

CHAIRMAN'S STATEMENT

I am pleased to present the Annual Report and Statement of Accounts of the Corporation for the year ended 31st December, 2006. The Report reviews important developments in the nation's banking industry in 2006, highlights the activities of the Corporation and provides information and data on insured banks during the year under review.

Macroeconomic Environment in 2006

As in the preceding years since 2004, macroeconomic indicators continued to be favourable for sustained economic growth in 2006. The reform of the polity and economy being pursued by government exerted significant impact on the macroeconomic environment during the year. Nigeria's Long-Term Foreign Currency Issuer Default Rating (IDR) of BB-(BB minus), according to Fitch Rating Agency, showed a balance of reform progress and robust growth driven by non-oil sector against significant developmental challenges, structural and institutional weaknesses and risks and uncertainty associated with the activities of militants in the Niger-Delta oil-producing region.

Despite anxieties that characterized the political landscape in the pre-election year, the government was able to conduct a population census in year 2006. Preliminary result put the country's population at 140 million people as against 88.99 million in 1991. According to the Central Bank of Nigeria (CBN), provisional data on real output as at the end of 2006 showed a growth rate of 5.63% compared with 6.51% in the previous year. The main drivers of growth were agriculture, manufacturing, telecommunications, and wholesale and retail trade; the growth of these non-oil sectors stood at 8.93% as against 8.59% recorded in 2005. The provisional inflation data showed that as at the end of 2006, headline and the food (year-on-year) inflation rate stood at 8.5 and 3.9 percent respectively. However, core inflation was 17.0 percent due to fuel scarcity and worsening energy crises.

In 2006, interest rates on all classes of deposits were generally on the downward trend when compared with the previous year. That was due to government's effort to bring down lending rates coupled with the heightened competition amongst the banks that emerged from the bank consolidation

exercise. The effort to reduce the lending rate also had some effect on interest rate in general. As in the previous year, rates on short-term deposits were generally higher than long-tenored deposits indicating that an inverse yield curve persisted in the money market during the period under consideration.

A review of developments in the Nigerian economy in 2006 showed that the official foreign exchange market was stable. The introduction of Wholesale Dutch Auction System (WDAS) in the first quarter of the year and other measures taken by the CBN to liberalize the foreign exchange market had profound positive effects on the convergence of the exchange rates between the parallel market and the official market. The gross external reserves as at the end of year 2006 amounted to US\$41.96 billion representing an increase of 46.36% when compared with US\$28.3 billion recorded in 2005. Also, Nigeria finally exited the Paris Club in April after a final debt payment of US\$4.5billion. That had profound effect on the level of outstanding debts as at the end of December, 2006. Available figures from the Debt Management Office (DMO) showed that the total external debt stock stood at US \$3.54

billion as at year-end 2006 compared with US\$21.22 billion that was outstanding as at the end of year 2005.

The Banking Environment In 2006

It would be recalled that on July 6, 2004, the CBN announced a major reform programme that would transform the Nigerian banking landscape. The main thrust of the 13-point reform agenda was the requirement of a minimum shareholders' funds of =N=25 billion for insured banks not later than December 31, 2005. The regulation-induced consolidation of the banking industry was successfully completed by 31st December, 2005. On 1 January, 2006, 25 banks emerged through mergers or recapitalization by 75 out of the 89 banking institutions that existed at the end of December, 2004. Fourteen (14) banks that failed to meet the minimum recapitalization requirement deadline had their licences revoked on January 16, 2006 and were handed over to the Corporation for liquidation. As at 31st December, 2006, the Corporation had obtained the necessary winding-up orders from the Federal High Court on 9 out of the 14 banks. In addition, provisional orders were obtained in respect of two more banks while the lawsuits

challenging the revocation of the licences of three banks were still pending before the courts.

Arising from this development, there was a significant improvement in 2006 in the operational capacity of the 25 banks that survived the consolidation exercise. The exercise had increased the absolute levels of capital. Some of the bigger banks recorded significant growth in deposit base depicting improved levels of depositors' confidence. The combinations of these factors had led to enhanced earning capacity in the individual banks.

Notwithstanding these initial successes, the basic challenge of full integration of processes, systems, people, culture, and information technology amongst merging banks was a source of concern to regulators in the course of the year. In addition, during the year, competition amongst the banks deepened as the larger ones sought to further consolidate their positions by expanding market shares through service reach and delivery and broader product offering within and outside Nigeria.

During the year, the CBN released additional guidelines for banks desiring to partner with foreign banks in the management of a portion of the nation's foreign reserves. As at the end of the year, a number of strategic alliances/partnerships had been consummated between some local banks and foreign ones. Fourteen (14) reputable global asset managers alongside their local partners were appointed to manage part of the nation's reserves.

In line with the determination to enhance the safety and soundness of the banking system, the CBN issued a Code of Corporate Governance to guide banks in the post-consolidation era. The Code which was issued on March 1, 2006 became effective on April 3, 2006. The Code covered critical areas such as Equity Ownership; Organizational Structure; Quality of Board Membership; Board Performance Appraisal; Quality of Management and Reporting Relationship. Other issues covered by the Code were Industry Transparency, Due Process, Data Integrity and Disclosure Requirements; Risk Management as well as the Role of Auditors (Internal and External).

During the year, the Financial Action Task Force (FATF), a global anti-money laundering body, announced the delisting of Nigeria from the list of Non-

Cooperative Countries and Territories (NCCTs). The delisting of Nigeria from the FATF list of NCCTs is expected to go a long way to earn the nation good image before the international community. With that development, foreign investors would be more willing to invest in our economy knowing fully well that their investments would be safer than before.

Operational Activities of the Corporation And The Passage Of The NDIC Act, 2006

The Corporation carried out a number of important activities in the course of the year. Considering the policy-induced shakeout in the banking industry and to enhance public confidence in the banking system, the regulatory authorities provided a blanket guarantee for private sector depositors of the 14 banks that were closed in January, 2006. To fulfill that objective, and to ensure access to banking services in communities where the failed banks were located, the Purchase and Assumption (**P & A**) resolution method was adopted. Under the P&A arrangement, interested consolidated banks were

encouraged to purchase some or all the assets of the failed banks and also assume some or all the liabilities especially private-sector deposits.

Among the various challenges faced by the Corporation in implementing the P&A option were legal impediment, recovery of bad loans, escalation in bank closing and related costs, etc. As at the end of 2006, four of the failed banks had been acquired under the P & A arrangements.

During the year, the Corporation continued the payment of insured deposits to depositors of 34 banks in liquidation. The cumulative breakdown of these payments from 1994 to 2006 revealed that the Corporation paid out the total sum of N4,157.091 million as at December 31, 2006, to 337,568 insured depositors compared to the figure of N3,302.578 million paid to 270,299 insured depositors as at December 31, 2005. Similarly the payment of liquidation dividends to the uninsured depositors continued during the year. The sum of N13,263.59 million was paid as liquidation dividend as at 31st December 2006 as against the sum of N5,967.06 million paid as at 31st December, 2005. This showed an increase of N7,296.53 million.

As in the previous years, the low response of depositors to the collection of their deposits continued to be a source of concern to the Corporation. In spite of several extensions of dates for payment of insured depositors as well as enlightenment campaigns embarked upon by the Corporation to ensure that claimants filed their claims with ease, depositors and other claimants alike, had not responded adequately. Consequently, many depositors were yet to file their claims as at December 31, 2006.

In furtherance of its supervisory mandate the Corporation conducted 6 routine and 14 special examinations as well as 11 special investigations on insured banks in 2006. There were basically two major findings of the routine examination of banks: Some of the banks that opted to stand alone, had significantly raised their shareholders' funds and were thus, able to raise their balance sheet footings considerably; while those that acquired or merged with other banks were bogged down by post consolidation integration challenges. The Corporation also examined a total of 132 special insured institutions comprising 110 Community Banks (CBs) and 22 Primary Mortgage Institutions

(PMIs) in the year 2006. The on-site examination of the institutions revealed that most of them had continued to harbour poor corporate governance practices and consequently had poor quality assets which impacted negatively on their earnings and profitability.

In spite of these achievements, the operation of the deposit insurance scheme in Nigeria in the last 18 years had not been without some constraints and challenges. One of the challenges included the inadequate legal powers for the Corporation which the old statutes (the NDIC Act of 1988 and the NDIC Amendment Act of 1997), were not able to address, hence the need for a revision. The NDIC Act 2006, which undertook the revision, was signed into law by the President of the Federal Republic of Nigeria in December, 2006. A notable area of the reforms under the NDIC Act 2006 is the enhancement of the legal powers of the Corporation. The NDIC Act 2006 is expected to address most of the legal constraints facing the Corporation as well as provide it with enhanced powers for timely and resolute intervention in ailing banks.

Future Outlook and Conclusion

Let me seize this opportunity to assure the public that the Corporation is poised to effectively protect bank depositors in Nigeria. I wish to re-assure the banking public that the Corporation is more than ever before repositioned to contribute effectively towards the stability, safety and soundness of the financial system. The Corporation will continue to build upon the strong foundation that it had over the years, worked hard to establish. In a dynamic environment, with international best practices continually evolving, the NDIC is determined to implement a continuous improvement process in order to meet its public policy objectives and to demonstrate to its stakeholders that it is fulfilling its mandate as well as being responsive to their needs. The NDIC Act which was assented to by the President of the Federal Republic of Nigeria during the year, will go a long way to address some of the legal constraints that had over the years faced the Corporation. The Act will also provide the Corporation with sufficient powers for timely and resolute intervention in ailing banks.

Finally, I would like to extend my sincere thanks and appreciation to my fellow Board members, the entire management and staff for contributing to the Corporation's excellent performance during the year under review. The Corporation's successes in 2006 were made possible by the hard work, professionalism and dedication of Management and employees. It is my sincere hope that the performance will be improved upon in the succeeding years as we brace up for the various challenges ahead, especially in a consolidated Nigeria banking system.

Thank you

Mr. Chris Oji, JP

Chairman

Section 1

Banking Environment In 2006

1.0 Introduction

Since May, 2003 banks' operating environment had been extensively shaped by reforms implemented by government to stimulate economic growth and stability. In 2006, the implementation of those reforms continued to exert significant influence on the different sectors of the economy including the banking industry. The effects of the policy-induced consolidation and recapitalization exercise in the banking industry which was concluded in 2005 continued to be felt throughout the economy as fourteen banks had their licences withdrawn earlier in the year whilst most of the surviving banks were able to enjoy enhanced earning capacity. Also, of considerable influence on the operating environment were changes

made to existing monetary, credit and foreign exchange policies by the Central Bank of Nigeria (CBN).

Another memorable development during the year was the exit of the country from the Paris Club of Creditors after the successful payment of her negotiated debt. Furthermore, the government's commitment to eradicating economic crime manifested in the delisting of Nigeria by the Financial Action Task Force (FATF) from its list of non-cooperating countries in the fight against money laundering and other financial crimes. On the socio-political scene, problems such as those associated with the incessant violence in the Niger-Delta continued to be the albatross in the nation's march towards greatness.

During the period under review, the Nigeria Deposit Insurance (NDIC) Act 2006 was enacted to replace the former Act. The NDIC Act 2006 contains provisions which address most of the legal constraints facing the Corporation and provides the NDIC with enhanced powers for timely and

resolute intervention in ailing banks. Highlights of the NDIC Act 2006 are provided in Section 12 of the report.

Apart from this introduction, the rest of this section is divided into four, namely: highlights of the amendments to the monetary policy guidelines, an appraisal of the implementation of those policies, a review of the economic/socio-political environment and an assessment of banking sector's performance.

1.1 Highlights of the Amendments to the Monetary Policy for 2006

According to the Monetary Policy Committee (MPC) of the CBN, the changes to existing monetary policy guidelines were informed by the challenges posed by an expected liquidity overhang during the year. That expectation was based on the following:

- The likelihood of a more expansionary fiscal policy with a proposed increase in the oil price benchmark used for the budget;
- The injection of ‘off-budget’ liquidity into the economy as a result of the implementation of special projects such as building of power plants;
- Increased capital inflows, especially the portfolio type; and
- Possibility of increased spending in preparation for 2007 general elections.

1.1.1 Policy Objectives and Thrusts

The major objectives of monetary policy remained the same as in the previous year. However, much attention was expected to be focussed on overcoming the likely liquidity overhang and maintenance of macroeconomic stability. Other main objectives were as follows:

- X Maintenance of single digit inflation rate by the end of 2006;
- X Gradual reduction in the cost of borrowing by private sector

investors through reduced interest rates, and to improve capacity utilisation and output growth;

- X Maintenance of monetary stability; and
- X Sustenance of exchange rate stability.

In order to achieve the above objectives, the main policy thrusts as enunciated by the CBN were as follows:

- + Gross Domestic Product (GDP) growth rate of about 10 percent;
- + Single 'core' inflation rate and strong commitment to attaining a single digit 'headline' inflation rate;
- + Broad money (M2) growth rate of 15-17 percent;
- + Bank credit to the private sector of about 30 percent; and
- + Flexible exchange rate regime to ensure stable macroeconomic environment.

1.1.2 Policy Measures

Major policy measures applied in 2005 were to be employed in 2006 fiscal year. In the main, they were as follows:

(a) Liquidity Management Measures

In 2006, the CBN was expected to tighten all sources of excess liquidity injection into the system. As a result of that, the apex bank was to maintain zero Ways and Means advances to Government as was done in the previous year. In the extreme, Government could be allowed to borrow up to 5% of previous year's actual revenue. Such indebtedness was to be repaid within the quarter when the advance was given at an interest rate of Minimum Rediscount Rate+1 (MRR+1) percent. In addition, the CBN intended to mop up excess liquidity through the use of instruments such as Open Market Operations (OMO). That was anticipated to be carried out in a more systematic manner during the year. Cash reserve requirement was to complement OMO to curb the growth of excess liquidity in the system. Thus, the cash reserve ratio (CRR) was to remain unchanged while

liquidity ratio (LR), another complementary liquidity and prudential measure, was to remain at 40%.

(b) Exchange Rate Policy

The major exchange rate policy that was implemented during the year under review was the Wholesale Dutch Auction System (WDAS) which came on stream in the first quarter of 2006. As enunciated by the CBN, the introduction of WDAS was to foster exchange rate convergence between the Dutch Auction System (DAS) and the inter-bank market rates.

(c) Interest Rate Policy

As was the case in 2005, in 2006, CBN was to move to a regime of more active monetary policy, with decisions on interest rate reviewed every quarter. The anchor rate would be the MRR and would be reviewed in line with the anti- inflation stance of the CBN.

1.2 Implementation of Monetary and Banking Policy

1.2.1 Minimum Re-discount Rate (MRR) and Other Rates

Presented in Table 1.1 are the MRR, CRR and LR between January and December, 2006

TABLE 1.1

MINIMUM RE-DISCOUNT RATE (MRR), CASH RESERVE REQUIREMENTS (CRR) AND LIQUIDITY RATIO (LR) (%) IN 2006

MONTH	MRR	CRR	LR
January	13	5	40

February	13	5	40
March	13	5	40
April	13	5	40
May	13	5	40
June	14	5	40
July	14	5	40
August	14	5	40
September	14	5	40
October	14	5	40
November	14	5	40
December	10	3.6	40

Source: CBN

As shown in Table 1.1, rates used for monetary management during the year under review were generally very stable from January to November.

Amongst the three rates, only the MRR was changed once mid-year. MRR was increased by 100 basis points from 13% to 14% in June in a bid to reduce the pressure on the economy occasioned by rise in excess liquidity. Towards the end of year, the CBN introduced a new interest rate regime that replaced the existing one (see Section 1.2.2 for details). The new Monetary Policy Rate which replaced the MRR was pegged at 10% whilst the CRR was reduced from 5% to 3.6%.

1.2.2 Introduction of New Interest Rate Regime

Towards the end of 2006, the CBN introduced a new interest rate regime with the establishment of an “operating target” interest rate as the nominal anchor of all interest rates in the country. The apex bank stated that the new regime, which became effective as from December 11, 2006 was introduced in a bid to move the economy towards a market-driven interest rate regime and enhance its efficiency in the conduct of monetary policy. Before then, the MRR was the nominal anchor of all interest rates in the economy and had been the rate at which the CBN re-discounted facilities

for banks and as such, influenced directly the level and direction of change in interest rates.

According to the CBN, the ultimate goal of the new framework was to achieve a stable value of the domestic currency through stability in short-term interest rates around the “operating target” interest rate, which would be determined and operated by the CBN. The “operating target” rate otherwise called the Monetary Policy Rate (MPR) would serve as an indicative rate for transactions in the inter-bank market, money market as well as other Deposit Money Banks’ interest rates. In addition, the new regime would help in controlling the supply of settlement balances of banks and motivate the banking system to target zero balances at the CBN, through an active inter-bank trading or transfer of balances at the Bank. That, according to the apex bank, would engender symmetric treatment of deficits and surpluses in the settlement accounts, so that for any bank, the cost of an overdraft at the CBN would be equal to the opportunity cost of holding a surplus balance with the apex bank.

Actual and expected inflation rates, according to the CBN, would be key considerations in the determination of the MPR. This was to ensure that interest rates remained positive in real terms. In that respect, the MPR was pegged at 10 percent, using the current rate of inflation and the expected inflation rate of 9 percent for the year 2006. A spread of 600 basis points was built around the rate, i.e. 300 basis points below and 300 basis points above. That translated into an upper limit of 13 percent, which would be the Repo rate and a lower limit of 7 percent, representing the rate at which the CBN would take deposits from banks.

1.2.3 Implementation of Wholesale Dutch Auction System

(WDAS)

Consistent with the objectives of enhancing efficiency in the Foreign Exchange Market through market determination of the Naira exchange rate, the Central Bank of Nigeria during the period under review, adopted the

Wholesale Dutch Auction System (WDAS). Specifically in February, the CBN issued new Authorized Dealership Licence (ADL) to banks which met the prescribed requirements. The requirements for the issuance of the Authorized Dealership Licence (ADL) included, among others:

- A dealing room fully equipped with Reuters Dealing Terminals, functional fax and telephone lines;
- Qualified and experienced dealers and;
- Payment of a licence fee of =N=1.5 million.

The Authorized Dealership licences issued were to be valid for a period of one year from date of issue and would be renewable from year to year upon payment of licence renewal fee to be fixed from time to time by the CBN. The minimum bid amount by an Authorized Dealer would be \$100,000.00 and the currencies of transaction would be the Naira and United States Dollar. Authorized Dealers were expected to return to the Central Bank of Nigeria any unutilized funds within fifteen (15) business days after delivery at the rate of purchase. Authorized Dealers under the

new system, were required to quote two-ways and display in their Banking Halls the buying and selling rates conspicuously. The spread between the buying and selling rates as indicated in the Circular was not to exceed 1 percent.

Apart from the introduction of WDAS, the CBN also took some measures and strategic initiatives to liberalize the foreign exchange market. The main strategy was to ensure increased supply of foreign exchange to all markets and also remove access restrictions to the official market thereby reducing the demand pressure on the parallel market. The ultimate objective was to facilitate a convergence between both markets as well as to achieve a single exchange rate for the Naira. Some of the initiatives/measures included:

- ❖ a 100 per cent increase in business and personal travel allowances (BTA and PTA).

- ❖ Bureau de Change (BDC) operators were permitted to source foreign exchange from the official market (from and through the banks) as well as the CBN. They were also to serve as brokers within the inter-bank market framework and, in addition, effect transfer of foreign exchange through their domiciliary accounts with commercial banks.
- ❖ Banks, travelex and other authorized dealers were also allowed to import foreign exchange and supply to the market subject to statutory guidelines.
- ❖ CBN introduced a cash swap system whereby it would sell foreign exchange to some designated banks to be repurchased in future.
- ❖ A simplified foreign exchange procurement documentation for overseas medical treatment and payment of school fees was introduced.
- ❖ Banks were allowed to operate BDC window/outlet as part of their financial products' offering.

1.2.4 Banking Sector Consolidation

The policy-induced consolidation of the industry that started in July 2004 was completed by 31st December, 2005. On 1 January, 2006, 25 banks emerged from 75 of the 89 banking institutions that existed at the end of June, 2004. The remaining fourteen (14) banks with negative networth had their licences revoked and were handed over to the Corporation for liquidation. The names of these banks are contained in Table 1.2.

Table1.2

List of 14 banks whose Operating Licences Were Revoked On January 16, 2006

S/N	BANK
1	African Express Bank
2	AllStates Trust Bank
3	Assurance Bank of Nigeria
4	City Express Bank
5	Eagle Bank
6	Fortune International Bank
7	Gulf Bank
8	Hallmark Bank

9	Lead Bank
10	Liberty Bank
11	Metropolitan Bank
12	Societe Generale Bank
13	Trade Bank
14	Triumph Bank

In keeping with the legal requirements, the Corporation had to obtain winding orders from the Federal High Court (FHC). As at 31st December, 2006, the Corporation had obtained nine winding orders in respect of the following banks:-

- African Express Bank PLC
- Allstates Trust Bank PLC
- Assurance Bank Limited
- City Express Bank Limited
- Gulf Bank of Nigeria PLC
- Hallmark Bank PLC
- Metropolitan Bank Limited

- Trade Bank PLC and
- Lead Bank Limited.

In addition, two provisional orders were obtained in respect of Fortune International Bank Limited and Eagle Bank Limited.

In order to enhance public confidence in the banking system, the regulatory authorities had given a blanket guarantee to private sector depositors of the failed banks. In order to sustain public confidence and ensure continued access to banking services in communities where the failed banks were located, the Purchase and Assumption (P&A) resolution method was adopted by the regulatory authorities. Under such arrangement, interested consolidated banks were encouraged to purchase some or all the assets of the failed banks and also assume some or all the liabilities. As at the end of 2006, four of the failed banks had been acquired. Details are shown in Table 1.3.

Table 1.3

List of Failed Banks Whose Assets Were Purchased And Liabilities Assumed By Healthy Banks

S/N	Failed Banks	Acquiring Banks
1	Allstates Trust Bank	Ecobank Nigeria PLC
2	Assurance Bank of Nigeria PLC	Afribank of Nigeria PLC
3	Lead Bank Plc	Afribank of Nigeria PLC
4	Trade Bank of Nigeria PLC	United Bank of Africa PLC

Under the P & A arrangement, Ecobank Plc as shown in Table 1.3, acquired the fixed assets of All States Trust Bank Plc (in-liquidation) and assumed the private deposit liabilities. Also, Afribank Plc acquired the fixed assets and assumed the private deposit liabilities of Assurance Bank Nigeria Ltd (in-liquidation) and those of Lead Bank Plc (in-liquidation) while UBA Plc acquired the fixed assets of Trade Bank Plc (in-liquidation) and assumed its private deposit liabilities. Among the various challenges

faced by the Corporation in implementing the P&A option were litigations by erstwhile banks' owners, inability to recover the failed banks' loans, escalation in bank closing and related costs, etc. Details of these challenges are provided in Section 8 of the report.

For the surviving 25 banks, the consolidation exercise had increased the absolute levels of capital and enhanced the banking sector's ability to support real sector growth. During the period under review, some of the bigger banks had also recorded significant growth in deposit base which depicted improved levels of depositors' confidence. The combinations of these factors had led to enhanced earning capacity in the individual banks. Notwithstanding these initial successes, the basic challenge of full integration of processes, products, systems, personnel, culture, and information technology amongst merging banks was a source of concern to regulators. In addition, during the year, competition amongst the banks deepened as the larger ones sought to further consolidate their positions

by expanding market shares through service reach and delivery and broader product offering within and outside Nigeria.

1.2.5 Appointment of Four (4) Additional Settlement Banks By The Central Bank of Nigeria

During the period under review, the Central Bank of Nigeria appointed four additional banks as Settlement and Clearing Banks. The new settlement banks were Access Bank PLC, Diamond Bank PLC, Intercontinental Bank PLC and IBTC-Chartered Bank PLC. The four banks joined the other six (6) Settlement banks (United Bank for Africa (UBA) PLC, Zenith International Bank PLC, Guaranty Trust Bank PLC, First Bank of Nigeria PLC, Afribank (Nigeria) PLC, and Union Bank of Nigeria PLC) which were appointed by the apex bank on 1st April, 2004. The appointment of the new Settlement banks took effect from March 6, 2006. To become a Settlement/Clearing Bank, two basic requirements were:

- The pledge of a minimum of =N=16 billion worth of Nigerian Treasury Bills (NTBs) with the apex bank as settlement collateral;
- Branch network in all the existing 22 CBN locations and any other that would be opened in future.

1.2.6 Release of Additional Guidelines For Reserve Management By The Central Bank of Nigeria (CBN)

The Central Bank of Nigeria (CBN) during the period under review, released additional guidelines for banks desiring to partner with foreign banks in the management of the nation's foreign reserves. According to the apex bank, a foreign bank would be eligible for appointment as a custodian or asset manager for the CBN external reserves provided it had satisfied the following conditions:

- a) Has a minimum long and short-term ratings of AA- and AA+ respectively, in the case of a custodian, or A and A+, respectively in

the case of asset manager by any two international rating agencies of Standard & Poor's, Fitch and Moody's;

- b) Has minimum track record of five years in the provision of custodian services and/or asset management services;
- c) Maintains at least a subsidiary in any of the OECD countries where the currency is freely convertible;
- d) Custody/asset management approval by relevant offshore regulatory authority.

In addition to these, a foreign bank that satisfied the above criteria and was interested in external reserves management must be willing to enter into a strategic alliance in the form of a partnership but preferably a Joint Venture arrangement with at least one local bank in order to develop internal capacity in asset management. The strategic alliance, the CBN added, should detail the areas of the joint venture or the kind of support to be provided in the partnership and a timeline indicating the period within which the agreement would be implemented. In addition, the details of the

strategic alliance/partnership arrangement were expected to be embodied in an agreement that must be acceptable to the CBN. An interested foreign bank would be at liberty to partner with any number of local banks.

As regards joint venture, CBN required collaborating banks to incorporate a company either in Nigeria or OECD countries and spell out the memorandum clearly including the responsibility of each partner and the joint responsibility.

For foreign banks interested in securing CBN's mandate for asset management, the CBN stated that its matrix should be in a descending order, and advised banks to have "foreign bank + subsidiary/branch in Nigeria + partnership with local banks."

In respect of asset management and deposit mandate, it stipulated "foreign bank + no branch in Nigeria + partnership with local bank".

For deposit placement and asset management mandate, it stipulated “foreign bank + no branch in Nigeria + no partnership with local bank.

For asset management mandate, it stipulated “asset manager (not a bank) + no branch in Nigeria + no partnership with local bank.”

For a local bank to qualify for the CBN’s mandate to manage a portion of its reserves, it must satisfy the following criteria:

- * a minimum of \$1 billion shareholders’ fund;
- * a branch/subsidiary in OECD country whose currency is convertible;
- * a credit rating by two of the three international rating agencies – Standard & Poor’s, Moody’s and Fitch.

As at the end of the year, a number of strategic alliances/ partnerships had been consummated between some local banks and some foreign ones. Fourteen reputable global asset managers alongside their local partners were appointed during the year to manage part of the nation’s

reserves. Table 1.4 contains the list of the appointed local banks and their foreign partners.

TABLE 1.4

LIST OF STRATEGIC ALLIANCES/PARTNERSHIPS BETWEEN LOCAL AND FOREIGN BANKS FOR THE MANAGEMENT OF EXTERNAL RESERVES

S/N	LOCAL BANK	FOREIGN PARTNER
1	Zenith International Bank PLC	JP Morgan Chase
2	First Bank of Nigeria PLC	HSBC
3	IBTC-Chartered Bank PLC	Credit Sussie
4	United Bank of Africa PLC	UBS AG
5	Intercontinental Bank PLC	BNP Paribas of Paris
6	Oceanic Bank PLC	Commerzbank AG of Germany
7	Bank PHB PLC	Fortis Group
8	Diamond Bank PLC	Crown Agents Investment Management
9	Ecobank Nigeria PLC	ING Belgium Sa

10	Union Bank of Nig PLC	Black Rock
12	Access Bank PLC	FMO/ABN AMRO
13	Fidelity Bank PLC	Investec Asset Management
14	Stanbic Bank PLC	Bank of New York

1.2.6 Introduction Of 2-Year and 3-Year FGN Bonds And The Restructuring Of Tenor Of Treasury Bills

In continuation of its efforts geared towards controlling excess liquidity in the economy, the Central Bank of Nigeria (CBN), during the period under review, commenced the use of non-discount CBN Bills for liquidity management. Also, the apex bank introduced the 2-year and 3-year FGN Bonds while the Treasury Bills were restructured into longer tenors during the period under review.

1.2.7 Tax Waiver on Interest Earning from Agricultural Lending By Banks

Following the resolution of banks to reduce interest rate on agricultural loans subsequent to an agreement reached with government that tax exemption would be granted on the interest earned on such facilities, the

President of the Federal Republic of Nigeria had, magnanimously, approved tax waiver on interest earnings from agricultural loans for 2006 fiscal year. It would be recalled that in the first quarter of the year, interest rate on agricultural loan was pegged at 14% following an agreement amongst all stakeholders. In order to give effect to the resolution of the stakeholders, the CBN agreed to provide 6 percent subsidy and the beneficiaries were required to pay the balance of 8 percent. The new development was in recognition of the significant role of the agricultural sector in sustaining the country's economic growth.

1.3 Other Developments

1.3.1 Exit of Nigeria from the Paris Club of Creditors

During the month of April, Nigeria finally exited the Paris Club of Creditors. The exit was made possible after the country paid the last tranche of \$4.5 billion to the Paris Club. Nigeria had, therefore, become the first African country to pay off its debts to the Club. The development had made

Nigeria to move from a highly indebted country to a country with a manageable debt.

It is worthy of note that the exit of the country from the Paris Club came after a favourable appraisal of the nation's economic reform programme by the Executive Board of the International Monetary Fund (IMF) in a debt-buy-back scheme negotiated under the Naples Terms. Nigeria reached a debt deal in October 2005 with the Paris Club and that allowed her to pay about \$12 billion for about \$30 billion in accumulated debt, an overall discount of about 60 percent. Also, the International Monetary Fund (IMF) during the period approved a two-year Policy Support Instrument (PSI) for Nigeria, as a pre-condition to exit the Paris Club debt quagmire because of the strength of the country's economic programme.

1.3.2 Issuance Of A Code of Corporate Governance for Banks in Nigeria.

During the year, the CBN issued a Code of Corporate Governance to guide banks in the post-consolidation era. The Code of Corporate Governance which was issued on March 1, 2006 became effective on April 3, 2006. The main aim of the Code was to address the observed lingering poor corporate governance practices by Nigerian banks. The Code covered critical areas such as Equity Ownership; Organizational Structure; Quality of Board Membership; Board Performance Appraisal; Quality of Management and Reporting Relationship. Other issues covered by the Code were Industry Transparency, Due Process, Data Integrity and Disclosure Requirements; Risk Management as well as the Role of Auditors (Internal and External).

1.3.3 Repeal of the Community Bank (CB) Act of 1992

During the period under review, the Federal Executive Council (FEC) approved that the Community Bank Act No. 36 of 1992 be repealed and the takeover of supervision of CBs by the CBN in accordance with Section

23 of the Banks and Other Financial Institutions Act (BOFIA) No. 38 of 1998. That development was to remove hindrances to the commencement of licensing of Micro-finance banks which were to be formed from the existing CBs.

1.3.4 De-listing of Nigeria From The List of Non-Cooperative Countries and Territories (NCCTs) By The Financial Action Task Force (FATF)

During the period under review, the Financial Action Task Force (FATF), a global anti-money laundering body, announced the delisting of Nigeria from the list of Non-Cooperative Countries and Territories (NCCTs). The delisting of the country's name from the FATF list of NCCTs would go a long way to earn the nation good image in the international community. With that development, foreign investors would be more willing to invest in the nation's economy knowing fully well that their investments would be safer than before.

1.3.5 Debt Management Office (DMO) Launched The Primary Dealer Market Maker (PDMM) System In Federal Government of Nigeria (FGN) Bonds

In its attempt to build and grow a vibrant and liquid bond market, the Debt Management Office (DMO) inaugurated the Primary Dealers and Market Makers System in FGN Bonds with the granting of licences to 15 Primary Dealers and Market Makers (PDMMs) during the period under review. The operators comprised ten banks and five discount houses. Their names were as follows:

BANKS

- ❖ Access Bank PLC
- ❖ Fidelity Bank PLC
- ❖ First Bank of Nigeria PLC
- ❖ First City Monument Bank PLC
- ❖ Guaranty Trust Bank PLC
- ❖ IBTC-Chartered Bank PLC
- ❖ Nigeria International Bank LTD

- ❖ Stanbic Bank (Nig.) LTD
- ❖ Standard Chartered Bank
- ❖ United Bank for Africa PLC

DISCOUNT HOUSES

- ❖ Associated Discount House Limited
- ❖ Consolidated Discount Limited
- ❖ Express Discount Limited
- ❖ First Securities Discount House Limited
- ❖ Kakawa Discount House Limited

The roles and responsibilities of PDMMs included the following:

- i) Full take up of bond auctions and distribution of same to the investing public;
- ii) Making markets by facilitating active trading in FGN Bonds through the provision of two-way price quotes; and
- iii) Provision of market information.

1.3.6 Organization Of The Depositors' Protection Awareness Week By The NDIC

During the last quarter of the year, the Corporation organized its Depositors' Protection Awareness Week. The theme of the programme which took place from November 20 – 24, 2006 was *“Deposit Insurance Scheme: Legal and Liquidation Challenges”*. Some major activities that took place during the Awareness Week included a Press Briefing by the Managing Director/Chief Executive Officer (CEO) of the Corporation NDIC, Mr G. A. Ogunleye, OFR; the presentation of the Nigerian Banking Law Reports (NBLR) as well as a Public Lecture. There was also a memorable novelty football match which involved both male and female senior staff/executives of the Corporation. Finally a gala night/dinner was organized for staff of the Corporation to end the week.

1.3.7 Central Bank Granted Operating Licences to Micro-Finance Banks

During the period under review, the CBN granted final licences to seven Micro-Finance Banks (MFBs). The MFBs were as follows:

- ❖ Integrated MFB Limited
- ❖ WizeTrade MFB Limited
- ❖ Susu MFB Limited
- ❖ Prime MFB Limited
- ❖ Nwannegadi MFB Limited
- ❖ First Global MFB Limited
- ❖ MIC MFB Limited

Two (2) Community Banks were also converted to MFBs during the year.

The affected institutions were:

- ❖ PROSPERITY MFB Limited
- ❖ EKONDO MFB Limited

According to the CBN, 16 other MFBs were granted Approval-In-Principle (AIP) in 2006, while 141 Community Banks had applied for conversion to MFBs.

1.4 Macroeconomic/Socio-Political Environment

In 2006, the macroeconomic indicators continued to be favourable, just as in the previous few years. The reform of the polity and economy being pursued by government since 2003 exerted significant impact on the environment during the year. Nigeria's Long-Term Foreign Currency Issuer Default Rating (IDR) of BB-(BB minus), according Fitch Rating Agency, showed a balance of reform progress and robust growth driven by non-oil sector against significant developmental challenges, structural and institutional weaknesses and risks and uncertainty associated with persistent uprising in the Niger-Delta oil-producing region.

At the end of 2006, provisional data on real output, according to CBN, showed a growth of 5.63% compared with 6.51% growth in the previous

year. The main drivers of growth were agriculture, manufacturing, telecommunications, and wholesale and retail trade; the growth of these non-oil sectors stood at 8.93% as against 8.59% recorded in 2005. The sustained insurgency in the Niger-Delta region resulted to a negative growth rate of 4.67% for the oil sector. Provisional inflation data showed that as at the end of 2006, headline and the food (year-on-year) inflation rate stood at 8.5 and 3.9 percent respectively. However, core inflation was 17.0 percent due to fuel scarcity and disturbances in the Niger-Delta region.

Available data from the CBN showed that growth in aggregate domestic credit (net) declined by about 88.84% at end of 2006 relative to its level at the end of 2005 despite the 37% credit growth recorded by the private sector. The fall in aggregate credit was attributed to the decline in credit (net) to government. In 2006, Broad money (M2) grew by 28.23% over the previous year's level; that was a little bit above the target of 27.8% for

the year. Money supply was influenced mainly by growth in banks' credit to the private sector.

Following continued higher oil prices coupled with fiscal prudence on the part of the economic managers, gross official reserves as at the end the period under review amounted to US\$41.96 billion representing an increase of 46.36% when compared with US\$28.3 billion recorded at the end of the previous year. That level of reserves could finance 22.4 months of imports at the current rate of foreign exchange commitments. At the international scene, Nigeria finally exited the Paris Club in April after a final debt payment of US\$4.5billion. That had profound effect on the level of outstanding debts as at the end of December, 2006. Available figures from the DMO showed that the total external debt stock stood at US \$3.54 billion (made up of Multilateral and Non-Paris Club debts as well as Promissory Notes), as at year-end 2006 compared with US\$21.22 billion which was outstanding at the end of the previous year.

During the period under review, the Federal Government established a Petroleum Support Fund (PSF), effective January 2006, to stabilize the domestic prices of petroleum products against volatility in international oil prices. Available information showed that a sum of ₦217 billion was used to subsidize fuel between January and October as against a budgeted sum of ₦150 billion for the whole year. Notwithstanding such effort, fuel shortages were experienced nationwide towards the end of the year thus increasing the cost of running business. Despite the reform put in place in the power sector which included the enactment of new laws and other institutional changes amongst others, the nation continued to witness sustained decline in Mega Watts available for distribution. Again, that development continually increased the cost of doing business in the country. For other basic infrastructures, such as water, security and some basic services, their inadequacy remained a key constraining factor in the country's operating environment as it impacted negatively on the operational efficiencies of businesses.

On the socio-political scene, the nation witnessed a worsening situation in the crisis rocking the Niger-Delta region. In spite of the effort of government to put the crisis under control, the crisis continued to escalate resulting in several cases of hostage-taking and sometimes death of some of the hostages in 2006. The crisis took its toll on the growth of the oil sector. For the first time, the sector experienced negative growth rate. Many business outfits, oil and non-oil related, left that region during the year owing to the palpable fear created by the activities of agitators in the region.

The political landscape in the pre-election year was characterized by tension and anxiety amongst the populace. In spite of that situation, the government was able to conduct a population census, albeit controversial, during the period under review. Preliminary result put the country's population at 140 million people as against 88.99 million in 1991. The growth rate of the population was put at 3.2% an increase over 2.9% in

1991. For purposes of planning, especially at the macro level, that effort could be considered a step in the right direction.

In 2006, interest rates were generally on the downward trend when compared with what obtained in the previous year. The main cause of that trend was the continual drop in inflation rate resulting from government efforts in keeping it at bay. The determination to reduce the lending rate also had some effect on interest rate in general. As shown in Table 1.5, rates on savings averaged 4.5% in 2006 just as was obtainable in the previous year whereas rates on 3-month tenored deposit averaged 11.3%, a 1.5 percentage decrease from the position attained in December 2005. Average rates on other classes of deposits were 6.4%, 11.7%, 8.9% and 9.3% for 7-day, one-month, six-month and 12-month tenored deposits respectively. As evident in the table, rates on short-term deposits were generally higher than long-tenored deposits indicating that an inverse yield curve persisted in the money market during the period under consideration as was the case in the preceding year.

TABLE 1.5
AVERAGE INTEREST RATE (%)
JANUARY- DECEMBER, 2006

Month	Savings Account	Time Deposits					T-Bills Rate	Prime Lending Rate
		7 Day	1month	3 month	6month	12month		
January	4.8	6.7	11.8	11.4	8.6	9.5	11.9	17.4
February	4.5	6.1	11.6	10.9	8.5	9.5	8.0	17.3
March	4.7	6.1	11.9	11.3	8.5	9.4	9.3	17.6
April	4.7	6.2	11.4	11.1	8.6	9.4	6.0	17.2
May	4.4	5.9	11.3	10.7	8.4	9.4	5.95	17.4
June	4.6	6.2	11.4	10.9	8.4	9.4	3.5	17.8
July	4.2	6.2	11.1	10.2	8.4	9.0	7.0	17.2
August	4.4	6.3	11.1	10.5	8.5	9.0	6.2	17.6
September	4.5	6.7	11.3	10.8	8.5	9.0	6.0	17.9
October	4.3	6.3	11.7	10.8	8.4	9.0	6.1	17.5
November	4.4	6.5	13.6	13.3	9.0	9.5	5.4	17.7

December	4.7	8.0	12.3	13.2	13.5	9.0	6.1	17.9
Average	4.5	6.4	11.7	11.3	8.9	9.3	6.8	17.5

Source: Bank Returns and CBN Research Department

Rates on 91-day Treasury Bills were generally unstable throughout the year: the highest rate was in January when it anchored at 11.9% and the lowest was experienced in June when it stood at 3.5%. Government's desire to maintain a single digit rate on its bill resulted in an average of 6.8% by the end of the period under review. The Prime Lending Rate (PLR) also witnessed a decline in 2006 relative to the previous year, all due to government's effort to bring down rates on loans and other advances and the keen competition amongst the consolidated banks. In fact, towards the end of the year, the CBN with the agreement of other stakeholders pegged other charges on loans, besides the agreed lending rates, at a maximum of two percent thus further exerting a downward pressure on lending rate. As at the end of 2006, average Prime Lending Rate (PLR) stood at 17.5%. Despite the reduction in lending rate, there was a slight increase in the spread between it and rates on deposits. For

example, the spread between the average rate on three-month deposit and the PLR was 6.2% against a spread of 6.0% during the previous year. Similarly, the difference between the average lending rate and average savings rate was 13.0%, an increase of 80 basis points above the spread in 2005. Thus, government's efforts at reducing the spread between deposits and lending rates did not yield the desired result during the year.

The introduction of WDAS in the first quarter of the year and other measures taken by the CBN to liberalize the foreign exchange market had profound positive effects on the convergence of the exchange rates between parallel market and the official market as shown in Table 1.6. In the first half of the year, the gap between the rates in the official market and the other two markets: Bureau de Change and Parallel averaged =N=16.5 and =N=17.5 respectively. However, during the second half when the effects of those policies began to fully manifest, the gap reduced substantially to =N=2 in the Bureau de Change and about N4.5 in the parallel market. In other words, the effects of the policies led to some

recognizable appreciation (about 10.2%) in the value of the naira against the US dollar, during the year, in the two segments of the unofficial market. In the official market, the exchange rate was very stable during the period under consideration. The source of the observed stability could be ascribed to the positive effects of new policies implemented by the CBN, accretion to external reserves during the year as well as fiscal prudence exhibited by the government.

TABLE 1.6

NAIRA EXCHANGE RATE (x/US\$)

JANUARY-DECEMBER 2006

MONTH	WDAS	BUREAU DE CHANGE	PARALLEL MARKET
JANUARY	129	143.7	144.31
FEBRUARY	128.6	143.9	144.4
MARCH	127.8	144.6	145.1
APRIL	127.8	148.4	148.9
MAY	128.4	144.6	145.3
JUNE	127.7	142.9	143.8
JULY	128.2	131.9	132.8
AUGUST	128.5	130.1	130.6
SEPTEMBER	128.4	129.3	129.8
OCTOBER	128.3	129.0	129.8

NOVEMBER	128.3	129.6	130.8
DECEMBER	128.3	130.4	131.0
AVERAGE	128.3	137.4	138.1

Sources:

CBN

NDIC Market survey of Bureau de Change

NDIC Market survey of Parallel market

1.5 General Performance of the Banking System

In 2006 there was significant improvement in the earning capacity of the 25 banks. The enhancement in earnings was driven mainly by increased capital base, larger balance sheets and strong deposit growth all resulting from the consolidation exercise. As shown in Table 1.7, total assets of the industry grew by 47.4% between December 2005 and December 2006. That was 13.4 percentage points greater than the growth experienced between 2004 and 2005. Growth in total deposit liabilities was about 38% which was higher than the 36.1% growth experienced in the previous year. On a similar note, the ratios of total assets to the GDP

as well as that of total deposits to the GDP also increased during the period under review suggesting that the industry's contribution to the economy was better than in the previous years.

Table 1.7

SUMMARY OF KEY STATISTICS IN THE BANKING INDUSTRY

Parameters	2004	2005*	2006**
Gross Domestic Product (Nbillion at Current Market Prices)	8,563.3	14,572.24	18,222.8
Number of Banks	89	25	25
Total Assets of Banks (N billion)***	4,046.00	5,463.1	8,140.2
Ratio of Total Assets of Bank to GDP(%)	47.3	37.5	44.7
Total Deposits of Banks(N billion)	1,814.75	2,469.07	3,449.0
Ratio of Total Bank Deposits to GDP (%)	21.2	16.9	18.9
Total Loans and Leases of Banks(N billion)	1,145.7	1,832.18	2,840.1

*Revised

**Provisional

*** Including Off-Balance Engagements

Source; Central Bank of Nigeria, Bank Returns



Section 2

Financial Condition Of Insured Banks In 2006

2.0 Introduction

The nation's banking sector had a good performance in 2006. Developments during the year had shown that the consolidation programme and the increased capital base of insured banks had reshaped the nation's banking sector. The adjusted shareholders' fund increased from ¥682.13 billion to ¥955.56 billion between December 2005 and December 2006. Similarly, insured banks' capital adequacy improved as their capital-to-risk-weighted asset ratio rose from 20.78% in 2005 to 22.31% in 2006. Also, the industry's ratio of non-performing credit to total credit decreased from 20.13% to 7.92% while the average liquidity ratio increased from 61.11% to 62.19% within the year. The performance of insured banks, proxied by profitability, recorded an appreciable increase of over 71% in 2006 as their unaudited profit before tax rose from ¥57.88 billion in December, 2005 to ¥99.24 billion in 2006.

2.1 Capital Adequacy

There was a significant improvement in Insured banks' capital adequacy during the year under review. The industry shareholders' funds increased by over 26 percent from =N=768.22 billion in December 2005 to =N=970.77 billion in December, 2006. The increase was expected as there was a significant decrease in insured banks' non-performing credits by over 61 per cent in 2006 compared to that of 2005. The improvement in the capital to risk-weighted asset ratio was however marginal from 20.78% in 2005 to 22.57% in 2006. In 2006, only one (1) insured bank recorded a capital to risk weighted asset ratio that was below 10 per cent. The improvement in banks' capital adequacy was also reflected in a substantial increase of over 40 percent in the total qualifying capital from =N=682.22 billion in 2005 to =N=955.56 billion in 2006. Table 2.1 presents some statistics on insured banks' capital adequacy as at December 31, 2006 with comparative figures for the previous year.

TABLE 2.1
INSURED BANKS' CAPITAL ADEQUACY

Capital Adequacy Indicators	Year	
	2005*	2006
Total Qualifying Capital (x billion)	682.22	955.56
Capital to Risk Weighted Asset Ratio (%)	20.78	22.57
Number of Banks	25	25

*** Revised figure**

Source: Bank Returns

2.2 Assets Quality.

The nation's economy witnessed a significant improvement in the banking industry's total credit in 2006. The total credit granted by insured banks increased by 55.02% from x1,832.18 billion to x2,840.10 billion between December 2005 and December 2006. Insured banks= non-performing credits however, dropped by over 38 per cent from x368.76 billion to x225.08 billion within the period. The decrease was partly due to the fact

that the greatest proportion of the non-performing loans in 2005 belonged to some of the insured banks that were closed in 2006. Another reason for the decrease was as a result of the drastic efforts made by consolidated banks to recover outstanding loans that had earlier being considered bad. Also, most of the loans booked in 2006 were the performing type due to the prudent measures taken by consolidated banks. As a result, there was a remarkable improvement in banks= asset quality as the ratio of non-performing credit to the total credit decreased from 20.13% in 2005 to 7.92% in 2006. The improvement in asset quality was further indicated by a decrease in the ratio of non-performing credits to shareholders= fund from 59.01% to 22.06% between 2005 and 2006. . Table 2.2 presents some statistics on the asset quality of insured banks for 2005 and 2006. As evidenced in the table,

TABLE 2.2
ASSET QUALITY OF INSURED BANKS

Item	Year	
	2005	2006
Total Credit(x billion)	1,832.18	2,840.10

Non-Performing Credit (× billion)	368.76	225.08
Shareholders= Funds (× billion)	768.21	970.77
Ratio of Non-performing Credit to Total Credit (%)	20.13	7.92
Ratio of Non-performing Credit to Shareholders= Funds (%)	59.01	22.06

Source: Bank Returns

The improvement in asset quality of insured banks in 2006 relative to what obtained in the year 2005 is further illustrated in Charts 2A and 2B.

Chart 2 A

Proportion Of Non-Performing credits to Total credits

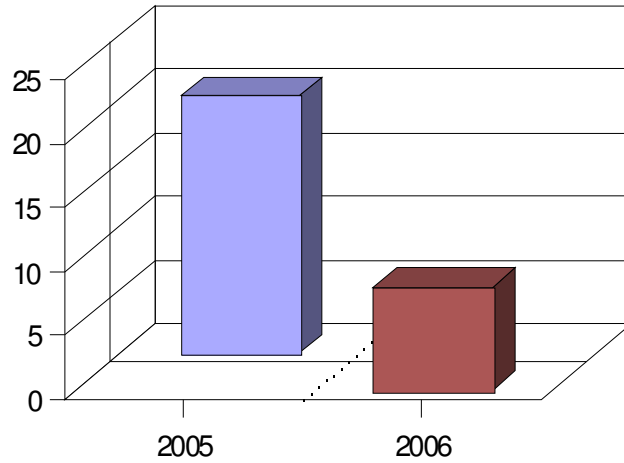
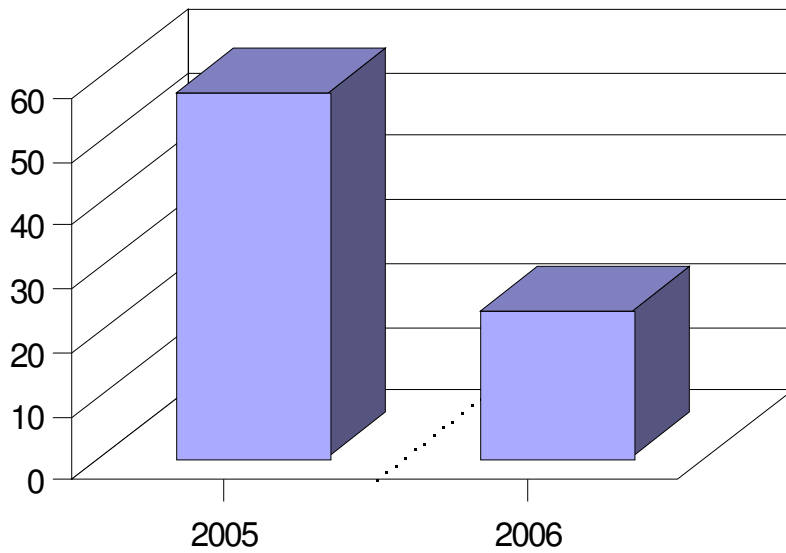


Chart 2 B

Ratio of Non-Performing Credits To Shareholders' Funds



2.3 Management

To address the observed lingering poor corporate governance practices in insured banks, the Central Bank of Nigeria (CBN) during the year under review, issued a Code of Corporate Governance to guide all insured banks in the post-consolidation era. The Code covered critical areas such as quality of Board Membership, Board Performance Appraisal, Quality of Management, Independent Directors, etc. In terms of compliance, a review of the system showed that some banks were yet to comply with some provisions of the Code. For example, some still had two or more members of the same family on their boards contrary to the provision of the Code. Also, no bank had complied with the requirement to appoint independent directors as at the end of year 2006.

2.4 Earnings And Profitability.

Presented in Table 2.3 are the earnings and profitability indicators of insured banks for the year 2006 with comparative figures for the year 2005. As evidenced in the table, insured banks' total interest income rose marginally by 4.75 per cent from =N=449.87 billion in 2005 to =N=472.21 billion in year 2006. The non-interest income as shown in the table also increased by 6.41 per cent from =N=215.33 billion to =N=229.13 billion during the same period. There was a decline of 1.76 per cent in insured banks' operating expenses from =N=402.64 billion in 2005 to =N=395.56 billion in year 2006.

The improvements in total interest income, non-interest income coupled with a reduction in operating expenses of insured banks in 2006 resulted in a significant improvement of over 71 per cent in their profit before tax (PBT) from =N=57.88 billion in 2005 to =N=99.24 billion during the year 2006. However, all the profitability indicators as shown in Table 2.3, declined as return on asset (ROA) dropped from 0.75 per cent to 0.59

per cent, return on equity (ROE) decreased from 5.52 per cent to 4.12 per cent and yield on earning assets declined from 4.07 per cent to 3.47 per cent between 2005 and 2006. The decline in the profitability indices could be attributed to the growth in shareholders' funds of insured banks which were mainly utilised to acquire suitable IT and other necessary facilities that would ensure the survival of the newly consolidated banks in a keenly competitive environment. The impact of such investment on earnings and profitability is expected to come with a lag.

TABLE 2.3
EARNINGS AND PROFITABILITY INDICATORS

Indicators	Year	
	2005*	2006
Profit before tax (x billion)	57.88	99.24
Interest Income (x billion)	449.87	472.21
Non-interest Income (x billion)	215.33	229.13
Interest Expenses (x billion)	199.38	178.21
Operating Expenses (x billion)	402.64	395.56

Yield on Earning Assets (%)	4.07	3.47
Funding Cost (%)	1.72	1.15
Return on Equity (%)	5.52	4.12
Return on Assets (%)	0.75	0.59

* Revised figures

Source: Bank Returns

2.5 Liquidity Profile

Table 2.4 presents the liquidity profile of insured banks in 2005 and 2006. As evidenced in the table, compared to the benchmark of 40%, insured banks= liquidity improved as their average liquidity ratio increased marginally from 61.11% in December 2005 to 62.19% in December 2006.

TABLE 2.4
LIQUIDITY RATIO OF INSURED BANKS AS AT DECEMBER 31, 2005
AND 2006

Items	Year	
	2005	2006
Average Liquidity Ratio(%)	61.11	62.19
Loans And Advances to Deposit Ratio (%)	65.14	75.60
No. of Banks with less than the 40% minimum Liquidity Ratio	0	3

Source: Central Bank of Nigeria & Bank Returns

Three (3) insured banks as evidenced in Table 2.4, did not meet the minimum liquidity ratio of 40% as at December 2006.

2.6 Soundness of the Banking Industry.

Banks financial condition was generally satisfactory during the year under review. However, there were two (2) marginal banks as at December 31, 2006. The market shares of assets, credits and deposits of the affected

banks were 3.91%, 4.70% and 4.71% of the industry total respectively during the period. Also, the two marginal banks had non-performing credits to total credits ratio of 23.09% during the year under review.

Section 3

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Insured Banks' Shareholders' Funds In 2006

3.0 Introduction

Over the years, the nation=s regulatory/supervisory authorities had been challenged by the relatively weak capital base of insured banks. The problem had contributed to the failure of some banks in the past. Requiring banks to maintain adequate capital had been central to an effective supervisory regime. In that regard, the CBN had periodically reviewed the minimum capital requirements of insured banks in Nigeria. However, the challenge of weak capital base of banks had remained until the recent introduction of the banking reform programme which also affected the capital base of banks.

In July 2004, the CBN prescribed a new minimum shareholders' funds of =N=25 billion and insured banks were given until December 31, 2005 to comply with that directive. Specifically, banks were required to achieve that through fresh capital injection where applicable, but were most

importantly encouraged to enter into merger/acquisition arrangements with other banks. The development was to enable the banks take advantage of economies of scale, to reduce the cost of doing business, as well as enhance their competitiveness locally and internationally. The announcement marked the commencement of a policy-induced consolidation programme in the banking sector which was completed by December 2005.

On January 1, 2006, 25 bigger banks emerged from the 89 banks that existed as at the end of June 2004. Nineteen (19) of the banks were the result of mergers and acquisition arrangements involving 69 banks, while six (6) banks either raised additional capital or had already met the revised capital requirement. The fourteen (14) other banks that could not meet the increased capital requirement of =N=25 billion, had their licences revoked on January 16, 2006 and were handed over to the NDIC for liquidation.

Table 3.1 presents the shareholders' funds as well as the ownership structure of the 25 banks that operated as at December 31, 2006. As shown in the Table, each of the 25 banks had at least =N=25 billion shareholders' funds. The increase in insured banks' shareholders' funds had led to a renewed surge of public confidence in the nation's banking industry. The consolidation programme had increased the absolute levels of capital in the banking system. Also, it had enhanced the banking sector's ability to support real sector growth.

TABLE 3.1
INSURED BANKS' SHAREHOLDERS' FUNDS AS AT DECEMBER
31, 2006

S/N	SHAREHOLDERS' FUNDS* (=N= BILLION)	OWNERSHIP STRUCTURE (%)	
		GOVT** FOREIGN	PRIVATE

1	ACCESS BANK NIGERIA PLC	28.894	2.55	93.87	3.58
2	AFRIBANK NIGERIA PLC	25.085	10.00	90.00	-
3	DIAMOND BANK PLC	34.97	-	100.00	
4	ECOBANK NIGERIA PLC	25.763	-	29.00	71.00
5	EQUITORIAL TRUST BANK Ltd	28.41	-	100	-
6	FIRST CITY MONUMENT BANK PLC	25.342	8.72	75.81	15.47
7	FIDELITY BANK PLC	25.596	-	100	-
8	FIRST BANK OF NIGERIA PLC	58.996	0.36	99.63	-
9	FIRSTINLAND BANK PLC	26.389	13.5	86.5	-
10	GUARANTY TRUST BANK PLC	36.420	-	100.00	-
11	IBTC-CHARTERED BANK PLC	33.494	0.002	72.995	27.003
12	INTERCONTINENTAL BANK PLC	57.25	6.13	93.87	-
13	NIGERIA INTERNATIONAL BANK LTD	33.375	-	18.3	81.7
14	OCEANIC BANK PLC	36.505	10	90	-
15	PLATINIUM-HABIB BANK PLC	28.491	-	85	15
16	SKYE BANK PLC	31.469	15.73	84.27	-
17	SPRING BANK PLC	41.29	9.9	88.39	1.71
18	STANBIC BANK LTD	28.386	-	-	100.00
19	STANDARED CHARTERED BANK LTD	33.760	-	-	100.00
20	STERLING BANK PLC	25.31	-	85.36	14.64
21	UNITED BANK FOR AFRICA PLC	47.624	8.13	90.83	1.04
22	UNION BANK PLC	106.97	-	100	-
23	UNITY BANK PLC	29.425	72	28	-
24	WEMA BANK PLC	26.230	10-	90	-
25	ZENITH BANK PLC	95.324	3.04	91.63	5.32
	TOTAL	970.77			

* Unadjusted Shareholders' Funds

** Federal, State & Local Governments

Source: Bank Returns

As evidenced in the table, high capital base remained concentrated among the larger banks. The top ten (10) banks controlled =N=549.19 billion or over 56 percent of the entire industry's capitalization which stood at about =N=970.77 billion (unadjusted for losses) as at 2006 year-end. Union Bank Plc came first with shareholders' funds of =N=106.97 billion. Other banks with significant capitalization included Zenith Bank Plc, First Bank of Nigeria Plc, Intercontinental Bank Plc and United Bank for Africa Plc.

From the available information, there were four banks with substantial foreign ownership during the period under review. Two of the affected banks had 100 per cent foreign ownership. As shown in the Table 3.1, some banks were yet to comply with the Code of Corporate Governance in respect of 10 per cent on government equity holding in insured banks. Some insured banks, as evidenced in the table, still had government equity holding above the stipulated 10 per cent.

Section 4

Structure Of Assets And Liabilities Of Insured Banks In Year 2006

4.0 Introduction

The structure of assets and liabilities of a bank usually reflects the risk disposition of the banks' management. The structure also provides the

regulatory authorities and the banking public with information that can be used in assessing the health condition of the bank. This section presents the structure of assets and liabilities of insured banks in 2006 as compared with those of 2005.

4.1 Insured Banks= Structure of Assets

The Total Assets of insured banks (inclusive of Off-Balance Sheet Engagements) is presented in Table 4.1. According to the table, total assets of insured banks increased by about 47.44 per cent from ₦ 5,463.08 billion in 2005 to ₦8,054.78 billion in 2006. As a proportion of total assets, the following assets increased: Balances Held with CBN from 6.39 per cent in 2005 to 6.60 per cent in 2006; Balances Held with Offices and Branches Outside Nigeria from 7.07 per cent in 2005 to 15.76 per cent in 2006; Industrial (Other) Investments from 0.37 per cent in 2005 to 1.11 per cent in 2006; and Investment in Unconsolidated Subsidiaries and Associates from 0.12 per cent in 2005 to 0.24 percent in 2006.

Expressed as a proportion of total assets, the following assets decreased: Vault Cash from 1.66 per cent in 2005 to 1.59 per cent in 2006; Money at Call in Nigeria from 0.11 per cent in 2005 to 0.08 per cent in 2006; Interbank Placement from 0.75 per cent in 2005 to 0.63 per cent in 2006; Placement with Discount Houses from 1.28 per cent in 2005 to

0.97 per cent in 2006; Treasury Bills from 12.77 per cent in 2005 to 12.70 per cent in 2006; Treasury Certificates from 0.32 per cent in 2005 to 0.18 per cent in 2006; Stabilization Securities from 0.21 per cent in 2005 to 0.00 per cent in 2006; Bills Discounted Payable in Nigeria from 0.01 per cent in 2005 to 0.00 in 2006; Bankers Acceptance and Commercial Papers from 4.04 per cent in 2005 to 2.97 per cent in 2006; Investment in FGN Development Stock from 4.42 per cent in 2005 to 0.25 per cent in 2006; Gross Loans, Advances and Leases from 33.29 per cent in 2005 to 27.83 per cent in 2006; Provision for Loans and Loan Losses from 3.95 per cent in 2005 to 2.00 per cent in 2006; Net Fixed Assets from 3.54 per cent in 2005 to 3.29 per cent in 2006; Other Assets from 8.09 per cent in 2005 to 5.59 per cent in 2006; and Customer Liabilities from 17.82 per cent in 2005 to 16.53 per cent in 2006. However, Balances Held with Other Banks in Nigeria remained unchanged at 1.69 per cent during the year.

In spite of the growth in deposit witnessed in 2006, the growth in loans, advances and lease dropped during the period under review. The decline was partly due to the fact that many insured banks were still addressing some of the issues posed by the recently concluded consolidation programme. Apart from observing the market, some of the consolidated banks were yet to put in place the required credit risk management framework after consolidation.

The significant jump in the Balances Held with Offices & Branches Outside Nigeria could be attributed partly to the increase in the number of overseas branches and subsidiaries as well as increase in the volume of transactions involving such branches and subsidiaries.

TABLE 4.1
INSURED BANKS= STRUCTURE OF ASSETS IN 2005 & 2006

Assets	Percentage Share As At End Of December	
	2005	2006
Vault Cash	1.66	1.59
Balances Held With CBN	6.39	6.60

Balances Held With Other Banks In Nigeria	1.69	1.69
Balances Held With Offices & Branches Outside Nigeria	7.07	15.76
Money At Call In Nigeria	0.11	0.08
Interbank Placement	0.75	0.63
Placement With Discount Houses	1.28	0.97
Treasury Bills	12.77	12.70
Treasury Certificates	0.32	0.18
Investment in Stabilization Securities	0.21	0.00
Bills Discounted Payable In Nigeria	0.01	0.00
Bankers Acceptances and Commercial Papers	4.04	2.97
Investments In FGN Development Stock	4.42	0.25
Industrial (Other) Investments	0.37	1.11
Gross Loans, Advances And Leases	33.29	27.83
Provision For Loans And Loan Losses	(3.95)	(2.00)
Investment In Unconsolidated Subs And Associates	0.12	0.24
Net Fixed Assets	3.54	3.29
Other Assets (Less Current Loss if Included)	8.09	5.59
Customers= Liabilities (Per Contra)	17.82	16.53
Total Assets	100.00	100.00
Total Value Of Assets (₦> Billion) Inclusive of OBS	₦5,463.08 bn	₦8,054.78 bn

Source: Computed From Bank Returns

4.2 Insured Banks' Assets By Market Share

Table 4.2 presents the analysis of insured banks' assets by market share in 2006. In absolute term, asset remains concentrated among larger banks during the year under review. Out of the total assets of N8,054.8 billion as at the end of December 2006, the assets of the five (5) biggest banks as shown in the table, amounted to N4,039.5 Billion, which represented 50.15 percent of the total assets of all insured banks.

TABLE 4.2

ANALYSIS OF ASSETS HELD BY INSURED BANKS IN 2006*

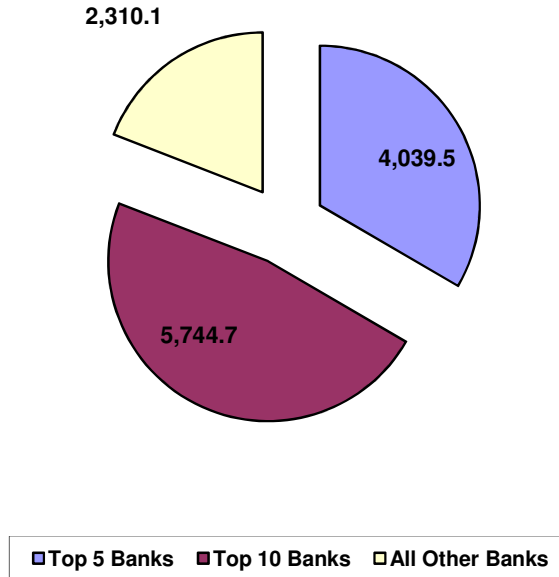
Bank	Total (N'B)	% of Total
Top 5	4,039.5	50.15
Top 10	5,744.7	71.32
All Other	2,310.1	28.68

Banks		
-------	--	--

*Computed from Bank Returns

As shown in the table, the assets of the top ten (10) banks stood at N5,744.7 billion or 71.32 percent of the total assets of all insured banks as at December 31, 2006. The fact that ten banks held over 70 percent of the total assets of the industry was an indication that the oligopolistic nature of the nation's banking system remained after the bank consolidation programme. The situation may however change in future as more and more market-induced consolidation is expected to take place among insured banks in the industry.

**DISTRIBUTION OF INSURED BANKS' ASSET BY SIZE AS AT
DECEMBER 31, 2006**



4.3 Insured Banks= Structure of Liabilities

Insured banks' structure of liabilities is presented in Table 4.3. As shown in the table, the following liabilities, expressed as a proportion of total liabilities increased: Reserve Funds from 9.79 per cent in 2005 to 10.55 per cent in 2006; Current Year Profit and Loss from 0.82 per cent in 2005 to 1.38 per cent in 2006; Overdrawn Account with the CBN from 0.47 per cent in 2005 to 0.75 per cent in 2006; Balances Held for Other Banks Outside Nigeria from 0.51 per cent in 2005 to 7.70 per cent in

2006; and Loans and Advances from FGN, State Governments, CBN, NDIC and Other Banks from 0.62 per cent in 2005 to 0.77 per cent in 2006. The following liabilities expressed as a proportion of total liabilities decreased: Share Capital from 3.79 in 2005 to 2.12 per cent in 2006; Preference Shares from 0.05 per cent in 2005 to 0.01 per cent in 2006; Revaluation Reserves from 0.34 per cent in 2005 to 0.26 per cent in 2006; Debentures from 0.07 per cent in 2005 to 0.05 per cent in 2006; Balances Held for Other Banks in Nigeria from 0.22 per cent in 2005 to 0.12 per cent in 2006; Total Deposit Liabilities (Demand, Savings and Time Deposits) from 44.71 per cent in 2005 to 42.65 per cent in 2006; Negotiable Certificate of Deposits from 0.03 per cent in 2005 to 0.00 per cent in 2006; Money at Call from 1.08 per cent in 2005 to 0.25 per cent in 2006; Other Liabilities from 19.68 per cent in 2005 to 16.88 per cent in 2006; and Liabilities per Contra from 17.82 per cent in 2005 to 16.53 per cent in 2006.

The significant increase in Balances Held for other Banks Outside Nigeria reflected increases in the volume of transactions involving the overseas subsidiaries and branches of the banks. The increase in the proportion of current year profit as a proportion of total liabilities could be explained by the fact that the well-capitalised banks had generally witnessed improvement in their earning capacity during the financial year 2006. Closely related to this was the increase in the reserve funds, which partly could be as a result of the substantial profits declared by banks part of which were retained for future use.

TABLE 4.3

INSURED BANKS= STRUCTURE OF LIABILITIES IN 2005 & 2006

Liabilities	Percentage Share As At The End Of December	
	2005	2006
Share Capital	3.79	2.12
Reserve Funds (Including Retained Profit & Loss)	9.79	10.55
Current Year Profit and Loss	0.82	1.38
Preference Shares	0.05	0.01
Revaluation Reserves	0.34	0.26
Debentures	0.07	0.05
Overdrawn Account With CBN	0.47	0.75
Balances Held For Other Banks In Nigeria	0.22	0.12
Balances Held For Other Banks Outside Nigeria	0.51	7.70
Money At Call In Nigeria	1.08	0.25
Demand Deposits	24.77	23.57
Savings Deposits	8.03	7.38
Time/Term Deposits	11.91	11.70
Negotiable Certificate Of Deposits (NCD)	0.03	0.00
Non-Negotiable Certificate Of Deposits (NNCD)	0.0	0.00
Loans And Advances From FGN, State Governments, CBN, NDIC And Other Banks	0.62	0.77
Other Liabilities (Less Current Year Profit And Loss if Included)	19.68	16.88

Liabilities Per Contra	17.82	16.53
	100.00	100.00
Total Value Of Liabilities (N> Billion) Inclusive of OBS	N5,463.08 bn	N8,054.78 bn

Source: Computed From Bank Returns

Section 5

Insured Banks' Deposit Liabilities By Type, Tenor And Market Share In 2006

5.1 Analysis Of The Types Of Deposits Mobilised By Insured Banks

By the very nature of banking business, bank deposits usually constitute the largest component of a banking system's liabilities. The types and quantum of deposits mobilized by banking institutions have implications for asset/liability management. The total deposit liabilities of insured banks grew from N2.47 trillion as at 31st December, 2005 to N3.41 trillion as at December 2006, which represented an increase of 37.63 percent. Several reasons could account for the significant increase. Firstly, the banking consolidation programme initiated by the Central Bank of Nigeria (CBN) led to the emergence of 25 relatively stronger and bigger banks. That development had enhanced depositors' confidence in the nation's banking industry. Secondly, innovative and aggressive deposit mobilization initiatives adopted by insured banks also contributed to the growth of

deposit liabilities generated by banks in 2006. In fact, heightened competition in the industry occasioned by many banks' desire to increase their market share had led to the installation of Automatic Teller Machines (ATMs) in strategic locations, development of new products, and other innovations aimed at attracting deposits. Besides, the growth in deposits could also be linked with the improved performance in the nation's economy as evidenced in the appreciable growth in the Gross Domestic Product (GDP) in 2006, as indicated in Section 1 of this report. Table 5.1 and Chart 5A show the total deposit liabilities of insured banks as at December 2006.

TABLE 5.1
ANALYSIS OF DEPOSIT LIABILITIES OF INSURED BANKS IN 2005 AND
2006

Type of Deposit Liabilities	2005		2006	
	Amount (N'M)	Percentage of Total (%)	Amount (N'M)	Percentage of Total (%)
Savings Deposits	443,351.82	17.96	594,242.10	17.41
Demand Deposits	1,197,778.41	48.51	1,914,865.33	56.12

Time/Term Deposits	827,939.48	33.53	903,165.87	26.47
TOTAL	2,469,069.71	100.00	3,412,273.30	100.00

Source: Bank Returns

As evidenced in Table 5.1, savings deposits increased by N150.90 billion, from N443.35 billion at the end of December 2005 to N594.24 billion as at December 2006, representing an increase of 34.03 percent. Further analysis shows that savings deposits represented 17.41 percent of total deposit liabilities as at the end of December 2006. A closer examination of the situation in 2006 vis-à-vis 2005 shows that savings deposits increased only in absolute terms but dropped as a proportion of total deposits in the system. Savings deposits as a percentage of total deposit as shown in the table decreased marginally from 17.96 percent in 2005 to 17.41 per cent in 2006.

The Demand deposits mobilized by banks as shown in table 5.1, amounted to =N=1,914.86 billion as at December 31, 2006. The figure indicates that demand deposits increased both in absolute terms and as a percentage of total deposits, growing from N1,197.78 billion to N1,914.86 billion representing 48.51 percent and 56.12 percent of total deposits in December 2005 and 2006, respectively.

On the other hand, time/term deposits increased slightly in absolute terms by N75.23 billion from N827.94 billion in 2005 to N903.16 billion at the end of 2006. But in terms of relative share, time/term deposits declined from 33.53 percent in 2005 to 26.47 percent in 2006.

5.2 Insured Banks' Deposit Liabilities By Market Share

The average deposit in insured banks increased markedly by 342.32 percent from N30.86 billion as at December 2005 to N136.50 billion as at December 2006. The distribution of deposit liabilities generated by top

five, top ten banks and the rest of insured banks' is presented in Table 5.2 and Chart 5B.

TABLE 5.2
ANALYSIS OF DEPOSIT LIABILITIES HELD BY THE INSURED BANKS

Banks	Amount (N'B)	2006
		Percentage of Total (%)
Top Five Banks	1,700.56	49.84
Top ten Banks	2,414.49	70.76
All Other Banks	981.62	28.77

Source: Bank Returns

As evidenced in Table 5.2, out of total deposits of N3,412.27 billion mobilized by all the insured banks in operation as at December 2006, the deposits of five (5) biggest banks totaled N1,700.56 billion, which represented 49.84 percent of the total deposits. The deposit liabilities generated by top ten (10) banks in the industry amounted to N2,414.49 billion or 70.76 percent of total deposit liabilities of all insured banks. As at December 2005, ten banks held 66.21 percent of total deposits of banks in the industry. By December 2006, the percentage share of ten banks had increased to 70.76, giving indication of the competitive edge of the large banks in deposit mobilisation.

5.3 Analysis Of Insured Banks' Deposits By Tenor

Analyses of insured banks' deposits by tenor are shown in Table 5.3 and Chart 5C. The table clearly shows that short-term deposits of below 30 days increased in volume from N1,936.62 billion in 2005 to N2,584.50 billion in 2006. However, as a proportion of total deposits, short-term funds of below 30 days, declined from 78.03 percent in 2005 to 75.74

percent in December, 2006. On the other hand, deposits of between 31 and 90 days increased slightly from N330.11 billion in 2005 to N448.56 billion as at the end of December 2006. But as a proportion of total deposits, this category of deposits also witnessed a slight decline, as it dropped from 13.37 percent in 2005 to 13.16 percent at the end of 2006. Deposits of between 91 and 180 days increased appreciably both in terms of volume and a percentage of total deposits, growing from N81.48 billion or 3.30 percent in 2005 to N150.202 billion or 4.40 percent in 2006. It is also worthy of note that deposits of between 181 and 365 days also increased both in absolute terms and as a percentage of total deposits. This category of deposits grew from N55.06 billion or 2.23 percent in 2005 to N84.96 billion or 2.49 percent in 2006. Long-term funds or deposits of more than 365 days duration (one year) increased significantly by N68.28 billion from N75.80 billion in 2005 to N144.08 billion in 2006.

The analysis of banks' deposit by tenor as shown in Table 5.3 clearly indicates that there was no significant change in tenor of deposits in spite

of the positive impact of the consolidation exercise on deposit mobilization. That implies that the banks' capacity to finance the real sector of the economy remained low as about 90 per cent of deposits were of 90 days and below.

TABLE 5.3
ANALYSIS OF INSURED BANKS' DEPOSITS BY TENOR

Type of Deposits	2005		2006	
	Amount (N'M)	Percentage of Total (%)	Amount (N'M)	Percentage of Total (%)
Below 30 Days	1,936,615.10	78.03	2,584,460.14	75.74
Between 31 and 90 Days	330,114.62	13.37	448,568.71	13.16
Between 91 and 180 Days	81,479.30	3.30	150,202.55	4.40
Between 181 and 365 Days	55,060.25	2.23	84,956.19	2.49
Above 365 Days	75,800.44	3.07	144,085.71	4.22
Total	2,469,069.71	100.00	3,412,273.31	100.00

Source: Bank Returns

Section 6

Insured Banks Reported Frauds/Forgeries And Fidelity Bond Insurance Cover

6.0 Introduction

In compliance with the requirements of Sections 35 and 36 of the NDIC Act 2006, banks render monthly returns on frauds and forgeries and also notify the Corporation of any staff dismissed or terminated on the ground

of fraud or financial malpractice. Similarly, by the provision of Section 33 of the Act, insured banks are mandated to provide fidelity bond insurance to cover frauds and forgeries committed with staff connivance or collusion.

Presented in this section are the reported cases of frauds and forgeries in 2006 along with the comparative figures for 2005. In addition, information is provided on the general nature of frauds and forgeries, the number and categories of staff involved as well as the causes of frauds whilst responses on fidelity bond insurance cover by insured banks during the period under review are also highlighted.

6.1 Cases of Frauds And Forgeries In Insured Banks

The number of reported cases of attempted or successful frauds and forgeries in the nation's banking industry declined in 2006. The downward trend in the number of reported cases reflected markedly in the total amount involved in 2006 compared to 2005. Table 6.1 shows the number of reported cases, the amount involved and the expected loss.

TABLE 6.1
RETURNS OF INSURED BANKS ON FRAUDS AND FORGERIES

Quarter	Year	Total No. of Fraud Cases	Total Amount Involved (N'm)	Total Expected Loss (N'm)	Proportion of Expected Loss To Amount Involved (%)
1 st	2006	268	740.12	422.94	57.14
	2005	296	3,711.2	856.72	15.13
2 nd	2006	284	1,429.06	824.17	57.67
	2005	303	1,321.08	1,186.47	58.89
3 rd	2006	334	843.82	547.86	64.94
	2005	313	1,963.85	1,184.79	39.56
4 th	2006	307	1,819.35	973.69	53.52
	2005	317	4,432.90	758.20	16.72
Average/ Total	2006	1,193	4,832.17	2,768.67	57.29
	2005	1,229	10,606.18	5,602.05	39.17

Source: Bank Returns

As shown in the table, there was a total of 1,193 reported cases of attempted frauds and forgeries involving ₦4.832 billion (that is, ₦4.6billion, US\$1.8million, GBP14,399.7) in 2006 compared with 1,229 reported cases of fraud and forgeries involving ₦10.61 billion (that is, ₦10.4 billion, US\$1.4 million, GBP35,840 and Euro116,310) in 2005. Out of the number of reported cases of attempted fraud and forgeries, 612 cases were successfully executed by the perpetrators which resulted in losses to the banks amounting to ₦2.768 billion (that is, ₦2.6 billion, US\$1.3 million and GBP14,399.7) in the year 2006 compared to about ₦5.61 billion (that is, ₦5.5 billion, US\$728,346.96, GBP30,085 and Euro10,255) in 2005. Foreign currencies for 2005 and 2006 were converted to the domestic currency using the exchange rates at December 2006 and 2005, respectively. In spite of the reduction in the number of fraud and forgeries and amount involved, the proportion of expected loss to the amount involved increased significantly to over 57.29 per cent as at end of 2006 as against

about 39 per cent in year 2005. Expected loss was part of the fraud whose probability of recovery was low and those not fully covered by Fidelity Insurance Bond. Chart 6A and 6B depict the extent of frauds and forgeries in insured banks in 2005 and 2006.

Chart 6A

Amount Of Fraud & Forgeries (NM)

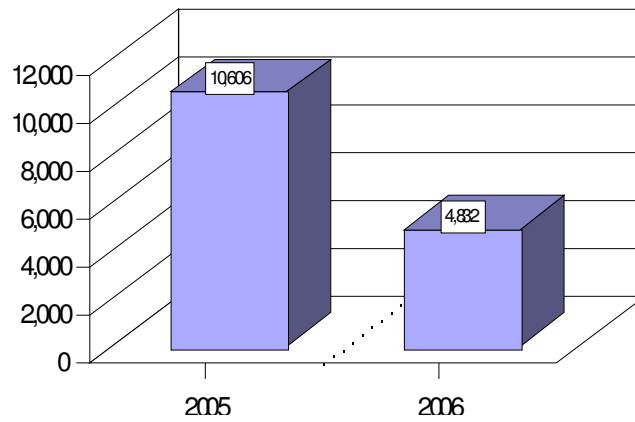
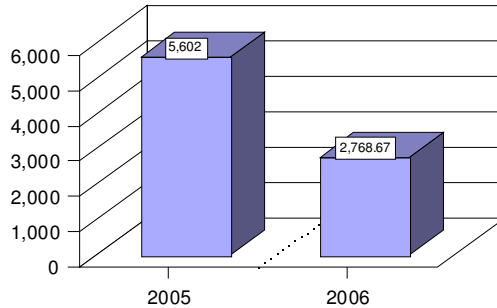


Chart 6 B

Expected Loss In Fraud & Forgeries (N'M)



6.2 Incidence And Type Of Fraud And Forgeries Reported

The ten (10) banks with the highest number of reported fraud cases as presented in Table 6.2 were responsible for 51.77% of the total amount involved in 2006 compared to 88.38% in 2005. The table also shows that in absolute terms, the total amount involved, which stood at =N=4,832.17 million in 2006, was much lower than the 2005 figure.

**TABLE 6.2
TEN BANKS WITH HIGHEST FRAUD CASES**

GROUP	2004		2005		2006	
	Amount Involved (N=M)	% Share	Amount Involved (N=M)	% Share	Amount Involved (N=M)	% Share
Total For 10 Banks	10,024.00	85.88	9,373.74	88.38	2,512.73	51.77
Total For All Banks	11,754.00	100.00	10,606.18	100.00	4,832.17	100.00

Source: Bank Returns

An analysis of the types of frauds and forgeries perpetrated during the year under review showed that the commonest types were the following:

- a) Presentation of forged cheques;
- b) Granting of unauthorised credits;
- c) Posting of fictitious credits;
- d) Fraudulent transfers/ withdrawals;
- e) Cheque suppression and cash defalcation; and
- f). Outright theft of money.

6.3 Banks= Staff Involvement in Frauds And Forgeries

Table 6.3 shows the status and number of banks= staff involved in frauds and forgeries for the past three years. A total of 331 staff of banks were reported to be involved in frauds and forgeries in 2006, a decrease of about 14.19% when compared with the previous year=s figure of 378. Of the total, core operations staff such as supervisors,

officers, accountants, managers, executive assistants, clerks and cashiers totalled 258, thus accounting for about 77.93 per cent, a decrease of 13.85 percentage points relative to the 2005 level. By implication, there was a drop in terms of the absolute number of staff that perpetrated fraud in 2006, as well as, the core bank staff that engaged in fraudulent activities during the year when compared with those of 2005.

TABLE 6.3

BANKS= STAFF INVOLVED IN FRAUDS AND FORGERIES

Status	2004		2005		2006	
	Number	%	Number	%	Number	%
Supervisors & Managers	157	40.99	169	44.70	118	35.64
Officers, Accountants & Executive Assistants	129	33.68	124	32.80	90	27.19
Clerks & Cashiers	61	15.93	54	14.28	50	15.10
Typists, Technicians & Stenographers	18	4.70	16	4.23	16	4.83
Messengers, Drivers, Cleaners, Security Guards & Stewards	15	3.92	12	3.17	7	2.11
Temporary Staff	3	0.78	3	0.79	50	15.10
Total	383	100.00	378	100.00	331	100.00

Source: Bank Returns

6.4 Causes of Frauds And Forgeries In Insured Banks

The causes of fraud and forgeries can be classified under two generic factors namely: the institutional or internal factors and environmental or societal factors. Institutional causes of frauds and forgeries in insured banks include poor accounting and internal control systems, lack of sufficient supervision over subordinates, disregard of know your customers (KYC) rules, et cetera. Environmental causes of frauds include the penchant to get rich quick, slow and tortuous legal process, lack of effective deterrent or punishment and at times reluctance on the part of the individual bank to report frauds cases due to the perceived negative publicity it could create for their image.

6.5 Report On Fidelity Insurance Cover For Insured Banks In 2006

Fidelity Guarantee Insurance cover is mandatory for all insured banks for the purpose of cushioning losses that may result from frauds and forgeries committed by banks' staff. The requirement is in accordance with the provision of Section 33 of the Nigeria Deposit Insurance Corporation (NDIC) Act 2006. The fidelity insurance policy is intended to reduce the adverse impact of insider frauds and forgeries on the banks. Accordingly, all insured banks are expected to take up the fidelity insurance cover up to such level as may be prescribed from time to time by the Corporation, which at least, should be equivalent to 15% of its paid-up capital as at 31st December of the preceding year.

In 2006, the rate of compliance was high, both in absolute figure and percentage terms, than what obtained in year 2005. Table 6.4 reports the number of banks that complied with the fidelity insurance cover requirement in 2006 compared to those of year 2005.

TABLE 6.4
BANKS' RESPONSE TO NDIC FIDELITY INSURANCE
COVER IN 2006

Year	(a) No. Of Banks In Operation	(b) No. Of Banks That Responded	(c=b/a) % of Total
2006	25	20	80
2005**	89**	49**	55.0

**Figures before the emergence of the 25 consolidated banks

Source: Bank Returns

As shown in Table 6.4, twenty (20) out of the 25 insured banks (that is, 80%) that existed as at end-December, 2006 complied with the requirement of fidelity insurance coverage. The 2006 figure was a significant increase,

compared with that of 2005 when only 55.0% (that is, 49 out of the 89 of the insured banks that existed then complied. A major source of concern was that some banks had inadequate cover during the year under review.

Section 7

Banking Supervisory Activities In 2006

7.0 Introduction

Basically, the Corporation supervises banks to protect depositors given its mandate as a risk minimiser. Banking supervision enables the Corporation to monitor the health conditions of the insured institutions to reduce the probability of failure and to check unsafe and unsound banking practices. It also provides the oversight required to preserve the integrity of, and promote public confidence in, the banking system. During the year under review, the Corporation continued with its on-site and off-site surveillance of insured institutions. The supervisory activities of the three (3) departments primarily charged with that responsibility namely:- Field Examination, Off-site

Supervision and Special Insured Institutions (SII) Departments in the year 2006 are reviewed in this section.

7.1 On-Site Supervisory Operations In 2006

A major fall-out of the banking consolidation programme which ended in December, 2005 was the revocation of the operating licences of fourteen (14) insolvent banks that failed to meet the minimum specified shareholders' funds. Thus, apart from the traditional routine examinations and special or target examinations of banks, the Field Examination Department actively participated in the closing activities of some of the banks that were liquidated during the year. Statistics of the Corporation's activities in its core functions of on-site supervision in 2006 and those of the preceding year, 2005 are presented in Table 7.1.

Table 7.1

**Number of Banks Examined On-Site and Banks Closed By Field
Examination Department**

Year	Routine Examination	Target	Special Examination	Special Investigation	Total
2006	6	Nil	14	11	31
2005	26	13	7	12	58

As shown in the table, the Corporation conducted 6 routine examination, 14 special examinations and 11 special investigations in 2006. In all, the Corporation conducted 31 examinations in 2006 as against 58 in 2005.

The major findings of the routine examinations of banks were basically two. The balance sheet footings of all banks increased significantly due to substantial increase in shareholders' funds and keen competition. Banks that acquired or merged with other banks were bogged down by post consolidation integration challenges.

The following weaknesses featured in some of the banks examined in 2006:

- i Failure to implement some of the recommendations of successive bank examinations and audit reports.
- ii Weak Board oversight.
- iii Payment of excessive severance packages to disengaged directors and staff.
- iv Inaccurate financial reporting.
- v Poor book-keeping practices.
- vi Non-performing directors' related facilities.
- vii Declining asset quality and attendant large provisioning requirement.
- viii Inadequate debt recovery efforts.
- ix Non-compliance with Banking Laws, Rules and Regulations.
- x Partial compliance with Money Laundering Act.

Notwithstanding their increased sizes and large capitalization, most of the banks were yet to institute appropriate risk management framework that would enable them to identify, measure, monitor and control the risks inherent in their operations. That was in spite of the Circulars and Guidelines issued by the Central Bank of Nigeria (CBN). There was little evidence that the respective boards had shown more than passing interest in the risk management processes of their banks.

As a result of the speed with which some of the mergers were consummated, there were material unresolved issues in some consolidated banks. The close-out audits of some of the consolidated banks revealed material misrepresentation of the financial conditions of some constituent banks. Failure to disclose huge amounts of non-performing assets, which translated to huge loan under-provision, was a major part of the misrepresentation. Others were understatement of tax liabilities, overstatement of fixed assets,

undisclosed frauds and forgeries and large undisclosed share issue expenses, all of which were revealed in the post-consolidation audits. The findings had no doubt, caused discontent and ill-feelings by aggrieved parties as well as exposed the inappropriateness of the share exchange ratios earlier agreed to by the merged banks.

Although many merger agreements contained a proviso that allowed for adjustments in case of subsequent discovery of variations in the actual net-worth of each constituent bank, when compared to what was disclosed at the time of merger, the adverse effect of those discoveries would linger for a while. Indeed, it could affect the relationships between the major actors in the merger and, consequently, the prospects of the consolidated banks. The development had called for close monitoring of the institutions by the Regulatory/Supervisory Authorities in order to ensure the safety and soundness of the banking system.

As earlier noted in this report, bank consolidation programme created larger and more complex banks. The circumstances and processes of their integration continued to raise fundamental issues which had posed new and significant challenges to banking supervision, especially, on-site examination. With consolidation, it became imperative for on-site examiners to carry out additional procedures and tests to determine the levels of integration in each of the emergent banks, their acceptability by the market as well as the effectiveness of their respective strategies for survival in the highly competitive and dynamic operating environment. That situation called for extensive and focused training for the Examiners.

In response, the Corporation carried out a number of in-house training activities to broaden the horizon of the on-site examiners in 2006. It developed a compendium titled “Framework for Bank Examination – Post Consolidation”, which served as a guide to on-site examination during the year under review. Nevertheless, the need for skills acquisition became more

compelling and urgent with the introduction of the risk-based approach to banking supervision in Nigeria. To face the new challenge, the Corporation embarked on rigorous sensitization exercise aimed at exposing Examiners to the new approach under the theme “**Understanding Risk Based Supervision**”. During the year, the Field Examination Department organized a Bank Examiners’ Conference with the theme “Implementing Risk Based Supervision”. The conference was designed to further enhance the Examiners’ understanding of the new approach. Besides, training in the use of Audit Command Language (ACL) was stepped up as another group of fifteen examiners was trained.

7.2 Off-Site Supervisory Operations

During the year under review, the Corporation continued with its function of off-site surveillance over the 25 insured banks and the provision of essential services to its various stakeholders. In addition to continuous monthly review of the financial condition of insured banks, the Corporation’s off-site

supervision department compiled reports and rated the banks on quarterly basis, as well as produced quarterly reports on the banking Industry with a view to facilitating prompt supervisory responses as required.

In its desire to reduce regulatory burden and contribute to the bank consolidation process, the Corporation reviewed the premium assessment base during the period under review. That development resulted in the decision by the Corporation to exclude inter-bank takings from assessable deposits of banks for premium purposes with effect from January 2007.

In 2006, the Off-Site Supervision Department in collaboration with Research Department presented a draft report to the Management of the Corporation towards introducing Differential Premium System which sought to provide incentives for sound risk management by insured banks. Also, in its efforts towards the implementation of Risk-Based Supervision, staff of the

department were exposed to various seminars and workshops during the year 2006.

The Corporation processed requests from Central Bank of Nigeria (CBN), Securities and Exchange Commission (SEC) and National Pension Commission (PENCOM) to ensure that directors and officers appointed to Board/Management positions in the financial services industry were **'Fit and Proper persons'**.

7.3 Special Insured Institutions Supervisory Operations In 2006

The Special Insured Institutions Department (SIID) carried out on-site examinations and off-site surveillance of licensed Community Banks (CBs) and Primary Mortgage Institutions (PMIs) in 2006.

7.3.1 On-Site Examination Of CBs And PMIs

The numbers of CBs and PMIs that were examined by the Corporation in the past three years are presented in Table 7.2. As evidenced in the table, the Corporation examined a total of 132 institutions comprising 110 Community Banks (CBs) and 22 Primary Mortgage Institutions (PMIs) in 2006 as against a total of 114 (67 CBs and 47 PMIs) that were examined in 2005.

Table 7.2
Numbers Of CBs And PMIs Examined 2004 – 2006

Year	No of CBs Examined	No. of PMIs Examined	Total
2006	110	22	132
2005	67	47	114
2004	44	27	71

The on-site examination of the institutions revealed that most of them had continued to exhibit poor corporate governance practices and consequently had poor quality assets which impacted negatively on their earnings and profitability during the year under review. It was also revealed that most of

the CBs were yet to conclude their plans to recapitalize to the new minimum capital threshold of =N=20 million that would enable them migrate into Microfinance banks.

During the year, the Corporation carried out a number of investigations into the activities of some CBs and PMIs based on petitions presented to it by aggrieved parties.

7.3.2 Off-Site Surveillance Of CBs And PMIs

The Corporation conducted off-site surveillance of licensed CBs and PMIs in 2006. The development led to the production of Quarterly Reports on the institutions. However, many of the licensed institutions did not file their returns with the Corporation. For example, while less than 40% of the PMIs filed returns, only about 20% of CBs filed returns during the year under review.

The Quarterly Reports reinforced the findings of the on-site examinations that most of the CBs and PMIs still harboured corporate governance deficiencies as well as poor quality assets. Furthermore, the report confirmed that the institutions were still not doing much of financial intermediation as they had continued to invest the bulk of their income-generating assets in placements and investments instead of credit and mortgage creation.

7.3.3 Other Activities

The Corporation collaborated with the Other Financial Institutions Department (OFID) of the Central Bank of Nigeria in the implementation of the new National Microfinance Policy. In that context, the SIID worked closely with the OFID in the development and implementation of the proposed Microfinance Certification Programme for operators as well as other programmes that were designed to drive the implementation of the new policy. Also, the Corporation participated actively in the Inter-Agency Technical Committee on Microfinance Policy during the year 2006.

The Corporation also related closely with other stakeholders in the sub-sector like the Mortgage Banks Association of Nigeria (MBAN), Committee of Mortgage Institutions in Nigeria (COMIN) and National Association of Community Banks in Nigeria (NACOBS) during the year under review. The Corporation equally seized the opportunity of the different fora organized by these bodies in the year 2006 to explain to the various stakeholders its mandate and policy thrusts as they affected the sub-sector.

Section 8

Bank Receivership & Liquidation Operations In 2006

8.0 Introduction

A major development in Nigeria's Banking sector in 2006 was the revocation of the banking licences of fourteen (14) insolvent banks that failed to meet the new ₦25 billion minimum recapitalization requirement deadline of December 31, 2005.

As at the end of the year 2006, the Corporation had obtained Court winding-up orders and was thus appointed official Liquidator for nine (9) out of the fourteen (14) banks that lost their operating Licences in January, 2006. The banks were AllStates Trust Bank Plc (in-liquidation), Lead Bank Plc (in-liquidation), Assurance Bank Nig. Limited, (in-liquidation) and Trade Bank Plc (in-liquidation). Others were Metropolitan Bank Ltd (in-liquidation), City Express Bank Ltd (in- Liquidation), Hallmark Bank Plc (in Liquidation), Gulf Bank Plc (in-liquidation) and African Express Bank Plc (in-liquidation). The Corporation was also appointed as provisional Liquidator for Fortune International Bank and Eagle Bank Plc during the year. The owners of the remaining three (3) banks, namely: Societe Generale Bank of Nigeria

(SGBN), Liberty Bank and Triumph Bank had gone to Court to challenge the revocation of their banks' licences.

With that development, the total number of banks whose licences were revoked by the CBN since 1994 stood at 50 as at December 31, 2006. The names of the banks are as listed in Table 8.1.

Table 8.1
List Of The 50 Closed Banks

Bank (In-Liquidation)	Date of Revocation of Licence
1 Abacus Merchant Bank Ltd.	January 16, 1998
2 ABC Merchant Bank Ltd.	January 16, 1998
3 African Express Bank Ltd	January 16, 2006
4 Allied Bank Plc.	January 16, 1998
5 AllStates Trust Bank Plc	January 16, 2006
6 Alpha Merchant Bank Plc	September 8, 1994
7 Amicable Bank of Nig. Plc	January 16, 1998
8 Assurance Bank of Nigeria Plc	January 16, 2006
9 Century Merchant Bank Ltd.	January 16, 1998
10 City Express Bank Ltd	January 16, 2006
11 Commerce Bank Plc.	January 16, 1998
12 Commercial Trust Bank Ltd.	January 16, 1998
13 Continental Merchant Bank Plc	January 16, 1998
14 Co-operative & Commerce Bank Plc	January 16, 1998
15 Credite Bank Nig. Ltd.	January 16, 1998
16 Crown Merchant Bank Ltd.	January 16, 1998
17 Eagle Bank Plc	January 16, 2006
18 Financial Merchant Bank Ltd.	January 21, 1994
19 Fortune International Bank Plc	January 16, 2006

20 Great Merchant Bank Ltd.	January 16, 1998
21 Group Merchant Bank Ltd.	January 16, 1998
22 Gulf Bank Plc	January16, 2006
23 Hallmark Bank Plc	January16, 2006
24 Highland Bank of Nig. Plc	January 16, 1998
25 ICON Ltd. (Merchant Bankers)	January 16, 1998
26 Ivory Merchant Bank Ltd.	December 22, 2000
27 Kapital Merchant Bank Ltd.	January 21, 1994
28 Lead Bank Plc	January16, 2006
29 Liberty Bank Ltd*	January16, 2006
30 Lobi Bank of Nig. Ltd.	January 16, 1998
31 Mercantile Bank of Nig. Plc	January 16, 1998
32 Merchant Bank of Africa Ltd.	January 16, 1998
33 Metropolitan Bank Ltd	January16, 2006
34 Nigeria Merchant Bank Ltd.	January 16, 1998
35 North-South Bank Nig. Plc	January 16, 1998
36 Pan African Bank Ltd.	January 16, 1998
37 Peak Merchant Bank Ltd *	February 28,2003
38 Pinnacle Commercial Bank Ltd.	January 16, 1998
39 Premier Commercial Bank Ltd.	December 22, 2000
40 Prime Merchant Bank Ltd.	January 16, 1998
41 Progress Bank Nig. Plc	January 16, 1998
42 Republic Bank Ltd.	June 29, 1995
43 Rims Merchant Bank Ltd	December. 22, 2000
44 Royal Merchant Bank Ltd.	January 16, 1998
45 Savannah Bank of Nigeria Plc *	February 15, 2002
46 Societe Generale Bank Ltd*	January16, 2006
47 Trade Bank Plc	January16, 2006
48 Triumph Bank Ltd*	January16, 2006
49 United Commercial Bank Ltd.	September 8, 1994
50 Victory Merchant Bank Ltd.	January 16, 1998

* Liquidation Suspended due to Litigations

Out of the 36 banks that were closed before 2006, the litigation in respect of the revocation of the banking licences of Savannah Bank and Peak Merchant Bank were yet to be resolved, therefore the Corporation continued with the winding up exercise of the 34 failed banks that were closed since 1994 during the year. The Principal liquidation activities that engaged the Corporation in 2006 included loan recovery, valuation and sale of physical assets of the failed banks, payments of insured deposits and liquidation dividends to depositors, shareholders and creditors from the proceeds of realized assets.

The remaining subsections of the report give relevant information on the failure resolution option (Purchase and Assumption) adopted for the 14 banks closed in 2006, claims settlement activities, recovery of debts owed to the failed banks, valuation and disposal of fixed assets as well as liquidation-related legal matters in some of the banks-in-liquidation.

8.1 Failure Resolution Option For The 14 Banks Closed In 2006

The failure resolution option adopted by the Corporation in collaboration with the CBN for the 14 banks that were closed in 2006 was Purchase and Assumption (P & A) Transaction. Under the P&A arrangement, healthy banks purchased assets and assumed deposit liabilities of the failed banks. The choice of the P&A was based on some public policy considerations, which among others, included the following:

- Private sector depositors would not lose any of their deposits thus sustaining public confidence and encouraging savings;
- The branch network and most of the assets of the failed banks would be kept within the banking system through acquisition by banks that survived the banking sector reform programme; and
- Quicker payment to depositors which would afford them the opportunity to continue banking relationships with the assuming banks if so desired.

During the year 2006, under the P & A arrangement, Ecobank Plc acquired the fixed assets of All States Trust Bank Plc (in-liquidation) and assumed the private deposit liabilities. Also, Afribank Plc acquired the fixed assets and assumed the private deposit liabilities of Assurance Bank Nigeria Ltd (in-liquidation) and those of Lead Bank Plc (in-liquidation) while UBA Plc acquired the fixed assets of Trade Bank Plc (in-liquidation) and assumed its private deposit liabilities. Similarly, Metropolitan Bank Ltd (in-liquidation), City Express Bank Plc (in-liquidation) and Hallmark Bank Plc (in-liquidation) had been packaged and offered to the 25 banks in the system for competitive bidding under the P&A option. The Corporation had also commenced preliminary review of the remaining banks for which winding up orders were still being pursued at the Federal High Court.

Among the various challenges faced by the Corporation in implementing the P&A option had been legal challenges by erstwhile bank owners, depositors,

inability to recover the failed banks' loans, escalation in bank closing and related costs, etc. The Corporation could not arrange P&A for banks for which winding-up orders had not been obtained. The owners of some of the banks closed in 2006 were still contesting the revocation of their banks' licences in the court. On debt recovery, assuming banks purchased only physical assets and showed no interest in their loan assets. The NDIC as liquidator was therefore saddled with the recovery of the bad loans of the banks. The delay in obtaining winding-up orders and the challenges in the Courts had also resulted in increased bank closing and related costs. Some of the costs included the salaries of banks' and auxiliary staff as well as rent for over-stay period in leasehold premises.

8.2 Claims Settlements and Administration

Claims' settlement and administration involve the verification, processing and settlement of claims filed by proven depositors, creditors and shareholders of failed banks. This function also includes payment of liquidation dividends to

uninsured depositors and creditors of the closed banks. Consistent with the provisions of the NDIC Act 2006, the Corporation only provides funds for the payment of insured deposits from the Deposit Insurance Fund (DIF) while liquidation dividends to uninsured depositors, creditors and shareholders are paid from the proceeds of the sale of physical assets and recoveries made from debtors.

8.2.1 Payment of Insured Deposit

During the year under review, the Corporation continued the payment of insured deposits to depositors of 34 banks in liquidation. All payments were made through appointed Agent Banks. Table 8.2 shows the cumulative payments from 1994 to 2006. As indicated in the table, the Corporation paid a total of N4,157.09 million as at December 31, 2006, to 337,568 insured depositors compared to the figure of N3,302.578 million paid to 270,299 insured depositors as at December 31, 2005.

TABLE 8.2
DEPOSIT PAYOUT AS AT DECEMBER 31, 2006

S/N	Banks In Liquidation	Total Deposits at Closure	Total Insured Deposits	Total Insured Deposits Paid	Liquidation Dividend	
					Amt Declared	Amt Paid
		=N= (M)	=N= (M)	=N= (M)	=N= (M)	=N= (M)
1	Abacus Merchant Bank Ltd	272.563	12.779	7.303	40	18.49
2	ABC Merchant Bank Ltd	224.182	14.136	8.454	223.64	156.11
3	Afex Bank Plc	2075.498	58.539	0	0	0
4	Allied Bank of Nigeria Plc	2775.014	1205.473	851.628	379.83	175.73
5	Allstates Trust Bank Plc	31784.231	3037.832	853.363	19393.41	7165.96
6	Alpha Merchant Bank Plc	1218.390	18.519	18.469	1219.23	793
7	Amicable Bank of Nig. Ltd	41.035	26.225	7.904	41.07	7.84
8	Assurance Bank Plc	7549.106	706.747	0	0	0
9	Century Merchant Bank Ltd	573.287	11.023	5.193	58.50	42.05
10	City Express Bank Plc	16560.196	307.445	0	0	0
11	Commerce Bank Ltd	1156.746	199.607	109.831	558.56	353.74
12	Commercial Trust Bank Ltd	215.770	29.122	5.807	178.33	72.55
13	Continental Merchant Bk Plc	1390.270	31.450	19.087	1387.30	877.24
14	Co-operative & Commerce Bank Plc	1914.895	1366.812	885.352	1314.45	706.32
15	Credite Bank Nigeria Ltd	155.223	24.716	10.292	45	31.60
16	Crown Merchant Bank Ltd	111.603	9.476	3.026	15.62	1.73
17	Financial Merchant Bank Ltd	154.913	4.874	3.722	99.50	55.56
18	Fortune Bank Plc	8649.622	247.174	0	0	0
19	Great Merchant Bank Ltd	132.421	5.380	2.382	19.86	3.66
20	Group Merchant Bank Ltd	296.275	4.197	1.335	0	0
21	Gulf Bank Plc	4865.430	296.321	0	0	0
22	Hallmark Bank Plc	26962.299	4.334	0	0	0

23	Highland Bank of Nig. Plc	91.275	39.490	18.765	37.49	15.73
24	ICON Ltd (Merchant Bankers)	1421.194	33.944	30.163	1402.71	875.01
25	Ivory Merchant Bank Ltd	46.084	3.191	0.10	0	0
26	Kapital Merchant Bank Ltd	314.601	5.874	4.332	314.60	289.32
27	Lead Bank Plc	10342.179	63.066	0	0	0
28	Lobi Bank of Nigeria Ltd	233.234	146.562	91.043	111.03	58.23
29	Mercantile Bank of Nigeria Plc	803.646	581.730	370.007	711.32	228.44
30	Merchant Bank of Africa Ltd	712.398	20.909	12.828	682.63	288.89
31	Metropolitan Bank Plc	4590.386	187.717	0	0	0
32	Nigeria Merchant Bank Ltd	153.896	4.847	3.626	153.90	78.38
33	North-South Bank Nig. Plc	349.868	152.494	80.403	19.02	5.80
34	Pan African Bank Ltd	648.630	360.745	231.668	690	242.58
35	Peak Merchant Bank Ltd	3424.404	20.488	2.490	0	0
36	Pinnacle Commercial Bank Ltd	508.728	63.377	27.082	260.50	187.72
37	Premier Commercial Bank Ltd	31.051	24.407	0.963	31.05	0.05
38	Prime Merchant Bank Ltd	204.725	4.780	2.667	40	37.99
39	ProgOress Bank of Nigeria Plc	1096.933	738.750	440.685	363.29	154.10
40	Republic Bank Ltd	79.182	19.923	13.068	68.65	27.03
41	Rims Merchant Bank Ltd	252.519	6.907	1.047	252.52	199.84
42	Royal Merchant Bank Ltd	677.856	11.042	5.066	33.80	24.75
43	Societe Generale Bank Ltd	183.758	11.076	0	0	0
44	Triumph Bank Plc	3139.016	43.592	0	0	0
45	United Commercial Bk Ltd	275.907	34.099	26.174	168.11	67.76
46	Victory Merchant Bank Ltd	114.856	4.455	1.866	42	20.39
47	Savannah Bank of Nigeria Plc	4907.177	1084.282	0	0	0
	TOTAL	143,682.472	11,289.928	4,157.091	30,356.92	13,263.59

8.2.2 Payment of Liquidation Dividends to Depositors

The payment of liquidation dividends to the uninsured depositors continued during the year under review. As shown in Table 8.2, the sum of

N13,263.59 million had been paid as liquidation dividend as at 31st December 2006 as against the sum of N5,967.06 million paid as at 31st December, 2005. It is also pertinent to note that contrary to widely held wrong opinion that the Corporation only pays N50,000.00, no matter how much a depositor had with a failed bank, the Corporation had so far declared 100% dividend (i.e. full recovery of deposits) for uninsured depositors of eleven banks. The affected banks were:

- I) ABC Merchant bank Ltd (in-liquidation);
- II) Alpha Merchant bank Plc (in-liquidation);
- III) Amicable Bank of Nigeria Ltd (in-liquidation);
- IV) ICON Ltd (Merchant Bankers) (in-liquidation);
- V) Kapital Merchant Bank Ltd (in-liquidation);
- VI) Nigeria Merchant bank Ltd (in-liquidation);
- VII) Pan African Bank Ltd (in-Liquidation);
- VIII) Premier Commercial Bank Ltd (in-Liquidation);

- IX) Rims Merchant Bank Ltd (in-liquidation);
- X) Merchant Bank Of Africa (in-liquidation) and
- XI) Continental Merchant Bank Ltd (in-liquidation).

Also, twenty-two other banks-in-liquidation had declared dividends ranging from 5% to about 96% for uninsured depositors.

8.2.3 Payment of Liquidation Dividends to General Creditors and Shareholders

The payment of liquidation dividends to shareholders of Alpha Merchant Bank (in-liquidation) continued in 2006. A sum of N305.71 million had been paid out of the =N=600million declared as at 31st December, 2006. That was against the N263.82 million paid during the preceding year ended 31st December 2005.

8.2.4 Low Response of Depositors

As in the previous years, the low response of depositors to the collection of their claims continued to be a source of concern to the Corporation. In spite of several extension of dates for payment of insured depositors as well as enlightenment campaigns embarked upon by the Corporation to ensure that claimants filed for their claims, depositors and other claimants alike, had not responded adequately. Consequently, many depositors were yet to file claims as at December 31, 2006. Depositors who had not filed their claims were encouraged to do so without further delay.

8.3 Risk Assets Management

During the year, the Corporation continued to place emphasis on the effective management of the risk assets of all the banks-in-liquidation. It must be reiterated that this aspect of the Corporation's responsibility had continued to suffer some constraints since 1999, when the Failed Banks Tribunals were wound up and their activities transferred to the Federal High Court. Due to the protracted delays and continuous adjournment of cases, debt recovery

had been minimal. Furthermore, difficulty in locating assets of judgment debtors for attachment and sale whenever judgment was obtained also constituted a hindrance to debt recovery. In addition, even where an attachment was successful, it had been difficult to sell the properties due to lack of buyers as a result of the location of some of the properties in the rural areas.

Consequently, the Corporation had resorted to the use of moral suasion to encourage debtors to pay. Interest waivers had been granted on a case-by-case basis to encourage payment. As at the end of 2006, a total of =N=8,603.11 million had been recovered from debtors of the 34 banks-in-liquidation and eight (8) out of the fourteen (14) that were closed in 2006, compared to =N=5,710.17 million that was reported as at December 31, 2005 as shown in Table 8.3.

TABLE 8.3**SUMMARY OF LOANS & ADVANCES AND RECOVERIES AS AT DECEMBER 31, 2006**

S/N	Banks In Liquidation	Total Loans & Advances As At Closure =N= Million	Recoveries As At 31/12/2005 =N= Million	Total Recoveries As At 31/12/2006 =N= Million
1	Abacus Merchant Bank Ltd	1,213.87	41.81	41.81
2	Afex Bank Plc	0.00	-	449.48
3	ABC Merchant Bank Ltd	565.37	76.64	77.04
4	Allstate Trust Bank Plc	25,870.47	-	406.99
5	Allied Bank of Nigeria Plc	2,535.48	388.13	388.13
6	Alpha Merchant Bank Plc	1,030.72	902.69	902.69
7	Amicable Bank of Nig. Ltd	328.99	25.06	25.71
8	Assurance Bank Plc	0.00	-	61.42
9	Century Merchant Bank Ltd	809.81	31.62	31.62

10	Commerce Bank Ltd	1,643.59	265.46	265.46
11	Commercial Trust Bank Ltd	570.59	150.47	151.90
12	Continental Merchant Bk Plc	1712.28	406.21	407.53
13	Co-operative & Commerce Bank Plc	2305.38	541.95	549.97
14	Credite Bank Nigeria Ltd	479.92	21.99	22.34
15	City Express Bank Plc	0.00	-	9.95
16	Crown Merchant Bank Ltd	340.31	9.81	9.81
17	Financial Merchant Bank Ltd	447.19	104.66	105.16
18	Great Merchant Bank Ltd	393.44	12.38	16.12
19	Group Merchant Bank Ltd	741.81	30.21	33.91
20	Hallmark Bank Plc	0.00	-	488.49
21	Highland Bank of Nig. Plc	114.05	19.06	19.78
22	ICON Ltd (Merchant Bankers)	140.62	126.25	150.12
23	Ivory Merchant Bank Ltd	1,491.37	13.67	23.83
24	Kapital Merchant Bank Ltd	344.27	242.03	273.41
25	Lead Bank Plc	12,380.78	-	726.94
26	Lobi Bank of Nigeria Ltd	291.6	71.94	72.64
27	Mercantile Bank of Nigeria Plc	1,217.60	234.07	235.64
28	Merchant Bank of Africa Ltd	2,048.81	186.65	223.94
29	Metropolitan Bank Plc	0.00	-	212.79
30	Nigeria Merchant Bank Ltd	1,243.15	194.44	207.48
31	North-South Bank Nig. Plc	932.04	29.78	30.79
32	Pan African Bank Ltd	1,282.45	661.53	662.26
33	Peak Merchant Bank Ltd	0.00	22.40	22.40
34	Pinnacle Commercial Bank Ltd	1,551.90	142.00	150.90
35	Premier Commercial Bank Ltd	1,102	15.55	21.52
36	Prime Merchant Bank Ltd	838.11	39.29	41.30
37	Progress Bank of Nigeria Plc	1,880.94	406.55	413.18
38	Republic Bank Ltd	232.56	33.93	33.93
39	Rims Merchant Bank Ltd	1,900.88	2.18	21.40
40	Royal Merchant Bank Ltd	1,131.07	43.09	45.68
41	Trade Bank Plc	0.00	-	367.78
42	United Commercial Bk Ltd	1,864.58	172.27	181.27
43	Victory Merchant Bank Ltd	301.47	18.60	18.60
	TOTAL	73,279.47	5,688.58	8,603.11

8.4 Liquidation Related Legal Matters

As at December 31, 2006 the Corporation as liquidator, had 1041 debt recovery cases pending in various courts with a total value of =N=13,551,940,669.06 and \$36,923,737.54 as against the total number of 1042 cases valued at =N=14,056,568,952.83 and \$45,955,937.69 pending as at December 31, 2005.

The number of debt recovery cases in which judgments were obtained as at December 31, 2006 totaled 756, involving the sum of =N=6,725,068,766.70 and \$43,746,976.12 while the cumulative number of judgments enforced totaled 24 valued at =N=154,229,003.11 and \$4,244,322.99. As at the end of 2006, 123 accounts involving the sum of =N=991,074,711.74 and \$117,049.33 under litigation had been liquidated.

The sum of =N=2,175,078,362.99 and \$533,144.83 were the cumulative recoveries made through litigation.

Also, as at December 31, 2006 the Corporation was faced with 418 defensive suits involving the sum of =N=3,410,182,071.51, \$9,109,458.17 and GBP21,613.00. As at the same date, the Corporation had secured favourable judgments in 66 of the 96 defensive cases concluded. A total of 8 defensive cases involving the sum of =N=47,094,971.62 were settled as at December 31, 2006. A total of 18 criminal cases, involving the sum of N4,040,800,000 and \$18,685,926.72 were awaiting adjudication at the courts as at December 31, 2006.

In its capacity as the Liquidator of failed banks and pursuant to the requirement of Section 429 of the Companies and Allied Matters Act (CAMA) 1990 (as amended), and Section 38B of the Banks and Other Financial Institutions Act (BOFIA) 1990 as amended, the Corporation filed the required returns in respect of the banks in liquidation with the Corporate Affairs

Commission (CAC) and the Central Bank of Nigeria (CBN) during the year under review.

8.5 Fixed Asset Valuation and Disposal

During the year, the Corporation engaged the services of estate valuers to value some fixed assets of the banks-in-liquidation. Such properties were subsequently sold on wholesale basis under the Purchase and Assumption transaction. Details of sale proceeds of fixed assets are presented in Table 8.4. In 2006, a sum of =N=7,414.77 million was realized from the sale of fixed assets compared to the proceeds of =N=587.45 million realized in 2005. The cumulative proceeds from the sale of fixed assets amounted to =N=12,769.60 million as at December 31, 2006.

The significant increase in sale proceeds during the year was as a result of the wholesale purchase of the fixed assets of All States Trust Bank Plc (in-liquidation) and Lead Bank Plc (in-liquidation), Assurance Bank Nigeria Ltd

(in-liquidation) and Trade Bank Plc (in-liquidation) by the acquiring banks under the Purchase and Assumption (P&A) Transaction.

TABLE 8.4

SUMMARY OF PROCEEDS FROM SALE OF PHYSICAL ASSETS AS AT DECEMBER 31, 2006

S/N	Bank	Landed Property =N= Million	Vehicle /Gen Sets =N= Million	Chattel =N= Million	TOTAL =N= Million
1	Abacus Merchant Bank Ltd	0	2.71	3.66	6.37
2	ABC Merchant Bank Ltd	0	3.83	3.40	7.23
3	Allstate Trust Bank Plc	-	3.60	0.59	2704.19
4	Allied Bank of Nigeria Plc	605.87	64.39	38.67	710.93
5	Alpha Merchant Bank Plc	122.24	0.07	0.71	123.02
6	Amicable Bank of Nig. Ltd	8	7.14	17.55	32.69
7	Assurance Bank Plc	-	-	-	1754.14
8	Century Merchant Bank Ltd	-	6.80	10.51	17.31
9	Commerce Bank Ltd	125.14	40.62	31.28	197.04
10	Commercial Trust Bank Ltd	36.08	10.30	25.38	71.76
11	Continental Merchant Bk Plc	984.33	11.57	22.36	1018.26
12	Co-operative & Commerce Bank Plc	465.95	13.10	32.79	511.84
13	Credite Bank Nigeria Ltd	15	14.09	14.89	43.98
14	Crown Merchant Bank Ltd	15	4.93	3.80	23.73
15	Financial Merchant Bank Ltd	-	-	10.33	10.33
16	Great Merchant Bank Ltd	4.27	1.88	0.96	7.11
17	Group Merchant Bank Ltd	-	2.16	4.68	6.84
18	Hallmark Bank Plc	5.32	-	-	5.32

19	Highland Bank of Nig. Plc	12.97	5.54	7.99	26.50
20	ICON Ltd (Merchant Bankers)	667.45	3.34	20.88	691.67
21	Ivory Merchant Bank Ltd	-	3.76	1.53	5.29
22	Kapital Merchant Bank Ltd	-	41.36	0.24	41.60
23	Lead Bank Plc	-	9.00	-	1025.50
24	Lobi Bank of Nigeria Ltd	80.61	3.90	11.70	96.21
25	Mercantile Bank of Nigeria Plc	362.81	6.99	42.22	412.02
26	Merchant Bank of Africa Ltd	287.04	1.87	16.48	305.39
27	Nigeria Merchant Bank Ltd	3.55	4.89	0.50	8.94
28	North-South Bank Nig. Plc	151.00	1.20	16.39	168.59
29	Pan African Bank Ltd	338.81	6.52	4.92	350.25
30	Pinnacle Commercial Bank Ltd	-	11.77	18.38	30.15
31	Premier Commercial Bank Ltd	37.43	3.83	9.90	51.16
32	Prime Merchant Bank Ltd	-	2.28	5.39	7.67
33	Progress Bank of Nigeria Plc	3.12	15.50	39.64	58.26
34	Republic Bank Ltd	130.	-	6.38	136.38
35	Rims Merchant Bank Ltd	401	2.86	1.42	405.28
36	Royal Merchant Bank Ltd	-	2.84	3.88	6.72
37	Trade Bank Plc	-	-	-	1638.43
38	United Commercial Bk Ltd	-	29.10	15.46	44.56
39	Victory Merchant Bank Ltd	-	0.31	6.63	6.94
	TOTAL	4864.99	344.05	451.49	12769.60

8.6 Statutory Audit

The Corporation retained the services of 19 firms of Chartered Accountants to audit the accounts of the banks-in-liquidation during the year 2006.

8.7 Termination Of Liquidation Activities

Some banks had been in liquidation for over ten years and their remaining assets were considered unrealisable. Meanwhile, various costs were being incurred which could no longer be absorbed by the affected banks. Consequently, it became necessary to terminate the liquidation of the banks so that the Corporation would be discharged as their liquidator. The Corporation had reviewed the relevant laws and produced a check-list and guidelines on the procedures, processes and documentation required to terminate the liquidation of the closed banks. During the year, the legal files of the closed banks for which Management might approve the termination of their liquidation activities had been collated.

Section 9

Summary Of Other Activities And Accomplishments Of The Corporation In 2006

9.0 Introduction

A major development during the year was the setting up of an *“Anti-Corruption and Transparency Unit”* for the Corporation. The development was in consonance with the Federal Government’s advocacy of probity and

transparency in the Public Service. Also, the “**Servicom Unit**” took-off during the year under review. *SERVICOM* is the acronym for “Service Compact with All Nigerians”. The Unit which was set up in late 2005 in line with Federal Government’s directive to public sector agencies, expresses the Corporation’s commitment to provide more responsive, customer-friendly and high quality service delivery that is efficient, accountable and transparent. Reported in this section are the summary of the major activities of the Departments/Units in 2006 under the existing three divisions, namely: the Office of the Managing Director/Chief Executive, Operations Division and Finance and Administration Division. Also reviewed in this section, are other accomplishments of the Corporation which were in the areas of corporate social responsibility; international networking as well as initiatives undertaken in 2006 to enhance public understanding and awareness of deposit insurance in Nigeria.

9.1 Office Of The Managing Director/Chief Executive

The division comprised three (3) Departments and one (1) Unit which reported directly to the Managing Director/Chief Executive during the year under review. The major activities of the Departments and the Unit in 2006 are summarised below.

9.1.1 Office Of The Board Secretary And Legal Department

In 2006, apart from covering meetings of the Board, Board Tenders Committee, the Executive Committee (EXCO) and the Management Consultative Committee (MCC), the Department provided, on a regular basis, professional legal services including rendering of legal opinions and advice on various issues aimed at achieving the Corporation's statutory objectives. The Department continued to manage the criminal prosecution of all persons charged for various financial malpractices in banks under the Failed Banks Act, liquidation related matters as well as all civil litigations involving the Corporation.

During the year, the Department coordinated the review of the Corporation's enabling Act which had been passed by the National Assembly and signed into Law by the President of the Federal Republic of Nigeria. The Department in 2006 pursued the processes of obtaining winding-up orders and the appointment of the Corporation as Liquidator in respect of the 14 banks whose operating licences were revoked in January, 2006 by the Central Bank of Nigeria (CBN). Also, the Department in collaboration with the Editorial Board completed work on the first batch of the compendium of Nigerian Banking Law Reports (1933 – 1989) which were presented to the public during the NDIC Depositor Protection Awareness Week (DPAW) in November, 2006. Work had also commenced on the second batch of the compendium during the year under review.

9.1.2 Internal Audit Department

During the year, the Internal Audit Department reviewed the activities of all the Departments/Units, Lagos Office and the three Zonal Offices of the Corporation. The exercise was done with a view to improving the Internal Control System as well as safeguarding the assets of the Corporation. To

ensure that corporate objectives were achieved, the Department carried out a comprehensive review of the activities of Departments/Units during the Mid-Year and End-of-Year Audit of the Corporation. In addition, the Internal Audit Department conducted quarterly Cash Count and Stock-taking/Vehicle Inspection at the different locations of the Corporation=s Offices. The Audit observations and recommendations were sent to the Management and its decisions communicated to the affected Departments/Zones for implementation and monitoring by the Department.

The Internal Audit Department continued to keep Management abreast of the activities of all the banks (In-liquidation) by carrying out comprehensive bi-annual review of their operations at Lagos as well as Enugu consolidation centres. The Department's observations and recommendations were communicated to the Receivership & Liquidation (R&L) Department for implementation after due approval by the Senior Management.

The Internal Audit Department also ensured that procurements by the Corporation for use in the various Departments complied with the laid-down regulations. Other activities carried out by the Department in 2006 included the review of all payments made by the Corporation to ensure compliance with laid-down policies and procedures.

The Department coordinated the activities of the “**Anti-Corruption and Transparency Unit**” that was set up by the Corporation in the year 2006. The Unit collaborated effectively with and participated in the anti-corruption programmes of the Federal Government’s anti-Corruption Agencies during the year under review.

9.1.3 Corporate Development Department (CDD)

During the year, the Department continued with its primary function of coordinating the planning activities of the Corporation. The Department monitored the implementation of the Corporation’s 2006 Annual Plan through the review and analysis of Quarterly Plan Implementation Reports submitted by

Departments/Units with a view to ensuring that those activities aligned with the Plan as well as the strategic focus of the Corporation. Also, constraints in carrying out those departmental activities, where identified, were highlighted to the Management and subsequently resolved. The Department also coordinated and monitored the production of year 2007 Annual Plan for the Corporation.

The Department reviewed the extent of implementation of the approved recommendations of the services of companies engaged by the Corporation under retainership agreements in 2006. During the year, the Department reviewed the physical conduciveness of the offices in the Head Office, Abuja, and highlighted the risk factors and deficiencies at the workplace as they affected the individual's productivity and the collective performance of staff of such offices. The Department's observations and recommendations were sent to the Management and its decisions communicated to the affected Departments/Zones for implementation.

The Department coordinated the activities of the “**Servicom Unit**” that was set up by the Corporation in line with Federal Government Reform Agenda. During the year, the Department organized a sensitization workshop to acquaint staff of the Corporation of the requirement of SERVICOM. The Department also carried out the evaluation of SERVICE frontlines in the Corporation for compliance with SERVICOM; solicited and responded to complaints and suggestions from various stakeholders; distributed SERVICOM booklets and pamphlets; as well as published the Corporation’s Charter for wider circulation.

The Department coordinated arrangements for the Management Retreat held in Kaduna in August, 2006. The theme of the retreat which was attended by Board Members, Senior Management, Executives and some Senior Staff of the Corporation was *“Repositioning the NDIC to meet the Challenges of Bank Consolidation and Other Reforms of the Government”*.

9.1.4 Public Affairs Unit (PAU)

During the year, the Unit continued to perform its primary function of creating public awareness about the Corporation's mandate and activities through the electronic and print media. The Unit in collaboration with other Departments co-ordinated the 2nd Annual Depositor Protection Awareness Week (DPAW), that was organised in November, 2006 to enlighten depositors and other vital stakeholders on the objectives, benefits and limitations of the deposit insurance scheme. Also, the Unit coordinated the hosting of a 3-day workshop for Business Editors and Finance Correspondents Association of Nigeria (FICAN) in 2006 at Benin, Edo – State, as part of the Corporation's efforts to enhance its public awareness.

The Unit facilitated good working relationship with the Executive and Legislative arms of government, especially the relevant Committees in the Senate and the Federal House of Representatives during the year. As part of the public relations efforts and effective liaison with the strategic publics and major stakeholders, the Unit hosted Nigerian students' excursions to the Corporation in 2006. In line with the Corporation's corporate social

responsibility and contribution towards the development of the nation's educational system, the Unit coordinated the commissioning of projects executed through the Corporation's Education Support Programme for some Federal Universities in the country in year 2006.

9.2 Operations Division

The Operations Division had five (5) Departments namely: Field Examination, Off-site Supervision, Receivership & Liquidation, Special Insured Institutions and Research. The activities of the first four Departments had featured in other Sections of this report, therefore reported here are the activities of the Research Department in 2006.

9.2.1 Research Department

The Department monitored and documented developments in the nation's banking and financial services industry and published the major developments in the NDIC Quarterly in 2006. Apart from the Quarterly Journal, the

Department also published the NDIC News, a quarterly in-house news magazine for the staff of the Corporation. Also, the Department coordinated the publication and distribution of the Corporation's 2005 Annual Report and Statement of Accounts. The Department also had some ad-hoc duties from the Management which were discharged in the year 2006. For example, the Department in collaboration with other Departments co-ordinated the 2nd Annual Depositor Protection Awareness Week (DPAW), that was organised in November, 2006 and the hosting of a 3-day workshop for Business Editors and Finance Correspondents Association of Nigeria (FICAN) in 2006 at Benin, Edo State. In addition, the department continued to supervise the Corporation=s specialised library.

9.3 Finance And Administration Division

The composition of the Finance and Administration Division included: Administration, Human Resources, Finance, Computer Services Departments and the Lagos Establishment Office. A review of the activities of the

departments as well as the Lagos Establishment Office in 2006 is presented below.

9.3.1 Administration Department

During the year, the Administration Department was preoccupied with its responsibility of creating and maintaining a conducive working environment which included providing support services, procurement of goods and equipment for various departments and staff to ensure optimal achievement of the Corporation=s goals and objectives. During the year, the Department carried out general improvement works as well as routine maintenance of the Corporation=s Head Office Building in Abuja as well as in the Zonal Office in Kano. In 2006, the Department commenced the processes for the development of a Lagos Office at Ikoyi, Lagos and the Head Office Annex in Abuja.

In an effort to upgrade the tele-communication facilities at the Corporation's Head Office, Abuja, the Department supervised the completion of the supply

and installation of fibre optic cables by Siemens during the year. The next phase of the project, which is the supply and installation of a new PABX System, also commenced during the year under review.

9.3.2 Human Resources Department (HRD)

In an effort towards the realization of the Human Resources' objectives of the Corporation, the Department in 2006 implemented various policies designed to ensure the effective management and utilization of the human capital as well as addressing the training needs of staff to enhance their productivity. In that regard, the enhancement of staff welfare, training and development were given necessary attention.

During the year, staff promotion exercise for year 2005 was successfully conducted by the department in which 230 staff were promoted to various grades effective, January 1st 2006. In line with the Corporation's policy on Staff Conversion and Upgrading, 19 members of staff who obtained additional qualifications were either converted or upgraded to relevant grades in 2006.

The training and development function of the department received priority attention in 2006 as part of the Corporation's efforts towards developing a versatile workforce to meet the present as well as future challenges of the Corporation. Thirty six different types of overseas courses were attended by Executives, while 56 Senior and 3 Secretarial staff benefited from various overseas training programmes in 2006. The Corporation also sponsored 24 Executives, 212 Senior, 60 Secretarial and 52 Junior Staff for various local and in-house training programmes in 2006. Two (2) in-plant training programmes were successfully organized in collaboration with some local training organizers in order to address some identified skills gap during the year.

The Department initiated, developed and reviewed some HRM policies towards ensuring effective human resource management activities and harmonious industrial relations in the Corporation in 2006. In order to enhance staff performance, a review of the performance management system was undertaken by the Department in 2006. A project Team was constituted

during the year to consider proposals from reputable management consultants to design an appropriate performance management system for the Corporation. During the year, the department commenced the deployment of a new Human Resources Management System (HRMS) *A Human Manager®* so as to further improve its effectiveness in terms of service delivery. In line with the new Pension Act, the department concluded all arrangements to transfer individual pension benefits to staff Retirement Savings Accounts (RSAs) in their chosen Pension Fund Administrators (PFAs) during the year 2006.

During the year, twelve (12) staff members disengaged from the Corporation. The breakdown of the disengagement, were: five (5) by retirement, four (4) through transfer of service, one (1) each by resignation and termination of appointment, while one (1) staff died during the year 2006. During the year, four (4) disciplinary cases were referred to the Central Disciplinary Committee (CDC), which were handled expeditiously and relevant recommendations made to the Management for consideration.

9.3.3 Finance Department

In year 2006, Finance Department continued to perform its core functions. These included: maintaining the Corporation=s financial records, planning and controlling its financial affairs through the budgeting process, production of monthly Management Information Reports and investing the Corporation=s fund in eligible securities to ensure safety and liquidity. The Department paid to the Tax Authorities VAT deductions, Withholding Taxes as well as Pay As You Earn (PAYE) Taxes during the year under review. Although interest rates were not stable and were low during the year, the Corporation was able to meet its operating expenses within the provision of the budget as a result of Management=s ability to manage costs and diversify investments into higher yielding bonds.

9.3.4 Computer Services Department (CSD)

During the year under review, the Computer Services Department (CSD) continued with its mandate of providing quality Information and Communication Technology (ICT) services to users, to enable them discharge their responsibilities efficiently and effectively. To achieve that goal, the CSD implemented the second phase of the Information System Strategy (ISS) recommendations, particularly, the upgrade of the Corporation's Website, optimization of the Local Area Networks (LAN) at the Head Office, Abuja and Lagos as well as the establishment and monitoring of new LANs at the Zones. The department implemented the Wide Area Network (WAN) to connect all Zonal Offices with Lagos and Abuja and established a centralised Internet Access via SAT-3. During the year, the department facilitated the implementation and deployment of a new, Web-enabled, Robust Human Resources Management System – Human Manager, and the electronic Financial Analysis and Surveillance system (e-FASS).

In order to achieve a competitive and highly skilled workforce for the Corporation, some office automation courses were run for users selected from various departments/units in 2006.

9.3.5 Lagos Establishment Office

During the year, the Lagos Establishment Office was preoccupied with its main functions of providing logistic support to the Corporation's Departments and Units in Lagos. The Office also managed the Corporation's landed properties in various locations in Lagos as well as provided logistic support to Institutions involved in the implementation of Failed Banks (Recovery of Debts) and Financial Malpractices in Banks Act. The Establishment Office had also complemented the efforts of the Administration Department and Human Resource Department in the Head Office, Abuja to accomplish some tasks in Lagos during the year 2006. The Office in particular coordinated the acquisition of Federal Government property which is to serve as the Lagos Office of the Corporation.

9.4 Other Activities And Accomplishments Of The Corporation In 2005

9.4.1 Corporate Social Responsibility

During the year, the Corporation, as part of its contribution to the national development, granted financial assistance to a number of higher institutions in the country. Under the first phase of the programme which ended in 2006, the sum of ₦131 million was set aside by the Corporation for 13 Federal Universities in the country (2 from each of the 6 geo-political zones and Abuja) under its Education Support Programme.

Under the second phase of the Corporation's support to Institutions of higher learning in Nigeria, the sum of ₦130 million was set aside for 11 Institutions in the country. The 11 institutions were:

- X IBB University, Lapai;
- X Waziri Umaru Polytechnic, Birnin-Kebbi;

- X Gombe State University;
- X Adekunle Ajasin University, Akungba, Ondo-State;
- X University of Jos,;
- X Rivers State University of Science & Technology;
- X Ebonyi State University, Abakaliki;
- X University of Nigeria, Nsukka;
- X Ahmadu Bello University, Zaria;
- X Adamawa State University, Mubi; and
- X National Mathematical Centre, Abuja

9.4.2 Contribution To Federal Government Economic Reforms

In 2006, the Corporation and its employees continued to contribute to the various reforms being implemented in the country. The Corporation provided technical support to the Economic and Financial Crimes Commission (EFCC), in its bid to curtail financial crimes and money laundering. The Corporation also participated actively in the successful implementation of the Bank Consolidation Programme.

9.4.3 Public Awareness Programmes

One of the Corporation's major on-going initiatives had been to increase public awareness about deposit insurance and to improve public understanding of its benefits and limitations. To that end, the Corporation in 2006 devoted considerable efforts to advertising by placing advertisement in major national daily newspapers, providing information to a wider audience across the nation. Also, NDIC published advertisement supplements in some magazines. In addition to print materials, the Corporation either through the Managing Director/Chief Executive or the two Executive Directors - Operations and Finance and Administration - made various presentations either as lecture, guest or keynote speakers to diverse audiences in 2006. All the efforts were geared towards increasing public understanding and awareness of deposit insurance and promote an understanding of the NDIC's role and contribution within the nation's financial system. Some of the other initiatives in 2006 included:

9.4.3.1 2nd Depositor Protection Awareness Week (DPAW)

During the year, the Corporation organized its 2nd Depositor Protection Awareness Week (DPAW). The theme of the DPAW was: ***“Deposit Insurance Scheme: Legal and Judicial Environment”***. It would be recalled that the International Association of Deposit Insurers (IADI) of which the Corporation is a founding member and current Chair of the Africa Regional Committee identified public awareness as one of the critical success factors for effective implementation of Deposit Insurance Systems (DIS).

The 2006 DPAW which commenced on 20th November and was rounded off on 24th November 2006 had series of activities which included a Press Conference addressed by the Managing Director/Chief Executive, Mr. G. A. Ogunleye, OFR, to inform the general public about the concept and practice of Deposit Insurance in Nigeria. The press conference afforded the Management

of the Corporation an opportunity to showcase the achievements and challenges of the Corporation since its establishment in 1989.

One of the key events of the week was a Public Lecture in which papers were presented on: **"The Imperatives Of Effective Legal Framework And Judicial Process For a Sound Depositors Protection System"** by Ray LaBrosse, Secretary General, International Association of Deposit Insurers (IADI); and **"Bank Liquidation Challenges In Nigeria"** by Prof. Peter N. Umoh, Executive Director, Operations, Nigeria Deposit Insurance Corporation.

In his welcome address to the public lecture, Mr. G. A. Ogunleye, OFR, pointed out that the Corporation's experience since 1989 showed that the level of awareness about the scheme was low. He stressed that the anniversary lecture was a critical component of the series of activities planned by the Corporation as part of the global initiative on Depositor Protection Awareness. He noted that series of efforts had been made by the Corporation to educate the public about deposit insurance. These included

seminars, workshops, media campaign, public advocacy, press briefing, various publications, et cetera. In spite of these measures, he noted that the strategic publics remained inadequately aware of the benefits and limitations of the scheme hence the need for the Awareness Week.

In her keynote address, the Minister of Finance, Mrs. Nenadi E. Usman identified poor public awareness as one of the challenges facing the Corporation and therefore commended the efforts of the Board and Management of the Corporation for supporting the initiative of the IADI, by hosting the 2nd Depositor Protection Awareness Week. The Governor of the Central Bank of Nigeria (CBN) represented by Mr. Ernest C. Ebi, a Deputy Governor of the CBN gave a goodwill message during the occasion.

During the 2006 Depositor Protection Awareness Week, there was a presentation of the “*Nigerian Banking Law Reports (NBLR)*” published by the Corporation for the purpose of documenting all legal decisions affecting banks since the commencement of banking business in Nigeria in 1933. The

presentation of the NBLR was done by Salihu Modibo Alfa Belgore, CON, the Chief Justice of Nigeria. Other eminent Nigerians present at the NBLR presentation included Prof. G. A. Olawoyin, SAN (Book Reviewer), as well as the former Chief Justice of Nigeria, Hon. Justice Mohammed Uwais (Rtd), GCON.

9.4.3.2 Workshop Organized For Business Editors and Finance Correspondents Association of Nigeria (FICAN)

During the year, the Corporation organized a workshop for Business Editors and Finance Correspondents Association of Nigeria (FICAN). The workshop, which took place in Benin City, Edo State from November 28th – 30th, 2006 was the fifth (5th) in the series specifically designed to improve the Business Editors' as well as the Correspondents' understanding of the concept and practice of Deposit Insurance Scheme (DIS) in Nigeria. The 2006 workshop, like the previous ones, was an assurance that the Corporation remained committed to the goal of further enriching as well as enhancing the capacity of financial journalists to adequately cope with the ever increasing challenges of their profession. The maiden edition of the workshop was held in Jos between March 25th and 26th, 2002, while the second, third and fourth editions were held in Ibadan between May 19th and 22nd, 2003, Enugu between August 25th - 27th, 2004 and Kano between November 21st – 23rd, 2005.

Like the previous editions, the main objectives of the three-day workshop, among others, included:

- i) Creating better understanding of the concept, practice, benefits and limitations of the Deposit Insurance Scheme (DIS); and
- ii) Enhancing participants' understanding of the NDIC's mandate, achievements, challenges and prospects;

Some of the key topics that were deliberated upon during the 3-day workshop were:

- * Overview of the Banking Consolidation and its Aftermath;

- * Issues in Purchase and Assumption as a Bank Failure Resolution Option;
- * Legal Issues in Bank Liquidation;
- * Insurance Risk Minimization; and
- * The Role of the Media in Bank Failure Resolution.

Like the 2005 edition, participants at the 2006 FICAN workshop were divided into Syndicate Groups to discuss some of the papers that were presented at the workshop.

9.5 Support To Sister DIS In Africa And Other International Organizations.

During the year, the Corporation responded to requests for assistance from African countries that were considering adopting or enhancing their deposit

insurance systems. In that regard, the Corporation provided training, through attachment, to personnel from Zimbabwe Deposit Protection Fund Board (ZDPFB) and Deposit Insurance Fund of Tanzania during the year.

As a repository of bank data and Information, the Corporation provided data and information on the banking industry to the International Monetary Fund (IMF), the World Bank and other international organizations on request during the year.

Nigeria Deposit Insurance Corporation

Financial Statements -- 31 December 2006

Together with Joint Auditors' Report

Statement of Directors' Responsibilities

This statement, which should be read in conjunction with the Auditors' Report, is made with a view to setting out for shareholders, the responsibilities of the directors of the Corporation with respect to the financial statements.

The directors are responsible for the preparation of annual financial statements which give a true and fair view of the state of affairs of the Corporation as at the end of each financial year, and of the surplus or deficit for the financial year.

The responsibilities include ensuring that:

- (a) appropriate internal controls are established both to safeguard the assets of the Corporation and to prevent and detect fraud and other irregularities;
- (b) the Corporation keeps accounting records which disclose with reasonable accuracy the financial position of the Corporation and ensure that the financial statements comply with the requirements of the Nigeria Deposit Insurance Act, 2006;
- (c) the Corporation has used suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable accounting standards have been followed; and
- (d) it is appropriate for the financial statements to be prepared on a going concern basis unless it is presumed that the Corporation will not continue in business.

Report of the Joint Auditors to the Members of Nigeria Deposit Insurance Corporation

We have audited the accompanying financial statements of **Nigeria Deposit Insurance Corporation** (“the Corporation”) which comprise the balance sheet as at 31 December 2006, the related income and expenditure account, cash flow statement, the value added statement for the period then ended, the statement of accounting policies, the notes to the financial statements and the five year financial summary, as set out on pages 1 to 20.

Directors' responsibility for the financial statements

The directors' are responsible for the preparation and fair presentation of these financial statements in accordance with the Statement of Accounting Standard applicable in Nigeria and the Nigeria Deposit Insurance Act, 2006. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Corporation as at 31 December 2006, and of its operating surplus and cash flows for the period then ended in accordance with the Statement of Accounting Standards applicable in Nigeria and the Nigeria Deposit Insurance Act, 2006.

Compliance with the requirements of Nigeria Deposit Insurance Act, 2006.

Based on our audit and representations received, to the best of our knowledge and belief, the Corporation did not contravene any provisions of the Nigeria Deposit Insurance Act, 2006, during the year ended 31 December, 2006.

Chartered Accountants
Lagos, Nigeria
31 March, 2007

Chartered Accountants
Abuja, Nigeria
31 March, 2007

Statement of Accounting Policies

A summary of the principal accounting policies, applied consistently throughout the current and preceding years, is set out below.

(a) **General**

These financial statements relate to the results of operations, financial position and statements of cash flow of the Nigeria Deposit Insurance Corporation and do not include assets and liabilities of failed banks for which the Corporation acts as receiver or liquidating agent.

(b) **Basis of accounting**

The financial statements are prepared under the historical cost convention.

The preparation of the financial statements, in conformity with generally accepted accounting principles, requires the use of estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Although, these estimates are based on the directors' best knowledge of current events and actions, actual results ultimately may differ from those estimates.

(c) **Investments in government securities**

Investments in government securities are stated at face value. Unearned income is deferred and amortised as earned.

(d) **Provision for bad and doubtful advances**

The Corporation records as receivables the amounts advanced for assisting banks in distress, each advance being considered on its own merit. Provision is made for any such advance considered doubtful of recovery.

(e) **Fixed assets**

Fixed assets are shown at cost less accumulated depreciation. Depreciation is provided on a straight-line basis to write off the cost of assets over their estimated useful lives at the following annual rates:

Land	Nil
Buildings	2.5%
Generators	20.0%
Furniture and Equipment	25.0%
Motor Vehicles	25.0%
Capital work in progress	Nil

Gains or losses on the disposal of fixed assets are included in the income and expenditure account.

All items of soft furnishing such as curtains, blinds, carpets, rugs, crockery, etc. are expensed irrespective of their value.

(f) **Cash and cash equivalents**

Cash and bank balances comprise cash balances on hand and cash deposited with the Central Bank of Nigeria.

(g) **Pension costs**

The Corporation operates a defined contributory pension scheme. The contribution of the Corporation and staff to the scheme is 20% and 5% of all pensionable emoluments.

(h) **Deposit insurance fund**

Insurance premiums are accumulated in a reserve known as Deposit Insurance Fund in accordance with Section 17 (4) of the NDIC Act, 2006. Payments against or accruals for insured deposits pay-off are debited to the Fund while liquidation dividends in respect of deposit pay-off are credited to the Fund.

(i) **Foreign currency items**

Transactions denominated in foreign currencies are converted to Naira at the rates of exchange ruling at the date of each transaction. Monetary assets and liabilities denominated in foreign currencies are reported at the rates of exchange prevailing at the balance sheet date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is reported in the income and expenditure account.

(j) **Receivership costs**

All receivership costs incurred by the Corporation in respect of failed banks are recoverable from the relevant banks. Provision is made for any such receivable considered doubtful of recovery.

(k) **Liquidation administration**

The Receivership and Liquidation Department of the Corporation is responsible for the administration of the assets and liabilities of banks in liquidation. The assets and claims against those assets are accounted for separately to ensure that liquidation proceeds are distributed in accordance with applicable laws and regulations.

All liquidation expenses incurred by the Corporation on behalf of the banks in liquidation are recoverable from those banks.

(l) **Income recognition**

Interest on treasury bills and government bonds are recognised on an accrual basis.

Income and Expenditure Account

For the year ended 31 December 2006

	<u>Notes</u>	<u>2006</u> N'000	<u>2005</u> N'000
INCOME			
Interest on investments	2	11,444,617	8,401,833
Other income	3	75,399	35,883
		<u>11,520,016</u>	<u>8,437,716</u>
EXPENDITURE			
Operating expenses	4(b)	(7,033,596)	(8,256,348)
		<u>4,486,420</u>	<u>181,368</u>
Operating surplus before taxation	4	4,486,420	181,368
Taxation	5	-	-
		<u>4,486,420</u>	<u>181,368</u>
Operating surplus after taxation	4	4,486,420	181,368
Transfer to motor vehicle insurance reserve	15	(16,477)	-
Transfer to group life insurance reserve	15	(100,000)	-
		<u>4,369,943</u>	<u>181,368</u>
Surplus transferred to general reserve fund		<u>4,369,943</u>	<u>181,368</u>

The accounting policies on pages 1 and 2, and notes on pages 6 to 18 form an integral part of these financial statements.

Balance Sheet

As at 31 December 2006

	Notes	<u>2006</u> N'000	<u>2005</u> N'000
ASSETS:			
Cash and bank balances	6	3,110,091	281,118
Investments	7	131,059,792	111,600,372
Debtors and prepayments	8	3,887,347	2,627,546
Call in arrears		-	102,500
Fixed assets	9	1,834,962	2,069,150
		<u>139,892,192</u>	<u>116,680,686</u>
CURRENT LIABILITIES:			
Compensation due to insured depositors	10	13,841,445	28,928,733
Due to banks	11	212,297	192,578
Sundry creditors	12	443,621	729,824
Due to staff pension fund	13	4,212,828	4,840,544
Unearned income		2,298,786	2,790,173
		<u>21,008,977</u>	<u>37,481,852</u>
CAPITAL AND RESERVES:			
Called up share capital	14	2,300,000	2,300,000
Other reserves	15	200,000	83,523
General reserve fund	16	26,204,124	21,834,181
		<u>28,704,124</u>	<u>24,217,704</u>
Deposit insurance fund	17	90,179,091	54,981,130
		<u>118,883,215</u>	<u>79,198,834</u>
Total liabilities and reserves		<u>139,892,192</u>	<u>116,680,686</u>
Contingent liabilities	18	26,233,091	20,445,114

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:

MR. CHRIS OJI, JP.)
) Directors
MR. G.A. OGUNLEYE, OFR)

Approved by the Board of Directors on 31 March 2007.

The accounting policies on pages 1 and 2, and notes on pages 6 to 18 form an integral part of these financial statements.

Cash Flow Statement

For the year ended 31 December 2006

	<u>Notes</u>	<u>2006</u> N'000	<u>2005</u> N'000
Net cash flows from operating activities			
before changes in operating assets	19	5,282,437	4,019,386
Changes in operating assets	20	(3,804,807)	2,189,990
Net cash flows from operating activities		<u>1,477,630</u>	<u>6,209,376</u>
Investing activities:			
Net increase in investments		(19,459,419)	(23,845,463)
Purchase of fixed assets		(373,580)	(562,952)
Proceeds from disposal of fixed assets		5,303	-
Net cash flows from investing activities		<u>(19,827,696)</u>	<u>(24,408,415)</u>
Financing Activities:			
Increase in deposit insurance fund		21,076,539	17,872,638
Increase in paid up share capital		102,500	-
Net cash flows from financing activities		<u>21,179,039</u>	<u>17,872,638</u>
Net increase/(decrease) in cash and cash equivalents		2,828,973	(326,401)
Cash and cash equivalents, beginning of the year		281,118	607,519
Cash and cash equivalents, end of year		<u><u>3,110,091</u></u>	<u><u>281,118</u></u>

The accounting policies on pages 1 and 2, and notes on pages 6 to 18 form an integral part of these financial statements.

Notes to the Financial Statements

1. The Corporation:

The Nigeria Deposit Insurance Corporation was established by the Federal Government of Nigeria under the NDIC Act No. 22 of 1988 as repealed and re-enacted by the Nigeria Deposit Insurance Act (NDIC Act) 2006, to insure bank deposits, provide assistance in the interest of depositors in the event of imminent or actual financial collapse of banks, and guarantee payments to depositors, subject to a stipulated maximum amount of ₦200,000 (2005: N50,000) per depositor. The Corporation has powers to act as receiver or liquidator of failed banks.

The issued share capital of the Corporation of ₦2.3 billion is held in the proportion of 60% by the Central Bank of Nigeria and 40% by the Federal Government of Nigeria (through the Federal Ministry of Finance Incorporated).

2. Interest on investments:

Interest on investments comprises interest earned on:

	<u>2006</u> ₦'000	<u>2005</u> ₦'000
Treasury bills	6,802,211	7,688,641
Federal government bonds	4,642,406	713,192
	<u>11,444,617</u>	<u>8,401,833</u>

3. Other income:

Other income comprises:

	<u>2006</u> ₦'000	<u>2005</u> ₦'000
Rental income	13,789	29,992
Profit on sale of fixed assets	1,328	-
Others	60,282	5,891
	<u>75,399</u>	<u>35,883</u>

4. **Operating surplus before taxation:**

The Corporation's surplus before taxation for the year is stated after charging the following:

	<u>2006</u>	<u>2005</u>
	N'000	N'000
Directors' remuneration	6,544	631
Depreciation	324,120	386,521
Pension costs:		
- Provision during the year	384,715	662,745
- Provision for Actuarial deficit (see Note 13)	1,692,000	1,500,000
Auditors' remuneration	12,000	12,000
Provision for doubtful receivable (Note (a) below)	473,225	1,342,616
	<u> </u>	<u> </u>

(a) Provision for doubtful receivables comprise:

Cost of land and property revoked by Lagos State Government	-	354,428
Cost of land and property revoked by Federal Capital Dev. Auth.	-	64,863
Receivables on staff quarters sold by the Fed. Govt. through FCT	-	815,900
Receivables from Receivership & Liquidation department	218,537	-
Receivables from agent banks	254,438	-
Other assets	250	107,425
	<u> </u>	<u> </u>
	473,225	1,342,616
	<u> </u>	<u> </u>

(b) Operating expenses comprise:

	<u>2006</u>	<u>2005</u>
	N'000	N'000
Directors' fees and allowances	6,544	631
Staff costs	4,974,603	4,732,737
Administrative expenses	1,223,081	1,396,721
Bank charges	1,500	2,555
Provision for bad debt	473,225	1,342,616
Cost of land and building written off	-	386,293
Failed bank tribunal expenses	30,523	8,274
Depreciation	324,120	386,521
	<u> </u>	<u> </u>
	7,033,596	8,256,348
	<u> </u>	<u> </u>

5. **Taxation:**

Under Section 12 (2), of the NDIC Act, 2006, the Corporation will only be liable to taxation when the General Reserve Fund is more than ten times the authorised share capital and after appropriation of seventy-five per cent of the net operational surplus before taxation to the General Reserve Fund. See Note 16 (ii).

No tax provisions have been included in these financial statements as the General Reserve Fund is less than ten times the authorised share capital as at 31 December 2006.

6. **Cash and bank balances:**

Cash and bank balances comprise:

	<u>2006</u> N'000	<u>2005</u> N'000
Balance with the Central Bank of Nigeria	3,064,299	198,320
Foreign currencies	18,203	47,529
Cash in hand	27,589	35,269
	<u>3,110,091</u>	<u>281,118</u>

7. **Investments:**

Treasury Bills	75,782,505	90,323,085
Federal Government Bond (Note (a))	55,277,287	21,277,287
	<u>131,059,792</u>	<u>111,600,372</u>

(a) Federal Government (FGN) Bonds comprise:

Investment in 8.5%, 2 nd FGN Bond, December 2008 series 3 10,000,000		10,000,000
Investment in 17%, 2 nd FGN Bond, December 2008 series 72,180,000		2,180,000
Investment in 15%, 2 nd FGN Bond, November 2007 series 66,097,287		6,097,287
Investment in 17.5%, FGN Bond, October 2006	-	3,000,000
Investment in 8%, 3 rd FGN Bond, January 2009	15,000,000	-
Investment in 12%, 3 rd FGN Bond, January 2009	7,000,000	-
Investment in 8.5%, 3 rd FGN Bond, January 2011	15,000,000	-
	<u>55,277,287</u>	<u>21,277,287</u>

8. **Debtors and prepayments:**

Debtors and prepayments comprise:

	<u>2006</u>	<u>2005</u>
	N'000	N'000
Financial assistance loans:		
- Principal	100,000	100,000
		- Interest in suspense 188,573,188,
	<u>288,573</u>	<u>288,573</u>
Staff debtors	1,737,181	1,324,207
Prepayments	1,008,876	741,127
Interest receivable	1,273,728	510,271
Other debtors:		
Receivership and liquidation	795,048	581,186
Advance payments to contractors	-	5,113
Staff pension fund	77,262	86,250
Supervisory board and technical fees	-	11,340
Cost of fixed assets revoked	-	142,303
Receivables from Government (Note (a))	962,329	815,900
Agent Bank Suspense Account	254,439	254,439
Sundries	72,744	118,548
	<u>6,470,180</u>	<u>4,879,457</u>
Less: Provision for doubtful debtors (Note (b))	(2,582,833)	(2,251,911)
	<u>3,887,347</u>	<u>2,627,546</u>

(a) Receivables from Government:

Amount represents proceeds of the sales of the Corporation's properties to staff in line with the Federal Government of Nigeria's monetisation policy. The proceeds were collected by the Federal Government of Nigeria, which are yet to be remitted to the Corporation.

(b) Provision for debtors

The movement on the provision for debtors account during the year was as follows:

	Financial Assistance	Staff			
	<u>Loans</u>	<u>Loans</u>	<u>Other Debtors</u>	<u>2006</u>	<u>2005</u>
	N'000	N'000	N'000	N'000	N'000
Balance, beginning of year	288,573	258,286	1,705,052	2,251,911	909,295
Charge for the year	-	-	473,225	473,225	1,342,616
Write off	-	-	(142,303)	(142,303)	-
Balance, end of year	<u>288,573</u>	<u>258,286</u>	<u>2,035,974</u>	<u>2,582,833</u>	<u>2,251,911</u>

9. Fixed assets:

The movement on these accounts during the year was as follows:

	Land &		Furniture &	Motor	Capital	
					Work in	
	<u>Vehicles</u>	<u>Buildings</u>	<u>Generators</u>		<u>Equipment</u>	
	N'000	N'000	N'000	N'000	N'000	N'000
COST:						
Balance, beginning						
of year	1,481,325	174,331	1,133,602	763,163	302,799	3,855,220
Additions	18,159	8,223	124,470	23,701	199,027	373,580
Disposals	-	(24,290)	-	(34,987)	-	(59,277)
Adjustment	(300)	-	-	-	(279,372)	(279,672)
Balance, end of year	1,499,184	158,264	1,258,072	751,877	222,454	3,889,851
ACCUMULATED DEPRECIATION:						
Balance, beginning						
of year	294,159	112,766	824,853	554,292	-	1,786,070
Charge for the year	20,220	20,009	166,902	116,989	-	324,120
Disposals	-	(21,313)	-	(33,988)	-	(55,301)
Balance, end of year	314,379	111,462	991,755	637,293	-	2,054,889
NET BOOK VALUE:						
Balance, end of year	1,184,805	46,802	266,317	114,584	222,454	1,834,962
Balance, beginning						
of year	1,187,166	61,565	308,749	208,871	302,799	2,069,150

No leased assets are included in the above fixed asset accounts.

10. **Compensation due to insured depositors:**

(a) This represents the balance of compensation due to the insured depositors of the banks liquidated to date; under Section 20 of the NDIC Act 2006, a depositor is entitled to a maximum claim of ₦200,000 (2005: ₦50,000) in the event of failure of a bank. The balance of the compensation due to insured depositors during the year was determined using ₦50,000 insurable limit based on the repealed NDIC Act, No. 22 of 1988 as the obligating event of payment of compensation to insured depositors had occurred before the enactment of the NDIC Act, 2006.

The movement on this account during the year was as follows:

	<u>2006</u> ₦'000	<u>2005</u> ₦'000
Balance, beginning of the year	28,928,733	8,187,628
Transfer from deposit insurance fund (Note (b))	-	20,741,105
Transfer to deposit insurance fund (Note (c))	(14,087,288)	-
Payment during the year	(1,000,000)	-
Balance, end of the year	<u>13,841,445</u>	<u>28,928,733</u>

(b) Amount represents the estimate of compensation due to insured depositors of the 16 banks (2005: 16 banks) that had their licences revoked by Central Bank of Nigeria and scheduled for liquidation by the Corporation as at 31 December 2005.

(c) Amount represents funds transferred back to the deposit insurance fund in respect of estimated compensation to insured depositors no longer required based on the revision in the bases on which the estimate was determined in prior year.

(d) According to Section 22 (4(a and b) and 5) of the NDIC Act, 2006 where an insured depositor fails to claim the insured deposits within six years, such sum shall be forfeited to the Corporation.

11. **Due to banks:**

This represents the outstanding balance of amounts received from the Federal Government for the settlement of Federal and State Governments' debts to banks in Nigeria. Payments are made to the affected banks upon reconciliation and verification of claims submitted.

The movement on this account during the year was as follows:

	<u>2006</u> N'000	<u>2005</u> N'000
Balance, beginning of the year	192,578	173,558
Interest received on funds invested	19,719	19,020
Balance, end of year	<u>212,297</u>	<u>192,578</u>

12. **Sundry creditors:**

Sundry creditors comprise:

	<u>2006</u> N'000	<u>2005</u> N'000
Accruals	240,917	516,206
Refundable deposits	-	1,858
Withholding taxes and VAT	22,400	28,292
National housing funds	25,030	25,200
Unclaimed payments	119,828	116,661
Others	35,446	41,607
	<u>443,621</u>	<u>729,824</u>

13. **Due to staff pension fund:**

(a) The movement on this account during the year was as follows:

	<u>2006</u>	<u>2005</u>
	N'000	N'000
Balance, beginning of year	4,840,544	1,144,526
Provision during the year	386,715	662,745
Provision for actuarial deficit (Note (b))	1,692,000	1,500,000
Investment in FGN Bonds	-	2,180,000
Interest on FGN Bonds	576,902	208,820
	<u>7,496,161</u>	<u>5,696,091</u>
Payments during the year	(3,283,333)	(855,547)
Balance, end of year	<u><u>4,212,828</u></u>	<u><u>4,840,544</u></u>

(b) An actuarial valuation of the Corporation's Staff Pension Fund as at 31 December 2004 was carried out by Alexander Forbes Consulting Actuaries Nigeria Limited (Consultants & Actuaries). The valuation disclosed a deficit of ₦3.192 billion in the value of the pension fund, which is required to cover the estimated terminal benefits of existing employees being the proposed cessation date for the current scheme in line with the Pension Reform Act 2004.

In compliance with the Statement of Accounting Standard (SAS) No. 8 – Accounting for Employees' Retirement Benefits, the Directors resolved to amortise ₦1.5 billion of the deficiency in prior year financial statements and the balance of

₦1.692 billion in the current year. The National Pension Commission, through its letter referenced PENCOM/R&E/NDIC/06/01 approved the resolution of the Directors.

Prior to 31 December 2005, the Corporation operated a non-contributory defined benefit pension scheme. However, the Board of Directors at its 67th meeting held on 24 to 25 January 2006 approved the conversion of the scheme to a defined contributory scheme and contribution rates of 20% and 5% of all pensionable emoluments for the Corporation and employees respectively. From that date, the scheme effectively became a defined contribution scheme in line with the provisions of the Pension Reform Act 2004.

Staff pension contributions are still being held in the staff pension scheme contrary to the requirement of the Pension Reform Act 2004. This was due to the fact that the administrative procedures for the registration and transfer of pension fund to the Pension Fund Administrators have not been concluded as at year-end.

14. **Share capital:**

Share capital comprises:	2006	
2005	N'000	N'000
Authorised:		
5,000,000,000 (2005: 2,300,000,000) ordinary shares of ₦1.00 each (Note (a))	5,000,000	2,300,000
	2,300,000	2,197,500
Issued and fully paid:		
2,300,000,000 (2005: 2,197,500,000) ordinary shares of ₦1.00 each paid-up as follows:		
- Central Bank of Nigeria	1,380,000	1,380,000
- Federal Ministry of Finance Incorporated	920,000	817,500
	2,300,000	2,197,500
Call in arrears:		
Nil (2005: 102,500,000) ordinary shares of ₦1.00 each in arrears from Federal Ministry of Finance Incorporated	-	102,500

<u>2,300,000</u>	<u>2,300,000</u>
<u><u>2,300,000</u></u>	<u><u>2,300,000</u></u>

- (a) Section 11 (1) of the Nigeria Deposit Insurance Act 2006 increased the authorised capital of the Corporation to five billion ordinary shares of ₦1 each.

15. **Other reserves:**

Other reserves comprise

	<u>2006</u>	<u>2005</u>
	₦'000	₦'000
Motor vehicle insurance reserve fund (Note 15 (a))	100,000	83,523
Group life insurance reserve fund (Note 15 (b))	100,000	-
	<u>200,000</u>	<u>83,523</u>
	<u><u>200,000</u></u>	<u><u>83,523</u></u>

(a) **Motor vehicle insurance reserve fund**

	<u>2006</u>	<u>2005</u>
	₦'000	₦'000
Balance, beginning of the year	83,523	83,523
Transfer from general reserve fund	16,477	-
Balance, end of year	<u>100,000</u>	<u>83,523</u>
	<u><u>100,000</u></u>	<u><u>83,523</u></u>

In 1999 the Corporation discontinued with the provision of a comprehensive insurance cover for its motor vehicles and replaced this with a third party motor vehicle insurance policy in view of the low amount of claims made relative to premiums paid. The Corporation's Board of Directors thereafter approved the creation of a Motor Vehicle

Insurance Sinking Fund from where the cost for motor vehicle repairs or replacement of accidented vehicles is to be funded. The directors have also approved that this fund be built up to a maximum of ₦100 million. During the year, the Corporation transferred the sum of ₦16 million to the Fund.

(b) **Group life insurance reserve fund**

	<u>2006</u> ₦'000	<u>2005</u> ₦'000
Transfer from general reserve fund	100,000	-
	<u> </u>	<u> </u>

The Corporation's Executive Committee recommended that a Group Life Insurance Sinking Fund be opened and built up to a maximum of ₦100 million. This reserve was created during the year.

16. **General reserve fund:**

The movement on this account during the year was as follows:

	<u>2006</u> ₦'000	<u>2005</u> ₦'000
Balance, beginning of year	21,834,181	21,652,813
Transfer from income and expenditure account	4,369,943	181,368
Balance, end of year	<u>26,204,124</u>	<u>21,834,181</u>

Appropriation to the General Reserve Fund has been made in accordance with the provisions of Section 12 of the Nigeria Deposit Insurance Act, 2006, which requires appropriation to a General Reserve Fund as follows:

- i. Where such reserve fund is less than 10 times the authorised share capital at the end of the year, the Corporation's operating surplus before taxation shall be transferred wholly to the reserve fund.
- ii. Where such reserve fund is more than 10 times the authorised share capital at the end of the year, 75% of the net operating surplus before taxation shall be transferred to the reserve fund, 50% of the net surplus after taxation shall be applied to reduce the annual premium payable by insured banks and the remaining 50% shall be paid to the shareholders. See Note 5.

17. **Deposit insurance fund:**

The movement on this account during the year was as follows:

	<u>2006</u>	<u>2005</u>
	N'000	N'000
Balance, beginning of year	54,981,130	57,595,158
Premiums less refund in the year	21,076,539	17,872,639
Transfer to compensation due to insured depositors	-	(20,741,106)
Reclassification to other debtors	(254,439)	254,439
Reclassification of financial assistance loan	288,573	-
Transfer from compensation due to insured depositors (Note 10 (b))	14,087,288	-
Balance end of year	<u>90,179,091</u>	<u>54,981,130</u>

18. **Contingent liabilities:**

	<u>2006</u>	<u>2005</u>
	N'000	N'000
Pending Litigations (a)	26,233,091	20,445,114

(a) This represents total amount of claims in respect of litigations against the Corporation as at year-end. These litigations arose in the normal course of business and are being contested by the Corporation. The directors are of the opinion that no significant liability will crystallise from these litigations.

19. **Net cash flow from operating activities before changes in operating assets:**

<u>2006</u>	<u>2005</u>
N'000	N'000

Operating surplus after taxation	4,486,420	181,368
Adjustment to reconcile surplus after taxation to net cash flow from operating activities:		
- depreciation	324,120	386,521
- adjustment on fixed assets	-	1,052,062
- (profit)/loss on disposal of fixed assets	(1,328)	1,056,819
- provision charged during the year	473,225	1,342,616
	<u>5,282,437</u>	<u>4,019,386</u>

20. **Changes in operating assets:**

	<u>2006</u> N'000	<u>2005</u> N'000
(Increase)/decrease in operating assets		
- Debtors and prepayments	(1,698,892)	(1,459,985)
Increase/(Decrease) in operating liabilities		
- Compensation due to insured depositors	(1,000,000)	-
- Due to banks	19,719	19,021
- Sundry creditors	(6,531)	(683,427)
- Due to staff pension fund	(627,716)	3,696,018
- Unearned income	(491,387)	618,363
	<u>(3,804,807)</u>	<u>2,189,990</u>

Value Added Statement

For the year ended 31 December 2006

	<u>2006</u> N'000	%	<u>2005</u> N'000	%
Income	11,520,016		8,437,716	
Less:				
Bought-in-materials and services:				
- Local	(1,712,721)		(3,124,371)	
- Foreign	(22,152)		(12,719)	
	<u>9,785,143</u>	100	<u>5,300,626</u>	100
	<u><u>9,785,143</u></u>	<u>100</u>	<u><u>5,300,626</u></u>	<u>100</u>
Applied as follows:				
- To pay employees' wages, salaries and other benefits	4,974,603	51	4,732,737	89
To pay providers of funds:				
- Dividend to shareholders	-		-	-
To pay Government:				
- Taxation	-		-	-
To provide for maintenance of assets:				
- Depreciation	324,120	3	386,521	8
- Transfer to group life insurance reserve	100,000	1	-	-
- Transfer to motor vehicle insurance reserve	16,477	-	-	-
Retained profit for the year	4,369,943	45	181,368	3
	<u>9,785,143</u>	100	<u>5,300,626</u>	100
	<u><u>9,785,143</u></u>	<u>100</u>	<u><u>5,300,626</u></u>	<u>100</u>

This statement represents the distribution of the wealth created by the Corporation through the use of its assets and its employees' effort.

Five - Year Financial Summary

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
	N'000	N'000	N'000	N'000	N'000
TOTAL ASSETS:					
Cash and bank balances	3,110,091	281,118	607,519	691,624	120,330
Investments	131,059,792	111,600,372	87,754,908	66,706,060	49,094,624
Debtors and prepayments	3,887,347	2,373,107	2,255,739	2,017,532	1,162,964
Call in arrears	-	102,500	102,500	102,500	102,500
Fixed assets	1,834,962	2,069,150	4,001,600	3,448,000	3,272,796
	<u>139,892,192</u>	<u>116,426,247</u>	<u>94,722,266</u>	<u>72,965,716</u>	<u>53,753,214</u>
TOTAL LIABILITIES AND RESERVES:					
Compensations due to insured depositors	13,841,445	28,928,733	8,187,628	8,187,628	8,169,000
Due to banks	212,297	192,578	173,558	144,171	106,570
Sundry creditors	443,621	729,824	1,413,251	886,424	969,010
Due to staff pension fund	4,212,828	4,840,544	1,144,526	1,042,915	348,709
Unearned income	2,298,786	2,790,173	2,171,809	1,697,938	1,214,117
Share capital	2,300,000	2,300,000	2,300,000	2,300,000	2,300,000
Other reserve 62,427	200,000	83,523	83,523	72,174	
General reserve fund	26,204,124	21,834,181	21,652,813	15,881,035	10,533,738
Deposit insurance fund	90,179,091	54,726,691	57,595,158	42,773,431	30,049,643
	<u>139,892,192</u>	<u>116,426,247</u>	<u>94,722,266</u>	<u>72,965,716</u>	<u>53,753,214</u>
Contingent liabilities	26,233,091	20,445,114	54,774,085	48,499,664	24,932,000
Gross earnings	<u>11,520,016</u>	<u>8,437,716</u>	<u>11,585,113</u>	<u>9,061,987</u>	<u>8,384,139</u>
Operating surplus	<u>4,486,420</u>	<u>181,368</u>	<u>5,771,778</u>	<u>5,347,297</u>	<u>4,715,988</u>

Section 11

Insured Banks' Offices, Branches, Directors And Approved Auditors

11.1 Distribution Of Offices And Branches By States

As at the end of December 2006, there were a total of 3,835 branches/offices operated by 25 insured banks in the country. Table 11.1 shows the distribution of insured banks= branches/offices in the 36 states of the Federation including Abuja, the Federal Capital Territory (FCT) and Overseas. The total number of banks' branches/offices in 2006 increased by 300 over the figure reported as the end of December 2005. The increase in the number of banks= branches was as a result of the rapid rate of expansion by some of the large banks during the year.

As in the past, Lagos State accounted for the highest number of banks= branches/offices with 1,183 about 30.9 per cent of the total. The figure represented an increase of 109 branches/offices over what was reported in 2005. Abuja (FCT) came second with 214 branches/offices (5.6 percent), while Rivers State came third with 194 branches/offices (5.1 per cent) as at the end of the year 2006. Anambra State occupied the fourth position with a total of 156 branches/offices (4.1 per cent). Other leading states were Oyo 150 or (3.9 per cent), Kano 130 or (3.4 per cent), Delta 129 or (3.4 per cent), Kaduna 115 or (3.0 per cent), Edo 118 or (3.1 percent) Ogun 113 or (2.9) and Abia 109 or (2.6 percent). Like the figure reported in 2005, the number of overseas branches/offices stood at 8 as at December 31, 2006.

TABLE 11.1
DISTRIBUTION OF INSURED BANKS= OFFICES AND BRANCHES
AS AT 31ST DECEMBER, 2006

S/N	States (Including Abuja And Overseas)	Number of Branches/Offices	Percentage Share (%)

S/N	States (Including Abuja And Overseas)	Number of Branches/Offices	Percentage Share (%)
1.	Abia	109	2.06
2.	Abuja (FCT)	214	5.58
3.	Adamawa	49	1.3
4.	Akwa-Ibom	79	2.1
5.	Anambra	156	4.07
6.	Bauchi	49	1.28
7.	Bayelsa	28	0.7
8.	Benue	47	1.2
9.	Borno	63	1.6
10.	Cross River	47	1.2
11.	Delta	129	3.4
12.	Ebonyi	19	0.5
13.	Edo	118	3.1
14.	Ekiti	59	1.5
15.	Enugu	80	2.05
16.	Gombe	32	0.8
17.	Imo	54	1.4
18.	Jigawa	25	0.7
19.	Kaduna	115	3.0
20.	Kano	130	3.4

S/N	States (Including Abuja And Overseas)	Number of Branches/Offices	Percentage Share (%)
21.	Katsina	38	1.0
22.	Kebbi	28	0.7
23.	Kogi	50	1.3
24.	Kwara	49	1.3
25.	Lagos	1183	30.85
26.	Nassarawa	25	0.7
27.	Niger	61	1.59
28.	Ogun	113	2.9
29.	Ondo	87	2.3
30.	Osun	73	1.9
31.	Oyo	150	3.9
32.	Plateau	59	1.5
33.	Rivers	194	5.1
34.	Sokoto	36	1.0
35.	Taraba	28	0.7
36.	Yobe	28	1.0
37.	Zamfara	23	0.6
38.	Overseas	8	0.2
Total		3,835	100.0

Source: Bank Returns

11.2 Head Offices' Addresses and Branches of Insured Banks

The distribution of branches per insured bank and Head Offices, are presented in Table 11.2. As in the past, three (3) banks, namely: United Bank for Africa Plc, First Bank of Nigeria Plc and Union Bank of Nigeria Plc maintained their lead in the branch network during the year 2006. United Bank for Africa Plc was in the lead with a total of 447 branches, First Bank of Nigeria Plc, was second with a total of 403 branches, while Union Bank of Nigeria Plc came third with a total of 380 branches in 2006. Amongst them, the three banks accounted for 1,230 branches or 30.1 per cent of the total number of bank branches/offices in 2006. Other leading banks were Unity Bank Plc with 215 branches, Oceanic Bank Plc with 213 branches, Afribank Bank Plc with 204 branches, Intercontinental Bank Plc with 203, Skye Bank Plc with 196 branches, First Inland Bank Plc with 146 branches and Wema Bank Plc with 135 branches.

11.3 Insured Banks And Their Directors In 2006

It is of crucial importance that banks have strong corporate governance. Corporate governance seeks to protect the interest of depositors and to minimize asymmetric information between bank's managers, its owners and customers. The Organization for Economic Co-operation and Development (OECD) principles emphasize the criticality of the board in corporate governance especially its composition, leadership, integrity and independence. The board of directors is a group of persons appointed by the company to direct and manage the business and its corporate resources for the benefit of resource owners. The board is a major vehicle for conveying corporate governance hence its quality is of great significance to corporate survival.

The board constitutes the highest policy making organ of a bank and what happens at the Board of Directors= level impacts fundamentally on the management of the institution. Experience has also shown that no matter how effective statutory regulation is, it does not substitute for the role of

active and efficient boards of directors in banks. Hence, it remains the duty of bank directors to ensure that there is sound management in their banks. Insured banks= directors are expected to formulate policies for sound operations of their banks, as well as undertake other responsibilities that serve the best interest of stakeholders.

During the year under review, the Central Bank of Nigeria (CBN) issued a Code of Corporate Governance to guide all banks in the post-consolidation era. The Code was designed to address the observed lingering poor corporate governance practices in the nation's banking system. The Code covered critical areas such as quality of Board Membership, Board Performance Appraisal, Quality of Management, Independent Directors, etc. In terms of compliance, a review of the system showed that there were some banks, though very few, that still had two or more members of the same family on their boards contrary to the provision of the Code. Also, no bank

had complied with the requirement to appoint independent directors as at the end of year 2006.

The list of insured banks' directors as at 31st December, 2006 is presented in Table 11.2. The consolidated figure shows that there were 316 directors serving on the boards of the 25 banks in the industry in 2006.

11.4 Insured Banks' Approved External Auditors

Auditors play vital role in the corporate governance process. As a result, the nation's regulatory/supervisory authorities have continued to strengthen measures that would ensure the independence of External Auditors through the monitoring of their appointment and disengagement. The statutory reporting requirements of insured banks' external auditors to the Corporation

are stipulated under Section 54 of the NDIC Act 2006. The Companies and Allied Matters Decree of 1990 (as amended), the Banks and Other Financial Institutions (BOFI) Act No. 25 of 1991 (as amended), the SAS 10 (Accounting by Banks And Non - Bank Financial Institutions Part I) and SAS 15 (Accounting by Banks And Non-Bank Financial Institutions Part II) and other CBN directives also impose responsibilities/obligations on banks' external auditors. The external auditors' reports, by the provisions of these various statutes, are expected to lend credibility to the banks' financial statements thereby assisting in promoting confidence and transparency in the banking system. External Auditors are expected to exercise due care, diligence and skill as necessary in the performance of their function to complement efforts of the Regulatory and Supervisory Agencies.

Available records as at December 31, 2006 show that there were 7 firms of Chartered Accountants approved to conduct independent audits of insured banks. As shown in Table 11.2 Akintola Williams, Deloitte and Touche, topped the list with 10 banks on their audit list, followed by PriceWaterhouseCoopers and KPMG Professional Services with 9 and 6 banks respectively.

TABLE 11.2
INSURED BANKS' ADDRESSES, BRANCHES, DIRECTORS AND
APPROVED AUDITORS AS AT DECEMBER 31, 2006

S/N	Names & Addresses	No. of Branches	Director's Name	Status	Approved Auditors
1.	Access Bank (Nig.) Plc. Plot 1665, Oyin Jolayemi Street, Victoria Island , P.M.B. 12935, Lagos.	75	G. Oyebode Aigboje Aig-Imoukhuede Herbert Wigwe T. E. Koroye O. Nwuke O. A. Ohwerei Cosmas . M. Maduka Mahmoud Isa Dutse T. B. Folawiyo O. Otubu E. Chiejina	Chairman MD/CEO DMD ED ED ED Director Director Director Director Director	KPMG Professional Services

2.	Afribank Nig. Plc 51/55, Broad Street, P.M.B. 12021, Lagos	204	Aliyu K. Belgore Sebastian Adigwe Chinedu Onyia Jibrin Isah Isa. M. Zailani Nura Imam Jabez Dayo Lawuyi Osa Osunde Ashim .A. Oyekan Ahmed Rufai Muhammed C .O. Okwuosa Bala Zakariya'u Bashir .M . Wali	Chairman GMD/CEO ED ED ED Director Director Director Director Director Director Director Director Director	Akintola Williams Deloitte & Touche
3.	Diamond Bank Plc Plot 1261, Adeola Hopewell Street, P.O.Box 70381, Victoria Island, Lagos.	97	Pascal. G. Dozie Emeka Onwuka Urum .K. Eke Ohis Ohiwerei Uzoma C. Dozie Ngama .L.Yarima Oladele Akinyemi Mike Ufoeze Clement Owunna Jeremiah .T. Useni Ishaya. A. Shekarri Olubola A. Hassan Chris. I. Ogbechie	Chairman MD/CEO ED ED ED ED ED Director Director Director Director Director Director	Price Waterhouse Coopers (PWC)
4.	Ecobank Nig. Plc 21, Ahmadu Bello Way, P.O. Box 72688,	29	J.A. Odeyemi Offong Ambah Abimbola Olashore Jibril Aku	Chairman MD/CEO ED ED	Price Waterhouse Coopers (PWC)

	Victoria Island, Lagos		Henry Nelson Adebisi Shonubi Arnold Ekpe S.F. Kuku M. M. Anache Giwa Bisirodipe M. Ade Ojo W. Balonwu R. Ihyembe Nadu E. Denloye	ED ED Director Director Director Director Director Director Director Director	
5.	Equatorial Trust Bank Ltd Plot 1092, Adeola Odeku, P.O.Box 74440, Victoria Island, Lagos	74	Yetunde Adegbola Ike Oraekwuotu Charles Uwaechie Felix. O. Akintola Micheal Adenuga (Jnr) Niyi Adewumi Adewale Sangowawa Festus Igbomor Kola Adegbola John Eimonye Mike Jituboh	Chairman MD/CEO ED ED Director Director Director Director Director Director Director	Akintola Williams Deloitte & Touche
6.	Fidelity Bank Plc 2, Kofo Abayomi Street, P.O.BOX. 72439, Victoria Island, Lagos.	94	Christopher Ezeh Reginald Ihejiahi Willie.M. Obiano Abdul-Rahaman Esene I. K. Mbagwu C. O. Maduako Mohammed Magoro Elias. E. Nwosu Bessie Rewane Nnamdi.I.Oji Bessie. N. Ejeckam Godwin.N. Kanu S. O. Lawani	Chairman MD/CEO ED ED ED Director Director Director Director Director Director Director Director	Akintola Williams Deloitte & Touche

			Yahaya Umar	Director	
7.	First Bank of Nigeria Plc Samuel Asabia House, 35, Marina, P.O.Box 5216, Lagos	403	Mutallab Umaru Abdul Ajekigbe J. Moyo Aboh John Oche Bola H. Adesola Alex. C. Otti Oladele Oyelola Aderemi W. Babalola Lamido S. A. Sanusi Ayoola. O. Otedeko Hassan-Odukale Oyekanmi Udo-Aka Udo Mahmoud Abdullahi Alkali, Aliyu. A Ajibola. A. Afonja Duba Garba	Chairman MD/CEO ED ED ED ED ED Director Director Director Director Director Director Director Director	Akintola Williams Deloitte & Touche And PKF Pannell Kerr Forster
8.	First City Monument Bank Plc. Primrose Tower, 17A, Tinubu Street P.O. Box 9117, Lagos	82	Jonathan.A.D. Long Ladi Balogun Maurice Phido Henry J. Semenitari Johnnie Udofa Ladi Jadesimi Bismarck Rewane Godwin T. S. Adokpaye Tijani Hashim Nwakoby . A. Martina Ibrahim Damcida	Chairman MD/CEO ED ED Director Director Director Director Director Director Director	Price Waterhouse Coopers
9.	First Inland Bank Plc Plot 532, IBB Way, Wuse Zone 4. Abuja	146	Theo Chike Osanakpo O'tega Emerhor Okey Nwosu Dayo Famoroti	Chairman V/Chairman MD/CEO ED	Akintola Williams Deloitte & Touche And Aminu Ibrahim &

			<p>Danjuma Ocholi Agnes Ebubedike E. O. Efobi Adebayo A. Awelenje Ernest Oji Garba .M. Noma A. A. Peters Mohammed Hassan Pat Bassey Ishmael I. Anyadiegwu Kenneth Odogwu M.I. Yahaya Zakari Ibrahim</p>	<p>ED Director Director Director Director Director Director Director Director Director Director Director Director</p>	Co
10	<p>Guaranty Trust (GT) Bank Plc Plural House, Plot 1669, Oyin Jolayemi, P.O.Box 75455, Victoria Island, Lagos</p>	102	<p>G.P.Chikelu Olutayo. A Aderinokun J. K. O. Agbaje Babajide Ogundare Cathy Echeozo M.T Habib Victor .G. Osibodu Mohammed.K. Jada Adetokunbo.B. Adesanya Egbert.U Imomoh Oluwole. S.Oduyemi</p>	<p>Chairman MD/CEO DMD ED ED ED Director Director Director Director Director</p>	<p>KPMG Professional Services</p>
11	<p>Intercontinental Bank Plc. Intercontinental Plaza, Danmole Street, P.M.B. 80150, Victoria Island , Lagos</p>	203	<p>Raymond Obieri Erastus.B.O. Akingbola Abiola Otaniyi Nelson Nweke Sheriff . M. Yusuf Akin Ajayi Olayinka Adebisi Olusegun Ajibola Cletus Okoro</p>	<p>Chairman MD/CEO ED ED ED ED ED ED ED</p>	<p>Price Waterhouse Coopers</p>

			Chris .A. Alabi Hyacinth. U. F. Enuha Isyaku Umar Seinye O. B Lulu-Briggs J.S.P.C. Nwokolo Samuel Adegbite Ikechi Kalu Toyin Phillips Sanni Adams Bayo Dada	Director Director Director Director Director Director Director Director Director Director	
12	IBTC-Chartered Bank Plc. I.B.T.C. Place, Walter Carrington Crescent, P.O.Box, 71707, Victoria Island, Lagos	56	Oludolapo.I. Akinkugbe Atedo Nari.A.Peterside Rasheed .A.Kolarinwa Olusola David-Borha Joe Ubiaja Ukpoma Moses .O.Adedoyin Ahmed Dasuki Ifeoma Esiri B Mahtani Yinka Sanni Samuel Unuigbe M.I.Wushishi R.I. Mahtani	Chairman MD/CEO DMD ED ED Director Director Director Director Director Director Director	Price Waterhouse Coopers
13	Nigeria International Bank Ltd 1, Idowu Taylor Street, P.O. Box 6391, Victoria Island, Lagos	13	Charles. S. Sankey Emuwa Emeka Dele Babade Olufowose Ebenezer Edet. J. Amana Muhammadu. H. Koguna I.O. Oladapo Zdenek Turek Khalid Qurashi Ade Ayeyemi	Chairman MD/CEO DMD Director Director Director Director Director Director Director	KPMG Professional Services

14	Oceanic Bank Plc. Herbert Macaulay Way, Wuse Zone 6, P.M.B. 5068, Abuja	213	Micheal C.O. Ibru Cecilia.A.O. Ibru V.O. Ibru Charles Mekwunye Francis Okumagba Duate Iyabi Abimbola Naiwo Werner Stauffacher.E.C Hayford Alile Simpson Okoro Bunu Sheriff Musa E. C. Anthony Omoruyi Ovie Ukiri	Chairman MD/CEO ED ED ED ED Director Director Director Director Director Director Director	Price Waterhouse Coopers
15	Bank PHB Plc Plot 707, Adeola Hopewell Street, P.M.B. 80054 Victoria Island, Lagos	109	Abdul-Lateef Kola Abiola Patrick. O. Utomi Francis Atuche Ignatius .C. Ukpata Ahmed Kuru Micheal . O. Ajukwu Abdulfatai.A.Kekere-Ekun Bayo . O. Adewakun Zakir Mahmood Martin . O. Famoriyo Lawal Ja'faru Isa Sohail Malik Murtala.S.M. Yar'Adua Fidelis Oditah QC	Chairman V/chairman MD/CEO ED ED Director Director Director Director Director Director Director Director Director	Price Waterhouse Coopers
16	Stanbic Bank (Nig.) Ltd. Plot 688 Ahmodu Tijani Close, Off Sanusi Fafunwa Street Victoria Island,	5	Matthew.T.Mbu Milton. A. Weeks Greg Brackenridge T.Hassan-Odukale Hassan Adamu	Chairman MD/CEO Director Director Director	Price Waterhouse Coopers

	Lagos.				
17	<p>Sterling Bank Plc</p> <p>20 Marina</p> <p>P.M.B. 12735</p> <p>Lagos</p>	79	<p>S. S. Baffa</p> <p>W. Babatunde Dabiri</p> <p>Razack Adeyemi Adeola</p> <p>Garba Yusuf Imam</p> <p>T.P.Nageswara Rao</p> <p>Lanre Adesanya</p> <p>Ashok G. Kalmankar</p> <p>S. A. Adegunwa</p> <p>Yemi Idowu</p> <p>Bashir M. Borodo</p> <p>Biodun Dabiri</p> <p>Harrison Kuti</p> <p>Adeyinka Adeola</p> <p>Aliyu Alkali</p> <p>S. K. Hariharan</p>	<p>Chairman</p> <p>MD/CEO</p> <p>ED</p> <p>ED</p> <p>ED</p> <p>ED</p> <p>Director</p> <p>Director</p> <p>Director</p> <p>Director</p> <p>Director</p> <p>Director</p> <p>Director</p> <p>Director</p> <p>Director</p>	<p>KPMG</p> <p>Professional Services</p>
18	<p>Standard Chartered Bank Ltd</p> <p>142 Ahmadu Bello Way</p> <p>Victoria Island, Lagos.</p>	7	<p>Oladele Olashore</p> <p>Simon.J. Millet</p> <p>Douglas Stoneham</p> <p>Yemi Owolabi</p> <p>Shehu Malami</p> <p>Ebenezer Essoka</p> <p>Caroline Bagshaw</p> <p>Joseph Sanusi</p>	<p>Chairman</p> <p>MD/CEO</p> <p>ED</p> <p>ED</p> <p>Director</p> <p>Director</p> <p>Director</p> <p>Director</p>	<p>KPMG</p> <p>Professional Services</p>
19	<p>Spring Bank Plc</p> <p>143, Ahmadu Bello Street</p> <p>Victoria Island</p> <p>Lagos</p>	168	<p>Segun Agbetuyi</p> <p>Mike. U. Chukwu</p> <p>Ifeatu .C. Onejeme</p> <p>Tolu. O. Fadahunsi</p> <p>Bisi Afolabi</p> <p>Anya. O. Anya</p> <p>Ibrahim .S. Mohammed</p>	<p>Chairman</p> <p>MD/CEO</p> <p>ED</p> <p>ED</p> <p>ED</p> <p>Director</p> <p>Director</p>	<p>Akintola Williams</p> <p>Deloitte & Touche</p>

			Comas Maduka Edwin Mmuoemenam M. A. Adetunji Anthony Adeniyi O.C. K. Unegbu Kola-Daisi O. B. A.	Director Director Director Director Director Director	
20.	SKYE Bank Plc 3 Akin Adesola street Victoria Island Lagos	196	Musiliu Adeola K. Smith Morenikeji Onasanya Akinfemiwa. Akinsola. A K. Durosinmi Etti O. A. Ademulegun Segun Oloketuyi Collins Chikeluba I.A. Adewusi Niran Sule Akinsuyi Vinay Tuteja A.A. Adeniran Kolawole .A. Awodein Anthony Ukpo Jason. O. Fadeyi Micheal .G. Tarfa Ariyo Ajaja Victor Adenigbagbe	Chairman V/Chairman MD/CEO DMD ED ED Director Director Director Director Director Director Director Director Director Director Director Director	Akintola Williams Deloitte & Touche And Ernst & Young
21	Unity Bank Plc Plot 785 Herbert Macaulay Way, Central business District, Abuja	215	L.A. Mabogunje Falalu Bello Evans Woherem Lamis Dikko Kayode Olupitan Umaru.S. Ndanusa Smaila Mamman Adedeji Adeleke Muhammad Babangida	Chairman MD/CEO ED ED ED Director Director Director Director	Akintola Williams Deloitte & Touche And Pernell Kerr Forster

			Bola Shagaya	Director	
22	Union Bank of Nigeria Plc 36, Marina, P.M.B. 2027, Lagos	380	Musa Gella Yakubu Bartholomew B Ebong Ado Abdullahi Kenneth S Adeyemi Samuel I Ayinuola Ebenezer U Emeruem Anthony E Esangbedo Walter C Mbah Austen I N Obigwe John O O Akinleye O. Olusanya Festus. B. Odimegwu Eme Ufot Ekaette E. C. Edozien Ibrahim.A. Gobir	Chairman MD/CEO ED ED ED ED ED ED ED Director Director Director Director Director Director	Akintola Williams Deloitte & Touche And Oyelami Soetan Adeleke & Co
23	United Bank for Africa Plc UBA House, 57, Marina, P.O.Box 2406, Lagos	447	Kayode Sofola Ferdinand N. Alabraba Elumelu.A.Onyemaechi Bello Garba Oduoza.Philips Godwin Ize-Iyamu Osadolor.V. Aminogho S.O.S. Iroche Faith Tuedor-Matthews Chika Mordi Paolo D. Martino Isreal C. Ogbue Okwechime R. Ada Willy Kroeger	Chairman V/Chairman MD/CEO ED ED ED ED ED ED ED Director Director Director Director	Akintola Williams Deloitte & Touche

24	Wema Bank Plc Wema Towers, 4th Floor, 54, Marina, P.M.B. 12862, Lagos.	135	Olapade Mohammed Adebisi Omoyeni Nurudeen Fagbenro Adeyinke Adegbite Omololu Meroyi Toye Olofintuyi Festus Ajani Biodun Ogunlade	Chairman MD/CEO ED Director Director Director Director Director	KPMG Professional Service
25	Zenith Bank Plc Plot 84, Ajose Adeogun Street, P.O.Box 75315, Victoria Island, Lagos.	215	Mr Macaulay Pepple Mr Jim Ovia Mr Godwin Enefiele Peter Amangbo Elias Egbin-Akenzua Apollos Ikpobe E. M. Egwuenu S. P. O. Fortune-Ebie L.F. O Obika Steve Omojafor Babatunde Adejuwon	Chairman MD/CEO DMD ED ED ED Director Director Director Director Director	Price Waterhouse Coopers

Section 12

Highlights Of The Nigeria Deposit Insurance Corporation (NDIC) Act 2006

12.0 Introduction

In 2006, the President of the Federal Republic of Nigeria, Chief Olusegun Obasanjo, assented to the Nigeria Deposit Insurance Corporation (NDIC) Act, 2006. It would be recalled that the Senate and the House of Representatives had in September, 2006 passed the NDIC Bill and subsequently forwarded it to the President in December, 2006, who promptly signed it into law. With that development, the NDIC Act of 1988 as well as the NDIC Amendment Act of 1997 had been repealed and replaced by the NDIC Act, 2006.

In spite of its achievements, the operation of the deposit insurance scheme in Nigeria in the last 18 years had not been without some constraints and challenges. One of the challenges was the inadequate legal powers for the Corporation which the old statutes (the NDIC Act of 1988 and the NDIC Amendment Act of 1997), were not able to address, hence the need for a revision of the old statute. A notable area of the revision under the NDIC Act 2006 is the enhancement of the legal powers of the Corporation. This is

expected to address most of the legal constraints facing the NDIC as well as provide the Corporation with sufficient powers for timely and resolute intervention in ailing banks.

12.1 Major Highlights Of The NDIC Act 2006

The major highlights of the amendments introduced in the NDIC Act 2006 are outlined below.

12.1.1 Harmonization with the Banks and Other Financial Institutions Act [BOFIA], 1991 as amended

Although, the Corporation remains a parastatal under the Federal Ministry of Finance [FMF], its operations, particularly with regard to banking issues were harmonized with the BOFIA. The 1988 Act was enacted when the CBN was under the supervision of the FMF, hence the Corporation's supervisory duties relating to banks was inundated with references to the FMF. However, following the enactment of the BOFIA in 1991 which conferred autonomy on

CBN on banking matters, some of the references to FMF in the 1988 Act became unnecessary.

The new Act has therefore, regularized the anomaly by substituting references to the FMF with references to the CBN in areas bordering on banking supervision.

12.1.2 Sole Mandate as Deposit Insurer [Section 3]

The new Act has recognized the Corporation as the sole Deposit Insurer in Nigeria, hence it provides that no person other than the Corporation shall insure deposit liabilities or guarantee payment to depositors of insured institutions in Nigeria.

12.1.3 Premium Rate [Section 17]

Although the current rate of Premium assessment was retained, the Corporation had been empowered to vary the rate or introduce new basis of

Premium assessment. Consequently, unlike under the old law where the rate was static and the Corporation had no power to vary it, the Corporation can now reduce the Premium or change the basis of assessment whenever it is considered desirable to do so.

Furthermore, the Corporation had been empowered to establish separate Insurance Funds for each category of insured institutions. This new provision would enable the Corporation to set up a separate Deposit Insurance Fund for Primary Mortgage Institutions and Micro-Finance Banks, while maintaining a separate fund for the universal banks in order to reflect the different orientation and focus of the two [2] categories of insured institutions. Similarly, separate premium rate could now be prescribed for PMIs/Micro-finance Banks and universal banks.

12.1.4 Maximum Insurance Claim [Section 20]

The new Act has increased the maximum insurance claim payable to depositors from =N=50,000.00 to =N=200,000.00 for universal banks, while a maximum claim of =N=100,000.00 has been prescribed for Community Banks, Primary Mortgage Institutions and Micro-finance banks. Furthermore, unlike the old Act which did not empower the Corporation to vary the maximum claim, no matter how desirable, the new Act has empowered the Corporation to increase the maximum claim whenever considered appropriate. It is significant to note that only an upward review was allowed by the new Act.

The Act has also stated quite clearly that the insured claim is without prejudice to the additional payment which the Corporation would be making to depositors by way of liquidation dividend as assets of the closed banks are being realized by the Corporation. The new amendment has put to rest the wrong notion that it is only the insured claim that a depositor could receive in respect of its deposit in a failed bank.

12.1.5 Power to Freeze Deposit Account [Section 22]

The new Act empowered the Corporation to freeze a deposit account in a failed bank where it is suspected that such account was involved in any criminal activity until after a final determination by a Court or Tribunal. This provision is part of anti-money laundering measures being implemented by Government.

12.1.6 Termination of Insured Status [Section 23 - 26]

Although there were provisions on termination of insured status of banks in the old Act, they were ambiguous. The new Act has now made elaborate provisions on the power of the Corporation to de-insure a licensed insured institution. The Act also stated quite clearly the implications of the termination of insured status which can now be a ground for the revocation of the licence of a bank.

12.1.7 Prompt Corrective Action [Section 32]

The new Act has made specific provision in Section 32 empowering the Corporation to take prompt corrective actions deemed necessary to address incidents of unsafe and unsound practices or violation of law or regulations in an insured institution.

12.1.8 Power to Manage and Restructure Failing Bank [Section 28 - 39]

The Act has streamlined the provisions on the takeover of Management of failing banks and has made provisions which enable the Corporation to restructure such distressed banks, especially through Mergers/Acquisitions as well as Purchase and Assumption transactions.

Furthermore, the new Act has empowered the Corporation to establish a Bridge Bank in consultation with CBN [Section 39]. The Bridge Bank could be used as an avenue to consolidate two [2] or more distressed banks into

a single bank [bridge bank], which could be nurtured and sold to the public as a viable bank.

12.1.9 Power to Act as Liquidator [Section 40]

The new Act has now made it very clear that upon the revocation of the licence of a bank by the CBN, the Corporation shall act as Provisional Liquidator, pending the making of a winding-up order by the Federal High Court. With that development, there would no longer be any need for the Corporation to apply to a High Court for appointment as a Provisional Liquidator of a bank whose licence has been revoked, which indeed had frustrated the efforts of the Corporation in the payment of insured deposits promptly.

Furthermore, some provisions of the Companies winding-up rules which hindered the liquidation of banks have been amended to allow for speedy resolution of bank liquidation process.

It is also significant to note that the new Act has reduced opportunities for litigants to obtain frivolous injunctions against the Corporation, while performing its role as liquidator, particularly with regard to the payment of insured claims. Thus, whenever a litigant challenging the Corporation as liquidator files a process for injunction, the trial Court is required to refer such motion to the Court of Appeal for determination. The Court of Appeal is required to take a decision on the issue within a time frame of 60 days.

12.1.10 Right to Appear in Court [Section 47]

In-house lawyers have been empowered to represent the Corporation in litigations involving insured banks. This provision is very important, because many debt recovery cases which external solicitors are reluctant to take due to the difficulties associated with debt recovery as well as the nature of the cases, could be handled by in-house lawyers. This would reduce legal cost.

However, the Corporation would continue to use external solicitors for many of its cases.

12.1.11 Higher Responsibilities on External Auditors [Section 54]

The new Act has placed higher responsibilities on external auditors of banks with regard to their auditing assignment, while a higher penalty has been provided for non-compliance.

12.1.12 Indemnity to the Corporation [Section 55]

In line with what obtained in most statutes establishing public institutions, the new Act has provided protection to the Corporation and its officers against personal liability for actions done in good faith in the ordinary course of business.

Furthermore, in order to prevent suits filed in Court against the Corporation in respect of liquidated banks without notice, the Act requires any party

intending to file a suit against the Corporation to first give one [1] month notice of the intention to file an action in Court. That would enable the Corporation to resolve the issues where feasible and avoid unnecessary litigation.

12.1.13 Increase in Quantum of Penalties

The penalties prescribed by the old Act for contravention of the Act by insured institutions were enhanced in the new Act. The enhancement was intended to encourage compliance.

12.1. 14 General Reorganization/Redrafting

The old Act was entirely reviewed and reorganized. Also, the drafting errors in the old Act were rectified to facilitate understanding and effective implementation. That informed the total repeal of the 1988 Act and its replacement with the 2006 version which comprised 60 Sections grouped into 12 parts.



Section 13

Questions & Answers About Deposit Insurance And The NDIC

Introduction

The *Nigeria Deposit Insurance Corporation (NDIC)*, is an independent agency of the Federal Government of Nigeria. The NDIC protects bank customers against the loss of their insured deposits if an NDIC-insured bank or other licensed deposit-taking financial institution fails. The NDIC Decree No 22 of 1988 replaced by the NDIC Act 2006, established the Corporation as a body corporate with perpetual succession and a common seal. The NDIC commenced operations in March 1989.

As part of a continuous effort to enlighten the public, this section covers some of the frequently asked questions (FAQs) as well as the answers about Deposit Insurance and the Corporation. This is meant to facilitate the understanding by the public of the DIS as implemented in Nigeria.

Question 1: What Is A Deposit Insurance System?

Answer: A Deposit Insurance System (DIS) is a financial guarantee to depositors, particularly the small ones, in the event

of a bank failure. Deposit Insurance ensures that the depositor does not lose all his money in the event of a bank failure. Thus, it engenders confidence in, and promotes the stability of, the banking system by assuring savers of the safety of their funds. Deposit Insurance makes a bank failure an isolated event, hence it eliminates the danger that unfounded rumours will start a contagious bank run.

Question 2: Is Deposit Insurance The Same As A Conventional Insurance?

Answer: No. Deposit insurance is different from conventional insurance in several respects. Some of the differences include the following:

- a. Deposit insurance is a regulatory tool aimed at ensuring the safety, soundness and stability of a nation=s financial system, thereby protecting the macro-economy at large. It is one of the components of a financial safety-net, with other components being effective regulation/supervision and lender-of-last-resort role of the central bank. On the other hand, conventional insurance policy is designed only to protect the micro-interest of the policyholder.

- 2) Deposit insurance is usually a tripartite agreement involving the deposit insurer, the participating institutions and the depositors whereas conventional insurance is a bilateral agreement between the insurance company and the insured (policy holder).
 - 3) Under deposit insurance, the participating institution pays the premium while the direct beneficiary of the protection offered is the depositor who does not pay any premium. In the case of conventional insurance, the beneficiary, who is the insured, pays the premium.
- d. Best practice dictates that participation in deposit insurance should be compulsory, participation in conventional insurance contract is generally voluntary.
 - e. Under deposit insurance, best practice prescribes that the amount of coverage should be limited, whereas in the case of conventional insurance, coverage may be full.

Question 3: What Does The NDIC Deposit Insurance Cover?

Answer: The NDIC insurance covers all types of deposits received at an insured deposit-taking institution, including demand

deposit, savings accounts, and time deposits. NDIC deposit insurance covers the balance of each account, Naira-for-Naira, up to the insurance limit, including principal and any accrued interest up to the date of the insured bank's closure.

Question 4: Whose Deposits Does The NDIC Insure?

Answer: The NDIC insures bank deposits of natural persons as well as legal entities, no matter whether they are from Nigeria, or from any other country.

Question 5: Are All Financial Institutions Participants In The Deposit Insurance Scheme?

Answer: No. The NDIC insurance cover applies to deposits in only deposit-taking financial institutions licensed by the Central Bank such as Universal Banks (deposit money banks), Community Banks/Micro-finance Banks – (CBs/MFBs) and Primary Mortgage Institutions (PMIs).

Question 6: How Does The NDIC Assess Premium?

Answer: Premium for the Deposit Insurance Scheme is paid by all participating institutions. The premium is assessed based on participating institutions' total assessable deposit liabilities as at 31st December of the preceding year. The assessable deposit liability is total deposit with the exception of some deposits listed in Section 16 of the NDIC Act 2006. The NDIC Act 2006 (Section 16(2)), has given the Corporation the power to adopt any premium assessment system to reflect developments in the industry in particular and in the economy in general.

Question 7: How Does The NDIC Protect The Deposit Insurance Fund?

Answer: The NDIC protects the Deposit Insurance Fund (DIF) by investing the Fund in safe but liquid financial instruments such as Treasury Bills, Federal Government Bonds and instruments of similar nature.

Question 8: Does The NDIC Finance Its Operations From The DIF?

Answer: No, the Corporation finances all its overhead and administrative expenses from its investment income. The main sources of income of the NDIC are the proceeds from investment of the DIF in securities issued by the Federal Government. The DIF is used only for paying insured deposits

when a participating institution fails as well as granting financial assistance to deserving participating institutions.

Question 9: Does the Supervisory Functions of the NDIC duplicate that of the Central Bank of Nigeria (CBN)?

Answer: No. There is no duplication of supervisory functions rather what exists is collaboration. For instance there is a framework whereby the Corporation collaborates effectively with the Central Bank of Nigeria through a joint committee on supervision at which both organizations are represented at very senior level. Secondly, in order to avoid duplication of supervisory functions, the two institutions share banks between themselves for examination purposes on an annual basis and when such examinations are concluded the examination reports are exchanged. The supervisory efforts of the two institutions are sometimes conducted jointly when the need arises. In deed, the involvement of the NDIC in bank supervision has reduced the examination cycle from about once in two years to once a year.

The Corporation supervises banks basically, to protect depositors. Banking supervision is a core function of the Corporation as it seeks to reduce the potential risk of failure and ensures that unsafe and unsound banking practices do not go completely unchecked. It also provides the oversight required to

preserve the integrity of, and promote public confidence in, the banking system. The Corporation carries out its supervisory responsibilities through on-site examination and off-site surveillance of insured institutions.

Question 10: How Does The NDIC Protect Bank Depositors Against Loss?

Answer: The NDIC protects bank depositors against loss through:

a. Deposit Guarantee

This is perhaps the most significant and distinct role of the Corporation. As a deposit insurer, the NDIC Act 2006 guarantees payment of deposits up to a maximum of ₦200,000.00 to a depositor in the event of the failure of a participating financial institution. Balances in all deposit accounts held in the same right and capacity by a depositor in all branches of the closed insured institution, net of outstanding debts, are aggregated to determine the maximum insured amount.

b) Bank Supervision

The Corporation supervises banks so as to protect depositors, ensure monetary stability, and effective/efficient payment system as well as promote competition and innovation in the banking system. Banking supervision seeks to reduce the potential risk of failure and ensures that unsafe and unsound banking practices do not go completely unchecked. It also provides the oversight functions required to preserve the integrity of and promote public confidence in the banking system.

c) Distress Resolution

The Corporation is empowered to provide financial and technical assistance to failing or distressed banks in the interest of depositors. The financial assistance can take the form of loans, guarantee for loan taken by the bank or acceptance of accommodation bills. On the other hand, the technical assistance may take the following forms: take-over of management and control of the bank; change in management; and/ or assisted merger with another viable institution.

Question 11: How Does The NDIC Establish The Ownership Of A Deposit?

Answer: The NDIC relies on deposit account records kept by a failed bank as well as on the proofs presented by the depositor.

Question 12: How Are The Insured Sums Collected?

Answer: Insured sums are collected by depositors filing their claims through the completion of relevant forms provided by the Corporation. In addition, they have to furnish the Liquidator with account documents such as unused cheque books, old cheque stubs, passbooks, fixed deposit certificates etc. The depositor would also be required to identify him/herself with a valid identification document like driver's licence or International Passport. After verification of ownership of the account as well as the account balance, the depositor would be duly paid the insured sum by cheque or deposit transfer through an Agent Bank or Acquiring Bank.

Question 13: What Should A Depositor Of A Failed Bank Do If He or She Loses Passbook or Savings Documents?

Answer: The depositor would be required to present a Police report along with a sworn affidavit duly certified by the Court. The depositor would also be required to identify himself/herself

with a valid identification document like driver's licence or International Passport

Question 14: Does The NDIC Protect The Interests Of Creditors Or Shareholders Of A Bank?

Answer: The primary mandate of the NDIC is to protect depositors. However, through supervision to ensure safety and soundness of banking institutions, the interest of creditors and shareholders are also protected. In the event of bank failure, creditors and shareholders could be paid liquidation dividends after depositors had been fully reimbursed.

Question 15: What is Liquidation Dividend?

Answer: These are payments made to depositors of failed institutions in excess of the insured sum. While the insured sums are paid from the Corporation's Deposit Insurance Fund (DIF), liquidation dividends are paid from funds realized from the sale of the assets and recoveries from debtors of the failed institution.

Question 16: Why Is The Deposit Insurance Coverage Limited To A Fixed Sum?

Answer: The amount to be reimbursed has to be definite. Limited coverage is to minimize moral hazard through excessive risk taking by bank management and depositors.

Question 17: Is It Possible To Increase The Insurance Protection Limit By Distributing Depositors' Funds In Several Deposits In One And The Same Bank?

Answer: No. The Deposit Insurance limit is not increased merely by dividing funds owned in the same right and capacity among different types of deposits in one and the same bank. For example, current and savings accounts owned by the same depositor, in the same right and capacity, in the same bank are added together and insured up to the maximum insured sum.

Question 18: If A Depositor Has Deposit Accounts In Different Insured Banks, Will The Deposits Be Added Together For The Purpose Of Determining Insurance Coverage?

Answer: No. The maximum insurance limit is applicable to deposit in each of the participating banks. In the case of a bank having

one or more branches, the main office and all branch offices are considered as one bank. In summary, if a person has many accounts in one bank, all the deposits are taken together as one account even if the deposits are in various branches of the same bank. On the contrary, however, if a depositor has accounts in more than one bank, they are insured independently up to the maximum insured sum per bank.

Question 19: If A Husband And Wife Or Any Two Or More Other Persons, Have, In Addition To The Individually-Owned Accounts Of Each, A Valid Joint Account In The Same Insured Bank, Is Each Account Separately Insured?

Answer: Yes. If each of the co-owners has personally signed a valid mandate card and has a right of withdrawal on the same basis as the other co-owners, the joint account and each of the individually-owned accounts are separately insured up to the insured maximum sum.

Question 20: If A Person Has An Interest In More Than One Joint Account, What Is The Extent Of His Or Her Insurance Coverage?

Answer: As long as the combination of the joint accounts is not the same, the account will be insured separately up to the maximum insured limit. Where the joint accounts are owned by

the same combination of individuals then the accounts will be added and the total insured up to the maximum insured sum.

Question 21: Are Accounts Held By A Person As Executor, Administrator, Guardian, Custodian, Or In Some Other Similar Fiduciary Capacity Insured Separately From His Or Her Individual Account?

Answer: Yes. If the records of the bank indicate that the person is depositing the funds in a fiduciary capacity such funds are insured separately from the fiduciary's individually-owned account. Funds in an account held by an Executor or Administrator are insured as funds of the deceased's estate. Funds in accounts held by guardians, conservators or custodians (whether court-appointed or not) are insured as funds owned by the ward and are added to any individual accounts of the ward in determining the maximum coverage. Account in which the funds are intended to pass on the death of the owner to a named beneficiary, are considered testamentary accounts and are insured as a form of individual account. If the beneficiary is a spouse, child or grand-child of the owner, the funds are insured for each owner up to a total of the maximum insured sum separately from any other individual accounts of the owner. In the case of a Revocable Trust Account, the person who holds

the power of revocation is considered the owner of the funds in the account.

Question 22: When An Account Is Held By A Person Designated As Agent For The True Owner Of The Funds, How Is The Account Insured?

Answer: The account is insured as an account of the principal or true owner. The funds in the account are added to any other accounts owned by the owner and the total is insured to the maximum sum.

Question 23: Is An Account Held By Either A Company Or Partnership, Insured Separately From The Individual Accounts Of Shareholders Or Partners?

Answer: Yes. If the Company or Partnership is engaged in an independent activity, its account is separately insured to the maximum insured sum. The term **Independent activity** means any activity other than one directed solely at increasing insurance coverage.

Question 24: If A Depositor Has More Than The Maximum Insured Amount As Deposit In A Closed Bank, Is He Entitled To Any Further Claim For The Amount Of His Deposit In Excess Of The Maximum Insurance Paid By The NDIC?

Answer: Yes. In a situation where the amount of depositors' fund in a closed bank exceeds the maximum insured amount, the owners of such accounts will share, on a pro-rata basis, in any proceeds from the liquidation of the bank's assets with other general creditors including the Corporation.

Question 25:Where Are The NDIC Offices Located?

Answer:

The NDIC has its Head Office in Abuja. It also has Offices located in Lagos, Kano, Benin and Enugu. The specific locations of the Corporation's Head Office and other offices are as indicated below:

Head Office

Plot 447/448 Constitution Avenue

Central Business District

P. M. B. 284, Garki

Abuja

Tel. 09-5237710-21

Fax: 09-5237718

E-mail: info@ndic-ng.com

Website: www.ndic-ng.com

Lagos Office

Mamman Kontagora House

23A, Marina

P. M. B 12881

Lagos.

Tel: 01-2647810-847

Fax: 01-2647848

Zonal Offices (3)

Benin

28A & B, Benoni Hospital Road

Off Airport Road, G. R. A.
P. M. B. 1043, Benin, BENIN CITY
Tel: 052-253183, 257079,254246
Fax: 052-253183

Enugu

10 Our Lords' Street
Independence Layout
P. M. B. 1210
ENUGU
Tel: 042-457292, 455325, 456101.
Fax:- 456770

Kano

Plot 641, Mohammed Street
Hotoro GRA
Kano
Tel: 064-662469, 662471

