CHAPTER FOUR

FINANCIAL SECTOR DEVELOPMENTS

The Nigerian financial sector remained relatively resilient and stable in 2011, despite the elevated risks to financial stability in some advanced economies. The outcome was due to the various measures taken to sustain confidence in the system, improve liquidity and credit flows, while the supervisory framework was strengthened.

The thrust of monetary policy in 2011 was largely restrictive. The monetary policy rate was reviewed upwards six (6) times during the year. Growth in money supply was moderate for most of 2011, but increased substantially in the last quarter of the year. Growth in net domestic credit was above the indicative benchmark due, largely, to the increase in credit to both the Federal Government and the private sector. Reserve money, the Bank's operating target, also rose above the indicative benchmark for the year.

The outcome of financial developments was mixed in 2011. The ratio of broad money supply (M_2) to nominal GDP, at 36.4 per cent, was lower than the 39.5 per cent recorded at end-December 2010.

Total money market assets outstanding grew by 24.7 per cent at end-December 2011 due, largely, to the increase in the value of FGN bonds, NTBs and commercial papers (CPs). The yield on fixed income securities (NTBs and FGN bonds) was generally higher in 2011 than in 2010. The yield curve was normal for most of the year, but inverted towards the end of the year, reflecting the effects of the tight monetary policy stance of the CBN in 2011. Activities on the floor of the Nigerian Stock Exchange indicated mixed developments.

4.1 INSTITUTIONAL DEVELOPMENTS

4.1.1 Growth and Structural Changes

The structure of the Nigerian financial sector changed during the year under review in terms of the number of institutions, capital requirements and licensing of new institutions. In the banking sub-sector, the number of DMBs declined to twenty (20) from twenty-four (24), following the mergers/acquisitions of four (4) of the intervened banks by four (4) healthy banks. The number of DMBs' branches, however, increased to 5,810, from 5,799 in 2010, indicating an increase of 0.2 per cent. As at December 31, 2011 the NDIC had not obtained a final court order for the liquidation of the remaining two (2) of the thirteen (13) insolvent banks that were closed on January 16, 2006, given that the revocation of the banks' licences were the subject of litigation. Therefore, the two banks in-liquidation could not be offered for sale under the Purchase and

Assumption (P & A) resolution option during the period under review. The Bank issued promissory notes worth ₦48.0 billion to cover the shortfall between the assumed deposit liabilities and the cherry-picked assets of the eleven (11) failed banks that were liquidated. The CBN received ₦5.24 billion as liquidation dividend from the NDIC in respect of the failed banks, in line with the terms of the P & A contract.

In the other financial institutions (OFIs) sub-sector, a revised microfinance policy framework was issued by the CBN on April 29, 2011 with the following capital structure:

- Unit microfinance banks, authorized to operate in one location only, required to have a minimum paid-up capital of ₦20.0 million;
- State microfinance banks, authorized to operate within a state or the Federal Capital Territory (FCT), required to have a minimum paid-up capital of ₦100.0 million; and
- National microfinance banks, authorized to operate in more than one state including the FCT, required to have a minimum paid-up capital of ₦2.0 billion.

In addition, a new policy framework for the operation of the primary mortgage bank sub-sector was approved in November 2011. The policy provides for an increase in the minimum paid-up capital of primary mortgage institutions (PMIs) and a change of their generic name to primary mortgage banks (PMBs). The new policy categorizes the sub-sector along national and state lines, with paid-up capital as follows:

- National Primary Mortgage Banks:
    - Minimum paid-up capital of ₦5.0 billion, allowed to operate in all the states of the Federation
- State Primary Mortgage Banks:
    - Minimum paid-up capital of ₦2.5 billion, allowed to operate in only one state

The policy further provides for the development of a uniform underwriting standard for mortgage loan origination and the establishment of a second-tier mortgage finance institution. The institution is to be dedicated to the provision of mortgage refinance/liquidity, including short-term liquidity, long-term funding and guarantees for mortgage/housing finance lenders.

The new policy precludes PMBs from operating current accounts for non-mortgage customers, granting consumer or commercial loans and engaging in project management for real estate development, amongst others. It also aims at strengthening corporate governance by limiting the tenure of executive directors to a maximum of 5 years, renewable once; while that of non-executive directors is restricted to a maximum of 4 years, renewable twice. Existing PMBs are allowed a maximum of 18 months to meet the compliance deadline of April 30, 2013.The reform is expected to facilitate the provision of affordable housing for both low and medium income segments of the Nigerian society and the overall development of the housing sector.

4.1.2 Fraud and Forgery

The number of reported cases of attempted or crystalised fraud and/or forgery in the banking industry declined in 2011. There were 2,527 reported cases of attempted fraud or forgery, involving ₦29.5 billion, as against 5,960 cases involving ₦19.7 billion and US$19.2 million in 2010. Of this amount, the actual loss to the banks was ₦5.8 billion, compared with ₦11.4 billion and US$10.98 million at end-December 2010.The reduction in actual loss was accounted for by improvements in risk management practices in the banking sector. The fraud cases were perpetrated through various means, including pilfering and theft, suppression and conversion of customer deposits, illegal funds transfer and fraudulent ATM withdrawals, among others.

Box 5: The Nigerian Sustainable Banking Principles

The Nigerian Sustainable Banking Principles are an initiative spearheaded by the Bankers' Committee Sub-Committee on Economic Development and Sustainability. It has emerged as a result of recent global trends that demand greater attention to environmental and social issues in banking practices.

At the CEO Roundtable held on September 9, 2011 during the Nigerian Sustainable Finance Week, it was agreed that Nigeria's development imperative should not only be economically viable, but socially relevant and environmentally responsible. It was further agreed that the banking sector has a significant role and responsibility to deliver a positive development impact to society, whilst protecting the communities and environment in which it operates. At the Roundtable, the Governor of the Central Bank of Nigeria reinforced the need to institutionalize sustainability into Nigeria's banking culture and pledged the Central Bank of Nigeria's support for this initiative.

The Bankers' Sub-committee on Economic Development and Sustainability will lead an effort to develop industry-wide standards that would help ensure that the lending and banking operations of Nigerian banks conform to global environmental and social practices. A team of six banks (Access Bank Plc., Citibank Nigeria Limited, Diamond Bank Plc., Guaranty Trust Bank Plc., Standard Chartered Bank Nigeria Limited and Zenith Bank Plc.), with support from the Netherlands Development Finance Company (FMO), the International Finance Corporation (IFC) and an independent advisor, was constituted to form the core working-group known as the Strategic Sustainability Working Group (SSWG). Under the auspices of the Bankers' Sub-Committee, the SSWG is tasked with developing the Nigerian Sustainable Banking Principles. A Joint Commitment Statement was subsequently released in October 2011, signed by all members of the Bankers' Committee.

Furthermore, at the Bankers' Committee Annual Retreat held in Calabar in 2011, it was agreed that all banks in the sector should be included in the process of developing the guidelines thereby ensuring a balanced approach that would be reflective and inclusive of the entire sector. Therefore, each Bank and Discount House has nominated a Sustainability Champion, who would be responsible for driving the sustainability agenda within their respective institutions. Other sector stakeholders such as the NDIC, Development Finance Institutions (DFIs) and representatives of relevant Federal Ministries and Agencies have also been invited to partake in the process.

The SSWG will be working steadily over the next few months to develop an overarching set of principles with the aim of introducing good practice for the Banks in relation to:

- Direct footprint: leading by example – corporate sustainability of the Banks; and
- Indirect footprint: environmental and social risks and opportunities relating to business activities (e.g. lending, risk management, client on-boarding/credit approval processes, retail/consumer).

In addition, a set of sector-specific guidelines will be developed for each of the following priority sectors:

- Oil and Gas,
- Power (with a focus on renewable energy), and
- Agriculture (with a focus on related water resources).

The sector-specific guidelines shall provide clear and practical guidance to the institutions adopting the principles to: i) leverage financial sector investment across the value chain to drive economic growth that is environmentally responsible and socially relevant; and ii) ensure that, where possible, the approach taken is consistent with international best practice and standards.

A further commitment has also been made to raise awareness and develop lasting local capacity to manage emerging environmental and social risks and opportunities within banks' internal operations, as well as in relevant financial sector government agencies, learning institutions and service providers. Therefore, it is envisaged to roll out an industry-wide capacity building programme, following the adoption of the principles in June 2012. The SSWG, with support from IFC and FMO is currently working on identifying the capacity gaps within the industry and designing a programme that would adequately address them. A deadline of June 2012 has been given by the Bankers' Sub-Committee to formally adopt the principles.

4.1.3 Consumer Protection

The Bank strengthened its consumer protection activities in the year. A consumer protection framework was developed, which included consumer literacy and education, complaints management, fair practices and collaboration with stakeholders, amongst others. In order to enhance consumer education and promote consumer rights on financial transactions with banks and other financial institutions in Nigeria, the Consumer Protection Office was mandated to address customer/consumer complaints. The Bank also issued relevant circulars to the banks and collaborated with the Consumer Protection Council (CPC) on complaints management, consumer education and enlightenment, and information sharing.

The Bank received 1,926 complaints at end-December 2011, of which 1,510 were treated, resulting in a refund of ₦4.34 billion by banks, compared with 1,526 complaints and a refund of ₦2.20 billion in 2010. Most of the complaints bordered on conversion of invested funds, unauthorised and fraudulent withdrawals from customer accounts, excess charges, and staff matters.

4.1.4 Cheque Clearing

In 2011, the volume and value of cheques cleared nationwide increased by 11.0 per cent and 13.3 per cent to 37.72 million and ₦22.30 trillion from 33.99 million and ₦19.69 trillion, respectively, in 2010. The rise in volume was due largely to the slow implementation of the Federal Government's e-payment policy in respect of taxes, staff salaries, pensions and contractors' payments.

Clearing activities nationwide peaked at ₦2.33 trillion in November, due to the increase in business activities that preceded the end of year festivities.

The first ten Clearing Zones in terms of volume (in descending order) were: Lagos, Abuja, Port Harcourt, Ibadan, Benin, Akure, Awka, Kaduna, Owerri and Abeokuta.

Table 4.1: Volume and Value of Cheques Cleared in 2008 – 2011

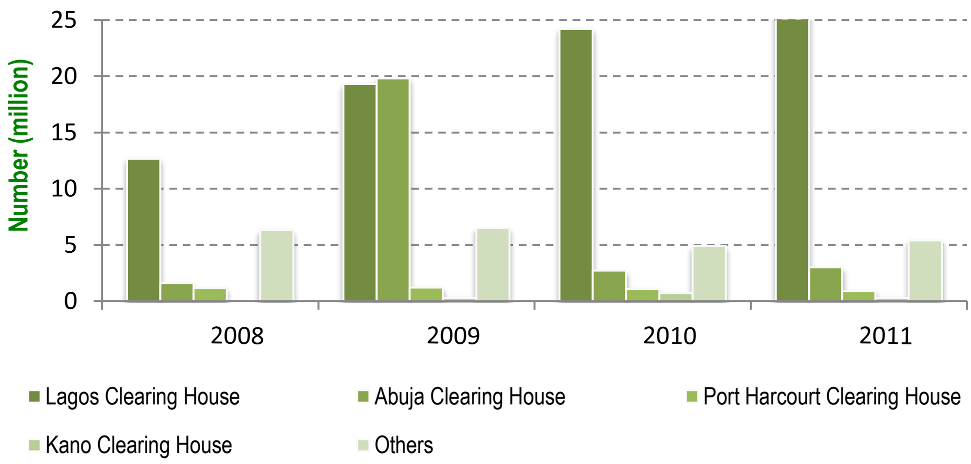
	2008		2009		2010		2011	
	Volume	Value (₦'million)	Volume	Value (₦'million)	Volume	Value (₦'million)	Volume	Value (₦'million)
Clearing System	30,172,925	43,357,416.23	29,159,780	29,390,852	33,986,062	19,687,864	37,718,585	22,302,646
Lagos Clearing House	12,686,663	19,313,680.69	19,151,133	14,279,926.24	24,187,391	13,567,260.08	28,080,232	15,804,618.42
	-42.0	-44.5	-65.7	-48.6	-72.2	-68.9	74.4	70.9
Abuja Clearing House	1,658,042	4,454,888.77	1,983,280	2,914,092.91	2,714,917	1,717,371.03	3,035,652	1,907,554.52
	-5.5	-10.3	-6.8	-9.9	-8.1	-8.7	8.0	8.6
Port Harcourt Clearing House	1,158,566	2,800,798.08	1,220,389	2,348,677.27	1,089,432	610,779.32	875,393	613,254.37
	-4.0	-6.0	-4.2	-8.0	-3.2	-3.1	2.3	2.7
Kano Clearing House	na	na	349,460	992,940.98	717,718	579,718.12	316,265	596,310.19
			-1.2	-3.4	-2.1	-2.9	0.8	2.7
Others	6,292,471	9,680,400.00	6,455,518	8,855,314.74	4,897,074	3,212,735.00	5,411,043	3,380,908.54
	-21.0	-22.0	-22.1	-30.1	-14.4	-16.3	14.3	15.2

Source: CBN

Figures in parentheses are percentages

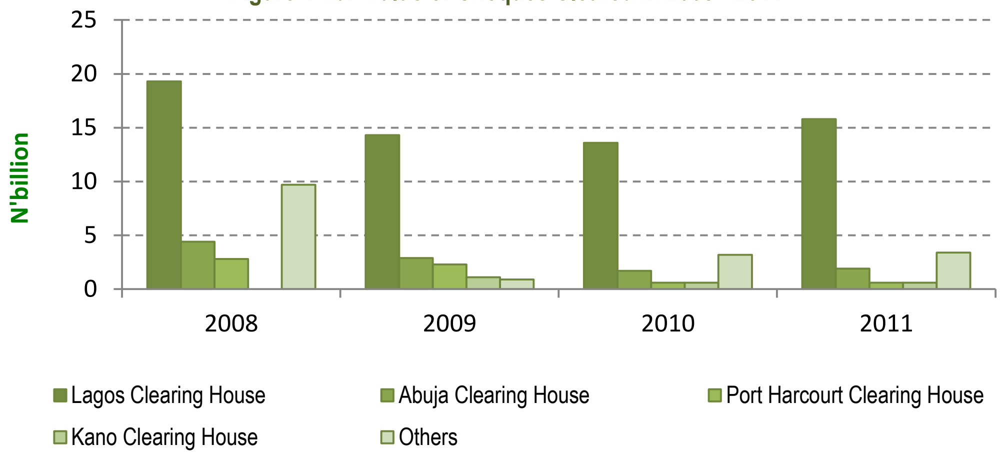
na = not applicable

Figure 4.1a: Volume of Cheques Cleared in 2008 - 2011



In terms of value of cheques cleared in 2011, the ranking,(in descending order) was Lagos, Abuja, Port Harcourt, Kano, Abeokuta, Kaduna, Benin, Awka, Uyo and Asaba.

Figure 4.1b: Value of Cheques Cleared in 2008 - 2011



The Lagos Clearing Zone accounted for 74.5 per cent (volume) and 70.9 per cent (value) of the total cheque transactions in 2011. This was attributed to the fact that Lagos remained the economic and commercial hub of Nigeria. Cheque clearing activities in the Abuja Zone, however, shrank because of the implementation of e-payment by the Federal Government for staff salaries, suppliers' and contractors' payments.

4.1.5 Inter-bank Funds Transfer (IFT)

The volume and value of interbank funds transfer, through the RTGS System (CBN Interbank Fund Transfer System – CIFTS), increased by 32.1 and 26.1 percent to 492,953 and ₦117,246.51 billion in 2011, respectively compared with 373,248 and ₦92,955.0 billion, in 2010.

4.1.6 Use of e-Money Products

The volume and value of electronic card (e-card) transactions increased significantly from 195,525,568 and ₦1,072.9 billion in 2010 to 355,252,401 and ₦1,671.4 billion, reflecting an increase of 81.5 and 55.8 per cent, respectively. The increase was attributed to enhanced public confidence in electronic card payments.

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Data on various e-payment channels for the period under review indicated that ATMs remained the most patronized, accounting for 97.8 per cent, followed by web payments, 1.0 per cent, Point-of-Sale (POS) terminals, and mobile payments, 0.6 per cent each. Similarly, in value terms, ATMs accounted for 93.4 per cent, web 3.5 per cent, POS 1.9 per cent and mobile payments, 1.2 per cent.

The use of the various forms of e-payment grew significantly, due to enhanced public confidence in electronic card payments.

The number of ATMs stood at 9,640, while the volume and value of transactions amounted to 347,569,999 and ₦1,561.75 billion, at end-December 2011, respectively. These figures reflected increases of 86.7 and 63.7 per cent respectively over the volume and value of 186,153,142 and ₦954.04 billion, at end-December 2010.

The volume and value of mobile payments increased by 215.6 and 185.8 per cent from 1,156,553 and ₦6.7 billion to 3,649,374 and ₦19.0 billion, respectively, at end-December 2011.

Table 4.2: Market Share in the e-Payment Market in 2008 - 2011

e-Payment	Volume (Millions)				Value (N ' Billion)			
Segment	2008	2009	2010	2011	2008	2009	2010	2011
ATM	60.1	109.6	186.2	347.6	399.7	548.6	954.0	1561.8
% of Total	91.0	95.3	95.1	97.9	9.5	85.0	88.9	93.4
Web (internet)	1.6	2.7	7.2	3.6	25.1	84.2	99.5	58.0
% of Total	2.4	2.3	3.7	1.0	5.7	13.1	9.3	3.5
POS	1.2	0.9	1.1	2.1	16.1	11.0	12.7	31.0
% of Total	1.8	0.8	0.6	0.6	3.7	1.7	1.2	1.9
Mobile	3.2	1.8	1.2	1.9	0.7	1.3	6.7	20.5
% of Total	4.8	1.6	0.6	0.5	0.1	0.2	0.6	1.2
TOTAL	66.1	115.0	195.7	355.2	441.6	645.1	1072.9	1671.4

Source: CBN

Figure 4.2a: Volume of Electronic Card-based Transactions in 2011

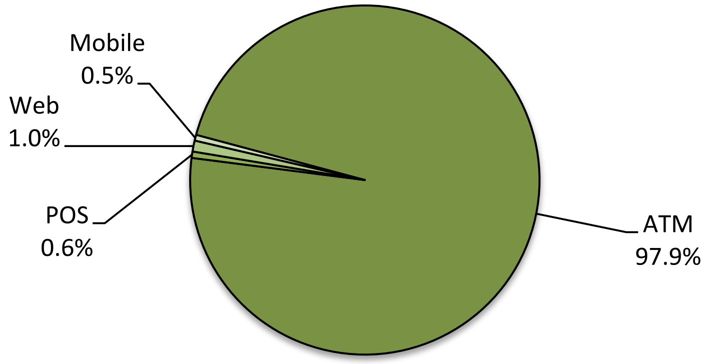
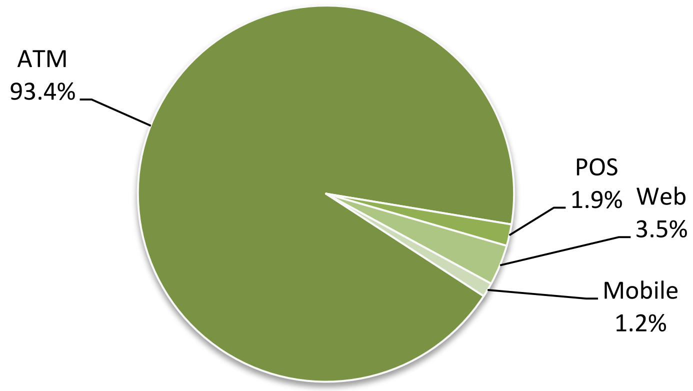


Figure 4.2b: Value of Electronic Card-based Transactions in 2011



4.1.7 Institutional Savings

Aggregate financial savings rose by ₦427.9 billion or 6.7 per cent to ₦6,858.5 billion, compared with ₦6,430.6 billion at end-December 2010. The ratio of financial savings to GDP was 18.8 per cent, compared with 32.9 per cent in 2010. The DMBs remained the dominant depository institutions within the financial system and accounted for 95.2 per cent of the total financial savings, compared with 92.6 per cent in the preceding year. Other savings institutions, namely, the PMBs, life insurance funds, the pension funds, the Nigerian Social Insurance Trust Fund, and microfinance banks accounted for the balance of 4.8 per cent.

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FINANCIAL SECTOR DEVELOPMENTS

4.2 MONETARY AND CREDIT DEVELOPMENTS

4.2.1 Reserve Money (RM)

At ₦2, 784.3 billion, reserve money (RM) grew by 50.9 per cent over the level at end-December 2010. At this level, RM exceeded the indicative benchmark of ₦2, 515.3 billion for fiscal 2011 by 10.7 per cent, compared with 11.6 per cent at end-December 2010. The growth in sources of monetary base was accounted for by the rise in net domestic assets and foreign assets (net) of the CBN. The corresponding rise in the uses of base money reflected the increase in its components, namely, currency and DMBs' reserves at the CBN.

Figure 4.3a: Reserve Money and its Components

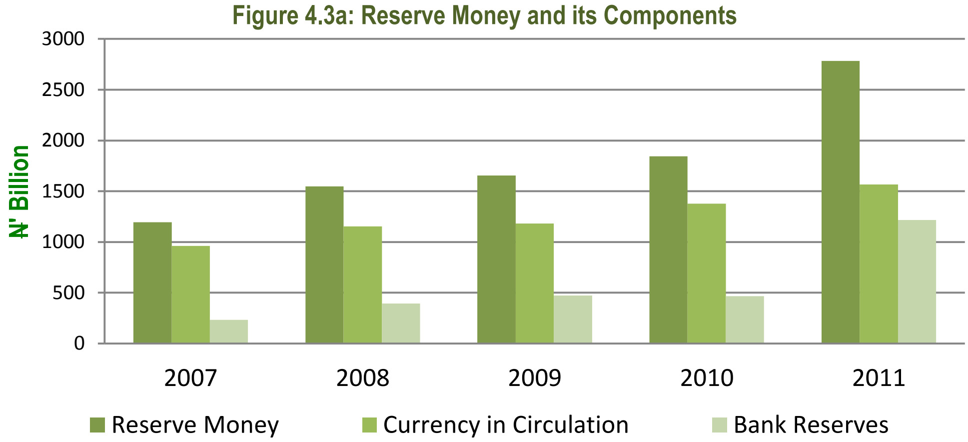
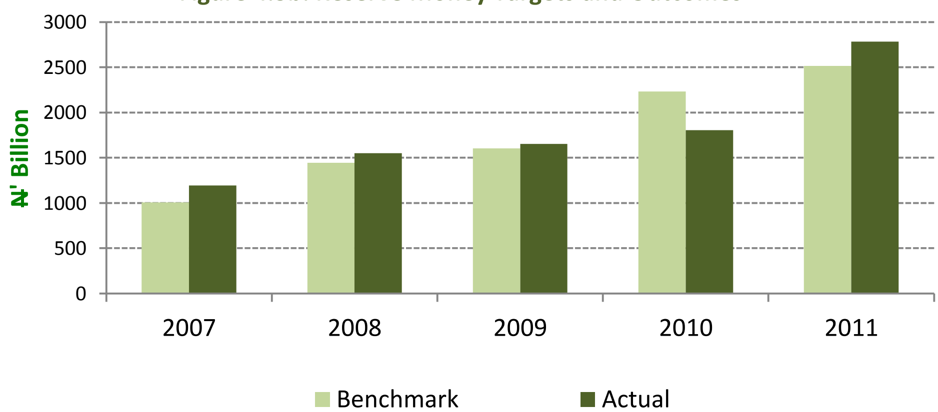


Figure 4.3b: Reserve Money Targets and Outcomes



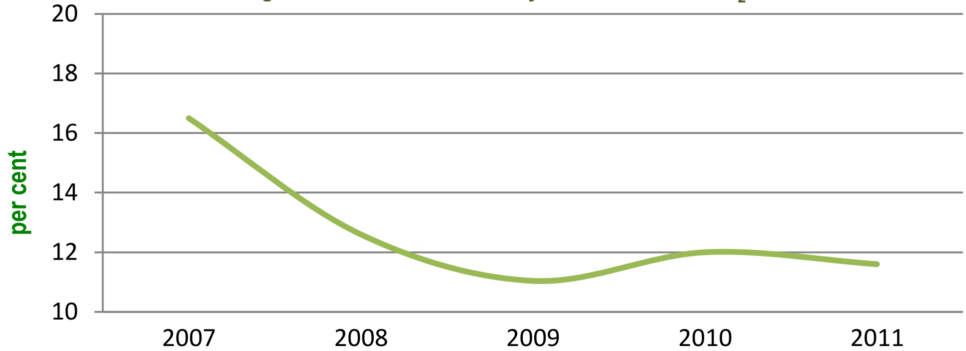
4.2.2 Broad Money (M_2)

Broad money supply (M_2) grew by 15.4 per cent at end-December 2011 to ₦13, 300.3 billion, compared with the indicative benchmark of 13.8 per cent for fiscal 2011 and the growth of 6.9 per cent at end-December 2010. The development was largely driven by the expansion in domestic credit (net) and foreign assets (net) of the banking system. Correspondingly, the growth in total monetary liabilities, M_2, was driven by the increase in its components, namely, narrow money and quasi-money.

Analysis of the composition of M_2 showed that, as in the preceding year, the distribution was skewed in favour of the highly liquid M_1, especially in the last quarter of the year, due to seasonal factors. Demand deposit and currency outside bank grew by 23.1 and 15.0 per cent, respectively, compared with 9.8 and 16.7 per cent at end-December 2010. As a proportion of the total monetary liabilities, demand deposit and currency outside bank stood at 41.1 and 9.4 per cent, respectively, at the end of the year under review. At 13.6 per cent at end-December 2011, foreign currency deposit, remained a significant component of M_2.

The movement in M_2 was largely driven by the expansion in domestic credit (net) and foreign assets (net) of the banking system.

Figure 4.4: Ratio of Currency in Circulation to M_2



4.2.3 Drivers of Growth in Broad Money

4.2.3.1 Net Foreign Assets (NFAs)

Net foreign assets of the banking system, at ₦7,180.6 billion, represented an increase of 10.4 per cent at end-December 2011, in contrast with the decline of 14.3 per cent at the end of the preceding year. The development reflected, wholly, the increase in the net foreign assets (NFA) holdings of the CBN, which

4 FINANCIAL SECTOR DEVELOPMENTS

rose to ₦5, 865.8 billion at end-December 2011 from ₦5, 372.3 billion at end-December 2010. As a share of M_2, NFA accounted for 54.0 per cent and contributed 5.9 per cent to its growth at end-December 2011.

4.2.3.2 Net Domestic Credit (NDC)

Credit to the domestic economy (net) grew by 42.4 per cent at end-December 2011, compared with 10.0 per cent at end-December 2010. At that level, domestic credit (net) exceeded the indicative benchmark of 29.3 per cent for fiscal 2011. The development reflected the 52.7 per cent growth in credit to the Federal Government and the 31.6 per cent rise in credit to the private sector. Net domestic credit to the economy contributed 32.1 per cent to the growth of total monetary assets (M_2) at end-December 2011.

4.2.3.3 Net Credit to Government (NCG)

Net credit to government (NCG) rose by 52.7 per cent, compared with 51.3 per cent at end-December 2010 and the indicative benchmark of 29.3 per cent for fiscal 2011. The substantial growth in credit to the Federal Government was attributable to the issuance of treasury bills and bonds during the review period. Notwithstanding, the Federal Government remained a net creditor to the banking system in 2011, as in the preceding year.

Figure 4.5: Growth in M_2 and its Sources (per cent)

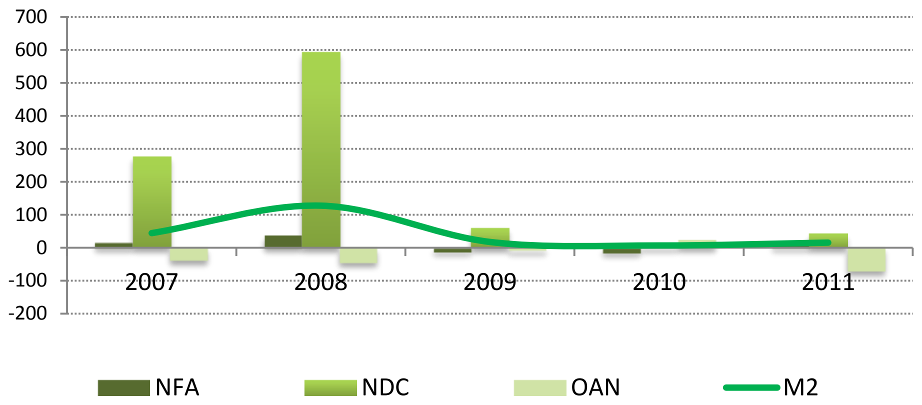


Figure 4.6: Share of NFA and NDC in M_2 (per cent)

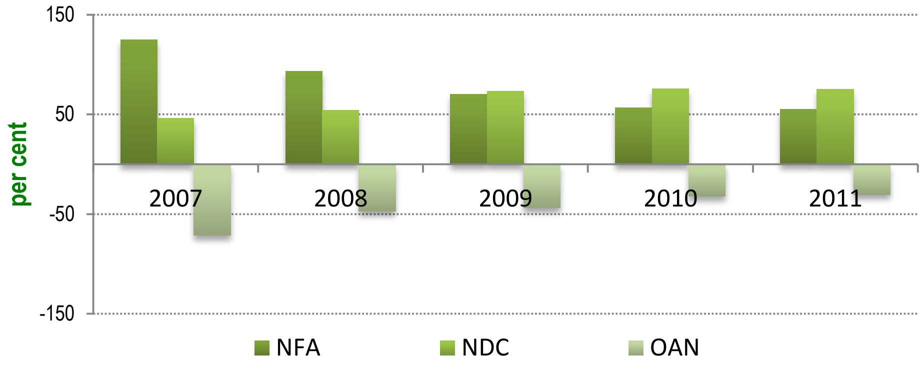


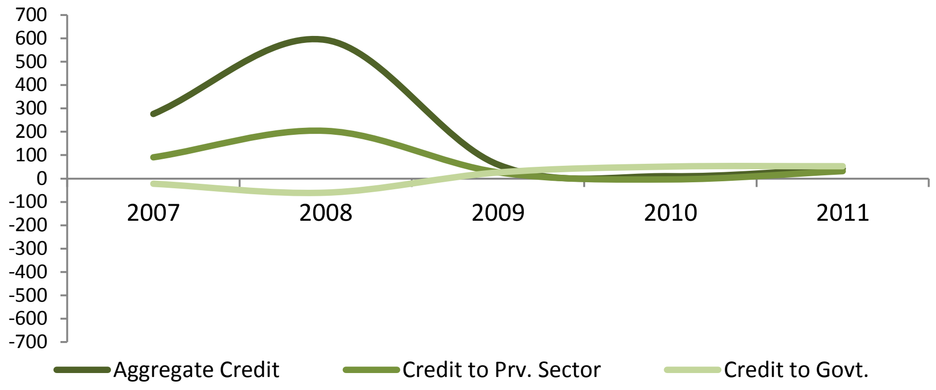
Table 4.3: Contribution to the Growth in M_2 (2007 – 2011) per cent					
	2007	**2008**	**2009**	**2010**	**2011**
Net Foreign Assets (NFA)	23.8	22.1	-11	-11.98	5.9
Net Domestic Credit (NDC)	49	39	31.9	9.84	32.1
Other Assets (net) (OAN)	-28.6	-3.3	-3.9	8.84	-22.6
M_2	**44.2**	**57.8**	**17.06**	**6.7**	**15.4**
Narrow Money ($M_{1)}$	20.7	30	1.2	4.93	10.4
Quasi Money	23.5	27.8	15.9	1.77	5
M_2	**44.2**	**57.8**	**17.06**	**6.7**	**15.4**

Source: CBN

4.2.3.4 Credit to the Private Sector (CP)

Credit to the private sector (including states and local governments and non-financial public enterprises) grew by 31.6 per cent, in contrast to the decline of 3.8 per cent at end-December 2010. Credit to the core private sector increased by 31.3 per cent, in contrast to the decline of 4.4 per cent at end-December 2010. The significant growth in credit to the private sector reflected the injection of funds by AMCON into the intervened banks.

Figure 4.7: Growth in Domestic Credit (per cent)



4.2.3.5 Other Assets (Net) (OAN)

Other Assets (net) of the banking system declined by 70.3 per cent, in contrast to an increase of 22.0 per cent at end-December 2010. Consequently, the decline in other assets (net) moderated the expansion in M_2 as it contributed negative 22.6 percentage points to its growth.

4.2.3.6 Narrow Money (M_1)

Narrow money supply (M_1), grew by 21.5 per cent at end-December 2011, compared with 11.1 per cent at end-December 2010. The currency component (COB) rose by 15.0 per cent, while demand deposit grew by 23.1 per cent, compared with their respective growth rates of 16.7 and 9.8 per cent at the end of the preceding year. As a proportion of M_1, COB stood at 18.0 per cent at end-December 2011, 1.4 percentage point lower than the level at end-December 2010.

Figure 4.8: Growth in Monetary Aggregates (per cent)

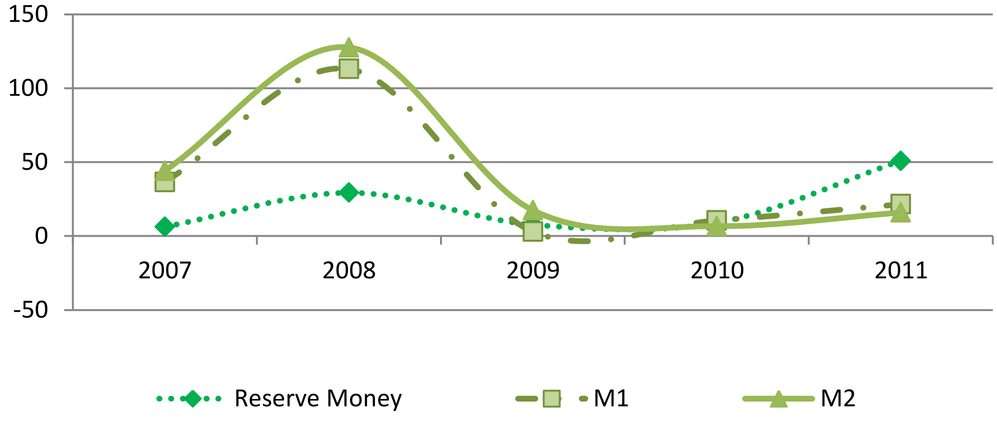


Figure 4.9: Growth in the Components of Broad Money (M_2) (per cent)

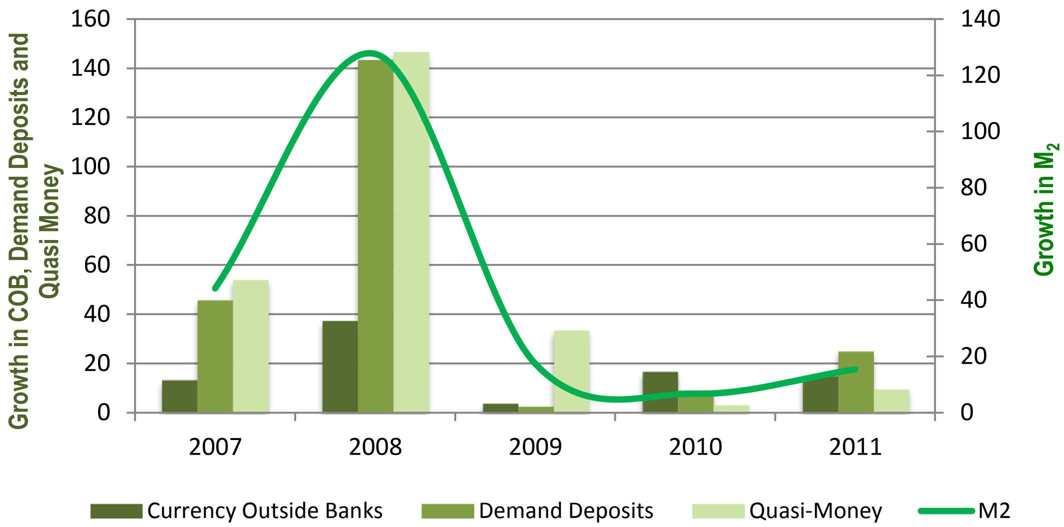


Table 4.4: Composition of Total Monetary Aggregate (M_2) (Per cent)

	2007	2008	2009	2010	2011
Net Foreign Assets	**125.1**	**93.3**	**70.3**	**56.5**	**54**
Net Domestic credit	**46.3**	**54.0**	**73.4**	**75.6**	**93.3**
Net Credit to Government	**-40.8**	-33.9	-21.2	-9.7	**-4.0**
Credit to Private Sector	**87.0**	87.9	94.8	85.3	**97.2**
Other Assets (Net)	**-71.3**	**-47.3**	**-43.9**	**-32.0**	**-47.2**
Total Monetary Assets	**100**	**100**	**100**	**100**	**100**
Money Supply (M_1)	**53.6**	**53.0**	**46.5**	**48.3**	**50.9**
Currency Outside Banks	12.7	9.7	8.6	**9.4**	**9.4**
Demand Deposit	40.9	43.2	37.9	**38.9**	**41.5**
Quasi Money	**46.4**	**47.0**	**53.5**	**51.7**	**49.1**
Time & Savings Deposit	46.4	47.0	53.5	51.7	**49.1**
Foreign Currency Deposit (FCD)	8.2	10.1	13.4	13.1	**14.8**
Total Monetary Liabilities (M_2)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: CBN

4.2.3.7 Quasi-Money

Quasi-Money grew by 9.7 per cent, compared with 3.3 per cent at end-December 2010. The development reflected, largely, the growth in foreign currency deposit with DMBs.

4.2.4 Maturity Structure of DMBs' Loans and Advances and Deposit Liabilities

The structure of DMBs' outstanding credit at end-December 2011 indicated the dominance of short-term maturities, as in the preceding year. Outstanding loans and advances maturing in one year or shorter accounted for 60.0 per cent, compared with 65.3 per cent at end-December 2010, which showed a marginal shift towards the medium to long term. The medium term (longer than one year, but less than three years) and long (three years and above) maturities improved at 15.2 and 24.8 per cent, respectively, which indicated 1.6 and 4.7 percentage points growth over the levels at end-December 2010. Similarly, short-term deposits constituted 97.8 per cent of the total, compared with 96.9 per cent at end-December 2010. Further analysis showed that 76.5 per cent of the deposit had a maturity of less than 30 days, compared with 76.3 per cent at end-December 2010, while long-term deposit of longer than three (3) years constituted only 0.1 per cent at end-December 2011, from 1.1 per cent recorded at the end of the preceding year. The dominance of short-term maturities in deposit money banks constrained their capacity to grant long-term credit.

Analysis of DMBs' outstanding credits and deposit liabilities showed that short-term maturities dominated both the credit and deposit markets.

Table 4.5: Maturity Structure of DMBs' Loans and Advances and Deposit Liabilities (per cent)										
	Loans and Advances					Deposits				
Tenor/Period	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
0-30 days	49.2	46.6	50.1	46.1	33.4	74.1	72.7	73.3	76.3	76.5
31-90 days	11.3	13.4	6.4	10.0	12.2	12.3	13.1	15.0	14.4	12.6
91-181 days	5.8	7.8	7.3	3.9	6.1	4.3	6.2	4.7	3.4	4.5
181-365 days	9.5	7.5	6.5	5.3	8.3	2.6	2.7	2.7	2.8	4.21
Short term	**75.8**	**75.4**	**70.3**	**65.3**	**60.0**	**93.3**	**94.8**	**95.7**	**96.9**	**97.77**
Medium term(above I year and below 3 years)	**13.5**	**14.5**	**14.3**	**14.6**	**15.2**	**3.3**	**5.2**	**4.1**	**2.1**	**2.14**
Long term (3 years and above)	**10.7**	**10.1**	**15.3**	**20.1**	**24.8**	**3.3**	**0.03**	**0.1**	**1.1**	**0.087**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: CBN

Figure 4.10a: Maturity Structure of DMBs Loans and Advances at End-December 2011

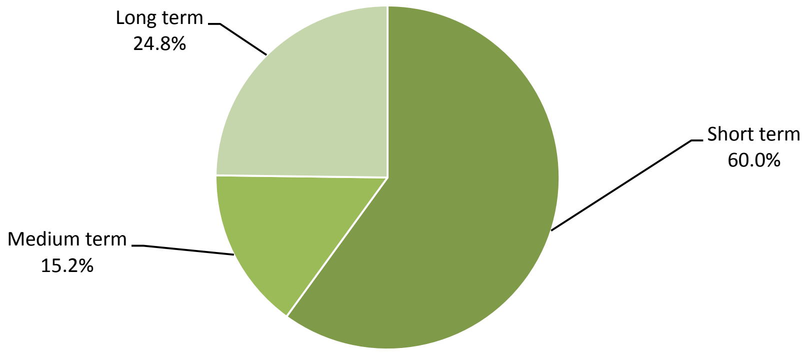
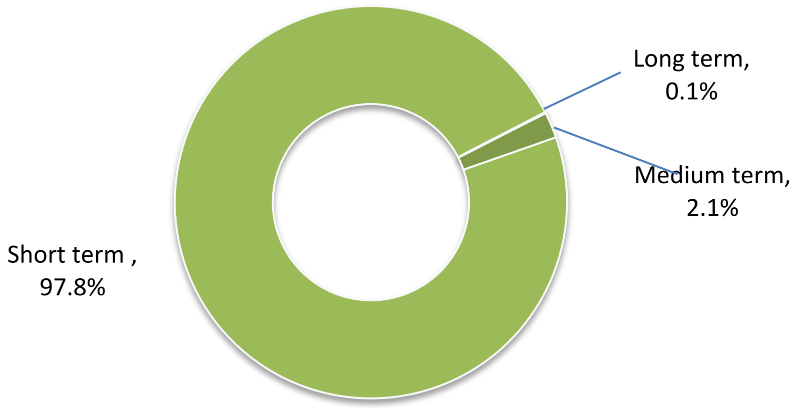


Figure 4.10b: Maturity Structure of DMBs' Deposits at End-December 2011



4.2.5 Sectoral Distribution of Credit

Credit to the core private sector by the DMBs grew by 31.3 per cent at end-December 2011, in contrast to the decline of 4.4 per cent recorded at end-December 2010. Of the amount outstanding, DMBs' credit to priority sectors constituted 36.1 per cent, of which 3.5, 17.7, 0.5 and 14.4 per cent, were disbursed to agriculture, solid minerals, exports and manufacturing, respectively. The less preferred sectors accounted for 45.8 per cent of outstanding credit, compared with 47.8 per cent at end-December 2010, while the unclassified sector accounted for the balance of 18.1 per cent.

Table 4.6:Share of Credit to the Core Private Sector, 2007 – 2011 (Per cent)

	2007	2008	2009	2010	2011
1. Priority Sector	**25.9**	**26.2**	**25.2**	**30.4**	**36.1**
Agriculture	3.2	1.4	1.4	1.7	3.5
Solid Minerals	10.7	11.3	12.7	15.3	17.7
Exports	1.4	1.0	0.5	0.6	0.5
Manufacturing	10.4	12.5	10.6	12.8	14.4
2. Less Preferred Sectors	**41.2**	**42.0**	**46.9**	**47.8**	**45.8**
Real Estate	6.2	6.2	8.3	8.7	6.2
Public Utilities	0.6	0.6	0.8	0.7	0.9
Transp. & Comm.	6.8	7.2	8.3	10.7	17.3
Finance & Insurance	9.4	9.5	13.1	11.3	4.1
Government	3.7	1.9	3.7	4.9	6.8
Imports & Dom. Trade	14.5	16.4	12.8	11.7	10.3
3. Unclassified	**32.9**	**31.8**	**27.9**	**21.8**	**18.1**
Total (1+2+3)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: CBN

Figure 4.11a: Share in Outstanding Credit to the Core Private Sector in 2011 (per cent)

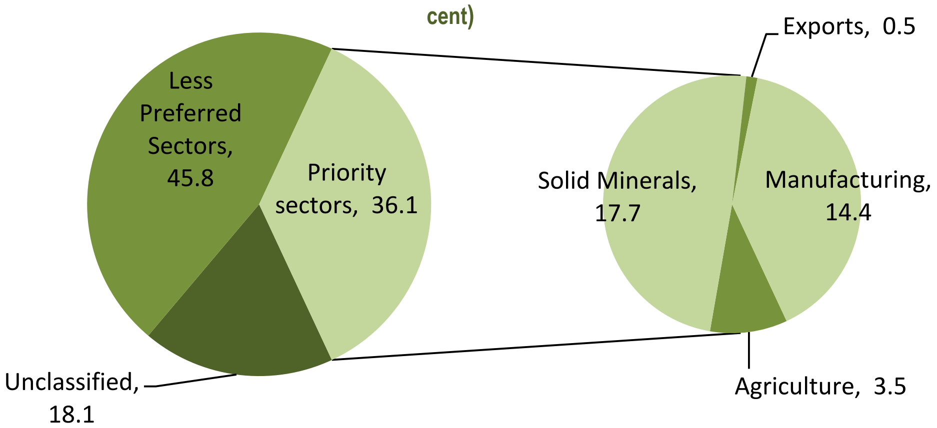
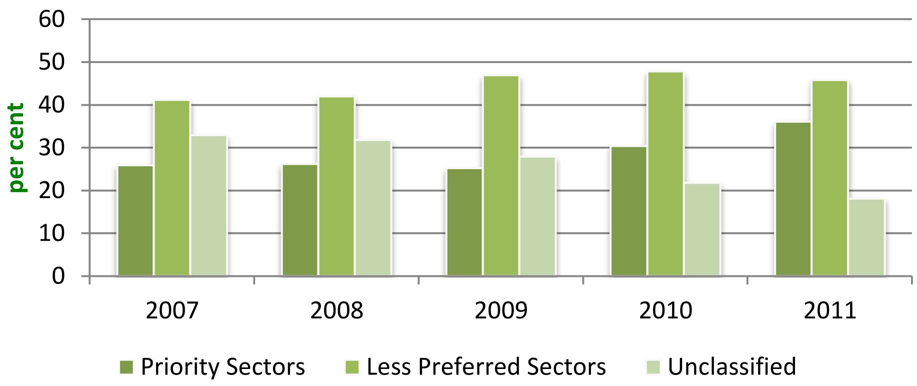


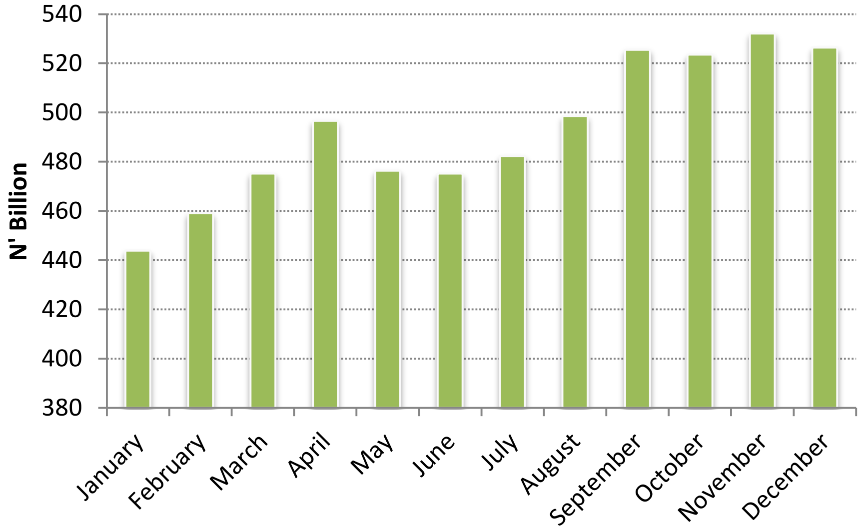
Figure 4.11b: Share in Outstanding Credit to the Core Private Sector (2007-2011)



4.2.6 Outstanding Consumer Credit

Consumer credit improved during the review period. Available data showed that outstanding DMBs' consumer credit rose by 18.6 per cent to ₦526.39 billion at end-December 2011 over the level at end-January 2011. At that level, consumer credit constituted 4.2 per cent of the total DMBs' outstanding credit to the core private sector and was 0.7 percentage points lower than the ratio of 4.9 per cent at end-January 2011. The development might be attributable to the rising incomes and enhanced confidence among consumers as well as a positive outlook of the economy, especially the financial system. Furthermore, the rising consumer credit implies greater financial inclusion, which could enhance the effectiveness of monetary policy transmission.

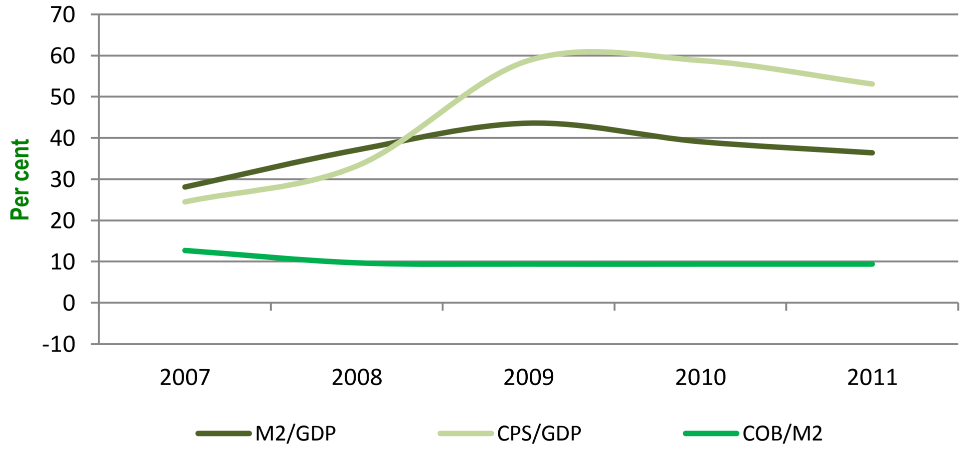
Figure 4.12: Consumer Credit in 2011



4.2.7 Financial/Banking System Development

Financial deepening was less impressive in 2011, as the ratio of M_2 to GDP stood at 36.4 per cent, down from 39.5 per cent at end-December 2010. Bank financing of the economy, measured by the ratio of private sector credit to GDP (CP/GDP) stood at 53.1 per cent at end-December 2011, compared with 58.8 per cent at end-December 2010. In addition, the intermediation efficiency indicator, as measured by the ratio of currency outside banks to broad money supply, at 9.4 per cent, remained the same as at end-December 2010.

Figure 4.13a: Ratio of Broad Money (M_2) and Credit to the Private Sector (CP) to GDP and Currency Outside Bank (COB) to M_2 (Per cent)



The ratio of financial savings to GDP declined to 17.9 per cent, from 20.2 per cent in the preceding year. The moniness of the economy, as measured by the ratio of CIC to GDP, declined slightly to 4.3 per cent from 4.7 per cent in 2010. Similarly, the size of the DMBs' assets relative to the size of the economy, indicated by the ratio of DMBs total assets to GDP, declined slightly from 58.8 per cent at end-December 2010 to 53.1 per cent in 2011.

Figure 4.13b: Ratio of Banking System's Total Assets to GDP (per cent)

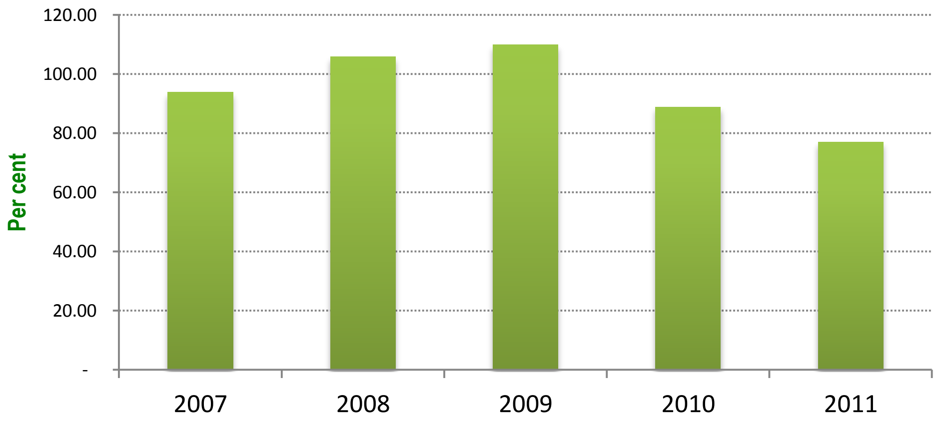
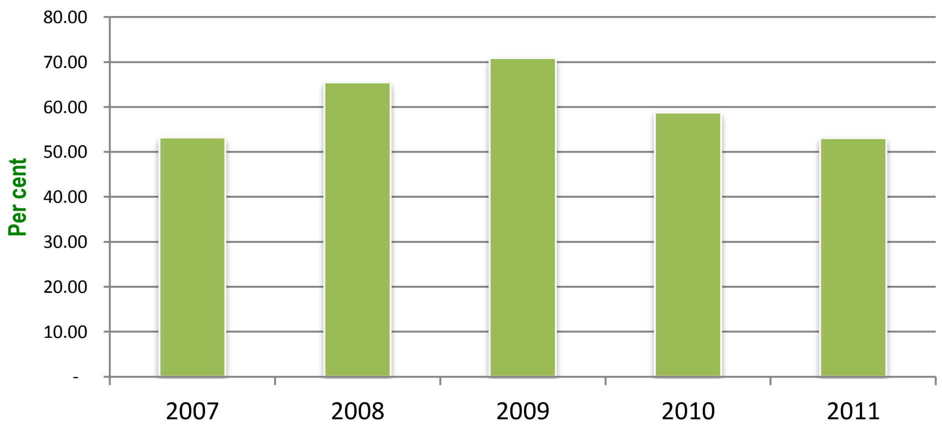


Figure 4.13c: Ratio of Deposit Money Banks' Assets to GDP (per cent)



4

FINANCIAL SECTOR DEVELOPMENTS

Table 4.7: Monetary Aggregates and Measures of Financial/Banking Developments, 2007 - 2011					
Aggregates (₦' billion)	**2007**	**2008**	**2009**	**2010**	**2011**
Nominal GDP	20,657.3	24,296.3	24,712.7	29,108.0	36,531.9
Broad money (M_2)	5,809.8	9,166.8	10,767.4	11,488.7	13,300.3
Quasi Money (Savings)	2,693.6	4,309.5	5,763.5	5,954.3	6,531.9
Currency in circulation	960.8	1,155.3	1,181.5	1,378.0	1,565.8
Currency Outside banks	737.9	892.8	927.2	1,082.2	1,244.8
Credit to Private Sector	5,056.7	8,059.5	10,206.1	9,703.7	12,934.3
DMBs Assets	10,981.7	15,919.6	15,522.9	17,331.6	19,396.6
CBN Assets	8,689.0	10,204.0	8,898.4	8,767.7	15,796.1
Banking System Assets	19,670.7	26,123.5	27,726.8	26,230.0	28,164.3
Monetary Ratio (per cent)					
M_2/GDP	28.1	37.7	43.6	39.1	36.4
CIC/ M_2	16.5	12.6	11.0	12.0	11.8
COB/ M_2	12.7	9.7	8.6	9.4	9.4
Quasi Money/ M_2	46.4	47.0	53.5	51.7	49.1
CIC/GDP	4.7	4.8	4.8	4.7	4.3
Cp/GDP	24.5	33.2	41.3	58.8	53.1
Cp/Non-Oil GDP	38.5	55.4	67.2	50.2	58.7
DMBs Assets/GDP	53.2	65.5	70.9	58.8	53.1
CBN's Assets/GDP	48.6	35.8	41.3	30.2	24.0
Banking System's Assets/GDP	95.2	107.5	112.2	88.9	77.1
Qm/GDP	12.9	17.5	22.8	20.2	17.9

Source: CBN

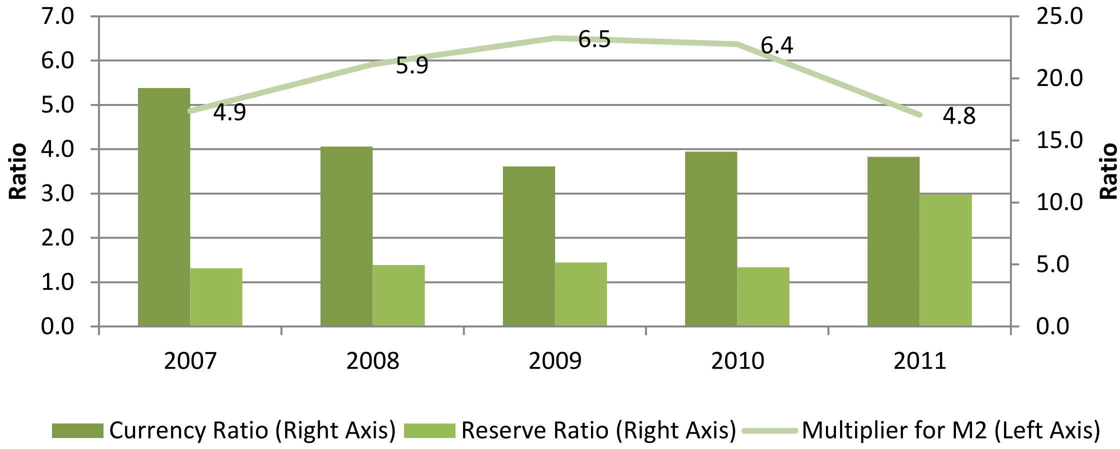
4.2.8 Money Multiplier and Velocity of Money

The broad money multiplier at end-December 2011 stood at 4.8, compared with 6.4 at the end of the preceding year and the 6.7 programmed for fiscal 2011. The decline reflected the increase in the reserve /deposit ratio from 4.8 to 10.6, offsetting the slight decline in its currency component.

Table 4.8: Money Multiplier and Velocity of M_2, 2007 - 2011					
	2007	**2008**	**2009**	**2010**	**2011**
Currency Ratio	19.2	14.5	2.9	14.1	13.7
Reserve Ratio	4.7	4.9	5.2	4.8	10.6
M_2 Multiplier	4.9	5.9	6.5	6.4	4.8
Velocity of M_2	3.6	2.7	2.3	2.5	2.7

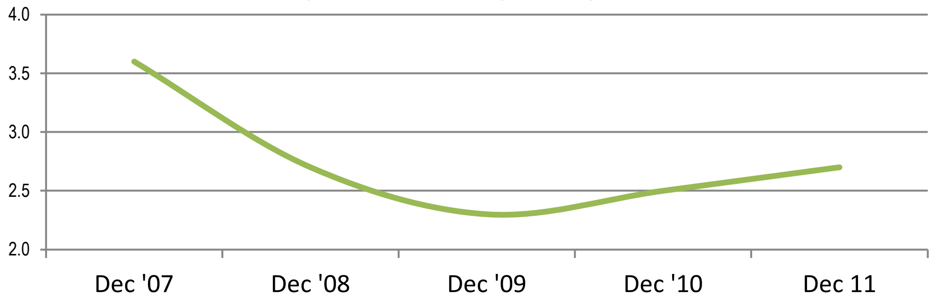
Source: CBN

Figure 4.14: Money Multiplier, Currency Ratio and Reserve Ratio, 2007 - 2011



The velocity of circulation of broad money edged up slightly, but remained relatively stable at end-December 2011. The M_2 velocity, which stood at 2.5 at end-December 2010 increased slightly to 2.7 at end-December 2011. However, it showed a declining trend over the last five years, reflecting an improvement in financial deepening in the economy.

Figure 4.15: The Velocity of Money



4.3 OTHER FINANCIAL INSTITUTIONS

4.3.1 Development Finance Institutions (DFIs)

The total assets of the five DFIs increased by 13.7 per cent to ₦359.6 billion, compared with ₦316.2 billion at end-December 2010. Analysis of the assets base of the five institutions indicated that the Bank of Industry (BOI) accounted for 53.2 per cent of the total. The Federal Mortgage Bank of Nigeria (FMBN), the Nigeria Export-Import Bank (NEXIM), the Bank of Agriculture (BOA) and the

Urban Development Bank (UDBN) accounted for 21.9, 11.4, 10.0 and 3.0 per cent of the total, respectively.

Cumulative loans disbursement by the five institutions rose to ₦129.8 billion at end-December 2011, from ₦111.8 billion at end-December 2010, representing an increase of 16.1 per cent. A breakdown of the loans disbursement indicated that FMBN, BOI, BOA, NEXIM and UDBN accounted for 42.7,29.6, 17.4, 10.2 and 0.1 per cent, respectively. The combined paid-up share capital of the five DFIs was ₦68.4 billion, compared with N50.1 billion at end-December 2010, while their combined shareholders' funds was ₦25.8 billion, owing to the substantial negative reserves of some of the DFIs. This, however, represented an improvement when compared with the negative ₦3.0 billion recorded at end-December 2010.

4.3.2 Microfinance Banks (MFBs)

The total assets/liabilities of MFBs increased by 12.0 per cent to ₦190.7 billion at end-December 2011.Similarly, the paid-up capital and shareholders' funds increased by 9.2 and 7.6 per cent to ₦45.4 billion and ₦47.3 billion, respectively. The loans and advances, and deposits also increased by 27.9 and 13.6 per cent, respectively. The development was attributed, largely, to the increased confidence occasioned by the sustained sanitization of the sub-sector in 2011. Investible funds available to the sub-sector was ₦21.6 billion, compared with ₦22.1 billion in the preceding year. The funds were sourced mainly from increased deposits (₦10.3 billion), paid-up capital (₦3.8 billion) and placements from other institutions (₦2.4 billion). The funds were used mainly to increase loans and advances (₦3.2 billion) and placement with other banks (₦2.2 billion), among others.

4.3.2.1 Maturity Structure of Microfinance Banks' (MFBs) Loans and Advances and Deposit Liabilities

Short-term investments remained dominant in the microfinance banks (MFBs) market in 2011, reflecting the structure of their deposits. Short-term loans, at end-December 2011, accounted for 89.7 per cent of the total, up from 88.0 per cent in the preceding year, while loans with maturity over 360 days accounted for 10.3 per cent, down from the 12.0 per cent at end-December 2010. Similarly, the short-term liabilities of these institutions remained dominant as deposits of less than one year maturity accounted for 93.2 per cent, while deposits of above one (1) year accounted for 6.8 per cent at end-December 2011, from the respective levels of 92.3 and 7.7 per cent at end-December 2010.

Table 4.9: Maturity Structure of Assets and Liabilities of Microfinance Banks (MFBs) (Per cent)

	2010		2011	
Tenor/Period	**Loans and Advances**	**Deposits**	**Loans and Advances**	**Deposits**
0-30 days	24.3	60.3	23.1	56.3
31-60 days	9.6	7.7	10.9	7.9
61-90 days	16.7	9.3	16.0	12.1
91-180 days	18.4	7.2	21.9	7.1
181 – 360 days	19.0	7.8	17.8	9.8
Short term	**88.0**	**92.3**	**89.7**	**93.2**
Above I80 days but below 1 year	19.0	7.8	17.8	9.8
Above 360 days	**12.0**	**7.7**	**10.3**	**6.8**
Total	**100.0**	**100.0**	**100.0**	**100.0**

Source: CBN

4.3.3 Discount Houses (DHs)

Total assets/liabilities of the discount houses declined by 1.5 per cent to ₦320.8 billion, compared with ₦362.4 billion in 2010. Total funds sourced amounted to ₦102.3 billion, compared with ₦152.2 billion in the preceding year. The funds were sourced mainly from claims on banks (₦45.7 billion),claims on others (₦24.3 billion), and money-at-call (₦15.9 billion). The funds were utilized mainly for investment in Federal Government securities (₦48.2 billion) and repayment of borrowings (₦45.0 billion), among others. Discount houses' investments in Federal Government securities of less than 91-day maturity amounted to ₦62.2 billion, representing 33.0 per cent of their total current liabilities. This was 27.0 percentage points below the prescribed minimum of 60.0 per cent for fiscal 2011.

4.3.4 Finance Companies (FCs)

Aggregate assets/liabilities of the FCs increased by 3.4 per cent to ₦117.6 billion at end-December 2011. Similarly, total paid-up capital and shareholders' funds increased by 3.1 and 51.0 per cent to₦20.1 billion and ₦15.4 billion, respectively. Furthermore, loans and advances, fixed assets and investments increased by 4.2, 6.6 and 1.8 per cent to ₦31.9 billion,₦9.7 billion and ₦27.6 billion, respectively, at end-December 2011. Total borrowings, however, declined by 3.0 per cent to ₦78.8 billion. Investible funds available to the sub-sector were ₦6.9 billion, compared with ₦90.8 billion in the preceding year. The funds were sourced mainly from accretion to reserves (₦4.6 billion) and draw-down on balances with banks (₦0.7 billion), among others. The funds were used mainly to increase cash and short-term funds (₦1.9 billion) and loans/advances (₦1.3 billion).

4.3.5 Primary Mortgage Banks (PMBs)

Aggregate assets of the PMBs declined marginally by 0.5 per cent to ₦357.1 billion at end-December 2011.Similarly, loans and advances declined by 4.7 per cent to ₦126.6 billion. Investments, other assets and fixed assets, however, increased by 2.9, 15.5 and 24.0 per cent to ₦68.9 billion, ₦61.3 billion and ₦23.5 billion, respectively, at end-December 2011. Investible funds available to the PMBs totalled ₦28.2 billion, compared with ₦30.1 billion in 2010. The funds were sourced mainly from an increase in other liabilities (₦6.7 billion) and recovery of loans and advances (₦6.3 billion), and were utilized mainly in the acquisition of other assets (₦8.2 billion), draw down on reserves (₦7.2 billion) and increase of fixed assets (₦4.5 billion).

4.3.6 Bureaux-de-Change (BDCs)

A total of ninety-two (92) BDCs were granted approval during the review period, thus bringing the total number of approved BDCs to 2,051 at end-December 2011.

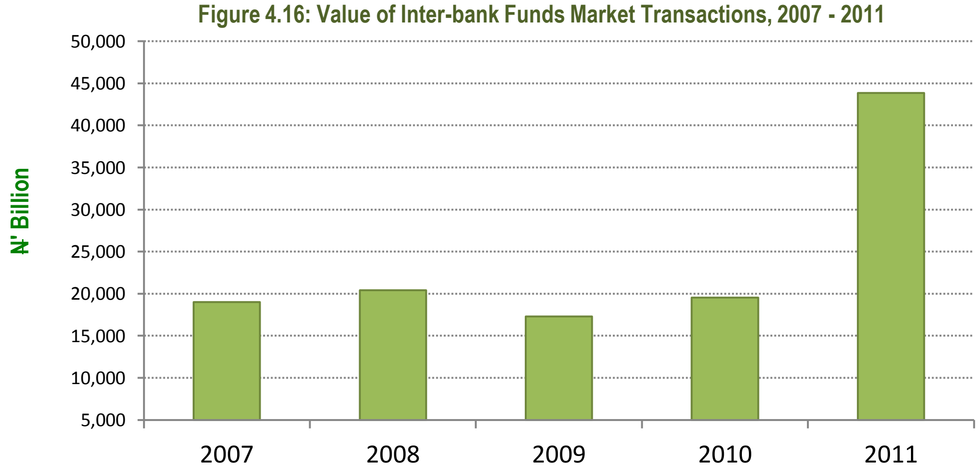
4.4 MONEY MARKET DEVELOPMENTS

Activities in the money market in 2011 were influenced mainly by the Bank's tight monetary policy stance. In particular, the Bank's policy action of upward adjustments of MPR during the year was aimed at proactively stemming inflationary pressures anticipated from the April general election expenditure, other fiscal injections, and the monetization of AMCON bonds, among others.

4.4.1 Inter-bank Funds Market

At the interbank funds market, the value of transactions increased by 124.5 per cent to ₦43,855.8 billion in 2011. The development was attributed to the monetary tightening action of the CBN. As a proportion of the total value of transactions, the inter-bank call and the open-buy-back segments accounted for 86.0 and 14.0 per cent, respectively, compared with 59.6 and 40.4 per cent in 2010. The increase in the value of interbank call transactions was attributed to the increase in borrowing by some market players who could not access the CBN repo window for lack of government securities as collateral.

Figure 4.16: Value of Inter-bank Funds Market Transactions, 2007 - 2011



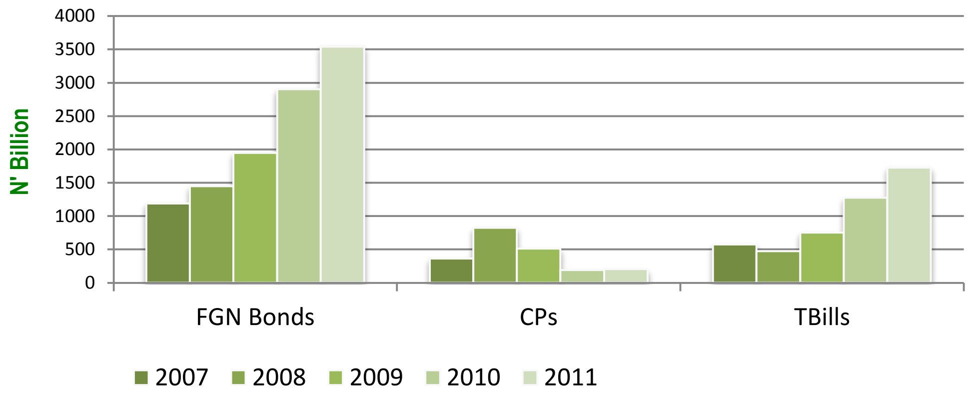
4

FINANCIAL SECTOR DEVELOPMENTS

4.4.2 Money Market Assets Outstanding

The total value of money market assets outstanding, which stood at ₦4,447.3 billion at end-December 2010, grew by 24.7 per cent to ₦5,545.5 billion at end-December 2011. The development was attributed to the increase in the value of Nigerian Treasury Bills (NTBs), FGN Bonds issued to finance government fiscal operations, and Commercial Papers (CPs).

Figure 4.17: Money Market Assets Outstanding



Government securities, which comprised Nigerian treasury bills and FGN bonds accounted for 95.0 per cent of the total value of the money market assets outstanding at the end of the review year. Private sector-issued securities accounted for the balance of 5.0 per cent. This development implied that government remained the dominant player in the Nigerian money market. The ratio of the value of money market assets to GDP declined marginally by 0.099 percentage points from the level at end-December 2010 to 15.2 per cent in 2011.

Table 4.10: Composition of Money Market Assets Outstanding in 2011

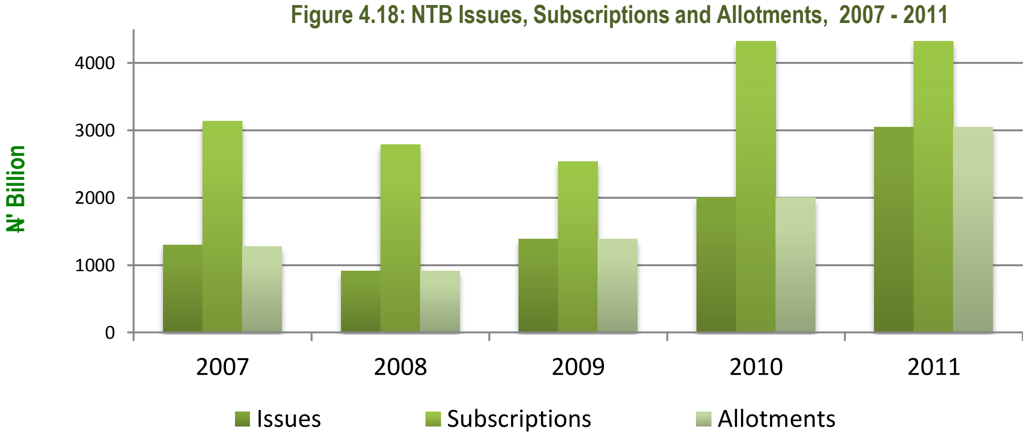
Asset	Share in Total (%) in 2010	Share in Total (%) in 2011
Nigerian Treasury Bills	28.72	31.16
Development Stocks	0.005	0.00
Commercial Papers	4.25	3.66
Bankers' Acceptances	1.78	1.32
FGN Bonds	65.24	63.86
Total	**100.00**	**100.00**

Source: CBN

4.4.2.1 Nigerian Treasury Bills (NTBs)

NTBs (91-, 182- and 364-day tenors) amounting to ₦3,048.49 billion, ₦6,512.7 billion and ₦3,048.5 billion respectively were offered, subscribed to, and allotted in 2011. The amount allotted increased by 52.1 per cent over the ₦2,004.0 billion allotted in 2010. The over-subscription was attributed to the growing preference for risk-free government securities with their more attractive yields, following the various upward reviews of the MPR.

Figure 4.18: NTB Issues, Subscriptions and Allotments, 2007 - 2011



Investors in NTBs by category, showed that DMBs took up ₦2, 001.2 billion (65.7 per cent), discount houses subscribed ₦344.9 billion (11.3 per cent), while mandate and internal funds got ₦702.6 billion (23.0 per cent). The average range of successful bid rates was between 5.56-16.99 per cent, compared with the range of 1.04 and 10.3 per cent in the preceding year. Matured NTBs repaid during the year amounted to ₦2,597.7 billion, compared with the ₦1,525.9 billion redeemed in 2010. Consequently, the value of NTBs outstanding at end-December 2011 was ₦1, 727.9 billion, reflecting an increase of 35.3 per cent over the preceding year's level.

Figure 4.19: Nigerian Treasury Bills: Breakdown of Allotments in 2011 (per cent)

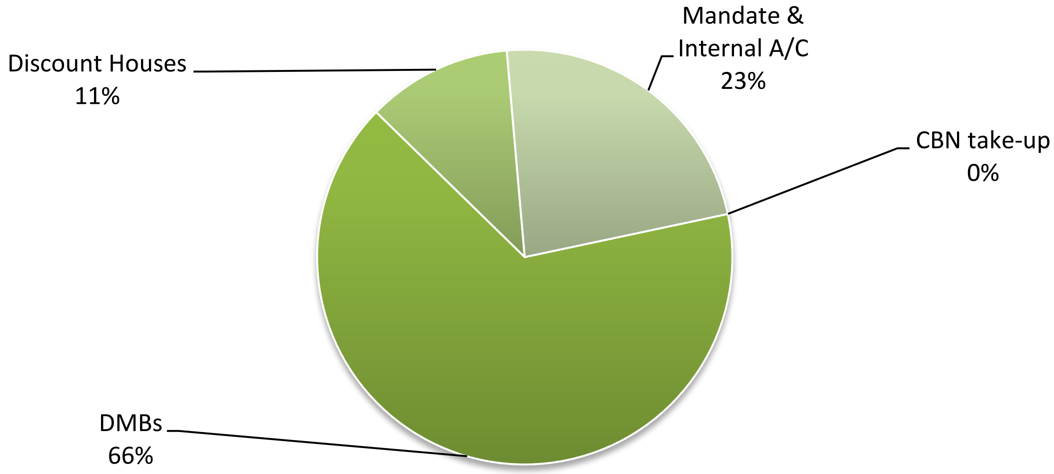


Figure 4.20: Treasury Bills Outstanding, 2007 - 2011

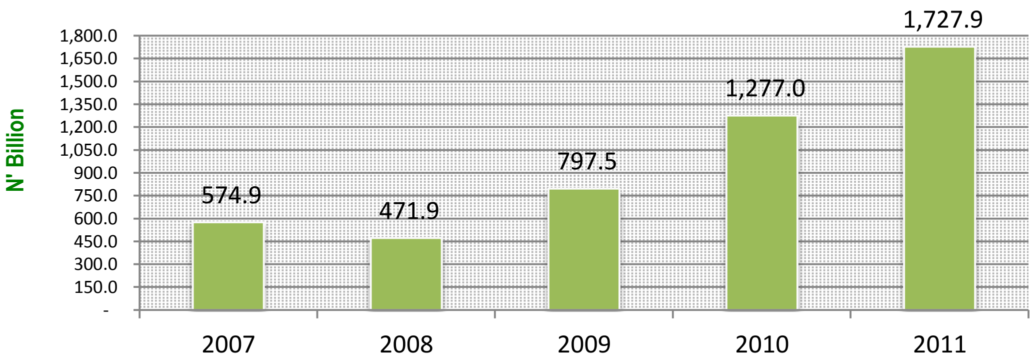


Figure 4.21: Nigerian Treasury Bills: Classes of Holders in 2011

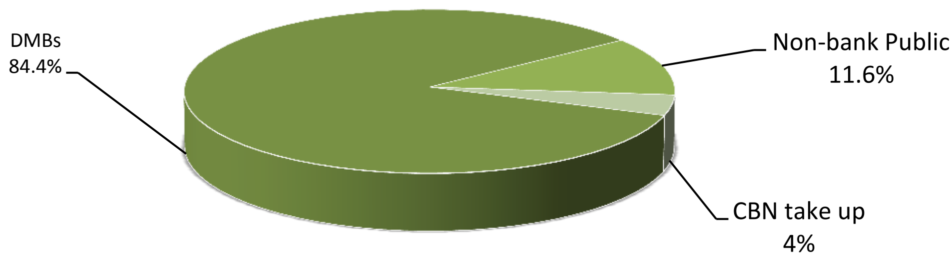


Table 4.11: Allotment of NTBs (₦'Billion), 2007 - 2011					
	2007	2008	2009	2010	2011
DMBs	587.3	383.7	838.8	1478.7	2,001.23
Mandate and Internal Fund	556.3	429.3	346.1	324.1	702.58
Discount Houses	135.5	69.1	71.1	201.2	344.68
MMD Take-up	2.4	23.4	5.0	0.0	0.0
CBN Take-up	-	7.6	0.03	0.0	0.0
Total	1,281.50	913.1	1,261.00	2,004.00	3,048.49

Source: CBN

4.4.2.2 Commercial Papers (CPs)

The value of CPs held by DMBs increased by 7.3 per cent to ₦203.0 billion at end-December 2011, as against the decline of 62.8 per cent at end-December 2010. Thus, CPs constituted 3.7 per cent of money market assets outstanding, compared with 4.3 per cent at the end of the preceding year.

4.4.2.3 Bankers' Acceptances (BAs)

Holdings of BAs by the DMBs declined by 7.3 per cent to ₦73.4 billion in 2011, as against the increase of 27.2 per cent at end-December 2010. Consequently, BAs accounted for 1.3 per cent of money market assets outstanding, down from 1.8 per cent at end-December 2010. The development reflected the decline in investors' preference for BAs.

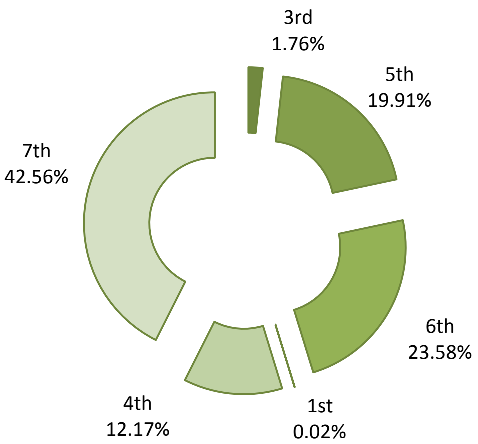
4.4.2.4 Federal Republic of Nigeria Development Stocks (FRNDS)

There was no issue of FRNDS during the year. The outstanding FRN Development Stocks which stood at ₦0.2 billion in 2010 were redeemed in 2011.

4.4.2.5 FGN Bonds

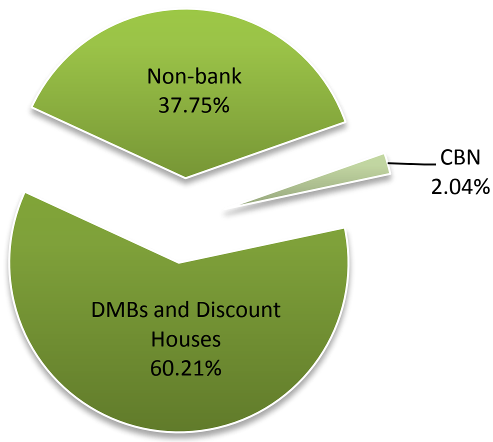
In the year under review, there was one issue, and the reopening of the 4th, 5th, 6th and 7th FGN-Bond series. As a result, FGN bonds outstanding at the end of the year was ₦3,541.2 billion, compared with ₦2,901.6 billion at the end of the preceding year, representing an increase of ₦639.6 billion (22.0 per cent). The high patronage of FGN Bonds was attributed to the high level of liquidity in the banking system, the investors' preference for long-term instruments, and the attractive coupon yield on the bonds. Of the total outstanding bonds, 0.02, 1.75, 12.17, 19.92 and 23.58 per cent respectively, were for the 1st, 3rd, 4th, 5th and 6th FGN Bonds, while the balance of 42.6 per cent was for the 7th FGN Bond.

Figure 4.22: Outstanding FGN Bonds



The structure of holdings of FGN Bonds showed that 60.2 per cent was held by DMBs and discount houses, the non-bank public held 37.6 per cent, and the Central Bank of Nigeria, 2.0 per cent.

Figure 4.23: FGN Bonds by Holders



In order to strengthen the banking sector, AMCON Bonds were issued in exchange for the acquired non-performing facilities of banks and for the recapitalization of intervened/nationalized banks. The first tranche of bonds issued by AMCON was redeemed for cash at the CBN, while the recapitalization bonds were used to access CBN's standing facility window. The nationalized/intervened banks were the majority holders of these bonds and therefore experienced greater liquidity challenges. In order to improve liquidity in the system, the CBN purchased the sum of ₦3,206.8 billion worth of AMCON bonds of different maturities from the affected banks.

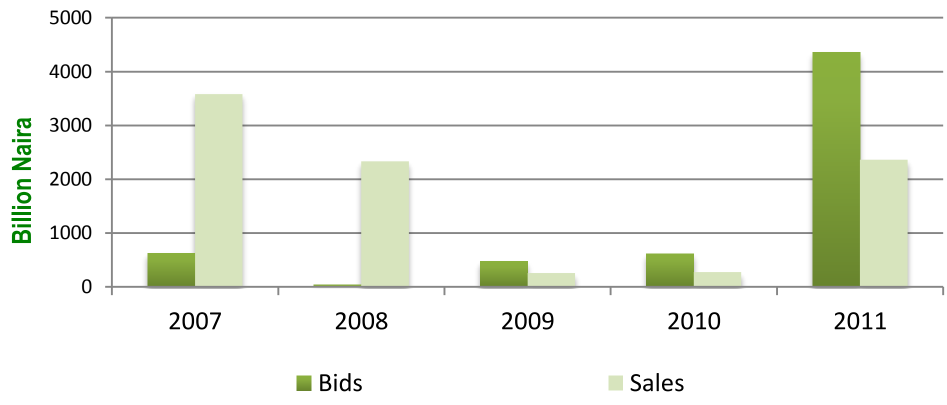
4.4.3 Open Market Operations (OMOs)

In line with the restrictive monetary policy stance occasioned by the need to curtail inflation OMO, auctions were conducted throughout the year to mop-up excess liquidity in the banking system. The highest level of OMO sales was in October 2011 when there was need to mop-up the huge inflow of funds into the banking system, following the purchase of AMCON Bonds from DMBs. The two-way quote trading and repurchase transactions complemented OMOs.

4.4.4 OMO Auctions

OMO auctions were conducted throughout the year, except in February 2011. CBN bills worth ₦643.6 billion were sold in October, of which ₦552.0 billion were AMCON Bonds. CBN bills worth ₦2,362.1 billion of various tenors, ranging from 6 to 359 days were sold in 2011, compared with ₦270.6 billion sold in 2010. The total CBN bills offered and subscribed to was ₦933.4 billion and ₦4,362.3 billion, respectively, in 2011, with bid rates ranging from 14.5 to 19.6 per cent. The stop rates at the auctions ranged from 6.6 to 18.1 per cent, for the various maturities offered. CBN bills valued at ₦861.8 billion matured and were repaid during the year, with an outstanding amount of ₦1,500.7 billion at end–December 2011.

Figure 4.24: OMO Issues and Sales, 2007 - 2011



4.4.5 The Two–way Quote Trading in NTBs

NTBs of maturities ranging from 15 to 22 days were traded on the two-way quote trading platform in 2011. The bid rates ranged from 7.3 to 9.5 per cent, while the offer rates ranged from 6.6 to 9.0 per cent. Bills worth ₦1.0 billion were bought at 9.0 per cent, while sales totalled was ₦0.3 billion at the deal rate of 7.3 per cent in the only trade held in the year. There was a sharp decline when compared with the bills issued and total sales of ₦52.0 billion and ₦26.0 billion, respectively, in 2010.

4.4.6 Discount Window Operations

4.4.4.1 CBN Standing Facilities

The CBN standing facilities were accessed by DMBs and discount houses throughout the year in order to enable them meet their short-term liquidity needs and invest their surpluses. The applicable rates remained within the corridor around the MPR of +/- 200 basis points for the standing lending facility (SLF) and standing deposit facility (SDF), respectively, throughout the year under review.

4.4.4.1.1 Standing Deposit Facilities (SDFs)

Patronage of the standing deposit facilities by DMBs and DHs significantly declined in 2011 due, largely, to the effects of the Bank's monetary tightening stance and the fact that SDFs were suspended between March 9 and October 10, 2011 when the reserve averaging scheme was operational. The average daily deposit stood at ₦173.0 billion, compared with ₦212.3 billion in 2010. Interest paid on the deposit also increased significantly to ₦703.7 million, from ₦12.5 million in 2010. The SDF rate, which was increased to 4.3 per cent in January, rose further to 10.0 per cent in October, in line with adjustment in MPR.

4.4.4.1.2 Standing Lending Facilities (SLFs)

The average daily request for SLFs in 2011 was ₦42.6 billion, compared with ₦41.0 billion in 2010. The lending facility rate was maintained at 200 basis points above the Monetary Policy Rate and, therefore, rose from 8.3 per cent at end-January to 14.0 per cent at end-December 2011.

4.4.4.2 Over-the-Counter Transactions (OTCs)

NTBs worth ₦11,159.4 billion were traded in 44,360 deals at the secondary market in 2011, compared with ₦8,652.2 billion in 34,542 deals in the preceding year. This represented an increase of 29.0 and 28.4 per cent in value and volume, respectively.

4.4.4.3 Over-the-Counter Transactions (OTCs) in FGN Bonds

In 2011, FGN Bonds worth ₦8,947.6 billion were traded in 65,319 deals at the secondary market, compared with ₦18,962.7 billion in 197,406 deals in the preceding year. This represented a decrease of 52.8 and 66.9 per cent in value and volume, respectively, owing to the decline in trading by the Primary Dealers and Market Makers (PDMMs).

4.4.4.4 Foreign Investment

During the year under review, ₦260.1 billion and ₦337.0 billion, respectively, were invested in NTBs and FGN Bonds, as against ₦132.5 billion and ₦109.6 billion respectively invested in 2010. The renewed interest by foreigners reflected the significant recovery in the global economy from the effects of the global economic and financial crisis and the search for investment opportunities in emerging and developing economies.

4.4.4.5 CBN Promissory Notes

One–year tenored promissory notes worth ₦371.6 billion were issued to two DMBs, following the purchase and assumption arrangement of four liquidated banks. The interest rates ranged from 3.9 to 11.0 per cent. The sum of ₦116.1 million was redeemed.

4.4.4.6 CBN Guarantees

The Bank sustained the guarantee of interbank transactions, foreign credit lines and pension funds placements with deposit money banks in 2011. The guarantee that was expected to terminate on June 30, 2011 was extended for the intervened banks till December 2011, following the successful signing of Transaction Implementation Agreements (TIAs) with respective investors and the subsequent mergers and acquisitions.

Outstanding interbank guarantees at end-December, 2011 were ₦275.2 billion, compared with ₦904.6 billion in the corresponding period of 2010.

4.4.4.7 Repurchase Transactions (Repo)

The repo market remained active throughout the year, but the total request for repo transactions increased significantly from June till the end of the year, as a result of the liquidity condition in the banking system. Total value of transactions stood at ₦3, 279.6 billion in 2011, at rates ranging from 9.3 to 15.0 per cent, compared with the total request of ₦470.2 billion in 2010 at rates ranging from 9.3 to 10.8 per cent.

4.4.4.8 Open-Buy-Back (OBB) Transactions

The total value of transactions at the OBB stood at ₦22,353.0 billion in 2011, reflecting an increase of 18.6 per cent above the ₦18,845.0 billion recorded in 2010. The development was attributed to tight liquidity in the banking system.

4.5 CAPITAL MARKET DEVELOPMENTS

4.5.1 Developments in the Nigerian Capital Market in 2011

The Board of the Securities and Exchange Commission (SEC) approved a new Code of Corporate Governance for public companies, under its regulatory purview in order to entrench transparency and accountability in the Nigerian capital market. The new Code, which came into effect on April 1, 2011, outlined the responsibilities and duties of the Board, including the mode of

The Board of the Securities and Exchange Commission (SEC) approved a new Code of Corporate Governance for public companies, under its regulatory purview, in order to entrench transparency and accountability in the Nigerian capital market.

appointment, structure, remuneration and board composition of public companies. It further stated the standard requirements on matters relating to reporting format, protection of shareholders' rights, risk management, insider trading, whistle blowing policy, accountability, communication policy, code of ethics and resolutions, among others. As part of measures to instill discipline in the Exchange, the NSE directed stock broking firms to separate their accounts from clients' accounts.

The Council of the Nigerian Stock Exchange (NSE) restructured its operations during the review year. Consequently, the directorate of strategy and business development was divided into two separate units. The business development arm was merged with the listings department, while the strategy unit formed part of the Office of the Chief Executive of the Exchange. A new Director General was appointed for the Nigerian Stock Exchange.

In order to stem the persistent tide of losses at the capital market and attract foreign and local institutional investors, the NSE launched investor clinics across the country. Under the aegis of the investor clinic, the Exchange collaborated with brokers and dealers to provide investment information and education to investors, particularly on portfolio management.

The NSE also launched two new products to address the problems of low investor confidence and illiquidity in the market. These were:

- The Sim Capital Alliance Value Fund listed on July 28, 2011 to give investors the opportunity to own shares in a scheme that invests in equities and non-equities, providing access to a "packaged" investment product that is traded on the Exchange; and
- The ABSA New Gold Exchange Traded Fund (ETF) launched on December 19, 2011. The Fund provides investors direct access to an

efficient and cost-effective investment in gold and currency hedging.

As part of efforts aimed at internationalising its operations, the NSE consolidated its thirty-three (33) industry sectors into twelve (12) that better reflect the structure of the Nigerian economy and streamlined it with international industrial classifications. Consequently, all listed companies on the Exchange were reclassified into the new sectors, thereby reducing restrictions that previously deterred prospective issuers. Furthermore, the number of trading hours on the stock exchange was increased from five (5) to seven (7) hours daily to accommodate more trading activities, as well as allow more foreign investors to participate.

In order to improve its communication with the investing public and other stakeholders, the NSE, on March 12, 2011, commissioned a Contact Centre where stakeholders could make enquiries on issues concerning the stock market. The Centre opens for 12 hours, and enquiries and complaints could be made in the country's three major languages and in "pidgin" English.

Furthermore, Nigeria's first Sovereign Eurobond, worth US$500.0 million, was admitted for trading on the London Stock Exchange. On cross-border listing, the SEC commenced collaboration with regulators in the West African sub-region to facilitate the formation of a single stock exchange in order to address the challenges of cross-border listings on exchanges within the sub-region.

In addition, nine (9) companies, which comprised three (3) dormant companies that had applied for voluntary delisting and six (6) deposit money banks that had either nationalized or restructured, were delisted from the *NSE Daily Official list* at end-December 2011.

Other developments in the market during the year included: the introduction of market making, company share buy-back, securities lending, revision of listing requirements, and short-selling activities.

4.5.2 The Nigerian Stock Exchange (NSE)

Activities on the floor of the NSE in 2011 indicated mixed developments. Aggregate volume and value of traded securities declined by 11.8 and 21.9 per cent, respectively, while the aggregate market capitalization of the 250 listed securities rose by 3.6 per cent to close at ₦10.3 trillion, from ₦9.9 trillion at end-December 2010. The increase in total market capitalization was attributed to the introduction of Exchange Traded Funds (ETF) and increases in state and corporate bonds issues. The market capitalization of the 201 listed equities declined by 17.7 per cent to close at ₦6.5 trillion, from ₦7.9 trillion at end-December 2011 and constituted 63.1 per cent of the total market capitalization. The development was due, largely, to the delisting of the three nationalized banks, price depreciation recorded by the blue-chip companies, and equity exposure cuts by funds and asset managers to cover positions in the US and Euro Zone. The debt securities component, consisting of twenty-five (25) Federal Government Bonds (₦2.1 trillion), eleven (11) Sub-National Bonds (₦0.3 trillion), and twelve (12) Corporate Bonds/Debenture (₦1.4 trillion) accounted for the balance. The top twenty (20) most capitalized stocks had a market capitalization of ₦5.4 trillion, representing 52.4 and 83.1 per cent of the aggregate market capitalization and equities market capitalization, respectively.

Aggregate market capitalization as a percentage of GDP was 28.1 per cent, compared with 33.6 per cent in 2010.The ratio of the value of stocks traded to GDP stood at 1.7 per cent, compared with 0.3 per cent in 2010, while the turnover value as a percentage of market capitalization was 6.1 per cent, compared with 8.0 per cent in 2010.The annual turnover value (measured as the ratio of the total value of stocks traded to the total value of stocks listed on the NSE) fell by 21.9 per cent, as against the increase of 16.3 per cent in 2010.

Figure 4.25: Trends in Market Capitalization and NSE Value Index, 2006 - 2011

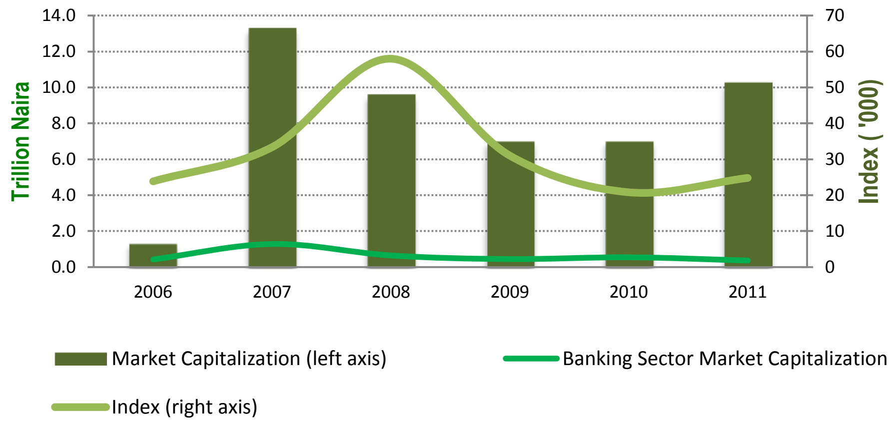


Figure 4.26: Aggregate Market Capitalization

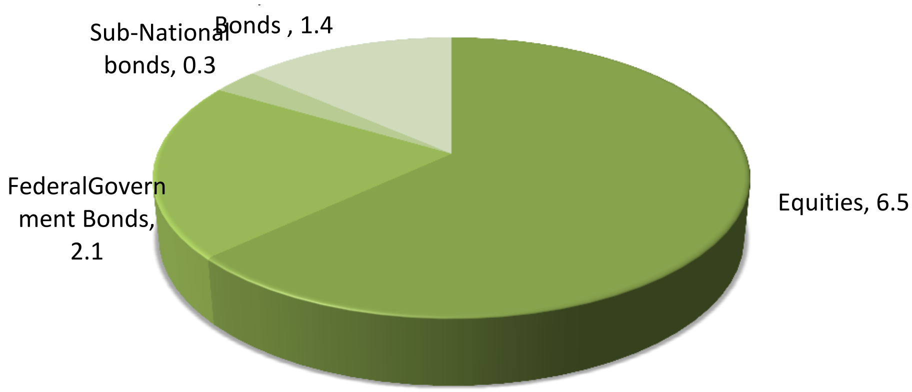


Table 4.12: Indicators of Capital Market Developments in the Nigerian Stock Exchange (NSE), 2007 - 2011					
	2007	**2008**	**2009**	**2010**	**2011**
Number of Listed Securities	309	299	266	264	250
Volume of Stocks Traded (Turnover Volume) (Billion)	138.1	193.1	102.9	93.3	82.3
Value of Stocks Traded (Turnover Value) (Billion Naira)	2100.0	2400.0	685.7	797.6	622.6
Value of Stocks/GDP (%)	8.9	10.0	10.0	0.3	1.7
Total Market Capitalization (Billion Naira)	13294.6	9,535.80	7,032.10	9,918.20	10,282.20
Of which: Banking Sector (Billion Naira)	*6432.2*	*3715.5*	*2238.1*	*2710.2*	*1839.3*
Total Market Capitalization/GDP (%)	56.0	39.7	28.5	33.6	28.1
Of which: Banking Sector/GDP (%)	*27.1*	*15.5*	*9.1*	*9.2*	*5.0*
Banking Sec. Cap./Market Cap. (%)	41.8	39.0	31.8	27.3	17.5
Annual Turnover Volume/Value of Stock (%)	6.6	8.0	15.0	15.0	13.2
Annual Turnover Value/ Total Market Capitalization (%)	15.8	25.2	9.8	8.0	6.1
NSE Value Index (1984=100)	57,990.22	31,450.78	20,827.17	24,770.50	20,730.63
Growth (In percent)					
Number of Listed Securities	7.6	-2.6	-11.0	-0.8	-5.3
Volume of Stocks	278.4	39.8	-46.9	-9.3	-3.2
Value of Stocks	346.5	14.3	-71.4	16.3	-20.1
Total Market Capitalisation	159.6	-27.8	-26.3	41.0	4.0
Of which: Banking Sector	*200.2*	*-42.2*	*-39.8*	*21.1*	*-32.1*
Annual Turnover Value	346.5	14.3	-71.4	16.3	-21.9
NSE Value Index	74.7	-45.8	-33.8	18.9	-17
Share of Banks in the 20 Most Capitalized Stocks in the NSE (%)	65.0	70.0	59.0	80.0	40.0

Source: Securities and Exchange Commission

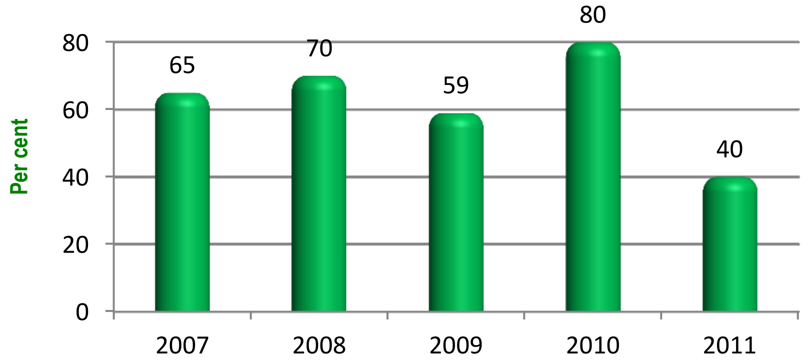
4.5.2.1 The Secondary Market

The secondary market segment of the NSE was bearish in 2011. The cumulative volume and value of shares traded stood at 82.3 billion shares and ₦622.6 billion, respectively, in 1,235,467 deals, compared with 93.3 billion shares and ₦797.6 billion in 1,925,375 deals at end-December 2010. On an average daily activity, the Exchange recorded 334.6 million shares valued at ₦2.5 billion, compared with 377.9 million shares valued at ₦3.2 billion in 2010. In terms of volume, value and number of deals, the equities segment maintained its dominance of trading activities in the stock market as it accounted for 99.99, 79.10 and 99.98 per cent, respectively. The banking sub-sector accounted for 58.3 and 60.9 per cent of the total volume and value of transactions, respectively. The insurance sub-sector

The secondary market segment of the NSE was bearish in 2011.

accounted for 19.1 and 3.2 per cent of the total volume and value of transactions, respectively. The Industrial loan and preference stock sub-sectors remained inactive in the review period. The top twenty (20) listed companies, by turnover volume, constituted 72.7 per cent of the total volume of transactions, while the financial services sector contributed 83.9 per cent. Similarly, the top twenty (20) listed companies, by turnover value, constituted 85.0 per cent of the total. The financial services sector constituted 58.0 per cent of this. Further analysis showed that of the top twenty (20) listed companies, the banking sub-sector accounted for eight (8) and constituted 40.0 per cent of the total.

Figure 4.27: Share of Banks in the 20 Most Capitalized Stocks in the NSE, 2007 - 2011



4.5.2.2 The NSE Value Index

The Nigerian Stock Exchange (NSE) All-Share Index declined by 16.3 per cent to close at 20,730.63, compared with 24,770.52 in the preceding year. The development reflected the fall in share prices of most of the listed stocks on the NSE.

The NSE-30 fell by 14.9 per cent to close at its year-end level of 923.77, compared with 1,081.95 at end-December 2010. Similarly, the four sectoral indices, namely, the NSE Food/Beverage, the NSE Banking, the NSE Oil/Gas and the NSE Insurance fell significantly by 26.7, 34.7, 42.0 and 14.7 per cent respectively to close at 589.60, 274.26, 220.11 and 143.54.

4.5.2.3 The New Issues Market

The primary segment of the market recorded increased activity, as reflected in the rise in the number of applications received and issues offered for public subscription. The development reflected a gradual restoration of confidence in the market with investors making recourse to the stock market. The NSE approved thirty-four (34) applications valued at ₦2.2 trillion, compared with thirty-one (31) applications valued at ₦2.44 trillion in 2010. All the issues were fully subscribed. The non-bank corporate sub-sector accounted for 64.8 per cent of the total new issues approved, with twenty-two (22) applications valued at ₦1,972.3 billion, while the banking sub-sector accounted for 17.6 per cent, with six (6) applications valued at ₦103.1 billion. Similarly, the NSE received six (6) applications (17.6 per cent of the total) for state governments bond issues valued at ₦149.8 billion.

The primary segment of the market recorded increased activity reflected in the rise in the number of applications received and issues offered for public subscription.

Further analysis of the approved new issues showed that the sum of ₦304.7 billion was raised through rights issue; ₦22.3 billion, preference shares; ₦1,890.0 billion, bonds issue (including six State Government bonds); listing by introduction, ₦2.2 billion; share placements, ₦5.0 billion; and others accounted for the balance.

Figure 4.28: New Issues by Sector

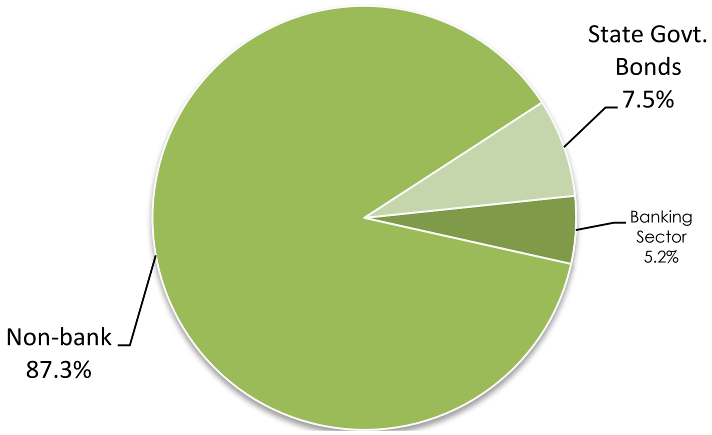


Figure 4.29 New Issues by Type