HIGHLIGHTS OF THE NDIC 2012 ANNUAL REPORT AND STATEMENT OF ACCOUNT

1.0 INTRODUCTION

The 2012 NDIC Annual Report and Statement of Accounts is divided into three (3) parts organized into 17 sections, that includes facts about deposit insurance system (DIS) in Nigeria (Section 16) and DIS Glossary (Section 17) for consumer education. The sections are in addition to the Message from the Chairman and the Report of the Managing Director/Chief Executive. This executive summary provides the highlights of some Sections of the report that deals with the operations of the Corporation as well as the state of the banking industry in 2012.

2.0 INSURANCE ACTIVITIES AND MANAGEMENT OF DEPOSIT INSURANCE FUNDS

2.1 This section discussed the coverage and the pricing of the insurance premium paid by deposit money banks and other financial institutions as well as the management of the two insurance funds. It also discussed the premium rates paid by banks between 2009 and 2012.

2.2 There was a growth of 17% in the total number of depositors of DMBs between ends of 2011 and 2012. Similarly, the **number of depositors fully covered in the 20 DMBs increased by 15% from 44,508,600 in 2011 to 51,189,518 in 2012.**

2.3 The **DIF for DMBs grew by 19.15% from ₦356.88 billion in 2011 to ₦425.21** billion in 2012 while the SIIF grew by 99.45% from ₦19.95 billion in 2011 to ₦39.79 billion in 2012.

3.0 SURVEILLANCE OF INSURED DEPOSIT-TAKING FINANCIAL INSTITUTIONS IN 2012

3.1 During the year, the NDIC, in collaboration with the CBN **carried out risk assessment of nineteen (19) DMBs**. They also **monitored eleven (11) DMBs with Composite Risk Rating of Above Average**, to determine the level of their implementation of examiners' recommendations in the previous risk-based examination exercise.

3.2. The two institutions **conducted the Risk-Based Examination of sixteen (16) DMBs** during the year. Twelve (12) out of the 16 DMBs had international banking licences, two (2) held national banking licences while the remaining two (2) were regional banks. The NDIC led the examination of six (6) of the banks while the CBN led in ten (10).

3.3. Furthermore, the NDIC in collaboration with the CBN **conducted the maiden examination of the three (3) banks acquired by AMCON**, namely: Keystone Bank, Mainstreet Bank and Enterprise Bank during the year to ascertain the level of their compliance with the conditions governing their restructuring. While the CBN led the examination of Mainstreet Bank and Enterprise Bank, NDIC led the examination of Keystone Bank. The Corporation in collaboration with the CBN also **conducted the maiden examination of Jaiz Bank Plc and the Stanbic-IBTC Non-Interest window** during the year under review.

3.4 On-Site Examination of MFBs and PMBs

The NDIC in 2012 conducted **routine examination of 246 MFBs** out of which six (6) were found to have closed shop. The NDIC also outine risk-based examination of forty (40) PMBs in 2012 out of which three (3) were found to have voluntarily closed shop.

4.0 RESOLUTION AND MANAGEMENT OF FAILED INSURED DEPOSIT-TAKING FINANCIAL INSTITUTIONS

4.1 This section gave information on claims administration and asset management activities carried out in 2012 by the NDIC in respect of banks closed since 1994, including 103 MFBs and 24 PMBs that were closed in September 2010 and August 2012 respectively.

By December 31, 2012 the NDIC paid cumulative sum of **₦6.82 billion to 528,212 insured depositors** as against **₦6.68 billion paid to 527,942** insured depositors as at December 31, 2011. Similarly, a total sum of **₦2.505 billion** was **paid to 75,322** verified depositors of 95 out of 103 closed MFBs during the year as against the sum of **₦2.249 billion** paid to 72,062 verified depositors in 2011. Also, the sum of **₦73.58 billion** was **paid as liquidation dividend to 250,209 depositors of DM**Bs as at December 31, 2012.

4.2 During the year, eleven (11) accounts of large debts of the closed banks with total book value of ₦3.85 billion to the AMCON in 2012 at AMCON purchase price of ₦795.38 million. Consequently, the cumulative recovery from debtors of DMBs and MFBs as at December 31, 2012 stood at **₦24.68 billion and ₦42.90 million**, respectively compared with **₦22.26 billion and ₦13.48 million** as at December 31, 2011.

4.0 PUBLIC AWARENSS AND CORPORATE SOCIAL RESPONSIBILITY

4.1 During the year under review, the NDIC carried out a number of public awareness initiatives that included television and radio programmes, distribution of NDIC publications, participation in Trade Fairs, workshop for finance correspondents, advertisements in national dailies and hosting of students on excursion visits. The Corporation also leveraged on the Help Desk facilities in Abuja and Lagos to foster financial literacy and consumer protection in the nation's financial system, as enquiries and complaints were attended to promptly. 503 calls/ enquiries were received in 2012 as against 406 in 2011, which covered issues affecting DMBs, failed DMBs, AMCON DMBs, MFBs and closed MFBs.

4.2. Under **Corporate Social Responsibility,** the NDIC **assisted five (5) higher institutions of learning across the nation to the tune of ₦99.93 million** on various projects in Imo, Delta, Kebbi, Enugu and Kano States.

5.0 REVIEW OF NDIC ENABLING ACT, RESEARCH ACTIVITIES AND INSTITUTIONAL RELATIONSHIPS

5.1 This section highlighted the proposed amendments to the NDIC enabling act. It also provided information on research activities undertaken to improve the Corporation's operations as well as efforts geared towards developing and strengthening existing links with NDIC's local and international partners in year 2012. Areas/issues being proposed for review by the National Assembly included: correction of typographical as well as fundamental errors in the extant Act; errors in the drafting of the provision in the Act resulting in confusion in the Composition of the Management Committee; powers for the Corporation to review books of subsidiaries of banks; independent enforcement powers; protection of the Corporation's assets; powers to pay insured amount to depositors in the event of imminent or actual suspension of payment by an insured institution even before the revocation of its licence; statement of the Public Policy Objectives of the DIS in Nigeria in the NDIC Act; tenure of Part Time Members; formalizing NDIC's commitment to transparency, accountability and probity; remove NDIC from inclusion in the Fiscal Responsibility Act; powers to enforce recommendations contained in its Examination Reports; establishment of the Insured Institution's Resolution Fund; power of NDIC as Conservator to be stated in the NDIC Act; appointment of the NDIC as Liquidator *simpli cita* rather than as *Provisional* Liquidator in the event of the revocation of licence; payment of Insured Deposit Even When Action Challenging Revocation Is Pending In Court.

5.2. Some of the amendment proposed above **will facilitate the Corporation's full compliance with all the AIDI Core Principles** of effective Deposit Insurance.

It is noteworthy that the **National Assembly had, once again, confirmed their continued support** of the process to amend the NDIC Act to facilitate effective discharge of the Corporation's mandate while complying with best practices and standards.

5.3 During the year, **Research, Policy and International Relations Department** consistently monitored developments in banking, finance and the economy with a view identifying the implications of such developments for NDIC, updating Management and identifying areas of contemporary research. Also, during the year a number of research studies were embarked upon or continued with. They included: **Development of 27 Case Studies on Bank Failures in Nigeria** (thirteen (13) case studies were ready for publication, while the rest were being edited); **Book project on "Bridge Bank: The Nigerian Experience"**; Research Study on "**Early Warning System of Bank Distress in Nigeria"**; and a Study of the **Framework for Credit Management**

in Nigerian Banks in collaboration with Financial Institutions Training Centre (FITC).

5.4 During the year, the NDIC **continued to strengthen existing relationship and links with its local and international partners**. At the national level, the NDIC continued to interface with other financial safety-net players through its membership of the Financial Services Regulation Coordinating Committee (FSRCC) and its membership of CBN/NDIC Joint Executive Committee on Supervision. At the international level, the Corporation participated actively in the various activities of the International Association of Deposit Insurers (IADI).

6.0 CORPORATE GOVERNANCE

6.1 This section discussed the mandate, composition and achievements of the NDIC Board in the year under review. The section indicated the activities of various board committees through which various policies were fine-tuned/formulated and executed. The **major achievements of the NDIC Board in 2012** were also highlighted and they included: **Six (6) meetings** held by the Board; operating within the provisions the Board's Charter, review of the Board's Key Performance Indicators for the effective discharge of its responsibilities; **approval of financial support to some institutions of higher learning** to enhance quality of education; **sponsorship for certain sporting activities** in the six (6) geo-political zones as well as in the FCT.; approval of the **promotion of qualified staff**; and the **employment** of additional staff to strengthen the Corporation's work force. Other major achievements were the **deployment of the Performance Management System** and increased **Public Awareness Programmes**. In order to enhance the effective discharge of its oversight responsibilities, members of the Board participated in some capacity building programmes during the year under review.

6.2 The NDIC adhered to the guidelines issued by all relevant Federal Government Agencies.

7.0 FINANCIAL CONDITIONS OF INSURED DEPOSIT MONEY BANKS IN 2012

7.1 This section narrowed down on the specific happenings in the banking industry in the year ended 2012. Sequel to the banking reforms introduced in 2009, the banking industry in 2012 continued in a good state of health while its performance remained relatively stable during the period under review as depicted by relevant indices.

7.2 **Capital Adequacy**: The Capital Adequacy Ratio (CAR) of the Deposit Money Banks (DMBs) **improved by 0.36 percentage points from 17.71% in 2011 to 18.07% in 2012.** During the period under review, only one out of the twenty (20) DMBs failed to meet the minimum prudential CAR of 10%.

7.3 **Asset Quality:** The Asset Quality of the banking industry significantly improved during the period under review as shown in the table below:

TABLE 11.2

ASSET QUALITY OF INSURED BANKS

Item	Year	
	2012	**2011***
Total Loans (N, billion)	8,150.03	7,273.75
Non Performing Loans (N, billion)	286.09	360.07
Ratio of Non Performing Loans to Total Loans (%)	3.51	4.95
Ratio of Non Performing Loans to Shareholder's Funds (%)	14.34	17.13

The observed improved asset quality could be explained by the improved process of loan underwriting as well as the continued purchase of non-performing loans (NPLs) by AMCON.

7.4 Earnings and Profitability

The industry recorded a **profit-before-tax of ₦525.34 billion in 2012, representing a significant improvement over the loss of ₦6.71 billion reported in 2011**. Return on Assets (ROA), return on equity (ROE) as well as yield on earning assets all showed significant improvements. Return on Equity (ROE) was 22.20% which was a significant improvement over the negative 0.28% position as at the end of 2011.

7.5 Liquidity and Funds Management

The banking industry liquidity position remained favourable and relatively stable as the average **liquidity ratio stood at 68.01% as at December 31, 2012** showing a marginal decline of 1.28 percentage points over the 69.29% attained in 2011. **All the DMBs met the minimum liquidity ratio requirement of 30% as at the end of December 2012.**

7.6 Level of Soundness of DMBs in 2012

The banking industry performance and level of soundness in 2012 indicated that ten (10) banks were rated sound, nine (9) satisfactory and only one (1) bank was rated marginal. Thus, the industry could be considered to be relatively stable in 2012. There was no unsound bank in the banking industry as at 31st December, 2012.

7.7 Summary of Financial Condition of Banks in 2012

The banking industry was adequately capitalised with capital adequacy ratio of 18.07%. All the DMBs also met the minimum liquidity threshold of 30%. The asset quality recorded significant improvement during the year as the ratio of non-performing loans to total loans decreased to 3.51% in 2012 from 4.95% in 2011. The assets quality was strong due to the purchase of DMBs non-performing loans by AMCON and the enhanced credit risk management by DMBs. Unlike in the previous year, the banking industry recorded a profit before tax of ₦525.34 billion in 2012 as against loss of ₦6.71 billion in 2011.

8.0 INSURED BANKS' REPORT ON FRAUDS/FORGERIES AND FIDELITY BOND INSURANCE COVER

8.1 The report on cases of frauds and forgeries in the banking industry in 2012 is presented in this section. The section further provides information on the nature of cases reported as well as the number and categories of staff involved as well as insured DMBs' compliance with fidelity bond insurance cover during the year 2012.

8.2 The DMBs reported **3,380 fraud cases involving the sum of ₦17.97 billion with expected/contingent loss of about ₦4.52 billion in 2012**. The expected/contingent loss had increased by ₦455 million (10.9%) over ₦4.072 billion reported in 2011. **Notwithstanding the 43.7% increase in the number of fraud cases from 2,352 in 2011 to 3,380 in 2012, the amount of fraud cases decreased by 36.4% from ₦28.40 billion in 2011 to ₦18.04 billion in 2012** as shown in Table 13.1.

The increase in the number of fraud cases could be said to be as a result of rising fraud cases through ATM, internet banking and suppression of customers' deposits.

9.0 MAJOR DEVELOPMENTS IN OTHER INSURED DEPOSIT-TAKING FINANCIAL INSTITUIONS

9.1 This section summarized the major developments in other insured deposit-taking financial institutions in 2012 as follows:

9.2 As at December 2012, 310 out of the 323 MFBs that rendered returns had met the minimum paid-up capital of ₦20 million. A total of 302 MFBs had capital adequacy ratio of more than 10%.

9.3. The **Taskforce on insider abuse** in Microfinance banks established by NDIC continued to work closely with the Financial Malpractices Intelligence Unit (FMIU) and the Nigeria Police during the year to bring to book all directors/insiders involved in any form of wrong doing in the 103 MFBs in-liquidation as at 2010 and PMBs in-liquidation.

9.4. The microfinance sub-sector was faced with a **number of challenges** some of which included the following: Weak Capital Base, Poor Asset Quality, High Operating Costs, Scarcity of Loanable Funds, Lack of Microfinance Skills and Experience, Inadequate Management Information System, and Poor Corporate Governance Practices.

9.5. On **May 2, 2012, the licences of twenty-four (24) PMBs which had hitherto closed shop and were unable to meet obligations to their depositors and creditors were revoked**, in line with the provisions of BOFIA 1991 as amended.

9.6. The **challenges that faced the Primary Mortgage Banks** sub sector in 2012 included: Delay in accessing NHF/Dearth of Long Term Funds, Difficulties in Mobilizing Deposits, Land Use Act, Undeveloped Mortgage-Backed Securities Market, High Cost of Building, and Poor Corporate Governance and Risk Management Practices.