/2002 of December 19, 2002 respectively by the CBN, was intended to guide banks in ensuring that they were not used as conduits for moving such funds. Furthermore, the reports of the CBN examiners on several '419' and other irregular transfer cases had led to the imposition of penalties on the affected banks, to serve as a deterrent.

The reports of the unprofessional rates of banks in the 'bad business' is increasing becoming embarrassing to the industry and should be totally checked.

While it is expected that the on-going consolidation and the strengthening of the capital base of the banks will lead to sound, more professional and better managed institutions, all the operators in the industry are hereby advised in their own interest to diligently review their processes in total compliance with the KYC guidelines and manuals referred to above.

They are also advised to note that the CBN Governor's special e-mail address (governor@cenbank.org) for capturing information on malpractices by banks is still available to the public. Only the Governor of CBN has access to this web address, and information sent to it is treated with utmost confidentiality.

The Chairmen, Board members and Chief Executives of the banks, in line with their oversight functions, are therefore advised to take these matters very seriously as they will not be spared if their institutions are found to have been used as vehicles for the transfer of proceeds of crime.

O. I. IMALA
DIRECTOR OF BANKING SUPERVISION

09-61636403
09-61636418

February 18, 2005

BSD/04/2005

CIRCULAR TO ALL BANKS

DESIGNATED GLOBAL TERRORISTS, SULAYMAN KAHUD DAKWISH & MAJID ABU SAMIYA (A.K.A FADHLI)

Further to our circulars on Anti-Money Laundering/Counter Terrorism Financing (AML/CTF), the organizations named DARWISH otherwise known as Sulayman Khalid **DARWISH and Abu Samiya FADHLI (otherwise known as FADHLI)** have been designated by the US Government as global terrorists.

Accordingly, we request you to please confirm within seven (7) days to the undersigned, the existence of accounts operated in your institution(s) in the name of the above mentioned organization and persons/entities related to them.

As usual, where accounts are not maintained for the two organizations, persons/entities related to them, a NIL return should be submitted.

Thank you.

I. D. ABDULLAHI
For: DIRECTOR OF BANKING SUPERVISION

09-61636403
09-61636418

March 15, 2005

BSD/05/2005

CIRCULAR TO ALL BANKS

STAFF SHARE ACQUISITION LOAN SCHEME

Following the recent CBN policy pronouncement on bank consolidation, there has been a flurry of activities by banks in the capital market to raise funds especially through Initial Public Offer, Rights Issue and Private Placement.

Associated with these efforts are the attempts by some banks to ensure that their staff benefit from the share issues through the creation of staff share acquisition loan scheme.

However, recent field experience from the capital verification exercise has revealed the need to streamline the operation of the scheme by banks. In this regard banks are required to adhere strictly to the following guidelines:

1) Banks should have a clear and properly documented staff share acquisition loan policy/scheme approved by the CBN.

2) The aggregate value of the shares to be sold to staff under the scheme should not exceed 10% of the total shares on offer (Public Offer, Rights Issue and/or Private Placement) at any point in time.

3) Total value of shares to be sold to qualified individual staff should not exceed 10% of the total shares on offer or x10million, whichever is lower.

This Circular takes immediate effect.

O. I. IMALA
DIRECTOR OF BANKING SUPERVISION

09-61636403
09-61636418

BSD/06/2005

March 30, 2005

CIRCULAR TO ALL BANKS

REVISED PROCEDURES MANUAL FOR PROCESSING APPLICATION FOR MERGERS/TAKEOVERS

Further to our circular reference number bsd/15/2004 of December 20, 2004, the Central Bank of Nigeria has issued a **revised procedures manual** for processing applications by banks for mergers and takeovers. The new manual is available on the website of the CBN (www.cenbank.org/documents/bsdpublications.asp).

Attention is particularly drawn to the following paragraphs:

3.1 & 3.2	Definition of merger and takeover
6.1 & 6.2	Timelines for processing and conveying approvals
7.1 – 7.4	Documentary requirements
9.4.3	Final approval process

If any problem is encountered in downloading the document, please contact bankconsohelpdesk@cenbank.org or webmaster@cenbank.org.

O. I. IMALA
DIRECTOR OF BANKING SUPERVISION

09-61636405/61635439

09-61636418/61635441

March 31, 2005

BSD/DO/07/05

CIRCULAR TO ALL BANKS

TIME LINES AND RENDITION OF MONTHLY RETURNS ON BANK CONSOLIDATION

Further to our circular Ref: BSD/14/2004 of December 9, 2004, on "Submission of Detailed Plan of Action for Bank Consolidation/ Recapitalization Programme", you are hereby advised of the components of the consolidation events which should be concluded before the end of year 2005 as follows:

i. Pre-Merger Consent by April 2005
ii. Approval-in-principle by August 2005
iii. Final Approval by October 2005

Consequently, the attached format is forwarded to enable you submit to the Director of Banking Supervision, Central Bank of Nigeria, Abuja monthly returns of your consolidation activities. Such returns are to be submitted five (5) days after the end of each reporting month starting with April, 2005.

All banks are enjoined to strictly comply, please.

O. I. IMALA
DIRECTOR OF BANKING SUPERVISION

09-61636403
09-61636418

April 11, 2005

BSD/08/2005

CIRCULAR TO ALL BANKS AND OTHER FINANCIAL INSTITUTIONS

KNOW YOUR CUSTOMER MANUAL (KYCM) FOR BANKS AND OTHER FINANCIAL INSTITUTIONS IN NIGERIA – REPORTING OF SUSPICIOUS TRANSACTIONS TO ECONOMIC AND FINANCIAL CRIMES COMMISSION (EFCC)

In view of the continued efforts to achieve a robust regime for Anti Money Laundering (AML) and other economic crimes in the country, it has become imperative to remind operators to adhere strictly and faithfully to all the provisions and requirements of the Money Laundering (prohibition) Act, 2004 and the “Know Your Customer” (KYC) directives/manual, especially as they relate to the reporting of unusual or suspicious transactions.

In this regard, all financial institutions are particularly required to:

- Examine and record all complex and unusual or suspicious transactions;

- Forward all Suspicious Transactions Reports (STRs) and other related investigation Reports to **ONLY** the Economic and Financial Crimes Commission (EFCC)/Nigeria Financial Intelligence Unit (NFIU) in compliance with the provision of Section 6(1-3) of the Money Laundering Prohibition Act 2004. The practice whereby such Reports are equally forwarded to the CBN and NDLEA should be discontinued forthwith.

Directors, managements, and internal auditors of all financial institutions as well as their compliance offices are to note that failure to ensure strict compliance with the above will attract the penalties stipulated in Section 6(9) of Money Laundering Act, 2004 and section 44(2) (d) of BOFIA 1991 as amended.

O. I. IMALA
DIRECTOR OF BANKING SUPERVISION

CENTRAL BANK
OF NIGERIA

09 616 36403
09 616 36418

BSD/11/05

June 13, 2005

CIRCULAR TO ALL LICENSED BANKS

GOVERNMENT INVESTMENT IN BANKS

Prior to the systemic distress of the early 90s, government ownership of banks was a common feature of the Nigerian banking system. This has been reduced to a negligible level through various reform programmes over the years. In recent times however, there has been a resurgence of government interest in bank investment especially by state governments. This development is unsettling as it has the potential of scuttling the objective of the current banking sector consolidation exercise for a number of reasons:

i. There is the need to install good corporate governance in banks in the post consolidation era which is usually not properly observed in government owned establishments. Good corporate governance requires a board that is independent and would not sacrifice good business judgment on the altar of political exigency or patronage.

ii. The application of the fit and proper person criterion will disqualify some state governments who have proved themselves to be bad debtors in the system. Although exposures to governments are supposed to be risk free, experience in Nigeria has shown otherwise. In the systemic distress in the early 1990s, the Nigerian banking system suffered a loss in lending to government to the tune of about x5billion.

iii. Government owned banks pose additional problem in failing institutions management because of their political clout which may inhibit the implementation of the zero tolerance policy.

Consequently, all banks are to note for strict compliance that henceforth:

i. Investment by governments, either directly or indirectly, shall not be more than 10% in any bank.

ii. Where a government investor already holds more than 10% it should not exceed its current percentage holding.

iii. Furthermore such government holding should be reduced to not more than 10% by the end of 2007.

iv. For the avoidance of doubt, the aggregate shares that are held by **all governments** in any bank must not exceed 10% of total shareholding of such bank.

O. I. IMALA
DIRECTOR OF BANKING SUPERVISION

09-616-36403
09-616-36418

June 28, 2005

BSD/12/2005

CIRCULAR TO CHAIRMEN OF BANKS

PRESERVATION OF BANKS' ASSETS

Further to our circular referenced BSD/10/2004, dated August 23, 2004, ON THE NEED FOR THE PRESERVATION OF BANKS' ASSETS, it has become necessary to draw your attention to the observed disregard of the instructions contained in the said circular by some banks.

Your attention is further drawn to the provision of Section 20(2)(f) of Banks and Other Financial Institutions Act (BOFIA) and the relevant sections of the Economic and Financial Crimes Commission and Filed Banks Acts. You are accordingly reminded to always seek the CBN approval in writing before any disposals, sales and transfers of any of the bank's assets.

The CBN will hold you liable for appropriate sanctions, including prosecution under the Economic and Financial Crimes Commission (EFCC) Acts, 2004 as well as the Failed Banks (Recovery of Debts) and Financial Malpractices in Banks Act, 1994, for any contravention of these provisions during and after the on-going consolidation exercise.

O. I. IMALA
DIRECTOR OF BANKING SUPERVISION

09 – 61636403
09 – 61636418

BSD/17/2005

CIRCULAR TO ALL BANKS

THE FRAMEWORK FOR RISK BASED SUPERVISION OF BANKS IN NIGERIA

A key element in the 13-point agenda for the reform of the Nigeria banking industry as unveiled by the CBN Governor in July 2004, is the move towards the implementation of a risk focused supervisory framework.

In keeping with the reform agenda, the global trend and current best practice in supervision, the CBN/NDIC Executive Committee on Supervision recently approved a Risk-based Supervision (RBS) framework for banks operating in Nigeria, as a precursor to the New Capital Accord (Basel II). Amongst others, the Accord aims at strengthening financial stability by encouraging sound risk management practices in banking organizations.

RBS is a proactive, and efficient supervisory process, which enables the supervisor to prioritize and focus supervisory efforts and resources on areas of significant risks and/or banks that have high risk profiles. It entails a shift from a rigid rules/compliance-based supervisory and regulatory approach to a more risk sensitive one, which seeks to encourage a bank to develop and continuously update its internal risk management system to ensure that it is commensurate with the scope and complexity of its operations.

The document, which is in six chapters has been forwarded to you electronically (see www.cenbank.org). Being an exposure manual, the committee welcomes views, suggestions and constructive criticism to further enrich the document. This should be forwarded to the Director of Banking Supervision within four weeks from today.

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

O. I. IMALA
DIRECTOR OF BANKING SUPERVISION

Date: 15th September, 2005

09 – 61637426
09 – 61637405

BES/18/2005

CIRCULAR TO ALL BANKS

DEVELOPMENT OF RISK MANAGEMENT SYSTEMS IN NIGERIAN BANKS

A risk in a banking organization is the possibility that the outcome of an action or event could adversely impact on set goals and objectives. Such outcomes could either result in a direct loss of earnings and/or capital or may result in the imposition of constraints on the bank's ability to meet its business objectives.

A bank's ability to evolve a comprehensive Risk Management Framework (RMF) which involves identification, measurement, monitoring and controlling of risks is imperative for its strategic positioning. The RMF should aim at ensuring that:

a) The individuals who take or manage risks clearly understand them.

b) The bank's risk exposure is within the limits established by the Board of Directors.

c) Risk taking decisions are explicit, clear and in line with the business strategy and objectives set by the Board.

d) The expected pay-offs compensate for the risks taken.

e) Sufficient capital is available to cushion risks taken.

As a first step towards the full implementation of risk management systems by banks, the CBN/NDIC Executive Committee has prepared general guidelines to assist banks in developing their risk management framework

(RMF). The document is an exposure draft and has been forwarded to you electronically. (See www.cenbank.org)

As a draft guideline, we invite your inputs to further enrich the document. In this regard, please submit your suggestions to the undersigned not later than 15th October, 2005.

The Committee is currently preparing the draft guidelines for the management of individual/specific risk elements which will equally be made available to all stakeholders in due course.

O. I. IMALA
DIRECTOR OF BANKING SUPERVISION

Date: 15th September 2005

09 – 61636401
09 – 61636418

BSD/20/05

September 20, 2005

CIRCULAR TO ALL BANKS

RE: RAISING FUNDS FROM THE MARKET FOR THE ON-GOING CONSOLIDATION

During the recent meeting with the banks on the status of their consolidation efforts, the Governor of CBN emphasized, the sanctity of the timelines and the need to refocus, where necessary.

Among other points, the timing of raising funds from the market and the need to face reality and particularly in the interest of the investors were emphasized. Merging banks are expected to have obtained the final approval by the end of October 2005. Consequently, any bank that intends to start the capitalization process by the end of September would definitely create problems for the system and the programme.

First, the necessary capital verification by the CBN will not be completed before the year-end.

Second, any funds raised by a bank that will, at best, be eventually acquired, cannot be applied according to the statements in the advertised prospectus, since the institution will not stand as an entity to enforce such decisions.

Third, where such bank is eventually unable to merge with other institution(s) and consequently, ceases to exist by the end of the year, the innocent investors would have lost their money. Furthermore, the CBN is focusing all its resources in ensuring orderly completion of the programme, and will not have the staff to verify further capital that will be raised.

Therefore, in order to protect all stakeholders, the regulators, that is, the Securities and Exchange Commission and Central Bank of Nigeria have resolved that any bank that has not completed raising funds from the capital market by the end of September, 2005 should wait till after 2005 to continue with the exercise.

All banks are, please advised to note and comply accordingly.

O. I. IMALA
DIRECTOR OF BANKING SUPERVISION

09 – 61636403
09 – 61636418

December 2, 2005

BSD/25/2005

CIRCULAR TO ALL BANKS

RE: SUBMISSION ON SELECTED ASSET/LIABILITY ITEMS

Please refer to our circular number **BSD/11/2004** of September 17, 2004 titled **Submission on Selected Assets/Liabilities Items.**

The following amendments are hereby made to the circular:

1. The item, "Other Deposits" in the return format should henceforth be broken down as follows:
   i. Total Demand Deposit
   ii. Total Time Deposit
   iii. Total Savings Deposit
   iv. Total Foreign Currency Deposit

2. The information should be sent before 12noon every Monday by fax to 09 616 38946 for the attention of the Director, Monetary Policy Department of the CBN or by e-mail to mpd@cenbank.org

This amendment takes immediate effect.

O. I. IMALA
DIRECTOR OF BANKING SUPERVISION

09 – 61636403
09 – 61636418

BSD/26/2005

CIRCULAR TO ALL BANKS

THE FRAMEWORK FOR RISK-BASED SUPERVISION OF BANKS IN NIGERIA

In September 2005, the CBN released the draft of the document captioned above to initiate a process of consultation with stakeholders on the envisioned mode of supervising banks in Nigeria. The feedback we received from many stakeholders was quite helpful in reviewing the document which has now been approved as the Framework for Risk-Based Supervision (RBS) of Banks in Nigeria.

Consequently, the Central Bank of Nigeria has by this circular, formally introduced the Framework for Risk-Based Supervision of Banks in Nigeria for implementation. Please visit www.cenbank.org The document, which is in six chapters, will become operational from September, 2006.

O. I. IMALA
DIRECTOR OF BANKING SUPERVISION

Date: 13th December, 2005

09 – 61636403
09 – 61636418

BSD/27/2005

CIRCULAR TO ALL BANKS

DEVELOPMENT OF RISK MANAGEMENT SYSTEMS IN NIGERIAN BANKS

It would be recalled that, in September, 2005, the draft of the above document (generic guidelines on the Development of Risk Management Systems in Nigerian Banks) was issued to the stakeholders for comments and suggestions. The document was meant to assist banks in developing their risk management framework. The feedback we received from many stakeholders was quite helpful in reviewing the document which has now been approved as the generic guidelines for the development of Risk Management Systems in Nigerian Banks.

Consequently, the Central Bank of Nigeria has by this circular, formally introduced the generic guidelines. Please visit **www.cenbank.org**

As stated in the earlier draft, the Supervisor Authorities are currently preparing the draft guidelines for the management of individual/specific risk elements. This will be made available to all stakeholders in due course.

O. I. IMALA
DIRECTOR OF BANKING SUPERVISION
Date: December 23, 2005

Appendix 2

Major Financial Indicators of Individual Banks

Banks	Year	Paid-up Capital	Shareholder Fund x' Billion	Total Assets x' Billion	Gross Loans & Advances x' Billion	Provision for Bad Debts x' Billion	Deposit Liabilities x' Billion	Deposit Liabilities x' Billion	Deposit Liabilities x' Billion
Banks with Year-Ends Between January and March 2005:									
1. Access Bank Nigeria Plc	2001	600	919	8,001	3,488	693	4,832	116	1
	2002	1,350	1,944	11,343	4,980	658	6,475	-18	1
	2003	1,350	2,365	22,582	7,135	629	9,309	811	3
	2004	1,500	2,703	31,342	12,341s	879	22,724	952	2
	2005	4,056	14,072	66,918	17,942	1,758	32,608	751	13
2. Allstates Trust Bank Plc (March 2003: 18 Months	2001	689	2,477	35,540	7,592	934	27,499	1,660	
	2003	1,225	2,904	37,686	8,771	815	31,521	47	4
	2004	1,531	2,758	38,768	13,654	977	31,612	-54	10
	2005	1,531	2,993	47,429	23,321	1,789	41,032	361	14
3. Afribank Int'l Limited (Merchant Bankers)	2001	510	1,026	5,682	3,466	423	3,787	191	1
	2002	510	1,269	7,263	2,876	204	5,078	348	3
	2003	926	1,483	7,952	4,298	895	5,200	185	0
	2004	1,001	1,700	7,915	4,059	1,100	5,293	297	3
	2005	1,001	1,720	10,984	5,773	1,154	7,678	469	
4. Afribank Nigeria Plc	2001	552	2,823	71,839	21,122	6,527	58,287	1,090	0
	2002	552	4,332	73,088	31,138	5,405	56,955	2,231	3
	2003	552	6,546	83,144	33,845	8,625	61,195	2,471	4
	2004	1,104	5,317	70,578	26,482	7,404	57,989	1,566	3
	2005	2,354	21,387	95,754	30,543	9,192	61,601	530	3
5. Bank of the North Ltd March 2002 (15 months)	2000	600	3,175	51,548	31,182	2,555	42,130	1,400	6
	2002	1,200	-3,700	62,595	43,519	3,337	46,573	743	6
	2003	1,200	-31,829	40,731	49,122	36,434	63,085	-35,120	11
	2004	1,200	-32,823	42,252	53,322	40,353	28,933	164	8
	2005	1,200	-32,682	44,911	58,006	44,168	31,760	211	7

Banks	Year	Paid-up Capital	Shareholder Fund x' Billion	Total Assets x' Billion	Gross Loans & Advances x' Billion	Provision for Bad Debts x' Billion	Deposit Liabilities x' Billion	Deposit Liabilities x' Billion	Deposit Liabilities x' Billion
11. Continental Trust Bank Ltd	2001	1,500	14,119	16,448	6,200	411	11,176	469	1
	2002	1,800	1,279	19,439	14,662	1,552	11,781	-1,106	14
	2003	NA	NA	NA	NA	NA	NA	NA	NA
	2004	NA	NA	NA	NA	NA	NA	NA	NA
	2005	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
12. Co-operative Bank	2001	700	1,355	14,991	6,119	1,122	12,253	303	5
	2002	700	1,677	17,012	8,982	1,598	12,713	510	2
	2003	1,000	2,562	19,525	11,291	1,801	13,133	213	2
	2004	1,500	2,807	23,870	13,508	2,396	17,585	460	1
	2005	1,500	2,992	23,690	14,081	2,569	16,842	237	7
13. Devcom Bank Ltd	2001	750	1,608	5,312	2,744	155	2,962	550	3
	2002	1,000	1,759	5,255	2,701	150	2,890	163	1
	2003	1,000	1,944	8,148	2,092	238	4,916	238	2
	2004	1,000	2,181	9,602	4,033	423	6,434	256	7
	2005	1,000	2,434	8,212	3,924	566	4,692	295	4
14. FBN (Merchant Bankers)	2001	900	1,736	11,455	4,362	830	8,473	409	0
	2002	900	1,980	14,289	6,934	1,507	9,764	550	
	2003	1,000	2,085	15,553	6,662	2,370	10,079	339	6
	2004	1,000	1,724	17,312	7,888	3,641	13,103	-326	
	2005	1,518	2,746	20,041	11,647	4,625	14,547	505	4
15. First Bank of Nig. Plc	2001	813	17,093	212,901	57,685	11,574	148,279	6,201	0
	2002	1,016	17,747	266,356	91,227	29,309	168,175	5,087	3
	2003	1,270	25,040	320,578	92,935	36,899	193,995	13,393	2
	2004	1,751	38,621	312,490	117,123	39,002	207,181	14,106	5
	2005	1,976	44,672	377,496	147,511	32,838	265,378	15,145	7

Banks	Year	Paid-up Capital	Shareholder Fund x' Billion	Total Assets x' Billion	Gross Loans & Advances x' Billion	Provision for Bad Debts x' Billion	Deposit Liabilities x' Billion	Deposit Liabilities x' Billion	Deposit Liabilities x' Billion
16. First Interstate Merch. Bank	2001	545	732	3,073	846	111	1,877	101	3
	2002	684	935	3,645	1,434	206	2,253	259	2
	2003	782	521	5,598	2,403	707	3,372	-402	6
	2004	992	885	6,355	3,281	840	5,121	142	7
	2005	1,000	509	11,267	3,760	1,032	6,390	-365	9
17. Fortune Int'l Bank Plc	2001	1,000	1,144	11,089	7,065	857	8,908	949	5
	2002	2,991	3,688	9,195	7,698	1,246	4,317	666	13
	2003	2,991	4,248	12,709	8,126	1,531	7,014	718	17
	2004	2,991	4,457	13,669	11,352	1,629	7,697	208	19
	2005	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
18. FSB Int'l Bank Plc	2001	610	3,819	30,314	14,196	1,412	16,472	1,358	0
	2002	1,017	4,041	31,302	12,715	2,124	19,059	1,114	1
	2003	1,444	2,746	35,783	13,404	3,509	23,743	-2,671	
	2004	1,444	2,275	39,817	12,537	3,444	28,025	254	5
	2005	1,444	3,318	41,210	9,588	3,746	28,405	380	2
19. Guaranty Trust Bank	2001	750	3,941	40,819	12,667	594	24,139	2,050	
	2002	1,000	7,950	59,292	18,217	617	31,373	2,657	–
	2003	1,250	9,661	83,311	31,556	893	51,068	3,802	4
	2004	1,500	11,618	119,698	45,198	1,522	74,222	5,030	2
	2005	2,873	30,895	167,898	67,179	2,144	95,564	7,004	1
20. Gulf Bank	2001	1,000	1,679	13,090	5,186	858	10,781	660	0
	2002	1,000	2,409	13,975	7,585	857	7,305	1,007	1
	2003	1,850	5,755	18,857	9,805	9,451	8,320	958	2
	2004	1,795	5,625	21,677	10,913	1,880	11,235	100	6
	2005	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Banks	Year	Paid-up Capital	Shareholder Fund x' Billion	Total Assets x' Billion	Gross Loans & Advances x' Billion	Provision for Bad Debts x' Billion	Deposit Liabilities x' Billion	Deposit Liabilities x' Billion	Deposit Liabilities x' Billion
21. Hallmark Bank Plc	2001	700	2,588	231	9,380	1,548	16,597	1,253	1
	2002	700	3,616	31,662	12,559	2,273	20,677	1,564	
	2003	1,015	4,638	40,275	20,170	2,616	31,182	1,458	6
	2004	1,875	8,886	47,871	30,966	7,553	35,096	880	5
	2005	2,625	10,528	97,336	44,554	9,066	65,241	1,968	3
22. Inland Bank Ltd	2001	1,125	2,259	13,834	6,237	1,008	8,957	283	1
	2002	1,125	2,299	16,646	8,430	779	10,099	598	_
	2003	1,125	2,444	24,580	12,479	2,488	15,102	478	8
	2004	1,500	3,632	26,404	14,676	3,538	16,159	527	6
	2005	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
23. INMB Bank	2001	575	724	2,978	1,382	77,307	1,738	167	1
	2002	782	1,146	3,703	1,237	42	1,794	283	1
	2003	993	1,373	3,512	1,476	154	1,600	184	0
	2004	1,001	1,473	4,098	1,870	234	1,967	171	9
	2005	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
24. Int'l Trust Bank	2001	500	189	4,957	2,286	1,048	4,353	52	0
	2002	500	235	4,429	3,263	623	3,849	63	0
	2003	500	-109	3,995	2,723	1,433	3,290	-336	9
	2004	500	-441	2,836	3,483	2,285	2,965	-324	12
	2005	931	-544	3,905	3,731	2,850	4,038	-570	4
25. Investment Banking & Trust Co.	2001	600	3,109	10,448	5,287	237	3,813	1,065	0
	2002	1,000	3,936	20,578	10,210	185	8,910	1,503	4
	2003	1,000	5,881	23,947	9,604	225	8,182	1,688	8
	2004	2,000	5,794	26,872	9,618	138	10,544	1,711	5
	2005	2,935	14,275	34,568	13,670	183	10,886	3,013	9

Banks	Year	Paid-up Capital	Shareholder Fund x' Billion	Total Assets x' Billion	Gross Loans & Advances x' Billion	Provision for Bad Debts x' Billion	Deposit Liabilities x' Billion	Deposit Liabilities x' Billion	Deposit Liabilities x' Billion
26. Lead Bank Ltd	2001	605	1,627	11,914	5,858	176	7,409	1,008	0
	2002	1,050	2,503	12,511	6,250	376	6,406	833	2
	2003	1,575	2,704	15,119	7,111	742	9,984	620	0
	2004	1,620	3,040	19,570	8,270	997	11,722	754	1
	2005	1,620	2,362	13,430	8,273	1,684	5,540	-578	7
27. Lion Bank Plc	2001	500	1,061	7,738	2,538	324	4,740	364	4
	2002	1,309	2,937	10,973	3,185	449	6,169	485	_
	2003	1,500	3,613	13,765	3,830	737	7,889	690	0
	2004	1,500	3,935	13,463	3,921	836	8,163	419	-
	2005	1,500	3,955	14,824	6,981	1,437	9,651	99	-
28. Magnum Trust Bank Plc	2001	500	829	10,420	3,112	249	8,770	362	3
	2002	600	1,088	13,414	5,715	274	10,763	501	2
	2003	1,000	2,320	19,904	7,989	551	16,513	401	
	2004	1,500	2,468	23,790	9,787	893	18,906	233	4
(13 mths to 31 March 2005)	2005	1,800	2,877	26,994	10,834	1,124	17,903	663	7
29. Manny Bank	2001	750	1,341	5,539	2,486	334	2,766	361	0
	2002	900	1,596	7,447	3,250	657	4,256	446	2
	2003	1,400	2,804	8,840	4,757	1,192	5,165	198	2
	2004	1,540	2,912	10,943	7,592	1,904	7,037	237	7
	2005	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
30. MBC Int'l Bank Ltd	2001	649	1,187	9,926	3,194	564	5,373	201	0
	2002	714	1,362	9,227	3,370	961	4,901	389	7
	2003	1,000	1,757	15,581	4,331	175	11,322	421	0
	2004	1,365	2,495	14,446	4,543	280	9,307	624	3
	2005	1,520	2,640	17,748	6,206	341	12,003	371	5

Banks	Year	Paid-up Capital	Shareholder Fund x' Billion	Total Assets x' Billion	Gross Loans & Advances x' Billion	Provision for Bad Debts x' Billion	Deposit Liabilities x' Billion	Deposit Liabilities x' Billion	Deposit Liabilities x' Billion
31. Midas Bank Plc	2001	505	70	2,022	1,426	717	1,293	25	6
	2002	505	-141	2,363	2,225	1,032	2,211	-208	5
	2003	505	-522	2,575	2,535	1,305	2,112	-376	2
	2004	1,006	-281	3,046	3,058	1,901	2,643	-262	
	2005	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
32. National Bank Ltd	2001	905	1,132	6,164	2,765	1,764	1,954	53	2
	2002	905	1,773	11,657	4,337	70	6,830	64	4
	2003	1,002	1,920	12,985	4,332	542	7,702	125	1
	2004	905	1,996	16,703	5,806	839	10,655	380	-
	2005	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
33.New Africa Merchant Bank Plc	2001	69	-466	170	231	195	393	4	0
	2002	738	257	952	447	447	526	-12	12
(March 2003: 15 months)	2003	738	235	1,377	502	366	751	-21	5
	2004	838	354	1,160	521	375	444	-67	1
	2005	1,000	588	2,029	627	444	1,358	78	
34. New Nigeria Bank Plc	2001	51	907	6,488	836	8	2,480	-119	3
	2002	1,500	1,248	12,743	3,767	82	9,563	-324	2
	2003	1,500	1,432	11,779	2,414	261	8,209	189	9
	2004	1,500	1,809	16,047	3,900	456	13,039	350	0
	2005	1,500	2,242	21,694	5,129	695	17,032	505	
35. Omegabank Plc (Feb. 200: 14 months)	2001	516	1,318	11,386	4,312	799	7,688	381	8
	2003	1,033	1,831	14,775	5,399	807	11,197	105	1
	2004	1,033	1,892	17,648	7,284	1,324	13,966	136	5
	2005	1,548	3,469	19,097	7,709	1,842	13,303	734	5
36. Pacific Bank Ltd	2001	647	947	3,702	1,767	173	1,727	243	2
	2002	788	765	2,282	1,624	517	980	-210	1
	2003	886	-164	1,954	1,698	1,130	1,038	-1,013	-
	2004	1,000	582	2,432	1,279	500	1,552	536	3
	2005	1,000	917	4,494	1,814	566	3,085	326	2

Banks	Year	Paid-up Capital	Shareholder Fund x' Billion	Total Assets x' Billion	Gross Loans & Advances x' Billion	Provision for Bad Debts x' Billion	Deposit Liabilities x' Billion	Deposit Liabilities x' Billion	Deposit Liabilities x' Billion
37. Prudent Bank Plc	2001	500	706	5,099	2,068	119	2,896	203	2
	2002	1,524	2,053	12,632	5,400	280	8,779	523	2
	2003	1,524	2,342	20,934	8,909	450	16,109	854	1
	2004	1,524	2,953	25,998	11,314	1,148	20,913	918	7
	2005	2,264	4,447	31,991	13,123	1,000	22,623	743	4
38. Regent Bank Ltd	2001	1,000	1,002	2,207	518	5	673	11	0
	2002	1,000	1,088	3,336	955	10	1,84	127	_
	2003	1,000	1,123	5,148	1,017	23	3,190	147	0
	2004	1,500	1,354	5,405	1,868	43	3,634	-245	2
	2005	1,500	1,268	6,293	2,751	77	4,668	-75	4
39. Trade Bank Plc	2001	510	774	10,792	4,805	1,414	9,113	210	1
	2002	1,000	1,666	11,304	5,.237	970	8,922	411	2
	2003	1,250	2,066	15,278	7,348	2,592	11,799	433	1
	2004	1,500	483	13,262	7,771	5,326	12,240	-1,601	3
	2005	2,000	-2,118	12,785	11,235	917	14,068	-1,109	
40. Triumph Merchant Bank Plc	2001	999	644	4,891	1,898	318	2,778	200	0
	2002	999	858	5,731	1,677	335	2,531	236	_
	2003	999	495	12,489	7,272	1,321	8,797	-346	0
	2004	999	495	12,489	7,272	1,321	8,797	-346	-
	2005	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
41. Union Bank of Nig. Plc	2001	629	13,786	214,885	45,835	8,910	170,977	7,058	0
	2002	1,258	30,302	275,194	61,962	17,568	204,347	7,490	5
	2003	1,258	32,730	329,583	61,962	16,399	224,347	10,154	1
	2004	1,678	35,985	367,798	97,643	19,305	241,585	10,210	3
	2005	2,237	39,129	398,271	95,356	16,672	200,511	11,953	2

Banks	Year	Paid-up Capital	Shareholder Fund x' Billion	Total Assets x' Billion	Gross Loans & Advances x' Billion	Provision for Bad Debts x' Billion	Deposit Liabilities x' Billion	Deposit Liabilities x' Billion	Deposit Liabilities x' Billion
42. Union Merchant Bank	2001	650	907	6,103	1,934	865	4,613	384	2
	2002	925	1,619	7,726	1,574	159	4,580	651	1
	2003	1,000	2,222	10,254	2,800	339	6,466	860	0
	2004	1,250	2,481	11,085	3,059	361	7,288	679	1
	2005	1,375	2,234	11,359	4,551	1,441	5,034	-216	
43. United Bank for Africa Plc	2001	850	8,427	183,248	31,041	7,935	133,135	1,585	0
	2002	850	9,782	198,680	41,150	4,787	131,866	2,238	-
	2003	1,275	13,767	200,995	50,178	4,102	142,427	4,816	0
	2004	1,275	18,059	208,806	58,855	2,719	151,929	5,608	5
	2005	1,530	17,702	248,928	70,086	2,476	205,110	6,239	0
44. Universal Trust Bank Plc	2001	886	2,760	29,846	10,813	1,936	18,967	1,373	1
	2002	1,063	3,265	32,406	14,190	2,418	22,870	1,523	2
	2003	1,063	3,388	32,135	14,282	2,703	26,584	4h96	1
	2004	1,063	3,388	32,136	14,282	2,703	26,584	496	4
	2005	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
45. Wema Bank Plc	2001	675	2,596	38,813	14,799	2,588	29,631	800	3
	2002	779	3,768	44,101	17,093	1,291	32,775	2,294	1
	2003	1,527	7,215	61,323	23,508	2,768	43,762	2,286	4
	2004	1,555	7,729	71,424	41,766	5,159	55,072	1,420	8
	2005	4,452	24,259	97,909	54,493	8,310	61,285	1,002	12
Banks with Year-Ends Between April and June 2005:									
46. ACB Int'l Bank Plc (June 2003: 18 months)	2001	60	-2,578	1,954	2,387	2,387	22	720	
	2003	2,000	419	11,313	759	64	2,500	553	0
	2004	2,000	2,516	8,631	945	62	4,445	29	1
	2005	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Banks	Year	Paid-up Capital	Shareholder Fund x' Billion	Total Assets x' Billion	Gross Loans & Advances x' Billion	Provision for Bad Debts x' Billion	Deposit Liabilities x' Billion	Deposit Liabilities x' Billion	Deposit Liabilities x' Billion
47. Assurance Bank Ltd (16 Months to 30th April)	2001	600	-1,733	1,517	3,028	2,796	2,842	-411	10
	2003	600	-3,151	9,541	5,296	3,745	8,469	-1,415	-
	2004	600	48	9,589	1,157	55	8,134	396	4
	2005	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
48. Broad Bank Nigeria Ltd	2001	1,820	1,099	4,106	1,035	568	3,242	-203	1
	2002	1,614	1,037	5,495	2,119	615	3,419	25	3
	2003	1,640	1,211	8,266	4,377	1,031	5,479	165	
	2004	1,640	1,538	17,521	6,01	331	13,434	744	1
	2005	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
49. Diamond Bank Ltd	2001	721	4,086	47,372	15,798	421	32,398	2,225	0
	2002	1,082	5,320	53,199	16,255	848	33,556	2,142	1
	2003	1,082	4,993	59,287	15,932	1,420	42,147	309	0
	2004	1,540	6,520	69,062	19,500	1,055	43,391	1,162	3
	2005	3,038	20,710	125,675	41,805	1,584	75,166	3,522	
50. Eagle Bank Limited June 2002	2001	726	228	1,508	1,191	1,164	774	-50	
	2002	726	208	1,598	1,275	670	890	64	2
	2003	795	356	5,291	739	203	3,984	105	1
	2004	1,002	90	2,562	1,403	572	2,140	-470	
	2005	1,002	-253	1,201	1,228	702	1,177	-345	5
51. Eko Int'l Bank Plc (May 2003: 17 months)	2001	573	869	10,104	4,348	1,044	6,842	194	0
	2003	1,003	1,895	16,422	6,908	1,937	10,622	861	3
	2004	1,203	2,237	17,184	8,145	1,953	12,540	559	1
	2005	1,375	2,828	18,856	8,001	2,159	14,094	620	7
52. Equitorial Trust Bank	2001	1,300	3,708	26,171	12,039	781	19,214	2,111	0
	2002	2,450	5,368	29,705	12,545	525	21,361	2,462	
	2003	2,450	6,166	36,207	17,924	2,619	25,838	2,027	6
	2004	2,450	8,423	47,406	21,079	3,573	33,752	2,533	5
	2005	3,000	10,934	56,034	23,530	4,705	34,142	2,883	8

Banks	Year	Paid-up Capital	Shareholder Fund x' Billion	Total Assets x' Billion	Gross Loans & Advances x' Billion	Provision for Bad Debts x' Billion	Deposit Liabilities x' Billion	Deposit Liabilities x' Billion	Deposit Liabilities x' Billion
53. First City Monument Bank Ltd. 16 months to April 2002	2001	1,000	2,001	17,497	6,500	364	8,128	1,030	0
	2002	1,000	2,231	14,951	7,484	1,490	8,564	501	3
	2003	1,500	2,559	15,164	6,414	580	9,216	57	0
	2004	1,500	2,757	23,736	8,641	735	18,019	265	0
	2005	2,226	7,216	51,318	12,556	1,1120	26,857	1,093	3
54. Fidelity Bank Plc	2001	544	1,300	12,715	2,882	552	9,323	442	1
	2002	853	1,915	15,637	5,927	1,006	12,281	634	
	2003	1,189	2,515	22,517	7,881	706	16,888	1,085	3
	2004	1,534	3,520	27,552	11,014	1,278	19,340	1,078	
	2005	4,275	9,125	34,953	15,676	1,784	20,572	1,564	3
55. First Atlantic Bank Ltd	2001	628	1,197	10,078	5,593	268	7,857	658	0
	2002	1,602	3,690	13,064	4,801	249	8,677	601	2
	2003	1,602	3,800	20,910	8,165	519	14,355	609	1
	2004	1,602	4,363	29,917	10,320	707	23,920	821	1
	2005	NA	NA	NA	NA	NA	NA	NA	NA
56. Guardian Express Bank Plc (April 2002)	2001	–	–	–	–	–	–	–	–
	2002	1,000	1,173	4,137	748	17	2,062	210	0
	2003	1,230	1,603	10,277	3,079	88	6,459	476	2
	2004	1,500	2,319	19,460	6,493	316	14,799	583	1
9 mths to January 2005	2005	1,875	2,472	14,194	6,790	615	10,053	209	8
57. Global Bank Plc	2001	500	877	8,181	4,635	819	6,578	502	6
	2002	614	1,303	11,446	4,146	356	8,000	752	
	2003	1,013	1,919	17,316	5,297	1,217	12,228	613	4
	2004	1,216	2,314	20,105	9,469	1,259	16,216	949	6
	2005	NA	NA	NA	NA	NA	NA	NA	NA
58. Int'l Merchant Bank	2001	876	1,633	8,787		118	4,905	323	1
	2002	1,022	613	5,049	2,999	1,260	3,138	-842	1
	2003	1,022	-4,054	2,079	3,456	3,612	3,967	-4,662	15
	2004	3,332	-862	4,336	3,953	2,994	3,120	581	
	2005	3,350	338	6,789	3,938	3,050	3,259	1,211	7

Banks	Year	Paid-up Capital	Shareholder Fund x' Billion	Total Assets x' Billion	Gross Loans & Advances x' Billion	Provision for Bad Debts x' Billion	Deposit Liabilities x' Billion	Deposit Liabilities x' Billion	Deposit Liabilities x' Billion
59. Intercity Bank Plc	2001	613	1,120	17,850	6,056	933	13,127	328	0
	2002	613	1,471	21,209	6,930	1,912	13,014	417	3
	2003	1,199	2,148	24,545	9,259	3,183	14,909	561	5
	2004	1,516	2,516	25,702	10,24 11,836	3,789	18,430	554	1
	2005	1,668	2,759	33,179	15,340	4,058	24,743	459	
60. Marina Int;l Bank Ltd	2001	500	872	3,807	2,056	78	2,167	277	3
	2002	700	1,255	5,073	2,443	87	2,603	353	5
	2003	1,260	2,069	8,807	2,271	142	5,497	-522	1
	2004	1,513	2,414	11,865	3,586	230	5,475	494	1
(9 mths to March 2005)	2005	1,652	2,510	11,242	3,907	446	6,982	138	
61. NAL Bank Plc (June 2002: 15 months)	2001	531	2,870	17,480	6,742	824	7,675	461	
	2002	664	3,013	21,468	12,704	1,249	14,652	71	1
	2003	832	3,353	24,609	11,889	760	15,376	233	6
	2004	1,243	5,629	27,222	12,515	1,546	17,021	1,089	1
	2005	1,873	5,779	44,123	15,306	1,001	17,747	299	5
62. NUB Int'l Bank Ltd	2001	623	623	1,113	1,790	1,790	37	18	2
	2002	750	671	5,020	397	12	3,125	-72	
	2003	1,000	1,066	8,057	2,011	45	5,701	152	1
	2004	1,000	1,379	11,560	3,076	228	8,565	441	6
	2005	1,000	1,802	18,751	5,156	446	13,406	625	2
63. Platinum Bank Ltd	2001	1,000	686	8,453	2,813	28	6,924	137	0
	2002	1,000	798	13,305	4,496	91	9,921	151	-
	2003	1,839	2,231	20,155	8,678	478	14,988	303	0
	2004	1,839	2,847	25,027	9,011	812	20,015	885	2
	2005	4,311	12,660	51,671	19,850	1,237	21,893	1,055	

Banks	Year	Paid-up Capital	Shareholder Fund x' Billion	Total Assets x' Billion	Gross Loans & Advances x' Billion	Provision for Bad Debts x' Billion	Deposit Liabilities x' Billion	Deposit Liabilities x' Billion	Deposit Liabilities x' Billion
64. Societe Generale Bank Ltd	2001	557	1,142	16,621	5,033	980	14,470	595	3
	2002	557	1,291	15,429	7,339	1,077	12,876	217	6
	2003	NA	NA	NA	NA	NA	NA	NA	NA
	2004	NA	NA	NA	NA	NA	NA	NA	NA
	2005	NA	NA	NA	NA	NA	NA	NA	NA
65. Trust Bank of Africa Ltd. (Merchant Bankers)	2001	500	667	2,677	1,670	107	1,527	73	2
	2002	500	-521	1,562	1,579	746	467	-517	1
16 months to April 2004	2004	2,132	1,169	4,430	1,020	58	2,231	73	-
	2005	2,132	1,448	6,968	2,060	73	3,860	412	1
66. Zenith Int'l Bank Ltd	2001	1,026	6,725	60,190	13,029	409	30,688	2,802	0
	2002	1,027	9,306	92,563	20,665	439	50,134	3,999	_
	2003	1,549	12,652	112,535	27,895	605	61,574	5,440	_
	2004	1,549	15,674	193,321	54,420	1,028	131,095	6,405	_
	2005	3,000	37,790	329,717	125,531	3,037	233,413	9,165	1
Banks With Year-Ends Between July and September 2005:									
67. Fountain Trust Bank	2001	531	968	7,652	2,163	480	4,636	685	3
	2002	929	1,520	10,892	2,953	349	8,468	563	1
	2003	1,087	1,832	16,080	5,347	756	11,867	316	6
(18 months to 31st March 2005)	2005	1,275	797	12,461	8,909	1,439	9,064	-1,015	9
68. Liberty Bank Plc	2001	800	1,025	9,092	5,788	1,218	7,345	-697	1
	2002	800	-1,926	3,666	6,133	5,027	3,267	-2,937	
	2003	800	-3,228	2,147	6,117	5,957	2,869	-1,294	35
	2004	1,599	-713	3,615	5,899	5,604	3,266	334	5
	2005	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Banks	Year	Paid-up Capital	Shareholder Fund x' Billion	Total Assets x' Billion	Gross Loans & Advances x' Billion	Provision for Bad Debts x' Billion	Deposit Liabilities x' Billion	Deposit Liabilities x' Billion	Deposit Liabilities x' Billion
69. Metropolitan Bank Ltd	2001	510	860	7,558	3,172	573	5,569	477	0
	2002	800	1,152	10,130	4,650	839	8,293	213	
	2003	1,009	1,380	15,364	7,885	1,592	12,673	242	0
	2004	NA	NA	NA	NA	NA	NA	NA	NA
	2005	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
70. Reliance bank Ltd (July 2002: 22 Months	2001	_	_	_	_	__	_	_	_
	2002	1,000	1,090	6,073	1,697	21	3,970	127	1
	2003	1,000	1,265	7,964	2,315	56	5,330	227	2
	2004	1,000	1,430	9,673	3,260	91	7,667	322	7
	2005	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
71. Societe Bancaire ltd	2001	541	-158	3,163	2,491	1,216	1,818	-249	5
	2002	996	177	2,326	1,718	1,302	1,756	-142	3
	2003	1,000	162	2,892	1,234	1,084	1,672	-9	_
	2004	1,000	111	1,146	422	392	613	-42	4
	2005	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
72. Standard Trust Bank	2001	1,250	4,303	60,522	22,894	1,648	52,158	2,133	_
	2002	1,572	6,551	69,946	23,290	1,458	58,927	2,782	3
	2003	1,948	9,284	91,578	22,414	2,340	74,234	3,076	2
	2004	2,781	20,008	136,095	35,752	4,837	103,231	4,524	2
(8 mths to March 2005)	2005	3,000	21,054	145,940	39,856	5,126	104,173	2,565	
73. Oceanic Bank Plc	2001	1,005	3,564	32,321	7,574	501	23,388	2,474	
	2002	2,000	5,565	53,294	11,272	673	40,028	3,121	1
	2003	2,800	7,073	64,978	13,600	725	49,366	3,287	2
	2004	3,000	10,360	86,884	24,827	576	68,954	3,445	7
	2005	4,657	31,092	217,803	79,762	2,047	167,401	7,265	

Banks	Year	Paid-up Capital	Shareholder Fund x' Billion	Total Assets x' Billion	Gross Loans & Advances x' Billion	Provision for Bad Debts x' Billion	Deposit Liabilities x' Billion	Deposit Liabilities x' Billion	Deposit Liabilities x' Billion
Banks With Year-Ends Between October and December 2005:									
74. African Express Bank	2000	750	348	1,004	981	978	366	10	12
	2001	750	626	3,680	1,472	144	2,595	295	5
	2002	750	718	6,708	2,027	495	4,476	126	7
	2003	750	-6,730	2,163	7,910	7,910	4,798	-7,448	3
	2004	NA	NA	NA	NA	NA	NA	NA	NA
	2005	NA	NA	NA	NA	NA	NA	NA	NA
75. African International Bank Ltd	2000	1,000	-2,144	19,158	9,568	5,479	17,759	-3,652	1
	2001	1,000	-5,619	18,749	11,469	9,281	20,672	-3,453	
	2002	1,000	-7,900	14,120	12,498	10,186	18,554	-1,988	17
	2003	NA	NA	NA	NA	NA	NA	NA	NA
	2004	NA	NA	NA	NA	NA	NA	NA	NA
	2005	NA	NA	NA	NA	NA	NA	NA	NA
76. Capital Bank Int'l Ltd	2001	800	1,167	10,712	4,303	740	6,834	293	0
	2002	1,000	1,641	15,662	6,343	248	12,262	643	0
	2003	1,000	1,928	17,597	7,529	550	11,928	306	4
	2004	1,468	2,249	17,818	7,252	835	13,054	93	
	2005	NA	NA	NA	NA	NA	NA	NA	NA
77. Co-operative Dev. Bank	2000	512	1,096	7,394	2,717	390	5,391	333	2
	2001	512	1,100	6,895	4,538	1,116	4,912	142	6
	2002	1,005	1,725	7,660	4,489	1,442	5,164	336	3
	2003	1,081	2,022	7,879	4,882	1,649	4,827	334	3
	2004	1,544	1,822	7,161	5,355	2,695	4,699	-472	1
	2005	NA	NA	NA	NA	NA	NA	NA	NA

Banks	Year	Paid-up Capital	Shareholder Fund x' Billion	Total Assets x' Billion	Gross Loans & Advances x' Billion	Provision for Bad Debts x' Billion	Deposit Liabilities x' Billion	Deposit Liabilities x' Billion	Deposit Liabilities x' Billion
78. Ecobank Nig. Ltd	2000	653	2,215	19,021	5,692	663	13,080	737	0
	2001	1,088	2,523	23,680	6,157	890	15,910	932	1
	2002	1,088	2,946	24,072	7,169	1,443	17,602	714	
	2003	1,523	3,519	27,314	9,715	1,445	19,979	1,111	1
	2004	1,740	4,413	37,642	13,075	2,012	28,643	1,317	4
	2005	NA	NA	NA	NA	NA	NA	NA	NA
79.Equity bank of Nig Ltd	2001	639	1,800	15,995	6,904	1,599	11,784	1,025	3
	2002	1,023	1,928	15,042	6,302	1,289	11,474	235	2
	2003	1,026	2,262	23,669	11,356	1,843	16,545	626	5
(14 months to February 2005)	2005	1,231	3,123	36,284	17,105	2,548	26,063	1,100	3
80. Gatewaybank Plc	2000	934	779	4,456	1,530	242	2,797	259	5
	2001	1,005	1,262	9,411	3,992	685	6,696	611	5
	2002	1,005	1,706	11,923	4,959	719	7,702	702	1
	2003	1,005	2,176	14,140	6,467	1,188	8,659	755	1
	2004	NA	NA	NA	NA	NA	NA	NA	NA
	2005	NA	NA	NA	NA	NA	NA	NA	NA
81. Habib Nig. Bank Ltd	2001	907	2,256	29,262	8,868	1,604	20,755	1,452	0
	2002	1,162	3,188	35,437	12,838	1,536	22,957	993	0
	2003	1,572	3,736	39,758	14,528	2,267	24,494	1,255	0
	2004	2,693	5,968	37,485	15,056	2,098	24,034	1,283	
	2005	NA	NA	NA	NA	NA	NA	NA	NA
82. Intercontinental bank Ltd	2001	1,436	3,456	35,779	12,080	1,196	23,509	1,523	6
	2002	1,794	7,484	47,797	14,556	2,049	35,584	2,380	5
	2003	1,794	8,611	71,412	23,187	1,533	50,245	3,414	2
(14 months to 28th February 2005)	2005	1,794	32,576	164,348	55,306	2,707	110,014	6,706	

Banks	Year	Paid-up Capital	Shareholder Fund x' Billion	Total Assets x' Billion	Gross Loans & Advances x' Billion	Provision for Bad Debts x' Billion	Deposit Liabilities x' Billion	Deposit Liabilities x' Billion	Deposit Liabilities x' Billion
83. Nigerian-American Bank Ltd	2001	500	1,228	5,061	3,157	95	2,135	286	3
	2002	1,000	1,639	5,277	2,702	61	2,245	284	3
	2003	1,000	1,765	5,532	2,994	86	2,010	293	5
	2004	NA	NA	NA	NA	NA	NA	NA	NA
	2005	NA	NA	NA	NA	NA	NA	NA	NA
84. NBM Bank Limited	2001	1,000	1,468	7,071	2,780	381	4,498	264	1
	2002	1,000	734	10,241	4,019	584	5,571	-696	11
	2003	1,500	1,327	10,875	4,882	748	6,630	149	4
	2004	1,500	661	13,855	6,716	1,274	9,112	-666	1
	2005	NA	NA	NA	NA	NA	NA	NA	NA
85. Nigeria Int'l Bank Ltd	2001	1,000	6,675	48,598	18,533	1,803	23,915	4,408	0
	2002	1,000	7,791	72,288	21,656	2,475	35,555	4,896	1
	2003	1,500	8,795	77,636	26,822	4,922	37,684	4,823	2
	2004	1,500	12,373	66,247	21,564	5,623	42,067	5,351	
	2005	NA	NA	NA	NA	NA	NA	NA	NA
86. Stanbic Bank	2001	500	787	6,357	2,080	202	3,268	88	0
	2002	1,000	1,393	6,798	2,178	221	2,892	123	3
	2003	1,000	1,531	12,166	3,190	197	3,759	240	0
	2004	1,000	1,533	12,263	3,374	321	6,815	29	6
	2005	NA	NA	NA	NA	NA	NA	NA	NA
87. Standard Chartered Bank Ltd	2001	915	656	2,130	585	6	813	-259	0
	2000	1,166	1,617	18,428	2,490	24	11,416	768	1
	2003	2,458	3,633	26,254	6,658	71	14,527	1,057	2
	2004	2,458	4,960	34,724	9,168	185	23,526	1,565	0
	2005	NA	NA	NA	NA	NA	NA	NA	NA

Banks	Year	Paid-up Capital	Shareholder Fund x' Billion	Total Assets x' Billion	Gross Loans & Advances x' Billion	Provision for Bad Debts x' Billion	Deposit Liabilities x' Billion	Deposit Liabilities x' Billion	Deposit Liabilities x' Billion
88. Trans Int'l Bank Plc	2000	588	905	13,082	3,698	720		263	3
	2001	706	1,237	13,135	4,183	553		508	1
	2002	1,000	2,228	14,483	6,394	961	8,759	497	1
	2003	1,000	2,377	19,367	9,065	1,218	8,680	205	
	2004	1,500	2,834	18,799	9,729	1,419	9,786	593	
							13,364		
	2005	NA	NA	NA	NA	NA	14,664	NA	NA
89. Tropical Commercial Bank Plc	2000	600	262	4,388	2,750	746	NA	-175	3
	2002	600	294	5,644	4,448	1,133		58	12
	2003	884	702	8,515	4,749	1,582	3,638	127	11
	2004	1,000	1,590	8,671	5,797	1,704	3,992	203	7
							5,685		
	2005	NA	NA	NA	NA	NA	5,764	NA	NA

NA

Appendix 3

Banks Consolidation

BANKS/GROUPS THAT HAVE MET x25 BILLION CAPITAL BASE AS AT DECEMBER 31, 2005.

The table below shows the 25 banks that met the prescribed x25 billion minimum capital base as at 31 December, 2005 and members of the group.

S/N	Group/Bank Name	Members of the Group
1	Oceanic Bank	❖ Oceanic Bank Plc ❖ International Trust Bank
2	Zenith Bank Plc	❖ Zenith Bank Plc
3	Guaranty Trust	❖. Guaranty Trust Bank Plc
4	Sterling Group	❖ Magnum Trust Bank Ltd ❖ NBM Bank Ltd ❖ NAL Bank Plc ❖. INMB Bank Ltd ❖ Trust Bank of African Ltd
5	First Bank Plc Group	❖ First Bank of Nigeria Plc ❖ FBN Merchant Bankers ❖ MBC International Bank Ltd
6	Intercontinental Bank Group	❖ Global Bank Plc ❖ Equity Bank of Nigeria Ltd ❖ Gateway Bank ❖. Intercontinental Bank Plc
7	Wema Bank Group	❖ Wema Bank Plc ❖ National Bank Plc
8	ETB/Devcom Group	❖ Equitorial Trust Bank Ltd ❖ Devcom Bank Ltd
9	STB/UBA	❖ Standard Trust Bank ❖ United Bank for Africa Plc ❖ Continental Trust Bank

S/N	Group/Bank Name	Members of the Group
10	IBTC/Chartered Bank Group	❖ Regent Bank Ltd ❖ Chartered Bank Plc ❖. IBTC Ltd
11	Unity Bank Group	❖ Bank of the North ❖ New Africa Bank Plc ❖ Tropical Commercial Bank ❖ Centre Point Bank Plc ❖ New Nigerian Bank Plc ❖ First Interstate Bank Ltd ❖ Intercity Bank ❖ Societe Bancaire Ltd ❖ Pacific Bank Ltd
12	Union Group	❖ Union Bank of Nigeria Plc ❖ Union Merchant Bank ❖ Universal Trust Bank ❖ Broad Bank Ltd
13	Afribank Group	❖ Afribank Nigeria Plc ❖ Afribank Int'l Ltd (Merchant Bankers)
14	FCMB Group	❖ FCMB Bank Plc ❖ Cooperative Devpt. Bank Plc ❖ Nig-American Bank Ltd ❖ Midas Bank Ltd
15	Access Group	❖ Marina International Bank Ltd ❖ Capital Bank International Ltd ❖ Access Bank of Nigeria Plc
16	Skye Group	❖ Prudent Bank Plc ❖ Bond Bank Ltd ❖ Cooperative Bank Plc ❖ Reliance Bank Ltd ❖ EIB Bank Ltd
17	Platinum/Habib Group	❖ Platinum Bank Ltd ❖ Habib Nigeria Bank Ltd

S/N	Group/Bank Name	Members of the Group
18	Diamond Bank	❖ Diamond Bank Ltd ❖ Lion Bank Plc ❖ African International Bank Ltd
19	First Inland Group	❖ IMB Bank Plc ❖ Inland Bank Plc ❖ First Atlantic Bank Ltd ❖ NUB Bank Ltd
20	Fidelity Group	❖ Fidelity Bank Plc ❖ FSB International Bank Plc ❖ Manny Bank Ltd
21	Springbank Group	❖ Guardidan Express Bank Ltd ❖ Citizens International Bank Ltd ❖ Fountain Trust Bank Ltd ❖ Omega Bank Plc ❖ Trans International Bank Ltd ❖ ACB International Bank Plc
22	Ecobank	❖ Ecobank Bank Nigeria Plc
23	NIB	❖ Nigeria International Bank Ltd
24	Stanbic	❖ Stanbic Bank Ltd
25	Standard Chartered	❖ Standard Chartered Bank Ltd

Appendix 4

Glossary

GLOSSARY

ABCON	-	Association of Bureaux de Change Operators of Nigeria
AFEM	-	Autonomous Foreign Exchange Market
AIP	-	Approval-in-Principle
ATMs	-	Automated Teller Machines
ATS	-	Automated Trading System
BAS	-	Banking Analysis System
BDC	-	Bureaux de Change
BOFIA	-	Banks and Other Financial Institutions Act
BOI	-	Bank of Industry
BON	-	Bank of the North
CAMA	-	Companies and Allied Matters Act, 1990
CAR	-	Capital Adequacy Ratio
CB	-	Community Bank
CBIC	-	Community Bank Implementation Committee
CBN	-	Central Bank of Nigeria
CDA	-	Community Development Association
CEO	-	Chief Executive Officer
CFR	-	Commander of the Federal Republic
CMU	-	Crisis Management Unit
COBAC	-	La Commission Bancaire de L'Afrique Centrale
CON	-	Commander of the Order of the Niger
CP	-	Commercial Paper
CPEBS	-	Basel Core Principles for Effective Banking Supervision
CRMS	-	Credit Risk Management System
CRR	-	Cash Reserve Requirement
DAS	-	Dutch Auction System
DFI	-	Development Finance Institution
EFCC	-	Economic and Financial Crimes Commission
FATF	-	Financial Action Task Force
FBN	-	First Bank of Nigeria
FC	-	Finance Companies

FHAN	-	Finance Houses Association of Nigeria
FITC	-	Financial Institutions Training Centre
FMBN	-	Federal Mortgage Bank of Nigeria
FMFL	-	Federal Mortgage Finance Limited
FSAP	-	Financial Sector Assessment Programme
FSRCC	-	Financial Services Regulation Co-ordinating Committee
FSSC	-	Financial Sector Surveillance Committee
IAIS	-	International Association of Insurance Supervisors
IFC	-	International Finance Corporation
IFEM	-	Interbank Foreign Exchange Market
IMF	-	International Monetary Fund
IOSCO	-	International Organisation of Securities Commissions
IRB	-	Internal Ratings Based Approach
ISA	-	Investment and Securities Act
ISP	-	Internet Service Provider
IT	-	Information Technology
KYCM	-	Know Your Customer Manual
LAN	-	Local Area Network
MIS	-	Management Information System
MOU	-	Memorandum of Understanding
MPC	-	Monetary Policy Committee
MRR	-	Minimum Rediscount Rate
NACS	-	Nigerian Automated Settlement System
NACRDB	-	Nigeria Agricultural Co-operative and Rural Development Bank
NAICOM	-	National Insurance Commission
NBCB	-	National Board for Community Banks
NCC	-	Nigerian Communications Commission
NCCT	-	Non Co-operative Country and Territory
NDIC	-	Nigeria Deposit Insurance Corporation
NDLEA	-	National Drug Law Enforcement Agency
NIBSS	-	Nigerian Inter Bank Settlement System

NPL	-	Non-Performing Loan
OECD	-	Organisation for Economic Co-operation and Development
OFI	-	Other Financial Institutions
OFID	-	Other Financial Institutions Department
OMO	-	Open Market Operations
P&L	-	Profit and Loss
PBT	-	Profit Before Tax
PKI	-	Public Key Infrastructure
PLC	-	Public Liability Company
PMI	-	Primary Mortgage Institutions
RBS	-	Risk Based Supervision
RI	-	Reporting Institution
ROA	-	Return on Assets
ROE	-	Return on Equity
SEC	-	Securities and Exchange Commission
SME	-	Small and Medium Enterprises
SMEEIS	-	Small and Medium Enterprises Equity Investment Scheme
SMIEIS		Small and Medium Industries Equity Investment Scheme
UOMA	-	La Commission Bancaire de L'Union Montetaire' L'Ouest Africaire
WAFSA	-	West African Financial Supervisory Authority
WAMI	-	West African Monetary Institute
WAMZ	-	West African Monetary Zone

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