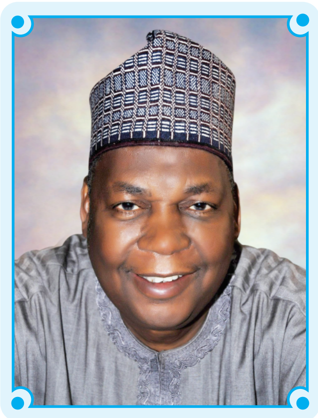
REPORT OF THE MANAGING DIRECTOR/CEO



Mr. Umaru Ibrahim, mni.
Managing Director/CEO

I am pleased to present to you the report of the activities of the Nigeria Deposit Insurance Corporation (NDIC) for the year ended 31st December, 2016. The report reviewed important developments in the macroeconomic and socio-political environment as they impacted on the nation's banking industry and the activities and operations of the NDIC in 2016.

In the year under review, the banking industry operated under an economic environment that was characterised by a series of developments. On the global level, there were uncertainties created by unprecedented political and socio-economic developments such as the referendum by Britain to exit the European Union (BREXIT) and the outcome of the US elections. On the domestic scene, the Nigerian economy recorded negative GDP growth rate of 1.5% in 2016 due to slow-down in economic activities and declining foreign exchange earnings as a result of oil production shut-ins. That was the first full-year contraction experienced by the country since 1991.

The fall in Crude oil prices in the international market and the failure to meet production levels, rising inflation rate, uncertainties in the foreign exchange market, devaluation of the naira, security challenges and disruption of gas supply impacted negatively on government's fiscal position as well as the performance of the banking industry during the year. Consequently, the country long-term issuer rating was downgraded by Moody's Investors Service from Ba3 to B1.

On the face of the global economic uncertainties and a domestic economy in recession, the government remained focused on finding ways to promote economic growth. One measure was the liberalisation of the downstream sector, upward review of energy prices to attract foreign investors in the power sector and increased capital expenditure to address infrastructural deficit and reflate the economy. In addition, the government had made giant strides in addressing insecurity in the country which had led to increased oil production towards the end of last quarter of 2016.

The aforementioned developments impacted the performance of the banking system and by implication, the activities of the NDIC. Some of the activities and accomplishments recorded during the year are:

1.0 Deposit Guarantee

The Corporation discharged its mandate of deposit guarantee through the payment of insured deposits to depositors of closed financial institutions. During the period under review, cumulative payment of 6.797 billion was made to 426,337 insured depositors of the 46 DMBs in-liquidation as at 31st December, 2016 as against 6.796 billion to 424,324 as at 31st December, 2015. A cumulative payment of 2.870 billion to 81,438 depositors of 187 closed MFBs as at 31st December, 2016 as against N2.860 billion to 81,328 depositors in 2015. Also, a cumulative payment of N53.03 million was made to 670 depositors of 46 PMBs in-liquidation as at December 2016 as against 43.03 million to 565 depositors in 2015. The marginal increase in insured amount paid was due to the long period since these banks were closed, most of the accounts were dormant prior to closure and most importantly the small balances in the deposit register.

2.0 Bank Supervision

The NDIC, working in collaboration with other safety-net participants, made remarkable progress towards maintaining the stability and soundness of the Nigerian banking system. Accordingly, the NDIC continued to discharge this mandate of supervision of insured financial institutions through on-site examination and off-site surveillance using the risk-based supervisory approach. The objectives of supervision was to provide reliable information on the banks' risk asset quality, adequacy of loan loss provision, capital adequacy positions and to also ascertain the extent of their compliance with foreign exchange laws and regulations.

During the year under review, the NDIC and CBN jointly conducted Risk Assets Examination of the twenty-three (23) DMBs (including one (1) Non-Interest Bank) for the purpose of approval of their 2015 annual accounts. Similarly, the Risk-Based Examination of twenty-five (25) DMBs in operation were jointly conducted by the CBN and NDIC during the year under review. That included the maiden examination of a Merchant Bank which was conducted as at 31st December, 2015. Furthermore, the Risk-Based Examination of 1 (one) bank with a Composite Risk Rating (CRR) of Above Average was jointly carried out as at 31st January, 2016 while those of eleven (11) banks with CRR of High and Above Average including one (1) Merchant Bank were also carried out as at 30th June, 2016 by the CBN/NDIC.

The NDIC also collaborated with CBN and other member-agencies of the FSRCC, namely: NAICOM, PENCOM and SEC, to conduct the Consolidated Risk-Based Examination of FBN, FCMB and Stanbic-IBTC Holdings Plc as at 30th June, 2016. Furthermore, ten (10) banks rated Moderate and Low including two (2) Merchant Banks were also examined during the period. The Risk-Based Examination of Jaiz Bank Plc and Stanbic-IBTC Non-Interest Window were conducted during the year.

Furthermore, the NDIC and CBN monitored the implementation of recommendations contained in the examination reports to ensure compliance. The NDIC also investigated sixty-one (61) petitions/complaints received from bank customers and other stakeholders and ensured that, where necessary, the affected customers' complaints were appropriately addressed. The complaints were mostly on ATM frauds and conversion of cheques to suppress deposits.

With regard to the Special Insured Institutions, the NDIC conducted Risk-Based Examination of 350 MFBs and 10 PMBs during the year under review, as against 205 and 6, respectively in 2015. The outcome of the examination indicated that some of the institutions were incapable of honouring their customers' obligations as at when due. The regulatory authorities were considering appropriate resolution options.

3.0 Failure Resolution

The licence of African International Bank (AIB) was revoked by the CBN on September 2, 2013. Consequently, Purchase and Assumption (P & A) failure resolution method was adopted to wind up the affairs of the bank. Some assets of the bank were purchased by Ecobank Plc who in turn assumed the liabilities of AIB such that no private depositor lost his/her funds in the bank. Under the P & A arrangement, the CBN guaranteed 100% payment to private depositors of the bank as was done in respect of all banks that were closed in 2006. As at the time of closure, AIB's total deposit liabilities stood at ₦9.05 billion belonging to 15,042 depositors. Ecobank on behalf of the CBN paid the depositors that sum. The CBN is demanding for the refund of the ₦9.05 billion from the Corporation. However, out of the total deposits of ₦9.05 billion, only the sum of ₦1.40 billion was insured by the NDIC. The NDIC has agreed to refund the insured portion of the deposits to the CBN, subject to verification. The verification process was completed as at 31st December, 2016 and payment will be made in the first quarter of 2017.

As at 31st December, 2016, the NDIC and CBN continued to make efforts to ensure that Savannah Bank Plc whose banking licence was revoked by the CBN in 2002 and restored by the court in 2009, resumed operation in the interest of its depositors and creditors. The Joint Committee of the NDIC and CBN earlier set up to engage with the bank owners to facilitate the restoration of operations of the bank had continued to work relentlessly to achieve that objective.

4.0 Bank Liquidation

The NDIC continued to play its role as liquidator of closed insured financial institutions through the realisation of assets and payment of liquidation dividends to un-insured depositors and other eligible claimants. With respect to risk assets, the NDIC had recovered a cumulative sum of ₦28.16 billion from debtors of DMBs in-liquidation as at 31st December, 2016 as against ₦27.43 billion recovered as at 31st December, 2015. Similarly, a cumulative recovery of ₦125.13 million was realized from debtors of closed MFBs as at 31st December, 2016 as against the sum of ₦125.08 million realized as at 31st December, 2015. The debt recoveries for the PMBs amounted to ₦195.17 million as at 31st December, 2016 compared with ₦24.73 million recovered as at 31st December, 2015, representing an increase of 689.20%. It is worthy of note that significant recovery was made due to NDIC's intervention in waiving substantial portion of accrued interest on the loans and advances.

With respect to physical assets, the cumulative sum of ₦21.21 billion was realized from the disposal of physical assets of closed DMBs as at 31st December, 2016 as against 21.20 billion as at 31st December, 2015; ₦75.49 million from closed PMBs as at 31st December, 2016 as against ₦1.80 million as at 31st December, 2015; and ₦361.48 million from the closed MFBs as at 31st December, 2016 as against ₦341.08 million as at 31st December, 2015.

As for investment assets, the cumulative sum of ₦4,419.66 million was realised from the affected banks as at 31st December 2016 as against ₦4,415.85 million realised as at 31st December, 2015.

As a result of all these efforts, the NDIC paid a cumulative liquidation dividend of ₦95.90 billion to un-insured depositors of closed DMBs as at 31st December 2016 compared to ₦95.77 billion paid as at 31st December, 2015. Also, a cumulative liquidation dividend of ₦1.26 billion was paid to 997 Creditors of DMBs out of ₦1.73 billion declared for creditors of 10 DMBs in-liquidation.

Furthermore, a cumulative liquidation dividend of N2.42 billion was paid to 577 shareholders of the six defunct DMBs, namely: Alpha Merchant Bank, Rims Merchant Bank, Cooperative and Commerce Bank, Continental Merchant Bank, Nigeria Merchant Bank and Pan African Bank as at 31st December, 2016 as against ₦2.41 billion paid to 550 shareholders as at 31st December, 2015.

5.0 Insurance Funds

The importance of adequate funding for a DIS cannot be over-emphasised. A robust Insurance Fund (IF) is critical for prompt reimbursement of depositors of failed insured institutions. Premium contribution by insured financial institutions is the major source of funding for a DIS. The NDIC maintains three (3) Funds, namely: the Deposit Insurance Fund (DIF) for deposit money banks; the Special Insured Institutions Fund (SIIF) for MFBs and PMBs, and the Non-interest Deposit Insurance Fund (NIDIF) for non-interest banks.
As at 31st December, 2016, the DIF stood at ₦827.89 billion as against ₦725.58 billion recorded as at 31st December, 2015. That was an increase of ₦102.31 billion or 14.10% over the 2015 figure. Similarly, the SIIF increased by ₦14.10 billion or 18.20% from ₦77.49 billion as at 31st December, 2015 to ₦91.59 billion as at 31st December, 2016. In the same vein, the NIDIF increased by ₦0.19 billion or 79.17% from ₦0.24 billion as at 31st December, 2015 to ₦0.43 billion as at 31st December, 2016.

6.0 Financial Performance

The NDIC complied with the requirements of the relevant laws and standards in the preparation of its financial statements. Accordingly, the NDIC complied with the International Financial Reporting Standard (IFRS) and the requirements of the Financial Reporting Council of Nigeria (FRCN) in the preparation of its 2016 financial statements.

The total operating income of the NDIC increased by 20.39% from ₦103.17 billion as at 31st December, 2015 to ₦121.83 billion as at 31st December, 2016. Total Operating Expenses decreased by 16.27% from ₦31.68 billion as at 31st December, 2015 to ₦29.12 billion as at 31st December, 2016. The net operating surplus after deduction of 80% to CRF increased from ₦6.05 billion in 2015 to ₦10.69 billion in 2016.

The NDIC remitted the sum of ₦34.89 billion to the Consolidated Revenue Fund (CRF) of the Federation in 2016 as against ₦24.23 billion in the previous year.

7.0 Institutional Development

During the year under review, the Administration Department was unbundled with the creation of two (2) new departments, namely: Engineering and Technical Services (ETS) and Procurement and Management Services (PMS). The unbundling was aimed at enabling the ETSD focus on professional execution of the NDIC's three (3) major on-going building projects while the PMSD concentrates on other administrative duties.

8.0 Public Awareness Initiatives

Public awareness plays a significant role in the administration of a DIS and in engendering public confidence in the financial system. Public awareness is targeted at depositors and other stakeholders, particularly small and uninformed depositors who constitute the majority and who suffer most in the event of a failure of an insured deposit-taking financial institution. Public awareness helps in sensitizing depositors on the benefits and limitations of a DIS.

During the period under review, the NDIC embarked on several public awareness initiatives including: Convening the maiden edition of the NDIC Stakeholders Town Hall Meeting in Kano; Airing of several television programmes in the three (3) major languages in the country; Sponsorship of various radio and television jingles; Participation in International Trade Fairs across the country; Hosting of students on academic visits; Workshop for Business Editors and Financial Correspondents Association of Nigeria (FICAN); Sensitization seminars for Judicial Officers and External Solicitors; Partnership and collaboration with stakeholders; Financial literacy for children and youth using story books; Introduction of DIS courses in some Nigerian universities as well as the Chartered Institute of Bankers of Nigeria (CIBN); Oversight visit by members of the National Assembly; Production and Distribution of research publications and the use of robust and interactive social media platforms to broaden awareness on NDIC and its activities.

9.0 Capacity Building Activities

Human capital is an important asset for any organisation. In realisation of that, the NDIC places emphasis on capacity building by ensuring that staff acquire necessary skills that would enable them perform effectively. In the year under review, the NDIC administered the following capacity building programmes: in-house training, local training, overseas training and Mandatory Continuing Professional Education (MCPE) training. Accordingly, a total of 2,132 participants benefited from various training programmes within the year, as against 2,737 that benefited in 2015, representing a decrease of 605 participants or 28.37%.

10.0 Enhancement of Processes and Systems

During the year under review, the NDIC completed the Gap Assessment in preparation for International Standard Organisation (IS0) 27001 Security Certification. ISO 27001 Security Certification is intended to provide guidance on how to manage information security in the NDIC. Additionally, as part of the plan towards the certification, some staff were trained and certified as ISO 27001 Lead Implementers and Lead Auditors.

Furthermore, in compliance with the Federal Government's directive on Treasury Single Account (TSA), the NDIC successfully integrated its payment systems with Remita payment gateway to achieve a straight-through end-to-end payment process. All accounts payables and receivables from origination to payments are done without the use of physical payment instruments, thereby enhancing the turnaround time of payments in the NDIC.

The NDIC also developed a Crisis Communication System for Enterprise Risk Management (ERM), which filters staff by location and send notifications in the event of crisis in certain locations. It was also designed to be used in the event of a disaster.

In addition, the NDIC successfully upgraded the Intranet portal. That had enhanced the NDIC's document management and archival processes. In addition, a Record Management Solution was developed to facilitate Bank Examination in NDIC. The portal has enabled Bank Examiners to collaborate and share Bank Examination Reports in a more secured mode, with an audit trail to record users' activities.

11.0 Research Studies

The NDIC conducted research in relevant areas and published the findings for access by all stakeholders with a view to improving its processes, performance and operations as well as ensuring financial system stability. Accordingly, the following research studies were conducted and published:

i. Nigerian Foreign Exchange: Stylised Facts and Volatility Modelling.
ii. Case Study of Bank Failures in Nigeria: Volumes I - IV.
iii. Mergers and Acquisition in the Nigerian Banking System Vols. 1 and 2 (a joint

study with Susman & Associates (Vol. 1) and DMC Konsult (Vol.2)

iv. Study on Cooperatives in Nigeria (a joint study with AGPartnerships).

v. Adoption of Integrated Protection Scheme in Nigeria: Issues and Challenges.

vi. Framework for Credit Management in Nigerian Banks (a collaborative study with FITC).

12.0 Collaborative Efforts

To further strengthen its operations and performance through partnership, information and experience sharing, the NDIC collaborated with various local and international agencies in order to derive mutual benefits. Accordingly, the NDIC participated in various meetings, conferences, seminars and workshops organised by IADI Secretariat and other Deposit Insurance agencies around the world either as participants or paper presenters. The MD/CEO of NDIC, Mr. Umaru Ibrahim, FCIB, mni, whose tenure as Executive Council (EXCO) Member of IADI expired on October 23rd, 2016, was re-elected to serve another term of three (3) years.

Also, a team from the United States Department of the Treasury visited the NDIC in June 2016 and identified the various capacity building areas required by the NDIC in order to provide technical assistance.

13.0 Challenges

Despite the remarkable achievements recorded by the NDIC during the year under review, it faced myriads of challenges in the discharge of its mandate. Some of these challenges have to do with the lack of enforcement powers to deal with parties at fault in bank failures. Also, the slow judicial process evidenced by the long legal actions of owners of closed banks challenging the revocation of their banking licenses which prevents the NDIC from effectively discharging its mandate. Furthermore, the NDIC is also experiencing challenges of wrongful execution of judgement against its assets for liabilities of banks in liquidation as well as slow recovery of debts owed to failed banks. Finally, the implementation of the Fiscal Responsibility Act 2007 which requires the NDIC to remit 80% of its operating surplus to the Consolidated Revenue Fund Account inhibits the growth of the General Reserve Fund.

14.0 Future Outlook

The sluggish recovery in crude oil prices at the international oil market coupled with low production output which gradually began to improve in the last quarter of 2016, among others gave hope of the country exiting recession in 2017. Notwithstanding, the NDIC would continue to strengthen all aspects of its functions to address any emerging challenge that might likely affect the banking system in the future. In addition, the NDIC set out a new direction for itself in its new Strategic Plan 2016-2020 to address the dynamic changes it faces in the operating environment.

15.0 Conclusion

The NDIC had recorded notable strides and achievements in the protection of depositors and promotion of safe, sound and stable banking system in Nigeria. It has also pursued its mandate with vigour and with high level of professionalism and commitment. The NDIC would continue to strive for excellence in the discharge of its mandate.

I wish to thank the Management and Staff for their invaluable contributions to the successes we recorded within the year. As we enter a new year, I enjoin all to continue to be dedicated to our responsibilities in order to enable the NDIC discharge its mandate more effectively and efficiently. I also wish to acknowledge and appreciate our regulatory colleagues in the financial services industry for their support and cooperation.

Thank you.

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