

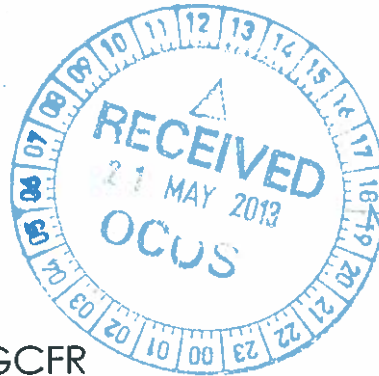


Central Bank Of Nigeria

Central Business District,
P.M.B. 0187, Garki,
Abuja - Nigeria.
Tel: +234-9-462 39425/8
Website: <http://www.cbn.gov.ng>

The Governor

GVD/GOV/STH/CON/03/



May 20, 2013

His Excellency,
Dr. Goodluck E. Jonathan, GCFR
The President and Commander-in-Chief of the Armed Forces
Federal Republic of Nigeria
The Presidential Villa
Abuja

Your Excellency, Mr President

RE: CBN AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2012

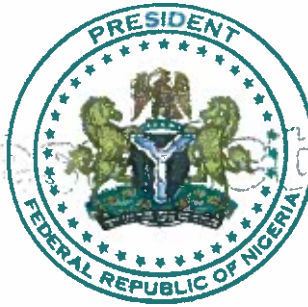
I respectfully refer to Mr. President's letter on the above subject matter in which some issues were raised on the Bank's Audited Financial Statements for the year ended 31st December, 2012.

Your Excellency is invited to note that all the issues raised have been examined and appropriate clarifications were provided. In addition, appropriate schedules or supporting documents have been attached as appendices for the kind consideration of Mr. President.

Your Excellency, permit me to reiterate that the Financial Statements have been prepared in accordance with the accounting policies of the Bank set out therein and in compliance with the provisions of the Central Bank of Nigeria Act No. 7 of 2007 and other applicable regulations.

Please accept the usual assurances of my warm regards and esteemed consideration.

**SANUSI LAMIDO SANUSI, CON
GOVERNOR**



GOVERNOR'S OFFICE
RECEIVED & REGISTERED
06 MAY 2013
CENTRAL BANK OF NIGERIA
ABUJA

**PRESIDENT,
FEDERAL REPUBLIC OF NIGERIA**

May 4th 2013

The Governor
Central Bank of Nigeria,
Central Business District
Abuja

Dear CBN Gov,

*Ag. Gov
(Dg. CS)*

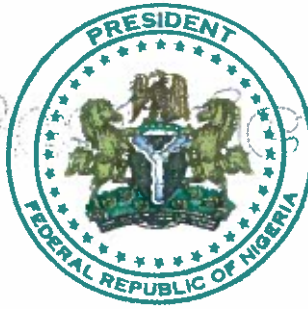
RE: CBN AUDITED FINANCIAL STATEMENTS FOR YEAR ENDED 31ST DECEMBER 2012

I am in receipt of the Audited Financial Statements of the Central Bank of Nigeria for year ended 31st December 2012 which you forwarded to me vide your letter referenced FND/DIR/SEC/ACC/04/001 dated February 26th 2013.

An examination of the content of the Financial Statement has thrown up some issues which require clarification.

To this end, I request that you avail me of detailed explication with respect to the under listed issues – providing, where available, relevant confirmatory letters and/or Board approvals:

1. *Management or Domestic report issued on the said 2012 financial statements by the external auditors.*
2. *The financial reporting framework under which the financial statements were prepared.*
3. *The names of the Trustees of the self insurance scheme of the CBN (including the Board minutes approving the said self insurance scheme and trustees) and the entries of the annual appropriations indicating where it was posted in the said financial statements. Evidence of the license given to the CBN, by the National Insurance Commission, to operate a self Insurance Scheme.*
4. *Reports from independent sources revealed that the CBN is insured by 29 underwriters on General Business Insurance and 20 underwriters on Group Life Assurance for 2011 – 2013. A reconciliation of this report with paragraph 3 above is required.*
5. *The valuation report on certain Assets of the CBN (as in accounting policy 'a') and how and when the fixed assets revaluation reserves was created and accounted for (as in the Balance Sheet).*
6. *The accounting policy of the CBN on short term investment.*



7. Detailed breakdown of:
 - a) Long term loans of N550.062 Billion (beneficiaries) as in Note 5 and why it was fully provided for as irrecoverable.
 - b) The Banks that are involved in "Other Loans" of N12.899 Billion as in Note 5, that are also fully provided for as irrecoverable.
 - c) Provision of loan losses of N586.703 Billion (as in Note 5).
 - d) Investment in Asset Management Corporation of Nigeria (AMCON) Bonds of N3,596,356,000,000 that are expected to mature on December 2013, August 2014 and October 2014 and why no provision was made against them except general loan loss provision of N4.620 Billion only (as in Note 6).
 - e) Prepayments of N58.133 Billion in 2012 and N102.459 Billion in 2011 (as in Note 8) and why the Bank was paying so much in advance. Board approvals for these levels of advance payments are required.
8. The relationship between the N35 Billion (Thirty five Billion Naira only) investment in Bank of Industry (BOI) Debentures in 2012 (as in Note 6) and "Intervention activities" expenses of N19 Billion (Nineteen Billion Naira only) in operating costs as in Note 27. A detailed breakdown of the "Intervention activities" expenses (as in Note 27) should also be required.
9. Deposit for shares of N4.947 Billion in 2011 and 2012: When was this deposit made, the names of the companies where these investments were supposedly made, the related amount and why the shares are yet to be issued (as in Note 8).
10. A detailed breakdown of "Other sundry assets" of N5.949 Billion in 2012 and N3.393 Billion in 2011 as in Note 8b and the reason why they are so classified.
11. A complete reconciliation of "Notes and Coins in circulation" (as in Note 12) indicating "Deposit by Banks" and "Withdrawal by Banks".
12. The composition of Gratuity of N72.653 Billion in 2012 and N64.280 Billion in 2011 (as in Note 15) and how it was determined.
13. The Board minutes and approval for the practice of making provisions for internal currency insurance based on the premium that would have been payable to external insurers had they been engaged; as in Note 17b. The names of the insurance companies that were field tested in this exercise and the modalities thereof.



14. Detailed breakdown of the following items in Note 27:

- a) Currency issue expenses; of N36.589 Billion in 2012 and N47.337 in 2011 indicating the amount paid to the individual printing companies involved for 2011 and 2012. Names and amount paid to each company.
- b) Repairs and maintenance expenses of N2.268 Billion in 2012 and N2.070 Billion in 2011 and the extent of repairs of printing machines in these totals.
- c) Intervention activities of N19 Billion in 2012 and N23.865 Billion in 2011.
- d) Administration expenses of N42.596 Billion in 2012 and N48.340 Billion in 2011.

15. Related party transactions (as in Note 30): indicating the persons involved, the applicable amount and the impact on the profit and loss of the CBN.

16. The Statement of Corporate Governance on the financial statements.

17. The framework that justified the non-consolidation of subsidiaries and accounting for associates even to the extent that the accounts of Nigerian Security Printing and Minting Company Plc was not consolidated.

18. The treatment of forward contracts as in accounting policy C.

19. The reason why "IMF Quota" of N421.864 Billion in 2012 and N433.744 Billion in 2011 was included in sundry receivables in "Other assets" as in Note 8b.

20. Confirmation of the movements in the "other investments" as in Note 6 and the related Board approvals.

21. The reason why the financial statements of the CBN were not in compliance with Section 44 and Section 57 of the Financial Reporting Council of Nigeria Act No. 6, 2011.

22. Why the CBN continued to invest in AMCON's Bonds in 2012 and how the CBN intends to recover the funds invested in AMCON that are due by December 2013.

Your expeditious response on the issues enumerated above will be helpful in providing a proper appreciation of the nation's economic outlook.

Tours Sincerely,

A handwritten signature in blue ink, appearing to read "Goodluck Ebele Jonathan".

GOODLUCK EBELE JONATHAN



DRAFT

CENTRAL BANK OF NIGERIA
APPENDIX TO THE EXPLANATIONS
ON
2012 FINANCIAL STATEMENTS

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S/No	Request	Response
1	Management or Domestic report issued on the said 2012 financial statements by the External Auditors	The management letter is yet to be discussed by the Board Audit and Risk Management Committee. However, the auditors have met with the Management and a copy of the draft management letter to be presented to the Audit and Risk Management Committee is attached. (Appendix 1)
2	The financial reporting framework under which the financial statements were prepared	The Accounting policies are derived from the financial reporting framework of the Bank. The framework is applied in consonance with the CBN Act 2007 and the Fiscal Responsibility Act 2007. The framework has been applied consistently in the preparation of the Financial Statements of Central Bank of Nigeria. This is in line with central banks' best practices.
3	The names of the Trustees of the self insurance scheme of the CBN (including the Board minutes approving the said self insurance scheme and trustees) and the entries of the annual appropriations indicating where it was posted in the said financial statements. Evidence of the license given to the CBN, by the National Insurance Commission, to operate a self Insurance Scheme.	Historically, for the purpose of insuring the Cash in its Vaults, the CBN Board on 28th January 1970 approved the setting up of a Self-Insurance Scheme known as "Bankers All Risks Insurance" (Extracts of the minutes of the Board meeting held in 1970 is attached as Appendix 2). The annual appropriation is expensed through the insurance vote head. For other classes of Insurance, the Bank engages a consortium of insurance companies to insure its assets and liabilities including its Group Life, Group Personal Accidents, fleet of vehicles which are insured under Comprehensive, 3rd Party and Cash-in-Transit insurance policies. The self insurance is not funded. In other words, provisions made are kept in the books of the Bank. The sums provided are not paid to any external party. Hence, there is no Board of Trustees. In the event of claims, the normal governance structure of the Bank is followed.

S/No	Request	Response
4	<p>Reports from independent sources revealed that the CBN is insured by 29 underwriters on General Business Insurance and 20 underwriters on Group Life Assurance for 2011 -2013. A reconciliation of this report with paragraph 3 above is required</p>	<p>In line with the Insurance Act 2003, and the Pension Reform Act of 2004, the Bank appointed a consortium of thirty (30) Insurance companies to insure its Assets and Liabilities including Staff Group Life for the period 2010/2011. While for the period 2012/2013, it appointed (thirty -seven (37) Insurance Companies for both Life and Non-Life (Extracts from Management approvals attached as Appendix 3a & b).</p> <p>Except for the Bankers All Risks Insurance explained in paragraph 3 above, all the underwriters engaged by the Bank were for insurance policies under the Insurance Act 2003 and the Pension Reforms Act 2004.</p>
5	<p>The valuation report on certain Assets of the CBN (as in accounting policy 'a') and how and when the fixed assets revaluation reserves was created and accounted for (as in the Balance Sheet).</p>	<p>The revaluation was carried out in 2003 on all the Bank's fixed assets. Prior to 2003, fixed assets of the Bank were expensed. However, revaluation was done in 2003 to accord the fixed assets of the Bank accrual accounting treatment. The revaluation reserve was created in 2003 and were used to record the revaluation surplus of the fixed assets brought into the Bank's books. The surplus is reduced on disposal of fixed asset items. The revaluation report is hereby attached as Appendix 4.</p>
6	<p>The accounting policy of the CBN on short term investment</p>	<p>The short-term investments of the Bank are investments held in Nigeria Treasury Bills and the accounting policy is disclosed in the statement of significant accounting policies of the Bank in the financial statements. Treasury Bills are initially recorded at cost plus incidental cost of acquisition and subsequently measured at amortised cost.</p>
7	<p>Detailed breakdown of;</p>	

S/No	Request	Response
7(a)	<p>Long term loans of N550.062 Billion (beneficiaries) as in Note 5 and why it was fully provided for as irrecoverable.</p>	<p>Beneficiary => Wema Bank Plc Amount (N'Bn) => 50.06</p> <p>Beneficiary => AMCON Amount (N'Bn) => 500</p> <p>Comments => The loan was fully provided for based on the financial results of AMCON. The decision for full provisioning is informed by the fact that AMCON has been recording heavy losses. It is therefore prudent that such provisions are made. Similarly, WEMA bank is yet to fully recover from its liquidity challenges and was recording operating losses. Hence, provision was made for the loan to the bank. Even though provision was made, the Bank is working with the two institutions towards ensuring recovery of the loans.</p>
7(b)	<p>The Banks that are involved in "Other Loans" of N12.899 Billion as in Note 5, that are also fully provided for as irrecoverable</p>	<p>Loans facilities to banks classified as "Other Loans" were the balances standing against eleven (11) banks in liquidation and one other. The list of the twelve banks is attached as Appendix 5.</p>
7(c)	<p>Provision of loan losses of N586.703 Billion (as in Note 5)</p>	<p>Attached as Appendix 6 is the detailed breakdown of the provision for loan losses of N586.703 billion. 97.4% of the provision relate to Credits advanced by thirteen (13) Deposit Money Banks (DMBs) under the Commercial Agricultural Credit Scheme (CACs) as well as AMCON and WEMA Bank loans as part of the Banking sector resolution. The CBN exercised its power of lender of last resort in bailing out the financial institutions. However, provisions were made for these facilities as prudency concept demands.</p>

S/No	Request	Response
7(d)	<p>Investment in Asset Management Corporation of Nigeria (AMCON) Bonds of N3,596,356,000,000 that are expected to mature on December 2013, August 2014 and October 2014 and why no provision was made against them except general loan loss provision of N4.620 Billion only (as in Note 6).</p>	<p>AMCON bonds are gilt-edged securities of the Federal Government of Nigeria (FGN). Making a provision on the AMCON Bonds would communicate a negative message to the international community on Nigeria's credit risk rating as it could be interpreted as being indicative of the country's inability to fulfill its guarantee obligation. Consequently, AMCON Bonds, like similar sovereign instruments of credit worthy countries, should not attract specific impairment charges. Please note that, unlike the exposure of the CBN to AMCON on loans and advances, AMCON Bonds are fully guaranteed.</p> <p>The expected maturities of the AMCON Bonds are as follows:</p> <p>Dec 2013 => N713 billion Aug 2014 => N 977 billion Oct 2014 => 1,906 billion</p> <p>The provision of N4.62billion was specific investment in development financial institutions listed below: Bank of Agriculture (N4.027billion), Federal Mortgage Bank (N60m), Abuja Securities and Commodity Exchange (N408m), NERFUND (N100m), NEXIM Bank (N25m).</p>

S/No	Request	Response												
7(e)	<p>Prepayments of N58.133 Billion in 2012 and N102.459 Billion in 2011 (as in Note 8) and why the Bank was paying so much in advance. Board approvals for these levels of advance payments are required.</p>	<table border="0" style="width: 100%;"> <tr> <td style="width: 30%;"></td> <td style="width: 30%; text-align: center;">2012(N'm)</td> <td style="width: 30%; text-align: center;">2011 (N'm)</td> </tr> <tr> <td>Interest on Open Market Operation (OMO) Bills</td> <td style="text-align: center;">57,873</td> <td style="text-align: center;">101,362</td> </tr> <tr> <td>Rent Prepayments</td> <td style="text-align: center;">260</td> <td style="text-align: center;">256</td> </tr> <tr> <td>Prepayment for currency indent (NSPMC)</td> <td style="text-align: center;">-</td> <td style="text-align: center;">841</td> </tr> </table> <p>The prepayment of N57.873 billion and N101.362 billion are the interest expenses on the unexpired tenor of OMO bills. OMO bills are the short term liquidity management instruments of the Central Bank of Nigeria into which financial institutions invest their excess/surplus funds. Such investments have maximum life of 364 days. As financial statements are prepared to the end of 31st December, all interests due on the OMO bills booked towards the end of 2012 but whose tenor extends to 2013 are separated from the total interest due in 2012 and thus treated as prepaid.</p> <p>Open Market Operation (OMO) is a liquidity management tool which is used on daily basis or as the need arises to ensure stability in the money market. For this activity, the approval of the supervising Deputy Governor is required for the volume, tenor and rates for the securities being sold for each particular day. Therefore, the prepaid interest was a cumulative proportion for bills that would mature in 2013.</p>		2012(N'm)	2011 (N'm)	Interest on Open Market Operation (OMO) Bills	57,873	101,362	Rent Prepayments	260	256	Prepayment for currency indent (NSPMC)	-	841
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8	<p>The relationship between the N35 Billion (Thirty five Billion Naira only) investment in Bank of Industry (BOI) Debentures in 2012 (as in Note 6) and "Intervention activities" expenses of N19 Billion (Nineteen Billion Naira only) in operating costs as in Note 27. A detailed breakdown of the "Intervention activities" expenses (as in Note 27) should also be required.</p>	<p>The N35 billion was an additional investment in the debenture of BOI for Notore Chemical Industries Limited.</p> <p>On the other hand, the intervention activities of N19billion relate to the Bank's developmental role in the economy. The Details of the intervention activities are attached as Appendix 7.</p>												

S/No	Request	Response																
9	Deposit for shares of N4.947 Billion in 2011 and 2012: When was this deposit made, the names of the companies where these investments were supposedly made, the related amount and why the shares are yet to be issued (as in Note 8).	Deposit was made for the shares of the Bank of Industry in September 2007. As at 31st December 2012, the shares had not been issued. However, the shares were issued in February 2013. The certificate is attached as Appendix 8.																
10	A detailed breakdown of "Other sundry assets" of N5.949 Billion in 2012 and N3.393 Billion in 2011 as in Note 8b and the reason why they are so classified.	Items in "Other Sundry Assets" were classified because they were receivables from the non-core areas of the Bank's business. Detailed breakdown is attached as Appendix 9.																
11	A complete reconciliation of "Notes and Coins in circulation" (as in Note 12) indicating "Deposit by Banks" and "Withdrawal by Banks".	<table border="1"> <thead> <tr> <th>Description</th> <th>Amount (N'Bn)</th> </tr> </thead> <tbody> <tr> <td>Opening balance (a)</td> <td>1,566</td> </tr> <tr> <td>Notional float (b)</td> <td>220</td> </tr> <tr> <td>Notional returns (c)</td> <td>219</td> </tr> <tr> <td>Currency withdrawals (d)</td> <td>2,194</td> </tr> <tr> <td>Currency deposits (e)</td> <td>2,130</td> </tr> <tr> <td>Expected Balance(f) = a+b-c+d-e</td> <td>1,632</td> </tr> <tr> <td>Balance per GL (Notes & Coins)</td> <td>1,632</td> </tr> </tbody> </table> <p>The list of deposits and withdrawals by branch for 2012 is attached as Appendix 10</p>	Description	Amount (N'Bn)	Opening balance (a)	1,566	Notional float (b)	220	Notional returns (c)	219	Currency withdrawals (d)	2,194	Currency deposits (e)	2,130	Expected Balance(f) = a+b-c+d-e	1,632	Balance per GL (Notes & Coins)	1,632
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S/No	Request	Response
12	<p>The composition of Gratuity of N72.653 Billion in 2012 and N64.280 Billion in 2011 (as in Note 15) and how it was determined.</p>	<p>Employees are entitled to gratuity payments after completing 5 continuous full years of service with the Bank. The Bank ensures that adequate provisions are made to meet its obligations under the scheme. The gratuity is computed based on the following parameters</p> <ul style="list-style-type: none"> i. Years of service ii. Gratuity rate iii. Gross Emolument for final year of service <p>The provision was also based on the gratuity table provided in the Pension Reform Act 2004.</p> <p>However, the provision is not funded. Provisions made are kept in the books of the Bank. The sums provided are not paid to any external party.</p> <p>The composition of Gratuity is attached as Appendix 11</p>

S/No	Request	Response
13	<p>The Board minutes and approval for the practice of making provisions for internal currency insurance based on the premium that would have been payable to external insurers had they been engaged; as in Note 17b. The names of the insurance companies that were field tested in this exercise and the modalities thereof.</p>	<p>The bank makes provisions for internal currency insurance based on the premium that would be payable to external insurer had they been engaged. This provision is accumulated to cover possible losses that could arise in event of loss of currency held within the Bank i.e cash in vault.</p> <p>The basis of the provision is shown below: The maximum currency balance in store / vault (Naira and foreign currency) for the period was obtained and a percentage provision of 0.3% (in line with industry's best practice) was used in computation. Board Approval is attached as Appendix 2.</p>
14	<p>Detailed breakdown of the following items in Note 27:</p>	
14(a)	<p>Currency issue expenses; of N36.589 Billion in 2012 and N47.337 in 2011 indicating the amount paid to the individual printing companies involved for 2011 and 2012. Names and amount paid to each company</p>	<p>Details of the currency issues expenses by amounts, names of suppliers as well as description of expenditure is attached as Appendix 12.</p>

S/No	Request	Response
14(b)	Repairs and maintenance expenses of N2.268 Billion in 2012 and N2.07 Billion in 2011 and the extent of repairs of printing machines in these totals	The repairs and maintenance expenses of N2.268 billion in 2012 and N2.07 billion in 2011 relate to the general office equipment and ICT maintenance. About 92% of the maintenance expenses are for Information and Communication Technology (ICT). Please note that the Bank does not have printing machines. Schedule of the expenditure is attached as Appendix 13.
14(c)	Intervention activities of N19 Billion in 2012 and N23.865 Billion in 2011	Intervention activities are the Bank's expenditure in the critical sectors of the economy. These activities were carried out as part of Bank's developmental role. Schedule of the expenditure is attached as Appendix 13.
14(d)	Administration expenses of N42.596 Billion in 2012 and N48.340 Billion in 2011	Breakdown of the Administrative expenses is attached as Appendix 14
15	Related party transactions (as in Note 30): Indicating the persons involves, the applicable amount and the impact on the profit and loss of the CBN	Ministries, Departments and Agencies (MDAs) are related parties to the Bank and they keep their accounts with the Bank. The subsidiaries and associated companies too are related parties to the Bank. There were no related party transactions with any of the Directors of the Bank.
16	The Statement of Corporate Governance on the financial statements	The statement of Corporate Governance is usually included in the bank's annual report. The Annual Report for 2012 is currently being processed for publication. However, the 2011 edition is attached as Appendix 15a. In addition, the charter of the Audit and Risk Management Committee is also attached herewith as Appendix 15b.

S/No	Request	Response
17	<p>The framework that justified the non-consolidation of subsidiaries and accounting for associates even to the extent that the accounts of Nigerian Security Printing and Minting Company Plc was not consolidated.</p>	<p>Subsidiary undertakings, which are those companies in which the Bank, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over their operations, have not been consolidated. These entities are not consolidated because their activities and accounting policies are different from those of the Bank. Such entities are accounted for as long - term investments.</p> <p>Similarly, associated entities, which are those companies in which the Bank, directly or indirectly, has a significant influence over their operations, have not been consolidated or accounted using equity method. These entities are not consolidated because their activities and accounting policies are different from those of the Bank. Such entities are accounted for as long - term investments.</p> <p>This is stated in the financial reporting framework of the Bank..</p>
18	<p>The treatment of forward contracts as in accounting Policy C</p>	<p>The Bank had commitments to deliver foreign currencies to counter parties at an agreed future date and at an agreed rate. The contractual amounts of these contracts are disclosed as off balance sheet items in the financial statements. Furthermore, the Bank no longer engages directly in forward contracts. This has been accounted for in line with the Bank's accounting policy as contingent liability as stated in note 29 to the financial statements.</p>

S/No	Request	Response
19	<p>The reason why "IMF Quota" of N421.864 Billion in 2012 and N433.744 Billion in 2011 was included in sundry receivables in "Other assets" as in Note 8b.</p>	<p>The item "IMF Quota" classified as Sundry Receivables in the Other Assets group is the value of "IMF Non-negotiable, Non-interest bearing Treasury Note". This represents the Federal Government of Nigeria's (FGN) obligation to the International Monetary Fund (IMF) in respect of Nigeria's IMF Quota paid in Naira. CBN as fiscal agent and depository of Nigeria for IMF transactions keeps all of Nigeria's IMF Quota obligations and SDR accounts on behalf of the FGN.</p> <p>CBN is also the fiscal agent and depository of the IMF and therefore keeps all of the IMF's naira assets and naira operating accounts.</p>
20	<p>Confirmation of the movements in the "other investments" as in Note 6 and the related Board approvals (AMCON Bonds)</p>	<p>These transactions on behalf of the FGN and IMF are reported in the CBN Balance Sheet as both assets and liabilities.</p> <p>Movement was due to AMCON Bond purchases from two (2) Deposit Money Banks (DMBs) namely: Wema Bank (N21.39billion) and Access Bank (N123.2 Billion) as part of the lender of last resort function of the Bank (see approval attached as Appendix 16) and additional debenture issue in BOI (N35b) for Notore Chemical Industries Limited.</p>
21	<p>The reason why the financial statements of the CBN were not in compliance with Section 44 and Section 57 of the Financial Reporting Council of Nigeria Act No. 6, 2011</p>	<p>Section 44: The opinion provided by the auditors stated that the financial statements of the Bank have been properly prepared in accordance with the accounting policies and complies with the provisions of the Central Bank Act and other applicable regulations. The auditors have not issued a report on the Code of Corporate Governance as this was not included in the financial statements. However, the statement of Corporate Governance is included in the annual report of the Bank and it is available on the Bank's website</p> <p>Section 57: A waiver has been obtained by the Bank in the preparation of the financial statements in line with IFRS. Copy of Waiver attached as Appendix 17</p>

S/No	Request	Response
22	<p>Why the CBN continued to invest in AMCON's Bonds in 2012 and how the CBN intends to recover the funds invested in AMCON that are due by December 2013.</p>	<p>For clarification, the CBN did not directly invest in the AMCON Bonds in 2012. It is note worthy that as a special purpose vehicle, AMCON played a key role in the resolution of the Nigerian banking crisis in 2009 – 2010. AMCON issued zero-coupon bonds (which have the full guarantee of the Federal Government) to acquire toxic assets of the banks and also recapitalize failing institutions.</p> <p>In exercise of its lender of last resort function, the CBN discounted some of the bonds presented by banks at its discount window to afford them the needed liquidity to carry on their businesses. Such practice is common with Central Banks all over the world and is aimed at ensuring liquidity of the banking system and financial system stability.</p> <p>Only N712.96 billion, out of the CBN's holding of N3.6 trillion, is due to mature by end December 2013. AMCON is currently engaging its stakeholders (all bond holders) on the process of repaying the maturing bonds. The Corporation intends to repay a portion of the bonds with recoveries achieved so far while the balance would be refinanced for a period of between 2 – 3 years with coupon bearing bonds.</p>



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RECEIVED & REGISTERED
06 MAY 2013
CENTRAL BANK OF NIGERIA
ABUJA

**PRESIDENT,
FEDERAL REPUBLIC OF NIGERIA**

May 4th 2013

The Governor
Central Bank of Nigeria,
Central Business District
Abuja

Dear CBN Gov,

*Ag. Gov
(Dg. CS)*

RE: CBN AUDITED FINANCIAL STATEMENTS FOR YEAR ENDED 31ST DECEMBER 2012

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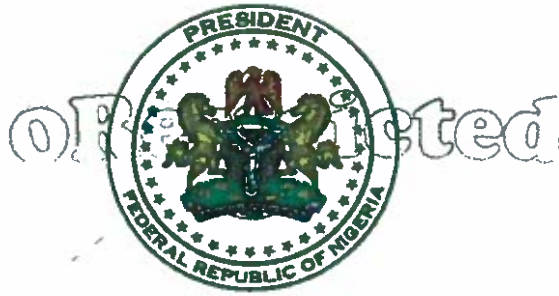
An examination of the content of the Financial Statement has thrown up some issues which require clarification.

To this end, I request that you avail me of detailed explication with respect to the under listed issues – providing, where available, relevant confirmatory letters and/or Board approvals:

1. *Management or Domestic report issued on the said 2012 financial statements by the external auditors.*
2. *The financial reporting framework under which the financial statements were prepared.*
3. *The names of the Trustees of the self insurance scheme of the CBN (including the Board minutes approving the said self insurance scheme and trustees) and the entries of the annual appropriations indicating where it was posted in the said financial statements. Evidence of the license given to the CBN, by the National Insurance Commission, to operate a self Insurance Scheme.*
4. *Reports from independent sources revealed that the CBN is insured by 29 underwriters on General Business Insurance and 20 underwriters on Group Life Assurance for 2011 – 2013. A reconciliation of this report with paragraph 3 above is required.*
5. *The valuation report on certain Assets of the CBN (as in accounting policy 'a') and how and when the fixed assets revaluation reserves was created and accounted for (as in the Balance Sheet).*
6. *The accounting policy of the CBN on short term investment.*



7. Detailed breakdown of:
 - a) Long term loans of N550.062 Billion (beneficiaries) as in Note 5 and why it was fully provided for as irrecoverable.
 - b) The Banks that are involved in "Other Loans" of N12.899 Billion as in Note 5, that are also fully provided for as irrecoverable.
 - c) Provision of loan losses of N586.703 Billion (as in Note 5).
 - d) Investment in Asset Management Corporation of Nigeria (AMCON) Bonds of N3,596,356,000,000 that are expected to mature on December 2013, August 2014 and October 2014 and why no provision was made against them except general loan loss provision of N4.620 Billion only (as in Note 6).
 - e) Prepayments of N58.133 Billion in 2012 and N102.459 Billion in 2011 (as in Note 8) and why the Bank was paying so much in advance. Board approvals for these levels of advance payments are required.
8. The relationship between the N35 Billion (Thirty five Billion Naira only) investment in Bank of Industry (BOI) Debentures in 2012 (as in Note 6) and "Intervention activities" expenses of N19 Billion (Nineteen Billion Naira only) in operating costs as in Note 27. A detailed breakdown of the "Intervention activities" expenses (as in Note 27) should also be required.
9. Deposit for shares of N4.947 Billion in 2011 and 2012: When was this deposit made, the names of the companies where these investments were supposedly made, the related amount and why the shares are yet to be issued (as in Note 8).
10. A detailed breakdown of "Other sundry assets" of N5.949 Billion in 2012 and N3.393 Billion in 2011 as in Note 8b and the reason why they are so classified.
11. A complete reconciliation of "Notes and Coins in circulation" (as in Note 12) indicating "Deposit by Banks" and "Withdrawal by Banks".
12. The composition of Gratuity of N72.653 Billion in 2012 and N64.280 Billion in 2011 (as in Note 15) and how it was determined.
13. The Board minutes and approval for the practice of making provisions for internal currency insurance based on the premium that would have been payable to external insurers had they been engaged; as in Note 17b. The names of the insurance companies that were field tested in this exercise and the modalities thereof.



14. Detailed breakdown of the following items in Note 27:

- a) Currency issue expenses; of N36.589 Billion in 2012 and N47.337 in 2011 indicating the amount paid to the individual printing companies involved for 2011 and 2012. Names and amount paid to each company.
- b) Repairs and maintenance expenses of N2.268 Billion in 2012 and N2.070 Billion in 2011 and the extent of repairs of printing machines in these totals.
- c) Intervention activities of N19 Billion in 2012 and N23.865 Billion in 2011.
- d) Administration expenses of N42.596 Billion in 2012 and N48.340 Billion in 2011.

15. Related party transactions (as in Note 30): indicating the persons involved, the applicable amount and the impact on the profit and loss of the CBN.

16. The Statement of Corporate Governance on the financial statements.

17. The framework that justified the non-consolidation of subsidiaries and accounting for associates even to the extent that the accounts of Nigerian Security Printing and Minting Company Plc was not consolidated.

18. The treatment of forward contracts as in accounting policy C.

19. The reason why "IMF Quota" of N421.864 Billion in 2012 and N433.744 Billion in 2011 was included in sundry receivables in "Other assets" as in Note 8b.

20. Confirmation of the movements in the "other investments" as in Note 6 and the related Board approvals.

21. The reason why the financial statements of the CBN were not in compliance with Section 44 and Section 57 of the Financial Reporting Council of Nigeria Act No. 6, 2011.

22. Why the CBN continued to invest in AMCON's Bonds in 2012 and how the CBN intends to recover the funds invested in AMCON that are due by December 2013.

Your expeditious response on the issues enumerated above will be helpful in providing a proper appreciation of the nation's economic outlook.

Tours sincerely,

GOODLUCK EBELE JONATHAN



GOVERNOR'S OFFICE
RECEIVED & REGISTERED
06 MAY 2013
CENTRAL BANK OF NIGERIA
ABUJA

**PRESIDENT,
FEDERAL REPUBLIC OF NIGERIA**

May 4th 2013

The Governor
Central Bank of Nigeria,
Central Business District
Abuja

Dear CBN Gov,

Ag. Gov
(Dg. CS)

RE: CBN AUDITED FINANCIAL STATEMENTS FOR YEAR ENDED 31ST DECEMBER 2012

I am in receipt of the Audited Financial Statements of the Central Bank of Nigeria for year ended 31st December 2012 which you forwarded to me vide your letter referenced FND/DIR/SEC/ACC/04/001 dated February 26th 2013.

An examination of the content of the Financial Statement has thrown up some issues which require clarification.

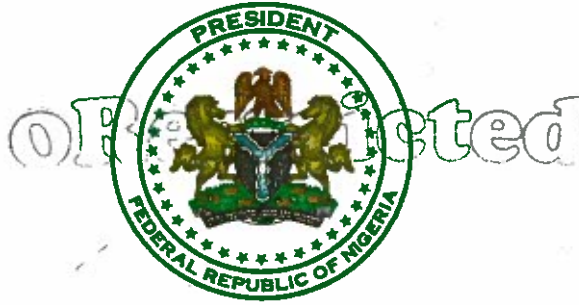
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Copy to the President



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