

2001 ANNUAL REPORT AND STATEMENT OF ACCOUNTS

1. Introduction

The Nigeria Deposit Insurance Corporation (NDIC), Annual Report and Statement of Accounts for the year ended December 31, 2001 (the thirteenth in the series), is structured into three parts. Part one reviews developments in the banking system as well as the performance of banks in 2001. In part two, operational activities of the Corporation are provided, while banking information/data is presented in part three.

2.0 Banking Environment and Banks' Performance in 2001

The environment in which banks operated in 2001 was largely unfavourable. This was as a result of the expansionary fiscal operations of the three tiers of government through the monetisation of excess crude oil receipts, proceeds from GSM licensing and financing of fiscal deficits via borrowing from the CBN. The consequence was a mixed grill in terms of the performance of the basic macroeconomic indicators. For example, real GDP was estimated at 3.8 percent which was below the target of 5 percent set for the year, inflation rose to a double digit of 18.6 percent in December 2001 compared with 6.9 percent by the year ended December 2000. Interest and exchange rates were, however, fairly stable for most of the year. The relative stability of the naira exchange rate at IFEM was largely attributable to the tight monetary policy complemented by the 100 per cent import destination inspection at the nation's ports.

While the performance of the economy had not been impressive, the regulatory authorities did not relent in their efforts at sanitizing the industry, strengthening supervision as well as creating a level playing field for all the operators in the industry. To this end, for example, guidelines were issued by the CBN on credits and advances to all tiers of government and their agencies and banks were asked to strictly comply. Such credit facilities would attract a 50 per cent provisioning on performing credits while 100 per cent provisioning would be made for the classified facilities.

Universal banking formally took off in the country with the issuance of uniform licences to all the conventional banks, thus breaking the barrier that hitherto existed between Merchant and Commercial banks in the system. Although no bank was closed during the reporting year, one bank was however licensed which brought the number of banks in the system to 90. In addition to these, the minimum paid-up capital for new banks was raised to ₦2.0 billion during the year while that of the existing banks remained at ₦ 500 million but such banks were encouraged to continue to build up their capital base in order to strengthen their operations.

In spite of the unfavorable business environment in which banks operated during the year, banks recorded impressive performance. For example, Insured banks' aggregate total assets grew by 24.79 percent from ₦1,962.6 billion in 2000 to ₦2,449.11 billion in 2001. Total deposits mobilized grew from ₦838.6 billion in 2000 to ₦1,017.2 billion in 2001 representing 21.3 percent increase. The total assets of the financial services industry rose by 25.9 percent from ₦2,052.9 billion in 2000 to ₦2,584.6 billion in 2001 and insured banks accounted for 95.6 percent and 94.8 percent of the total in 2000 and 2001 respectively. This clearly shows that the banking sector continued to dominate the financial services industry in the economy. Total credit granted by insured banks grew by about 55 percent from ₦519.035 billion as at year-end 2000 to ₦803.04 billion at the end of 2001. The ratio of non-performing loans to total loans decreased from 21.55 percent as at December 2000 to 16.90 per cent as at December 2001. Profit before tax increased from ₦63.26 billion in 2000 to ₦98.12 billion in 2001.

3.0 NDIC Operations

As an integral part of the mechanism for ensuring safe and sound banking practices, the Corporation continued with both its On-site and Off-site supervision of banks during the reporting period. The impact of these activities reflected positively on the level and depth of distress in the industry as manifested in the significant decrease in the ratio of non-performing loans to total loans as reported above.

A total of 30 banks were examined, while Special Investigations were conducted on 24 banks, bringing the number of banks examined On-site in

2001 to 54 banks. As usual, the Off-site Supervision Department of the Corporation maintained surveillance on all the insured banks by analyzing their prudential returns with the sole objective of gauging the financial health of the banks. Bank returns continue to be rendered by banks on diskettes to the Corporation following the introduction of the Banking Analysis System (BAS). To achieve greater effectiveness in the surveillance activities of the Corporation than hitherto, especially in the area of rendition of statutory returns, the Corporation in collaboration with the CBN embarked upon the enhancement of the BAS through the review of its modules as well as the development of new business requirements. By the time the BAS enhancement exercise is completed, both On-site and Off-site surveillance of banks and the monitoring for compliance with relevant rules and regulations will be greatly enhanced.

In respect of the liquidation activities of the Corporation, a total of 33 banks were in liquidation as at the end of 2001. Some of the major liquidation activities undertaken by the Corporation were the payment of insured deposit claims to bona fide depositors (through appointed agent banks); realization of fixed assets; recovery of debts; and payment of liquidation dividend to depositors who had more than the statutorily insured amount of ₦50,000.00 as well as the creditors in closed banks. As at the end of 2001, the Corporation declared an aggregate dividend of ₦5,665.50 million for 27 out of the 33 banks in liquidation. The Corporation also paid the sum of ₦163 million as liquidation dividend to creditors of Pan African Bank (In-Liquidation) out of the ₦180.54 million declared as at the end of 2001.

The Corporation realized the sum of ₦2,688.89 million from the sales of fixed assets of closed banks and recovered ₦3,863.23 million from the debtors of the closed banks as at the end of December 2001. The recovery of debts of the banks in liquidation had been very difficult because of the protracted legal process and the fact that many of the loans were improperly granted and unsecured.

4.0 Bank Information/Data

The information/data on banks as contained in the 2001 Report relates to insured banks' addresses, nationwide distribution of their offices/branches,

head office addresses, directors and approved auditors. Statistics on the distribution of insured banks' offices show that Lagos state maintained its dominance, as it accounted for 755(27 percent) of total banks branches/offices out of a total of 2,800 branches spread across the country and overseas as at December 2001. Rivers state, the Federal Capital Territory, Kano state and Anambra state followed with 153 (5.5 percent), 139 (5.0 percent), 132 (4.7 percent) and 131 (4.7 percent) respectively.

There was an increase of 138 in the number of new branches opened across the country from 229 bank branches in 2000 to 367 branches as at the end of 2001. The increase in the number of branches could be attributed mainly to the introduction of universal banking in the year 2001 and the licensing of one new bank. The number of branches closed decreased from 66 branches in 2000 to 46 branches in 2001.

There were 754 directors serving on the board of 90 banks in 2001 as against 711 directors who served in 89 banks in 2000. As at December 31, 2001, there were 21 firms of chartered accountants approved to conduct independent audit of insured banks. Out of the approved auditors' list, there were 3 dominant firms with each having 20 or more banks to audit (either wholly or jointly with other firm). KPMG Audit, topped the list with 29 banks on their audit list, followed by Akintola Williams Deloitte & Touche and Price Waterhouse Coopers with 22 and 20 banks respectively.

FINANCIAL STATEMENT AS AT 31ST DECEMBER, 2001

	2001	2000
	₦'000	₦'000
ASSETS		
Cash and Bank balances	701,843	275,709
Investments - Treasury Bills	32,467,707	22,503,508
Debtors & Prepayments	1,647,650	1,016,404
Calls in arrears	102,500	102,500
Fixed Assets	<u>2,977,137</u>	<u>2,834,637</u>
	<u>37,896,837</u>	<u>26,732,758</u>
LIABILITIES		
Compensation due to insured depositors	1,447,389	-
Due to banks	269,994	215,576
Sundry creditors	163,554	139,108
Accrued expenses	405,011	364,114
Due to staff pension fund	344,292	39,699
Unearned income	<u>811,443</u>	<u>579,560</u>
	<u>3,441,682</u>	<u>1,338,057</u>
Called up Share Capital	2,300,000	2,300,000
General Reserve fund	<u>5,817,750</u>	<u>3,678,373</u>
	8,117,750	5,978,373
Deposit Insurance fund	<u>26,337,405</u>	<u>19,416,328</u>
	<u>34,455,155</u>	<u>25,394,701</u>
Total Liabilities and Reserves	<u>37,896,837</u>	<u>26,732,758</u>
Contingent Liabilities	<u>10,148,500</u>	<u>15,317,287</u>
Gross Earnings	<u>4,913,436</u>	<u>3,393,455</u>
Operating Surplus	<u>2,139,377</u>	<u>1,393,071</u>