

Managing Director/CEO's Statement

It is with a high sense of satisfaction that I present the report of the operations of the Corporation for the year ended December 31, 2008. It is general knowledge that the global economy during the year under review, witnessed the on-set of a global financial crisis on a scale not seen in the past decades. One economy after another, cutting across both the developed and developing nations, felt the devastating impact of the sub-prime mortgage crisis, which started in the United States of America (USA) in the third quarter of 2007. However, within the constraints imposed by that development, the Corporation discharged its mandate of protecting depositors in deposit-taking financial institutions and contributing to financial system stability in Nigeria during the year. This Annual Report reviews the core mandates as well as the accomplishments of the Corporation during the year.

1.0 Insurance Activities of the Corporation

In the exercise of its powers to review the design features of DIS as may be necessary, the Board of the Corporation (before it was dissolved in 2007) approved the implementation of Differential Premium Assessment System (DPAS) beginning from 2008. The application of the DPAS had enabled the Corporation to achieve the twin objectives of ensuring fairness in deposit insurance pricing and reduction in the overall premium burden on banks. Thus, although the Deposit Insurance Fund (DIF) suffered reduction on its rate of growth, it was gratifying that the banks on average benefited by a relief in premium payment to the tune of about 35 per cent of what would have been collected in 2008, if the flat-rate system had been implemented.

Effective January, 2008 the Corporation formally extended deposit insurance coverage to licensed Microfinance Banks (MFBs) and Primary Mortgage Institutions (PMIs). With that development, the Corporation established a separate fund designated Special Insured Institutions Insurance Fund (SIIF)

for that category of insured institutions. Premium collection for those institutions commenced in 2008.

2.0 Failure Resolution Activities

In 2008, the Corporation continued with the liquidation of the banks whose licences were revoked in 2006 due to their inability to meet the N25 billion minimum recapitalization requirement as at December 31, 2005. It is instructive to note that the banking licence of Societe Generale Bank of Nig. (SGBN), which was one of the affected banks, was restored by a court order in April 2008 and the bank was handed over to its owners. That development brought the number of banks closed after the consolidation exercise to thirteen (13). As at the end of 2008, the Corporation had obtained court winding-up orders for eleven (11) out of the thirteen (13) banks and was thus appointed official liquidator. The shareholders of the remaining two (2) banks namely: Fortune International Bank and Triumph Bank were still challenging the revocation of their banks' licences in court. With that development, the

total number of banks whose licences were revoked by the CBN between 1994 and 2008 stood at 49.

Under the Purchase and Assumption (P&A) option adopted by the regulatory authorities in respect of banks closed in 2006, the Corporation had resolved all the eleven (11) banks for which it had been appointed liquidator. In the process, all private sector deposits of those banks were assumed and some of their assets acquired by the various healthy banks. Generally, the assuming banks showed little interest in the loan assets of the acquired banks but preferred their physical assets (especially business offices). As a result, the Corporation was left with the daunting task of recovering the nonperforming loans of the acquired banks.

With respect to the banks closed prior to January 2006, the Corporation continued the liquidation of 34 out of the 36 affected banks, as Savannah Bank and Peak Merchant Bank continued to challenge the revocation of their

operating licences in court. Accordingly, the main liquidation activities that engaged the Corporation in 2008 were payment of insured deposits, loan recovery, valuation and sale of physical assets of the failed banks and payment of liquidation dividends to depositors, creditors and shareholders from the proceeds of realized assets.

3.0 Supervisory Activities of the Corporation

In discharging its mandate as a bank supervisor, the Corporation conducted the on-site examination of 9 banks in 2008. Furthermore, it carried out 25 special investigations arising from petitions, complaints and other matters presented by the banking public and other stakeholders. All these were undertaken to ensure that depositors were adequately protected and that the system remained safe and sound. Reports of the examinations and special investigations carried out in 2008, showed that some universal banks were still bedevilled with problems of weak board and management oversight; inaccurate financial reporting; poor book-keeping practices; non-performing

insider-related credits; declining asset quality and attendant large provisioning requirements; inadequate debt recovery; non-compliance with banking laws, rules and regulations; and significant exposure to the capital market through share loans and margin loans while the industry exposure might appear tolerable, the exposures of some banks remained worrisome and was partly responsible to their recourse to the CBN's Expanded Discount window to shore up their liquidity.

The supervision of other insured deposit-taking financial institutions (i.e., microfinance banks and primary mortgage institutions) gave a similar picture as that of the universal banks in 2008. They also continued to exhibit weak corporate governance practices, declining asset quality; few micro credits in preference to commercial loans; risk aversion (investing mainly in treasury bills and keeping huge balances in correspondent banks); and weak earnings.

One major challenge the Corporation faced in the supervision of this category of insured institutions was the non-rendition of returns by a larger number of

the MFBs and PMIs as at the end of 2008. That, coupled with inadequate supervisory staff vis-à-vis the large number of the institutions, made the Corporation's surveillance activities on these institutions more challenging. However, the Corporation was making efforts to engage more staff to boost its supervisory capacity.

4.0 Staff Capacity Building

The Corporation placed great premium on capacity building so as to maintain a complement of competent, skilled and highly motivated staff. In that regard, local and overseas training opportunities were given to staff in 2008, to enhance their competency and efficiency in the discharge of their responsibilities towards achieving the Corporation's vision and mission.

5.0 Corporate Social Responsibility

The Corporation continued to fund a project-based support programme for higher institutions of learning in the country as part of its corporate social responsibility and in appreciation of the role of human capital in the economic growth and development of the country. Accordingly, a total of 24 higher institutions in Nigeria benefited from the scheme as at the end of 2008. Some of the projects had been completed while others were in various stages of completion. Out of a total sum of N261 million voted for the first and second phases of the scheme, N241.3 million had been disbursed to the institutions for the execution of their various projects.

6.0 Public Awareness Campaign

The Corporation fully understood that public confidence is crucial to the effectiveness of the deposit insurance system in promoting banking system stability. That could only be achieved when majority of bank customers are fully aware of the protection available to them under the scheme for

compensating depositors. In recognition of that, the Corporation continued to invest in initiatives that promoted depositor awareness and education during the year. Accordingly, in 2008, being the year insurance coverage was extended to Microfinance Banks and Primary Mortgage Institutions, the Corporation organized a nation-wide sensitization programme to educate both the customers and operators of the institutions on the benefits and limitations of the system. Also, during the year under review, the Corporation continued with other initiatives in its public awareness campaigns with a view to informing the public about its activities. Such campaigns included: press briefings; public lectures; advertorials; road shows; Trade Fair; jingles in radio and television; and distribution of NDIC publications.

7.0 International Co-operation

The Corporation, during the year, participated actively in, and organized, several international exchange activities to enhance its international image and visibility. During the year under review for instance, some staff of the

Corporation visited the Central Deposit Insurance Corporation (CDIC) of Taiwan and Malaysia Deposit Insurance Corporation (MDIC) on attachment and seminar respectively. In addition, the Corporation received two staff of the Deposit Protection Fund Board (DPFB) of Kenya on a two-week attachment programme.

As part of its contributions to the building of capacity among personnel of DIS agencies in Africa and those intending to establish new deposit insurance systems, the Corporation, under the auspices of the Africa Regional Committee (ARC) of the International Association of Deposit Insurers (IADI), hosted an international workshop on deposit insurance during the year. The theme of the 2008 workshop was “*Deposit Insurance System (DIS) Coverage and Public Awareness*”. The workshop drew participants from Kenya, Tanzania, Zimbabwe and Nigeria. Key officials from Malaysia, Taiwan and IADI Headquarters in Switzerland were among the facilitators at the workshop.

8.0 Conclusion

In appreciation of the need to take its services closer to stakeholders as well as strengthen its supervisory capacity, approval was obtained to establish two (2) additional Zonal Offices in Bauchi (North-East Zone) and Ilorin (North-Central Zone) in 2008. With the two new Zones, the Corporation will have its presence in the six (6) geopolitical zones of the country. It is hoped that the two new offices will commence operations in the first half of 2009.

I wish to seize this opportunity to thank the Honourable Minister of Finance, who had been very supportive in filling the vacuum created by the absence of a Board for the Corporation during the year under review. I also wish to acknowledge the outstanding performance of my colleagues, the management and staff of the Corporation in 2008. Finally, I implore my colleagues and all our stakeholders to rededicate themselves in ensuring

adequate depositor protection and ensuring that the Nigerian banking system is safe, sound and stable.

Ganiyu A. Ogunleye, OFR

Managing Director /CEO

Message from the Honourable Minister of Finance

I am please to present the Annual Report and Statement of Accounts of the Nigeria Deposit Insurance Corporation (NDIC) for the year ended 31st December, 2008. The report reviews important developments in the banking industry, highlights the activities of the Corporation and provides information on insured banks during the year under review.

Macroeconomic/Socio-Political Environment

2. The political climate in year 2008 was favourable, as it continued to show the present Administration's commitment to ensuring a stable polity grounded on the principles of rule of law. Similarly, in what would confirm government's resolve to uphold the principles of the rule of law by not interfering in the political process, courts continued to deliver judgments on election petitions, which either nullified or upheld elections on merit. That had continued to send the right signals to both local and international communities of government's determination to restore sanity to the political process, a

situation that was necessary for attracting sustainable investments to all sectors of the economy.

3. Calculated decisions taken by President Umaru Musa Yar'Adua's Administration during the year, couple with the structural changes in government machinery, gave a tremendous boost to government's effort to implement its Seven-point Agenda. The Seven-point Agenda is the government's blue print for repositioning the country on the path of greatness and is expected to drive the nation's desire to a place of global economic prominence by the year 2020.

4. It is instructive to recall that year 2008 was a year of global economic meltdown affecting both the developed and developing economies. The sub-prime mortgage crisis, which began in the United State of America towards the end of the third quarter of 2007, sent a shockwave across international financial markets, resulting in global liquidity and credit crunch that contributed

to the failure of bail-out of major financial institutions in developed markets during the year. Fortunately, due to the non- exposure of Nigerian financial institutions to the sub-prime mortgage assets and other esoteric products, the local banking system was only minimally affected during the year. Nevertheless, the speed at which the sub-prime crisis spread and the severity of its impact on other financial markets reminded us of the close integration of international and local markets (especially in an open economy like ours), and Nigeria's susceptibility to developments abroad.

5. The global financial crisis had led to reduced growth across the world economies, resulting in a collapse of commodities prices, especially oil, the country's major source of revenue and foreign exchange earner. The fall in demand for oil had resulted in the unprecedented decline of prices from record high of about US\$147 per barrel in July, 2008.

6. The global financial crisis and the associated economic downturn have affected Nigerian macroeconomic indicators, as manifested in: (i) lower share prices and market capitalization on the Nigerian Stock Exchange (NSE); (ii) balance of payment pressures emanating from lower commodity prices especially oil; (iii) reduced government revenue; (iv) capital outflows due to foreign investor flight from the NSE and withdrawal of dollar-denomination assets from some banks; (v) marked naira depreciation; and (vi) reduced foreign exchange reserves.

7. Against the background, year-on-year inflation rate, which was 6.6% as at December 2007, reached 15.1% in December 2008, underpinned by food inflation, which moved from 8.2% to 18.0% during the same period. During the period under review, there was steady appreciation in the Naira Exchange Rate, which climaxed in October when the Naira, under the Wholesale Dutch Auction System (WDAS), appreciated to N115/US\$1.00 from N125/US\$1.00 in October 2007. However, between November and December, 2008 the

rate depreciated to about N131.25/US\$1.00. The depreciation of Naira during the period largely reflected the fall in oil prices – the major foreign exchange earner, the price of which was adversely affected by the global economic meltdown. That development (together with the global crisis-induced falling net inflows of foreign remittances, FDI and portfolio capital) impacted negatively on the pace of accretion of foreign reserves and economic agents' expectations. Growth in the non-oil sector, particularly agriculture, remained strong, at an estimated 9% during 2008. However, the oil sector's growth contracted in 2008 by about 2.8% from its level in 2007, due to reduced production levels precipitated by the challenges in the Niger Delta. Overall, the country's GDP at 1990 basic prices grew by 6.41% in 2008 compared to 6.45% in 2007.

8. To address the challenge posed by the global crisis, a new framework for National Economic Management. The framework aims at strengthening the capability to respond to the global meltdown and the same time laying a good

foundation for sustainable development. The Presidential Steering Committee on Global Economic Crisis (PSCGEC), which is at the apex of this new framework, was inaugurated in January 2009. A reinvigorated and reconstituted National Economic Management Team, with wider membership that cut across the critical sectors of the economy, was put in place to provide technical support to the Presidential Committee and the Federal Executive Council. This new institutional framework for economic management has proven to be an effective mechanism for consensus building and in-dept discussion of critical policy issues.

9. Monetary policy instruments were aptly adopted to the adverse impact of the global financial crisis on the macroeconomic environment. The focus has been on: improving liquidity in the banking system; ensuring the stability and strengthening of the banking system and avoiding undue exchange rate volatility. Specific measures undertaken were: (i) series of cuts in the Monetary Policy Rate (MPR), leading to the current rate of 8 percent; (ii)

provision of a new extended discount window facility and expansion of the range of acceptable collateral for borrowing; (iii) reduction of the required liquidity ration from 40% to 25%; (iv) reduction of reserve requirement from 4% to 1 % and (v) replacement of the Wholesale Dutch Auction System (WDAS) with the Retail Dutch Auction System (RDAS), with a view to eliminating speculative demand for foreign currencies.

Banking Industry in 2008

10. The success of Nigeria's banking industry reforms continued to reverberate in all spheres of the economy. The nation's banking industry had begun to enjoy the dividends of the banking consolidation policy. That had significantly impacted on the depth and financial intermediation capacity of the industry. The reforms had also created a financial services infrastructure consistent with the needs of a fast growing economy.

11. During the year, a number of banks continued the pursuit of their domestic and cross-border expansion programmes with some Nigerian banks opening branches in several African countries. The total assets of the industry grew by about 48 percent between December 2007 and 2008. Growth in total deposit liabilities was about 62 per cent during the period under review. On a similar note, the ratios of total banking 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 it was in the previous years. Nonetheless, there was, in general, agreement on the need to conduct a stress test of the banking industry, enhance regulatory and supervisory efforts as well as risk management capabilities of the banks.

Corporate Governance

12. During the year under review, the Corporation had ensured that its operations were governed by a credible framework as well as trustworthy

managers. It is with great pleasure therefore that I report to all stakeholders and the general public that the Corporation, as in previous years, continued to apply sound corporate governance in delivering its business strategies in 2008. Concerted efforts were made to strengthen the Corporation's internal governance, which included maintaining organizational arrangement that promoted the Corporation's four key governance principles of independence, transparency, accountability and integrity. These efforts were made in compliance with the Corporation's governing statute, the Nigeria Deposit Insurance Corporation Act (NDIC Act) No. 16 of 2006.

13. It is instructive to note, that although the Board was the highest governing body of the Corporation in its normal statutory existence, the Corporation was managed throughout 2008 without a Board due to the dissolution of the former Board in 2007. In that circumstance, all responsibilities of the Board in terms of oversight as well as approvals that were beyond the Executive Committee of the Board were discharged by the

Honourable Minister of Finance. I would therefore like to, most sincerely, express my appreciation to each and every member of the Executive Committee of the Board who, despite the absence of the Board throughout the period under review, managed the affairs of the Corporation with visible commitment and loyalty. I also seize the opportunity to thank all staff of the NDIC who continued to demonstrate their professionalism and desire to give their best at all times. I urge you to continue to dedicate yourselves to your duties and to have faith in our dear country, Nigeria.

Dr. Mansur Muhtar, OFR.

Minister of Finance

Section 1

NDIC'S MANDATE AND CORE VALUES

1.1 NDIC's Public Policy Objectives

The NDIC aims at meeting the following public policy objectives:

- Protecting small, uninformed and less financially sophisticated depositors by providing an orderly means of compensation in the event of either failure of their insured financial institutions or the inability of such insured institutions to make payment to depositors.
- Contributing to the financial system stability by making incidences of bank runs less likely; and
- Enhancing public confidence and systemic stability by providing a framework for the resolution and orderly exit mechanism for failing and failed insured institutions.

1.2 NDIC's Functions

Section 2 of the NDIC Act 2006, stipulates the following functions for the Corporation:

- i) insuring all deposit liabilities of licensed banks and such other deposit-taking financial institutions operating in Nigeria within the meaning of

Sections 16 and 20 of the Act so as to engender confidence in the Nigerian banking system;

- ii) giving assistance in the interest of depositors, in case of imminent or actual financial difficulties of banks particularly where suspension of payments is threatened and avoiding damage to public confidence in the banking system;
- iii) guaranteeing payments to depositors, in case of imminent or actual suspension of payments by insured banks or financial institutions up to the maximum amount as provided for in Section 26 of the Act;
- iv) assisting monetary authorities in the formulation and implementation of banking policies so as to ensure sound banking practice and fair competition among banks operating in the country; and
- v) pursuing any other measures necessary to achieve the functions of the Corporation provided such measures and actions are not repugnant to the objectives of the Corporation.

1.3 NDIC's Mandate

The deposit insurance system being implemented by the NDIC was designed as a risk-minimizer with powers to insure deposits of all licensed deposit-

taking financial institutions, monitor their health status and ensure orderly resolution when they fail. Derived from its functions, the mandate of the Corporation is as follows:

i) Deposit Guarantee:

The Corporation guarantees payment to depositors of all participating institutions up to a maximum limit in accordance with its statute in the event of failure so as to engender confidence in the nation's banking system. The limit currently stands at N200,000 per depositor for universal banks and N100,000 per depositor for Microfinance Banks (MFBs) and Primary Mortgage Institutions (PMIs).

ii) Bank Supervision:

The Corporation supervises banks to protect depositors, ensure monetary stability and promote an effective payments system as well as competition in the banking system. Supervision seeks to reduce the risk of failure while

ensuring that unsafe and unsound practices are minimised. The Corporation carries out this responsibility through on-site examination and off-site surveillance.

iii) Distress Resolution:

The Corporation provides financial and technical assistance to deserving failing participating institutions, in the interest of depositors. The financial assistance could be in the form of loans, guarantee, or accommodation bills. Similarly, the technical assistance includes assumption of control and management of a failing institution, change of management, or assisted merger with another viable institution. The responsibility for distress resolution is undertaken in collaboration with the CBN.

iv) Bank Liquidation:

The Corporation is responsible for the orderly and efficient closure of failed insured institutions. The closures are done with minimal disruption to the

banking system. After closure, the assets of the failed insured institutions are realised in the most cost-effective manner and the proceeds appropriated among the various claimants in accordance with relevant laws. Depositors have seniority of claim on a failed bank's assets over other stakeholders such as preferred creditors, general creditors, and shareholders.

1.4 NDIC's Core Values and Beliefs

To be effective in the discharge of its mandate, the Corporation is guided by some core values and beliefs, as articulated in its Strategic Plan (2007 – 2009). The core values and beliefs guiding the NDIC employees as they strive to fulfill the Corporation's mission and vision are as follows:

- i. **Professionalism:-** The Corporation requires its staff to demonstrate a high level of ethics and professionalism in performing their duties.

Accordingly, NDIC staff are expected to:-

- seek knowledge to improve their skills and performance;
- strive to attain excellence in all aspects of their work;

- seek to exceed set targets;
- seek innovative and creative solutions to problems;
- abide by all codes of conduct and professional ethics/good corporate governance at all times; and
- be objective and factual in their work presentation and constructive in their criticism.

ii. **Transparency:** The Corporation is committed to doing what is right and just at all times. Thus, NDIC employees are required to:-

- adhere to the highest ethical standards in performing their duties;
- accept responsibility for their actions;
- act and negotiate in good faith and in the best interest of the Corporation;
- create an atmosphere of mutual trust and confidence; and
- display the highest level of integrity.

iii. **Team Work:-** Conscious of the demands of the environment in which it operates, the Corporation charges its employees to:-

- a. promote and reinforce co-operation with other players within the internal and external boundaries of the Corporation;
- b. work willingly as a team and engage in collaborative efforts;
- c. acknowledge the contributions of others ; and
- d. provide and solicit support to and from, colleagues.

iv. **Respect and Fairness:-** Management partners with staff to ensure that:-

- employees treat each other with mutual respect;
- employees value and respect the opinions of each other;
- employees are given equal opportunities and treated with fairness;
- career advancements are based on merit;
- interpersonal conflicts are addressed timely and constructively;
- and
- there is a conducive work environment.

Section 2

Insurance Activities Of The Corporation

2.0 Introduction

In this section, we discuss the insurance activities of the Corporation with respect to pricing (premium) and coverage.

2.1 Deposit Insurance Pricing

Following the development and approval of differential premium assessment system (DPAS) in 2007, 2008 marked the first year when the new system was implemented. Prior to 2008, the Corporation had operated a flat rate method of premium assessment. The DPAS was introduced in consideration of many factors. First, it was introduced to differentiate premiums paid by insured institutions on the basis of their risk profiles. Second, it was to promote sound risk management in insured institutions. Third, it was also aimed at ensuring fairness in deposit insurance pricing. Finally, the framework was adopted to reduce the overall premium burden on banks. The design and implementation was made possible with the enactment of the NDIC Act No. 16 of 2006 which legally empowered the Corporation to vary

the premium rate and base as well as the method of premium assessment as and when necessary.

The DPAS adopted in 2008 had a base premium rate of 50 basis points payable by all insured universal banks and a range of add-ons, subject to a maximum of 30 basis points for the most risky banks. In 2008, all the 24 universal banks were assessed based on the DPAS. Thus, at the end of the period under review, the maximum rate paid by an insured bank was 74 basis points. That was significantly lower than the 94 basis points payable under the flat rate system and also lesser than the 80 basis points, representing the maximum rate payable under the DPAS. The minimum paid by the least risky bank in the system was 54.50 basis points whilst the mean rate for all the banks in 2008 was about 62 basis points.

The immediate impact of the implementation of the DPAS was a reduction of about 35 per cent in the total premium collected from insured universal banks

when compared with the total amount that would have been collected under the flat rate method. Thus, the adoption of the DPAS had, achieved the objective of reduction of premium burden on the insured banks, amongst others. A basic challenge in the implementation of the new method was the need for banks to render timely, complete, reliable and consistent information and data that would enable the Corporation to adequately measure the risk posed to the system in order to enable the Corporation take appropriate intervention measures.

2.2 Deposit Insurance Premium from Other Deposit-taking Financial Institutions

During the period under review, the Corporation extended deposit insurance coverage to other deposit-taking financial institutions – the microfinance banks (MFB) and primary mortgage institutions (PMIS). By the provision of Section 17(1) of the NDIC Act No. 16 of 2006, those institutions were expected to pay a flat premium rate of 50 basis points. For the year 2008, the sum of N152 million was collected from 480 microfinance banks out of 840 existing

ones whilst N595.2 million was collected from 61 PMIs out of 94 existing ones as at the end of year 2008. However, the Corporation contributed N3.5 billion to the SIIF in appreciation of its risk exposure to other deposit-taking financial institutions.

2.2 Insurance Coverage

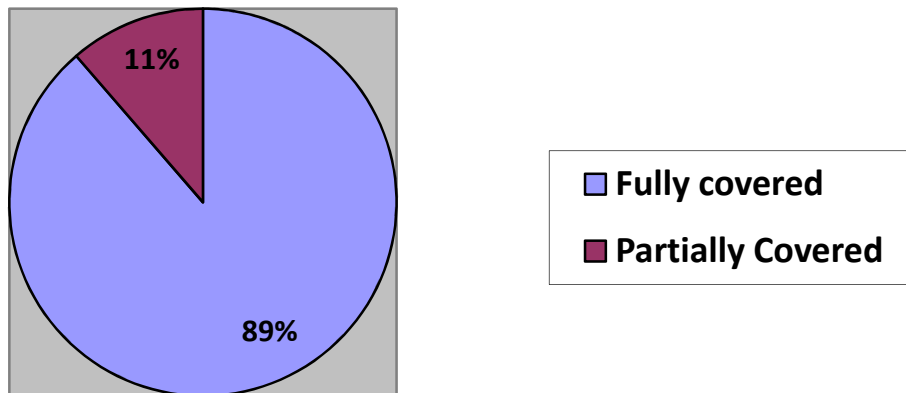
In 2008, about 89% of total number of depositors (or 26,885,149 depositors) were fully covered at the current limit of N200,000 for insured universal banks whilst 11% (or 3,446,465 depositors) were partially covered during the same period. That was not different from the preceding year's position where 89% (or 23,403,774 depositors) were fully covered and also 11% were partially covered.

As evidenced from available statistics, the percentage of total number of depositors fully covered at the current limit of N200,000 vis-à-vis those that

were partially covered as at the end of December, 2008 is depicted in Chart

2.

CHART 2
FULL AND PARTIAL COVERAGE AT N200,000



Section 3

Banking Supervisory Activities In 2008

3.0 Introduction

Banking supervision is one of the key activities of the Corporation in protecting depositors as well as promoting the stability and safety of the Nigerian banking system. It enables the Corporation to monitor the health conditions of the insured institutions and to check unsafe and unsound banking practices. Banking supervision 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 Corporation undertaken by the three (3) departments - Bank Examination, Insurance & Surveillance and Special Insured Institutions (SII) Departments - primarily charged with that responsibility in year 2008 are reviewed in this section.

3.1 On-Site Supervisory Activities In 2008

The NDIC's bank examination programme is the core of its supervisory activities. In 2008, the Corporation conducted six (6) target, two (2) routine and one (1) joint examination of banks. That was against the ten (10) routine examinations conducted in the previous year. The shift from routine to target examination was necessitated by the CBN directives in May 2008 that all banks must change their financial year-end to 31st December. Following that development, it was envisaged that the Corporation needed to determine the assets quality of banks under its purview and provide the CBN with the figures for loans and other known losses to facilitate prompt approvals of banks' annual audited financial statements. However, when that directive was reversed by the CBN in August 28, 2008, the Corporation reverted to routine examination. Hence only two banks were examined on a routine basis during the year under review. In addition, the Corporation carried out twenty-five (25) special investigations emanating from petitions, complaints and other matters arising from the banking public and other stakeholders in 2008. Details of the number of examinations, by type,

conducted by the Corporation in 2008 and the comparable figures for 2007 are presented in Table 3.1.

Table 3.1
Number of Banks Examined On-Site By The Corporation In 2007 And 2008

Year	Routine Examination	Target	Special Investigation	Joint CBN/NDIC Investigation	Total
2008	2	6	25	1	34
2007	10	-	20	1	31

Source: Bank Examination Department, NDIC

Aside the foregoing, and in pursuit of the Risk Based Supervision objectives, the Corporation in 2008 continued with its policy of assigning each of the twenty-four (24) banks, including those not currently examined by the NDIC, to individual Examiners for continuous monitoring. Such Examiners, called “*Examiner-In-Charge*”, had commenced the process of analyzing the significant activities of their respective banks and the risks inherent in them.

Efforts were made during the year under review to perfect that important aspect of the Risk-Based Supervision approach.

During the year, the following weaknesses, amongst others, featured in some of the banks examined by the Corporation.

- (a) Failure to implement some of the recommendations contained in previous routine examination reports;
- (b) Weak Board and management oversight;
- (c) Inaccurate financial reporting;
- (d) Poor book-keeping practices;
- (e) Non- performing insider-related facilities;
- (f) Declining asset quality and attendant large provisioning requirement;
- (g) Inadequate debt recovery efforts;
- (h) Non-compliance with banking laws, rules and regulations;
- (i) Significant exposures to the capital market through share loans to individuals and margin loans to stock broking firms; and

(j) Frauds attributable to weak internal control systems.

Notwithstanding the gains of consolidation, some banks battled with various problems such as impact of the meltdown in the nation's Capital Market, dearth of skilled labour, cheque-kitting, armed robberies and inadequate infrastructure (especially power).

In pursuance of the Corporation's objective of training staff for improved performance, some bank examiners were exposed to basic and specialized training programmes within and outside the country during the year. The training programmes were specifically designed to sharpen and enhance bank examiners' skills as well as widen their perspectives on the job and the industry in general.

3.2 Off-Site Surveillance Activities

During the year, the Corporation through its Insurance & Surveillance Department (ISD) carried out its Off-Site Surveillance function over the 24 insured universal banks in the Nigerian financial services industry. The Corporation was well focused on maintaining surveillance on the financial condition and performance of insured banks with a view to ensuring their safety and soundness. To that extent, the Corporation was engaged in the continuous evaluation of the financial condition and performance of the insured banks through the analysis of the Call Reports rendered by banks through the electronic Financial Analysis Surveillance System (e-FASS).

Based on the analysis of the statistical data derived from the above returns, continuous monthly reviews of the financial condition of the insured banks were undertaken. In addition, the Corporation undertook the performance rating of banks and produced individual Bank as well as Industry Reports on a quarterly basis. The quarterly performance ratings and individual bank

reports provided basis for taking prompt corrective action on emerging problems in banks.

The application of Differential Premium Assessment System (DPAS) commenced in 2008. An assessment of deposit insurance premium payable by the banks under the new approach was done based on the perceived risk of each of the banks to the Deposit Insurance Fund (DIF). In addition, on-site deposit examination was conducted by the Corporation on eleven (11) insured banks in 2008 to verify and confirm the amount of premium payable by the banks. Based on the Examiners' findings, additional premiums were levied on some banks while refunds were made to deserving banks.

3.3 Special Insured Institutions Supervisory Activities In 2008

In 2008, the Corporation, through the Special Insured Institutions Department (SIID) carried out its supervisory function of on-site examination and off-site surveillance of licensed Microfinance Banks (MFBs) and Primary Mortgage Institutions (PMIs). It also collaborated with Other Financial Institutions

Department (OFID) of the CBN in the implementation of Microfinance Policy during the year. The major activities of the Corporation with respect to the supervision of the MFBs and the PMIs in 2008 are summarized below.

3.3.1 On-Site Examination

The number of special insured institutions that was examined by the Corporation in the past three years is presented in Table 3.2. As evidenced in the table, the Corporation examined a total of 72 institutions comprising 68 Microfinance Banks (MFBs) and 4 Primary Mortgage Institutions (PMIs) in 2008 as against a total of 125 (95 Community Banks (CBs)/MFBs and 4 PMIs) that were examined in 2007.

Table 3.2
Numbers Of MFBs And PMIs Examined By The Corporation 2006 – 2008

Year	No	of	MFBs	No.	of	PMIs	Total
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	Examined	Examined	
2008	68	4	72
2007	95*	30	125
2006	110*	22	132

Source: Special Insured Institutions Department (SIID)

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

The major findings of the on-site examination of most of the licensed institutions included: weak corporate governance, poor record keeping, declining asset quality, weak earnings, avoidance of micro credits in preference to commercial loans, and risk aversion by investing in Treasury bills and keeping huge balances in current accounts with their correspondent banks.

3.3.2 Off-Site Surveillance

The Corporation carried out off-site surveillance of the licensed MFBs and PMIs in 2008. Quarterly Reports on the performance of the institutions were issued and the reports revealed that many of the licensed institutions did not render returns to the Corporation. On the average, about 65% of the MFBs and 39% of the PMIs submitted their returns to the Corporation in 2008.

The off-site quarterly reports also revealed that most of the insured institutions in this category continued to concentrate the bulk of their income earning assets in placements with commercial banks and investments in money market instruments thereby neglecting the core function of financial intermediation. One PMI was found to have borrowed heavily from a universal bank and diverted the funds for forex trading and capital market trading which were outside its mandate. The Call Reports corroborated the on-site observations that most of the MFBs and PMIs were characterized by poor asset quality and declining earnings which impacted negatively on the capital of these institutions.

3.3.3 Special Investigation

During the year, the Corporation was involved in the joint CBN/NDIC Special Investigations of some of the licensed special insured institutions based on petitions by the public and depositors about the fraudulent practices of the Management of the Institutions.

Section 4

Claims Resolution Operations In 2008

4.0 Introduction

It would be recalled that the licences of 14 banks were withdrawn by the CBN in 2006 due to their inability to meet the prescribed ₦25 billion minimum recapitalization requirement as at December 31, 2005. Those banks were thereafter handed over to the Corporation for failure resolution. In April 2008, the banking licence of one of the 14 banks, Societe Generale Bank (SGBN), was restored by a Court Order and the bank was handed over to its shareholders. Thus, the total number of banks closed in 2006 reduced to thirteen (13) during the year.

As at the end of year 2008, the Corporation had obtained Winding-Up Orders and thus was appointed official liquidator by the Court for eleven (11) out of the thirteen (13) banks.

The banks were:

- African Express Bank Plc

- Allstates Trust Bank Plc,
- Assurance Bank Nig. Ltd
- City Express Bank Ltd,
- Eagle Bank Plc,
- Gulf Bank Plc,
- Hallmark Bank Plc
- Lead Bank Plc,
- Liberty Bank Ltd
- Metropolitan Bank Ltd, and
- Trade Bank Plc.

The shareholders of the remaining two (2) banks namely: Fortune International Bank Plc and Triumph Bank Ltd were still challenging the revocation of their banking licences in Court. Also, out of the banks that were closed before 2006, the litigation in respect of the revocation of the banking licences of two (2) - Peak Merchant Bank and Savannah Bank Plc – were yet to be resolved as at the end of 2008.

With the above development, the total number of banks whose licences were revoked by the CBN since 1994 stood at 49 as at December 31, 2008. The

names of the banks arranged according to the year they were closed are as listed in Table 4.1

Table 4.1

LIST OF THE 49 CLOSED BANKS ACCORDING TO THE YEAR OF CLOSURE

S/N	BANKS (IN-LIQUIDATION)	DATE OF REVOCATION OF LICENCE
1.	Kapital Merchant Bank	January 21, 1994
2.	Financial Merchant bank	January 21, 1994
3.	Alpha Merchant Bank Plc	September 8, 1994
4.	United Commercial bank Ltd	September 8, 1994
5.	Republic Bank Ltd	June 16,1995
6.	Abacus Merchant bank Ltd	January 16, 1998
7.	ABC Merchant Bank Ltd	January 16, 1998
8.	Allied Bank Plc	January 16, 1998
9.	Amicable Bank of Nig. Plc	January 16, 1998
10.	Century Merchant Bank Ltd	January 16, 1998
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	January 16, 1998
15.	Credite Bank Nig. Ltd	January 16,1998
16.	Crown Merchant Bank Ltd	January 16, 1998
17.	Great Merchant Bank Ltd	January 16, 1998
18.	Group Merchant Bank Ltd	January 16, 1998
19.	Highland Bank Plc	January 16, 1998
20.	ICON (Merchant Bankers)	January 16, 1998
21.	Lobi Bank of Nig. Ltd	January 16, 1998
22.	Mercantile Bank Nig. Ltd	January 16, 1998
23.	Merchant Bank of Africa Ltd	January 16, 1998
24.	Nigeria Merchant Bank Plc	January 16, 1998
25.	North-South Bank Nig. Plc	January 16, 1998
26.	Pan African bank Ltd	January 16, 1998

27.	Pinacle Commercial Bank Ltd	January 16, 1998
28.	Prime Merchant Bank Ltd	January 16, 1998
29.	Progress Bank Nig. Plc	January 16, 1998
30.	Royal Merchant Bank Ltd	January 16, 1998
31.	Victory Merchant Bank Ltd	January 16, 1998
32.	Ivory Merchant Bank Ltd	December 22, 2000
33.	Premier Commercial Bank Ltd	December 22, 2000
34.	Rims Merchant Bank Ltd	December 22, 2000
35.	Savannah Bank of Nig. Plc*	February 15, 2002
36.	Peak Merchant Bank Ltd*	February 28, 2003
37.	Allstates Trust Bank Plc	January 16, 2006
38.	Assurance Bank of Nig. Plc	January 16, 2006
39.	African Express Bank Ltd	January 16, 2006
40.	City Express Bank Ltd	January 16, 2006
41.	Eagle Bank Plc	January 16, 2006
42.	Fortune Int'l Bank Ltd*	January 16, 2006
43.	Gulf Bank Plc	January 16, 2006
44.	Hallmark Bank Plc	January 16, 2006
45.	Lead Bank Plc	January 16, 2006
46.	Liberty Bank Ltd	January 16, 2006
47.	Metropolitan Bank Ltd	January 16, 2006
48.	Trade Bank Plc	January 16, 2006
49.	Triumph Bank Ltd*	January 16, 2006

Source: Claims Resolution Department

****Liquidation Suspended due to Litigation***

During the year therefore, the Corporation continued with the liquidation exercise of the remaining 34 out of 36 failed banks that were closed prior to 2006 and of the 11 out of the 13 banks in 2006. In that regard, the principal activities that engaged the Corporation in 2008 included payment of

insured deposits, payment of liquidation dividends to depositors, creditors and shareholders of the banks-in-liquidation.

The remaining subsections give relevant information on Purchase and Assumption (P & A) transactions (i.e. the failure resolution mechanism adopted for the banks closed in 2006), as well as Claims Settlement and Administration activities in 2008.

4.1 Purchase and Assumption Transactions.

As a complementary measure to sustain public confidence under the bank consolidation programme, the Federal Government, through the Central Bank of Nigeria (CBN) provided full coverage to private sector depositors of those banks that might fail to attain the new minimum prescribed capital requirement of ₦25 billion by the end of 2005. Given the guarantee of full coverage to the private sector depositors, the Corporation introduced the novel approach of resolving bank failure through Purchase and Assumption

(P&A) mechanism. The P&A entailed inviting the healthy banks to bid for the purchase of the assets and assumption of the liabilities of the failed banks. The choice of the P & A was based on some public policy considerations which among others, included the following:

- giving depositors easy access to their funds without conditions;
- facilitating continuity of banking services in the same premises used by the failed banks;
- encouraging depositors to establish banker – customer relationships with the acquiring banks; and
- promoting banking culture which is critical to savings mobilization for economic development.

As at 31st December 2008, P&A arrangement had been concluded for all the eleven (11) banks closed in 2006 for which the Corporation had obtained winding-up orders from the court. The private sector deposits were assumed and some assets of the closed banks were acquired by various healthy banks as detailed in Table 4.2.

Table 4.2

List of acquired Banks Under The Purchase and Assumption (P&A)

Transactions

S/N	BANKS IN LIQUIDATION	ASSUMING BANKS	HANDOVER DATES
1.	Allstates Trust Bank Plc	Ecobank Plc	16 th May, 2006
2.	African Express Bank Ltd	UBA Plc	9 th October, 2007
3.	Assurance Bank Nig. Ltd	Afribank Plc	16 th August, 2006
4.	City Express Bank Ltd	UBA Plc	9 th July, 2007
5.	Eagle Bank Plc	Zenith Bank Plc	14 th January, 2008
6.	Gulf Bank Plc	UBA Plc	14 th January, 2008
7.	Hallmark Bank Plc	Ecobank Plc	24 th July, 2007
8.	Lead Bank Plc	Afribank Plc	11 th August, 2006
9.	Liberty Bank Ltd	UBA Plc	23 rd June, 2008
10.	Metropolitan Bank Ltd	UBA Plc	11 th June, 2007
11.	Trade Bank Plc	UBA Plc	15 th January, 2007

Source: Claims Resolution Department, NDIC

It is noteworthy that Zenith Bank Plc acquired both private and public sector deposits of the defunct Eagle Bank Limited and the transaction did not involve invoking the guarantee provided by the CBN to private depositors.

In the course of facilitating the P&A transactions, the Corporation was confronted with many challenges. Some of the challenges encountered included the following:

- * legal challenges by erstwhile bank owners,
- * failure by acquiring banks to purchase risk assets,
- * escalation in bank liquidation and related costs,
- * breakdown of some servers containing databases of the closed banks which constrained access to vital information.

The Corporation could not arrange P & A for the two remaining banks whose winding-up orders had not been obtained. The court actions prevented the Corporation from discharging its role as deposit insurer and liquidator. Generally, assuming banks also showed little interest in the loan assets of the acquired banks but were more interested in the physical assets (especially business offices). The NDIC as liquidator was therefore saddled with the recovery of the non-performing loans of the failed banks. The delay in

obtaining winding-up orders and the challenges in the courts had also resulted in increased bank liquidation and related costs. Some of the costs included the salaries of banks' and auxiliary staff as well as rent for over-staying in leased premises.

4.2 Migration of Data of Banks Closed Post-Consolidation

The IT systems of the 13 banks closed in January 2006 were significantly different both in terms of softwares and operating systems. Most licences of the softwares used by these banks had expired while some of the servers had broken down. That situation delayed the Corporation's access to customers' records for reconciliation purposes. A firm of IT Consultants was engaged during the year to migrate the data in the various servers into a single server at the Lagos office. The migrated databases were being used to reconcile customers' accounts and respond to inquiries.

As at 31st December 2008 the databases of five (5) closed banks, namely Allstates Trust Bank, Metropolitan Bank, Afex Bank, City Express Bank and Trade Bank had been extracted from their original servers and migrated into the single server maintained for the 13 banks.

4.3 Claims Settlement and Administration

Claims Settlement and Administration involved verification, processing and payment of deposit claims filed by proven depositors, creditors and shareholders of failed banks. The function also included payment of liquidation dividends to uninsured depositors and creditors of closed banks.

Consistent with the provisions of the NDIC Act 2006, the Corporation only provided funds for the payment of insured deposits from the Deposit Insurance Fund (DIF) while liquidation dividends to uninsured depositors, creditors and shareholders of 34 out of 36 banks closed prior to bank consolidation were being paid from the proceeds of the sale of physical

assets and recoveries made from debtors. However, in the case of the 11 banks for which P&A arrangement had been concluded, the CBN guaranteed payment in full to all their private depositors. Accordingly, the NDIC paid the insured deposit while the CBN funded the gap between the value of the assets acquired by the healthy banks and balance of private sector deposits that remained outstanding. As the failed banks' assets were being realized, the CBN would be paid liquidation dividend along with other eligible claimants. The payment of insured deposits and liquidation dividend in respect of the thirty four (34) banks closed prior to consolidation were made through ten (10) Agent Banks appointed by the Corporation.

4.3.1 Payment of Insured Deposit

During the year ended December 31, 2008, the Corporation continued with the payment of insured deposits to depositors of some banks-in-liquidation. Table 4.3 shows the cumulative payments from 1994 to 2008. As indicated in the table, the Corporation paid a total of ₦7,147.38 million as at December

31, 2008 to 1,231,741 insured depositors compared to the figure of ₦5,980.967 million paid to 424,701 insured depositors as at December 31, 2007. The increase in the number of depositors paid was attributed to the payment of insured sum to depositors of 11 out of the 13 banks closed in 2006.

4.3.2 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 4.3, the sum of ₦60,839.72 million was paid as liquidation dividend as at 31st December, 2008 to 969,831 depositors as against the sum of ₦41,955.296 million paid to 162,758 depositors as at 31st December, 2007. The above payments included the uninsured portion of private sector depositors of 11 of the 13 banks closed post consolidation which was funded by the CBN. The payment of liquidation dividends to public sector depositors was made from proceeds

of the residual physical assets and recoveries from debtors of the closed banks.

During the year, the Corporation declared first liquidation dividend for depositors of some closed banks. The affected banks included Afex Bank, City Express Bank, Lead Bank and Metropolitan Bank. Additional liquidation dividend was paid to depositors of Trade Bank and Co-operative & Commerce bank at the rate stated in Table 4.4.

Table 4.4
Additional Dividend Declared In 2008

S/N	BANKS	AMOUNT DECLARED N	% RATE PER N1 DEPOSIT
1.	Afex Bank Plc	3,705,000,000	58
2.	City Express Bank	1,400,000,000	12
3.	Lead Bank Plc	1,691,441,000	18
4.	Metropolitan Bank	1,065,000,000	21
5.	Trade Bank Plc	1,946,871,306	52
6.	Co-operative & Commerce Bank Plc	545,000,000	80

Source: Claims Resolution Department, NDIC

Out of the thirty-four (34) liquidated banks prior to consolidation, eleven (11) banks had declared a final dividend of 100 percent of total deposits indicating that all their depositors had fully recovered their deposits. 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) Continental Merchant Bank Ltd (in-liquidation)
- v) ICON Ltd (Merchant Bankers) (in-liquidation)
- vi) Kapital Merchant Bank Ltd (in-liquidation)
- vii) Merchant Bank of Africa (in-liquidation)
- viii) Nigeria Merchant Bank Ltd (in-liquidation)
- ix) Pan African Bank Ltd (in-liquidation)
- x) Premier Commercial Bank Ltd (in-liquidation)
- xi) Rims Merchant Bank Ltd (in-liquidation)

4.3.3 Payment Of Liquidation Dividends To General Creditors And Shareholders

As shown in Table 4.5, five (5) banks had declared dividends to their general creditors as at December 31, 2008. As evidenced in the table, the

sum of ₦760.64 million was declared and the Corporation had paid the sum of ₦681.43 million to 665 creditors who filed their claims.

TABLE 4.5

Summary Of Liquidation Dividend Paid To Creditors As At December 31, 2008

S/N	NAME OF BANK IN-LIQUIDATION	NUMBER OF CREDITORS PAID	AMOUNT DECLARED FOR CREDITORS (N' MILLION)	AMOUNT PAID TO CREDITORS (N' MILLION)
1	Alpha Merchant Bank Limited	16	86.78	73.367
2	Amicable Bank of Nigeria Limited	91	48.48	42.34
3	Nigeria Merchant Bank Limited	135	111.34	111.33
4	Pan African Bank Limited	34	251.84	222.81
5	Rims Merchant Bank Limited	389	262.2	231.59
	TOTAL	665	760.64	681.43

Source: Claims Resolution Department, NDIC

The payment of liquidation dividends to shareholders of Alpha Merchant Bank (In Liquidation) continued in 2008. A sum of ₦372.65 million had been paid out of the ₦600 million declared as at 31st December, 2008. That was

against the sum of ₦353.77 million paid during the preceding year. Apart from Alpha Merchant Bank (In Liquidation), some other failed banks paid their shareholders as shown in Table 4.6.

TABLE 4.6
SUMMARY OF LIQUIDATION DIVIDEND PAID TO SHAREHOLDERS AS AT DECEMBER
31, 2008

S/N	NAME OF BANK IN-LIQUIDATION	AMOUNT DECLARED FOR SHAREHOLDERS ₦ (MILLION)	AMOUNT PAID TO SHAREHOLDERS ₦ (MILLION)
1	Alpha Merchant Bank Plc	600	372.65
2	Nigeria Merchant Bank Plc	620	620
3	Pan African Bank Limited	293	293

Source: Claims Resolution Department, NDIC

4.4 Statutory Audit

To enhance transparency and accountability, the Corporation retained the services of 19 auditing firms to independently review and audit the accounts of the banks-in-liquidation during the year 2008.

Section 5

Asset Management Operations In 2008

5.0 Introduction

The Corporation, as liquidator, managed the assets of banks-in-liquidation with the goal of realising those assets so as to be able to pay liquidation dividends to the uninsured depositors as well as other creditors of the failed banks. The principal asset management activities that engaged the Corporation in 2008 included but were not limited to the following – risk asset management/recovery, investment and physical assets’ realisation. During the year, the total assets realised amounted to N4,543,231,677.48. This section gives relevant information on the recovery of debts owed to the

failed banks, investment realisation and valuation and disposal of fixed assets in 2008.

5.1 Risk Assets Management/Recovery

Management of the Risk Assets of failed banks involved effective recovery of loans and advances owed to the banks in liquidation. Debt recovery was critical to the fulfilment of the Corporation's role as a liquidator because payment of liquidation dividend to uninsured depositors and other creditors of failed banks was based on the recovery of monies owed by the debtors of liquidated banks. During the year, the Corporation continued to place emphasis on the effective management of the risk assets (loans and advances) of the 45 failed banks, which as at December 2008 amounted to about ₦178.9 billion.

In 2008, the Corporation executed policies and designed strategy for the timely and cost effective recovery of debts owed by customers of failed banks. During the year, the sum of about ₦2.299 billion as shown in Table 5.1 was recovered from loans and advances owed to failed banks. That brought the total recovery to N16.64 billion as shown in Table 5.2, as at December 31, 2008. Out of the amount, recovery from 11 out of the 13 banks closed in January 2006 amounted to about ₦2.192 billion.

5.2 Realisation of Investments

The Corporation, as liquidator, also had the responsibility of realising the failed banks' investments in stocks and subsidiaries, equity participation in other investment windows as well as foreign currency balances held in foreign accounts. To ensure effective pricing and optimum realisation, the Corporation during the period under review, made effective use of relevant professionals such as Stockbrokers, Accountants and other financial service

Professionals for the valuation and sales of identified Investments in quoted and unquoted companies.

During the year, the total amount realised from Investment made by banks-in-liquidation as shown in Table 5.1, amounted to ₦1.835 billion. It is worthy of note that 99.99% of that amount was realised from 11 out of the 13 banks closed in January 2006.

5.4 Realisation of Physical Assets

The Corporation took responsibility for the conservation and disposal of failed banks physical assets, such as Land, Building, Motor vehicles and equipment in order to facilitate the prompt payment of liquidation dividends to uninsured depositors and other creditors of the failed banks. Effective management of physical assets usually began with securing physical possession of the banks'

physical assets like Plant & Machinery, Land and Building and other Chattels and keeping them in safe custody.

In 2008, the sum of ~~N~~408,577,750.00 as evidenced in Table 5.1 was realised from the disposal of physical assets of the banks-in-liquidation by the Corporation. Out of that amount, funds realised from landed properties amounted to ~~N~~402,212,020.00, while the sum of ~~N~~6,365,730.00 was realised from chattels. A further analysis of the physical asset disposal exercise of the banks-in-liquidation by the Corporation in 2008, revealed that the sum of ~~N~~26,697,650.00 or 6.54% of the total value was realised from 11 banks closed in January 2006, while ~~N~~381,880,100.00 or 93.46% of the total value of their physical assets was realised from the assets of 36 banks closed before 2006. The cumulative proceeds from the sale of physical assets as at December 31, 2008 amounted to N16.654 billion. Details of sale proceeds of physical assets are presented in Table 5.3.

Table 5.1**Analysis of Asset Realisation On A Quarterly Basis In 2008**

S/N	ITEMS	1st Quarter ₦	2nd Quarter ₦	3rd Quarter ₦	4th Quarter ₦	TOTAL FOR 2008 (₦)
1.	Risk Assets	474,415,142.52	615,708,422.00	731,208,179.27	478,258,256.21	2,299,590,000.00
2.	Physical Assets	98,100.00	3,794,490.00	376,103,160.00	28,582,000.00	408,577,750.00
3.	Investments	205,110,000.00	40,000,000.00	1,589,885,642.32	68,285.16	1,835,063,927.48
	<i>TOTAL</i>	<i>679,623,242.52</i>	<i>59,502,912.00</i>	<i>2,697,196,981.59</i>	<i>506,908,541.37</i>	<i>4,543,231,677.48</i>

Source: Asset Management Department, NDIC

5.5 Other Activities

In order to facilitate the realisation of assets of banks-in-liquidation, the Corporation during the year, carried out other ancillary services some of which included:

- * The development of effective strategy for enhancing debt recovery as well as the realisation of investment and physical assets. Also recovery teams were encouraged to embark on recovery drives in order to shore up debt collection.

- * Credit Documentation and Investigation. The Credit Registers of banks were updated on a weekly basis with recoveries from debtors.
- * Responding promptly to Status Enquiry for debtors seeking clearance after repayment and providing appropriate management information on total debt recovery.
- * Conservation of foreclosed properties and projects financed with depositors' funds. The Corporation also ensured that failed banks owned properties were protected and secured before they were disposed of to interested members of the public in strict adherence to due process.
- * Updating of Credit Risk Management System (CRMS) modules of e-FASS, maintaining memorandum accounts for debtors as well as providing technical support to solicitors, debt recovery agents, Nigeria's Financial Intelligence Unit (NFIU) and the Economic and Financial Crimes Commission (EFCC).

- * Processing and responding to status enquiries from CBN, PENCOM, and other stakeholders to determine the extent of indebtedness of some customers of failed banks, processing solicitors' and other agents fees and commission for services rendered on debt recovery as well as realisation of collateral value of Investments and Physical assets.

5.6 Major Constraints Faced By Asset Management Operations

The major constraints to Asset Realisation function were the poor borrowing culture, slow/cumbersome judicial processes and inhibitive legal system that tended to favour debtors to the detriment of creditors.

5.6.1 Socio-Cultural Environment

The society did not seem to abhor the propensity to default in loan repayment. Some debtors would rather use their money on legal expenses to avoid loan repayment than use the same money to service loan obligations.

That had continued to pose a huge challenge to the Corporation's loan collection efforts. Real estate transactions and Investments' realisation were bedevilled by weak credit underwriting and poor documentation of titles. While custom-built properties in suburban and rural areas are not easily realisable.

5.6.2 Legal/Judicial Environment

The cumbersome judicial process of the regular courts had made it difficult for the Corporation as liquidator to recover the large volume of loans and advances of the banks-in-liquidation. The debt recovery cases instituted by the Liquidator had dragged on for many years without any appreciable progress. Even when properties were put up for sale, the debtors could easily truncate the deal by obtaining injunctions restraining the liquidator from carrying out the sale. The Corporation was however optimistic, that the appropriate legal reforms being proposed, when completed, would usher in

positive changes in the attitude of debtors and judicial officers towards early disposition of debt recovery suits in the courts.

TABLE 5.2

TOTAL LOANS & ADVANCES AND RECOVERIES AS AT DECEMBER 31, 2008

S/ N	Bank In Liquidation	Total Loans & Advances as at closure ₦ Million	Total Recoveries as at 31/12/08 ₦ Million
1.	Abacus Mer. Bank Ltd	1,213.87	41.81
2.	Afex Bank Ltd	9,847.81	777.98
3.	ABC Mer. Bank Ltd	565.37	77.34
4.	Allstates Trust Bank Ltd	25,414.95	768.24
5.	Allied Bank Nig. Plc	2,535.48	389.24
6.	Alpha Merc. Bank Plc	1,030.72	902.69
7.	Amicable Bank Plc	328.99	25.81
8.	Assurance Bank Ltd	6,369.79	189.02
9.	Century Mer. Bank Ltd	809.81	31.66
10.	Commerce Bank Ltd	1,643.59	272.52
11.	Comm. Trust Bank Ltd	570.59	153.72
12.	Continental Mer. Bank	1,712.28	414.68
13.	Co-op. Com. Bank Plc	2,305.38	555.51
14.	Credite Bank Nig. Ltd	479.92	22.34
15.	City Express Bank Plc	13,323.06	1,523.19
16.	Crown Mer. Bank Ltd	340.31	10.75
17.	Eagle Bank Ltd	217.62	4.11
18.	Fin. Merch. Bank Ltd	447.19	107.16
19.	Fortune Bank Ltd*	-	56.00
20.	Great Merc. Bank Ltd	393.44	16.12
21.	Group Merc. Bank Ltd	741.81	36.73
22.	Gulf Bank Ltd	21,269.06	60.55

23.	Hallmark Bank Plc	29,716.74	1,524.60
24.	Highland Bank Plc	114.05	19.78
25.	ICON Merc. Bank Ltd	140.62	180.88
26.	Ivory Merc. Bank Ltd	1,491.37	50.74
27.	Kapital Mer. Bank Ltd	344.27	273.41
28.	Lead Bank Plc	12,380.78	942.28
29.	Lobi Bank Ltd	291.60	82.50
30.	Liberty Bank	5,191.10	9.33
31.	Mercantile Bank Plc	1,217.60	244.48
32.	Merc. Bank of Afri. Ltd	2,048.81	235.09
33.	Metropolitan Bank Ltd	8,258.00	824.19
34.	Nig. Merch. Bank Plc	1,243.15	222.88
35.	North-South Bank Plc	932.04	31.89
36.	Pan African Bank Ltd	1,282.45	665.73
37.	Peak Merch. Bank Ltd*	-	28.70
38.	Pinacle Com. Bank Ltd	1,551.90	151.97
39.	Premier Com. Bank Ltd	1,102.00	25.71
40.	Prime Merch. Bank Ltd	838.11	47.30
41.	Progress Bank Plc	1,880.94	472.37
42.	Republic Bank Ltd	232.56	33.93
43.	Rims Mer. Bank Ltd	1,900.88	44.87
44.	Royal Mer. ank Ltd	1,131.07	48.35
45.	Trade Bank Plc	11,901.30	3,843
46.	Triumph Bank Plc*	-	-
47.	United Com Bank Ltd	1,864.58	181.27
48.	Victory Mer Bank Ltd	301.47	19.85
	TOTAL	178,918.43	16,642.27

Source: Asset Management Department, NDIC

* Revocation of banking licence challenged in Court

TABLE 5.3
SUMMARY OF PROCEEDS FROM THE SALES OF PHYSICAL ASSETS AS AT DECEMBER 31,
2008

S/NO	BANK	LANDED PROPERTY [=N=M]	VEHICLES/ GEN. SET [=N=M]	CHATELS [=N=M]	TOTAL [=N=M]
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	Allstates Trust Bank Plc	2,126.56	3.60	5.61	2,135.77
4	Allied Bank Plc	682.87	64.71	38.67	786.25
5	Alpha Merchant Bank Plc.	122.24	0.07	0.71	123.02
6	Amicable Bank of Nig. Plc	8.00	7.14	17.55	32.69
7	Assurance Bank Ltd.	1,297.80	456.40	-	1,754.14
8	Century Merch. Bank Ltd.	-	6.80	10.51	17.31
9	City Express Bank Plc	503.00	-	155.00	658.00
10	Commerce Bank Ltd.	125.14	41.47	31.28	197.89
11	Commercial Trust Bank Ltd.	36.08	10.30	25.38	71.76
12	Continental Merch. Bank Plc.	984.33	11.57	22.36	1,018.26
13	Co-operative & Commerce Bank Plc.	726.72	13.10	32.79	772.61
14	Credite Bank Nigeria Ltd.	15.00	14.09	14.89	43.98
15	Crown Merchant Bank Ltd.	15.00	5.66	3.80	24.46
16	Financial Merchant Bank Ltd.	-	-	10.33	10.33
17	Great Merchant Bank Ltd.	4.27	1.88	0.96	7.11
18	Group Merchant bank Ltd.	-	2.16	4.68	6.84
19	Gulf Bank	-	-	19.98	19.98
20	Hallmark Bank Plc	1,810.35	-	1,315.51	3,126.00
21	Highland Bank of Nig. Plc	12.97	5.54	7.99	26.50
22	ICON Ltd. [Merchant Bankers] Ltd	667.45	3.47	20.88	691.80
23	Ivory Merchant Bank Ltd	56.00	3.76	1.53	61.29
24	Kapital Merchant Bank Ltd.	-	41.36	0.24	41.60
25	Lead Bank Plc	847.26	181.90	-	1,029.16

26	Lobi Bank of Nig. Ltd.	83.11	3.90	11.70	98.71
27	Mercantile Bank of Nig. Plc.	362.81	6.99	42.22	412.02
28	Metropolitan Bank Limited	95.40	0.67	85.00	180.20
29	Merchant Bank of Africa Ltd.	287.04	1.87	16.87	305.78
30	Nigeria Merchant Bank Ltd.	3.55	4.89	0.50	8.94
31	North-South Bank Nig. Plc.	213.00	1.20	16.39	230.59
32	Pan African Bank Ltd.	338.81	6.52	4.92	350.25
33	Pinacle Commercial Bank Ltd.	-	12.19	18.38	30.57
34	Premier Merchant Bank Ltd.	37.43	3.96	9.90	51.29
35	Prime Merchant Bank Ltd.	-	2.28	5.39	7.67
36	Progress Bank of Nig. Plc	136.13	15.50	39.64	191.27
37	Republic Bank Limited	170.00	0.10	6.38	176.48
38	Rims Merchant Bank Ltd.	402.40	2.98	1.42	406.80
39	Royal Merchant Bank Ltd.	-	2.84	3.88	6.72
40	Trade Bank Plc	1,097.17	376.66	-	1,473.27
41	United Commercial Bank Ltd.	-	29.12	15.68	44.80
42	Victory Merchant Bank Ltd.	-	0.31	6.63	6.94
	TOTAL	13,267.89	1,353.50	2,032.61	16,654.08

Source: Asset Management Department, NDIC

Section 6

Summary Of Other Activities And Accomplishments Of The Corporation In 2008

6.0 Introduction

A major development during the year was the take-off of the Performance Management Unit, which was created to implement the Corporation's new Performance Management System (PMS). The new PMS, based on a Balanced Scorecard model, was designed to effectively manage performance at the employee, departmental and corporate levels, thereby re-positioning the Corporation to grapple with the challenges of ensuring a competitive, safe and stable banking system with its attendant effects on depositor protection. Also, the **Document Management Unit (DMU)** took-off during the year under review. The Unit was created to manage the Corporation's documents/records and ensure easy access to them as and when the need arose.

Reported in this section, are the summary of major activities of Departments/Units in the Corporation in 2008 under the existing three (3)

divisions of the Corporation, namely; Office of the Managing Director/Chief Executive, Operations and Corporate Services Divisions. Also reviewed in the section, are other accomplishments of the Corporation in the areas of capacity building, corporate social responsibility, international networking as well as initiatives undertaken by the Corporation to enhance public understanding and awareness of deposit insurance.

6.1 Office Of The Managing Director/Chief Executive

The division comprised three (3) Departments and two (2) Units which reported directly to the Managing Director/Chief Executive. The major activities of the Departments and the Unit in 2008 are summarised below.

6.1.1 Legal Department

During the year under review, the department continued to cover meetings of the Executive Committee of the Board (EXCO) and Management Consultative Committee (MCC). The department also provided legal opinions/advice and professional legal services on various issues affecting the Corporation on a regular basis.

The department managed several litigation cases involving the Corporation in its corporate capacity and as the Liquidator of failed banks in Nigeria.

Specifically, the department monitored and coordinated the prosecution of 25 criminal cases filed under the Failed Banks [Recovery of Debts] and Other Financial Malpractices in Banks Act 1994, as amended, pending at the Federal High Courts and other superior courts. While the Corporation secured convictions in two of the criminal cases, namely: FRN v. S U Ikpe and FRN v. Ajay Patil, six (6) others were struck out due to inability of the police to apprehend the accused persons. Similarly, the department managed the prosecution and defense of one hundred and nine (109) civil cases involving the Corporation in its corporate capacity.

The department was involved in vetting and drafting legal agreements on transactions between the Corporation and third parties and also conducted searches at the Corporate Affairs Commission (CAC) for use by the Corporation. In collaboration with the Editorial Board, the department commenced compilation of cases for the third batch of the Nigerian Banking Law Report (NBLR) for 2005 and 2006 decided cases. The process of printing the second batch, which commenced in 2008, was expected to be completed by the first quarter of 2009.

6.1.2 Internal Audit Department

In 2008, the Internal Audit Department continued to carry out comprehensive review (Mid-Year and End-of-Year Audit) of the activities of all Departments/Units, Lagos office and the three Zonal offices. In addition, cash/stock count and verification of the Corporation's assets were conducted on a quarterly basis during the year. All these were done with a view to improving the Internal Control System and safe-guarding the assets of the Corporation. Audit observations and recommendations arising from those reviews were approved by Management for implementation by the affected Departments/Units/Zones.

All payments made by the Corporation to staff and third parties were also reviewed by the department to ensure compliance with laid-down policies and procedures. The department also inspected all purchases made by the various departments to ensure strict compliance with laid-down rules and regulations. It also conducted the review of Claims Resolution and Asset Management Departments in order to keep Management abreast of the liquidation activities of the Corporation. All observations and recommendations were communicated to the two Departments for implementation after due approval by Management.

The department continued to coordinate the activities of the Anti-Corruption and Transparency Unit (ACTU) which was inaugurated in 2007. The Unit participated in many Anti-Corruption Programmes of the Federal Government and also sensitized staff on various issues on Anti-Corruption and Transparency. The department also coordinated the activities of the Document Management Unit (DMU) created in 2008 to manage the Documents/Records of the Corporation. The Unit during the year commenced the process of identifying documents that should be preserved on a departmental basis in line with Management Policy.

6.1.3 Strategy Development Department (SDD)

During the year, the department performed its primary function of coordinating the planning activities of the Corporation. It monitored, on a continuous basis, the implementation of the Corporation's strategic plan by reviewing the quarterly implementation reports from other departments/units and holding strategy sessions with them. These were aimed at ensuring the alignment of departmental/unit goals with the major thrusts of the Corporation's strategic plan. The department also undertook a mid-year assessment of the implementation of the year's plan as at July 2008.

In addition, the department participated in a collaborative work with an appointed consultant to develop Strategy Maps and Enterprise Objectives with the ultimate aim of cascading them into departmental and unit objectives and subsequent derivation of individual roles. Other activities of the department in 2008 included the review of challenges of information technology in the Corporation, quality of outsourced services and a demographic study on the workforce profile of existing staff of the Corporation.

The SERVICOM Unit of the department continued to provide the platform for effective service delivery in the Corporation during the year under review. It leveraged on the adoption of SERVICOM index by all the departments and units in the Corporation through vigorous implementation of some initiatives that were well recognized within and outside the Corporation. Some of the initiatives and achievements included: the successful compliance evaluation of all the departments, units and Zonal offices using criteria provided in the SERVICOM index; survey on service delivery constraints in the Corporation; alignment of service charter with the strategic plan; overhaul of all reception areas in the Corporation and the sensitization of staff of a newly engaged security firm. The unit did not only submit itself to the evaluation of the supervising office in the

Presidency but made a well-articulated presentation of the impact of SERVICOM in NDIC during one of the monthly Nodal Officers meetings in the Presidency. Given the level of achievements recorded by the unit and at the instance of the SERVICOM office in the Presidency, a repeat presentation was made during a meeting of its staff with its technical partners-the United Kingdom Department for International Development (DFID).

6.1.4 Communications And Public Affairs Unit (CPAU)

The year under review was an eventful one for the Communications and Public Affairs Unit as it continued to perform its primary function of creating public awareness about the Corporation's activities through the print and electronic media. It also maintained good working relationship with the Corporation's major stakeholders and other strategic publics.

In the course of the year, the Unit coordinated the nation-wide sensitization programme organized by the Corporation to sensitise the public on the extension of deposit insurance scheme to licensed Micro-Finance Banks and Primary Mortgage Institutions. The Unit also coordinated the Corporation's participation in the 2008 Lagos International Trade Fair held

in November, which provided a platform to reach out to the Corporation's diverse target publics.

In fulfillment of the NDIC's corporate social responsibility (CSR), the Unit, in collaboration with Human Resources Department and beneficiary tertiary institutions, coordinated the commissioning of the various human capital development projects sponsored by the Corporation. The Unit also coordinated other CSR activities of the Corporation during the year. It hosted several students' excursion visits, which provided a platform for promoting public awareness of the mandate and activities of the Corporation in tertiary institutions.

6.2 Operations Division

The Operations Division had six (6) Departments namely: Bank Examination, Insurance and Surveillance, Claims Resolution, Asset Management, Special Insured Institutions and Research. The activities of the first five (5) Departments had featured in other Sections of this Report, thus, only the activities of the Research Department in 2008, are reported below.

6.2.1 Research Department

In 2008, the department monitored and documented developments in the nation's banking and financial services industry and published the major developments in the NDIC Quarterly. Apart from the Quarterly Journal, the department also published the NDIC News, a quarterly in-house news magazine for the staff of the Corporation. The department also coordinated the publication and distribution of the Corporation's 2007 Annual Report and Statement of Accounts. During the year, the department co-ordinated the hosting of a workshop on Deposit Insurance Coverage and Public Awareness, under the auspices of Africa Regional Committee (ARC) of the IADI in August, 2008. In addition, the department continued to supervise the Corporation's specialised library by enhancing its utilisation value through such measures as the acquisition of new publications.

6.3 Corporate Services Division

The composition of the Corporate Services Division included: Administration Unit, Human Resources, Finance, Information Technology Departments as well as the Performance Management Unit. A review of the activities of the units and departments in 2008 is presented below.

6.3.1 Administration Unit

During the year, and in line with its mandate, the Administration Unit continued to provide support services in the areas of procurement, security, transportation and maintenance of equipment and managing the assets of the Corporation.

Subsequent to Management's approval for the engagement of firms of consultants to provide consultancy services towards the construction of the Head Office Annex in Abuja, the Lagos Office Complex at Ikoyi, Lagos and the Training Centre at Lekki Peninsula, Phase I, Lagos, the Unit received the preliminary sketch designs of the three (3) proposed buildings from the consultants. The designs had been reviewed and were ready for final adoption.

6.3.2 Human Resources Department (HRD)

In 2008, the Human Resources Department continued to ensure the retention of the Corporation's highly skilled and professional workforce through continuing participation in high quality training programmes offered by reputable local and overseas training institutions and consultants.

In order to reward hard work and commitment, the Corporation, promoted 89 staff to various grades in the Executives, Senior and Junior cadres

during the year. Similarly, three (3) junior staff who acquired higher qualifications in relevant disciplines were converted to senior staff cadre in 2008. During the year, the Department continued to ensure good management/employee relations through regular dialogue at the Joint Consultative Committee (JCC).

During the year under review, 1 staff left the services of the Corporation through mandatory retirement, 1 staff had his appointment terminated while 4 staff died in active service. Thus, as at the end of the year, the total staff strength of the Corporation was 626.

6.3.3 Finance Department

During the year, 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 during the year under review, paid all relevant taxes, that is, Value-Added Tax (VAT) deductions, Withholding Taxes as well as Pay As You Earn (PAYE) Taxes to the appropriate tax authorities.

6.3.4 Information Technology Department (ITD)

During the year, the department continued to provide quality Information and Communication Technology (ICT) services to various users in the Corporation to facilitate effective discharge of their responsibilities. The services rendered centred mainly on the implementation of key recommendations on the second phase of the Information Systems Strategy (ISS) Project.

Foremost in its activities during the year was the development of an IT Security Strategy and Architecture framework for the Corporation. The project involved the identification and evaluation of existing policies, practices, processes, risk vulnerability assessments, penetration testing and provision of road maps for solving each identified exception. The department also worked on the integration of the Corporation's key IT Applications such as Human Resources Management System (HRMS) and Sun Accounts (GL package), into which all HR payments were summarized.

6.3.5 Performance Management Unit

Over the years, managing staff performance had been very central to the Corporation's ability to discharge its responsibilities to its various stakeholders. In fulfillment of that desire, the Performance Management Unit took off in the Corporation during the year to implement the Corporation's new performance management system. The new Performance Management system was based on the Balanced Scorecard model designed to measure business performance not only from the financial perspective, but from other operational perspectives which should give a comprehensive view of business performance.

During the year, significant progress was made in the design and implementation of the system. Some of the achievements included the completion of an Organizational Culture Assessment Study, designing of a Corporate Strategy Map, alignment of organizational structures and

identification of all job roles in the Corporation. The project was scheduled to be completed by the middle of 2009.

OTHER ACTIVITIES AND ACCOMPLISHMENTS IN 2008

6.4 Capacity Building

The Corporation was committed to the development of its most important assets, its employees. Accordingly, in 2008, it continued to place great premium on staff training and development to ensure that its staff continued to remain motivated and competitive. A comprehensive training plan for the Corporation was developed based on the identified needs of Departments/Units/Zonal Offices. During the review year, a total of **138** staff were sponsored for various training courses overseas while **314** staff benefitted from relevant local courses. The 2008 training programmes focused, among others, on leadership development, human resource management, banking supervision as well as information and technology.

Similarly, as a fall-out of the Corporation's encouragement of staff to pursue self development programmes, a total of five (5) staff completed their self development programmes and obtained relevant additional qualifications. In accordance with the policy of the Corporation, the successful staff were appropriately rewarded with financial assistance that served to defray part of their study expenses.

Furthermore, the Corporation ensured prompt payment of subscription fees for staff members who were members of recognized and approved professional bodies. Also, in order to ensure that maximum benefits were derived from those professional bodies, the Corporation sponsored staff to attend programmes such as the Mandatory Continuing Professional Education programmes (MCPE), Annual General Meetings (AGMs) and Conferences organized by them.

6.5 Corporate Social Responsibility

In fulfillment of the Corporation's social responsibility goals, and in an effort to promote educational excellence, the Corporation during the year continued to pursue a project-based support programme to institutions of higher learning in the country. Thus, further to the achievements recorded in previous years, the following projects were commissioned in 2008 in collaboration with beneficiary tertiary institutions:

- Water Scheme at University of Abuja, Abuja;
- Computer Centre at Rivers State University of Science & Technology, Port-Harcourt;
- ICT Directorate Phase II Building Project at University of Jos, Jos;
- Academic Block at Federal Polytechnic, Birnin Kebbi; and
- Computer Laboratory at Gombe State University, Gombe.

In addition to the above, other social endeavours which were carried out by the Corporation in 2008, included financial donations to non-governmental organizations for the development of primary education and community development in the rural areas.

6.6 Award of Excellence By The Institute of Chartered Accountants of Nigeria (ICAN)

In 2008, the Corporation was honoured with the Institute of Chartered Accountants of Nigeria (ICAN) Award of Excellence. The honour was in recognition of the Corporation's contributions to the achievements recorded in the financial services industry, especially by instilling confidence in bank depositors as well as the Corporation's commendable roles in the Microfinance and Primary Mortgage Institutions (PMIs) sub-sectors of the Nigerian economy.

6.7 Public Awareness And Education

The Corporation fully recognised that the effectiveness of the Deposit Insurance in maintaining banking system stability relied heavily on a high level of public awareness and understanding of the scheme. As a result, the Corporation continued to conduct a variety of promotional and educational activities to maintain and expand public awareness of the scheme. In addition to its various publications which were available to the public, free of charge, other initiatives of the Corporation in 2008 included the following:

6.7.1 Nationwide Depositor Awareness Campaign

The Corporation continued with its nation-wide sensitization programme during the year. The focus of the sensitization was on the extension of deposit insurance scheme to licensed Micro-Finance Banks and Primary Mortgage Institutions. Various workshops were organized for stakeholders at Abuja, Kano, Benin, Awka, Calabar and Ibadan centres. The workshop offered the operators opportunity to discuss issues on deposit insurance with the Corporation.

6.7.2 Participation in Tradefair

The Corporation participated in the 2008 Lagos International Trade Fair held in November, which provided a platform to reach out to the NDIC's diverse target publics.

6.8 Relationship With Other Safety Net Players

Financial system stability requires close collaboration among the various safety-net participants. Like in previous years, the Corporation's major partner among the safety-net players was the Central Bank of Nigeria (CBN). Both institutions shared a common aim of promoting the stability of the nation's banking system. At the operational level, the Corporation in 2008 partnered with the CBN on bank supervision and failure resolution matters. Coordination was undertaken through a standing Committee made up of Management staff from the Corporation and the CBN.

6.9 International Relations

In 2008, the Corporation actively participated in, and organized several exchange activities to enhance its international image and visibility. As a member of the International Association of Deposit Insurers (IADI), the Corporation continued to participate in various fora organized by both IADI and its member deposit insurance agencies to enhance knowledge and share experience as well as ideas on issues relevant to deposit insurance. In furtherance of the objectives of the IADI and in recognition of its role as a founding member, the Corporation hosted a workshop on Deposit Insurance Coverage and Public Awareness under the auspices of Africa Regional Committee of the Association in August 2008. The main objective of the workshop was to build capacity among middle level personnel in existing DIS in Africa and those intending to establish new deposit insurance systems.

The workshop gave participants an insight into the necessity to create and sustain effective public awareness of the Deposit Insurance System. It drew participants from Kenya, Tanzania, Zimbabwe and Nigeria. In another development, the Corporation participated in the 7th Annual Conference of the International Association of Deposit Insurers (IADI) hosted by the Federal Deposit Insurance Corporation (FDIC) in Washington DC, USA. Part of the objectives of the conference was to promote financial education and public confidence in the financial system around the world. At the gathering, various models of public awareness campaigns were showcased by various deposit insurance institutions.

6.9.1 Training/Attachment Programmes

In keeping with its commitment to knowledge-sharing, the Corporation, during the year, provided training/attachment opportunities for deposit insurance practitioners from Kenya. In the same vein, the Corporation also

sponsored some of its own personnel to attend seminars and workshops hosted by other Deposit Insurance Schemes (DISs).

Section 7

CORPORATE GOVERNANCE

7.0 Introduction

In 2008, the Corporation continued to apply sound corporate governance as one of its guiding principles and business strategies. In that regard, various efforts were made to strengthen internal governance by maintaining organizational arrangements that promoted independence, transparency, accountability and integrity. Those efforts were made within the context of the NDIC's statutory obligations as prescribed in its governing statute, the Nigeria Deposit Insurance Corporation Act (NDIC Act) No. 16 of 2006. The Act clearly states the Corporation's objectives, mandates and powers as well as other aspects of its roles as a risk-minimizer and a component of

the nation's financial safety-net. This section presents the Corporation's level of compliance with governance practices and performance based on the four key elements of sound regulatory governance, namely: independence, accountability, transparency and integrity.

7.1 The Board of Directors

The Board is the highest governing body of the Corporation as clearly spelt out in the enabling law. It has the responsibility for the overall policy, general administration, management and superintendence over the affairs of the Corporation. The Board is the approving authority for administrative matters, such as recruitment and remuneration of employees as well as

fundamental operational matters such as termination of a bank's insured status, review of DIS design features, supervisory intervention and failure resolution options.

According to Section 5 of the NDIC Act No. 16 of 2006, the board of the Corporation is composed of 12 members as follows: a part time Chairman; the Managing Director/CEO; two Executive Directors; a representative each of the Central Bank of Nigeria and the Federal Ministry of Finance, not below the rank of a Director; and six other members, one each from the six geo-political zones of the country, who are to serve on a part time basis. Also, the Corporation's enabling Act provides that the Board be appointed by the President, Commander-in-Chief of the Armed Forces of Nigeria,

subject to the confirmation of the Senate and is also expected to meet on a quarterly basis.

Following the dissolution of the Board in 2007, the Corporation operated without a Board throughout the year 2008. However, all the responsibilities of the Board in terms of oversight as well as approvals that were beyond the Executive Committee of the Board were transferred to the Minister of Finance. Some of the important responsibilities discharged by the Hon. Minister in 2008 included the approval of the 2007 Senior Staff Promotion and the approval of the 2009 budget for the Corporation.

7.2 Board Committees

Board committees were set-up to assist the Board in its oversight functions. The NDIC Board of Directors had three Standing Committees, namely: Tenders Committee, Debt Recovery Committee and Finance and Audit Committee. In 2008, these committees were dormant because of the absence of a Board for the Corporation.

7.3 Executive Committee of the Board (EXCO)

The Executive Committee of the Board (EXCO) was responsible for decisions on matters within its competence and the implementation of the policy decisions of the Board. The EXCO was made up of three members, namely: the Managing Director/Chief Executive Officer, The Executive Director (Operations) and Executive Director (Corporate Services). The

Managing Director/CEO and the two Executive Directors were appointed by the President and Commander-in-Chief of the Armed Forces of Nigeria and hold office for a period of five years and are also eligible for re-appointment for a further period of five years as clearly stated in the enabling Act. In 2008, the EXCO held its meetings on a weekly basis.

7.4 Other Statutory Commitments Of The Corporation's Board And Management

Aside from the provisions of its enabling Act, the NDIC, as a government agency is bound by the provisions of other Acts with regard to information disclosure of its activities to its stakeholders. For instance, the Corporation had to comply with the guidelines issued by Auditor General of the Federation and Accountant General of the Federation, despite that its

accounts were audited by external auditors and that the Corporation was self accounting. The audited accounts were published in the Corporation's Annual Report and Statement of Accounts along with other activities undertaken by the Corporation within the financial year. As a matter of policy, the published Annual Report and Statement of Accounts were made available to the Corporation's shareholders, the Public Accounts Committee of the Senate, the Central Bank of Nigeria and the Federal Ministry of Finance. The Corporation had always complied with these requirements and circulated copies of the report to the banking public and foreign missions as well as sister DIS agencies around the world, as part of its efforts at entrenching good corporate governance.

Also, in 2008, the Corporation continued to comply with the provisions of the Fiscal Responsibility Act in terms of the approval of its budget and appropriation of its operating surplus at the end of a financial year.

Another statute, which the Board and Management of the NDIC had to comply with, was the provisions of the Pension Reform Act. In that regard, the monthly retirement benefits of staff for 2008 had been duly remitted to the Pension Fund Administrators (PFAs) chosen by staff, while those who retired before the inception of the scheme continued to draw their pension on a monthly basis directly from the Corporation. However, arrangements are underway to transfer the legacy fund to competent PFAs to manage.

With respect to the Health Insurance scheme, the Corporation continued to effect deductions and remittances of staff contributions to the National Health Insurance Commission in compliance with the NHIS Act during the year under review. On the part of the staff, they continued to visit their chosen Health Service Providers for medical attention during the year under review.

In its capacity as Liquidator of failed banks in Nigeria, the NDIC was bound by the provisions of both the Companies and Allied Matters Act (CAMA) 1990 (as amended) and the Banks and Other Financial Institutions Act (BOFIA) 1991 (as amended). In compliance with those Acts, the Corporation rendered returns in respect of the banks-in-liquidation to the

Corporate Affairs Commission (CAC) and the Central Bank of Nigeria (CBN). The other provisions of the relevant laws were equally complied with in 2008.

The Corporation was also bound by the provisions of the Code of Conduct for Public Officers Act, with particular reference to asset declaration by political appointees in the Corporation. Necessary compliance with the provisions of the Act had been effected as at when due.

Nigeria Deposit Insurance Corporation

Financial Statements – 31 December 2008

Together with Directors' and Auditors' Reports

Nigeria Deposit Insurance Corporation

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Financial Statements – 31 December 2008

Together with Directors' and Auditors' Reports

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Nigeria Deposit Insurance Corporation which comprise the balance sheets as at 31 December 2008, and the profit and loss accounts, statements of cash flows and value added statements for the year then ended and the statement of accounting policies, notes to the financial statements and the five year financial summary, as set out on pages 3 to 23.

Directors' responsibility for the financial statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with the statements of accounting standards applicable in Nigeria and the Nigeria Deposit Insurance Corporation Act 2006. This responsibility includes: designing, implementing and maintaining internal controls 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 auditors' 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 controls 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 controls. 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 financial position of Nigeria Deposit Insurance Corporation as at 31 December 2008, and of its financial performance and cash flows for the year then ended in accordance with the Statement of Accounting Standards applicable in Nigeria.

Chartered Accountants

Lagos, Nigeria

17 July, 2009

Chartered Accountants

Abuja, Nigeria

17 July, 2009

Statement of Significant Accounting Policies

A summary of the significant 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 flows of the Nigeria Deposit Insurance Corporation and do not include the results of operations, financial position and statements of cashflows of failed banks for which the Corporation acts as receiver or liquidation 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 net of unearned income. Unearned income is deferred and amortised as earned.

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

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

(e) **Fixed assets**

Fixed assets are shown at cost less accumulated depreciation.

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

Depreciation is provided on a straight line basis to write-off the cost of fixed assets over their estimated useful lives at the following annual rates:

	%
Land	Nil
Buildings	2.5
Generators	20

Furniture and equipment	25
Motor Vehicles	25
Capital work in progress	Nil

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

(f) **Cash and cash equivalents**

Cash and cash equivalents comprise cash balances on hand, cash deposited net of overdraft with the Central Bank of Nigeria.

(g) **Staff retirement benefit**

The Corporation operates a defined contributory pension scheme in line with the provisions of Pension Reform Act, 2004. The contribution of the Corporation and staff to the scheme is 20% and 5% respectively of all pensionable emoluments.

(h) **Deposit insurance fund**

Insurance premiums are accumulated in a reserve account 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 balances**

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

(j) **Receivership costs**

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 Asset Management 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. Liquidation expenses which are considered non recoverable

from the liquidated banks due to their insolvent nature are provisioned and charged to the statement of income and expenditure.

(l) **Income recognition**

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

Rental income is recognised on an accrual basis.

(m) **Provision**

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

(n) **Segment reporting**

The Corporation is not a profit oriented entity hence segment reporting is not considered applicable.

Statement of income and expenditure

For the year ended 31 December 2008

	<u>Note</u>	<u>2008</u> N'000	<u>2007</u> N'000
INCOME			
Interest on investment	2	17,093,910	13,425,359
Other income	3	70,188	129,939
		<u>17,164,098</u>	<u>13,555,298</u>
EXPENDITURE			
Operating expenses	4	(8,109,783)	(6,380,447)
Operating surplus before exceptional item and taxation		9,054,315	7,174,851
Exceptional charge	16	(3,500,000)	(4,970,176)
Operating surplus after exceptional items before taxation	5	5,554,315	2,204,675
Taxation	6	-	-
		<u>-</u>	<u>-</u>

Operating surplus after exceptional item and taxation		5,554,315	2,204,675
Transfer to FGN Consolidated revenue fund account	17	(4,443,452)	(1,763,740)
Operating surplus transferred to general reserve fund	21	<u>1,110,863</u>	<u>440,935</u>

The accounting policies on pages 3 to 5 and the accompanying notes on pages 9 to 21 form an integral part of these financial statements.

Balance Sheet

As at 31 December 2008

	<u>Note</u>	<u>2008</u> N'000	<u>2007</u> N'000
ASSETS			
Cash and bank balances	7	33,064,162	1,108,126
Investments	8	179,257,237	170,169,694
Debtors and prepayments	9	7,096,871	5,178,683
Fixed assets	10	1,728,221	1,777,825
		<u>221,146,491</u>	<u>178,234,328</u>
LIABILITIES:			
Bank overdraft	11	-	2,444,958
Compensation due to insured depositors	12	1,905,036	10,658,060
Due to banks	13	251,277	227,197
Accounts payable and provisions	14	3,561,595	541,247
Due to staff pension fund	15	3,246,605	4,060,469
Special insured institutions fund account	16	8,470,176	4,970,176
FGN Consolidated revenue account	17	4,443,452	
	1,763,740		
		<u>21,878,141</u>	<u>24,665,847</u>
Deposit insurance fund	18	169,012,428	124,423,422
		<u>190,890,569</u>	<u>149,089,269</u>
Share capital	19	2,300,000	2,300,000
Other reserves	20	200,000	200,000
General reserve fund	21	27,755,922	26,645,059
		<u>30,255,922</u>	<u>29,145,059</u>
TOTAL LIABILITIES AND RESERVES		<u>221,146,491</u>	<u>178,234,328</u>
Contingent liabilities	22	<u>1,903,498</u>	<u>15,178,000</u>

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:

Ganiyu A. Ogunleye

)

Umaru Ibrahim) Directors

Approved by the Board of Directors on

The accounting policies on pages 3 to 5 and the accompanying notes on pages 9 to 21 form an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2008

	<u>Note</u>	<u>2008</u> N'000	<u>2007</u> N'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Before changes in operating assets	23	11,197,144	8,209,880
Changes in operating assets	24	(2,128,831)	(5,295,047)
Net cash provided by operating activities		<u>9,068,313</u>	<u>2,914,833</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments		(9,087,543)	(41,408,688)
Purchases of fixed assets		(285,596)	(299,714)
Proceeds from disposal of fixed assets		23,578	102,315
Net cash used in investing activities		<u>(9,349,561)</u>	<u>(41,606,087)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Deposit insurance fund		36,445,982	34,244,331
Payment to the FGN consolidated revenue account		(1,763,740)	-
Net cash provided by financing activities		<u>34,682,242</u>	<u>34,244,331</u>
Net increase/(decrease) in cash and bank balances		34,400,994	(4,446,923)
Cash and cash equivalents, beginning of the year		(1,336,832)	3,110,091
Cash and cash equivalents, end of the year	25	<u><u>33,064,162</u></u>	<u><u>(1,336,832)</u></u>

The accounting policies on pages 2 to 4 and the accompanying notes on pages 4 to 17 form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2008

1. The Corporation

The Nigeria Deposit Insurance Corporation was established by the Federal Government of Nigeria under NDIC Act No. 22 of 1988 as repealed and re-enacted by the Nigeria Deposit Insurance Corporation 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 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)

According to section 28 (4 (a) and (b)) of the NDIC Act, 2006 if an insured depositor fails to claim its insured deposit within eighteen months after the appointment of a receiver, such deposits would be refunded to the Corporation.

The Board of the Corporation is appointed by the President and Commander-in-chief of the Federal Republic of Nigeria, subject to the confirmation of the Senate. The last Board of the Corporation was dissolved in October, 2007, and a new Board was yet to be re-constituted as at 31 December, 2008.

2. Interest on investments

	<u>2008</u>	<u>2007</u>
	₦'000	₦'000
Interest on investments comprises interest earned on:		
Treasury bills	7,774,685	5,997,429
Federal government bonds	9,319,225	7,427,930
	<u>17,093,910</u>	<u>13,425,359</u>

3. Other income

	<u>2008</u>	<u>2007</u>
	₦'000	₦'000
Other income comprises:		
Rental income	24,934	26,433
Profit on sale of fixed assets	-	82,567
Exchange gain	33,994	-
Others	11,260	20,939

70,188

129,939

4. **Operating expenses**

Operating expenses comprise:

	<u>2008</u>	<u>2007</u>
	N'000	N'000
Directors' fees and allowances	-	6,888
Staff costs	5,569,185	4,485,372
Provision for PAYE (see note 14(a))	603,351	-
General administrative expenses	1,510,049	1,322,118
Bank charges	3,228	3,500
Provision for bad debt	45,279	207,005
Failed bank tribunal expenses	112,438	13,140
Exchange loss	-	5,321
Depreciation	266,253	337,103
	<u>8,109,783</u>	<u>6,380,447</u>

5. **Operating surplus before taxation**

The Corporation's surplus after exceptional item before taxation for the year is stated after charging/(crediting) the following:

	<u>2008</u>	<u>2007</u>
	N'000	N'000
Directors' remuneration	-	6,888
Depreciation	266,253	337,103
Exceptional charge	3,500,000	4,970,176
Exchange loss/(gain)	(33,994)	5,321
Provision for staff pension	607,917	573,488
Provision for actuarial deficit	574,660	-
Auditors' remuneration	18,000	18,000
Provision for doubtful receivables	45,279	207,005
Loss/(profit) on sale of fixed assets	45,368	
	<u>(82,567)</u>	

6. **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 (10) times the authorized share capital and after appropriation of seventy five percent of the net operating surplus before taxation to the General Reserve Fund.

No tax provisions have been included in these financial statements as the General Reserve fund is less than ten times the authorized share capital as at 31 December 2008.

7. Cash and bank balances

Cash and bank balances comprise:

	<u>2008</u>	<u>2007</u>
	N'000	N'000
Balances with the Central Bank of Nigeria	32,691,158	1,043,033
Foreign currencies	313,983	33,692
Cash in hand	59,021	31,401
	<u>33,064,162</u>	<u>1,108,126</u>

8. Investments

Investment comprise:

	<u>2008</u>	<u>2007</u>
	N'000	N'000
Treasury bills – Face value	75,175,418	93,093,692
Unearned income	(2,044,015)	
	(1,940,635)	
	<u>73,131,403</u>	<u>91,153,057</u>
FGN bonds (Note (a))	106,125,834	79,016,637
	<u>179,257,237</u>	<u>170,169,694</u>

(a) Federal Government (FGN) Bonds comprise:

Investment in 8.5%, 2nd FGN Bond, December 2008 series 3	-	10,000,000
Investment in 17%, 2nd FGN Bond December 2008 series 7	-	2,180,000
Investment in 8%, 3 rd FGN Bond, January 2009 series 1	15,000,000	15,000,000
Investment in 12%, 3 rd FGN Bond, January 2009 series 6	-	7,000,000
Investment in 8.5%, 3 rd FGN Bond, January 2011 series 7	-	15,000,000

Investment in 9.25% 4 th FGN Bond, Sept 2014 series 11	7,190,141	7,190,141
Investment in 9.2% 4 th FGN Bond, Nov 2010 series 13	1,731,865	1,731,865
Investment in 9.5% 4 th FGN Bond, February 2012 series 2	4,327,310	4,327,310
Investment in 10.75% 4 th FGN Bond, March 2014 series 3	8,750,000	8,750,000
Investment in 9.23% 4 th FGN Bond, May 2012 series 5	5,000,000	5,000,000
Investment in 9.2% 4 th FGN Bond, June 2014 series 6	1,200,000	1,200,000
Investment in 9.5% 4 th FGN Bond, August 2012 series 10	1,637,321	1,637,321
Investment in 12% 3 rd FGN Bond, April 2009 Series 6	7,000,000	-
Investment in 13.5% 3 rd FGN Bond, April 2011 Series 7	15,000,000	-
Investment in 9.45% 5 th FGN Bond, April 2013 Series 1	12,605,000	- Investment i
Investment in 10.5% 5 th FGN Bond, November 2013 Series 4	2,500,000	-
	<u>106,125,834</u>	<u>79,016,637</u>

9. **Debtors and prepayments**

Debtors and prepayments comprise:

	<u>2008</u>	<u>2007</u>
	<u>N'000</u>	<u>N'000</u>
Financial assistance loans:		
Principal	100,000	100,000
Interest in suspense on financial loans	33,805	33,805
	<u>133,805</u>	<u>133,805</u>
Staff debtors	2,582,678	1,546,650
Prepayments	2,118	14,780
Interest receivable – FGN Bonds	3,376,670	2,190,108
Receivership and liquidation	-	900,481
Staff pension fund	1,523,390	1,548,797
Receivables from government (Note (a))	962,329	962,329
Agent bank suspense account	254,438	254,438
Sundry receivables	130,115	262,365
	<u>8,965,543</u>	<u>7,813,753</u>
Less: Provision for doubtful balances (see note 9(b))	(1,868,672)	(2,635,070)
	<u>7,096,871</u>	<u>5,178,683</u>

a) **Receivables from government:**

Amount relates to receivables in respect of the sale of the Corporation's properties by the Federal Government of Nigeria to staff of the Corporation in line with the Federal Government of Nigeria's monetization policy. The proceeds were collected by the Federal Government of Nigeria in 2006 and have not been remitted to the Corporation. Amounts

have therefore been fully provided in the financial statement.

b) Provision for doubtful balances:

The movement on the provisions for doubtful balances during the year was as follows:

	<u>Other debtors</u> N'000	<u>Staff debtors</u> N'000	<u>Financial assistance loans</u> N'000	<u>2008</u> N'000	<u>2007</u> N'000
				<u>Total</u>	
Balance, beginning of year	2,298,036	203,229	133,805	2,635,070	2,582,833
Charge/(write back)for the year	(262,469)	307,748	-	45,279	207,005
Balances written off	(811,677)	-	-	(811,677)	(154,768)
Balance, end of year	<u>1,223,890</u>	<u>510,977</u>	<u>133,805</u>	<u>1,868,672</u>	<u>2,635,070</u>

10. **Fixed assets:**

(a) The movement in these accounts during the year was as follows:

	<u>Land & building</u>	<u>Generators</u>	<u>Furniture & equipment</u>	<u>Motor vehicles</u>	<u>Capital- work- in -progress</u>	
<u>Total</u>						
N'000	N'000	N'000	N'000	N'000	N'000	
N'000						
Cost:						
Balance, beginning of year	1,500,234	260,307	1,360,392	653,307	222,454	3,996,694
Additions	34,349	3,167	148,032	51,831	48,217	
	285,596					
Disposals	(104,201)	(3,810)	(77,179)	(40,067)	-	(225,257)
Balance, end of year	<u>1,430,382</u>	<u>259,664</u>	<u>1,431,245</u>	<u>665,071</u>	<u>270,671</u>	<u>4,057,033</u>
Accumulated depreciation:						
Balance beginning of year	401,279	138,955	1,112,916	565,719	-	2,218,869
Charge for the year	43,150	36,816	131,323	54,964	-	266,253 Disposals
Balance, end of year	<u>400,389</u>	<u>171,960</u>	<u>1,175,848</u>	<u>580,615</u>	<u>-</u>	<u>2,328,812</u>
Net book value:						
Balance, end of year	<u>1,029,993</u>	<u>87,704</u>	<u>255,397</u>	<u>84,456</u>	<u>270,671</u>	<u>1,728,221</u>
Balance, beginning of year	<u>1,098,955</u>	<u>121,352</u>	<u>247,476</u>	<u>87,588</u>	<u>222,454</u>	<u>1,777,825</u>

(b) The Corporation had an authorized and committed capital of ~~₦~~177,798,000 as at 31 December 2008 (2007:nil)

(c) No leased assets are included in the above fixed assets.

11. **Bank overdraft**

Bank overdraft represents overdrawn current account balance with Central Bank of Nigeria and the overdraft was at no interest to the Corporation. The Corporation had regularized the overdrawn position on the current account balance as at 31 December 2008.

12. Compensation due to insured depositors

- (a) This represents the balance of compensation due to insured depositors of failed banks liquidated to date. Under Section 20 of the NDIC Act, 2006 a depositor is entitled to a maximum claim of N200,000 in the event of failure of a bank. The balance of compensation due to insured depositors during the year was determined using the ₦50,000 (2007: ₦50,000) insurable limit for the 14 banks (2007: 16 banks) in liquidation based on the NDIC Act, No. 22 of 1988 as the obligating event of compensation payment to depositors of the failed banks occurred before enactment of the NDIC Act, 2006.

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

	<u>2008</u> ₦'000	<u>2007</u> ₦'000
Balance, beginning of year	10,658,060	13,841,445
Transfer to deposit insurance fund (see note (b))	(9,143,024)	-
Transfer from deposit insurance fund	1,000,000	-
Payment during the year	(610,000)	(3,183,385)
Balance, end of year	<u>1,905,036</u>	<u>10,658,060</u>

- (b) Amount represents funds transferred to the deposit insurance fund in respect of Savannah Bank Plc and Societe Generale Bank of Nigeria based on the judgment of the court during the year for the reinstatement of the license revoked by the Central Bank of Nigeria. There is therefore no obligation on the Corporation to pay any further compensation.
- (c) According to Section 22 (4(a and b) and 5) of the NDIC Act, 2006, where an insured depositor fails to claim the insured deposit within six years, such sum shall be forfeited to the Corporation.

13. Due to banks

This represents outstanding balance of amounts received from the Federal Government of Nigeria 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. No payment was made during the year (2007: Nil)

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

	<u>2008</u> ₦'000	<u>2007</u> ₦'000
Balance, beginning of year	227,197	212,297

Interest received on funds invested	24,080	14,900
Balance, end of year	<u>251,277</u>	<u>227,197</u>

14. Accounts payable and provision:

	<u>2008</u> N'000	<u>2007</u> N'000
Accrued expenses	470,215	263,414
Withholding taxes and VAT payable	9,990	38,782
National housing funds	2,692	2,008
Unclaimed payments	209,019	197,555
Provisions for taxes	603,351	-
Due to Central Bank of Nigeria	2,230,385	
-		
Other liabilities	35,943	39,488
	<u>3,561,595</u>	<u>541,247</u>

15. Due to staff pension fund

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

	<u>2008</u> N'000	<u>2007</u> N'000
Balance, beginning of year	4,060,469	4,212,828
Provision made during the year	607,917	573,488
Provision for actuarial deficit (see note (a))	574,660	-
Interest on FGN Bonds received on behalf of Pension Fund	185,300	1,499,118
	<u>5,428,346</u>	<u>6,285,434</u>
Payments during the year	(2,181,741)	(2,224,965)
	<u>3,246,605</u>	<u>4,060,469</u>

- (a) The Corporation carried out an actuarial valuation of the Corporation's staff Pension Fund in respect of current and deferred pensioners as at 31 December 2008 which was undertaken by Alexander Forbes Consulting Actuaries Nigeria Limited (Consultant & Actuaries). The valuation disclosed a deficit of N574.66 million in the value of the pension fund. The deficit has been charged to the income and expenditure statement in the current year.

16. **Special insured institutions fund account**

This represent provision for liabilities due to depositors of the insolvent community banks that failed to meet the Central Bank of Nigeria (CBN) deadline to convert to Micro-finance banks (MFBs) by 31 December, 2007.

On 1 January, 2007, the Central Bank of Nigeria inherited 1,259 Community Banks from the National Board on Community Banks (NBCB) to which the Corporation has insurable responsibility by virtue of Section 16 of NDIC Act 2006. A total of 607 of the Community Banks successfully converted to Micro-Finance Banks before the deadline of 31 December, 2007 while the remaining 652 Community Banks had their operating licenses revoked by Central Bank of Nigeria for failure to meet the regulatory requirements for the conversion. The Corporation in prior year made a provision of ₦4.97 billion to cover depositors of these community banks.

During the year, the Corporation conducted on-site examination of the existing Microfinance Banks and Primary Mortgage Institutions (PMI). The examination revealed that nine (9) Primary Mortgage Institutions and four (4) Microfinance institutions were severely under-capitalised with a strong probability to fail. In addition the examination showed that about fourteen (14) Primary Mortgage Institutions were technically insolvent.

In line with its statutory obligations, the Corporation has provided for an additional ₦3.5billion as a probable additional liability that may have to be paid to the depositors of the institutions thus bringing total provision to ₦ 8.47billion as at 31 December 2008.

The executive management are of the opinion that no significant liability will crystallize in excess of the provision recognized.

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

	<u>2008</u> ₦'000	<u>2007</u> ₦'000
Balance, beginning of the year	4,970,176	-
Provision made during the year	3,500,000	
4,970,176		
	<u>8,470,176</u>	<u>4,970,176</u>
Balance, end of year	<u>8,470,176</u>	<u>4,970,176</u>

17. FGN Consolidated Revenue Account

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

	<u>2008</u> N'000	<u>2007</u> N'000
Balance, beginning of the year	1,763,740	-
Transfer from income and expenditure account (see note (a))	4,443,452	
1,763,740		
Payments during the year	(1,763,740)	-
Balance, end of year	4,443,452	1,763,740

- (a) Amount represents a transfer of four-fifth (80%) of the operating surplus after taxation to the FGN consolidated revenue fund by the Corporation in compliance with the provisions of Section 22 of the Fiscal Responsibility Act, 2007.

18. Deposit insurance fund

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

	<u>2008</u> N'000	<u>2007</u> N'000
Balance, beginning of the year	124,423,422	90,179,091
Premium less refund in the year	36,178,615	34,244,331
Transferred from compensation due to insured		

depositors (see note (12a))	9,143,024	-
Transfer to compensation due to insured depositors	(1,000,000)	-
Dividend received from deposit pay-off	267,367	-
	<u>169,012,428</u>	<u>124,423,422</u>
19. Share capital		
Share capital comprise:		
	<u>2008</u>	<u>2007</u>
	N'000	N'000
Authorised:		
5,000,000,000 (2007:5,000,000,000) ordinary shares of N1 each	5,000,000	5,000,000
	<u>2008</u>	<u>2007</u>
	N'000	N'000
Issued and fully paid:		
2,300,000,000 (2007:2,300,000,000) ordinary shares of N1 each paid-up as follows:		
Central Bank of Nigeria	1,380,000	1,380,000
Ministry of Financial Incorporated	920,000	920,000
	<u>2,300,000</u>	<u>2,300,000</u>
20. Other reserves		
Other reserves comprise:		
	<u>2008</u>	<u>2007</u>
	N'000	N'000
Transfer to motor vehicle insurance sinking fund (See note (a))	100,000	
100,000		
Transfer to group life insurance sinking fund (See note (b))	100,000	
100,000		
	<u>200,000</u>	
	<u>200,000</u>	

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

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 that replacement of all accidented vehicles are to be funded through a motor vehicle insurance sinking fund. The Directors also approved that this fund be built up to a maximum of N100 million.

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

In the year 2006, the Corporation's executive committee recommended that a group life insurance sinking fund be opened and built to a maximum of N100 million. The fund was opened and funded from appropriation of surplus from income and expenditure account in 2006 financial year.

21. **General reserve fund**

The movement of this account during the year is as follows:

	<u>2008</u>	<u>2007</u>
	N'000	N'000
Balance, beginning of year	26,645,059	26,204,124
Transfer from income and expenditure account	1,110,863	440,935
Balance, end of year	<u>27,755,922</u>	<u>26,645,059</u>

22. **Contingent liabilities**

Contingent liabilities comprise:

<u>2008</u>	<u>2007</u>
N'000	N'000

Pending litigations (see note (a))	1,903,498	15,178,000
	<u>1,903,498</u>	<u>15,178,000</u>

- (a) This represents 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 crystallize from these litigations.
- (b) The Corporation has not identified any distressed or technically insolvent bank during the year (2007: nil). Accordingly no contingent liabilities exist as at 31 December 2008.

23. Adjusted operating surplus before changes in assets and liabilities

	<u>2008</u> N'000	<u>2007</u> N'000
Operating surplus after exceptional item but before taxation	5,554,315	2,204,675
Adjustment to reconcile surplus after exceptional item but before taxation to net cash flow from operating activities:		
- exceptional item	3,500,000	4,970,176
- depreciation	266,253	337,103
- Loss/(profit) on disposal of fixed assets	45,369	(82,567)
- provision for doubtful accounts	45,279	207,005
- provision for additional tax	603,351	-

- provision for staff pension	607,917	
573,488		
- provision for actuarial deficit	574,660	-
Net cash flow before changes in operating activities	11,197,144	8,209,880
24. Changes in assets and liabilities		
Increase in operating assets		
	2008	2007
	₦'000	₦'000
Debtors and prepayments	(1,963,467)	(1,498,341)
Increase/(decrease) in operating liabilities		
- Compensation due to insured depositors	(610,000)	(3,183,385)
- Due to banks	24,080	14,900
- Accounts payable	2,416,997	97,626
- Due to staff pension fund	(1,996,441)	(725,847)
	(2,128,831)	(5,295,047)

25. **Cash and cash equivalents**

Cash and cash equivalents comprise

	<u>2008</u>	<u>2007</u>
	N'000	N'000
Cash and bank balances	33,064,162	1,108,126
Bank overdraft	-	(2,444,958)
	<u>33,064,162</u>	<u>(1,336,832)</u>
	<u><u>33,064,162</u></u>	<u><u>(1,336,832)</u></u>

26. **Comparative figures**

Certain comparative figures have been restated to conform with current year's presentation as presented below:

(i) Investments

	<u>2007</u>
	N'000
Balance as previously reported	172,110,329
Reclassification from unearned income	(1,940,635)
	<u>170,169,694</u>
	<u><u>170,169,694</u></u>

Value Added Statement

For the year ended 31 December 2008

	<u>2008</u>	%	<u>2007</u>	%
	N'000		N'000	
Income	17,164,098		13,555,298	
Less:				
Bought-in-materials and services				
- Local	(5,774,345)		(6,475,421)	
- Imported	-		(52,727)	
Value added	<u>11,389,753</u>	<u>100</u>	<u>7,027,150</u>	<u>100</u>
Applied as follows:				
To pay employees' wages, salaries and other benefits	5,569,185	49	4,485,372	64
To pay provider of funds:				
Dividend to shareholders	-	-	-	-
To pay Government				
Taxation	-	-	-	-
Transfer to FGN consolidated revenue fund	4,443,452	39	1,763,740	25
To provide for maintenance of assets:				
Depreciation	266,253	2	337,103	5
Retained surplus for the year	1,110,863	10	440,935	6
	<u>11,389,753</u>	<u>100</u>	<u>7,027,150</u>	<u>100</u>

Value added represents the additional wealth the Corporation has been able to create by its own and employees' efforts. This statement shows the distribution of the wealth created by the Corporation and the allocation of that wealth amongst employees, government and that retained for future creation of more wealth.

Five Year Financial Summary

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
	N'000	N'000	N'000	N'000	N'000
Cash and bank balances	33,064,162	1,108,126	3,110,091	281,118	607,519
Investment – treasury bills	179,257,237	170,169,694	131,059,792	111,600,372	87,754,908
Debtors and prepayments	7,096,871	5,178,683	3,887,347	2,373,107	2,255,739
Call in arrears	-	-	-	102,500	102,500
Fixed assets	1,728,221	1,777,825	1,834,962	2,069,150	4,001,600
	<u>221,146,491</u>	<u>178,234,328</u>	<u>139,892,192</u>	<u>116,426,247</u>	<u>94,722,266</u>
Bank overdraft with CBN	-	2,444,958	-	-	-
Compensation due to insured depositors	1,905,036	10,658,060	13,841,445	28,928,733	8,187,628
Due to banks	251,277	227,197	212,297	192,578	173,558
Accounts payable and provisions	3,561,595	541,247	443,621	729,824	1,413,251
Due to staff pension fund	3,246,605	4,060,469	4,212,828	4,840,544	1,144,526
FGN consolidated revenue fund	4,443,452	1,763,740	-	-	-
Special insured institutions fund account	8,470,176	4,970,176	-	-	-
Unearned income	-	-	2,298,786	2,790,173	2,171,809
Taxation	-	-	-	-	-
Share capital	2,300,000	2,300,000	2,300,000	2,300,000	2,300,000
Other reserves	200,000	200,000	200,000	83,523	83,523
General reserve fund	27,755,922	26,645,059	26,204,124	21,834,181	21,652,813
Deposit insurance fund	169,012,428	124,423,422	90,179,091	54,726,691	57,595,158
	<u>221,146,491</u>	<u>178,234,328</u>	<u>139,892,192</u>	<u>116,426,247</u>	<u>94,722,266</u>
Contingent liabilities	<u>1,903,498</u>	<u>15,178,000</u>	<u>26,233,091</u>	<u>20,445,114</u>	<u>54,774,085</u>
Gross earnings	<u>17,164,098</u>	<u>13,555,298</u>	<u>11,520,016</u>	<u>8,437,716</u>	<u>11,585,113</u>
Operating surplus	<u>5,554,315</u>	<u>2,204,675</u>	<u>4,486,420</u>	<u>181,368</u>	<u>5,771,778</u>

Section 9

The Operating Environment

9.0 Introduction

The environment in which insured banks operated in 2008 continued to be shaped by the government economic policies/reform programmes aimed at sustaining the momentum of macroeconomic growth and stability. During the year, the implementation of those reform programmes continued to exert significant influence on the different sectors of the economy including the banking sector. Within three years of the banking consolidation programme, Nigerian banks from available statistics had expanded their operations to several African countries and even outside the continent. However, concerns were expressed about credit boom and consequential deterioration of asset quality of insured institutions and what that portended for the health of the industry and the economy.

As in the previous year, the implementation of the 2008 federal budget faced significant challenges because of its late passage. Nonetheless, steps were taken by the government to ensure macroeconomic stability

even in the face of global economic meltdown which adversely affected the price of crude oil in the international market. During the year, inflation rate slipped into double digits whilst the nation's external reserves position increased marginally compared with what was recorded in the corresponding period of 2007.

On the socio-political scene, the judiciary continued to play a major role in deepening and broadening the political space with landmark judgments in respect of the 2007 general elections. During the period under review, the restiveness in the Niger Delta region was further heightened by the kidnapping of both Nigerian and foreign nationals for ransom by the militants in the region. Presented in this section is a review of the operating environment for insured banks in 2008, including a brief review of the nation's banking system during the year.

9.1 Regulatory Environment

As in the previous year, the CBN during the year under review, pursued its primary mandate of maintaining monetary and price stability. The apex

bank's monetary operations relied on the lending and deposit facilities anchored on the Monetary Policy Rate (MPR). That was complemented with Open Market Operations (OMO), sale of foreign exchange through the Wholesale Dutch Auction System (WDAS), reserve requirements and auction of treasury securities in the primary market. The CBN during the period under review took some damage-control measures to stabilize the Nigerian banking system in view of the prevailing global financial crisis.

9.1.1 Monetary Policy For 2008

The major objectives of Monetary Policy in 2008 remained the same as in the previous year. Attention of the CBN was on overcoming the likely liquidity overhang and maintenance of macroeconomic stability with seeking to maintain a single digit inflation rate. Other objectives included gradual reduction in the cost of borrowing by private sector investors through reduced interest rates as well as maintenance of monetary and exchange rate stability. In order to achieve the aforementioned objectives, the major policy measures in 2008 were as follows:

9.1.1.1 Liquidity Management Measures

The framework for monetary policy management in 2008 remained that of monetary targeting. The CBN adopted various policy measures aimed at containing the growth of monetary aggregates in order to achieve monetary and price stability. Open Market Operations (OMO) remained the major tool of liquidity management. The liquidity ratio (LR), one of the complementary liquidity measures, was reduced from 40% in 2007 to 30% in 2008 at the outset of the global financial crisis so as to enhance the liquidity profile of banks.

Other policy measures included increased issuance of treasury securities in the primary market to mop up excess liquidity; use of deposit and lending facility to ameliorate the impact of the global financial crisis as well as special sales of foreign exchange. Nigeria Treasury Bills (NTBs) of various tenors were auctioned during the year while the CBN allowed repo transactions against eligible securities for 90 days, 180 days and 360 days.

The MPR was reviewed thrice in 2008. The first was in April 2008 when it was reviewed upwards by 50 basis points, from 9.5 per cent to 10.0 per cent. The second was in June 2008 when the MPR was raised by 25 basis points, from 10.0 to 10.25 per cent. The last was in September 2008 when the MPR was reduced by 50 basis points, from 10.25 to 9.75 per cent.

In addition to the adjustment of the MPR, the CBN also reviewed the Cash Reserve Requirement (CRR) twice in 2008. The first was in June 2008 when it was increased by 100 basis points from 3.0 per cent to 4.0 per cent while the second, was in September 2008 when the CRR was reduced by 200 basis points from 4.0 per cent to 2 per cent. The liquidity management efforts of the CBN aimed at achieving price stability could not achieve much during the year under review largely as a result of the oil price shock and the observed short supply of some staple food items.

9.1.1.2 Interest Rate Policy

In 2008, the CBN retained the policy of market-based interest rate with decisions on interest rate reviewed on a quarterly basis. The anchor rate, which was the Monetary Policy Rate (MPR) as earlier noted, was reviewed thrice during the year to ensure the smooth functioning of the financial markets and the economy in general.

9.1.1.3 Exchange Rate Policy

The major Exchange Rate policy that was implemented in 2008 was the Wholesale Dutch Auction System (WDAS). During the year, series of measures and strategic initiatives such as increased supply of foreign exchange to all markets and removal of restrictions on foreign exchange transactions were adopted by the apex bank to support its objectives of enhancing efficiency in the Foreign Exchange Market through market determination of Naira exchange rate. However, the sustained stability that

had characterized the foreign exchange market came under threat as the Naira exchange rate witnessed a sharp depreciation in December 2008 following the oil price collapse and reduced foreign exchange inflow to the economy which constrained its supply to the market and which left the CBN (the main source of foreign exchange) with very limited quantum of the resource.

9.1.2 Other Regulatory Developments in 2008

During the year, various Circulars/Guidelines were issued by the nation's regulatory agencies to guide the operations of insured banks. There were also other regulatory developments in the banking sector. Some of the notable ones are discussed below:

9.1.2.1 Directives To Banks To Submit Returns On Interest Rates on Deposits and Loans

In a circular dated December 15, 2008 addressed to all banks, the CBN observed that some banks were not submitting returns on interest Rates on

Deposits and loans to the apex bank on time to enable it publish the rates in the Newspapers as earlier agreed with all stakeholders.

Banks were therefore reminded to submit that information to the CBN on or before the 5th day after the month end to which it related and to also publish same on their websites. Where the 5th day fell on a weekend or a public holiday, the returns were to be submitted on the working day that preceded the week-end or public holiday. Banks that failed to comply with the directive were to be penalized accordingly.

9.2.1.2 CBN Kicked Against Monopoly in Money Transfer Business

The CBN in a circular dated 20th November, 2008 called for an end to the inclusion of exclusivity clauses in the agreement between International Money Transfer Operators and their agent banks in Nigeria. The CBN therefore directed banks wishing to enter into fresh agreements with the respective money transfer firms not to include such clauses in their agreements, warning that a violation of the directive would lead to outright

rejection of the entire agreement by the CBN. The Circular which was addressed to all deposit money banks, also directed banks with existing contracts with money transfer firms to expunge such controversial clauses from their agreements with immediate effect.

The CBN directive could be seen as a direct response to complaints of bank customers over the high cost of money transfer in the country. It was also expected to engender competition and allow participating banks to enter into agreements with multiple registered International Money Transfer operators.

9.2.1.3 Regulatory Forbearance For Margin Loans

The CBN, as a means of mitigating the repercussion of the capital market meltdown on banks permitted banks with large portfolio of margin facilities to restructure such facilities for a longer period. Some of the facilities which had, however, fallen due for repayment, were still outstanding due to the crash in stock prices on the floor of the Nigerian Stock Exchange

(NSE). The persistent downward slide in the price of stocks had made it difficult for many investors to meet their loan obligations. Hence to ease the difficulty, the CBN through a circular dated October 2, 2008 directed banks to restructure margin loans for a longer period between October 2008 and December 31, 2009. That forbearance was specifically for loans made either for the purchase of shares or for stock trading.

9.2.1.4 Cancellation Of Common Accounting Year End For All Banks And Discount Houses

During the year under review, the CBN issued a circular to all banks and discount houses informing them of the cancellation of the common accounting year-end requirement. It would be recalled that the CBN through its earlier circular ref: BSD/DIR/GEN/VOL2/004 of May 16, 2008 had conveyed the agreement reached at the Bankers' Committee meeting of January 2008 to adopt December 31st as common accounting year-end for banks and discount houses in Nigeria, starting in 2008.

The commencement of that policy in the industry was however postponed through a follow-up circular ref: ***BSD/DIR/GEN/CIR/VOL.2/006*** of July 31, 2008 as a result of the observed unhealthy trend/developments in the industry whereby some banks were mobilizing deposits at very high interest rates that were inconsistent with economic fundamentals which was becoming a threat to market stability.

9.1.2.5 Inauguration Of The Committee Of Microfinance Banks In Nigeria

During the year, the CBN inaugurated a body called “Committee of Micro-Finance Banks in Nigeria (Combin)” to champion the cause of microfinance institutions in Nigeria. The committee which had been fashioned after the Bankers’ Committee was to provide a forum for advocacy and ethical conduct for all the licensed micro-finance banks (MFBs) in the country. The Committee was made up of all Managing Directors and Chief Executives of MFBs as well as officials of the Nigeria Deposit Insurance Corporation (NDIC), the Corporate Affairs Commission (CAC) and the CBN. The inauguration of the Micro-Finance Bank

Committee was expected to create an environment where all issues relating to information sharing and capacity building for practitioners would be discussed as a means of addressing the challenges facing the industry.

9.1.2.6 Harmonisation Of Clearing Cycles Of Banks To Three Working Days

During the year, the CBN harmonized the clearing cycles of banks to three working days. It would be recalled that on 2nd July 2007, the Central Bank of Nigeria, in collaboration with the Bankers' Committee, reduced up-country payment instruments' clearing cycle from six working days (T+5) to four working days (T+3). In order to build on the success of that reduction, the CBN informed the general public that up-country clearing cycle had been merged with local clearing cycle with effect from 5th May 2008. From that date, there would be three (3) working days uniform clearing cycle for the country thus ending the dichotomy between up-country and local clearing cycles.

The decision to harmonise the clearing cycles to three working days was based on the positive outcome of earlier reforms in the banking system, especially the consolidation exercise and the observed widespread adoption of automation in the banking system. The harmonization exercise was expected to positively impact business processes as the waiting period for the receipt of value for instruments lodged in banks was reduced and uniformly applied nationwide.

9.1.2.7 New Conditions Set For Foreign Banks

During the year under review, the CBN set new conditions for foreign banks wishing to merge with or acquire any of the existing local banks. Under the new regulation being considered, any foreign bank coming into the country to take up a banking licence or desiring to merge with or acquire any of the local banks must have operated in Nigeria for a minimum period of five years. If a group of foreign institutions decided to invest in any local bank, the aggregate investment must not be more than 10 percent of the latter's total capital.

In a situation where a single foreign investor invested in a local bank, such investment should not exceed the holding of the largest Nigerian shareholder. Also, to qualify for merger or acquisition of any of Nigeria's local banks, the foreign bank must have achieved a branch network of two-thirds of the states of the federation. That, in a nutshell, meant that the foreign bank must have branches in at least 24 out of the 36 states of the federation.

9.2 Macroeconomic/Socio-Political Environment

In 2008, macroeconomic outcomes weakened slightly relative to the previous year due largely to the global financial crisis and the attendant economic slowdown. The recession which was prevalent in 2007 in industrialized economies deepened in 2008. Also there was a fall in capital flows into Nigeria through remittances and foreign investments as well as the drying up of credit lines for Nigerian banks.

There was a worsening of inflation outcome in 2008 compared with the previous year. Inflation rate slipped into double digit from end of June 2008. Year-on-year inflation rate which was 6.6 per cent as at end December 2007 was within the range of 7.8 per cent and 9.7 per cent between January and May 2008. However, it rose to 12.0 per cent in June 2008 and peaked at 15.1 per cent in December 2008. That development was attributable to increased liquidity injections by the various tiers of government as well as increases in the prices of some staple food items, transportation and miscellaneous services. Other reasons included the effects of the global financial crisis as well as the depreciation of the Naira Exchange Rate.

There was a steady appreciation in the Naira exchange rate, particularly between the months of July and November 2008. As shown in Table 9.1, the effective Naira exchange rate at the WDAS appreciated from N117.76/US\$1 in June to N116.60/US\$1 in August and further to N115/US\$1 in October 2008. However, the sustained stability that had

characterized the foreign exchange market came under threat as the Naira exchange rate witnessed a sharp depreciation from N116.56/US\$1 in November to N131.25/US\$1 in December 2008. The depreciation was caused by the sharp and persistent fall in both the price and the quantity of crude oil, which was the nation’s main foreign exchange earner and by the perceived negative impact of the global financial crisis. The reduced foreign exchange inflow to the economy constrained supply to the market leaving the CBN as the main source of foreign exchange. The trend of the Naira exchange rate in 2008 is presented in Table 9.1.

TABLE 9.1
NAIRA EXCHANGE RATE (N/US \$)

JANUARY-DECEMBER 2008

MONTH	WDAS	BUREAU DE CHANGE	PARALLEL MARKET
JANUARY	117.73	118.98	119.38
FEBRUARY	117.98	118.75	119.75
MARCH	117.26	118.44	119.40
APRIL	117.65	118.70	119.50
MAY	117.85	119.0	120.0
JUNE	117.76	118.68	119.20
JULY	116.62	119.13	119.80
AUGUST	116.60	118.25	118.88
SEPTEMBER	116.56	118.53	119.0
OCTOBER	115.81	117.59	118.0
NOVEMBER	116.56	117.60	118.0
DECEMBER	131.25	137.00	138.0
AVERAGE	118.30	120.10	120.74

Sources: CBN, NDIC Market survey of Bureau de Change and Parallel market

During the year, crude oil production in the country continued to be adversely affected by the activities of militants in the Niger-Delta area. However, while crude oil production declined significantly, Nigeria's foreign reserves grew as a result of rising oil prices which reached an all time high of US\$147.27 per barrel in July 2008. Nigeria's gross external reserves as at the end of 2008 amounted to US\$52.82 billion representing an increase of US\$1.49 billion or 2.9% when compared with

US\$51.33billion recorded at the end of the previous year. The external reserves position could have been much higher but for the sharp decline in commodity prices, particularly the sharp drop in oil prices to about US\$50/barrel in the second half of 2008 occasioned by the global economic recession.

Banking system credit to the private sector maintained an upward trend for a greater part of 2008. Credit to the private sector as at the last quarter of 2008 relative to the level at end-December 2007 grew by 59.5 per cent compared with the target of 54.7 per cent. That development reflected the increase in claims on the private sector during the year. Over its December 2007 level, M2 grew by 58.0 per cent compared with the target of 45.0 per cent for fiscal 2008. The increase in M2 was attributed wholly to the 27.0 per cent rise in credit to the domestic economy (net).

Nominal interest rate remained high during the year under review. Available data indicated a general increase in banks' deposit and lending rates especially in the last quarter of 2008. As a result, the costs of production and funding were high. Average interest rates for major financial instruments during the year under review are as presented in Table 9.2.

TABLE 9.2
AVERAGE INTEREST RATE (%)
JANUARY- DECEMBER, 2008

Month	Saving Account	Time Deposit					Prime Lending	MPR	T-Bills rate	FGN Bond
		7-Day	1-Month	3-Month	6-Month	12-Month				
January	6.3	11.2	13.1	13.5	13.2	13.1	24.0	9.5	9.0	9.0
February	6.3	11.0	13.4	13.6	13.2	13.2	24.0	9.5	8.9	9.0
March	6.3	11.9	13.9	13.4	13.6	13.7	24.0	9.5	8.5	9.0
April	6.3	10.32	13.17	13.7	13.7	13.9	24.0	10	9.0	9.7
May	6.3	11.32	13.5	13.9	14.3	14.4	24.0	10	9.3	9.6
June	6.3	11.2	13.7	14.1	14.5	14.6	24.0	10.25	9.2	10.7
July	6.3	10.5	13.5	14.3	14.5	14.5	24.0	10.25	9.46	10.7
August	6.3	13.58	16.04	16.29	16.0	14.83	24.0	10.25	9.6	10.7
September	6.3	15.58	17.21	16.75	16.0	16.46	24.0	9.75	9.44	10.7
October	6.25	15.04	15.54	15.04	16.08	16.08	24.0	9.75	9.30	10.7
November	6.25	18.79	18.96	18.88	18.42	18.38	24.0	9.75	8.96	10.7
December	6.25	14.25	16.75	17.00	17.00	17.04	24.0	9.75	8.96	10.7
Average	6.29	12.89	14.90	15.04	15.04	15.02	24.0	9.85	9.14	10.1

Sources: Bank Returns and CBN Research Department

As evidenced in Table 9.2, interest rates on different classes of deposits witnessed a little upswing and downswing. They were, however, generally stable during the period under review. That stability could be partly ascribed to the efforts of the monetary authorities to control the price, volume and supply of money to the economy.

Savings rate during the year hovered around 6.3 per cent. As shown in Table 9.2, rates on 7-day, one-month, three-month, six-month and 12-month deposits averaged 12.89%, 14.9%, 15.04%, 15.04% and 15.02% respectively in 2008. The Prime Lending Rate (PLR) for the entire year averaged 24%. The spreads between the averages of all the deposit rates and the PLR were very high throughout the period under review. That meant government's efforts at moderating the spread between deposits and lending rates were not very successful.

The Nigerian capital market started the year 2008 with increased tempo of activities. However, that did not last as the market fell into a period of continued bearish trend from April 2008. That situation lingered till the end of the year. The change in investor's appetite was attributable to a number of factors. Some of those factors included over-leveraged positions of many of the stock brokers; uncertainty about margin lending by the banks; persistent depreciation of stock values; healthy returns offered by the renewed interest in alternate asset classes such as property;

general investor fatigue; and reduced international investor interest due to global market turmoil.

Government in response to the stock market crisis introduced a number of measures aimed at ameliorating the situation. Some of those measures included reduction of fees charged by the Securities and Exchange Commission (SEC) and the Nigerian Stock Exchange (NSE) by 50% as well as review of the NSE trading rules and regulations among others. The measures did not stop the downward trend in the market. Thus, the All-share Index (ASI), the value-based common index that measures changes in the prices of all quoted companies on the two tiers of the Nigerian Stock Exchange (NSE), which closed at its all time high of 57,990.22 points in 2007, had by December ending 2008 declined to 31,450.78 points (1984=100). That represented a decrease of 26,539.44 points or 45.77 per cent. Market Capitalization of all quoted companies also declined by N3.18trillion or 31.24 per cent to close at a low of N7.0 trillion by December 2008 compared with the value of N10.18

trillion as at the end of December 2007. The development was attributed largely to the price losses recorded by the highly capitalized companies in the banking and insurance sub-sectors.

Notwithstanding the global downturn, Nigeria's economic growth during the period under review remained on track, buoyed by the strong performance of the non-oil sector. Growth in that sector, particularly in agriculture, remained satisfactory, at an estimated 9 per cent. However, the oil sector's contribution to GDP fell in 2008 by about 2.5 per cent due to reduced production levels precipitated by the problem in the Niger Delta. Overall, Nigeria's GDP at 1990 basic prices showed a growth rate of 6.41 per cent in 2008 compared to the 6.45 per cent achieved in the previous year.

On the socio-political scene, the judiciary continued to play a major role in deepening and broadening the political landscape with landmark judgments in respect of the 2007 general elections. The political environment in the

nation remained relatively stable and the Economic and Financial Crimes Commission (EFCC) continued with its anti-corruption war.

In 2008, the Niger-Delta region of the country continued to attract world attention, in view of the general state of insecurity of lives and property, particularly of oil workers. The spate of attacks on oil production facilities and the kidnapping of both Nigerian and foreign nationals for ransom persisted and took a toll on oil production, the growth of the nation's petroleum sector and the government revenue as well as foreign exchange earnings. However, it was reassuring to note that during the period, the Federal Government took several initiatives aimed at addressing the concerns of the people to ensure sustainable peace in the region. Some of those initiatives included convening of the Niger Delta Stakeholders' Forum and the establishment of the Niger Delta Ministry.

The poor state of the nation's infrastructure in 2008 impacted negatively on the cost of doing business. Power supply remained epileptic with

estimated average electricity generation and consumption standing at 2,833.3MW/h and 2,472.9MW/h respectively in December 2008. In order to ameliorate the poor power supply situation, the Federal Government continued with the reforms of the power sector and rehabilitation of power plants across the nation during the period under review.

9.3 Banking Industry Review And General Performance

The nation's banking industry had begun to enjoy the dividends of the banking consolidation policy. That had significantly impacted on the depth and financial intermediation capacity of the industry. The reforms had also created a financial services infrastructure consistent with the needs of a fast-growing economy, especially one with growing international trade linkages.

During the year, a number of banks continued the pursuit of their domestic and regional expansion programmes with some of them opening branches

in several African countries. The industry during the review period continued to witness heightened competition for deposits with total banks' branch network growing from 4,579 in 2007 to 5,134 in 2008. The industry also witnessed a corresponding growth in non-traditional banking delivery channels with IT-based services increasingly complementing branch banking.

As shown in Table 9.3, total assets of the industry grew by 136.6% between December 2006 and December 2008. Growth in total deposit liabilities was about 62% which was higher than the 57% 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.

Table 9.3
Key Macroeconomic Indicators

Macroeconomic	2003	2004	2005	2006	2007	2008
---------------	------	------	------	------	------	------

Indicator						
Gross Domestic Product (N'b at Current Market Prices)	7,191.05	8,563.3	14,572.24	18,222.8	22,907.31	23,842.1
No. of Banks	89	89	25	25	24	24
Inflation	23.8	15.0	11.9	8.5	6.6	15.1
Total Deposits of Banks (N'billion)	1,415.8	1,814.75	2,469.07	3,412.3	5,357.2	8,702.0
Ratio of Total Bank Deposits to GDP%	19.7	21.2	16.9	18.9	23.29	33.34
Total Assets of Banks - inclusive of Off-Balance Sheet Engagements (N'billion)	3,365.2	4,046.00	5,463.1	8,140.2	13,011.60	19,261.02
Ratio of Total Assets Of Banks to GDP (%)	46.8	47.3	37.5	44.7	56.8	66.62
Total Loans and Leases of Banks (N'Billion)	1,205.03	1,145.7	1,832.18	2,840.1	4,676.34	7,411.43

Source: Bank Returns to NDIC and The CBN

Section 10

Financial Condition of Insured Banks In 2008

10.0 Introduction

In spite of the global financial crisis which hit major economies in 2008 and the near collapse of the domestic stock market, the nation's banking industry enjoyed a steady growth during the period under review. The industry recorded an appreciable growth of 46.56% in total assets from N10.47 trillion in December, 2007 to N15.34 trillion in December, 2008 (the figure was exclusive of Off-Balance Sheet (OBS) Engagements). The OBS engagements of banks grew by 51.81% from N2.58 trillion in 2007 to N3.92 trillion in 2008. Asset quality witnessed a seeming improvement as the ratio of non-performing credits to total credits reduced from 8.30% in 2007 to 6.25% as at the end of 2008. However, if the forbearance granted by the CBN on banks' exposure to the capital market was factored into the appraisal of asset quality, the net position would have reflected a deterioration of banks' asset portfolio. The total deposits of insured banks which accounted for more than fifty percent of the industry's liabilities increased by 62.27% from N5.36 trillion to N8.70

trillion as at the end of 2008, whilst shareholders' funds increased by 62.91 % from N1.712 trillion in December 2007 to N2.789 trillion as at the end of December 2008.

Unlike in the preceding year, the performance of insured banks, proxied by profitability, slightly declined in 2008. Whereas the profit before tax (PBT) was N619.96 billion as at the end of 2007, by 2008 year-end, it had gone down to N603.88 billion. Indeed, PBT would have been further reduced if adjusted for banks' exposure to the capital market.

In this section, we provide an analysis of the financial condition and performance of insured banks in 2008.

10.1 Capital Adequacy

During the period under review, industry shareholders' funds increased by 62.91% from N1.712 trillion in December 2007 to N2.789 trillion by the end of December, 2008. That significant increase was expected as the

proceeds of some of the banks that accessed the capital market in 2007 were brought into their balance sheet in 2008. In spite of the significant increase in shareholders' funds, the average capital to risk-weighted asset ratio in the system only increased slightly from 20.94% in 2007 to 21.91% in 2008. That was due to an increase of 56.64% in risk-weighted assets compared to a larger increase in total qualifying capital of about 63.91%. Two (2) banks recorded capital adequacy ratio of less than 10%. The position would be materially different if adjustment was made for banks' exposure to the capital market. Table 10.1 presents some statistics on insured banks' capital adequacy as at December 31, 2008 with comparative figures for the previous year.

TABLE 10.1
INSURED BANKS' CAPITAL ADEQUACY

Capital Adequacy Indicators	Year	
	2007*	2008
Total Qualifying Capital (N billion)	1,710	2,802
Capital to Risk Weighted Asset Ratio (%)	20.94	21.91

Number of Banks	24	24
-----------------	----	----

*** Revised figure**

Source: Bank Returns

10.2 Asset Quality.

The economy witnessed a significant growth in total credits extended by universal banks in 2008 just like in the preceding year. Like in the 2007, the major reasons for the growth could be adduced to increased shareholders' funds, significant deposit growth through expanded branch network. The total credit granted by insured banks increased by 58.33% from N4.68 trillion to N7.41 trillion between December 2007 and December 2008. Following the same trend in the growth in credit, insured banks' non-performing credits increased by about 19.46% over the one year period: from N387.99 billion in December 2007 to N463.49 billion in December 2008. The Corporation is conscious of the risks associated with credit boom and would closely monitor banks' credit portfolio in order to protect depositors' interest. Table 10.2 presents some statistics on the asset quality of insured banks for 2007 and 2008.

TABLE 10.2
ASSET QUALITY OF INSURED BANKS

Item	Year	
	2007*	2008
Total Credit(N billion)	4,676.34	7,411.43
Non-Performing Credit (N billion)	387.99	463.49
Shareholders' Funds (N billion)	1,712	2,789
Ratio of Non-performing Credit to Total Credit (%)	8.3	6.25
Ratio of Non-performing Credit to Shareholders' Funds (%)	22.66	16.62

Source: Bank Returns

* Revised

The asset quality of insured banks in 2008 relative to what obtained in the year 2007 is further illustrated in Charts 10A and 10B.

CHART 10A
Proportion of Non-Performing Credits to Total Credits

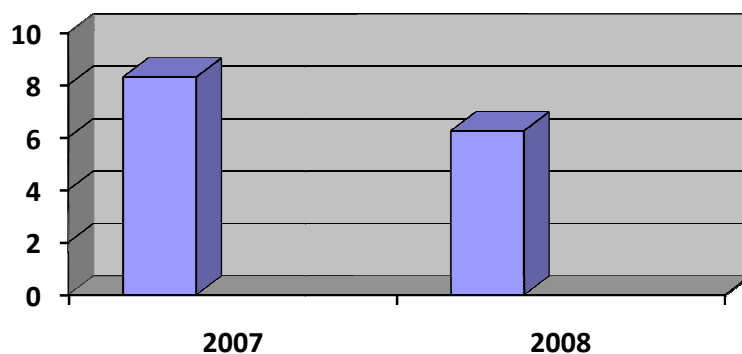
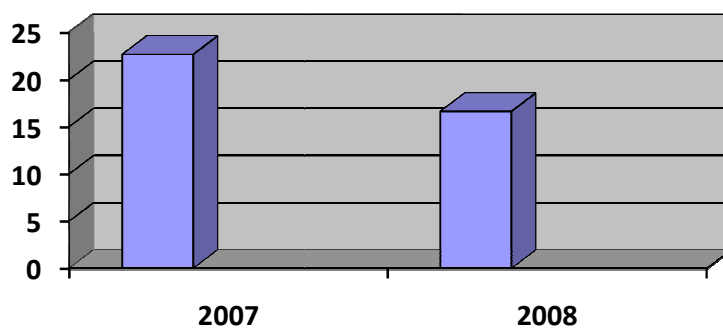


CHART 10B
Ratio of Non-performing Credits to Shareholders' Funds



10.3 Earnings and Profitability.

Notwithstanding the significant growth in total credits and total deposit liabilities witnessed in the industry in 2008, earnings and profitability

declined during the year. Presented in Table 10.3 are the earnings and profitability indicators of insured banks in 2008 with comparative figures for 2007. As evidenced in the table, there were increases in both income and expenditure components with the former growing at a lower rate. Net Interest income rose by 6.98 per cent from =N=905.11 billion in 2007 to =N=968.33 billion in 2008. The non-interest income, as shown in the table, increased by 12.26 per cent from =N=585.09 billion to =N=656.81 billion during the same period. Recoveries from delinquent facilities showed an appreciable increase of 51.85% from N22.937 billion to N34.830 billion over the same period. Operating expenses rose by 18.14 percent from N891.332 billion at the end of 2007 to N1.053 trillion at the end of 2008. Given the higher increase in expenses, relative to income, the industry's total profit before tax, declined marginally by 2.6 percent from N619.96 billion in 2007 to N603.88 billion as at the end of 2008.

That position reflected on return on assets which declined from 5.92 percent in 2007 to 3.94 percent in 2008. In the same vein, return on

equity also decreased from 36.83% to 22.12% during the period under review.

TABLE 10.3
EARNINGS AND PROFITABILITY INDICATORS

Indicators	Year	
	2007*	2008
Profit before tax (N billion)	619.16	603.88
Interest Income(Net) (N billion)	905.11	968.33
Non-interest Income (N billion)	585.09	656.81
Interest Expenses (N billion)	598.04	798.54
Operating Expenses (N billion)	891.33	1025.99
Yield on Earning Assets (%)	20.58	16.65
Return on Equity (%)	36.83	22.12
Return on Assets (%)	5.92	3.94

* Revised figures

Source: Bank Returns

10.4 Liquidity Profile

In response to the possible adverse consequences of the global financial crisis, the CBN reduced the required minimum liquidity ratio from 40% to

30% in 2008. The apex bank also provided expanded discount window facilities for banks that might require liquidity support. Table 10.4 presents the liquidity profile of insured banks in 2007 and 2008. As evidenced in the table, the industry's average liquidity ratio declined sharply from 64.83% as at the end of 2007 to 44.17% by the end of 2008. That was a decrease of 20.66 percentage points when compared with what obtained in 2007. Loans to deposit ratio was almost at par in both years.

TABLE 10.4
LIQUIDITY RATIO OF INSURED BANKS AS AT DECEMBER 31, 2007 AND 2008

Items	Year	
	2007*	2008
Average Liquidity Ratio (%)	64.83	44.17
Loans And Advances to Deposit Ratio (%)	81.02	80.84
No. of Banks with less than the 40% minimum Liquidity Ratio	2	2

*Revised

Source: Central Bank of Nigeria & Bank Returns

Also, as in the preceding year, two (2) insured banks did not meet the minimum liquidity ratio as at December 2008.

10.5 Soundness of the Banking Industry.

Insured banks' financial condition was generally satisfactory during the year under review in spite of the global financial meltdown and the turmoil in the domestic stock market. Out of the 24 banks in the industry as at the end of 2008, twenty-one (21) were rated sound and/or satisfactory, two (2) marginal and one (1) was rated unsound just like the preceding year. The market share of assets, credits and deposits of the unsound bank represented 0.84%, 1.64% and 1.40% of the industry's total respectively. The two marginal banks' total market share of assets, credits and deposits were 3.3%, 3.75% and 3.96% of the industry total respectively. The three banks accounted for less than 5% of industry statistics and posed no threat to the financial soundness of the industry.

Section 11

Balance Sheet Structure Of Universal Banks In 2008

11.0 Introduction

The balance sheet of a bank gives an idea as to what the bank owns and owes as well as the amount invested by the owners of the bank. It provides information to the regulatory authorities and the general public for evaluating the financial health of a bank. The balance sheet enables the

managers and shareholders of a bank to plan future policies and control the assets and liabilities so as to increase the returns on investment and on equity of the owners. Presented in this section is the balance sheet structure of insured banks in 2008 (compared with that of 2007), with particular emphasis on changes in the Structure of Assets and Liabilities, Shareholders' Funds and Ownership Structure as well as Insured Banks' Deposit Liabilities.

11.1 Insured Banks' Structure of Assets

The structure of total assets of insured banks (inclusive of Off-Balance Sheet Engagements) is presented in Table 11.1. As evidenced in the table, the total assets increased by about 48 per cent from ₦13,011.60 billion in 2007 to ₦19,261.025 billion in 2008. As a proportion of total assets, the following assets increased: Balances Held with CBN from 3.26 per cent in 2007 to 3.35 per cent in 2008; Balances Held with Other Banks in Nigeria from 1.67 per cent in 2007 to 2.48 per cent in 2008; Balances Held with Offices and Branches Outside Nigeria from 7.15 per cent in 2007 to 7.82 per cent in 2008; Money at Call from 0.54 per cent in 2007 to 0.85 per cent in 2008; Inter-bank Placement from 0.60 per cent in 2007 to 2.00 per cent in 2008; Placement with Discount Houses from 2.22 per cent in 2007 to 3.50 per cent in 2008; Bankers Acceptance and Commercial Papers from 3.41 per cent in 2007 to 4.61 per cent in 2008; Industrial (Other) Investments from 1.62 per cent in 2007 to 2.37 per cent in 2008; Gross Loans and Advances from 31.23 per cent in 2007 to 37.00 per cent in 2008; Investment in Unconsolidated Subsidiaries and

Associates from 0.77 per cent in 2007 to 1.30 per cent in 2008; Customer Liabilities (per contra) from 19.83 per cent in 2007 to 20.34 per cent in 2008.

Expressed as a proportion of Total Assets, the following Assets decreased: Vault Cash from 1.77 per cent in 2007 to 1.36 per cent in 2008; Treasury Bills from 11.64 per cent in 2007 to 3.89 per cent in 2008; Treasury certificates from 0.36 per cent in 2007 to 0.21 per cent in 2008; Investment in stabilization Securities from 0.06 per cent in 2007 to 0.02 per cent in 2008; Negotiable Certificate of Deposits from 0.02 per cent in 2007 to 0.00 per cent in 2008; Investment in FGN Development Stocks from 0.34 per cent in 2007 to 0.02 per cent in 2008; Provision for Loan and Loan Losses from 2.14 per cent in 2007 to 1.40 per cent in 2008; Net Fixed Assets from 3.17 per cent in 2007 to 2.96 per cent in 2008; Other Assets from 12.49 per cent in 2007 to 7.33 per cent in 2008.

The significant increase in the proportion of inter-bank placement indicated a resuscitation of the inter-bank market that had virtually collapsed in the preceding year. The increases recorded in investment in subsidiaries and associates could be explained by the increases in the number of bank subsidiaries opened by some Nigerian banks particularly to enable them participate in capital market activities as well as in foreign exchange dealings. The increase in the proportion of Gross Loans and Advances and Leases during the year under review could be attributed to the significant growth in deposit liabilities of banks.

TABLE 11.1
INSURED BANKS' STRUCTURE OF ASSETS IN 2007 & 2008

Assets	Percentage Share As At End Of December	
	2007	2008
Vault Cash	1.77	1.36
Balances Held With CBN	3.26	3.35
Balances Held With Other Banks In Nigeria	1.67	2.48
Balances Held With Offices & Branches Outside Nigeria	7.15	7.82
Money At Call In Nigeria	0.54	0.85
Interbank Placement	0.60	2.00
Placement With Discount Houses	2.22	3.50
Treasury Bills	11.64	3.89
Treasury Certificates	0.36	0.21
Investment in Stabilization Securities	0.06	0.02
Bills Discounted Payable In Nigeria	0.00	0.00
Negotiable Certificates of Deposits	0.02	0.00
Bankers Acceptances and Commercial Papers	3.41	4.61
Investments In FGN Development Stock	0.34	0.02
Industrial (Other) Investments	1.62	2.37
Gross Loans, Advances And Leases	31.23	37.00

Provision For Loans And Loan Losses	(2.14)	(1.40)
Investment In Unconsolidated Subs And Associates	0.77	1.30
Net Fixed Assets	3.17	2.96
Other Assets (Less Current Loss if Included)	12.49	7.33
Customers' Liabilities (Per Contra)	19.83	20.34
Total Assets	100.00	100.00
Total Value Of Assets (N> Billion) Inclusive of OBS	₦13,011.60 bn	₦19,261.02 bn

Source: Bank Returns

11.1.1 Insured Banks' Assets by Market Share

Table 11.2 and Chart 11A present market share of banks in the system, both in absolute and proportionate terms for year 2008 and 2007. Of the Total Assets of all the banks in the industry as at end December 2008, which amounted to N19,261.02 billion, the five largest banks accounted for N8,640.15 billion representing 44.9 per cent of the Total Assets of the industry as against N5,856.70 billion representing 45.01 per cent achieved in 2007.

Also, the assets of the top ten banks, as evidenced in the table, stood at N13,987.13 billion representing 72.6 per cent of the total assets of the industry as at end December 2008 as against N9,362.80 billion

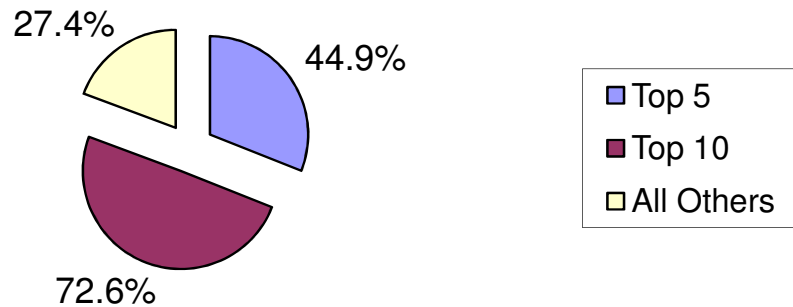
representing 71.96 per cent recorded in 2007. That development was an indication that the oligopolistic nature of the banking industry in Nigeria still continued four years into the consolidation programme.

TABLE 11.2
ANALYSIS OF ASSETS HELD BY INSURED BANKS IN 2008

Bank	2007		2008	
	Assets (N'Billion)	% of Total	Assets (N'Billion)	% of Total
Top 5	5,856.70	45.01	8,640.15	44.9
Top 10	9,362.80	71.96	13,987.13	72.6
All Other Banks	3,648.70	28.04	5,273.90	27.4

Source: Computed from Bank returns

CHART 11A
DISTRIBUTION OF INSURED BANKS' ASSETS BY SIZE
AS AT DECEMBER 31, 2008



11.2 Insured Banks' Structure of Liabilities

Table 11.3 presents the structure of liabilities of insured banks in 2008 (compared with the figures for 2007). The following liabilities, expressed as a proportion of total liabilities increased: Shareholders' Funds (Share Capital, Reserve Funds, Current Year Profit and Loss, Preference Shares & Revaluation Reserves) from 14.38 per cent in 2007 to 16.41 per cent in 2008; Overdrawn Account with CBN from 0.15 per cent in 2007 to 0.50 per cent in 2008; Balances Held for

Other Banks Outside Nigeria from 1.03 per cent in 2007 to 1.47 per cent in 2008; Money at Call from 0.43 per cent in 2007 to 0.53 per cent in 2008; Total Deposit Liabilities (Demand, Savings and Time Deposits) from 41.17 per cent in 2007 to 59.35 per cent in 2008.

The following liabilities expressed as a proportion of total liabilities decreased: Debentures from 0.61 per cent in 2007 to 0.40 per cent in 2008; Balances Held for Other Banks in Nigeria from 0.34 per cent in 2007 to 0.22 per cent in 2008; Loans and Advances from CBN and Other Banks from 1.40 per cent in 2007 to 1.25 per cent in 2008; Other Liabilities (less current year profit and loss) from 20.65 per cent in 2007 to 14.73 per cent in 2008.

The significant increase in the shareholders' funds of insured banks in the period under review could be attributed to the continuous build-up of shareholders' fund by banks beyond the mandatory N25 billion mark set by the CBN. That was driven by the desire to enjoy some

incentives such as management of the nation's external reserves set aside by the CBN. The continuous rise in the quantum of deposits reflected the improvements in the level of confidence in the system particularly after the consolidation exercise, which had reduced distress syndrome in the system. It also reflected the result of the deposit mobilisation drive by universal banks as well as the aggregate growth of the economy.

TABLE 11.3
INSURED BANKS' STRUCTURE OF LIABILITIES IN 2007 & 2008

Liabilities	Percentage Share As At The End Of December	
	2007	2008
Share Capital	1.15	1.10
	11.28	13.25

Reserve Funds (Including Retained Profit & Loss)		
Current Year Profit and Loss	1.73	1.75
Preference Shares	0.01	0.17
Revaluation Reserves	0.21	0.14
Debentures	0.61	0.40
Overdrawn Account With CBN	0.15	0.50
Balances Held For Other Banks In Nigeria	0.34	0.22
Balances Held For Other Banks Outside Nigeria	1.03	1.47
Money At Call In Nigeria	0.43	0.53
Demand Deposits	22.95	25.06
Savings Deposits	5.83	5.69
Time/Term Deposits	12.39	14.43
Negotiable Certificate Of Deposits (NCD)	0.00	0.00
Non-Negotiable Certificate Of Deposits (NNCD)	0.00	0.00
Loans And Advances From FGN, State Governments, CBN, NDIC And Other Banks	1.40	1.25
Other Liabilities (Less Current Year Profit And Loss)	20.65	14.73
Liabilities Per Contra	19.83	20.34
Total Liabilities	100.00	100.00
Total Value Of Liabilities Inclusive of OBS	₦13,011.60 bn	₦19,261.02 bn

Source: Computed From Bank Returns

11.2.1 Insured Banks' Shareholders' Funds

Table 11.4 gives at a glance the shareholders' fund of the banks in 2008 in comparison with the figures for 2007. The table shows that there was a significant increase in shareholders' funds of banks from N1,712.00 billion recorded in 2007 to N2,789.00 billion achieved in 2008. The 65.4 per cent increase in the shareholders' funds reflected

the proceeds of some banks that accessed the capital market in 2007 which were brought into their balance sheet during the year under review.

Six out of the 24 banks as shown in table 11.4, controlled N1,361.14 billion or 52.6 per cent of the industry's capitalization, which stood at N2,789.00 billion. First Bank Nigeria Plc topped the list with N313.6 billion, followed by Zenith Bank Plc with N310.02 billion, Oceanic Bank Plc with N206.4billion, Intercontinental Bank Plc with N191.08 billion, United Bank for Africa Plc with N178.11 billion and Access Bank Plc with 161.94 billion.

TABLE 11.4
INSURED BANKS SHAREHOLDERS' FUNDS AS AT DECEMBER 2008 AND 2007

S/N	BANKS	SHAREHOLDERS' FUNDS* (N' Billion)	SHAREHOLDERS' FUNDS* (N' Billion)
		2008	2007
1	Access Bank Nig. Plc	161.94	25.59
2	Afribank Nigeria Plc	127.15	27.20
3	Diamond Bank Plc	109.01	49.77
4	Ecobank Nigeria Plc	42.18	27.37
5	Equitorial Trust Bank Ltd	32.12	32.12
6	First City Monument Bank Plc	124.32	27.65
7	Fidelity Bank Plc	127.08	27.12
8	First Bank Nigeria Plc	313.60	307.00
9	FirstInland Bank Plc	108.21	20.35
10	Guaranty trust Bank Plc	151.48	142.98
11	Stanbic-IBTC Bank Plc	67.40	35.11
12	Intercontinental Bank Plc	191.08	172.65
13	Nigeria International Bank Ltd	28.75	28.36
14	Oceanic Bank Plc	206.39	210.60
15	Bank PHB Plc	90.47	31.62
16	Skye Bank Plc	75.59	25.58
17	Spring Bank Plc	(47.16)	43.54
18	Standard Chartered bank Ltd	27.93	26.36
20	Sterling Bank Plc	16.62	22.89
21	United Bank for Africa Plc	178.11	154.51
22	Union Bank Plc	108.14	94.74

23	Unity Bank Plc	15.51	30.77
24	Wema Bank Plc	23.09	26.20
25	Zenith Bank Plc	310.02	103.57
	Total	2,789.04	1,712.64

* Unadjusted Shareholders' Funds

Source: Bank returns

11.2.2 Ownership Structure

The ownership structure of the Nigerian banks in the period under review remained diversified thereby reflecting the public liability status of most of the banks. Table 11.5 shows that government shareholdings in banks reduced substantially to below 10 per cent in 2008, except for Unity Bank Plc, where it remained at 68.70 per cent. The Unity Bank Plc's case contravened the Code of Corporate Governance issued by the CBN, which limited government ownership in Nigerian banks to 10 per cent.

Also, the table shows that sixteen out of twenty four banks had foreign ownership during the year under review. Of that number, four had substantial proportion of foreign ownership. With respect to private ownership of banks in Nigeria, Table 11.5 shows that all the banks had private ownership in 2008. In fact, four banks had 100 per cent private ownership in 2008, including Standard Chartered Bank, with 100 per cent foreign private ownership.

TABLE 11.5
INSURED BANKS' OWNERSHIP STRUCTURE AS AT DECEMBER 31, 2008

S/N	BANKS	OWNERSHIP STRUCTURE (%)		
		GOVT*	PRIVATE	FOREIGN
1	Access Bank Nig. Plc	0.01	92.02	7.97
2	Afribank Nigeria Plc	-	100	-
3	Diamond Bank Plc	0.03	83	17.36
4	Ecobank Nigeria Plc	-	27.7	71.3
5	Equitorial Trust Bank Ltd	-	100	-
6	First City Monument Bank Plc	2.48	78.52	19
7	Fidelity Bank Plc	-	100	-
8	First Bank Nigeria Plc	-	99.93	0.07
9	FirstInland Bank Plc	6.30	93.7	-
10	Guaranty trust Bank Plc	-	92.41	7.59
11	Stanbic-IBTC Bank Plc	-	49.90	50.10
12	Intercontinental Bank Plc	0.01	92.28	7.71
13	Nigeria International Bank Ltd	-	18.10	81.90
14	Oceanic Bank Plc	5.60	88.00	17.47
15	Bank PHB Plc	-	91.65	8.35
16	Skye Bank Plc	5.75	94.25	-
17	Spring Bank Plc	-	100	-
18	Standard Chartered bank Ltd	-	-	100.00
19	Sterling Bank Plc	0.05	82.01	17.47
20	United Bank for Africa Plc	3.05	94.60	2.35
21	Union Bank Plc	-	100	-
22	Unity Bank Plc	68.70	31.27	0.03
23	Wema Bank Plc	10.00	90.00	-
24	Zenith Bank Plc	3.03	96.96	0.01

* Federal, State & Local Governments

Source: Bank returns

11.3 Insured Banks' Deposit Liabilities by Type, Market Share and Tenor in

2008

Bank deposits usually constitute the largest component of the liability of a banks' balance sheet. A thorough analysis of the types and sizes of deposits mobilised by banking institutions plays an important role in ensuring effective asset/liability management. As had been the trend over the years, the total deposit liabilities of insured banks increased from =N=5.36 trillion as at December 2007 to =N=8.70 trillion as at December 31, 2008, representing an increase of 62.27 percent. Several reasons could account for the significant increase in deposit liabilities of insured banks. These included depositors' confidence in the banking system due to improvement in the service delivery, innovative and aggressive deposit mobilization by insured banks and the increase in the number of Automatic Teller Machines (ATMs) in strategic locations as well as the introduction of new products. Lastly, the persistent growth of the GDP all things being equal, meant improvement in household income and hence increase in bank deposits. Table 11.6 and Chart 11B give an analysis of the total

deposit liabilities of insured banks as at December 2008 with comparative figures for 2007.

11.3.1 Deposit Liabilities by Type

As shown in Table 11.6, savings deposits in insured banks increased by =N=336.6 billion or 44.30 per cent, from =N=758.60 billion as at December 2007 to =N=1,095.23 billion as at December 2008. A further analysis of the situation in 2008 vis-à-vis 2007 revealed that savings deposits increased only in absolute terms but declined as a proportion of total deposits. Whereas savings deposits constituted 14.21 percent of total deposits in 2007, in 2008 that category of deposits declined to 12.59 percent of total deposits.

As evidenced in Table 11.6, demand deposits of insured banks amounted to =N=6,512.50 billion, which represented 60.61 percent of banks' total deposit liabilities as at December 31, 2008. Compared to the trend of savings deposits, demand deposit liabilities increased both

in absolute terms and as a proportion of total deposit liabilities mobilized by banks during the period under review. Demand deposits increased significantly by =N=3,526.18 billion or 76.44 per cent, from =N=2,986.32 billion as at December 31, 2007 to =N=6,512.48 billion as at December 31, 2008. Furthermore, demand deposits increased as a percent of total deposit liabilities from 55.95 percent in 2007 to 60.61 percent as at December 2008. Similarly, time/term deposits in insured banks also increased significantly by =N=736.55 billion from =N=1,592.25 billion in December 2007 to =N=2,328.80 billion as at December 2008. However, as a proportion of total deposits, time/term deposits decreased from 29.83 percent in 2007 to 26.80 percent in 2008.

TABLE 11.6
ANALYSIS OF TOTAL DEPOSIT LIABILITIES OF INSURED BANKS
IN 2007 AND 2008

Type of Deposit Liabilities	2007		2008	
	Amount (=N='M)	Percentage of Total (%)	Amount (=N='M)	Percentage of Total (%)
Savings Deposits	758,599.80	14.21	1,095,246.86	12.59

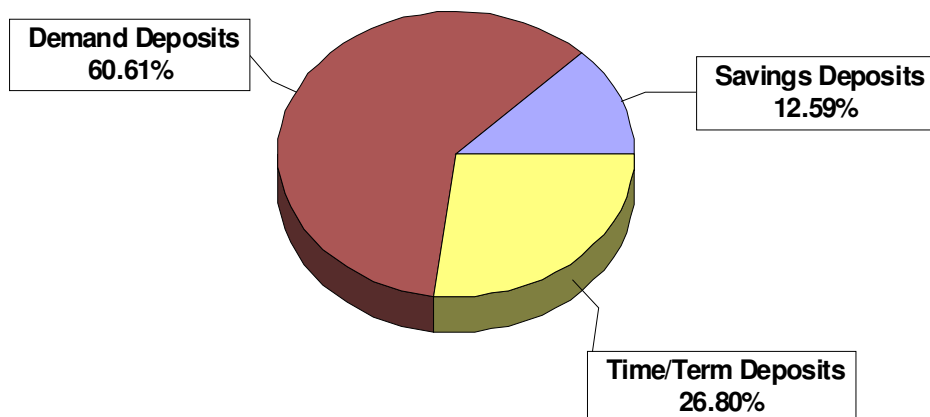
Demand Deposits*	2,986,318.58	55.95	6,512,502.48	60.61
Time/Term Deposits	1,592,255.95	29.84	2,328,802.22	26.80
TOTAL	5,363,174.33	100.00	8,702,996.20	100.00

Source: Bank Returns

* Included in Demand deposits are Electronic Purse, Domiciliary Accounts, and Other Deposits & Cert. & Notes

CHART 11 B

Analysis of Insured Banks' Deposit Liabilities By Type as at 31st Dec., 2008



11.3.2 Deposit Liabilities By Market Share

Table 11.7 shows increases in the market share controlled by both the top five and the top ten banks in the system. As evidenced in the table, out of the total deposit liabilities of =N=8,702.98 billion in 2008, the deposits of five biggest banks amounted to =N=4,194.55 billion,

which represented 48.25 percent of the total deposits as against 47.71 per cent recorded in 2007. Furthermore, deposit liabilities generated by the top ten (10) banks stood at =N=6,355.67 billion or 73.10 percent of the total deposit liabilities of all insured banks as at December 2008 in contrast to 71.22 per cent as at December 2007. The fact that ten banks continued to hold over 70 per cent of the total deposits of the entire industry shows that competition for deposits in the nation's banking industry remained significantly uneven. Chart 11C shows a pictorial representation of market shares.

TABLE 11.7
ANALYSIS OF DEPOSIT LIABILITIES HELD BY THE BIG INSURED
BANKS

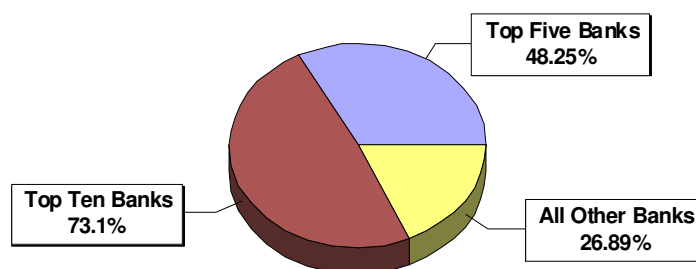
Banks	2007		2008	
	Deposits (=N='bn)	Percentage of Total (%)	Deposits (=N='bn)	Percentage of Total (%)
Top Five Banks	2,546.15	47.71	4,194.55	48.25
Top Ten Banks	3,801.26	71.22	6,355.67	73.10

All Banks	Other	1,535.91	28.78	2,338.31	26.89
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Source: Bank Returns

CHART 11 C

Analysis of Deposit Liabilities Held by Insured Banks as at 31 Dec., 2008



10.3.3 Deposit Liabilities By Tenor

Table 11.8 and Chart 11D, present an analysis of deposit liabilities of banks by tenor for 2008 and the comparative figures for 2007. From the table, short-term deposits of below 30 days increased both in absolute and relative terms from =N=3,889.31 billion in 2007 to =N=6,444.86 billion in 2008, representing 72.87 percent and 74.13 percent for 2007 and 2008, respectively. Deposits of between 31 and 90 days increased significantly in absolute terms from =N=731.89

billion in 2007 to =N=1,082.08 billion in 2008. As a proportion of total deposits, it declined from 13.71 percent in 2007 to 12.45 percent in 2008.

On the other hand, deposits of between 91 and 180 days increased both in absolute and relative terms from =N= 228.20 billion or 4.28 percent in 2007 to =N=513.45 billion or 5.90 percent in 2008. Deposits of between 181 and 365 days increased substantially in absolute terms but insignificantly as a percentage of total deposit liabilities from =N=137.94 billion or 2.58 percent in 2007 to =N=225.04 billion or 2.59 percent in 2008. Long-term funds of more than 365 days' duration (one year) increased in absolute terms from =N=349.84 billion as at December 31, 2007 to =N=428.56 billion as at December 31, 2008 but declined as a percentage of total deposits from 6.55 percent to 4.83 percent for 2007 and 2008 respectively.

The analysis of insured banks' deposits by tenor as shown in table 11.8 and Chart 11D clearly shows that depositors were more inclined to keeping their funds in short-term deposits with rollover options, than going for the longer tenor in order to hedge against the volatility of interest rates experienced in recent times.

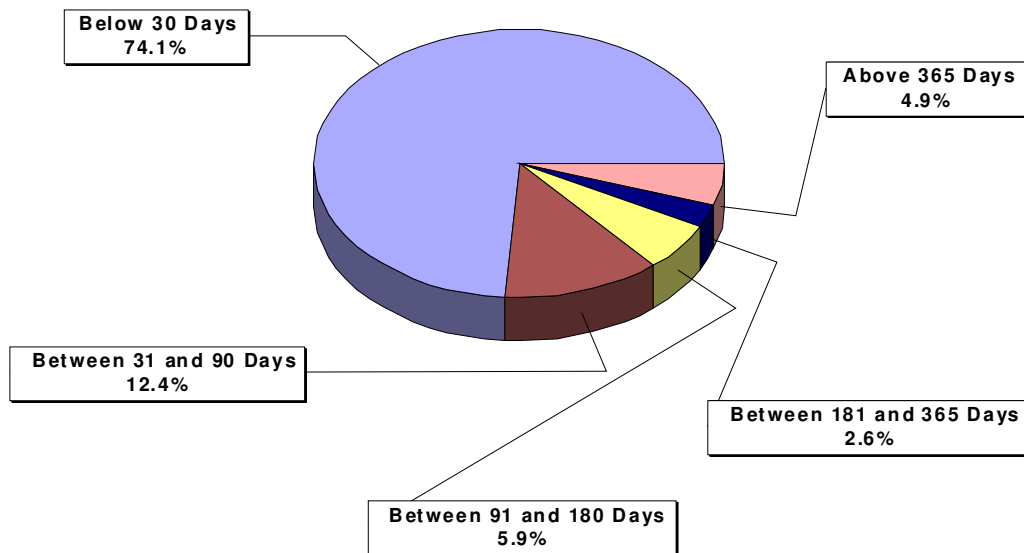
TABLE 11.8
ANALYSIS OF INSURED BANKS' DEPOSITS BY TENOR

Types of Deposits	2007		2008	
	Amount (=N=M)	Percentage of Total (%)	Amount (=N=M)	Percentage of Total (%)
Below 30 Days	3,889,311.40	72.87	6,444,857.92	74.13
Between 31 and 90 Days	31,893.32	13.71	1,082,079.23	12.45
Between 91 and 180 Days	28,204.70	4.28	513,451.28	5.90
Between 181 and 365 Days	137,924.57	2.58	225,037.14	2.59
Above 365 Days	349,840.34	6.55	428,556.15	4.93
TOTAL	5,363,174.33	100.00	8,702,996.20	100.00

Source: Bank Returns

CHART 11 D

Analysis of Insured Banks' Deposit Liabilities by Tenor as at 31st Dec., 2008



Section 12

Insured Banks' Reported Frauds/Forgeries And Fidelity Bond Insurance Cover

12.0 Introduction

Pursuant to the requirements of Sections 35 and 36 of the Nigeria Deposit Insurance Corporation (NDIC) Act No 16 of 2006, insured banks render monthly returns on frauds and forgeries and also notify the Corporation about dismissal or termination of staff on the ground of

fraud or financial malpractice. In addition, Section 33 of the NDIC Act of 2006, requires insured banks to provide fidelity bond insurance to cushion losses that may result from frauds and forgeries committed with staff connivance or collusion.

Presented in this section are the reported cases of frauds and forgeries in 2008 along with the comparative figure for 2007. Also, information is provided on the general nature of frauds and forgeries, the number and categories of staff involved. Responses on fidelity bond insurance cover by insured banks during the year are also highlighted.

12.1 Reported 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 rose during the year under review. The upward trend in the number of reported cases reflected markedly in the total amount involved in year 2008 compared to that of 2007. Table 12.1 shows the number of reported cases, the amount involved and the expected loss.

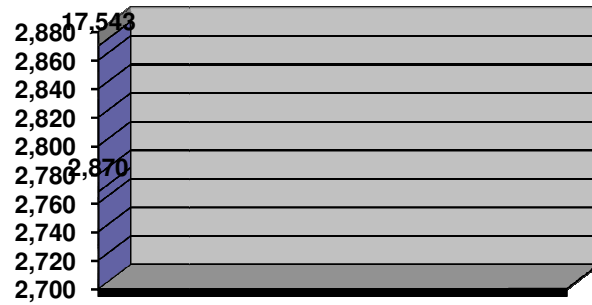
TABLE 12.1
RETURNS OF INSURED BANKS ON FRAUDS AND FORGERIES

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	2008	440	30,548.67	12,951.73	42.40
	2007	397	4,128	858	20.78
2 nd	2008	528	3,030.78	997.27	33.0
	2007	335	1,083.94	562.53	51.89
3 rd	2008	503	13,900.49	1,738.89	12.51
	2007	398	2,196.0	615.6	28.03
4 th	2008	536	6,042.92	1,855.20	30.7
	2007	423	2,597.87	834.72	32.13
Average/ Total	2008	2,007	53,522.86	17,543.09	32.78
	2007	1,553	10,005.81	2,870.85	28.69

Source: Bank Returns

As shown in the table, there was a total of 2,007 reported cases of attempted frauds and forgeries involving over N53.0 billion in 2008 compared with 1,553 reported cases of frauds and forgeries involving =N=10.01 billion in year 2007. The expected loss components of the reported cases of frauds and forgeries, that is, those whose probability of recovery was low as well as those not

Chart 12B
Expected Loss Due To Frauds & Forgeries
(N'M)



fully covered by

Fidelity Insurance

Bond amounted to

over N17.0 billion

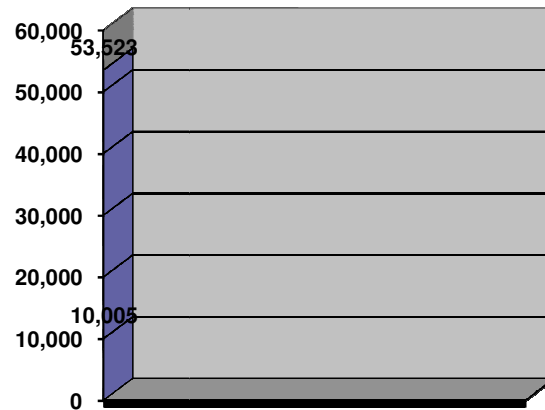
in 2008. Chart

12A and 12B

depict the extent of

frauds and forgeries in insured banks in 2007 and 2008.

Chart 12A
Amount Of Frauds & Forgeries (N'M)



12.2 Incidence And Type Of Frauds And Forgeries Reported

The ten (10) banks with the highest number of reported fraud cases as presented in Table 12.2 were responsible for 64.11% of the total amount involved in 2008 compared to 25.93% in 2007. The table also shows that in absolute terms, the total amount involved, which stood at =N=34.31 billion in 2008, was significantly higher than the 2007 figure of N2.59 billion.

TABLE 12.2
TEN BANKS WITH HIGHEST FRAUD CASES

	2006	2007	2008
--	------	------	------

GROUP	Amount Involved (N=M)	% Share	Amount Involved (N=M)	% Share	Amount Involved (N=M)	% Share
Total For 10 Banks	2,512.73	51.77	2,595.01	25.93	34,311,721	64.11
Total For All Banks	4,832.17	100.00	10,005.81	100.00	53,522,871	100

Source: Bank Returns

An analysis of the types of frauds and forgeries perpetrated during the year under review shows 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;
- f). Outright theft of money; and
- g. Loss of money to armed robbers

A further analysis of the types of frauds and forgeries perpetrated in 2008 showed that cheque-kiting accounted for the largest proportion.

12.3 *Banks' Staff Involvement in Frauds And Forgeries*

Table 12.3 shows the status and number of banks' staff involved in frauds and forgeries in the past three years. A total of 313 members of staff of banks were reported to be involved in frauds and forgeries in 2008, an increase of about 14.65% when compared with the previous year's figure of 273. Of the total, core operations staff such as supervisors, officers, accountants, managers, executive assistants, clerks and cashiers totalled 223, thus accounting for about 71.25 per cent. That represented a decrease of 4.57 percentage points relative to the 2007 position.

TABLE 12.3
BANKS' STAFF INVOLVED IN FRAUDS AND FORGERIES

Status	2006		2007		2008	
	Number	%	Number	%	Number	%
Supervisors & Managers	118	35.64	84	30.76	48	15.33
Officers, Accountants & Executive Assistants	90	27.19	89	32.60	127	40.58
Clerks & Cashiers	50	15.10	34	12.45	48	15.33
Typists, Technicians & Stenographers	16	4.83	21	7.69	20	6.39
Messengers, Drivers, Cleaners, Security Guards & Stewards	7	2.11	-	-	-	-
Temporary Staff	50	15.10	45	16.48	70	22.37
Total	331	100.00	273	100.00	313	100

Source: Bank Returns

12.4 Causes of Frauds And Forgeries In Insured Banks

The causes of frauds 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 weak internal control systems,

ineffective supervision of subordinates, uncompetitive remuneration and perceived sense of inequity in reward, disregard of Know Your Customers (KYC) rules, et cetera. Environmental causes of fraud include undue societal demands, low moral values, slow and tortuous legal process, lack of effective deterrent or punishment and at times reluctance on the part of individual banks to report fraud cases due to the negative publicity it could attract for their image.

Given the substantial growth in the quantum of frauds and forgeries in 2008 compared to 2007 as highlighted in this section, it is important that insured banks should strengthen their internal control and security systems to reduce the incidence of frauds and forgeries. Insured banks should also thoroughly screen prospective employees by obtaining status reports from previous employers and relevant agencies and to desist from deploying casual staff to sensitive positions. Insured banks should also endeavour to educate their customers on the use of

the Automatic Teller Machines (ATM) and other e-banking services on the need to safeguard their Personal Identification Numbers (PINs).

12.5 Report On Banks' Fidelity Bond Insurance Cover In 2008

Fidelity Bond Insurance cover is a regulatory measure prescribed 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 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.

Table 12.4 reports the number of banks that complied with the fidelity insurance cover requirement in 2008 compared to that of 2007.

TABLE 12.4
BANKS' RESPONSE TO NDIC FIDELITY INSURANCE REQUIREMENT
COVER IN 2008

Year	(a) No. Of Banks In Operation	(b) No. Of Banks That Responded	(c=b/a) % of Total
2008	24	19	79.17
2007	24	22	92

Source: Bank Returns

As evidenced in the Table, nineteen (19) banks or 79.17% out of the twenty-four (24) banks that existed as at end-December, 2008 rendered returns in 2008 compared to Twenty-two (22) banks or 92% out of the twenty four

(24) banks that existed in 2007. It is important to note also that most of the banks that responded had adequate Fidelity Bond Insurance Cover. That is, their insurance policy was above the required 15% of paid up capital.

Section 13

Insured Banks' Offices, Branches, Board Of Directors And Approved External Auditors In 2008

13.1 Distribution Of Insured Banks' Offices And Branches By States

As at the end of December 2008, there were a total of 5,134 branches/offices operated by the twenty-four (24) insured banks in the system. That represented an increase of about 11 per cent over the total of 4,579 branches/offices reported in 2007. Table 13.1 shows the distribution of insured banks' branches/offices in the 36 states of the Federation including Abuja, the Federal Capital Territory (FCT) and Overseas in 2008.

As evidenced in the table, Lagos State, as usual, accounted for the highest number of banks' branches/offices with 1,532 branches, about 29.6 per cent of the total in 2008. Abuja (FCT) came second with 317 branches/offices

(6.1 percent), while Rivers State came third with 263 branches/offices (5.1 per cent). Anambra State occupied the fourth position with a total of 219 branches/offices (4.2 per cent). Other leading states were Oyo (198) or (3.8 percent), Delta (183) or (3.5 percent), Edo (167) or (3.2 percent), Kano (160) or (3.1 percent), Kaduna (151) or (2.9 percent) and Ogun (151) or (2.9 percent). The number of overseas branches/offices stood at 41 as at December 31, 2008.

TABLE 13.1
DISTRIBUTION OF INSURED BANKS' OFFICES AND BRANCHES
AS AT 31ST DECEMBER, 2008

S/N	States (Including Abuja And Overseas)	Number of Branches/Offices	Percentage Share (%)
1.	Abia	134	2.6
2.	Abuja (FCT)	317	6.1
3.	Adamawa	63	1.2
4.	Akwa-Ibom	94	1.8
5.	Anambra	219	4.2
6.	Bauchi	62	1.2
7.	Bayelsa	39	0.8
8.	Benue	69	1.3
9.	Borno	80	1.5

S/N	States (Including Abuja And Overseas)	Number of Branches/Offices	Percentage Share (%)
10.	Cross River	64	1.2
11.	Delta	183	3.5
12.	Ebonyi	35	0.8
13.	Edo	167	3.2
14.	Ekiti	69	1.3
15.	Enugu	116	2.2
16.	Gombe	39	0.8
17.	Imo	86	1.7
18.	Jigawa	34	0.7
19.	Kaduna	151	2.9
20.	Kano	160	3.1
21.	Katsina	52	1.0
22.	Kebbi	41	0.8
23.	Kogi	74	1.4
24.	Kwara	71	1.4
25.	Lagos	1532	29.6
26.	Nassarawa	43	0.8
27.	Niger	72	1.4
28.	Ogun	151	2.9
29.	Ondo	111	2.1
30.	Osun	102	2.0
31.	Oyo	198	3.8

S/N	States (Including Abuja And Overseas)	Number of Branches/Offices	Percentage Share (%)
32.	Plateau	79	1.5
33.	Rivers	263	5.1
34.	Sokoto	55	1.1
35.	Taraba	36	0.7
36.	Yobe	35	0.7
37.	Zamfara	32	0.6
38.	Overseas	41	0.8
Total		5,134	100.0

Source: Bank Returns

13.2 Distribution of Branches/Offices By Banks

The distribution of branches per insured bank and their Head Offices Addresses are presented in Table 13.2. As in the past, three 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 in 2008. United Bank for Africa Plc was in the lead with a total of 624 branches, Union Bank of Nigeria Plc, was second with a total of 506 branches, while First Bank of Nigeria Plc came third with a total of 485 branches during the year under review.

The three (3) banks, as shown in Table 13.2, accounted for 1,615 branches or 31.2 per cent of the total number of bank branches/offices in year 2008. Other leading banks were Oceanic Bank Plc with 450 branches, Intercontinental Bank Plc with 324, Zenith Bank Plc with 268 branches, Afribank Nigeria Plc with 248 branches, Skye Bank Plc with 229 branches, Unity Bank Plc with 216 branches, and Ecobank Nigeria Plc with 210 branches; Diamond Bank Plc had 185 branches and Spring Bank Plc operated from 173 branches during the period under review.

13.3 Insured Banks and Their Board of Directors In 2008

Given its critical role in the mobilization of funds, the allocation of credit to the needy sectors of the economy, the payment and settlement as well as the implementation of monetary policy, the retention of public confidence in the banking sector, through the entronement of good corporate governance remains of utmost importance. The Organization for Economic Co-operation

and Development (OECD) emphasizes the criticality of the board in corporate governance especially its composition, leadership, integrity and independence. The board of directors is a group of people appointed by the company to direct and manage the business and its corporate resources for the benefit of its stakeholders. 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 regulation is, it does not substitute for the role of active and efficient boards of directors in banks. Over the years, the nation's regulatory/supervisory authorities had continually raised the issue of poor corporate governance in some of the banks which could impair the banks' viability. Unfortunately, rather than improve, some of the banks as revealed by on-site examination reports continued with unhealthy governance practices.

Banking institutions require the highest level of confidence of the members of the public to survive. One important way of ensuring the survival of banks especially in the post consolidation banking era is for the boards of directors to show the highest sense of discipline, integrity, steadfastness and tenacity of purpose.

It would be recalled that in 2007, the Central Bank of Nigeria (CBN) issued Guidelines to all insured banks for the appointment of Independent Directors. The Guidelines were issued so as to enable banks comply with *Section 5.3.6* of the Code of Corporate Governance for banks operating in Nigeria effective April 3, 2006. As stated in that Section “at least two (2) non-executive board members should be Independent Directors (who do not represent any particular shareholder’s interest and hold no special business interest in the bank) appointed by the bank on merit”. In terms of compliance with that requirement, a review of the banking industry as at the end of year 2008, showed that many banks were yet to comply with that requirement.

The list of insured banks' directors as at 31st December, 2008 is presented in Table 13.2. As shown in the table, there were 301 directors serving on the boards of the 24 banks in the industry during the year under review.

13.4 Insured Banks' Approved External Auditors

Auditors play vital role in the corporate governance process. As a result, the regulatory/supervisory authorities have continued to strengthen Auditors' roles by adopting measures that would ensure their independence through the regulation 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 No. 16 of 2006. The Central Bank of Nigeria (CBN) directives and guidelines also impose basic responsibilities/obligations on banks' external auditors. The external auditors' reports are expected to lend credibility to the banks' financial statements

thereby assisting in promoting public confidence and transparency in the banking system.

Available records as at December 31, 2008 show that there were eight firms of Chartered Accountants approved to conduct independent audits of insured banks. As evidenced in Table 13.2, Akintola Williams Deloitte, topped the list with 13 banks on their audit list, followed by PriceWaterhouseCoopers and KPMG Professional Services with 9 and 5 banks respectively, which were audited either severally or jointly with another firm during the year.

TABLE 13.2
INSURED BANKS' ADDRESSES, BRANCHES, DIRECTORS AND APPROVED AUDITORS AS AT
DECEMBER 31, 2008

S/N	Names & Addresses	No. of Branches	Director's Name	Status	Approved Auditors
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1.	Access Bank (Nig.) Plc. Plot 1665, Oyin Jolayemi Street, Victoria Island, P.M.B. 12935, Lagos. www.accessbankplc.com	118	Gbenga Oyebode Aigboje Aig-Imoukhuede Herbert Wigwe Okey Nwuke Ebenezer Olufowose Obeahon.A. Ohiwerei Taukeme Koroye Cosmas . M. Maduka Mosunmola Olusoga Mahmoud Isa Dutse Babatunde Folawiyo Emmanuel. Chiejina Adewunmi Desalu Oritsedere Otubu	Chairman MD/CEO DMD ED ED Director Director Director Director Director Director Director Director	KPMG Professional Services
2.	Afribank Nig. Plc 51/55, Broad Street, P.M.B. 12021, Lagos	248	Osa Osunde Sebastian Adigwe Chinedu Onyia Jibrin Isah Isa. M. Zailani Henry O. Arogundade Abbas Jega Ashim A. Oyekan Chukuemeka O. Okwuosa Bala Zakariya'u	Chairman GMD/CEO ED ED ED ED ED Director Director Director	Akintola Williams Deloitte
3.	Bank PHB Plc Plot 707, Adeola Hopewell Street, P.M.B. 80054 Victoria Island, Lagos. www.bankphb.com	148	Abdul-Lateef Kola Abiola Patrick Okedinachi Utomi Francis Onyeluka Atuche Ignatius Chidubem Ukpaka Ahmed Lawal Kuru	Chairman V/chairman MD/CEO ED ED	Price Waterhouse Coopers

			Charles Enaholo Ojo Micheal Onoche Ajukwu Lawal Shehu Yar'Adua Zakir Rafinddin Mahmood Ifeyinwa Yvonne Osime	ED Director Director Director Director	
4.	Citibank Nigeria Ltd 27, Kofo Abayomi Street, P.O. Box 6391, Victoria Island, Lagos. www.citigroup.com	13	Charles. S. Sankey Emeka Emuwa Remi Odunlami Eddy Ogbogu Funmi Ade-Ajayi Munir S. Nanji Edet. J. Amana Muhammadu. H. Koguna I.O. Oladapo Zdenek Turek Khalid Qurashi Ade Ayeyemi	Chairman MD/CEO ED ED ED ED Director Director Director Director Director Director	KPMG Professional Services
5.	Diamond Bank Plc Plot 1261, Adeola Hopewell Street, P.O.Box 70381, Victoria Island, Lagos. www.diamondbank.com	185	HRM Nnameka A.U. Achebe Emeka Onwuka U. K. Eke Ohis Ohiwerei Uzoma C. Dozie Yerima Ngama Oladele Akinyemi Clement Owunna Jeremiah .T. Useni Ishaya. A. Shekarri Olubola A. Hassan Chris. I. Ogbechie Simon Harford Nkosana Moyo	Chairman GMD/CEO ED ED ED ED ED Director Director Director Director Director Director Director	Price Waterhouse Coopers (PWC)

			John .D. Edozien	Director	
6.	Ecobank Nig. Plc 21, Ahmadu Bello Way, P.O. Box 72688, Victoria Island, Lagos	210	John A. Odeyemi Offong Okon Ambah Jibril. John Aku Foluke Aboderin Michael Ade-Ojo (OON) Mua'zu Mohammed Anache Nadu Denloye Arnold Onyekwere Ekpe Wilfred Akpu Belonwu Giwa Bisi-Rodipe Sony F. Kuku	Chairman MD/CEO ED ED Director Director Director Director Director Director Director	Price Waterhouse Coopers (PWC)
7.	Equatorial Trust Bank Ltd Plot 1092, Adeola Odeku, P.O.Box 74440, Victoria Island, Lagos. www.equitorialtrustbank.com	92	Yetunde Adegbola Ikechukwu Oraekwuotu Charles Uwaechie Felix. Akintola Micheal Adenuga (Jnr) E.O Adewumi Adewale Sangowawa Festus Igbomor Kola Adegbola John Eimonye Mike Jituboh	Chairman MD/CEO ED ED Director Director Director Director Director Director Director	Akintola William Deloitte & Touche
8.	Fidelity Bank Plc 2, Kofo Abayomi Street, P.O.BOX. 72439, Victoria Island, Lagos.	116	Christopher I. Ezeh, MFR Reginald Ihejiahi Willie.M. Obiano Abdul-Rahaman Esene I. K. Mbagwu Mohammed Magoro, OFR Elias. E. Nwosu Bismarck J. Rewane Nnamdi. I. Orji Bessie. N. Ejeckam Godwin N. Kanu	Chairman MD/CEO ED ED ED Director Director Director Director Director Director	Akintola Williams Deloitte & Touche

			Mal. Yahaya Umar Clement Maduako, JP, MFR	Director Director	
9.	First Bank of Nigeria Plc Samuel Asabia House, 35, Marina, P.O.Box 5216, Lagos	485	Umaru A. Mutallab, CON Jacobs M. Ajekigbe John O. Aboh Sanusi Lamido Sanusi Oladele Oyelola Alex. C. Otti Harriet-Ann O. Adesola Kehinde Lawanson Ajibola. A. Afonja Aliyu A. Alkali, mni Garba Duba Oye Hassan-Odukale, MFR Mahmoud Abdullahi Ayoola. O. Otudeko, OFR Ibiai A. Ajumogobia	Chairman MD/CEO ED ED ED ED ED Director Director Director Director Director Director Director	Akintola Williams Deloitte & Touche PKF Pannell Kerr Forster
10.	First City Monument Bank Plc. Primrose Tower, 17A, Tinubu Street P.O. Box 9117, Lagos. www.firstcitygroup.com	145	Jonathan.A.D. Long Ladi Balogun Anurag Saxena Peter Obaseki Henry J. Semenitari John Udofa Ladi Jadesimi Bismarck Rewane Godwin T. S. Adokpaye Ibrahim Damcida Peter Nigel Kenny Tope Lawani	Chairman MD/CEO ED ED ED Director Director Director Director Director Director Director	Price Waterhouse Coopers
11.	FinBank Plc 4/6, Adetokunbo Ademola	151	Mahmoud Lai Alabi Okey Nwosu Dayo Famoroti	Chairman MD/CEO ED	Akintola Williams Deloitte & Touche

	Street, Victoria Island, Lagos		Danjuma Ocholi Danburam Abubakar Nuhu Ishmael Iheanyichukwu Pat Bassey Agnes Ebubedike E. O. Efobi, MON O'tega Emerhor, CON Kenneth Odogwu Ernest Oji Chike Theo Osanakpo, SAN A. A. Peters M.I. Yahaya, OFR, FCIB	ED ED Director Director Director Director Director Director Director Director Director Director	
12	GT Bank Plc Plural House, Plot 1669, Oyin Jolayemi, P.O.Box 75455, Victoria Island, Lagos. www.gtbank.com	142	Gilbert P. O. Chikelu Olutayo. A Aderinokun Olusegun Agbaje Babajide Ogundare Ferouk Bello Bunza Cathy Echeozo Titilayo Osuntoki Victor .G. Osibodu Mohammed Jada Adetokunbo B. Adesanya Egbert U. Imomoh Oluwole. S. Oduyemi Akindele Akintoye Andrew Alli	Chairman MD/CEO DMD ED ED ED ED Director Director Director Director Director Director Director	KPMG Professional Services J.K. Randle International
13	Intercontinental Bank Plc. Intercontinental Plaza, Danmole Street, P.M.B.	324	Raymond Obieri Erastus B. O. Akingbola Simon Aranonu	Chairman MD/CEO ED	Price Waterhouse Coopers

	80150, Victoria Island , Lagos. www.intercontinentalbankplc. com		Olayinka Adebisi Olusegun Ajibola Hyacinth. U. F. Enuha Chris A. Alabi Isyaku Umar Ikechi. O. Kalu Samuel I. Adegbite Seinye O. B. Lulu-Briggs J.S.P.C. Nwokolo Toyin Phillips Sanni Adams Bayo Dada Thomas A. Scaperdas Thomas R. Gibian	ED ED Director Director Director Director Director Director Director Director Director Director Director Director	
14.	Stanbic-IBTC Bank Plc. Stanbic IBTC Place, Walter Carrington Crescent, P.O.Box, 71707, Victoria Island, Lagos. www.stanbicibtcbank.com	61	Atedo Nari A. Peterside, OON Chris Newson Sola David - Borha Jacques Troost Anna Margaretha Roets Moses .O.Adedoyin Ahmed Dasuki Ifeoma Esiri Bhagwan Mahtani Yinka Sanni Samuel Unuigbo M.I.Wushishi, GCON Chris Kolade Craig Lewis Bond Barend Johaness Kruger John Helenius Maree	Chairman MD/CEO DMD ED ED Director Director Director Director Director Director Director Director Director Director	Price Waterhouse Coopers
15.	Oceanic Bank Plc. Plot 270, Ozumba Mbadiwe	450	Hayford Ikponmwonsa Alile Cecilia Ibru	Chairman MD/CEO	Price Waterhouse

	Avenue, Victoria Island, Lagos. www.oceanicbanknigeria.com		Charles Dumbiri Mekwunye Francis Megwarire Okumagba Patmore Duate Iyabi Akinpelu Adegboyega Asalu Kolawole Ayeye Oti Andrew Ikomi Ololade Ogunlusi Abimbola Olaitan Naiwo Werner Stauffacher Simpson Ese Okoro Bunu Sheriff Musa Anthony Omoruyi Ovie Edward Ukiri Valentine Oboden Ibru Chuphi Ngalah	ED ED ED ED ED ED ED Director Director Director Director Director Director Director Director	Coopers
16	Sterling Bank Plc 20 Marina P.M.B. 12735 Lagos	98	S. Adebola Adegunwa, OFR Yemi Adeola Lanre Adesanya Garba Imam T. P. N. Rao T. C. A. Ranganathan Yemi Idowu Harrison Kuti Bashir M. Borodo Aliyu A. Alkali, mni Adeyinka Adeola Biodun Dabiri	Chairman MD/CEO ED ED ED Director Director Director Director Director Director Director	KPMG Professional Services

17.	Standard Chartered Bank Ltd 142 Ahmadu Bello Way Victoria Island, Lagos. www.standardchartered.com	18	Joseph Sanusi Christopher Knight Oyeyemi Owolabi Bennedikter Molokwu William Moore Mike Hart Shehu Malami	Chairman MD/CEO ED ED Director Director Director	KPMG Professional Services
18.	Spring Bank Plc 143, Ahmadu Bello Street Victoria Island Lagos	173	Vincent Omoike Charles Enaholo Ojo Kingsley Umadia Elisha Olanrewaju Fagbohun Anogwi Anyanwu Adebayo Adewakun Vincent Okwechime Francis Atuche Suleiman Ndanusa Niyi Oyedele Olukayode Akintunde	Chairman MD/CEO ED ED ED Director Director Director Director Director Director	Akintola Williams
19.	SKYE Bank Plc 3 Akin Adesola street Victoria Island Lagos	229	Musiliu Smith Morenikeji Onasanya Akinsola Akinfemiwa Kehinde Durosini-Etti Segun Oloketuyi Gbenga Ademulegun Victor Adenigbagbe Olatunde Ayeni Kolawole Awodein Jason Fadeyi Micheal Tarfa Vinay Tuteja Anthony Ukpo	Chairman V/Chairman GMD/CEO DMD ED ED Director Director Director Director Director Director Director	Akintola Williams Ernst & Young

20	Unity Bank Plc Plot 785 Herbert Macaulay Way, Central business District, Abuja	216	L. Akin Mabogunje Falalu Bello Evans Woherem Lamis Shehu Dikko Ado Yakubu Wanka Olukayode A. Pitan Umaru.S. Ndanusa Samaila Mamman Adedeji Adeleke Mohammed Babangida Bola M. Shagaya Ahmed Ibrahim Abubakar Sadauki Felix O. A. Ohiwerei	Chairman MD/CEO ED ED ED ED Director Director Director Director Director Director Director Director	Akintola Williams Pernell Kerr Forster
21.	Union Bank of Nigeria Plc 36, Marina, P.M.B. 2027, Lagos. www.unionbankng.com	402	Musa Gella Yakubu, SAN, OFR Bartholomew Bassey Ebong, OON Ado Abdullahi Kenneth Sola Adeyemi Samuel Idowu Ayininuola Ebenezer Uzoma Emeruem Anthony Eghodaghe Esangbedo Walter Chukwukaodinaka Orji Mbah Austen Iheanyi Njideofo Obigwe Ahmadu Abubakar Mansur Ahmed Onikepo Akande Ibrahim Abdullahi Gobir Olusegun. Olusanya Festus. Boniface Odimegwu, OON Cosmas Paul Udofot Onijite Okoloko	Chairman GMD/CEO ED ED ED ED ED ED ED Director Director Director Director Director Director Director Director	Akintola Williams Deloitte & Touche Oyelami Soetan Adeleke & Co

22	United Bank for Africa Plc UBA House, 57, Marina, P.O.Box 2406, Lagos	624	Ferdinand N. Alabraba Tony O. Elumelu, MFR Godwin Ize-Iyamu Victor Osadolor Philips Oduoza Faith Tuedor-Matthews Ibrahim M. Jega Isreal C. Ogbue Rose A. Okwechime Willy Kroeger Paolo D. Martino Adekunle A. Olumide, OON Kolawole B. Jamodu, OFR Garba Ruma Runa N. Alam Emmanuel Nnorom Rasheed Olaoluwa Angela Nwabuoku Ja'afaru A Paki Foluke K. Abdul-Razaq	Chairman GMD/CEO ED ED ED ED ED ED ED Director Director Director Director Director Director Director Director Director Director	Akintola Williams Deloitte
23	Wema Bank Plc Wema Towers, 4th Floor, 54, Marina, P.M.B. 12862, Lagos. www.wemebank.com	149	Festus Ajani Mahmoud Lai Alabi Nurudeen Fagbenro Christy N.Okoye Dauda N. Iliya Wole Olanipekun	Ag Chairman Ag. MD/CEO ED ED ED Director	KPMG Professional Service

24	Zenith Bank Plc Plot 87, Ajoye Adeogun Street, P.O.Box 75315, Victoria Island, Lagos. www.zenithbank.com	268	Macaulay Pepple Jim Ovia Godwin Emefiele Peter Amangbo Elias Igbin-Akenzua Apollos Ikpobe Andy Ojei Udom Emmanuel E. M. Ekwuenu S. P. O. Fortune-Ebie Baba Tela L. F. O. Obika Steve Omojor Babatunde Adejwon	Chairman GMD/CEO DMD ED ED ED ED ED Director Director Director Director Director Director	Price Waterhouse Coopers
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SECTION 14

Major Developments In The Other Insured Deposit-Taking Financial Institutions In 2008

14.0 Introduction

During the year under review, the Corporation extended deposit insurance cover to licensed microfinance banks (MFBs) and primary mortgage institutions (PMIs) in keeping with the provision of the NDIC Act No 16 of 2006. Microfinance banking was an initiative designed to help the poor but economically vibrant Nigerians to have access to credit and reduce the level of poverty in the country. The primary mortgage institutions, on the other hand, were established under the Federal Government's National Housing Policy designed to solve the housing problems facing the country. The PMIs were expected to provide mortgage finance and also help in the disbursement of the National Housing Fund (NHF) established by government.

The extension of deposit insurance cover to the institutions was expected to engender the confidence of the banking public in the MFBs and PMIs thereby re-positioning them to play their intermediation roles in the economy like the conventional banks. Presented in this section of the report is a review of developments and performance of these other insured deposit-taking financial institutions as well as the challenges militating against their effective performance during the period under review.

14.1 Operations And Performance Of Microfinance Banks (MFBs) In 2008

The Microfinance Policy was launched on the 15th December, 2005 by the Central Bank of Nigeria (CBN) to complement the banking sector reforms. According to the policy framework, MFBs were promoted to provide financial services to the economically active poor in the society. The policy was targeted at creating an environment of financial inclusion to boost capacity of micro, small and medium enterprises (MSMEs) to contribute to economic

growth and development through job creation that would lead to improved standard of living and poverty reduction.

The specific objectives of microfinance policy are as follows:

- Make financial services accessible to a large segment of the potentially productive Nigerian population which otherwise would have little or no access to financial services;
- Promote synergy and mainstreaming of the informal sub-sector into the national financial system;
- Enhance service delivery by microfinance institutions to micro, small and medium entrepreneurs;
- Contribute to rural transformation; and
- Promote linkage programmes between Universal/Development banks, specialized institutions and microfinance banks.

The Microfinance Policy permits the establishment of two categories of MFBs, namely:

- MFB operating as a unit bank with a minimum capital requirement of ₦20 million; and

- MFB operating in a State with a minimum capital requirement of ₦1.0 billion.

Community Banks (CBs) hitherto in existence were allowed to convert to MFBs provided they met the licensing requirements. Of the 1,259 CBs in operation as at December 31, 2007, the total number that met the minimum capital requirement of N20 million Shareholders' Funds, unimpaired by losses, and converted to MFBs were 607 as at the end of 2008. An analysis of the CBs that converted to MFBs showed that 308 CBs had completed the process and obtained final licence, while 299 were still carrying provisional approval as at December 31, 2008. Delays in registering increases in capital, change of name and registration of new directors at the Corporate Affairs Commission (CAC), due to non-payment of penal charges for non-submission of statutory returns by the institutions (despite the concessions granted by the CAC), were largely responsible for the slow conversion of their provisional approvals to final licence during the year.

In addition to the 607 CBs converted to MFBs, a total of 138 new micro-finance banking licences were granted, while 95 approvals-in-principle (AIPs) had been granted as at December 31, 2008. With that development, the total number of approved MFBs as at the end of year 2008 were 840. Presented in Table 14.1 is the distribution of the 840 MFBs on a state-by-state basis, including the Federal Capital Territory, Abuja.

Table 14.1

Distribution of the MFBs on State Basis As At December 2008

STATE	CBs CONVERTED TO MFBs			NEW INVESTORS			TOTAL
	FINAL LICENCE	PROVISIONAL APPROVAL	SUB-TOTAL	FINAL LICENCE	AIP	SUB-TOTAL	
ABUJA FCT	7	1	8	14	9	23	31
ABIA	7	10	17	1	6	7	24
ADAMAWA	3	4	7	1	0	1	8
AKWA IBOM	4	3	7	3	2	5	12
ANAMBRA	59	16	75	3	1	4	79
BAUCHI	2	7	9	1	2	3	12
BATELSA	1	0	1	2	0	2	3
BENUE	6	1	7	2	0	2	9
BORNO	-	3	3	1		1	4
CROSS RIVER	10	5	15	0		0	15
DELTA	10	15	25	3	1	4	29
EBONYI	1	4	5	1	0	1	6
EDO	11	12	23	2	0	2	25
EKITI	5	8	13	-	-	0	13
ENUGU	14	6	20	1	1	2	22
GOMBE	2	1	3		1	1	4

IMO	13	26	39	3	1	4	43
JIGAWA	1	3	4		2	2	6
KADUNA	4	14	18	2	3	5	23
KANO	-	5	5	1	0	1	6
KATSINA	2	2	4	1	0	1	5
KEBBI	1	5	6			0	6
KOGI	9	12	21			0	21
KWARA	9	9	18	2	2	4	22
LAGOS	30	30	60	79	50	129	189
NASARAWA	2	1	3		1	1	4
NIGER	7	2	9	1		1	10
OGUN	29	21	50	2	2	4	54
ONDO	4	12	16	0	1	1	17
OSUN	19	9	28	3	1	4	32
OYO	19	24	43	3	2	5	48
PLATEAU	4	7	11		1	1	12
RIVERS	10	8	18	6	6	12	30
SOKOTO	2	3	5			0	5
TARABA	-	4	4			0	4
YOBE	-	1	1			0	1
ZAMFARA	1	5	6			0	6
TOTAL	308	299	607	138	95	233	840

Sources: Committee on the Implementation of the National Microfinance Policy

As evidenced in the above table, the highest concentrations of MFBs during the year under review, were in the urban and semi-urban areas of the country. The analysis shows that the MFBs were concentrated in Lagos (189), Anambra (79), Ogun (54), Oyo (48) and Imo (43) States. The five states accounted for 413 or 49.17 per cent of the total number of approved

MFBs. The remaining 31 states and Abuja, FCT accounted for 427 or 50.83 per cent of the total number of approved MFBs as at the end of 2008. In terms of the spread across geo-political zones, the Northern states had few MFBs with Yobe state having only one MFB in 2008. Similarly, about 42% or 353 MFBs were located in the South West geopolitical zone followed by South East with 20.7% or 174 MFBs. North East Zone had the least with 3.9% or 33 MFBs in 2008.

Nine (9) out of the 840 MFBs as at the end of 2008, were licensed as state-wide MFBs. The list of the state-wide MFBs is presented in Table 14.2.

Table 14.2

LIST OF STATE-WIDE MICROFINANCE BANKS IN 2008

S/NO	Name	Status	Dominant State of Operation	Branch Expansion to Other States
1	NPF Microfinance Bank Ltd	Converted CB	Lagos	Abuja, Rivers
2	Integrated Microfinance Bank Ltd.	New MFB	Lagos	Ogun, Oyo
3	UBA Microfinance Bank Ltd.	Subsidiary of a DMB*	Lagos	None yet
4	FBN Microfinance Bank Ltd	Subsidiary of a DMB*	Lagos	None yet
5	Blue Intercontinental Microfinance Bank Ltd	Subsidiary of a DMB*	Lagos	None yet
6	AB Microfinance Bank Ltd	New MFB Foreign Ownership	Lagos	None yet
7	Afribank Microfinance Bank Ltd	Subsidiary of a DMB; AIP granted	Lagos	None yet
8	LAPO Microfinance Bank Ltd	Transforming NGO-MFI AIP granted	Edo	18 Others
9	COWAN Microfinance Bank Ltd	Transforming NGO-MFI AIP granted	Ondo	16 Others

Sources: *Committee on the Implementation of the National Microfinance Policy*

* DMB is deposit money bank

Table 14.3 shows ten (10) universal banks with interest in MFBs. As shown in the table, three (3) of the universal banks had established microfinance units at their Head Offices, whilst the remaining seven (7) had ownership interest in various proportions in MFBs.

Table 14.3

UNIVERSAL BANKS WITH MFBs AS SUBSIDIARIES/WINDOWS AS AT DECEMBER 31, 2008

S/N	Universal Bank	Subsidiary/Window	Ownership	Status
1.	UBA Plc	UBA MFB Ltd	UBA – 100% (Wholly Owned)	Final Licence approved
2.	First Bank of Nigeria Plc	FBN MFB Ltd	FBN – 100% (Wholly Owned)	Final Licence approved
3.	Intercontinental Bank Plc	Blue Intercontinental MFB Ltf	Intercontinental Bank – 35%	Final Licence approved
4.	Ecobank Plc	ACCION Ltd	Ecobank – 18.47%	Final Licence approved
5.	Zenith Plc	ACCION Ltd	NIB – 10.00%	Final Licence approved
6.	NIB (Citibank)	ACCION Ltd	NIB – 19.90%	Final Licence approved
7.	Afribank Nigeria Plc	Afribank MFB	Afribank – 100% (Wholly owned)	Underprocessing
8.	Oceanic Bank Plc	Microfinance Unit/Dept	N/A	N/A
9.	Diamond Bank Plc	Microfinance Unit/Dept	N/A	N/A
10..	Union Bank of Nigeria Plc	Microfinance Unit/Dept	N/A	N/A

Sources: *Committee on the Implementation of the National Microfinance Policy*

One of the major challenges facing the Corporation in the supervision of the MFBs during the period under review was non-rendition of returns by some of the institutions. That challenge was partly addressed in 2008 by making MFBs to submit their returns through NDIC zonal offices and electronically by e-mail. That had to a great extent improved rendition of returns. During the year, returns were received from 453 MFBs out of 840 MFBs that were in operation. An analysis of the financials of the MFBs revealed that the total assets stood at ₦77.878 billion, total deposit liabilities amounted to ₦39.57 billion and total loans and advances was ₦27.77 billion for the 453 reporting institutions as at the end of 2008. Total paid-up capital was ₦17.45 billion.

Majority of the MFBs examined during the year were operating like universal banks, with large workforce and offer their staff unsustainable remuneration and benefits. It was observed that many of the MFBs preferred to grant commercial loans to businessmen rather than the economically active poor that should be their primary/target customers. The examination reports of 145

MFBs examined in 2008 revealed that only about 26% (on the average) of the total credit portfolio of MFBs qualified as micro credits.

The MFBs tended to be risk averse as many of them kept large sums of money with the universal banks rather than give such funds as loans. Some were even very risk averse as their funds were invested in Treasury Bills. The overall picture in 2008 was that the MFBs had more funds tied down as Cash and near Cash Assets than credits granted.

14.1.1 Micro Credit Fund

Access to funding had been identified as a major constraint to increasing the outreach of MFBs. In order to address the problem, a ₦50 billion Micro-Credit Fund (MCF), initiated by the Bankers' Committee to enhance the flow of funds to micro, small and medium enterprises (MSMEs) was launched in 2008. The Bankers' Committee contributed ₦20 billion from the Small and Medium Industries Equity Investment Scheme (SMEEIS) fund to the MCF.

That contribution was expected to increase to ₱100 billion by 2020. The objectives and guidelines for the MCF were reviewed by the CBN in December 2008 to further strengthen its implementation.

14.1.2 Capacity Building

Microfinance was a novel idea in the country and both regulators and operators did not have adequate knowledge and skills for microfinance operations. In that regard, the Corporation during the year under review, partnered with the CBN to build capacity of its staff. In 2008, some examiners were sent to The Philippines and Bangladesh (which had recorded great success in microfinance), to learn about the operations of microfinance. In addition, facilitators were invited from Social Enterprises Development Partnerships Incorporated (SEDPI) Ateneo De-Manila University of Philippines for implant courses organized by the Corporation to train the bulk of examiners in 2008. A total of forty (40) examiners benefited from the courses.

14.1.3 Challenges Faced By The MFBs Sub-Sector

The Microfinance Sub-sector was faced with a number of challenges, some of which included:

i. High Operating Cost

Majority of the MFBs operated as if they were in competition with the universal banks. The cost of office accommodation mostly in urban centres, heavy wage bills and fringe benefits resulted in very high operating costs which reduced the loanable funds available to most of the MFBs.

ii. Lack of Microfinance Experience

Microfinance was a novel idea in the country, therefore majority of the staff of MFBs did not have requisite knowledge and skills in microfinance. Most of the MFBs staff had universal banking job experience and that explained why some of them focused mainly on conventional banking products.

iii. Contagion Risk

As a result of the failure of community banks, finance houses and “wonder banks”, the public were weary of patronizing MFBs. That had to a great extent created problems in deposit mobilization by the MFBs.

iv. Challenge of Management Information System

Many of the MFBs were yet to be computerized. That was to be expected as best practices recognized the fact that the cost of computerization could be too much for MFBs to bear at inception, and that had implications for early implementation of e-FASS for electronic rendition of statutory returns. Manual operation by the MFBs made accurate record keeping cumbersome.

v. Poor Corporate Governance

The Boards of MFBs should be responsible for establishing strategic objectives, policies and procedures that would guide and direct the activities of the banks. These were lacking in most MFBs examined, which operated without strategic plans, policies and procedures. Also, there were issues of self-serving practices and insider abuse by the owners, board and management of some of the MFBs.

vi. Loan Recovery Challenges

During the period under review, there was already a build-up of non-performing loans in the sub-sector. The legal and judicial system made it difficult for the MFBs to recover loans and realize collaterals obtained to secure loans.

vii. Collateral Security Challenge

In other jurisdictions where microfinance operations had been successful, emphasis was not laid on collaterals for micro credit. Many MFBs in Nigeria

were yet to embrace that lending practice because of the poor borrowing culture in Nigeria. That challenge had been exacerbated by the slow judicial processes in adjudicating loan recovery cases.

14.2 Operations And Performance Of The Primary Mortgage Institutions (PMIs) In 2008

During the year, many of the PMIs on their own had individually enhanced their capital base to support their operations. Out of the 94 PMIs that were licensed by the CBN, only 81 were in operation as at the end of year 2008.

One of the challenges faced by the Corporation was the failure of the PMIs to render returns as at when due. In 2008, only 59 (or 73 percent) of the 81 PMIs in operation rendered returns while about 27% or 21 of the PMIs failed to render returns.

The paid-up capital of the 59 reporting institutions stood at ~~N~~33.16 billion.

Analysis of the information rendered by the fifty-nine (59) PMIs in 2008

revealed that their total asset was ₦253.978 billion while their total deposits was ₦159.73 billion. The sum of ₦5.732 billion was obtained from the National Housing Fund (NHF) for on-lending, while the sum of ₦12.53 billion was obtained as Long Term Loans from universal banks and other sources for estate development during the year.

Available statistics also revealed that the PMIs had not been meeting the expectations of Nigerians in terms of granting mortgage loans. That was evidenced by the ratio of mortgage loans to total assets which in 2008, stood at 14.36% as against the prescribed minimum of 30%. Also, the ratio of mortgage loans to loanable funds which stood at 17.27% in 2008 was far below the prescribed minimum of 60%.

The loanable funds available to PMIs in 2008 was ₦211.156 billion out of which 17.27% or ₦36.47 billion was granted as mortgage loans, ₦45.75 billion or 21.67% was granted as commercial loans while ₦41.75 billion or

19.77% and ₦96.102 billion or 45.51% respectively represented investment in shares & treasury bills and cash/short term funds during the year.

14.2.1 Challenges Faced By The Primary Mortgage Institutions (PMIs)

The PMIs during year under review, were faced with many challenges that militated against their performance in terms of achieving the policy objectives of acting as a catalyst for the development and provision of affordable houses to average Nigerians. Some of the challenges included:

i. Difficulties in Accessing The NHF

The PMIs complained about the difficulty they encountered in assessing the fund. They experienced a lot of delays before funds were disbursed. Funds had not been disbursed by the Federal Mortgage Bank of Nigeria (FMBN) since 2007 even though some of the PMIs had met all conditions stipulated for the release of the funds.

ii. Inability of PMIs To Provide Required Guarantee

Some PMIs found it difficult to provide the required bank guarantee for the NHF loans. The FMBN could review that condition so as to facilitate the quick processing of applications.

iii. Difficulty in Mobilizing Deposit

The PMIs had a lot of challenges in the area of deposit mobilization. The banking public, preferred to open accounts with the universal banks, than with the PMIs whose operations were too complicated for them to understand. The PMIs found it difficult to mobilize long term deposits to finance their housing projects which are usually long term by nature.

iv. Difficulty in Perfecting Title Documents

The existing land tenure system was of great concern to the PMIs because the process of perfecting a title to a landed property was cumbersome, slow and costly.

v. Poor Borrowing Culture

This challenge affected all lending institutions in Nigeria. That had resulted in huge non-performing loans in the PMIs loan portfolio.

Section 15

Frequently Asked Questions (FAQs) About Deposit Insurance System And The NDIC

Introduction

The ***NDIC -Nigeria Deposit Insurance Corporation***, is an independent agency of the Federal Government of Nigeria. The purpose of the deposit insurance system is to protect depositors and guarantee the settlement of insured funds when a deposit-taking financial institution can no longer repay its deposits, thereby helping to maintain financial system stability. The NDIC Act No 16, 2006 (which replaced NDIC Decree No 22 of 1988), established the Corporation as a body corporate with perpetual succession and a common seal.

As part of the Corporation's continuous effort to enlighten the public, this section covers some of the Frequently Asked Questions (FAQs) and the answers about Deposit Insurance and the NDIC. This is meant to facilitate understanding by the public of the Deposit Insurance Scheme (DIS) as implemented in Nigeria.

Question 1: What Is Deposit Insurance?

Answer: Deposit Insurance is a system established by the Government to protect depositors against the loss of their insured deposits placed with member institutions in the event that a member institution is unable to meet its obligations to depositors. Deposit Insurance ensures that the depositor does not lose all his money in the event of a bank failure. It also

engenders public 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: Why is Deposit Insurance necessary?

Answer: Financial institutions differ from most industrial and commercial enterprises in that they depend mainly on deposits mobilized from the public for their working capital and are highly leveraged. If a financial institution is unable to meet its obligation to depositors due to operational problems or business failure, anxious depositors may cause a run on the bank as well as other healthy institutions. The stability of the financial system and social order in general would also be at risk. Moreover, most depositors have small deposit amounts and therefore cannot cost-effectively collect and analyze information on the financial institutions they do business with. The government has therefore established a deposit insurance mechanism, under which the NDIC is empowered to provide protection for small depositors and contribute to financial and social order.

Question 3: How does deposit insurance maintain financial system stability?

Answer: Financial institutions play an important role in regulating the supply and demand of capital and promoting economic development. They accept deposits, which are a highly liquid form of debt, yet most of their assets are tied up in long-term

illiquid vehicles. Financial institutions therefore have a hard time realizing their assets for cash, when their business runs into problems, so depositors may lose confidence, triggering a bank run. The limited liquidity of financial institutions also encourages a perception among depositors that making an early withdrawal is the only way to get their money back. This fear can exacerbate a bank run and also have a chain reaction that leads to runs on other banks as well. Deposit insurance system is usually established to prevent this by providing assurance of deposit repayment to the great majority of depositors. In doing so, the system also prevents systemic risk and ensures the stability of the financial system.

Question 4: Who administers deposit insurance system in Nigeria?

Answer: The NDIC, a government – owned institution, established by Decree 22 of 1988 and now replaced with Nigeria Deposit Insurance Act No. 16 of 2006, is the agency empowered to administer the deposit insurance system in Nigeria, thereby protecting depositors. The Corporation provides incentives for sound risk management in the Nigerian banking system, and promotes as well as contributes to the stability of the financial system. The NDIC manages two deposit insurance funds, the Deposit Insurance Fund (DIF) for universal banks and the Special Insured Institutions Insurance Fund (SIIF) for licensed Microfinance Banks (MFBs) and Primary Mortgage Institutions (PMIs).

Question 5: 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. Different Purposes

The purpose of deposit insurance is to protect the rights and interest of depositors, maintain credit order, and promote the sound development of the financial industry. It is designed to serve the public welfare with no profit-earning motive. Conventional insurance companies providing property and life insurance, on the other hand, are commercial types of insurance.

2) Different Beneficiaries

Under the deposit insurance system, insured institutions pay insurance premiums to the NDIC, which uses these funds to protect the depositors of the insured institutions. If an insured institution goes out of business or is unable to pay its deposit liabilities, the NDIC by law will reimburse the guaranteed amount to depositors of the failed institutions. The insured institution therefore is different from the beneficiaries (the depositors). With property and life assurance policies, the insured party can designate itself or another party as the beneficiary. When

an insurance incident or claim occurs, the insured party or beneficiary of a property or life assurance will claim compensation from the insurance company. The insured party can also be the beneficiary.

3) Different Functions

With property and life insurance, claims are paid by the insurer after an insurance incident. Deposit insurance claims are also paid after an insurance incident. However, the deposit insurance system in Nigeria takes active measures to keep such insurance incidents from occurring. When a financial institution experiences trouble, the NDIC uses the Early-Warning System, Off-site Monitoring of insured institutions, assistance and other measures, to help the insured institution return to sound operations. It is when the troubled insured institution does not respond favourably to the measures that the insurance incident is deemed to have taken place and claims are thereafter paid.

d. Different Policy Role

Deposit insurance also plays a policy role as part of the financial safety net. In addition to fulfilling deposit insurance responsibilities toward the insured institutions which are unable to perform their deposit payment obligations or are non-viable, the deposit insurance

system helps the government to establish mechanisms for withdrawing problem financial institutions from the market in order to effectively prevent the occurrence of systemic risk.

e. Different Conditions for Participation

In deposit insurance, best practice dictates that participation should be compulsory. Participation in conventional insurance contract is generally voluntary.

d) Different Coverage Levels

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 6: Who are the Insured Institutions Under The Deposit Insurance Scheme in Nigeria?

Answer: Insured institutions are all deposit-taking financial institutions licensed by the Central Bank of Nigeria (CBN) such as:-

- Universal Banks (deposit money banks);
- Micro-finance Banks – (MFBs); and
- Primary Mortgage Institutions (PMIs).

Membership is compulsory as provided under the NDIC Act No 16 of 2006.

Question 7: **How can the public find out if a financial institution is insured by the NDIC?**

Answer: To identify insured financial institutions, look out for an NDIC decal (sticker) displayed in the head offices and branches of all insured institutions or call our **Help Line** 09 460 1280; and 09 4601032 or visit our website: www.ndic-ng.com.

Question 8: **Which financial institutions are not covered by the NDIC?**

Answer: Financial institutions not covered by the NDIC include:

- Development Finance Institutions such as Bank of Industry, Federal Mortgage Bank, Nigeria Agricultural, Cooperative and Rural Development Bank and Urban Development Bank
- Discount Houses
- Finance Companies
- Investment Firms
- Unit Trusts/Mutual Funds
- Insurance Companies
- Pension Fund Administrators (PFAs)

Question 9: What types of deposits are insured by the NDIC?

Answer: Not all deposits at insured institutions are covered by the NDIC. The following table lists deposits that are insured and those that are not insured:

Insured Deposits	Uninsured Deposits/Instruments
Current Account Deposits	Inter-bank placements
Savings Account Deposits	Insider deposits (i.e. deposits made by staff, directors and other connected parties) Deposits held as collateral for loans
Time or Term Deposits	Investment in: Stocks, Bonds, Mutual Funds, Annuities, Commercial Papers and Debentures
Foreign Currency Deposits	Federal Government Treasury Bills, Bonds and Notes

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

Question 10: 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 11: How Does The NDIC Assess Premium and Who Pays For The Insurance Premium?

Answer: Participating institutions are required to pay annual premiums to the deposit insurance system administered by the NDIC. The premium is assessed based on participating institutions' total assessable deposit liabilities as at 31st December of the preceding year. The assessable deposit liabilities are total deposits 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 the economy in general. The NDIC has adopted Differential Premium Assessment System (DPAS).

Question 12: How Does The NDIC Protect The Deposit Insurance Fund (DIF)?

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 13: 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 an insured institution fails as well as for granting financial assistance to deserving participating institutions.

Question 14: 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 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. Indeed, 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 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 15: 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 the maximum insured sum (N200,000.00 to a depositor in universal banks and N100,000 to a depositor in MFBs and PMIs) 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 to protect depositors, ensure monetary stability and effective/efficient payment system as well as to 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 unchecked. It also provides the oversight functions required to preserve the integrity of and promote public confidence in the banking system.

c) Failure 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 16: **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 17: As a Depositor Must I Apply For The Deposit Insurance Coverage?

Answer: No, a depositor does not need to. Under the Nigeria deposit insurance system, eligible deposit accounts in insured institutions are automatically insured at no charge to any depositor.

Question 18: When is Insured Deposit Payable?

Answer: Deposit insurance is payable only when an insured institution has been closed as a result of action taken by the Central Bank of Nigeria or when there is suspension of payment by a bank.

Question 19: What Methods of Payment Does the NDIC Use In Meeting Its Obligations To Depositors of a Failed Institution?

Answer: The NDIC could pay depositors of a failed insured institution either by transfer to a financial institution with instructions to effect payments to depositors on its behalf, or directly by means of issuing cheques up to the insured limit which will be collected at the NDIC's designated centres, usually the closed bank's offices.

Payments could also be made through Purchase and Assumption, whereby a healthy bank assumes part or all of the deposit liabilities of a failed insured bank.

Question 20: What Does a Deposit Transfer involve?

Answer: The NDIC transfers an amount equivalent to the total insured deposits of a failed insured institution to another financial institution under an agreement which will enable depositors of the failed insured institution to collect their entitlements from the financial institution.

Question 21: How are the Insured Sums Collected?

Answer: Insured sums are collected by depositors on filing their claims through the completion of relevant forms provided by the Corporation. In addition, they have to furnish the Corporation with account documents such as unused cheque books, old cheque stubs, passbooks, fixed deposit certificates, etc. Each depositor would also be required to identify him/herself with a valid identification document such as National ID Card, 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 22: 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 National ID Card, Driver's Licence or International Passport.

Question 23: Can a Depositor Leave His/Her Deposit With The Transferee Institution?

Answer: Yes, a depositor, if he/she wishes, can open an account with the transferee institution for the full amount or part of his/her deposit.

Question 24: 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 25:What is Liquidation Dividend?

Answer: This is payment made to a depositor of a failed insured institution in excess of the insured sum. While the insured sums are paid from the Corporation's Deposit Insurance Fund (DIF) or Special Insured Institutions Fund (SIIF), liquidation dividends are paid from funds realized from the sale of the assets and recoveries of debts owed to the failed insured institution.

Question 26: What is the Current Insured Limit And Why Is It Limited To A Fixed Sum?

Answer: The insured limit is currently a maximum of N200,000 for each depositor in respect of deposits held in each insured universal bank and N100,000 for each depositor in Microfinance Bank and Primary Mortgage Institutions in same right and capacity. 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. Unlimited coverage could constitute a perverse incentive for excessive risk-taking.

Question 27: If a Depositor Has an Account in the Main Office of a Participating Institution And Also At a Branch Office, Are These Accounts Separately Insured?

Answer: No. The main office and all branches are considered to be one institution. Therefore, the accounts would be added together and covered up to the maximum insured sum.

Question 28: 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 29: Is The Insurance Protection Increased By Placing Funds In Two or More Types of deposit Accounts in the Same Participating Institution?

Answer: No, Deposit insurance is not increased merely by dividing funds held in the same right and capacity among the different types of deposits available. For example, demand, time and savings accounts held by the same depositor in the same right and capacity are added together and insured up to the maximum insured sum.

Question 30: 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 31: 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 32: 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 33: 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 34: 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 35: 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 36: Will The NDIC Offset a Deposit Balance held By a Customer Against The Balance Due On the Loan?

Answer: The NDIC will offset the balance on a deposit account, including any uninsured portion, against a loan if the loan and deposit are held by the same person or persons.

Question 37: Does the Borrower's Obligations to the Institution Continue After the Institution is Closed?

Answer: Yes. When acting as Liquidator of a closed institution, the Corporation is acting on behalf of all creditors of that institution and its obligation is to collect all loans promptly and efficiently along with other assets of the institution.

Question 38: What Does Purchase And Assumption (P & A) Mean?

Answer: Purchase and assumption (P & A) is a merger-type transaction which involves purchasing the assets of a failed bank and assuming its liabilities by another insured bank(s).

Question 39:What Does Open Bank Assistance (OBA) Mean?

Answer: Open Bank Assistance (OBA) is a situation where a failed insured institution is allowed to continue to operate in the same name as a going concern. It may involve change in ownership and management of the bank; injection of fresh funds in the form of equity and/or loan capital; and re-organisation and overhauling of the bank including rationalization of staff and branches.

Question 40: What Is A Bridge Bank?

Answer: This is a situation whereby a failed bank is turned over to a new bank specifically set up to assume the assets and liabilities of the failed bank. The bridge bank would permit continuity of banking services to all customers and fully protect all the depositors and creditors of the failed bank pending final resolution. A bridge bank is usually set up for a specified period of time.

Question 41: How can the public contact NDIC about questions and suggestions regarding deposit insurance?

Answer: NDIC has set up the following contact channels to provide customer service to the public:

- a. For obtaining quick answers to your questions, call our help-line service: 09 460 1280; and 09 4601032.
- b. The banking public can send comments to NDIC by mail to: The Managing Director/Chief Executive Officer, Nigeria Deposit Insurance Corporation, Plot 447/448 Constitution Avenue, Central Business District, P.M.B. 284, Abuja.
- c. Information on NDIC and the deposit insurance system can be accessed from our website at: www.ndic-ng.com. You can also submit comments or questions through the web site.

DIS GLOSSARY

Term	Definition
Acquiring Institutions	A healthy bank or financial institution that purchases some or all of the assets and assumes some or all of the liabilities of a failed institution in a purchase and assumption transaction.
Adverse Selection	The tendency for higher-risk banks to opt for deposit insurance and lower-risk banks to opt-out of deposit insurance when membership in a deposit insurance system is voluntary.
Assessment Base	The base on which the deposit insurer adopts to charge premium or to calculate the levy needed to compensate the insured depositors.
Asset Purchases	A buyout strategy in which certain specific assets of a target institution are purchased.
Bank Run	A rapid loss of deposits precipitated by fear on the part of the public that a bank may fail and depositors may suffer losses.
Benchmark	A standard or guideline to which other items or processes can be compared.
Blanket Guarantee	A declaration by the government that all deposits and perhaps other financial instruments will be protected.
Bridge Bank	A temporary bank established and operated to acquire the assets and assume the liabilities of a failed institution until final resolution can be accomplished.
Claim	An assertion of the indebtedness of a failed institution to a depositor, general creditor, subordinated debt holder, or shareholder.
Coinsurance	An arrangement whereby depositors are insured for a pre-specified portion, less than 100 percent of their deposits and are made to bear some loss.
Collateralisation	The taking of a mortgage, pledge, charge or other form of security by a creditor over one or more assets of a debtor.
Mandatory Coverage	A deposit insurance system that all targeted institutions must participate or be member institutions according to law or agreement.
Conservatorship	The legal procedure provided by statute for the interim management of financial institutions.
Contagion	The spread of an individual bank run or adverse condition to several other financial institutions.

Corporate Governance	The system by which an organisation is directed, administered or controlled, and includes the relationships among stakeholders and the goals for which the organisation is governed.
Coverage Ratio (by account)	A measure of all depositors that would be fully protected in case of an insured institution failure.
Coverage Ratio (by value)	Ratio of insured deposits divided by total insurable deposits.
Covered Item	Accounts and financial products which are at insured institutions and covered by the deposit insurer.
Deposit Insurance	Deposit insurance is a system established to protect depositors against the loss of their deposits in the event of an insured institution's inability to meet its obligations to depositors.
Deposit Payout	A resolution method for failed institutions that involves the reimbursement of insured deposits.
Depositor Priority	The granting of preferential treatment to depositors such that their claims must be paid in full before remaining creditors can collect their claims (same as depositor preference.)
Differential Premium	A levy on a bank assessed on the basis of that bank's risk profile (also called Risk-Adjusted Differential Premium).
Disclosure	A fact, condition, or description that is revealed clearly and publicly.
Due Diligence	A potential purchaser's evaluation of books and records of a failing institution preparatory to a bid or acquisition.
Enterprise Risk Management	The framework applied on an organization-wide basis to ensure and demonstrate that an entity's significant risks are being consistently and continuously identified, assessed, managed, monitored and reported on.
Ex-ante Funding	The accumulation of a fund to cover deposit insurance claims in anticipation of the failure of an insured bank.
Ex-post Funding	An assessment levied after the failure of a insured bank to provide funds to cover deposit insurance claims/obligations.
Financial Safety Net	A financial stability mechanism that usually comprises the deposit insurance function, prudential regulation and supervision, and the lender-of-last-resort function.
Flat - Rate Premium	A premium assessed at a uniform rate across all insured institutions.

Foreign Bank/Subsidiary Branch	A foreign-bank subsidiary is incorporated as a separate legal entity in the host country. A foreign-bank branch, on the other hand, is an expansion of a foreign bank into a host country. Foreign-bank branches and subsidiaries may be subject to different rules and supervised differently by a host country.
Hybrid Funding	A funding method used by the deposit insurers by combining both the ex-ante and ex-post funding mechanisms.
Indemnification	In general, a collateral contract or assurance under which one person agrees to secure another person against either anticipated financial losses or potential adverse legal consequences.
Indexed Coverage	The limited coverage level determined by the inflation rate of a country.
Insured Deposits	Types of deposits that are covered by deposit insurance scheme.
Interrelationship	Relationships among deposit insurers and other financial safety players and their collaboration through allocation of powers and responsibilities, information sharing, and the co-ordination of actions to promote financial stability.
Least-Cost Resolution	A procedure that requires the deposit insurer or other designated entity to implement the resolution alternative that is determined to be less costly to the system than all other resolution alternatives, including the liquidation of the failed bank.
Lender-of-Last-Resort Function	The provision of liquidity to the financial system by a central bank.
Limited-Coverage Deposit Insurance	A guarantee that the principal and/or the interest accrued on protected deposit accounts will be paid up to a specified limit.
Liquidation	The winding up of the business affairs and operations of a failed insured depository institutions through the orderly disposition of its assets.
Loss Sharing	A method in a purchase and assumption transaction in which the receiver agrees to share with the acquirer losses on certain types of loans. Loss sharing may be offered by the receiver in connection with the sale of classified or non performing loans that otherwise might not be sold to an acquirer at the time of resolution.
Mandate	A mandate is a set of official instructions or statement of purpose of a firm or an organization.

Market Discipline	A situation where depositors or creditors assess the risk characteristics of a bank and act upon such assessments to deposit or withdraw funds from a bank.
Maximum Coverage	The amount a depositor can claim from the deposit insurer in the event of bank failures. See also "Limited-Coverage Deposit Insurance".
Moral Hazard	The incentive for additional risk taking that is often present in insurance contracts and arises from the fact that parties to the contract are protected against loss.
On-Site Appraisal	An essential part of the banking supervisory process undertaken by authorities. The appraisals include examinations of books, records and internal controls of financial institutions.
Open-Bank Assistance	A resolution method in which an insured bank in danger of failing receives assistance in the form of a direct loan, an assisted merger, a purchase of assets, or through other means.
Paybox	A deposit insurer with powers limited to paying out the claims of depositors.
Prompt Corrective Action	A supervisory action to provide a timely and non-discretionary trigger mechanism for early intervention in problem financial institutions.
Purchase and Assumption (P & A) Transaction (Sales)	A resolution method in which a healthy bank or group of investors assume some or all of the obligations, and purchase some or all of the assets of the failed bank.
Receiver	The legal entity that undertakes the winding down of the affairs of an insolvent bank.
Receivership	The legal procedure for winding down the affairs of an insolvent institution.
Resolution Costs	These comprise the sum of the expenditures and obligations incurred, including any immediate or long- term obligations and any direct or contingent liabilities for future payment, net of recoveries on assets of the failed bank.
Risk Minimizer/Risk Manager	A deposit insurer with the powers to reduce the risks it faces. These powers may include the ability to control entry and exit from the deposit insurance system, assess and manage its own risks and may conduct examinations of banks, or request such examinations.
Set-Off	Refers to situations where the claim of a creditor in an insolvent bank (for example, a deposit) is deducted from a claim of the bank against the creditor (for example, a loan).

Situational Analysis	An examination that policymakers undertake to assess factors such as: the state of the economy; current monetary and fiscal policies; the state and structure of the banking system; public attitudes and expectations; the state of the legal, prudential regulatory and supervisory; accounting and disclosure regimes.
Start-Up Funding	The fund received by a newly established deposit insurance system by initial contributions from banks, government, and/or the central bank.
Strategic Planning	The process of developing and setting the strategic direction and actions to accomplish the vision and goals of an organisation.
Subrogation	The process where a deposit insurer is substituted as the claimant for the insured deposits paid by a deposit insurer.
Systemic Risk	A risk that has implications for the general health of the financial system and can have serious adverse implications for financial stability and overall economic conditions.
Termination of Deposit Insurance	The right of a deposit insurer to terminate the status as an insured institution if it doesn't meet some specific qualifications set by the insurer.
Too Big to Fail	The practice of protecting uninsured depositors, creditors, and others from loss when large banks fail in order to prevent the occurrence of a systemic risk.
Uninsured Deposit	Types of deposits that are not covered by deposit insurance scheme.
Voluntary System	A deposit insurance system that a targeted institution has the right to decide to participate as a member or not to.
Withheld Deposits	Deposits that are temporarily suspended to be paid by the deposit insurer due to lack of enough information. See also "Suspense Account".

Sources: *Websites Of International Association of Deposit Insurers (IADI) And Federal Deposit Insurance Corporation (FDIC)*

