CENTRAL BANK OF NIGERIA

FINANCIAL STABILITY REPORT

JUNE 2013

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List of Abbreviations and Acronyms

AACBs	Association of African Central Banks
AADFIs	Association of African Development Finance Institutions
ACGSF	Agricultural Credit Guarantee Scheme Fund
ACSS	Agricultural Credit Support Scheme
AFC	African Finance Corporation
AGRA	Alliance for a Green Revolution in Africa
AIPs	Approvals-in-Principle
AMCON	Asset Management Corporation of Nigeria
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
ASCE	Abuja Securities and Commodity Exchange
ASeM	Alternative Securities Market
ASI	All Share Index (Nigerian Stock Exchange Index)
ATMs	Automated Teller Machines
AU	The African Union
BCEAO	Banque Centrale des Etats de l'Afrique de l'Ouest (Central Bank of West African States)
BDCs	Bureaux de Change
BOA	Bank of Agriculture
BOFIA	Banks and Other Financial Institutions Act 1991 (as amended)
BOI	Bank of Industry
BRICS	Brazil, Russia, India, China, and South Africa
BSE Sensex	Bombay Stock Exchange (Indian Stock Index)
CAC40	Cotation Assistée en Continu (French Stock Index)
CACS	Commercial Agricultural Credit Scheme
CAR	Capital Adequacy Ratio
CBN	Central Bank of Nigeria
CIBN	Chartered Institute of Bankers of Nigeria
CIFTS	CBN Interbank Fund Transfer System
CR5	Concentration Ratio (of the five largest banks)
CR6	Concentration Ratio (of the six largest banks)
CRMS	Credit Risk Management System
CSWAMZ	College of Supervisors of the West African Monetary Zone
D-8	Group of Eight Developing Countries
DAX	DeutscherAktien Index (German Stock Index)
DFIs	Development Finance Institutions
DMBs	Deposit Money Banks
DMO	Debt Management Office
EGX CASE30	Egyptian Stock Index (Cairo and Alexandria Stock Exchange)
EBAs	Eligible Bank Assets
EMV	Euro MasterCard Visa
FATF	Financial Action Task Force
FCs	Finance Companies
FCT	Federal Capital Territory

FGN	Federal Government of Nigeria
FMBN	Federal Mortgage Bank of Nigeria
FMF	Federal Ministry of Finance
FSIs	Financial Soundness Indicators
FSRCC	Financial Services Regulation Coordinating Committee
FTSE 100	Financial Times Stock Exchange Index (UK Stock Index)
GDP	Gross Domestic Product
GSE	Ghanaian Stock Exchange Index
HHI	Herfindahl-Hirschman Index
IFC	Islamic Finance Council
IFRS	International Financial Reporting Standards
IFSB	Islamic Financial Services Board
IGBC	Indice de la Bolsa de Valores de Columbia (Columbian Stock Index)
IILMC	International Islamic Liquidity Management Corporation
IMF	International Monetary Fund
JSE	Johannesburg Stock Exchange (South African Stock Index)
KYC	Know Your Customer
L/C	Letter of Credit
LTROs	Longer-term Refinancing Operations
M1	Narrow Money Supply
M2	Broad Money Supply
MCP	Microfinance Certification Programme
MDAs	Ministries, Departments and Agencies
MENA	Middle East and North African countries
MFBs	Microfinance Banks
MFIs	Microfinance Institutions
MICEX	Moscow Inter-Bank Currency Exchange (Russian Stock Index)
ML/FT	Money Laundering and Financing of Terrorism
MoUs	Memoranda of Understanding
MPR	Monetary Policy Rate
NACRDB	Nigerian Agricultural Co-operative and Rural Development Bank
NAICOM	National Insurance Commission
NCC	Nigerian Communications Commission
NDIC	Nigeria Deposit Insurance Corporation
NEXIM	Nigerian Export-Import Bank
NFIU	Nigerian Financial Intelligence Unit
NGAAP+	Nigerian Generally Accepted Accounting Principles
Nikkei 225	Japanese Stock Index
NIBSS	Nigerian Interbank Settlement System
NIPOST	Nigerian Postal Services
NIRSAL	Nigerian Incentive-based Risk Sharing System for Agricultural Lending
NPLs	Non-Performing Loans
NSE	Nigerian Stock Exchange
NSE 20	Nairobi Stock Exchange (Kenyan Stock Index)
OBB	Open Buy Back
OFIs	Other Financial Institutions

PAIF	Power and Aviation Infrastructure Fund
PCBs	Private Credit Bureaux
PENCOM	National Pension Commission of Nigeria
PFAs	Pension Fund Administrators
PFCs	Pension Fund Custodians
PMIs	Primary Mortgage Institutions
PoS	Point of Sale
PSV 2020	Payments System Vision 2020
ROA	Return on Asset
ROE	Return on Equity
ROSCAs	Rotating Savings and Credit Associations
RTGS	Real-Time Gross Settlement System
S&P	Standard and Poor's
SEC	Securities and Exchange Commission
SMEs	Small and Medium Enterprises
SMECGS	Small and Medium Enterprises Credit Guarantee Scheme
SROs	Self-Regulatory Organisations
SSA	Sub-Saharan Africa
TSX	Toronto Stock Exchange
USAID	United States Agency for International Development
WAMZ	West African Monetary Zone
WDAS	Wholesale Dutch Auction System
WEO	World Economic Outlook

Definition and Function of Financial Stability

'Financial stability' is the resilience of the financial system to unanticipated adverse shocks, while enabling the continuing smooth functioning of the financial system's intermediation process. A stable financial system contributes to broader economic growth and rising living standards. The financial system performs one of the most important functions in the welfare of its citizens by supporting the ability of households and firms to hold or transfer financial assets with confidence.

Governor's Statement

The efforts of the regulatory and fiscal authorities in addressing the challenges of the global economic and financial crises to achieve higher growth and employment were evident in the first half of 2013. The projected weaker global demand, slower growth in key emerging markets and slow recovery of the Eurozone would require the monetary authorities to sustain the implementation of monetary and macro-prudential policies to achieve financial system stability.

The Nigerian economy recorded some impressive macroeconomic achievements in the first half of 2013 despite some challenges. In specific terms, the country recorded strong GDP growth, single digit inflation, exchange rate stability, capital market recovery and growth in external reserves. As well, it maintained a stable banking system. However, oil production was less than expected owing to supply disruptions. Also, the high proportion of foreign portfolio investments (FPIs) in the financial markets presented a potential risk in the event of sudden capital reversals.

In response to these developments, the authorities have taken appropriate measures, including keeping the deficit within the threshold of the *Fiscal Responsibility Act*, building up foreign reserves and containing the insurgency in some parts of the North-East Region of the country, as well as setting up a Presidential Committee to address the challenge of crude oil theft. I am confident that these measures would serve to stabilise the system and pave the way for enhanced economic activities.

Sanusi Lamido Sanusi, *CON*
Governor, Central Bank of Nigeria

Deputy Governor's Remarks

The *FSR* continues to focus on strategic financial system stability challenges while providing insights on the efforts of the CBN to entrench a stable financial system. This edition highlights CBN's policy on financial inclusion which incorporates electronic banking, agent banking and a cash-less economy. It also covers the Bank's efforts at strengthening the financial system, including the take-off of the Nigerian Incentive-based Risk Sharing System for Agricultural Lending (NIRSAL) Plc, reforms in the mortgage sector and the various real sector intervention initiatives.

The mortgage finance sector, hitherto constrained by the near-absence of long-term funding, received a boost with the grant by the CBN of approval-in-principle for the incorporation of the Nigeria Mortgage Refinance Company (NMRC) in June 2013. The Company will intermediate between mortgage originators and the capital market to access long-term funds to refinance mortgage loan portfolios.

The announcement by AMCON, in May 2013, to redeem maturing bonds held by private investors and restructure those held by the CBN into a 10-year bond has enhanced confidence in the market.

It is my expectation that stakeholders will find this edition of the *FSR* useful in assessing the risks in the financial system and the efforts to mitigate them.

We would appreciate your feedback on this *Report* to: **FSR@cbn.gov.ng.**

Dr. Kingsley C. Moghalu, *OON*
Deputy Governor, Financial System Stability

Executive Summary

Global output was projected to grow at 3.1 per cent in 2013, the same rate as in 2012, owing to weak demand and growth in major emerging economies, persisting crisis in the Euro area, and weak expansion of the US economy. These factors, combined with improved supply of commodities, were also significant in moderating the global inflation rate to a projected 1.5 per cent in 2013, from the 2.0 per cent recorded in 2012. Crude oil price was projected to decline to an average of US$100.09 per barrel in 2013 with possible reduced earnings for Nigeria, given her high dependence on crude oil exports.

In the first half of 2013, monetary policy rates remained low in most advanced economies, as the US Federal Reserve, the Banks of England, Canada and Japan and the European Central Bank held interest rates at between 0.25 and 1.00 per cent. In most developing and emerging economies, monetary policy remained accommodating.

In Nigeria, economic growth remained impressive in the first half of 2013, with projected GDP growth of 6.56 and 6.18 per cent in the first and second quarters of 2013, respectively. The non-oil sector continued to drive growth, contributing 87.1 per cent to GDP in the review period. Although oil production declined, oil contributed 12.9 per cent to the gross output. The CBN maintained its tight monetary policy stance, which significantly moderated inflationary pressures, with the year-on-year headline inflation rate decelerating to single-digit in the review period. Also, money market rates fell marginally. Rates at the foreign exchange market were relatively stable. Gross external reserves rose by US$1.13 billion to US$44.96 billion at end-June 2013, which was adequate to finance11 months of imports.

The dominance of a few banks in the industry continued in the first half of 2013. The maturity mismatch and the near-absence of long-term deposits continued to constrain the ability of banks to create long-tenor risk assets necessary for economic development. The asset quality of banks declined slightly but remained within the maximum threshold of 5.0 per cent. On the other hand, the level of capitalization of the banks improved during the period.

The results of the examination of banks and other financial institutions showed improvement in risk ratings. The CBN granted an approval-in-principle for the incorporation of the Nigeria Mortgage Refinance Company (NMRC), a private-sector led second-tier, non-deposit taking financial institution, to enhance liquidity in the mortgage sub-sector. The CBN also continued the implementation of its financial inclusion strategy, which targets a reduction of the current financial exclusion rate of 46.3 per cent to 20 per cent in 2020. Also, AMCON announced its planned redemption of bonds held by private investors at maturity while the revised *Guide to Bank Charges* became effective from April 1, 2013.

In the payments system, some significant milestones were achieved, including the nationwide commencement of cheque truncation, a reduction in the clearing cycle to T+1, as well as an extension of the third party cheque encashment limit of ₦150,000, nationwide.

This edition of the *FSR* is divided into five sections. Section one reviews global and domestic economic and financial developments, highlighting key stability issues. Section two chronicles developments in the financial system; while section three covers regulatory and supervisory activities. Key developments in the payments system are highlighted in section four. Finally, section five provides the outlook for the financial system.

1.0 MACROECONOMIC DEVELOPMENTS AND FINANCIAL SYSTEM STABILITY

1.1 Global Economic and Financial Developments

1.1.1 Output

The projected growth in global output for 2013 was reviewed downwards to 3.1 per cent in July, the same as was achieved in 2012. The annualized global growth rose marginally to 2.5 per cent during the first half of 2013, the same as was recorded in the second half of 2012. The lower-than-expected growth was attributable to weak domestic demand and sluggish growth in major emerging economies, persisting crisis in the Euro area and weak recovery of the US economy. Downside risks to global growth remained, due to the continued slowdown in economic activities in the emerging markets and tighter financial conditions, following the envisaged tapering of the US economic stimulus package.

Real GDP growth in advanced economies was projected at 1.20 per cent in 2013, as achieved in 2012, due to protracted recession in the Euro area. This position would be moderated by the expected growth of 1.75 per cent in the US and a strong consumption-driven growth of 2.0 per cent in Japan in 2013. The projected growth in the US was based on an expected improvement in private demand occasioned by the recovery in the US mortgage market and supportive financial conditions. The projection for Japan was predicated on a stimulus package designed to boost confidence and private demand.

Economic growth in emerging and developing economies was projected to increase slightly to 5.0 per cent in 2013, from 4.9 per cent in 2012. The marginal increase in 2013 was attributed to low commodity prices and weak demand. In China, growth was expected to remain at 7.8 per cent in 2013 as in 2012, due to slowing manufacturing growth, weak external demand and tight credit conditions that prevailed since 2012. India was expected to grow at 5.6 per cent in 2013, compared with 3.2 per cent in 2012. The International Monetary Fund (IMF) forecasts for Brazil, Russia, India, China and South Africa(BRICS) indicated a decline in the range of 0.25 to 0.75 per cent in 2013, as the outlook for commodity exporting countries dampened, due to falling commodity prices.

Real GDP growth in Latin America was also projected at 3.0 per cent in 2013, the same as recorded in 2012. Growth in Brazil was projected to increase to 2.5 per cent in 2013, from 0.9 per cent in 2012, while growth in Mexico was projected to decline to 2.9 per cent in 2013, from 3.9 per cent in 2012.

In Sub-Sahara Africa (SSA), growth was also yet to recover fully following the decline in 2012 to 4.9 percent from 5.4 per cent recorded in 2011. In 2013, it was forecast at 5.1 per cent which was still below the level in 2011. The slow recovery in growth in SSA was attributed partly to weak external demand and domestic challenges in the region's two largest economies (Nigeria and South Africa). Growth in the Middle East and North Africa (MENA) region was projected to decline to 3.1 per cent in 2013, from 4.4 per cent in 2012, due to political and social instability (Table 1.1).

Table 1.1: World Output Growth and Projections (2012-2013)

Year	Actual	Projections	
	2012	2013	2014
World Output	3.1	3.1	3.8
Adv. Economies	1.2	1.2	2.1
United States	2.2	1.7	2.7
Euro Area	-0.6	-0.6	0.9
Germany	0.9	0.3	1.3
France	0.0	-0.2	0.8
Italy	-2.4	-1.8	0.7
Spain	-1.4	-1.6	0.0
Japan	1.9	2.0	1.2
United Kingdom	0.3	0.9	1.5
Emerging Markets and Developing Economies	4.9	5.0	5.4
Sub-Sahara Africa	4.9	5.1	5.9
China	7.8	7.8	7.7
India	3.2	5.6	6.3
Russia	3.4	3.4	3.8
Brazil	0.9	2.5	3.2
South Africa	2.5	2.8	3.3
Mexico	3.9	2.9	3.2
MENA	4.4	3.1	3.7

Source: IMF's World Economic Outlook, July Update July, 2013

1.1.2 Inflation

The downward trend in global inflation in 2012 was expected to continue in 2013, as weak global demand and improved supply of commodities, such as grains, precious metals and raw materials, were projected to depress commodity prices. Furthermore, weak aggregate demand in the Euro area, the lower-than-expected growth in the emerging market economies and modest growth in US and Japan, were expected to moderate global inflation in 2013.

Inflation in advanced economies was, thus, projected at 1.5 per cent in 2013, down from 2.0 per cent in 2012. Similarly, inflation in the emerging markets and developing countries was projected to decline to 6.0 per cent in 2013, from 6.1 per cent in 2012 (Table 1.2).

Inflation was also projected to decline in France, Germany and the US to 1.6, 1.6 and 1.7 per cent by 2013, from 1.9, 1.7 and 1.7 per cent, respectively in, 2012. However, inflation rates in Japan, the UK and the BRICS countries were expected to increase (Table 1.3).

Table 1.2: Global Consumer Price Inflation

Consumer Prices	2011	2012	2013 Projection	2014 Projection
Advanced Economies	2.7	2.0	1.5	1.9
Emerging and Developing Economies	7.2	6.1	6.0	5.5

Source: *IMF World Economic Outlook Update*, July 2013

Table 1.3: Inflation Rates for Selected Countries

Country/Region	June 2013	June 2012	Dec 2012	2013 Projection
Africa				
Nigeria	8.4	12.9	12.0	10.7
South Africa	5.5	5.5	5.7	5.8
Egypt	9.8	7.3	4.7	8.2
Ghana	11.2	9.4	8.8	8.4
North America				
US	1.8	1.7	1.7	1.8
Canada	1.2	1.5	0.8	1.5
Mexico	4.1	4.3	3.6	3.7
Latin America				
Brazil	6.7	4.9	5.8	6.1
Argentina	10.5	9.9	10.8	9.8
Colombia	2.2	3.2	2.4	2.2
Europe				
UK	2.9	2.4	2.7	2.7
France	0.9	1.9	1.3	1.6
Germany	1.8	1.7	2.0	1.6
Russia	6.9	4.3	6.6	6.9
Asia				
Japan	0.2	-0.2	-0.1	0.1
China	2.7	2.2	2.5	3.0
India	4.9	7.6	7.3	10.6

Sources: ***IMF WEO,*** April 2013 and ***Bloomberg***

1.1.2.1 Oil Prices

Crude oil price was projected to decline to an average of US$100.09 per barrel in 2013, from US$105.01 per barrel in 2012, due to anticipated increases in supply arising from new discoveries in China and some African countries, the adoption of new extractive technologies and the generally weak global economic recovery. World demand was, however, projected to grow by 1.5 per cent annually, primarily arising from higher demand for oil from non-OECD countries. Demand in OECD countries was projected to remain subdued by weak economic growth, efficient energy consumption technologies and environmental concerns[3].

1.1.2.2 Monetary Policy Rates

Monetary policy rates remained low in most advanced economies in the first half of 2013. The US Federal Reserve Bank, the Bank of England, the Bank of Canada and the Bank of Japan retained their policy rates between 0.25 and 1.00 per cent, while the European Central Bank reduced its rate to 0.50 per cent from 0.75 per cent. The Reserve Bank of Australia and the Bank of Korea progressively reduced their policy rates to 2.75 and 2.50 per cent in June 2013, from 3.00 and 2.75 per cent, respectively, in January 2013.

Among the BRICS countries, monetary policy stance remained

WEO Update, July 2013 and Global Economic Prospects: Commodity Markets Outlook, IBRD July 2013.

accommodating except for Brazil, which reviewed its policy rate upwards to 7.50 per cent in April and 8.00 per cent in May 2013, from 7.25 per cent in March 2013. India maintained an accommodative monetary policy stance by reviewing its rate downwards to 7.25 per cent in March 2013, from 7.75 per cent in January, while China, South Africa and Russia left their rates unchanged at 0.50, 5.00 and 8.25 per cent, respectively, at end-June 2013 (Table 1.4).

Table 1.4: Summary of Policy Rates Across Selected Countries (July 2012 – June 2013)

	2012						2013					
Country	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
Developed Economies												
Japan	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Europe	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.50	0.50
UK	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
US	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Canada	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
South Korea	3.00	3.00	3.00	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.50	2.50
New Zealand	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
Australia	3.50	3.50	3.50	3.25	3.25	3.00	3.00	3.00	3.00	3.00	2.75	2.75
ASEAN												
Indonesia	3.75	4.00	4.00	4.00	4.00	4.00	5.75	5.75	5.75	5.75	5.75	6.00
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Phillipines	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
BRICS												
Brazil	8.00	7.50	7.50	7.25	7.25	7.25	7.25	7.25	7.25	7.50	8.00	8.00
Russia	8.00	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25
India	9.00	9.00	9.00	9.00	9.00	9.00	7.75	7.75	7.50	7.50	7.25	7.25
China	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
South Africa	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Other Emerging Economies & South America												
Mexico	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.00	4.00	4.00	4.00
Turkey	5.75	5.75	5.75	5.75	5.75	5.75	5.50	5.50	5.50	5.50	4.50	4.50
Chile	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Colombia	5.00	4.75	4.75	4.75	4.50	4.25	4.00	3.75	3.25	3.25	3.25	3.25
Africa												
Nigeria	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00
Morocco	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Ghana	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	16.00	16.00

Source: Bloomberg

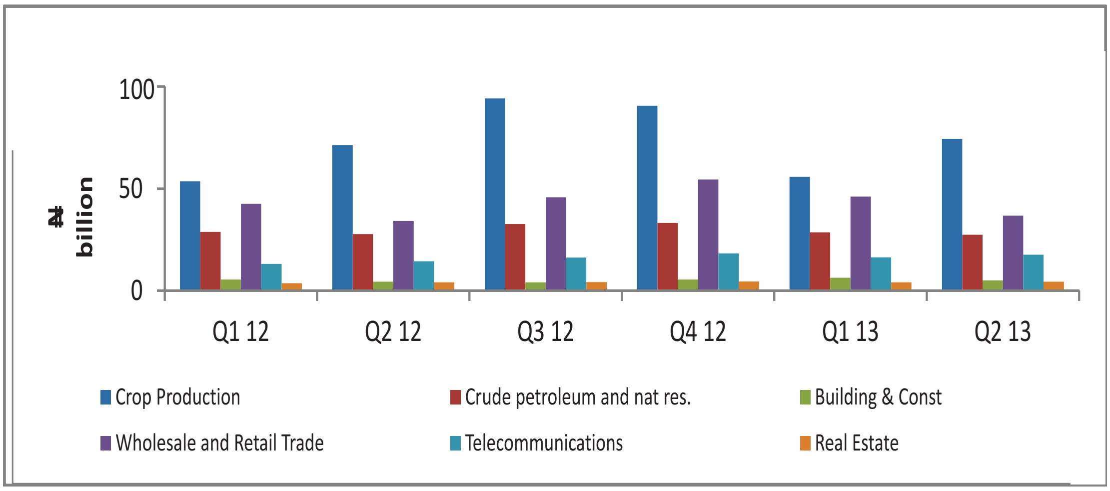
1.2 Domestic Developments

1.2.1 Output

Domestic economic growth remained impressive in the first half of 2013, despite the slight decline from its level in the preceding quarter. The development was attributable to the stable macroeconomic environment and better coordination of monetary and fiscal policies. In real terms, GDP growth was 6.56 and 6.18 per cent in the first and second quarters of 2013, compared with 6.39 and 6.99 per cent, respectively, recorded in second and fourth quarters of 2012. In the second quarter of 2013, the non-oil sector recorded a growth of 7.36 per cent in real terms and contributed 87.1 per cent to real GDP, compared with the growth of 7.89 and 7.63 per cent, respectively, in the first quarter of 2013 and the corresponding quarter of 2012. The growth in the non-oil sector was driven by the growth in activities recorded in the telecommunications and postal services (22.12%), building and construction (14.87%), hotels and restaurants (13.69%), solid minerals (11.84%), business and other services (11.33%), real estate (10.88%), manufacturing (6.81%) and agricultural (4.52%) sectors.

The oil sector recorded a real growth rate of -1.15 per cent and contributed 12.9 per cent to GDP in the second quarter of 2013, compared with a growth rate and contribution of -0.54 and -0.78 per cent, respectively, recorded in the first quarter of 2013 and the corresponding quarter of 2012. The 12.9 per cent contribution to GDP was, however, lower than the respective 14.75 and 13.86 per cent contributions recorded in the first quarter of 2013 and the corresponding quarter of 2012. The decline in the growth rate of the oil sector was attributed to low production levels occasioned by oil theft, pipeline vandalism and other operational challenges. While these challenges are being addressed by Government, the emergence of other African countries as oil producers portends increased competition and the risk of lower returns from Nigeria's oil exports.

Figure 1.1 Gross Domestic Product



Source: National Bureau of Statistics

Table1.5: Percentage Changes in Real GDP by Sector

Sector	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
Agriculture	4.37	4.21	3.89	3.62	4.14	4.52
Solid Minerals	11.65	11.72	12.61	13.59	12.00	11.84
Crude Petroleum & Natural Gas	-2.32	-0.73	0.08	-0.79	-0.54	-1.15
Manufacturing	5.17	7.59	7.78	7.70	8.41	6.81
Building and Construction	13.28	12.73	11.52	12.55	15.66	14.87
Wholesale and Retail Trade	8.42	8.65	9.62	11.19	8.22	7.44
Telecommunications Services	34.06	29.38	31.57	32.44	24.53	22.12
Real Estate	9.34	10.81	10.24	11.09	10.06	10.88
Business and Other Services	7.67	11.26	9.11	10.46	8.64	11.33

Figure 1.2: Share of Oil and Non-oil Sectors in Real GDP

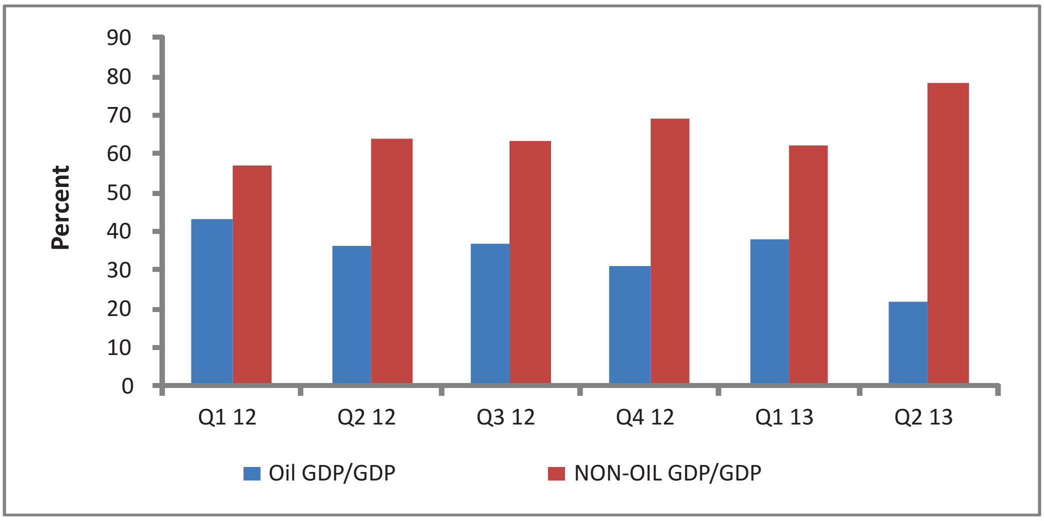
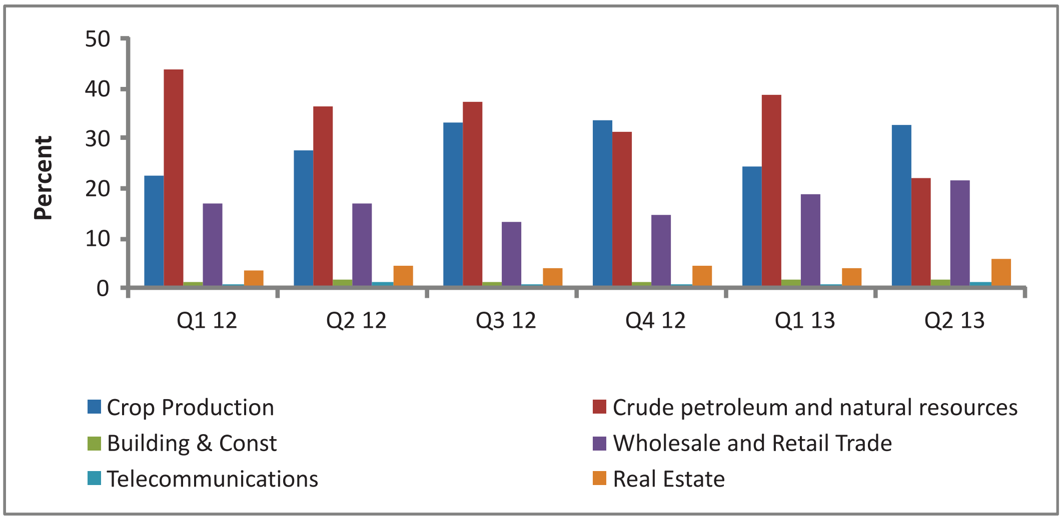


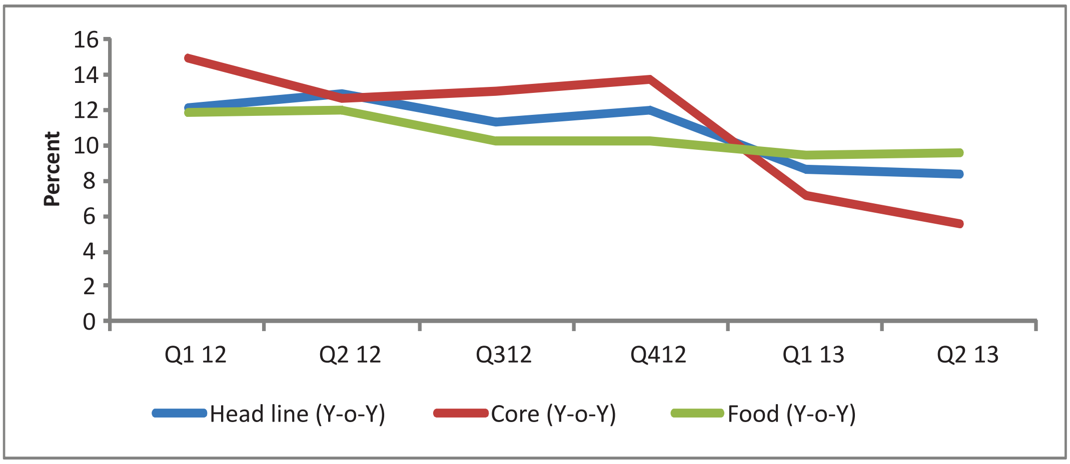
Figure 1.3: Share of Total GDP (%)



1.2.2 Inflation

Inflationary pressures moderated in the first half of 2013, partly in response to the tight monetary policy stance of the CBN and the stability in the supply of petroleum products. Year-on-year headline inflation decelerated to 8.4 per cent in June 2013, from 12.0 per cent in December 2012. Also, core and food inflation declined to 5.5 and 9.6 per cent, from their respective rates of 13.7 and 10.2 per cent in December 2012. Key risks to inflation in the short to medium term include possible accelerated fiscal releases in the latter part of the year and the upward review of electricity tariffs.

Figure 1.4: Inflationary Trend (Year-on-Year)



1.2.3 Interest Rates

The CBN maintained its policy rate at 12.00 per cent during the review period. Consequently, interest rates were relatively stable in the money market, though lower than their levels in the second half of 2012. The average inter-bank call and open buyback (OBB) rates stood at 11.55 and 11.36 per cent in the first half of 2013, down from 13.44 and 12.87 per cent respectively in the second half of 2012. Average term deposit rate also fell to 6.87 per cent, from 7.51 per cent in the second half of 2012. Prime and maximum lending rates fell by 0.43 and 0.34 percentage points, respectively, to 16.58 and 24.18 per cent in the review period. Thus, the spread between the maximum lending and the average term deposit rates stood at 17.31 percentage points, a 0.3 percentage point higher than the level in the second half of 2012. With the inflation rate at 8.4 per cent in June 2013, most deposit rates were negative in real terms, while lending and most money market rates were positive in real terms. The negative real rate of return on deposits acts as a disincentive to savings. Thus, as part of the ongoing efforts to improve the savings culture, the CBN revised the *Guide to Bank Charges*, effective April 1, 2013, requiring banks to pay a minimum of 30 per cent of MPR on savings accounts, among others.

Figure 1.5 : Money Market Interest Rates and MPR

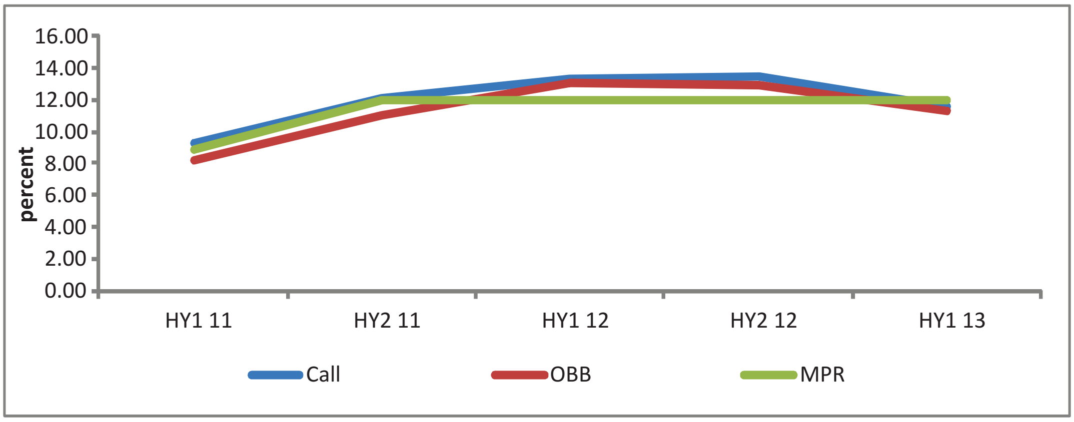
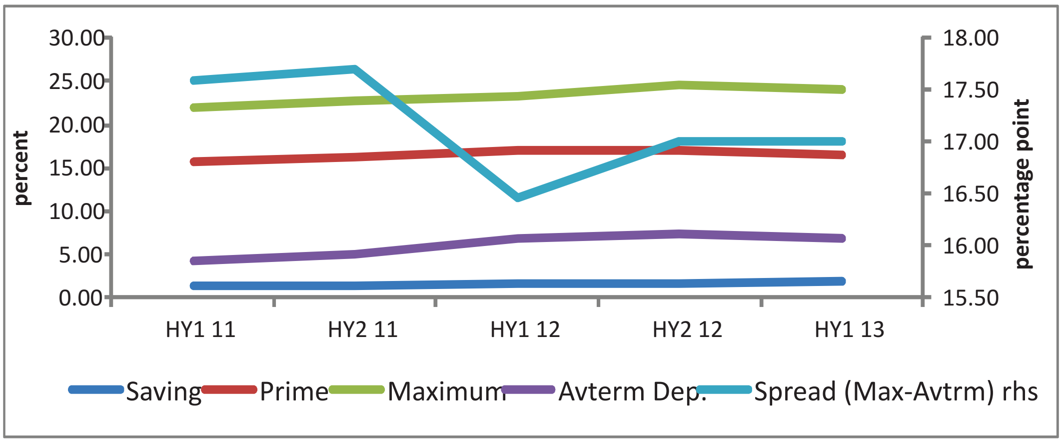


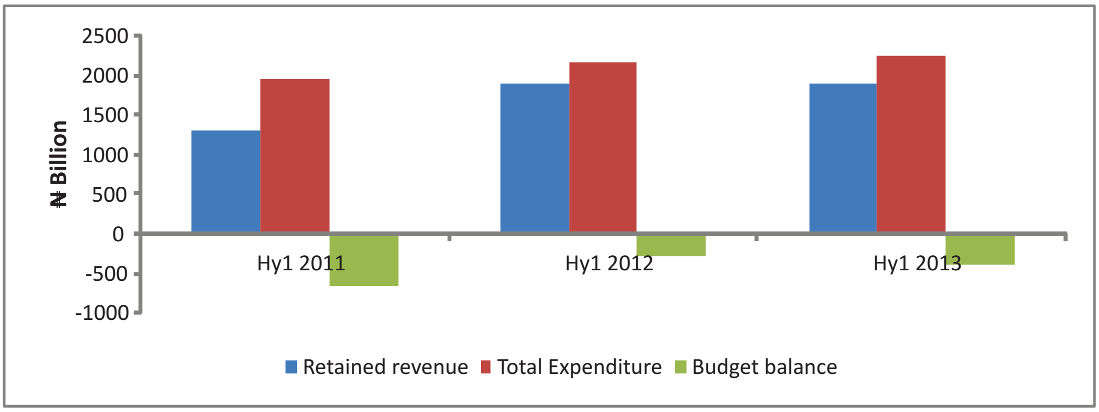
Figure 1.6: Lending and Deposit Rates



1.2.4 Fiscal Operations

The Federal Government's retained revenue stood at ₦1.89 trillion against a budget of ₦2.45 trillion, while expenditure was estimated at ₦2.26 trillion, compared with ₦2.76 trillion budgeted for the first half of 2013. Thus, the Federal Government's fiscal operations resulted in a deficit of ₦374.70 billion or 1.8 per cent of GDP as against the proportionate budget deficit of ₦443.53 billion for the first half of 2013, and ₦278.55 billion for the corresponding period of 2012. The deficit was financed through domestic borrowings, privatization proceeds and loans.

Figure 1.7: Federal Government Fiscal Operations



2.0 DEVELOPMENTS IN THE FINANCIAL SYSTEM

2.1 Monetary and Credit Developments[4]

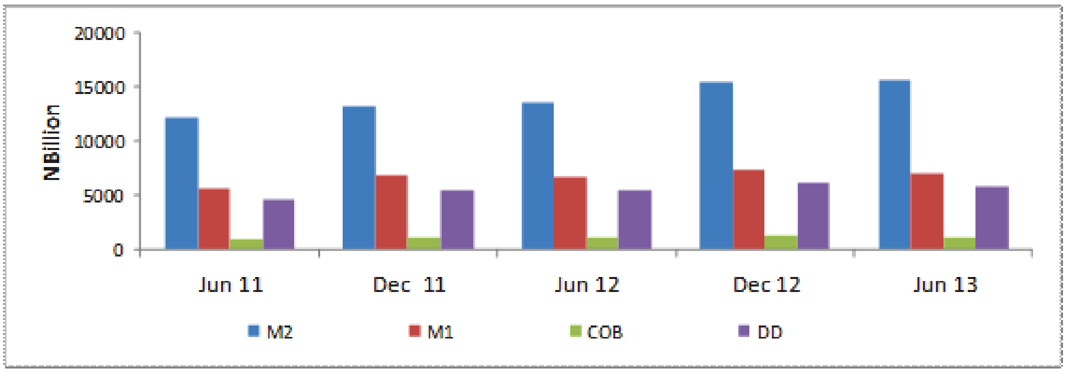
The growth in money supply was sluggish in the first half of 2013. Broad money supply (M2), grew by 0.7 per cent to ₦15,593.3 billion, compared with the growth of 14.8 per cent at the end of the preceding period. On an annualized basis, M2 grew by 1.4 per cent, compared with the indicative benchmark of 16.4 per cent for fiscal 2013. The growth in money supply reflected the 4.7 per cent rise in net domestic credit of the banking system, partly offsetting the decline in foreign assets (net) and other assets (net).

Narrow money supply (M1) fell by 6.5 per cent at the end of the review period, as currency outside banks (COB) and demand deposits (DD) declined by 11.2 and 2.3 per cent, respectively. As a ratio of total monetary assets, COB stood at 7.2 per cent, compared with 8.4 per cent recorded at the end of the preceding period. The decline in this ratio reflected improvement in financial inclusion and the increased use of alternative modes of payment.

2.1.1 Aggregate Credit to the Economy

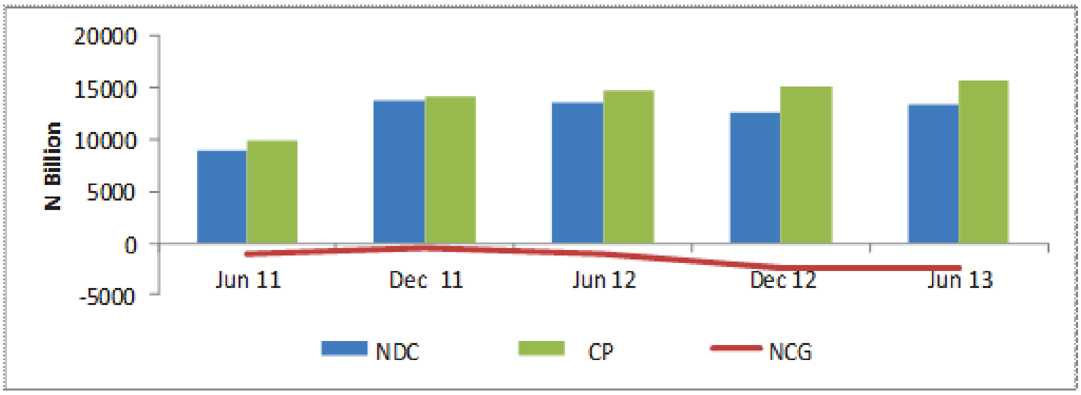
Net domestic credit (NDC) to the economy grew by 4.7 per cent to ₦13,294.5 billion at the end of the first half of 2013, relative to the level at the end of the second half of 2012. This contrasts with the decline of 6.4 per cent at the end of the preceding period. The development reflected the growth in net claims on both the Federal Government and the private sector.

Figure 2.1 : Trend in Monetary Aggregates



[4]The analysis is based on the revised *Monetary Survey*.

Figure 2.2 : Credit to the Economy



2.1.1.1 Claims on the Federal Government

Net claims on the Federal Government (NCG) rose by 2.3 per cent at end-June 2013, in contrast to the decline of 116.4 per cent at the end of the preceding period. This development reflected, mainly, the banking system's investment in government securities, especially treasury bills, which grew by 16.7 per cent at the end of the review period. The growth in net claims on the Federal Government poses a risk to domestic interest rates and private sector credit. However, the Federal Government, as in the second half of 2012, remained a net lender to the system, a situation which tends to mitigate the risk.

2.1.1.2 Claims on the Private Sector

Credit to the private sector (CP) increased by 3.6 per cent at the end of first half of 2013, compared with the growth rate of 3.1 per cent at the end of the preceding period. The growth in private sector credit reflected, wholly, the 3.8 per cent rise in claims on the core private sector, compared with the 2.6 per cent growth at the end of the preceding period. The contribution of claims on the private sector to the change in total monetary assets stood at 3.5 per cent, compared with 7.3 per cent recorded at the end of the preceding period.

2.1.1.3 Consumer Credit

Consumer credit, at ₦628.6 billion, grew marginally by 0.8 per cent in the review period, compared with the 7.5 per cent growth in the second half of 2012. As a ratio of credit to the core private sector, consumer credit constituted 4.2 per cent, compared with 4.3 per cent at the end of the second half of 2012. The slow growth in consumer credit in the review period reflected the general decline in private sector credit granted by the commercial banks, due to the preference for government securities, which were more profitable and less risky.

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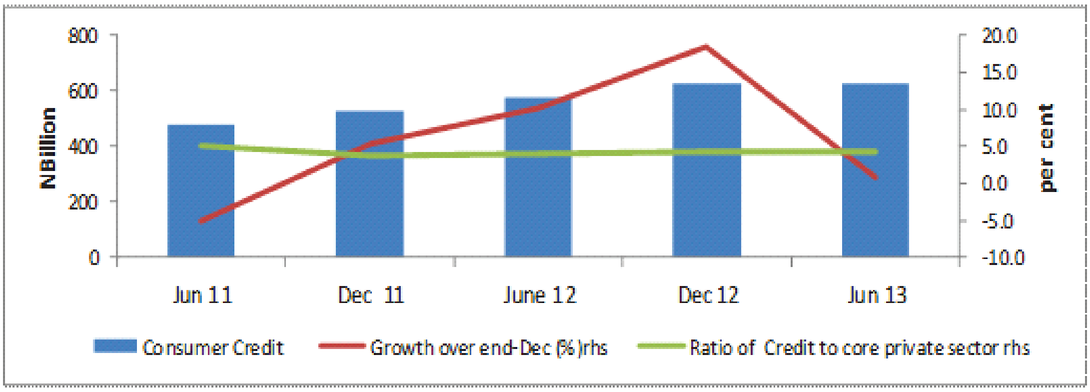
Figure 2.3 : Consumer Credit



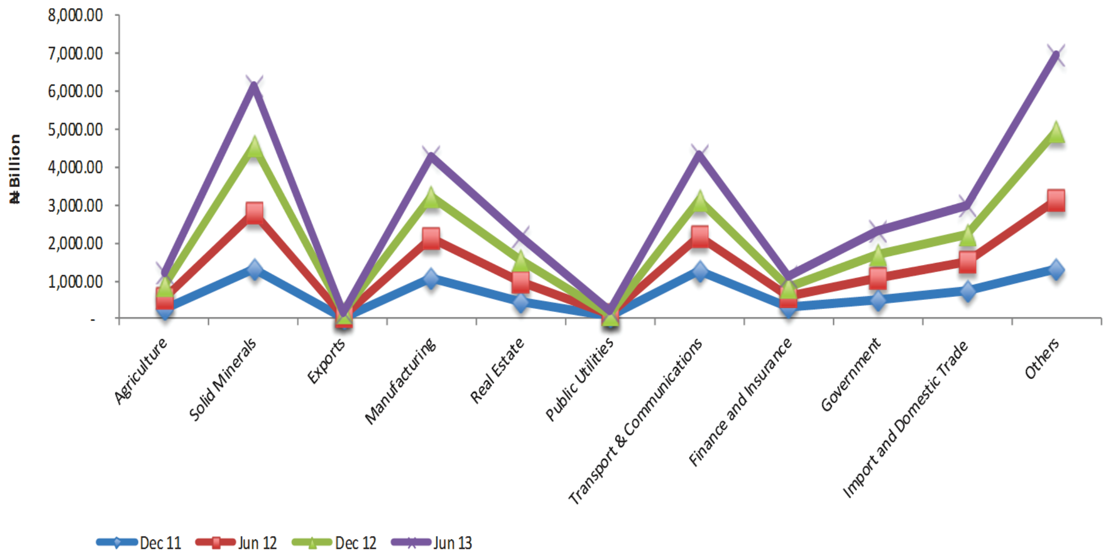
2.1.2 Sectoral Classification of Private Sector Credit

Total bank loans and advances (excluding merchant and non-interest banks) to the various sectors of the economy grew by 5.2 per cent to ₦8,575 billion in the first half of 2013. Solid minerals, as a single sector, accounted for the highest share of 18.7 per cent, followed by transport and communications, 13.8 per cent, and manufacturing, 12.6 per cent. Agriculture increased by 60 basis points to 4.3 per cent from the end of the preceding period (Table 2.1).

Table 2.1 : Sectoral Allocation of Credit

	Dec 11	Jun 12	Dec 12	Jun 13	
	₦'billion	₦'billion	₦'billion	₦'billion	Per cent
Agriculture	255.21	291.20	316.36	368.27	4.29
Solid Minerals	1,295.30	1,485.94	1,771.50	1,606.43	18.73
Exports	36.18	54.06	65.61	9.02	0.11
Manufacturing	1,053.21	1,088.45	1,068.34	1,082.49	12.62
Real Estate	453.50	538.77	539.76	635.72	7.41
Public Utilities	68.54	25.89	29.27	63.76	0.74
Transport & Communications	1,266.95	908.92	966.25	1,184.31	13.81
Finance and Insurance	303.26	303.40	249.08	284.00	3.31
Government	499.45	584.96	632.77	605.02	7.06
Import and Domestic Trade	755.68	770.05	690.96	750.69	8.75
Others	1,325.45	1,816.63	1,820.12	1,985.36	23.15
Total	7,312.73	7,868.27	8,150.03	8,575.06	100.00

Figure 2.4 : Sectoral Allocation of Credit



2.1.3 Reserve Money (RM)

Reserve money (RM) declined at the end of the first half of 2013 but was higher than the indicative benchmark for fiscal 2013. Relative to the level at end-December 2012, RM fell by 12. 6 per cent to ₦3,236.2 billion at end-June 2013, in contrast to an increase of 47.5 per cent recorded at the end of the second half of 2012. The decline in RM reflected the reduction by 12.6 per cent in currency-in-circulation and total reserves of commercial banks. The corresponding decline in the sources of reserve money was attributed to the 20.9 per cent fall in net foreign assets of the CBN.

2.1.4 Maturity Structure of Bank Deposits and Credits

Short-term maturities remained dominant in the credit market in the first half of 2013. On average, credits maturing within one year accounted for 57.1 per cent of total credits, compared with 57.4 per cent in the second half of 2012. The medium-term (≥ 1yr but < 3 years) and long-term (3 years and above) maturities stood at 19.7 and 23.2 per cent, compared with 17.9 and 24.7 per cent, respectively, in the second half of 2012.

Similarly, deposits of less than one-year maturity constituted 96.9 per cent (of which 75.9 per cent had maturities of less than 30 days), compared with 97.5 per cent at the end of 2012. The medium and long-term deposits constituted 3.1 and 0.05 per cent, respectively, compared with 2.6 and 0.01 per cent recorded in the second half of 2012. In addition to constraining the ability of banks to lend to the real sector, the continued dominance of short-term maturities portends refinancing and re-pricing risks for the system.

Figure 2.5 : Distribution of Bank Loans and Advances by Maturity, June 2011 to June 2013

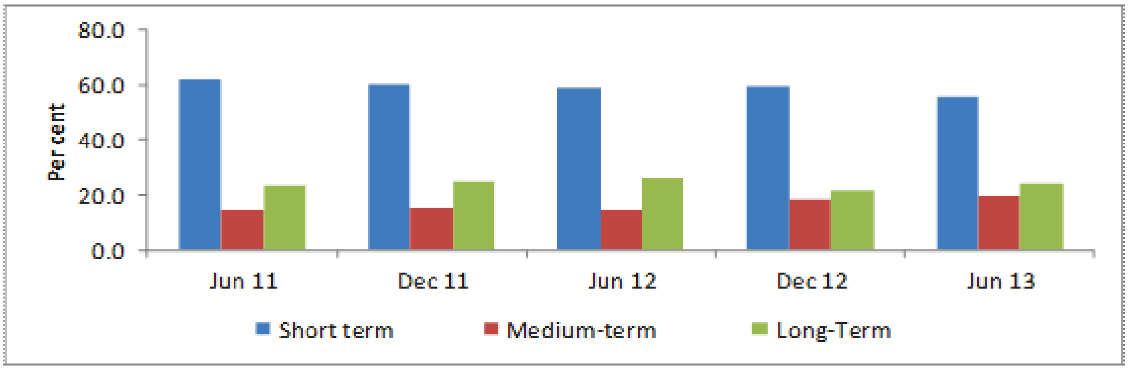
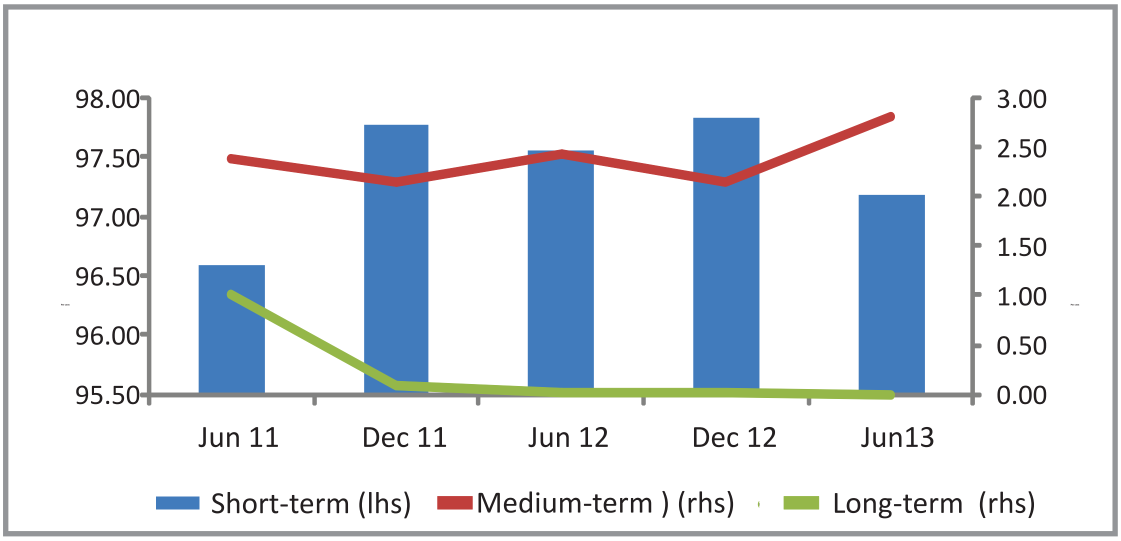


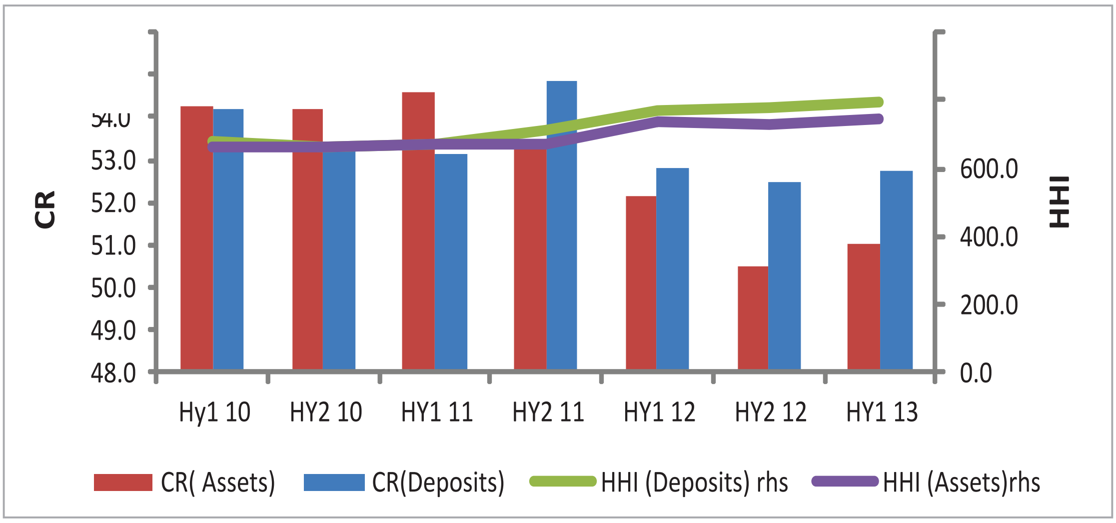
Figure 2.6 : Structure of Bank Deposits, June 2011 to June 2013



2.1.5 Market Structure of the Banking Industry

The banking industry remained dominated by a few banks as the average market share of assets and deposits of the six largest banks (concentration ratio–CR6) stood at 56.8 and 59.0 per cent, respectively. The market share of the largest bank, with respect to assets and deposits, stood at 13.57 and 15.17 per cent, respectively, at the end of the review period, compared with 14.99 and 13.47 per cent, respectively, at the end of the preceding period of 2012. However, the banking industry remained competitive in both deposits and assets as revealed by the respective Herfindahl-Hirschman Index (HHI) of 797.36 and 748.55 for total deposits and assets, compared with 790.66 and 741.43, respectively, in the preceding period.

Figure 2.7 : Market Concentration Ratios of Banks (Assets)



2.2 The Banking Sector

The Nigerian banking sector continued to record improvements in key performance indicators. For instance, capital adequacy and Tier I capital to risk-weighted assets ratios increased to 19.2 and 17.2 per cent at end-June 2013, from 18.1 and 16.1 per cent, respectively, at end-December 2012. The improvement in the ratios was due, mainly, to retained profits and the raising of additional Tier II capital by some banks.

Furthermore, total loans increased to ₦8,814 billion,from ₦8,150 billion at end-December 2012, reflecting an increase of ₦664 billion or 8.1 per cent at end-June 2013. Non-Performing Loans (NPLs) to total loans deteriorated to 3.7 per cent at end-June 2013, from 3.5 per cent at end-December 2012. The NPL ratio, however, remained within the 5 per cent threshold at end-June 2013. The NPL coverage ratio improved to 71.2 per cent at end-June 2013, from 68.7 per cent at end-December 2012, indicating a reduction in the risk exposure of the sector. Total deposits increased to ₦15,157 billion at end-June 2013,from ₦14,386 billion at end-December 2012, reflecting an increase of ₦771 billion or 5.35 per cent. Table 2.2 shows the type-structure of bank deposits.

Table 2.2 : Deposit Structure of Banks

Type	Dec-12	Percentage	Jun-13	Percentage
Demand Deposit	6,009.11	41.77%	6,345.76	41.87%
Savings	2,022.20	14.06%	2,111.09	13.93%
Time	3,473.67	24.15%	3,686.87	24.33%
Domiciliary Account	2,726.98	18.96%	2,982.04	19.67%
Others	154.52	1.07%	30.78	0.20%
Total	**14,386.48**	100.00%	**15,156.54**	100.00%

Un-audited total profits of the banking industry for the first half of 2013 stood at ₦300.5 billion, a 22.95 per cent increase over the ₦244.4 billion achieved in the second half of 2012. Interest income, which increased by 13.47 per cent, largely accounted for the higher profit level.

The industry liquidity ratio stood at 67.8 per cent compared with 68.0 per cent at end-December 2012. All banks met the 30 per cent minimum regulatory liquidity ratio throughout the review period.

2.2.1 Cross-border Collaboration

During the review period, the CBN executed an MoU with the Bank of Tanzania, and was in discussions with the Central Bank of Sudan and the Swiss Financial Market Authority with the aim of executing MoUs on supervision and information sharing. Also, the CBN continued its collaboration with regulatory authorities in the sub-region towards the harmonization of supervisory standards in West Africa.

2.2.2 Implementation of the New Banking Model

At end-June 2013, ten (10) banks had complied with the requirement for divestment from non-banking activities, in line with the Regulation on the Scope of Banking Activities and Ancillary Matters. Six (6) of the compliant banks were issued with commercial banking licences, while four (4) were being considered for the issuance of licences. Three (3) other banks opted for a holding company structure and were granted approval to restructure their operations. At end-June 2013, two (2) of the three (3) banks had fully complied with the provisions of the Regulation and were granted holding company licences as other financial institutions, while the third bank was granted an extension of the deadline for compliance. However, seven (7) other banks were yet to fully comply.

2.2.3 Non-Interest (Islamic) Banking

To effectively regulate and supervise non-interest financial institutions (NIFIs), the CBN inaugurated a seven-member Financial Regulation Advisory Council of Experts (FRACE) during the review period, charged with the following responsibilities:

- Provision of expert opinion and assistance on matters referred to it by the CBN and other regulatory agencies in the financial sector;
- Validation and endorsement of new products and services being offered by NIFIs to ensure compliance with the provisions of Islamic commercial jurisprudence;
- Resolution of differences of opinion among different advisory committees of experts (ACEs) of NIFIs and members of the same ACE;
- Provision of support to the CBN in respect of questions or queries that may be raised regarding the Shariah compliance of financial products, instruments and institutions; and
- Study of Islamic jurisprudence-related problems facing the relevant institutions and stakeholders of the finance industry and providing expert opinion on them.

Further to the issuance of the Guidelines for the Operation of NIFI Instruments at the CBN, implementation processes for the approved liquidity management products, namely, CBN Safe Custody Account (CSCA), otherwise called Wadiah Accounts, CBN Non-Interest Notes (CNIN) and CBN Non-Interest Assets-backed Security (CNI-ABS), were developed.

2.3 Other Financial Institutions (OFIs)

Significant developments were recorded in the Other Financial Institutions (OFIs) sub-sector in the first half of 2013. These were driven by efforts to enhance OFIs' contribution to the growth of the real sector as well as mainstreaming informal sector operators for greater financial inclusion.

2.3.1 Mortgage Refinancing

During the review period, the CBN granted an approval-in-principle for the incorporation of the Nigeria Mortgage Refinance Company(NMRC). The Company would operate as a specialized second-tier, mono-line institution that would provide short-term liquidity and/or medium- to long-term funding or guarantees to mortgage originators and housing finance lenders. It would also purchase eligible mortgages and issue bonds to finance purchases. In the first phase of its operations, the Company would re-finance mortgage loans of member institutions, using shareholders' equity and the World Bank's US$300 million IDA line of credit at 0.75 per cent of 40 years tenor. From the second phase, the NMRC would be funding its operations from a combination of the balance of the IDA line of credit and by issuing bonds in the capital market. The NMRC's authorized capital of ₦6.0 billion has been fully subscribed to by primary mortgage banks, commercial banks, the IFC, the Nigeria Sovereign Wealth Investment Authority and the Ministry of Finance Incorporated. Also, in readiness for the establishment, licensing and subsequent supervision of the Company and others that might follow, the CBN, in March 2013, approved the Regulatory and *Supervisory Framework for the Operations of a Mortgage Re-finance Company* as an exposure draft, for inputs and comments from other key stakeholders.

The establishment of the NMRC and ultimately the securitization process that they would facilitate is expected to address the funding mismatch in, and channel more funds to, the mortgage/housing finance sub-sector.

2.3.2 Microfinance Banks (MFBs)

Access to finance through the microfinance banks (MFBs) improved during the review period. Total assets of the MFBs increased by 25.2 per cent to ₦278.9 billion at end-June 2013, from ₦222.8 billion at end-December 2012. The paid-up share capital and loans/advances also increased by 14.0 and 46.1 per cent to ₦69.2 billion and ₦141.7 billion, respectively, at end-June 2013. Similarly, aggregate reserves increased to ₦5.8 billion at end-June 2013, from a negative ₦7.4 billion at end-December, 2012, reflecting a significant turnaround in their operational performance.

The Microfinance Certification Programme (MCP), designed to bridge the observed skill gap of operators of microfinance banks, entered its third year in 2013. In the period under review, 650 and 439 participants attended the Levels 1 and 2 of the Programme, respectively, with 238 completing the Certification Programme by passing the Level 2 Programme. As at June 30, 2013, a total of 8,182 operators had participated in the training sessions designed to prepare them for the 2-level examinations of the Chartered Institute of Bankers of Nigeria (CIBN). Out of the 5,100 candidates that had sat for the examinations, 1,657 successfully passed at both levels, which qualified them for induction as Certified Microfinance

Bankers. During the review period, 531 non-executive directors of MFBs attended the certification Module for Directors bringing the total number of participants in this module to 1,406.

2.3.3 Primary Mortgage Banks (PMBs)

The total assets of Primary Mortgage Banks (PMBs) rose by 6.2 per cent to ₦369.6 billion at end-June 2013, from ₦348.1 billion at end-December 2012. The paid-up capital also increased by 10.7 per cent to ₦69.6 billion at end-June 2013, from ₦62.9 billion at end-December 2012. This reflected the institutions' efforts to comply with the new capital regime of ₦2.5 billion and ₦5 billion for state and national PMBs, respectively, with a compliance deadline of December 31, 2013. Similarly, loans and advances increased by 6.9 per cent to ₦129.3 billion at end-June 2013, from ₦120.9 billion at end-December 2012. However, reserves and deposit liabilities decreased by 26.5 and 3.7 per cent, respectively, to ₦8.6 billion and ₦164.8 billion at end-June 2013, from ₦11.7 billion and ₦171.1 billion at end-December 2012.

2.3.4 Finance Companies (FCs)[5]

The total assets of the FCs increased by 4.9 per cent to ₦82.1 billion at end-June 2013, from ₦78.3 billion at end-December 2012. Similarly, the paid-up capital and loans/advances increased by 2.9 and 16.4 per cent to ₦14.2 billion and ₦27.7 billion, respectively, at end-June 2013. Total borrowings also increased by 3.2 per cent to ₦49.1 billion at end-June 2013, from ₦47.6 billion at end-December 2012.

2.4 Financial Inclusion

The financial inclusion strategy targets a reduction of the current financial exclusion rate of 46.3 per cent to 20 per cent by 2020. Pursuant to the implementation of the financial inclusion strategy, the CBN launched a pilot financial inclusion project in Borno State in the review period. The project is expected to leverage on the existing bank branches, in addition to 26 Nigerian Postal Service outlets, for the provision of improved financial services in the State.

The strategy also includes the promotion of financial literacy through the:

a) Establishment of a Financial Literacy Steering Committee and a Financial Literacy Implementation Committee;
b) Setting up of a technical committee for the conduct of a National Baseline Survey for Financial Literacy; and
c) Sensitization of students from institutions of higher learning on the child and youth finance initiative.

The Bank also issued Guidelines[6] on agent banking in February 2013 to fast-track the delivery of banking services through the use of agent platforms, such as POS, ATMs and mobile phones.

2.5 Financial Markets

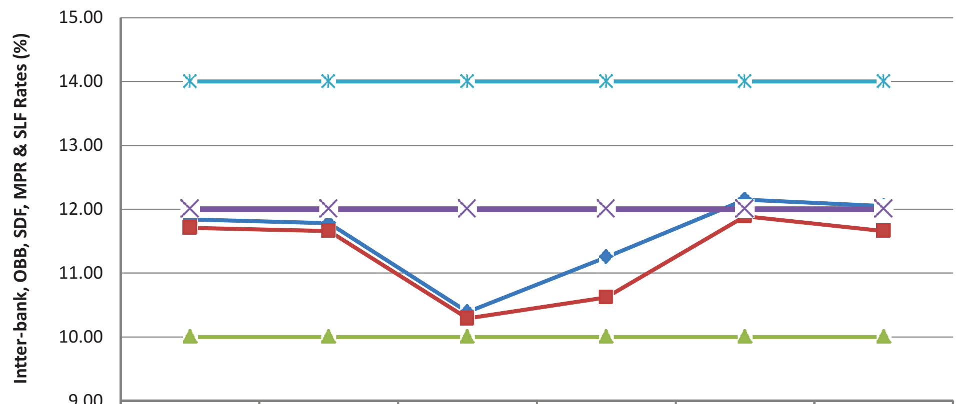
2.5.1 The Money Market

Movements in money market rates were influenced by liquidity conditions in the banking system during the review period. Both the inter-bank call and Open Buy-back (OBB) rates were relatively stable around the MPR corridor throughout the first half of 2013. The rates peaked at monthly averages of 12.15 and 11.89 per cent in May 2013 for the

[5] End-December 2012 figures were revised.
[6] Guidelines for the Regulation of Agent Banking and Agent Banking Relationships in Nigeria

inter-bank call and the OBB segments, respectively. The fiscal operations of government, the conduct of open market operations, as well as foreign exchange auctions by the Bank were the dominant factors that influenced the banking system's net liquidity levels and the movement in rates.

Figure 2.8 : Inter-bank Rate Movements



	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE
Inter-bank	11.84	11.78	10.39	11.25	12.15	12.05
OBB	11.71	11.66	10.29	10.62	11.89	11.66
SDF	10.00	10.00	10.00	10.00	10.00	10.00
MBR	12.00	12.00	12.00	12.00	12.00	12.00
SLF	14.00	14.00	14.00	14.00	14.00	14.00

During the first half of 2013, weighted average OBB and inter-bank call rates declined by 1.56 and 1.86 percentage points to 11.31 and 11.58 per cent, from 12.87 and 13.44 per cent, respectively, at end-December 2012. The development was attributed to the effectiveness of interventions through open market operations.

2.5.2 The Foreign Exchange Market

Rates at the foreign exchange market were relatively stable in the review period. At the Wholesale Dutch Auction System (WDAS) segment, the average foreign exchange rate appreciated by 0.01 per cent to close at ₦157.3041/$, while the average inter-bank and BDC rates for the first half of 2013 depreciated by 0.53 and 0.25 per cent, to close at ₦158.1828/$ and ₦159.6625/$, respectively. The stability in the WDAS segment was attributable to CBN's sustained supply. The depreciation at the inter-bank and BDC segments of the market was associated with increased demand pressure in May and June, following the announcement by the US Federal Reserve Chairman on the "tapering of the asset purchase program".

Figure 2.9 : WDAS, Inter-bank and BDC Rates, June 2013

	JAN	FEB	MAR	APR	MAY	JUN
WDAS (incl. 1% comm.)	157.30	157.30	157.31	157.31	157.30	157.31
INTERBANK	156.96	157.52	158.38	158.20	158.02	160.01
BDC	159.12	158.70	159.80	159.81	159.57	160.98

2.5.3 The Capital Market

Activities at the Nigerian Stock Exchange(NSE) improved as a result of reforms undertaken by the regulatory authorities in the first half of 2013, which boosted investor confidence. Specifically, the Alternative Securities Market (ASeM) was launched to provide an avenue for small companies with high growth potentials to participate in the capital market. To encourage investor patronage, 14 designated advisers for companies quoted on the ASeM were appointed. The Fixed Income Market Making (FIMM) platform was also launched to allow trades in debt instruments listed on the NSE in order to enhance transparency and increase liquidity.

The NSE ASI generally recorded sustained growth during the review period, although the index declined in April and June 2013. The number of listed securities reduced to 254 as at end-June 2013, from 256 in December 2012. The major challenges confronting capital market development in Nigeria include: shallowness of the market, low level of secondary market bond transactions on the Exchange and the operation of only one active stock exchange, despite the existence of two exchanges. Others are lack of awareness and low participation in collective investment schemes (CIS), high value of unclaimed dividends and Pyramid, Ponzi/Madoff-like schemes (wonder banks). The outlook, however, is promising, given the quality of strategic reforms being pursued by the SEC, the NSE and other stakeholders.

2.5.3.1 The Bond Market

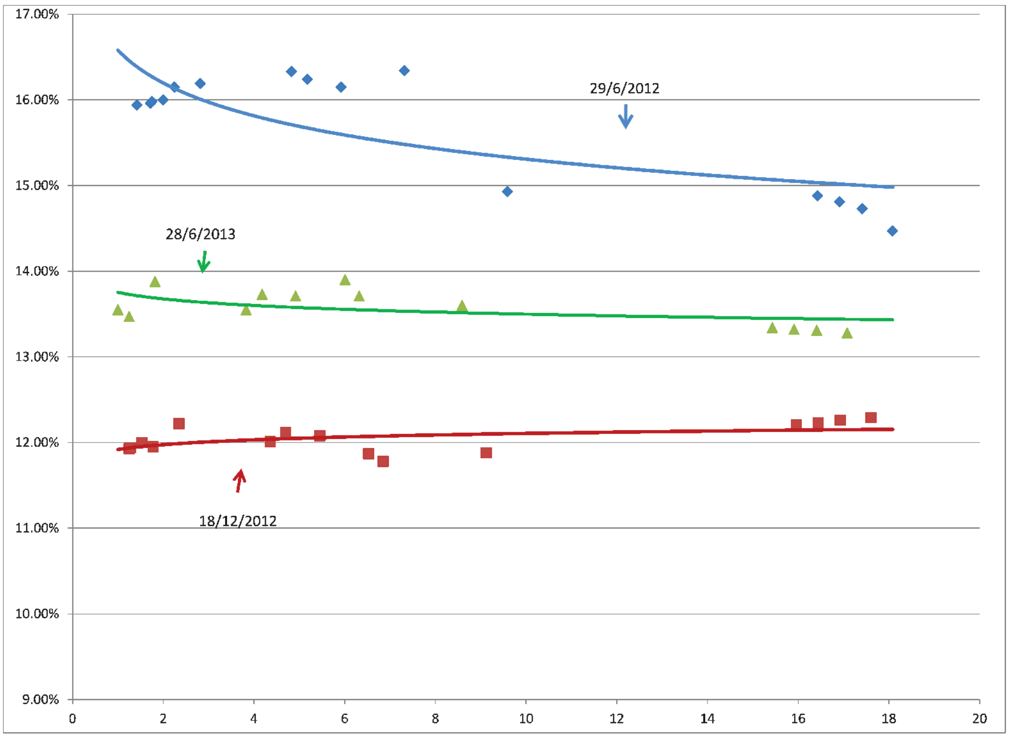
Total bonds outstanding at end-June 2013 stood at ₦4,745.90 billion, of which FGN, sub-national and corporate bonds constituted ₦4,032.90 billion (84.98%), ₦498.00 billion (10.49%) and ₦215.00 billion (4.53%), respectively. Those levels reflected only minor changes compared with the ₦4,650.11 billion outstanding at end-December 2012, made up of FGN, sub-national and corporate bonds valued ₦4,080.05 billion (87.74%), ₦368.00 billion (7.91%) and ₦202.06 billion (4.35%), respectively. The share of FGN bonds declined by 2.76 percentage points as bond issuances by state governments and the private sector increased.

FGN Bonds

The yield on FGN bonds rose during the review period, compared with end-December 2012, reflecting the effect of reduced demand at the secondary market. The development was attributable to activities in the primary market where there were over-subscriptions for new issues and the re-opening of FGN Bonds series 1, 2 and 3 in the first half of the year. Total FGN Bonds offered at the primary market for sale was ₦584.80 billion, while public subscriptions and sales stood at ₦1,125.03 billion and ₦518.61 billion, respectively. The over-subscriptions at the primary market reflected the level of liquidity in the banking system, investors' preference for long-term instruments and the attractive yields.

With headline inflation year-on-year at 8.40 per cent in June 2013, the real rate of return on FGN bonds, which on the average was above 13.0 per cent, remained positive, indicating the attractiveness of the securities.

Figure 2.10 : Yield Curve for Nigeria



Source: Financial Markets Dealers Association

The yield curve was relatively flat, with a spread of 0.003 per cent, reflecting investors' expectations that the rates would remain relatively stable in the near to medium term.

Sub-national Bonds

In the first half of 2013, three state governments issued bonds valued ₦130.00 billion, as against none in the second half of 2012. Thus, the total outstanding bonds held by 15 state governments stood at ₦498.00 billion at end-June 2013, compared to ₦368.00 billion at end-December 2012.

Corporate Bonds

Two corporate bonds were issued during the review period by C & I Leasing Plc. and a supra-national body, the International Finance Corporation (IFC), with total value ₦12.94 billion, compared to ₦31.10 billion issued in the second half of 2012. Total outstanding corporate bonds stood at ₦215.00 billion at end June 2013, while the listed corporate bonds increased to 23 by 21 companies.

Table 2.3 : Sub-national Bonds Issued, January – June 2013

State Government	Bond Features	Value (₦' Billion)	Date Listed
Lagos	14.50% Fixed Rate Bond Series 1 due 2019	80.00	1-Feb-13
Gombe	Fixed Rate Bond (Series 1) 2012/2019 Under the ₦30 Bill ion Debt Issuance Programme	20.00	11-Feb-13
Osun	14.75% Fixed Rate Bond (Series1) 2012/2019 under the ₦60 Billion Debt Issuance Programme	30.00	23-Apr-13
Total		**130.00**	

Table 2.4 : Corporate Bonds Issued, January – June 2013

Company	Description	Value (₦' Billion)	Date Listed
International Finance Corporation	10.2% Fixed Rate Se nior Unsecured Notes Due 2018	12.00	26-Mar-13
C & I Leasing Plc.	18% Fixed Rate Bond 2012/2017 under the ₦10 Billion Issuance Programme	0.94	15-Apr-13
Total		**12.94**	

Table 2.5 : Listing and Delisting on the NSE in the First Half of 2013

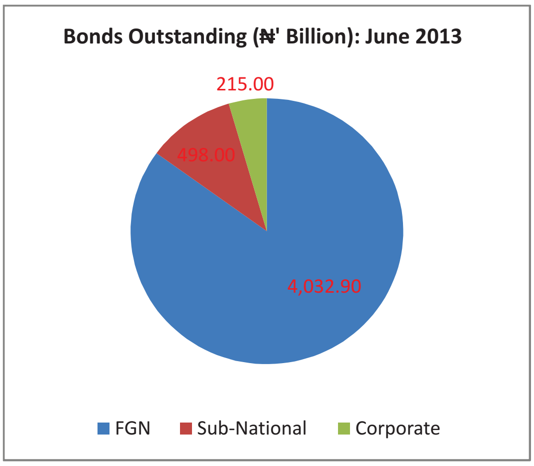
Institution	Amounts/Units Listed	Date Listed
New Listing		
UBA Capital Plc.	4,000,000,000 ordinary shares of 50k each at ₦1.16	January 11, 2013
Africa Prudential Registrars Plc.	1,000,000,000 ordinary shares of 50k each at ₦1.59	
Lagos State Government	₦80 billion 14.50% Fixed Rate Bond Series 1 due 2019	February 1, 2013
Gombe State Government	₦20 billion Fixed Rate Bond (Series 1) 2012/2019 Under the ₦30 Billion Debt Issuance Programme	February 11, 2013
International Finance Corporation	₦12 billion of ₦1,000 per unit of 10.2% Fixed Rate Senior Unsecured Notes Due 2018	March 26, 2013
C & I Leasing	₦940 million 18% Fixed Rate Bond 2012/2017 under the ₦10 billion Issuance Programme	April 15, 2013
Osun State Government	₦30 billion 14.75% fixed Rate Bond (Series1) 2012/2019 under the ₦60,000,000,000 D ebt Issuance Programme	April 23, 2013

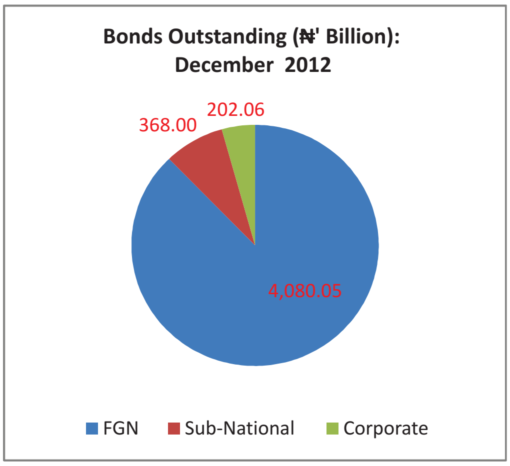
Institution	Additional Shares	Reason
Supplementary Listing		
Linkage Assurance Plc.	2,897,207,843	Special Placement
Wapic Insurance Plc.	2,911,954,418	Special Placement
Guinness Nigeria Plc.	30,962,669	Bonus Issue
Crusader Nigeria Plc.	3,064,686,154	Bond Conversion
Guinea Insurance Plc.	740,000,000	Special Placement
First City Monument Bank Plc.	329,197,001	Acquisition of Fin Bank Plc.
Flour Mills of Nigeria Plc.	50,893,281	Merger with Nigerian Bag Manufacturing Company Plc
Rak Unity Petroleum Plc.	43,051,159	Special Placement
Livestock Feeds Plc.	800,000,000	Special Placement
Custodian and Allied Insurance Plc.	781,017,387	Scheme of merger between Custodian and Allied Insurance Plc. and Crusader (Nigeria) Plc.
BOC Gases Plc.	23,124,706	Bonus issue of 2012
Okomu Oil Plc.	479,955,000	Bonus 1:1
CAP Plc.	140,000,000	Bonus 1: 4
U A C N Plc.	320,144,064	Bonus 1: 5

Institution	Reason
Delisting	
Crusader (Nigeria) Plc.	Bond Conversion of ₦1,838,811,700 Zero-Coupon Unsecured Subordinated Irredeemable Convertible Debenture of ₦100
FGN Bond 5.5% Feb 2013	Maturing FGN bond
9.45% FGN Bond Jan 2013	Maturing FGN bond
Nigerian Bag Manufacturing Company Plc.	Merger with Flour Mills Plc.
Crusader (Nigeria) Plc.	Merger with Custodian and Allied Insurance
15.00% FGN Bond May 2013 bond	Maturing FGN bond
African Aluminium Plc.	Consistent non-compliance with NSE post-listing rules
Nigerian Wire Industries Plc.	Consistent non-compliance with NSE post-listing rules

Source: NSE

Figure 2.11 : Bonds Outstanding at end-June 2013 and end-December 2012





2.5.3.2 The Equity Market

The total value of equities traded increased substantially by 3,056.0 per cent, from ₦2.23 billion in December 2012 to ₦70.3 billion at end-June 2013, a positive movement towards the deepening of the capital market. Domestic participation in Nigeria's capital market improved to 50.8 per cent in June 2013, from 38.6 per cent at end-December 2012, reflecting increased local confidence in the market.

At end-June 2013, theNSE All Share Index (ASI) closed at 36,164.31,compared with 28,078.81 at end-December 2012, reflecting an increase of 28.80 per cent. The development was attributed largely to the sustained recovery in equity prices, due to increased investor activities as well as new and supplementary listings in the first half of 2013. Equity purchases by foreign investors amounted to ₦327.66 billion, while sales stood at ₦254.98billion, showing a net inflow of ₦72.68 billion at the end of the review period.

2.6 The Securities and Exchange Commission

The Securities and Exchange Commission (SEC) reviewed its rules on

Real Estate Investment Trusts (REITs) to provide for the use of a Deed of Trust Structure for holding real estate assets.The revised rules allow the trustees of the REITs to hold an equitable interest in the underlying property, with the legal owner declaring himself as the trustee holding the asset of the Trust at the absolute disposal and for the benefit of the beneficiaries. This is expected to alleviate the constraints regarding the transfer of legal titles and also protect the interest of investors.

2.7 The Insurance Sector

At end-June 2013, the regulatory purview of the National Insurance Commission of Nigeria (NAICOM) covered 2,250 agents, 579 brokers, 57 insurance companies, 2 reinsurance companies, and 66 loss adjusters. The Commission initiated measures that improved the insurance sector, especially in its micro-insurance and Takaful operations. These included the release of Takaful insurance guidelines, with a provision for a stand-alone Takaful company and its collaboration with GIZ (German International Development Agency) and some other partners to conduct a diagnostic study on micro-insurance in Nigeria. The Commission also worked in collaboration with ECOWAS and WAMI to deepen insurance integration in West Africa. Meanwhile, it became a full member of the standard-setting organisation –the Islamic Financial Services Board (IFSB).

Most significantly, during the review period, the Commission commenced the enforcement of sanctions against insurance operators who violated the "no premium no cover" directive and settled twenty-seven (27) cases with claims totalling ₦347.0 million.

Furthermore, the Commission published a notice to the effect that the registration of new insurance brokers would thence forth be carried out in two batches annually. Consequently, the first batch of operating licences would be issued to successful applicants on June 30th of each year, while the second batch would be issued on December 31st of the same year.

2.8 Real Sector Intervention Programmes

2.8.1 The Nigeria Incentive-based Risk Sharing System for Agricultural Lending (NIRSAL)

During the review period, NIRSAL, which was initiated to de-risk agricultural lending and unlock financial resources for the agricultural value chain development in Nigeria, accomplished the following:

- Collaborated with GIZ to secure a ₦176.0 million grant for four value chain crops (tomato, rice, cocoa and cotton) in twelve (12) states;

- Signed a tripartite Memorandum of Understanding (MoU) with USAID and the Federal Ministry of Agriculture and Rural Development on technical partnership to facilitate access to a US$100 million USAID fund; and

- Issued Credit Risk Guarantees (CRGs) valued at ₦6.741 billion in favour of twenty three counter parties (Table 2.6).

Table 2.6 : CRGs Issued, January – June, 2013

Focus area	Number of Projects	Amount (₦'million)	(%)
Agro Processing	11	5,564	82.54
Input Distribution	1	400	5.93
Crop Production	11	777	11.53
Total	**23**	**6,741**	**100**

2.8.2 The Commercial Agriculture Credit Scheme (CACS)

The sum of ₦16.26 billion was disbursed under CACS to 19 projects through eight (8) banks in the review period. Processing, production and marketing accounted for 75.0, 19.0 and 6.0 per cent, respectively, of the total value of the disbursements.

2.8.4 The Small and Medium Enterprises Credit Guarantee Scheme (SMECGS)

The Small and Medium Enterprises Credit Guarantee Scheme(SMECGS) was initiated to fast-track the development of the SME sub-sector of the Nigerian economy by providing guarantees to

Table 2.7 : Analysis of Projects Financed by CACS, January-June 2013

Category	Number of Projects	Value (₦' million)	%
Processing	10	12,171	75.0
Production	7	3,034	19.0
Marketing	2	1,050	6.0
Total	**19**	**16,255**	**100**

2.8.3 The Agricultural Credit Guarantee Scheme (ACGS)

A total of 22,610 loans valued at ₦3.59 billion were guaranteed during the first half of 2013, compared with13,869 loans valued ₦3.24 billion guaranteed in the second half of 2012. This reflected an increase of 63.03 and 10.80 per cent in number and value, respectively. The increase in the number of beneficiaries was due to the improved operational efficiency in the management of the Scheme, as well as the impact of the national financial inclusion programme.

banks for credits granted to SMEs. A total of eight facilities valued ₦279.22 million were guaranteed in the first half of 2013, compared with 20 facilities valued ₦877.20 million in the second half of 2012.

2.8.5 The Power and Aviation Intervention Fund (PAIF)

During the review period, a total of ₦39.61 billion was disbursed under PAIF to one airline (₦26.00 billion) and four power sector projects (₦13.61 billion). The Fund provided the banks a window to finance power sector projects as well as restructure and refinance outstanding facilities in the aviation sector on a long-term basis of 10 to 15 years at a concessionary interest rate of 7.0 per cent. The PAIF helped in relieving the banks of the burden of NPLs on their balance sheets and improved the credit rating of the beneficiary institutions, thereby providing them access to additional funds for their operations.

2.8.6 Entrepreneurship Development Centres (EDCs)

During the review period, three new centres, Maiduguri, Makurdi and Calabar, commenced operations, bringing the number of EDCs to six. At end-June 2013, a total of 43,209 participants had been trained by the EDCs, comprising 12,694 in Kano,18,167 in Lagos,10,967 in Onitsha, 571 in Makurdi, 673 in Maiduguri and 137 in Calabar. Out of the total trained, 1,743 accessed loans from banks to start and expand their businesses. In total, 11,421 jobs and 4,856 businesses had been created under the EDC programme since 2007. The low rate of job creation was attributed to the reluctance of financial institutions to finance start-ups, which they considered to be of high risk. Meanwhile, the CBN has taken several measures, such as the introduction of the financial inclusion programme, the establishment of a national collateral registry and the involvement of state governments in the Scheme, to address the challenge.

2.9 The External Sector

The overall position of the external sector remained robust, in spite of the mixed outcomes, during the first half of 2013. It recorded an estimated overall balance of payments surplus of ₦177.13 billion, compared with ₦437.37 billion in the corresponding half of 2012. The development was attributed to the robust current account and increased inflow of foreign capital during the review period. The current account recorded an estimated surplus of ₦1,604.19 billion reflecting, largely, high crude oil prices at the international market, lower import bills, and repatriation of investment income, as well as significant inflow of remittances. The price of Nigeria's reference crude oil (the Bonny Light, 37o API) averaged US$110.29, while the import bill fell by 16.6 per cent.

The estimated capital and financial account recorded a net liability of ₦574.98 billion in the first half of 2013, compared with a net asset of ₦228.26 billion recorded in the first half of 2012.

Gross external reserves rose to US$44.96 billion at end-June 2013, from US$43.83 billion at end-December 2012, representing an increase of 2.58 per cent. The marginal accretion to reserves, when compared with the level in the second half of 2012, was due to reductions in receipts from oil and gas, oil-related taxes, value added tax (VAT), education tax and interest on reserve management operations. A breakdown of the external reserves indicated that 85.08 per cent was held in US Dollars, 5.62 per cent in Euro, 1.93 per cent in Renminbi, 1.69 per cent in Pound Sterling, 5.60 per cent in SDR and 0.08 per cent in other currencies at end-June 2013.

The country's external reserves could finance 11.32 months of imports at end-June 2013. This was higher than the 10.05 months of imports cover at end-December 2012 and the international benchmark of 3 months.

Total foreign exchange inflow during the first half of 2013 was US$19.75 billion, compared with US$24.61 billion recorded in the second half of 2012, reflecting a decrease of US$ 4.86 billion or 19.74 per cent. Total outflow in the review period was US$18.81 billion, and was higher than the US$15.90 billion recorded in the second half of 2012 by US$2.91 billion or 18.30 per cent.The net inflow in the review period was US$1.13 billion, including unrealised exchange rate gain of US$0.193 billion compared with US$8.41 billion in the second half of 2012, which included unrealised exchange rate loss of US$0.30 billion.

3.0 REGULATORY AND SUPERVISORY ACTIVITIES

3.1 Macro-Prudential Supervision

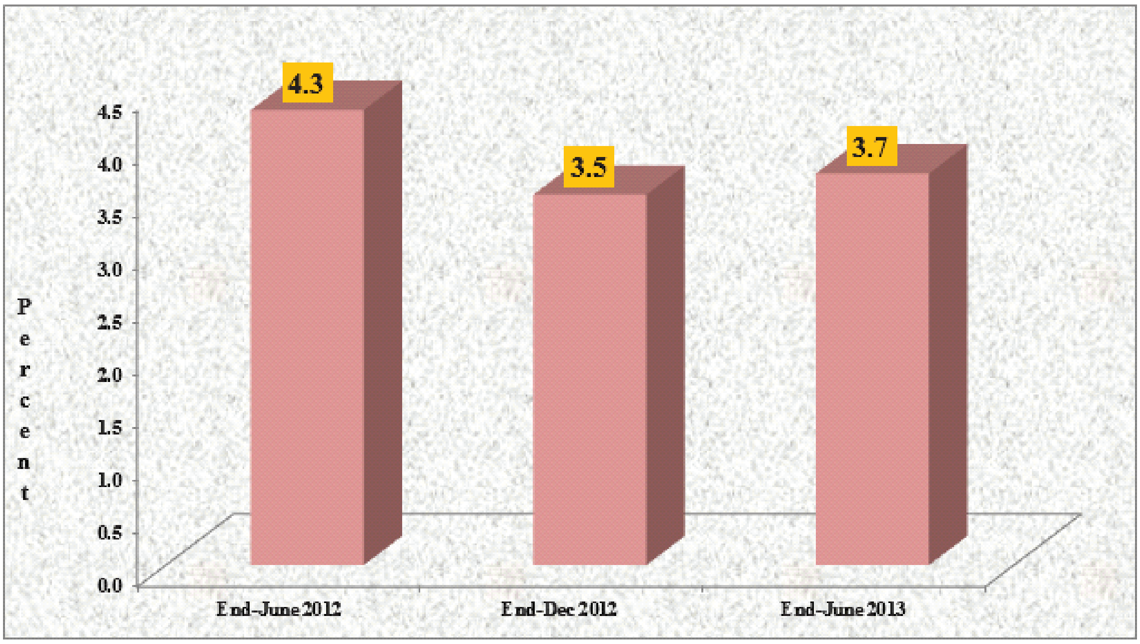
3.1.1 Financial Soundness Indicators[7]

Financial Soundness Indicators (FSIs) are statistical measures used as a macroprudential analysis tool, for monitoring the health and soundness of a country's financial system, as well as, its corporate and household counterparts. The essence of the FSIs is to enhance the availability of cross-country comparable data on the strength and vulnerabilities of a country's financial system.

3.1.1.1 Asset-based Indicators

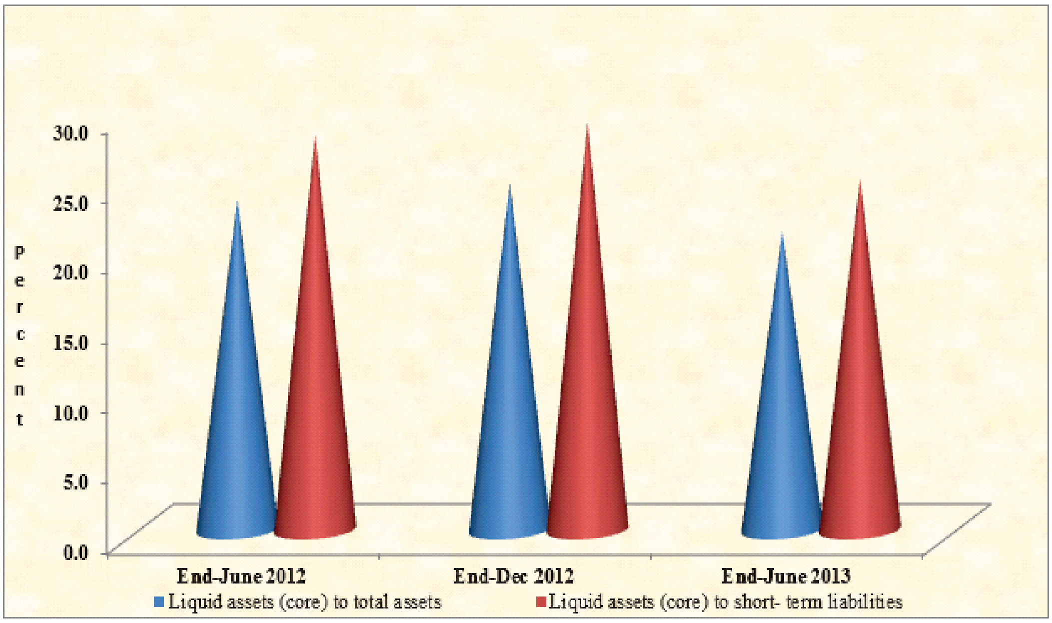
The quality of assets in the banking system deteriorated in the review period compared with the position during the preceding half year. At 3.7 per cent, the ratio of non-performing loans to total loans indicated an increase of 0.2 percentage point above the level at end-December 2012, but a decline of 0.6 percentage point below the level at end-June 2012 (Figure 3.1). Also, the ratio of core liquid assets to total assets decreased by 3.5 percentage points to 21.2 per cent at end-June 2013, from 24.7 per cent at end-December 2012. Similarly, the ratio of liquid assets to short-term liabilities declined by 3.9 percentage points to 25.0 per cent at end-June 2013 (Figure3.2).

Figure 3.1 : Banking Industry NPLs to Gross Loans



[7]Note that the FSIs are computed based on theIMF Compilation Guide.

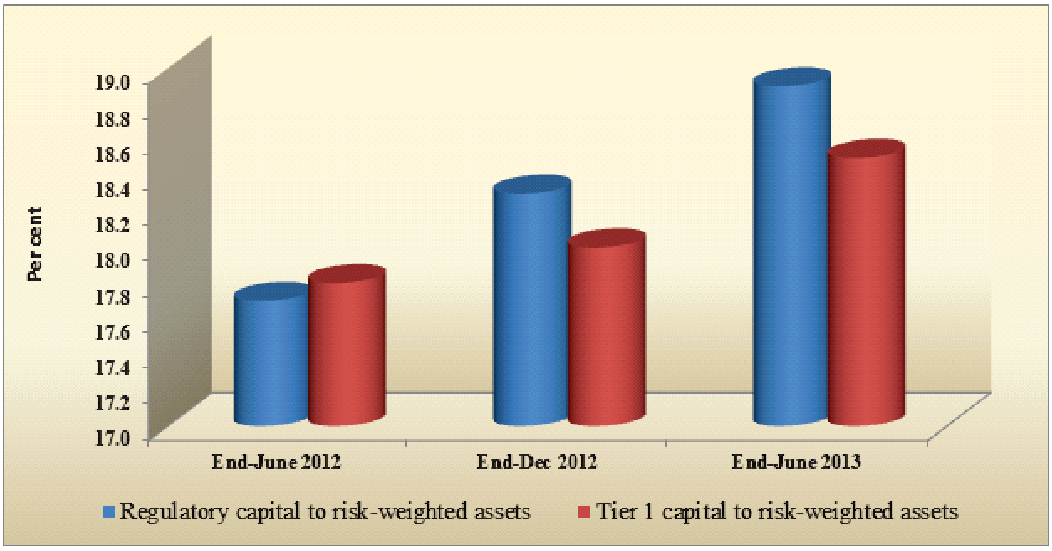
Figure 3.2 : Banking Industry Liquidity Indicators



3.1.1.2 Capital-based Indicators

The ratio of regulatory capital to risk weighted assets stood at 18.9 per cent at end-June 2013, showing an increase of 0.6 and 1.2 percentage points above the levels at end-December and end-June 2012, respectively. Similarly, the ratio of tier 1 capital to risk weighted assets of 18.5 per cent at end-June 2013 was 0.5 and 0.7 percentage points above the level achieved at end-December and end-June 2012, respectively (Figure 3.3).

Figure 3.3 : Banking Industry Capital Adequacy Indicators



3.1.1.3 Income and Expense-based Indicators

The ratio of interest margin to gross income declined to 61.6 per cent in the review period, from 64.3 per cent at end-December 2012. Similarly, the ratio of increased by 0.8 percentage point to 65.7 per cent at end-June 2013, from 64.9 percent at end-December 2012. A continuous increase in the ratio of non-interest expenses to gross income may impede banks' ability to increase profits (Table 3.1).

Table 3.1: Selected Financial Soundness Indicators (FSIs) of the Nigerian Banking Industry

	2009		2010		2011		2012		2013
	1	2	3	4	5	6	7*	8**	9***
	End-June	*End-Dec*	*End-June*	*End-Dec*	*End-June*	*End-Dec*	*End-June*	*End-Dec*	*End-June*
1. Asset-Based Indicators									
NPL to gross loans	8.5	27.6	28.8	15.7	10.8	5.3	4.3	3.5	3.7
Liquid assets (core) to total assets	15.6	16.5	17.2	17.2	22.6	25.7	23.5	24.7	21.2
Liquid assets (core) to short-term liabilities	21.5	22.3	19.4	19.8	25.7	31.3	28.1	28.9	25.0
Return on assets (ROA)	1.7	-8.9	1.0	3.9	0.9	0.1	1.5	1.2	1.4
2.Capital-based Indicators									
Regulatory capital to risk-weighted assets	22.4	4.1	1.5	1.8	4.2	17.9	17.7	18.3	18.9
Tier 1 capital to risk-weighted assets	21.9	4.9	2.4	2.2	4.5	18.1	17.8	18.0	18.5
NPLs net of provision to capital	12.5	106.8	189.8	192.7	74.3	10.1	6.8	6.1	7.4
Return on equity (ROE)	8.9	-222.8	50.2	265.0	29.4	0.5	13.1	11.2	11.9
3. Income and Expense-based Indicators									
Interest margin to gross income	60.1	57.8	54.0	53.7	50.8	45.2	64.6	64.3	61.6
Non-interest expenses to gross income	64.5	81.2	80.5	66.9	72.9	75.4	64.8	64.9	65.7
Personnel expenses to non-interest expenses	46.7	47.6	45.5	42.8	44.6	36.1	43.6	43.9	38.7
*NOTES: FSIs are computed based on IMF guidelines **Revised ***Provisional*									

personnel expenses to non-interest expenses fell by 5.2 percentage points to 38.7 percent, from 43.9 per cent at end-December 2012. However, the ratio of non-interest expenses to gross income

3.1.2 The Banking Industry Stress Test

3.1.2.1 The Liquidity Stress Test

The liquidity stress test conducted on 23 banks at end-June 2013 assessed the

[8] 21 commercial and 2 merchant banks

The Implied Cash Flow Analysis assessed the impact of sudden withdrawals of deposits, short-term wholesale and long-term funding, with specific assumptions on asset fire sales. The test assumed a gradual average outflow of 3.8, 5.0 and 1.5 per cent of total deposits, short-term wholesale and long-term funding, respectively, over a 5-day period (Test 1.1) and 22.0, 11.0 and 1.5 per cent of total deposits, short-term wholesale and long-term funding, respectively, applied one-off on a 30-day balance (Test 1.2). It also assumed that the assets in Table 3.2 would remain unencumbered after a fire sale.

Table 3.2 : Assets Unencumbered

Type of Asset	Percentage Unencumbered
Cash	100
Current Account with CBN	100
CRR	30
Govt. bonds, Treasury Bills and other assets with 0% risk weighting	66.5
Other short-term investments	49
Certificates of Deposit	66.5

The Maturity Mismatch/Rollover Risk approach examined funding mismatch and rollover risk for assets and liabilities in the 0-30 day and 31-90 day buckets on the assumption of some level of CBN and intra-group funding, as indicated below:

I. Test 2a: Descriptive Maturity Mismatch, assumed that the baseline mismatch remained, but 5 per cent of total deposit would be made available from the CBN and intra-group funding;

ii. Test 2b: Static Rollover Risk, assumed that 80.0 and 72.0 per cent of the funding in the 0-30 day and 31-90 day buckets would be rolled over with no possibility to close the funding gap from other buckets. However, 5 per cent of total deposit would be available from the CBN and intra-group funding; and

iii. Test 2c: Dynamic Rollover Risk, the assumption was as in 2b above, but with the option of closing the liquidity gap from other buckets.

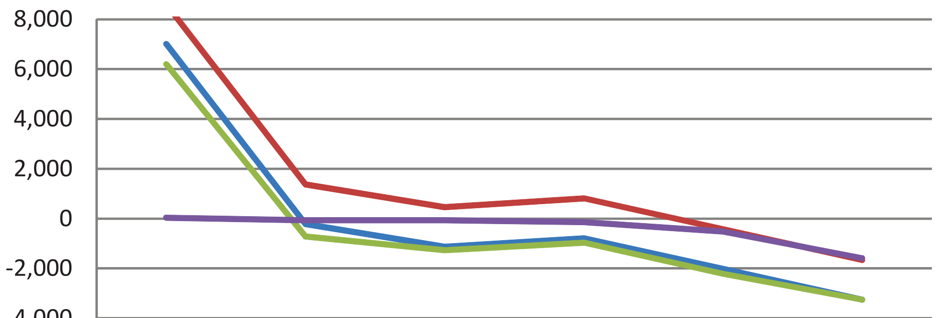
The results showed that the industry liquidity ratio declined to 16.7 and 13.3 per cent after the respective 5-day and cumulative 30-day shocks were applied, from the pre-shock position of 67.8 per cent (Table 3.3). The liquidity ratios of most banks were below the regulatory threshold of 30.0 per cent for the 5-day and cumulative 30-day scenarios. Similarly, three (3) banks recorded negative liquidity ratios, following the application of a cumulative 30-day shock.

However, under the three scenarios used for the maturity mismatch test, the rollover risk in the 30-day bucket showed that the banks were adequately funded(Figure 3.4). The overall banking industry was resilient to liquidity shocks, though a few banks were found to be vulnerable.

Table 3.3 : Implied Cash Flow Analysis

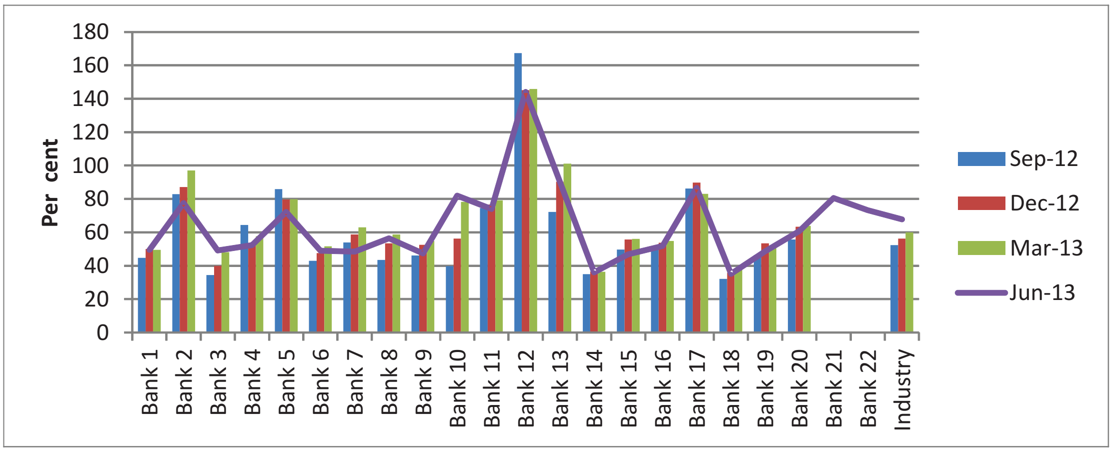
Total Number of Banks tested	**Number of Banks with < 30% liquidity ratio**				**June 2013**	
23	June 2013 (23 Banks)	Mar 2013 (20 Banks)	Dec 2012 (20 Banks)	Sept 2012 (20 Banks)	System LR	Liquidity Shortfall to make 30% LR (₦'billion)
Test 1.1: Impl ied Cash Flow Test (5 Days)						
Day 1	9	4	5	14	36.7%	Nil
Day 2	11	9	10	14	32.3%	Nil
Day 3	12	11	12	14	27.6%	567.33
Day 4	14	14	15	15	22.5%	1,011.44
Day 5	16	15	15	16	16.7%	1,436.42
Test 1.2: Implied Cash Flow Test (30 Days)	18	17	17	19	13.3%	1,688.22

Figure 3.4 : Rollover Risk, Pre- and Post-shock



	Less than 30 days (N'billion)	31-90 days (N'billion)	90 - 180days (N'billion)	180 360days (N'billion)	1-3 years (N'billion)	above 3 years (N'billion)
Pre-shock	7,003	-218.8	-1130.09	-788.93	-2,018	-3,263
Test 2a	8,593.98	1,372.39	461.10	803.26	-426.76	-1,671.79
Test 2b	6,191.13	-723.01	-1271.96	-963.74	-2,222.68	-3,262.98
Test 2c	33.87	-64.24	-70.53	-141.44	-512.17	-1,594.47

Figure 3.5 : Industry and Individual Bank Pre-shock Liquidity Ratio Positions



NB: Banks 21 and 22 were not in existence prior to June 2013. Also, Figures 3.5, 3.6 and 3.7 excluded test results for a new merchant, for which the results created a huge outlier effect.

Figure 3.6 : Industry Position after 1-5 day and Cumulative 30-day Shocks

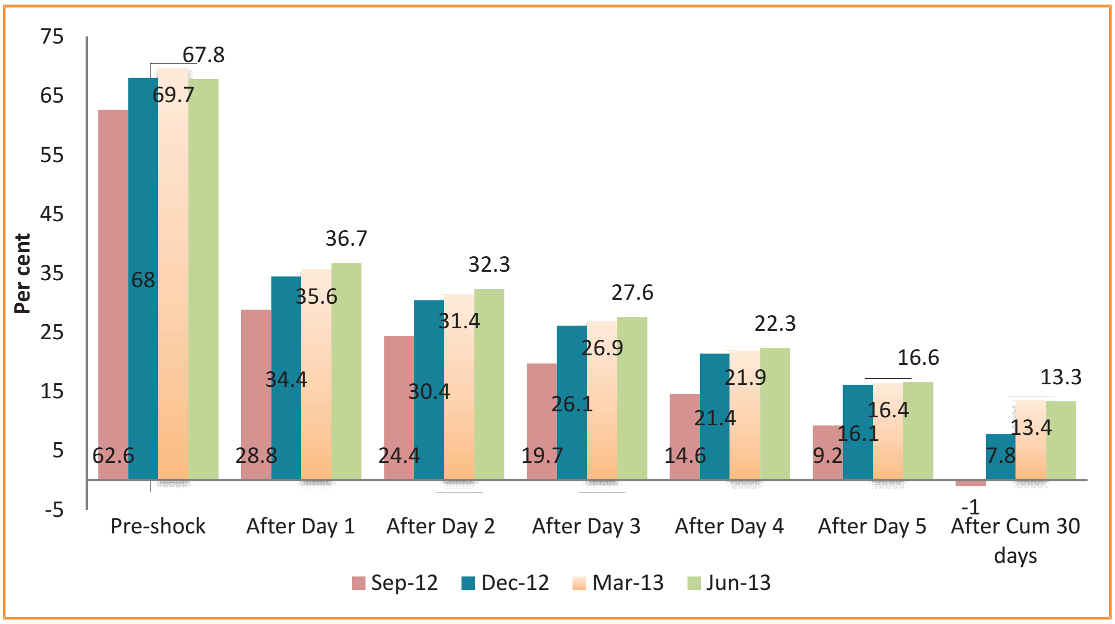
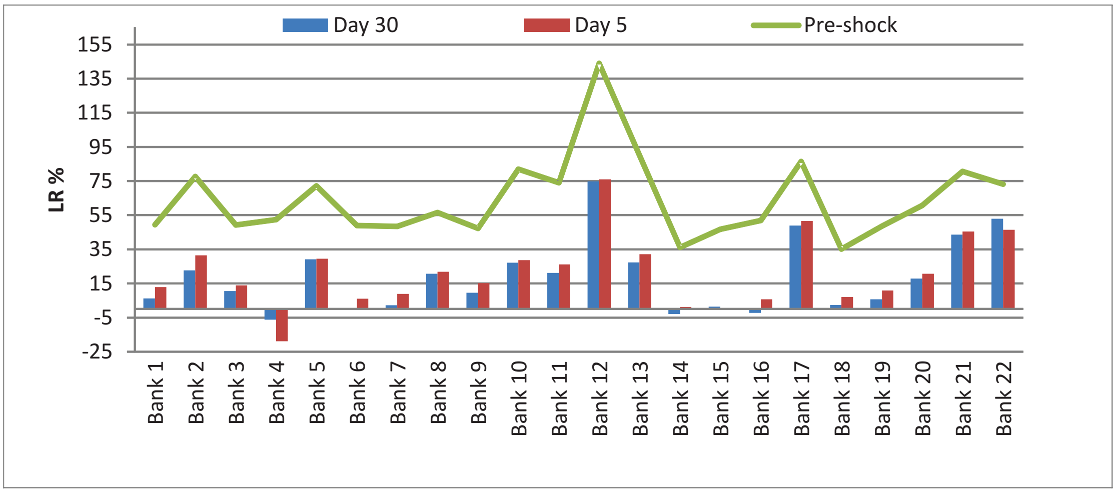


Figure 3.7 : Individual Bank Positions after 5-day and Cumulative 30-day Shocks



3.1.2.2 The Solvency Stress Test

The banking industry solvency stress test assessed the resilience of the industry based on historical worst case and hypothetical strained macroeconomic situations.

The Baseline Position

The pre-shock CAR for the banking industry as a whole and for large, medium and small banks[9] stood at 18.69, 18.86,18.25 and 18.33 per cent, respectively. These reflected increases of 0.33, 0.80, 1.32 and 1.40 percentage points over end-December 2012 positions. Similarly, the pre-shock liquidity ratios for the banking industry, large, medium and small banks rose by 14.14, 19.47, 3.15 and 3.07 percentage points to 69.70, 70.22, 75.45 and 68.47 per cent, respectively, compared with the end-December 2012 position (Table 3.4).

Table 3.4 : Baseline CAR and LR

Ratio	Banking Industry	Large Banks	Medium Banks	Small Banks
June-2013 CAR	18.69	18.86	18.25	18.33
Dec-2012 CAR	18.36	18.06	20.32	16.93
June-2013 Liquidity Ratio (LR)	69.7	70.22	75.45	68.47
Dec-2012 Liquidity Ratio (LR)	55.56	50.75	62.30	72.38

[9] Large banks (assets≥N1.00 trillion); Medium (assets≥N500 billion<N1.00 trillion); and Small (assets<N500 billion)

Figure 3.8 : Banks in Each Bucket of CAR

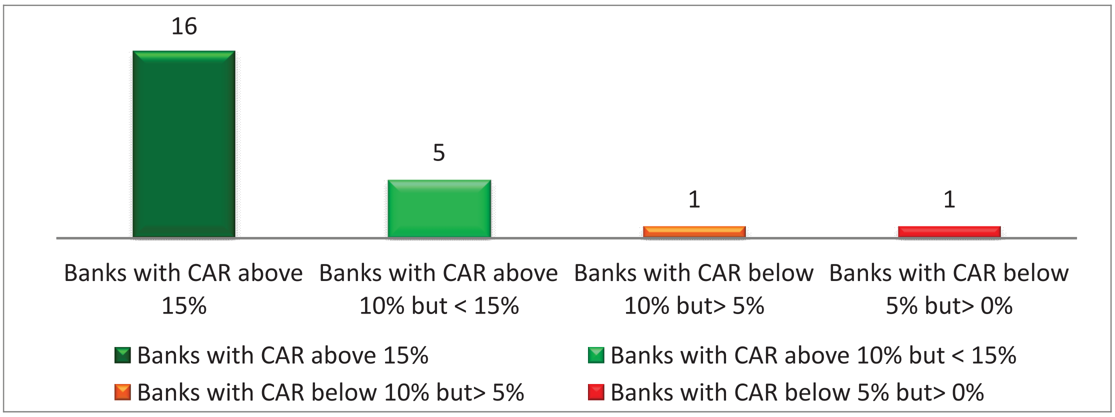


Figure 3.9 : Banks in Each Bucket of LR

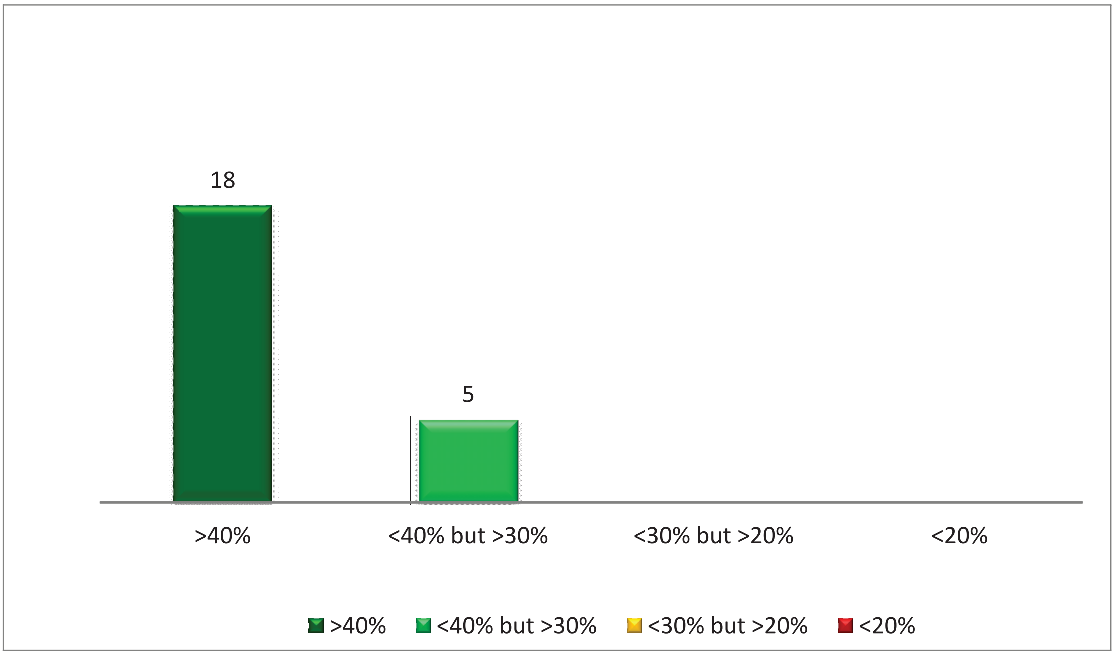


Figure 3.10 : Baseline CARs and LRs (%)

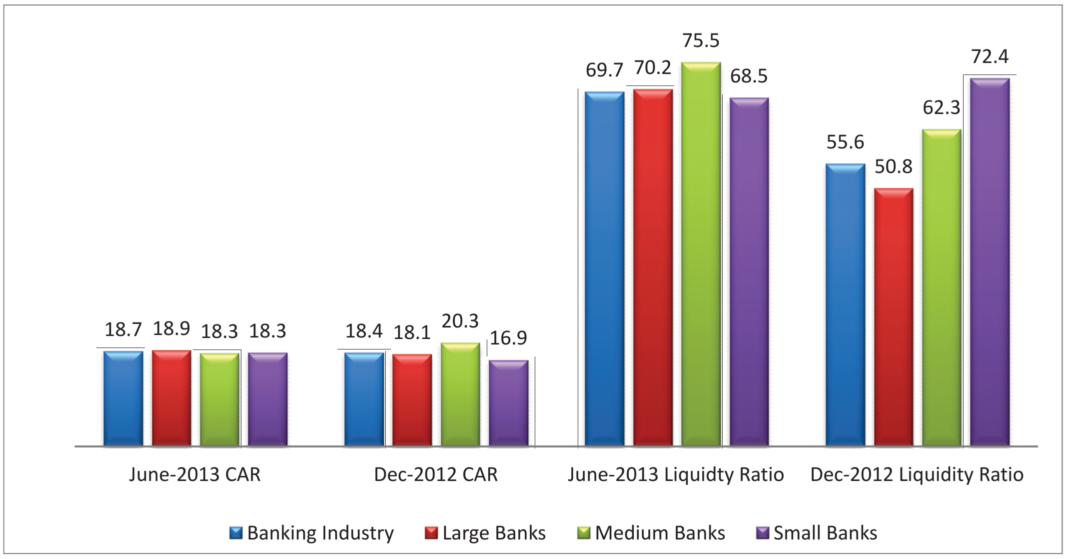
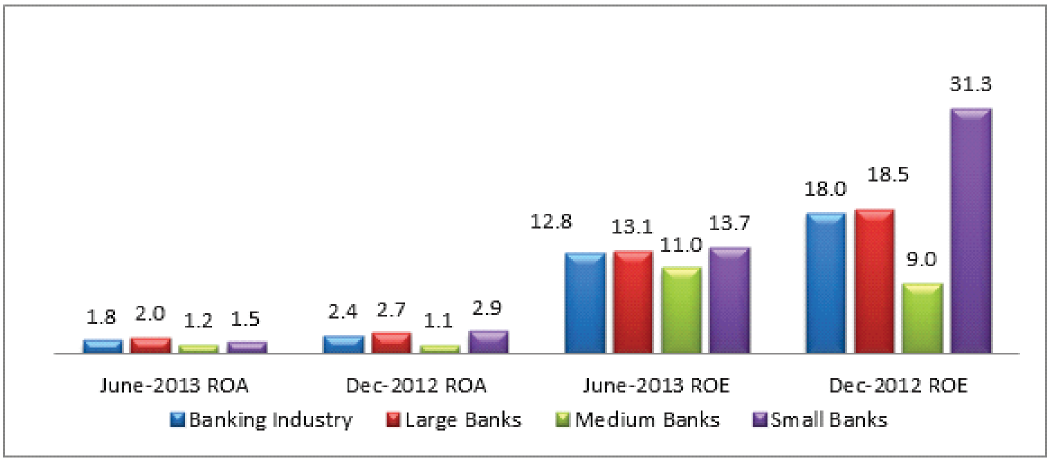


Figure 3.11 : Baseline ROAs and ROEs (%)



3.1.3 Analysis of Test Results

3.1.3.1 Credit Risk

The banking industry was resilient to credit risk as the impact of the most severe credit risk shock (200% rise in NPLs) resulted in CAR of 11.99 per cent, which was 1.99 percentage points above the 10 per cent threshold. Similarly, the large and medium banks were less vulnerable to the most severe shock, as they maintained CARs of 13.58 and 11.35 per cent, respectively. However, the small banks' CAR deteriorated to 2.39 from 18.33 per cent, requiring ₦96.03 billion to raise their CAR to 10 per cent. Under this scenario, 11 banks maintained CARs above 10 per cent, 6 banks had between 5 and 10 per cent, 3 banks had less than 5 but greater than zero per cent and 3 others recorded negative CARs (Table 3.7).

Table 3.5 : Stress Test Results – Credit Risk

Scenarios	Number of banks					
	< 0%	>0 but ⩽5	>5 but ⩽10	>10 but ⩽15	>15	Total
Shock 1ai (10%NPLs incr.)	0	1	1	4	17	23
Shock 1aii-15% NPLs increase	1	1	1	5	15	23
Shock 1aiii-20% NPLs increase	1	0	3	4	15	23
Shock 1aiv-30% NPLs increase	1	0	3	4	15	23
Shock 1av-50% NPLs increase	1	1	3	5	13	23
Shock 1avi-100% NPLs increase	3	1	2	9	8	23
Shock 1avii-200% NPLs increase	3	3	6	4	7	23

The banking industry and the three peer groupings showed significant levels of concentration risk as indicated by the level of capital deterioration. If the credit facilities of the five (5) biggest corporate obligors were to deteriorate from "doubtful" to "lost", the CARs of the banking industry, large, medium and small banks would decline from 18.69, 18.86, 18.25 and 18.33 per cent to 7.34, 7.62, 6.05 and 7.80 per cent, respectively. Under this scenario, only five banks would be able to maintain CARs equal to or above 10 per cent, while the remaining 18 would record less than 10 per cent CAR.

3.1.3.2 Liquidity Risk

Liquidity risk was moderate as the impact of a 10 per cent general run on the banking industry resulted in the liquidity ratio falling to 33.48 per cent, though above the threshold of 30 per cent from 69.70 per cent. Large banks followed the same trajectory as their liquidity ratio deteriorated to 30.27 per cent from 70.22 per cent. The medium and small banks showed more resilience as their liquidity ratios were 37.50 per cent for the medium and 45.37 per cent for the small banks, from 75.45 and 68.47 per cent, respectively. However, all the categories remained above the 30 per cent benchmark. The banking industry and the three peered banks were, therefore, resilient to the liquidity shock at the level indicated.

Figure 3.12 : Credit Concentration Risk

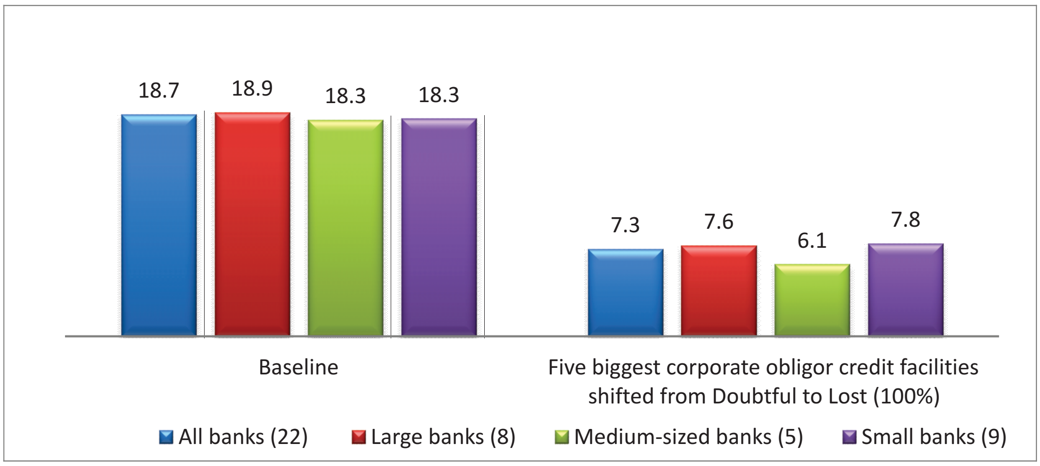


Table 3.6: Stress Test Results – Liquidity Risk

	Banking Industry (%)	Banks by Category		
		Large (%)	Medium (%)	Small (%)
Baseline	69.70	70.22	75.45	68.47
Shock 6gi (10% General Run)	33.48	30.27	37.50	45.37
Shock 6gii (15% General Run)	28.22	24.79	32.19	41.46
Shock 6giii (20% General Run)	22.07	18.38	25.88	36.95
Shock 6hi (20% Run on 20 largest Deposits)	40.88	37.80	45.66	50.78
Shock 6hii (50% Run on 20 largest Deposits)	39.18	35.69	45.19	49.18
Unsatisfactory	<30			
Border Line	≥30 < 35			
Sound Position	≥35<60			
Very Sound Position	≥60			

3.1.3.3 Interest Rate Risk

The results of the test on the net position of interest-sensitive instruments in relation to capital impairment, ROA and ROE, revealed that Nigerian banks, as an industry or by category, were stable as their positions declined only marginally, even after the most strained shocks were applied (Table 3.7).

Table 3.7 : Stress Test Results – Interest Rate Ris

Scenario	Banking Industry (%)	Banks by Category		
		Large (%)	Medium (%)	Small (%)
Baseline CAR	18.69	18.86	18.25	18.33
Baseline ROA	1.78	2.03	1.19	1.53
Baseline ROE	12.80	13.10	10.98	13.69
Interest Rate Volatility (Impact on CAR)				
Shock 5biii (500bps downward parallel shift in yield curve)	18.55	18.93	17.53	17.91
Shock 5biv (1000bps downward parallel shift in yield curve)	18.41	18.99	16.81	17.49
Impact of Parallel Shift in Yield Curve Shocks on ROA				
Interest Rate Volatility				
Shock 5biii (500bps downward parallel shift in yield curve)	1.57	2.13	0.25	0.98
Shock 5biv (1000bps downward parallel shift in yield curve)	1.67	2.08	0.70	1.24
Impact of Parallel Shift in Yield Curve Shocks on ROE				
Interest Rate Volatility				
Shock 5biii (500bps downward parallel shift in yield curve)	12.04	13.44	6.64	11.23
Shock 5biv (1000bps downward parallel shift in yield curve)	11.28	13.79	2.30	8.78

3.1.3.4 Exchange Rate Risk

The banks showed resilience to exchange rate risk shock test as their capital adequacy ratio fell below the regulatory minimum only after "a 100 per cent exchange rate appreciation" shock was induced on their net foreign assets (Table 3.8).

Table 3.8 : Stress Test Results – Exchange Rate Risk

Exchange Rate Shocks	Banking Industry	Banks by Category		
		Large	Medium	Small
CAR - Pre-shock position	18.69	18.86	18.25	18.33
Shock 4bi (10% appreciation in favour of the Naira)	17.14	17.20	16.93	17.12
Shock 4bii (20% appreciation in favour of the Naira)	15.59	15.53	15.61	15.90
Shock 4biii (50% appreciation in favour of the Naira)	10.95	10.54	11.66	12.26
Shock 4biv (100% appreciation in favour of the Naira)	3.21	2.22	5.08	6.20

Table 3.9: Stress Test Results – FX Trading Risk

Number of Banks with ROA and ROE in the Respective Buckets	=0%	>0 =5%	>5 =10%	>10 =15%	>15%	
Impact of FX Trading Shocks on ROA						
FX Trading Income Volatility						Banks
Shock 7ai (10% decline in FX trading Income)	0	0	4	3	16	23
Shock 7aii (20% decline in FX trading Income)	1	0	4	3	15	23
Shock 7aiii (50% decline in FX trading Income)	1	0	6	2	14	23
Shock 7aiv (100% decline in FX trading Income)	3	0	8	2	10	23

3.1.3.5 Foreign Exchange (FX) Trading Risk

The results of the test showed that the banking industry was resilient to FX trading risk. The banks' pre-shock ROA and ROE positions changed only marginally after a 100 per cent decline in FX trading income was assumed. This was mainly due to the high net profit position of the banks relative to the size of their FX trading income.

In summary, the banking industry was adjudged vulnerable but resilient to credit and liquidity risks after severe shocks were applied. Interest rate risk had minimal effects on the CAR, ROA and ROE, even at severe shock scenarios. Exchange rate risk was also significant as a 100 per cent appreciation of the Naira resulted in CAR falling below the required minimum.

3.1.4 Enhancement of the Framework and Tools for Supervision

The diagnostic study earlier commissioned by the CBN to examine the Nigerian financial system, taking into account specific tools required in the light of international developments since the 2007 crisis, was completed in the period under review. The Report made recommendations for the enhancement of existing supervisory tools and institutional arrangements based on three major components, namely: macro-prudential policy; micro-prudential policy; and crisis management, necessary for the achievement of financial stability in Nigeria. It is expected that the adoption of the recommendations of the study would result in major amendments to the Central Bank of Nigeria Act (2007) and the Banks and Other Financial Institutions Act (1991).

3.2 Supervision of Banks and Other Financial Institutions

3.2.1 Banks and Discount Houses

3.2.1.1 Commercial Banks

During the review period, the number of licensed commercial banks remained at 21, with one of the banks commencing business in March 2013. No examination of commercial banks was concluded during the review period. However, onsite examination of nine (9) foreign subsidiaries of Nigerian banks was carried out. Seven (7) were jointly conducted with host supervisors, while two were carried out solely by the CBN. Three (3) examination reports were issued in the period, the results of which indicated that two (2) subsidiaries had a composite risk rating of "above average" and one (1) "moderate".

3.2.1.2 Non-Interest (Islamic) Banks

No examination was conducted on the non-interest (Islamic) bank operating in the country.

3.2.1.3 Merchant Banks

The two licensed merchant banks commenced operations during the review period and, as such, were not due for examination.

3.2.1.4 Discount Houses

The four (4) discount houses were examined during the review period. The result of the examination showed that one (1) had a composite risk rating of 'High'; two (2) 'Moderate', and one (1)'Low'. This was a slight improvement over the previous exercise that rated one (1) 'High'; two (2) 'Above Average'; and one (1) 'Low'. The examination indicated that the direction of risk was stable for most discount houses.

Table 3.10 : Composite Risk Rating of Discount Houses

Risk Rating	Examination as at	
	Dec 2012	Dec2011
High	1	1
Above Average	0	2
Moderate	2	0
Low	1	1
Total	**4**	**4**

Improved board and management oversight and enhanced internal controls and risk management practices were the major factors that moderated the risk rating of the two discount houses rated "Above Average" in 2011. Conversely, the discount house previously rated high risk in 2011 further deteriorated. The continued deterioration of the financial health of this discount house constituted a potential risk to the discount house sub-sector. However, regulatory measures have been put in place to mitigate the risk of contagion.

The capital of three (3) discount houses had improved to 'Acceptable' from 'Needs Improvement' since the previous examination. A discount house was, however, expected to inject additional capital for its continued operations.

The earnings performance of two discount houses was upgraded from "Needs Improvement", during the previous period to "Acceptable". However, the high proportion of Local Contractors Bonds which were on "held-to-maturity," had the potential of increasing their liquidity risk. Nevertheless, discount houses continued to play their important intermediation role in fixed income securities, thereby providing the financial industry with liquidity.

3.3 Other Financial Institutions

3.3.1 Microfinance Banks (MFBs)

At end-June 2013, there were 903 licensed MFBs, representing an increase of 21 over the number at end-December 2012. Routine examination was conducted on 262 of the MFBs. The outcome was mixed. Several MFBs recorded improvements in performance, while others witnessed deterioration in operational results. Poor asset quality remained the bane of the MFBs. Spot checks were also conducted to confirm the status of 123 other MFBs that had earlier been observed to be inactive. To reduce the high credit risk in the sub-sector, the CBN, in conjunction with the Financial Institutions Training Centre (FITC), organized enterprise risk management (ERM) workshops for microfinance banks. The key objective of the workshops was to mentor MFBs on the imperatives of adopting sound risk management principles.

3.3.2 Primary Mortgage Banks (PMBs)

At end-June 2013, only 10 of the 82 licensed PMBs met the new minimum capital threshold of ₦2.5 billion while a total of 18 applications for no-objection approval of merger plans were received by the CBN. The deadline for compliance with the new capital requirement remains end-December 2013. As a pre-emptive measure, an inter-agency committee to review developments in the sub-sector and advise on appropriate distress resolution strategies was set-up by the CBN/NDIC Executive Committee on Supervision.

While the exercise did not point at any grave or immediate threat to the larger financial system, it nonetheless revealed a number of major downside risks for each of the industry's stakeholders: creditors, shareholders, depositors and other counterparties. The risks were identified to include those arising from the exposure of the payments system and the larger financial system to PMBs, and possible financial disintermediation resulting from loss of customers' deposits and investors' funds, as well as an anticipated severe strain on the deposit insurance guarantee fund. The identified risks are expected to be adequately addressed by the existing distress resolution framework.

3.3.3 Finance Companies (FCs)

The number of FCs reduced to 65 at end-June 2013, from 66 at end-December 2012, as one surrendered its licence.

As part of the stakeholder consultations to finalise the Finance Companies Reform Initiatives, the CBN held interactive sessions with the Finance Houses Association of Nigeria (FHAN) and the Equipment Leasing Association of Nigeria (ELAN) during the review period. Following this, the reviewed operating guidelines for finance companies were finalised.

The surveillance team of the Inter-agency Committee on Illegal Fund Managers (wonder banks) sealed off the premises of two illegal finance companies in the first half of 2013. Also, hearing on the criminal cases against the directors of two other illegal finance companies was reopened during the period. Furthermore, a comprehensive approach to contain the menace of "wonder banks" was approved during the period.

3.3.4 Bureaux de Change (BDCs)

The number of BDCs at end-June 2013 was 2,458,compared with 2,278 at end-December 2012. Spot-checks were conducted on 60 BDCs during the review period to confirm their compliance with existing regulations. The exercise revealed improvements in the operation of BDCs over the observed position in 2011 and 2012. Infractions, such as FX sales above approved limits, insufficient documentation, and failure to endorse customers' international passports with the amounts of FX purchased, however, persisted. Appropriate sanctions were meted out to the erring institutions.

3.4 Compliance with International Standards

3.4.1 Anti-Money Laundering/ Combating the Financing of Terrorism

In the drive to de-list Nigeria from the FATF grey list, the CBN:

- Issued circulars to banks and OFIs on "Additional Know Your Customer (KYC) requirements in respect of Designated Non-Financial Businesses and Professions (DNFBPs)";
- Issued circulars to banks and OFIs on Section 2 of the Money Laundering Prohibition Act: "Duty to report International Transfer of Funds - Transportation of Cash or Negotiable Instruments in excess of US$10,000 or its equivalent";
- Circulated United Nations' Consolidated Lists of persons/entities involved with terrorism financing or terrorist activities to financial institutions; and
- Issued circulars and notifications to banks and other financial institutions in respect of other acts of terrorist financing.

The CBN continued to monitor compliance with extant circulars through on-site and off-site supervision.

3.4.2 International Financial Reporting Standards and Basel II/III

Banks, discount houses and 13 other financial institutions prepared their financial statements for the year ended December 31, 2012, in line with the implementation roadmap for adoption of International Financial Reporting Standards (IFRS). Three banks that had hitherto prepared IFRS-compliant financial statements, in response to international regulatory filing requirements were accorded recognition as early adopters while others were first-time adopters of IFRS specifications.

Training programmes were conducted for regulators of the financial sector to enhance their capacity to supervise in an IFRS regime. Furthermore, the CBN/NDIC continued the process of developing an IFRS-compliant reporting system.

On Basel II/III, workshops were held to sensitize CBN/NDIC Examiners, as well as Chief Risk Officers (CROs) of banks, on the new *Basel II/III Regulatory Framework for Prudential Supervision of the Nigerian Banking System*. The Framework requires all banks to commence a parallel run of Basel II minimum computation requirements, using Standardized Approaches for credit and market risk, while the Basic Indicator Approach would be used for operational risk. The Framework was being reviewed, following responses received on the exposure draft.

3.5 The Asset Management Corporation of Nigeria (AMCON)

The Eligible Bank Assets (EBAs) acquired by the Asset Management Corporation of Nigeria (AMCON) stood at ₦2.72 trillion at end-June 2013, compared with ₦2.77 trillion at end-December 2012. EBAs valued at ₦322 billion were restructured during the period, of which 53.18 per cent were performing, while 46.82 per cent were non-performing. Total recoveries for the first half of 2013 amounted to ₦109.40 billion, compared with ₦23.61 billion at end-December 2012.

AMCON did not issue additional bonds during the review period. Thus ,the total face value of bonds issued at end-June 2013 remained at ₦5.59 trillion.

In May 2013, the Corporation announced its plan to redeem bonds held by the private sector at maturity, while those held by the CBN would be restructured into a 10-year bond at 6 per cent. The cash generated from recoveries and contributions to the Banking Sector Resolution Cost Fund would be used to redeem the bonds at maturity.

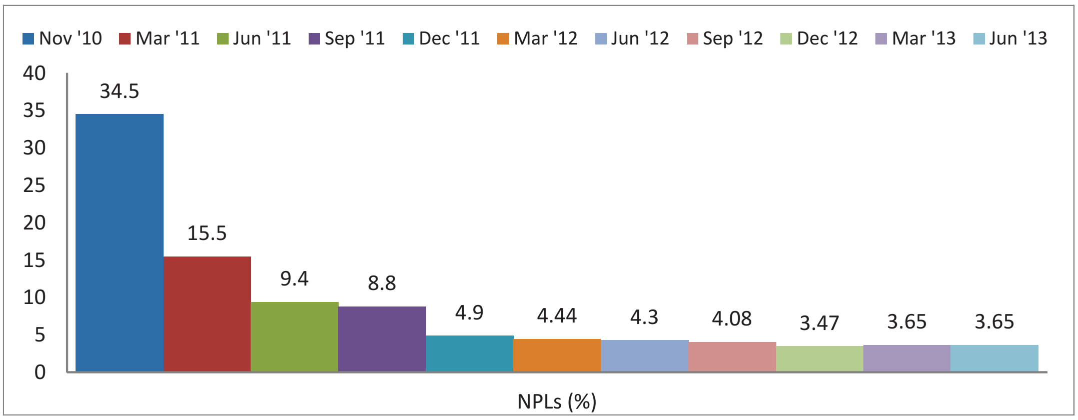
3.6 Key Risks in the Financial System

3.6.1 Credit Risk

Credit risk has been largely contained in the Nigerian banking system, due to the activities of AMCON. However, concentration risk remained a challenge, as the top 50 and 100 obligors accounted for 32.57 and 40.76 per cent, respectively, of gross credit at end-June 2013.

The asset quality of banks declined marginally during the first half of 2013, as the NPL ratio increased to 3.65 per cent, compared with 3.47 per cent at end-December 2012. The NPL ratio of the industry, however, remained well within the regulatory ceiling of 5.0 per cent (Figure 3.13).The NPLs increased by 13.75 per cent to ₦321.8 billion at end-June 2013, from ₦282.9 billion at end-December 2012.

Figure 3.13 : Trend of Banking Industry NPLs



3.6.2 Liquidity Risk

As in the preceding period, there was liquidity surfeit in the banking system in the first half of the year, due to the low level of lending by banks. Thus, banks channelled their funds to the acquisition of government securities. All banks surpassed the 30 per cent regulatory liquidity ratio during the period which ended June 2013.

3.6.3 Market Risk

Interest rates remained stable during the period due to the CBN's tight monetary policy stance and the stable macroeconomic environment. The exchange rate, however, depreciated marginally at both the interbank and BDC segments,arising from the decline in supply from autonomous sources. Although there was growth in non-oil exports, the oil sector continued to dominate government revenues and foreign exchange earnings. However, the economy remained vulnerable to oil theft and price volatility.

The renewed confidence in the United States economy did not significantly dampen investors' appetite for Nigerian equities, as the capital market continued to post impressive results during the first half of 2013. However, the market is still exposed to the risk of sudden reversal of capital flows, given the high proportion of foreign portfolio investments at end-June 2013.

3.6.4 Operational Risk

The wider adoption of e-banking channels increased the sphere of risks to banks and customers in light of the growing sophistication of organized crime.

The incidents of fraud and forgery reported to the CBN increased by 11.12 per cent to 2,478 involving ₦22.41billion in the first half of 2013, compared with 2,230 cases involving ₦7.76 billion in the second half of 2012. Actual losses increased by 108.74 per cent to N3.82 billion in the first half of 2013, from N1.83 billion in the second half of 2012. The CBN continued to partner with stakeholders in developing and implementing security measures to mitigate operational risks.

Security concerns in some parts of the country significantly eased during the review period. This was as a result of the measures put in place by the Federal Government and its security agencies to address insecurity.

3.6.5 Reputational Risk

The growth in fraud and forgeries is a reflection of inadequate internal controls in the banks, which may adversely impact public confidence in the banking system. Also, disputes related to bank charges and unethical practices, as well as regulatory actions in some financial institutions remained a source of reputational risk.

During the review period, the Bank worked with the Presidential Committee on FATF to implement the action items agreed as precondition for de-listing Nigeria from the FATF grey list and improve confidence in the Nigerian Financial System.

3.7 Credit Information Bureaux

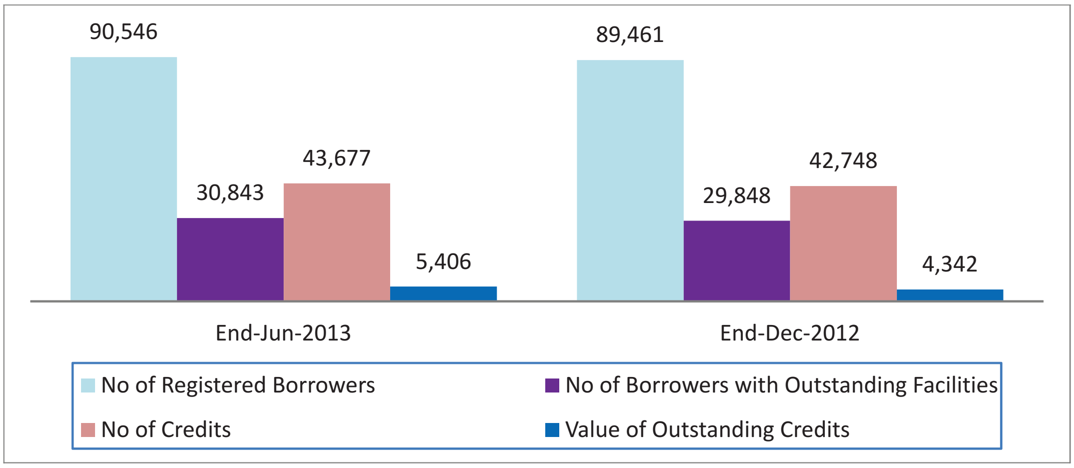
3.7.1 The Credit Risk Management System (CRMS)

The Credit Risk Management System (CRMS) continued to provide a platform for the management of credit risk in the banking industry. At end-June 2013, the number of registered borrowers in the CRMS database increased by 1.0 per cent, to 90,546 at end-June 2013, from 89,461 at end-December 2012. The number of borrowers with outstanding facilities rose by 3.0 per cent to 30,843 during the review period, from 29,848 at end-December 2012, while the total value of outstanding credits increased by 24.0 per cent to ₦5,406 billion, from ₦4,342 billion at end-December 2012. Similarly, the total number of credits in the database rose by 2.0 per cent to 43,677 at end-June 2013, from 42,748 at end-December 2012.

During the review period, twenty-nine (29) requests and complaints on customers' credit records in the CRMS were processed as against ninety-two (92) in the second half of 2012.

To further enhance the operations of the CRMS, the CBN intensified efforts at monitoring compliance by banks.

Figure 3.14 : CRMS Statistics as at end-June 2013



[10] The CRMS is a depository of credit information on borrowers of N1 million and above for individuals, and N5 million and above for corporate customers.

3.7.2 Private Credit Bureaux (PCBs)

The Private Credit Bureaux (PCBs) continued to complement the CBN CRMS in the credit administration process. At end-June 2013, the number of PCBs in the system remained three while their activities were buoyed by increased patronage by both financial and non-financial institutions. Similarly, the number of borrowers in their database increased to 21.08 million from 19.71 million at end-December 2012.

Despite the modest growth, the PCBs faced some challenges, which included absence of a unique identifier and poor information-sharing.

3.8 The Financial Services Regulation Coordinating Committee (FSRCC)

The Financial Services Regulation Coordinating Committee (FSRCC) held its 49th meeting on April 12, 2013 at which vital decisions to enhance financial system stability were taken. Specifically, the framework for consolidated supervision principles and a roadmap for the implementation of consolidated supervision in the Nigerian financial services industry were approved for implementation. Meanwhile, training on consolidated supervision for staff of member agencies has been planned for early December 2013.

The charter of the FSRCC was amended to accord with its financial stability mandate. The Committee also carried out a holistic review of the financial system with a view to determining the impact of the various sectoral reforms carried out from 2009 to date. The Harmonization and Coordinating Sub-Committee commenced the gap analysis of the Code of Corporate Governance issued by all Member Agencies for the purpose of suggesting improvements to strengthen them.

3.9 Consumer Protection

Seven hundred and fifty nine (759) complaints were received in the first half of 2013, reflecting an increase of 36.8 per cent over the 555 received in the second half of 2012. The total refunds to petitioners amounted to ₦1.45 billion, compared with ₦2.20 billion recorded in the second half of 2012.

During the review period, a desk circular, the *Financial Literacy Framework,* which provides a roadmap for financial literacy to promote financial inclusion, was issued. A monitoring exercise was also carried out to assess banks' compliance with the requirements of the help desk circular and complaints management requirements. The findings revealed that banks had deployed more resources into customer enlightenment, as well as complaints management and resolution, with a view to improving public confidence in the banking system.

4.0 DEVELOPMENTS IN THE PAYMENTS SYSTEM

In furtherance of its activities towards the development of the National Payments System, the CBN, during the period under review:

- Commenced a nationwide cheque truncation system to enhance the efficiency of cheque clearing and settlement which resulted in a reduction of both the clearing cycle to T+1 from T+2, and the float in the banking system;

- Implemented the ₦150,000 limit for encashment of third-party cheques nationwide, to promote e-payment, minimize fraud and other risks associated with paper-based instruments;

- Granted commercial licences to two (2) additional mobile money operators, which brought the total number to 18;

- Licensed a third-party processor (TPP) company; and

- Issued *Guidelines on Agent Banking and Agent Banking Relationships in Nigeria.*

4.1 The Payments System Vision 2020

In continuation of the implementation of the Payments System Vision 2020 (PSV 2020), the CBN:

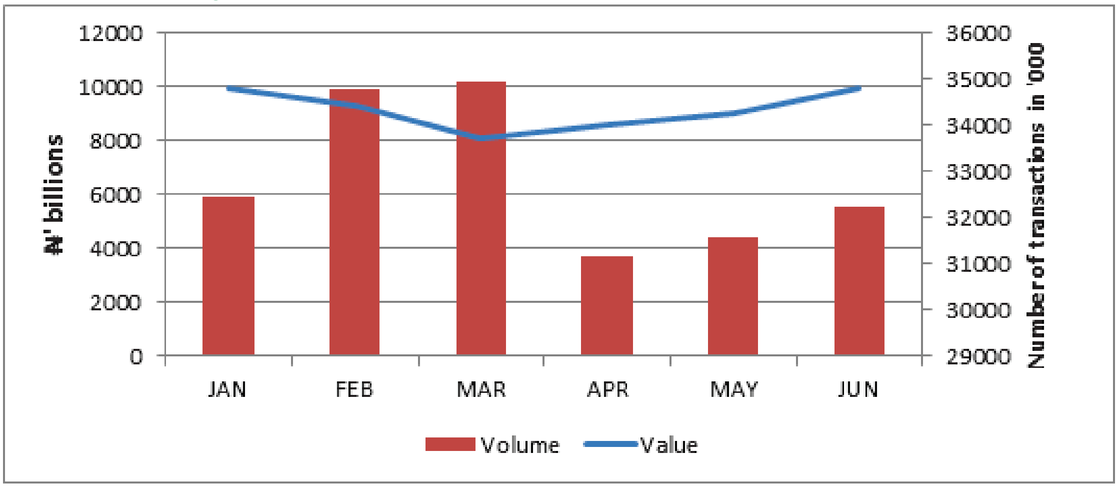
- Completed the installation of the new RTGS software and carried out the users' acceptance tests in preparation for the system to go live in the last quarter of 2013. The new RTGS System is expected to reduce liquidity risk, minimise credit risk, and increase the efficiency of treasury operations of financial institutions; and

- Commenced the review of the payment systems infrastructure (RTGS, ACH, Cheques, Cards, Instant Payment and Mobile money)consistent with the new Bank for International Settlements (BIS)Principles for Financial Market Infrastructure. This is to strengthen the existing payments system infrastructure.

4.2 The Real-Time Gross Settlement (RTGS) System

The volume and value of inter-bank transfers through the Real-Time Gross Settlement (RTGS) System declined to 197,220 and ₦55,005.31 billion at end-June 2013, from 213,825 and ₦57,285.87billion, respectively, at end-December 2012, reflecting a decrease of 7.8 and 4.0 per cent, respectively, in volume and value. The decreases were attributed to increased use of other alternative payment platforms, such as the NIBSS Instant Payment and web-based payments.

Figure 4.1 : CBN RTGS Transactions, January to June 2013



4.3 The NIBSS Instant Payment (NIP)

The volume and value of NIBSS Instant Payment (NIP) rose to 5,924,602 and ₦4,178.76 billion at end-June 2013, from 3,293,216 and ₦2,872.77 billion respectively, at end-December 2012, reflecting increases of 79.90 and 45.46 per cent, respectively, in volume and value, respectively. The significant rise was attributed to the growing usage of the scheme as a result of the implementation of the cash-less policy of the CBN.

4.4 NIBSS Electronic Fund Transfer (NEFT)

The volume and value of NIBSS Electronic Fund Transfer (NEFT) transactions decreased to 13,918,838 and ₦6,738.14 billion at end-June 2013, from 15,143,752 and ₦6,845.40 billion, respectively, at end-December 2012, reflecting a decline of 8.09 and 1.57 per cent, respectively, in volume and value.

Figure 4.2: Value and Volume of NIP Transactions, January to June 2013

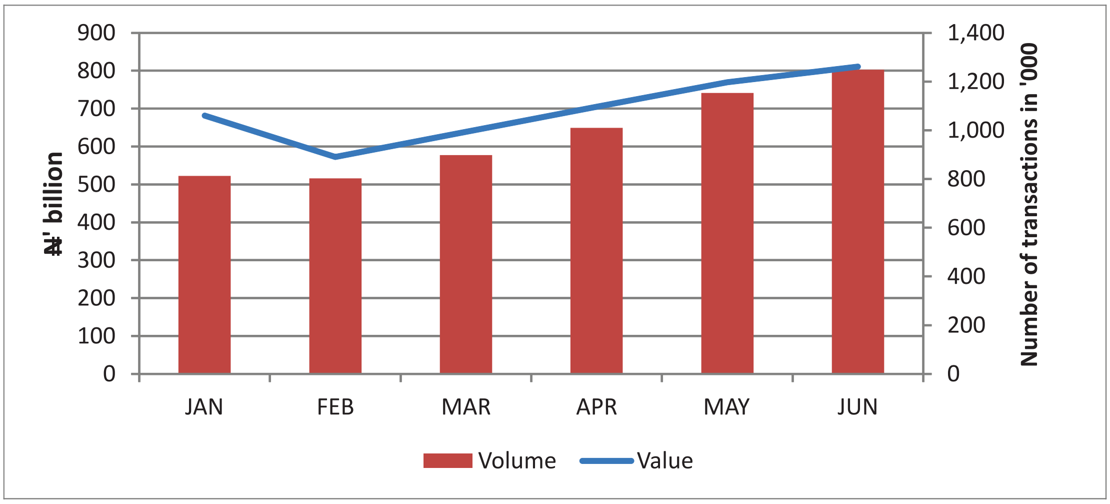
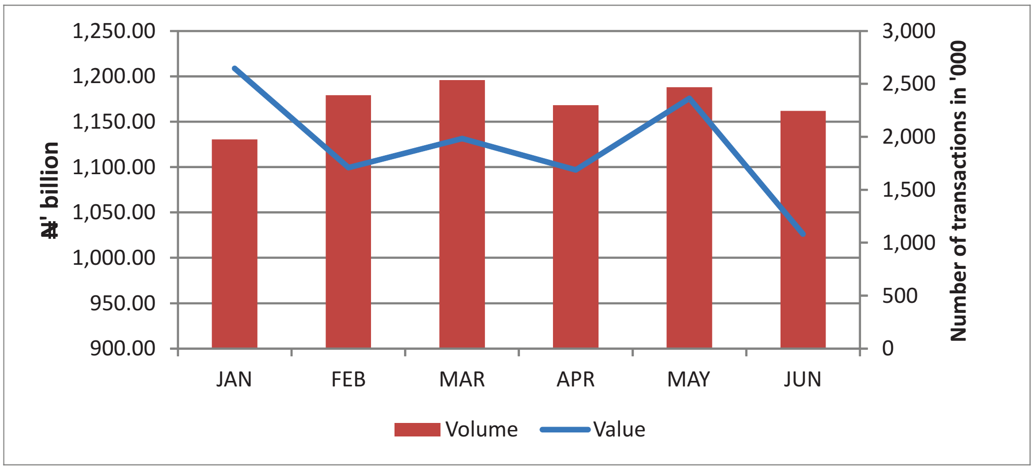


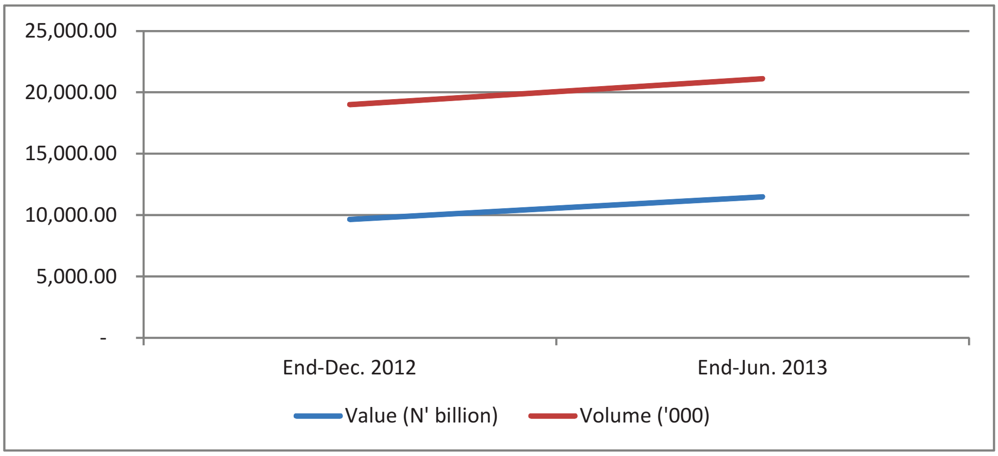
Figure 4.3 : Value and Volume of NEFT Transactions, January to June 2013



4.5 Cheque Clearing

The volume and value of cheques cleared increased to 21,096,628 and ₦11, 492.50 billion at end-June 2013 from, 18,988,822 and ₦9,653.45 billion at end-December 2012, reflecting increases of 11.10 and 19.05 per cent, respectively. The development was attributed to the ₦150,000 third party cheque encashment limit policy, which encouraged the presentation of cheques through the clearing house.

Figure 4.4 : Value and Volume of Cheques Cleared, January to June 2013



4.6 Electronic Card Transactions

The value of electronic card (e-card) transactions rose to ₦1,416.10 billion in the first half of 2013, from ₦1,127.78 billion in the second half of 2012, while the volume decreased to 146,961,511, from 201,793,172.

Data on various e-payment channels for the period under review indicated that ATMs remained the most patronised, accounting for 93.31 per cent, followed by mobile payments with 4.08 per cent and POS terminals, 1.85 per cent. The Internet was the least patronised, accounting for only 0.76 per cent. In value terms, ATMs accounted for 91.42 per cent; mobile payments, 3.68 per cent; POS, 3.43 per cent; while the internet accounted for 1.47 per cent.

Figure 4.5: Volume of Electronic Card Transactions, January to June 2013

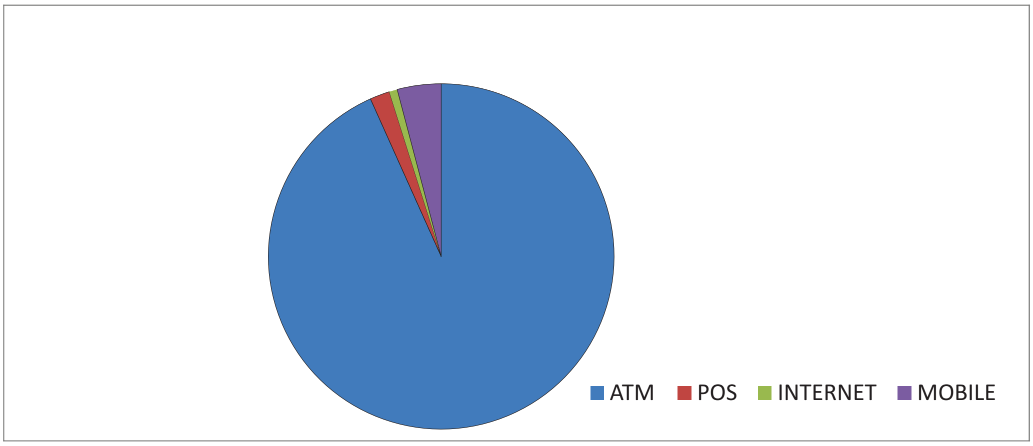
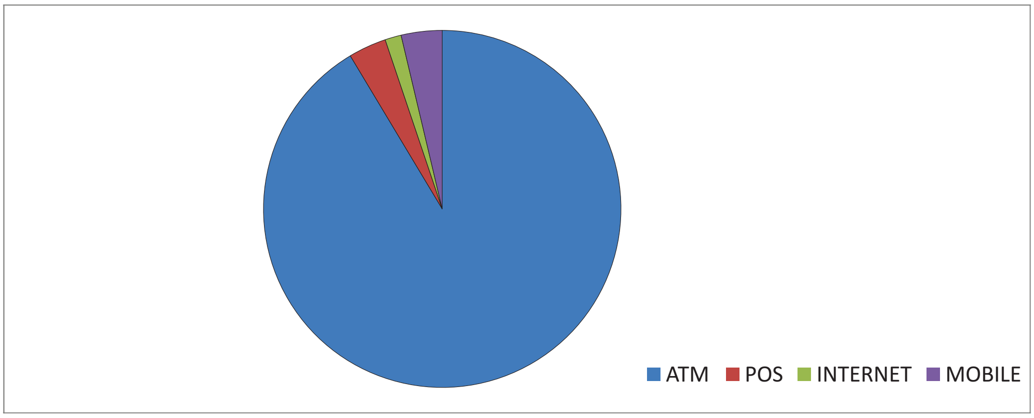


Figure 4.6: Value of Electronic Card Transactions, January to June 2013



4.6.1 ATM Transactions

The number of ATMs stood at 11,702 at end-June 2013 as against the revised figure of 10,727 at end-December 2012, reflecting an increase of 9.09 percent. The volume of ATM transactions decreased by 30.6 per cent to 136,663,013 during the first half of 2013, from 196,995,507 in the second half of 2012. However, the value of transactions rose to ₦1,286.35 billion at end-June 2013, from ₦1,046.62 billion in the second half of 2012, showing an increase of 22.9 per cent.

4.6.2 Mobile Banking

The volume and value of mobile payments increased during the review period to 5,982,225 and ₦51.79 billion, from 1,668,113 and ₦25.50 billion, respectively, in the second half of 2012, indicating increases of 258.6 and 103.0 per cent, respectively, in volume and value. The significant rise was as a result of the increase in the number of mobile payment operators, as well as improved public awareness in the use of mobile banking services.

4.6.3 Points of Sale Transactions

The volume of points of sale (POS) transactions increased by 64.4 per cent to 3,207,788 in the first half of 2013, compared with 1,951,252 in the second half of 2012. Similarly, the value rose by 53.0 per cent to ₦57.2 billion over the level recorded in the preceding half year. The increase in volume and value was due to sustained public awareness and acceptance of its usage.

4.6.4 Web (Internet) Transactions

The volume of web-based transactions in the first half of 2013 was 1,108,485, indicating a decline of 5.9 per cent, compared with 1,178,300 in the second half of 2012. However, the value rose by 13.1 per cent to ₦20.7 billion, from ₦18.3 billion in the preceding period. The fall in volume was due to users' preference for other payment channels.

5.0 OUTLOOK

Global output is projected to remain subdued in the second half of 2013[11], as a result of lower-than-expected demand, slower growth in developed economies and protracted recession in the Euro zone. Emerging markets are also projected to experience a slowdown in growth. Arising from these projections, the demand for Nigeria's crude oil could be adversely affected. The above developments, in addition to challenges in the oil-producing areas, could contribute to low accretion to external reserves.

Furthermore, the potential reversal of the US quantitative easing and increase in yields on financial assets could weaken credit lines, thus adversely impacting the balance sheets of domestic banks. These developments could trigger some portfolio reversals and exert pressure on the foreign exchange and capital markets in Nigeria.

Also, the continued implementation of the US oil-independence policy could reduce demand for Nigeria's crude and, when combined with a likely fall in oil prices, would negatively impact government revenue and system liquidity.

Money market rates are expected to remain stable in the second half of 2013, albeit at relatively higher levels than what obtained in the first half. Expectations of an increased liquidity surfeit in the system would likely be contained by tight monetary policy in order to maintain price stability.

[11]IMF WEO Update, July 2013

BOX 1
Competency Framework for the Nigerian Banking Industry

The recurrence of instability in the Nigerian financial system exposed the dearth of skills and executive capacity in the banking industry. The gaps manifested in the following, among others:

- Poor understanding of basic banking operations;
- Poor understanding of banking regulations;
- Knowledge gaps in financial markets and treasury management; and
- Unethical conduct and unprofessional practices.

The reasons advanced for these inadequacies include the lack of competency standards for practitioners in the industry. The development of staff competencies became imperative in addressing the inadequacies, thus underscoring the need to strengthen the training of the new generation of banking professionals to develop and deliver satisfactory banking products and services to the consumers.

Against this background, the CBN, in conjunction with the Bankers' Committee, decided to consciously redirect the banking industry towards the path of entrenching a sequenced competency development programme. The *Competency Framework* seeks to ensure that workers possess the qualifications, skills and experience relevant to the jobs that they are engaged to perform and also prescribes minimum requirements for officers engaged in control functions. The primary goal of the *Framework* is to provide reasonable assurance that a job holder is fit, proper and carries on satisfactorily the responsibilities of the office he/she occupies.

Specifically, the *Competency Framework* seeks to achieve the following objectives:

- Define the minimum knowledge, skills and competencies needed for operators and regulators to perform their various jobs optimally;

- Standardize capacity and competency development, with a view to nurturing and producing a knowledgeable, skilled and competent workforce for the Nigerian banking industry;

- Provide standards for training, certification, evaluation and accreditation to ensure the provision of quality training in the Nigerian banking industry;

- Identify competency gaps and develop required learning interventions to bridge the identified gaps; and
- Establish a system of assessing and tracking compliance with defined standards.

The *Framework* identifies roles that are of operational or regulatory significance and designates such roles as control functions. The control functions are broadly grouped into two – 'significant influence functions' and 'customer functions'. Currently, there are 35 control functions in the *Framework*.