

CONSOLIDATED BANKING SUPERVISION ANNUAL REPORTS (2009-2014)



**CENTRAL BANK
OF NIGERIA**

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FOREWORD

The effects of the Global Financial Crisis on the world economy continued to undermine global economic recovery, during the period 2009 to 2014. This financial crisis also adversely affected the Nigerian economy through a reversal of portfolio flows into the country. At the same time, the fall in world commodity prices precipitated a decline in fiscal buffers as government revenue crashed while expenditure remained basically inflexible. These events combined to cause anxiety in the banking sector, leading to questions about the financial health of some Nigerian banks. Consequently, a special examination to ascertain the soundness of our banking institutions was undertaken. The result of the exercise confirmed the fears, especially in banks exposed to the capital market and the energy sector, which suffered temporary liquidity shock. This compelled the Central Bank of Nigeria (CBN) to intervene in such institutions through the introduction of several interim measures, which did not fully resolve the challenges in those banks.

In furtherance of efforts to restore confidence in the banking system and ensure financial stability, a four-pillar banking reform programme was introduced. The programme centred on addressing the identified weaknesses in the banking system through the enhancement of the risk-based supervision and the establishment of the Asset Management Corporation of Nigeria (AMCON) to acquire eligible bank assets. The consumer protection regime was, also, enhanced and macroprudential supervision introduced to facilitate the timely detection of vulnerabilities in the financial system, among others.

To further boost the resilience of the banking system, a framework for the supervision of cross-border banks was introduced and in line with global trends and best practice, the implementation of Basel II commenced in earnest. Pursuant thereto, a framework for the implementation of Basel II, as well as, guidelines for the measurement and calculation of capital requirements for banks and banking groups were issued. The CBN also embarked on an internal restructuring leading to a comprehensive review of its processes in order to improve efficiency and effectiveness and enhance the delivery of its mandates. This involved the restructuring of the Banking Supervision Department and the creation of the Financial Policy and Regulation, and Consumer Protection departments.

Another major development during the period was the repeal of the universal banking model and the introduction of a new banking model in 2010. Under the revised model, banks were required to divest from their non-banking assets and subsidiaries with new banking licences issued to reflect the scope of activities and nature of institutions. The new model heralded the entry of six institutions: three banks and three financial holding companies. Also, two commercial banks received approvals to operate non-interest banking windows. The entry of these institutions further enhanced the competitiveness of

the industry.

The period also witnessed the adoption of the International Financial Reporting Standards, as well as, the introduction of the weekly publication of deposit and lending rates by banking institutions and the disclosure of insider-related facilities in banks' audited financial statements. In addition, access to finance was enhanced, not only through an increase in bank branches and other distribution channels, but also the implementation of policies aimed at integrating the economically active poor into the mainstream formal financial system.

Overall, the reforms embarked upon have had salutary effects on the banking system evidenced by improved levels of liquidity, capital adequacy and satisfactory asset quality.

This special edition of the Banking Supervision Report has succinctly captured the modest achievements during the period of coverage; a period which was daunting, not only for the Nigerian financial system, but for the global system as well. We are, however, optimistic that with the unwavering commitment we have displayed, the safety and soundness of our financial system is guaranteed, not only for the present, but in the years ahead.

PREFACE

The Banking Supervision Annual Report, a publication of the Financial System Stability Directorate returns to the stable of CBN publications after a six-year break. The Report captures developments and topical issues including efforts by the CBN towards entrenching a supervisory and regulatory regime that promotes a sound and stable financial system in Nigeria.

During the period under review (2009 – 2014), the Nigerian banking industry witnessed significant changes in response to developments in both the domestic and global financial systems. This edition, structured in five chapters, covers regulatory and supervisory activities as well as major financial indicators of the banking industry in Nigeria.

Chapter One covers developments in the banking industry. It highlights the reforms in the sector, incorporating the review of regulations; efforts at combating money laundering and the financing of terrorism; consumer protection; implementation of the National Housing Finance Programme, and the establishment of the Asset Management Corporation of Nigeria (AMCON). The chapter also highlights enhancements to regulatory reporting framework, macroprudential regulation, cross-border supervision of banks and compliance with the Basel Core Principles for Effective Banking Supervision.

Chapter Two provides an overview of supervisory frameworks and guidelines issued within the review period. This chapter discusses the Framework for Managing Financial System Stability, the Framework for the Implementation of Basel II and the Framework for the Supervision of Domestic Systemically Important Banks (D-SIBs). The chapter also contains discussions on the Cross-Border Supervision Framework; the review of the Prudential Guidelines; the introduction of a Competency Framework for the Nigerian Banking Industry; the adoption of the International Financial Reporting Standards (IFRS); as well as the Financial Literacy Framework.

Chapter Three examines supervisory activities of banks and other financial institutions. It discusses the on-site and off-site supervision of institutions within the banking sector including the on-site examination of cross-border subsidiaries and branches. In particular, it reviews the Internal Capital Adequacy Assessment Process (ICAAP) of banks and discount houses, dispute resolution between financial institutions and their customers, as well as initiatives aimed at enhancing financial literacy among consumers. Also included in this chapter is a review of the activities of the Bankers' Committee at contributing to the safety and soundness of the banking sector.

Chapter Four presents the structure and operational performance of banks and other

financial institutions in Nigeria during the period covered by the Report. And finally, Chapter Five reviews efforts to build the capacity of supervisors. The retreats and conferences held by the supervisory departments are also presented in this chapter.

The Banking Supervision Annual Report remains a veritable source of useful information on the Nigerian banking sector.

The Departmental Directors in the FSS Directorate express their appreciation to the contributors to the report and the members of the Banking Supervision Annual Report Committee, for their commitment and hard work in the production of this Report.

Finally, comments and observations from readers are welcome and may be forwarded to the Director of Banking Supervision, Central Bank of Nigeria.

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CHAPTER ONE:
DEVELOPMENTS IN THE BANKING
INDUSTRY

1.01 ENHANCEMENT TO THE REGULATORY REPORTING FRAMEWORK

The electronic Financial Analysis and Surveillance System (eFASS) was deployed in 2006 to facilitate online rendition of returns by banks and other financial institutions. Overtime, the eFASS faced a myriad of challenges, including the high cost of maintenance, inability of the application to respond in a timely manner to policy changes and issues concerning data integrity. Furthermore, the system was not sufficiently robust and flexible to incorporate changes in the user requirements. There was, also, a multiplicity of IT reporting platforms within the CBN, with the Other Financial Institutions Supervision and the Banking Supervision departments each using different reporting tools. This placed considerable reporting burden on financial institutions, while creating silos of information in the supervisory system.

To address the problem of a multiplicity of regulatory reporting tools, and ensure effective technical support to users, the CBN, in 2012, initiated the process of consolidating returns from institutions into an integrated reporting platform - Integrated Regulatory Solution (IRS). The proposed IRS will:

- i. Provide a single platform for processing returns from financial institutions;
- ii. Allow for prompt modification based on supervisory exigencies;
- iii. Serve as a single point of reference for all returns, thereby eliminating the burden of meeting repetitive requests;
- iv. Ensure the integrity, completeness and accuracy of returns, through consistent reporting by all the institutions from known data sources;
- v. Integrate with other internal applications and other sources of information;
- vi. Provide a secure means of data exchange with reporting institutions, with the growing possibility that the application may be required to operate and communicate with systems using XBRL; and
- vii. Eliminate unstructured data collected in an ad hoc manner.

While the IRS initiative has attained appreciable traction, a stop-gap measure was put in place for the purposes of business continuity.

Deployment of a Stop-gap Regulatory Reporting Application

The adoption of IFRS by deposit money banks and discount houses in 2012, and the

inadequacy of eFASS, necessitated the deployment of an interim reporting application, Financial Analysis (FinA), preparatory to the deployment of the proposed IRS. Submission of returns using FinA commenced with a pilot run by end-December 2013. In the same vein, following the challenges with the Credit Risk Management System (CRMS) module of eFASS, the application was redesigned in 2014, as a stop-gap, pending the deployment of the IRS. Training of users in the CBN, the Nigeria Deposit Insurance Corporation (NDIC) and reporting institutions, would precede the live commencement of the redesigned CRMS application in 2015.

1.02 BANKING SECTOR REFORMS

The fall-out of the global financial crisis impacted on the Nigerian banking industry, resulting in the deterioration of the capital and liquidity of some banks. Thus, in 2009, the CBN conducted a special examination of deposit money banks to ascertain their financial health. The examination revealed a number of weaknesses, including: poor risk management, capital deterioration arising from poor asset quality (exacerbated by the crises in the capital market and fall in crude oil prices) and weak corporate governance. Consequently, the CBN took measures to protect depositors' funds, restore public confidence and safeguard the integrity of the Nigerian banking industry. To this end, it removed the executive management of eight banks, provided liquidity support and injected fresh capital into the ailing banks. It also introduced a four-pillar reform programme to refocus and restructure the banking system.

The first pillar of the reform programme, *Enhancing the Quality of Banks*, consisted of a five-part activity designed to address the key causes of the crisis, reform the regulatory framework, enhance provisions for consumer protection, implement risk-based supervisory methodology, and carry out internal transformation of the CBN. Major milestones under this pillar included the establishment of the AMCON to address the debt overhang in the system; and the enhancement of regulations through the issuance of the prudential guidelines, margin lending guidelines, creation of a consumer protection function, adoption of IFRS and implementation of Basel II.

The second pillar, *Establishing Financial Stability*, involved strengthening the framework for financial stability through the setting up of macroprudential rules, and the development of directional economic and counter-cyclical policies. The new macroprudential rules limited capital market lending to a proportion of a bank's total credit, and ring-fenced banks by prohibiting them from using depositors' funds for proprietary equity trading, private equity or venture capital investments.

Enabling Healthy Financial Sector Evolution was the third pillar of the reform. It focused,

mainly, on ensuring the emergence of a competitive banking industry, provision of support institutions for the financial system such as the credit bureaux and collateral registries, as well as improvement in the cost structure of banks through cost control and business process outsourcing. It also included the establishment of a reliable and secure payments system and enhancement of financial inclusion.

The fourth pillar, *Ensuring the Financial Sector Contributes to the Real Sector*, had a direct bearing on the development of the real sector. It sought to position the banking system to contribute to the growth and development of the economy. In this regard, the CBN evaluated the effectiveness of existing development finance institutions in deepening economic activities and took the initiative by intervening in agriculture, manufacturing, power and aviation. It also collaborated with state governments in promoting programmes aimed at socio-economic development.

These reforms achieved considerable success in restoring stability to the Nigerian financial system.

Implementation of the Revised Banking Model

As part of the reforms, the CBN, in 2010, reviewed the Universal Banking (UB) Model adopted in 2001. The UB Model allowed banks to diversify into non-bank financial activities such as investment banking, insurance, pension and capital market. Invariably, banks under the model became a one-stop shop for financial services.

The impact of the global financial crisis and the resultant capital flight and liquidity squeeze in the system, accentuated some banks' recourse to unwholesome practices to remain afloat, thus abusing the universal banking policy in the process. In some instances, infractions were traced to banks' engagement in non-core banking businesses through subsidiaries and associate companies.

To effectively ring-fence banks and refocus them on core-banking activities, the CBN in 2010, repealed the UB Model. It introduced a new banking model through the issuance of a circular titled "Regulation on the Scope of Banking Activities and Ancillary Matters No. 3, 2010" (Regulation 3). The primary goal of the regulation was to return banks to their traditional intermediation role. Banks, incident thereto, were required to divest or spin-off all non-bank related businesses, and were prevented from investing in non-bank subsidiaries.

The reforms have strengthened the banking system, and positioned it to play its role as a catalyst for economic development and a channel for the effective transmission of monetary policy.

1.03 COMPLIANCE WITH THE CORE PRINCIPLES FOR EFFECTIVE BANKING SUPERVISION

The Core Principles for Effective Banking Supervision (BCPs) issued by the Basel Committee on Banking Supervision (BCBS), provide internationally accepted minimum standards for sound prudential supervision of banks and banking systems. The BCPs assist jurisdictions in assessing the quality of their banking systems and provide direction for improvement.

Two sequential processes are used by supervisors to benchmark their supervisory systems against the BCPs or to gauge progress towards compliance, with the ultimate goal of enhancing the effectiveness of supervision. The processes involve:

- i. A self-assessment conducted by suitably qualified assessors drawn from within the supervisory body (a condition precedent for 'ii' below); and
- ii. An external assessment conducted by the IMF and the World Bank, institutionalised and incorporated into the Financial Sector Assessment Programme (FSAP).

The original BCPs issued in 1997 and reviewed in 2006 had 25 core principles, while the 2012 review had 29. A four-part rating grid is used for the measurement of compliance with the principles: compliant, largely compliant, materially non-compliant and non-compliant.

Nigeria: FSAP and Self-Assessment

The first FSAP in Nigeria was carried out in May 2002, after which the CBN took measures to address the weaknesses observed during the exercise. Between 2002 and 2011, the Nigerian banking industry and supervisory environment experienced significant changes, necessitating another round of assessments. These changes included:

- i. The banking sector consolidation programme, which resulted in a reduction in the number of banks from 89 to 25;
- ii. Increased presence of Nigerian banks in other jurisdictions, which provided impetus for cross-border supervision;
- iii. Deployment of various distress resolution measures by the CBN to deal with problem banks; and
- iv. The issuance of relevant laws, regulations and policies, including the CBN Act, the Asset Management Corporation of Nigeria Act, Regulation on the Scope of Banking and Ancillary Activities, Code of Corporate Governance for Financial Institutions,

and the Supervisory Framework for Banks and Other Financial Institutions.

Consequently, the CBN conducted another self-assessment in 2011, preparatory to an independent assessment by the IMF/World Bank in 2012. The IMF/World Bank FSAP of August/September 2012 showed that Nigeria recorded significant improvement in her level of compliance with the BCPs since the last independent assessment in 2002.

Considered against the essential criteria, Nigeria, in 2012, was assessed as compliant in one BCP, largely compliant in 17, and materially non-compliant in seven. Comparatively, the 2002 assessment adjudged Nigeria compliant in three BCPs, largely compliant in 11, materially non-compliant in nine, and non-compliant in two.

Following the issuance of the final report of the 2012 FSAP in 2013, an implementation plan itemising areas for reform in the short, medium and long-term was drawn up.

Notwithstanding the implementation of the action plan, the CBN carried out another round of self-assessment in 2014. As a precursor to the self-assessment, a mapping exercise was completed on the 2012 FSAP results to determine the extent of additional work required to bring it in conformity with the 2012 revised Basel Core Principles for Effective Banking Supervision. Following the mapping, the self-assessment of Nigeria's compliance with the revised 2012 Core Principles, commenced in the last quarter of 2014.

1.04 ESTABLISHMENT OF THE ASSET MANAGEMENT CORPORATION OF NIGERIA

The Asset Management Corporation of Nigeria (AMCON) was established in July 2010 pursuant to the enactment of the Asset Management Corporation of Nigeria Act 2010. The Corporation was established to address the huge non-performing loans in the system, which arose from the negative fallout of the Global Financial Crisis. Essentially, AMCON was to serve as a resolution vehicle for ailing banks.

The objects of AMCON as provided in the Act are to:

- i. Assist eligible financial institutions to efficiently dispose of Eligible Bank Assets (EBAs) in accordance with the provisions of the Act;
- ii. Efficiently manage and dispose of the EBAs acquired; and
- iii. Obtain the best achievable financial returns on EBAs or other assets acquired by it.

The overarching business philosophy underlying AMCON's operations was the acquisition of toxic assets of banks and putting those assets to economic use in a profitable manner.

To guide the activities of the Corporation, the CBN on November 15, 2010, released “The Guidelines for the Operations of AMCON”, which designated the classes of assets that qualify as Eligible Bank Assets (EBAs), regulated the regime for the valuation, acquisition and disposal of EBAs and provided the valuation methodology and custodial arrangements, among others.

EBAs are defined in the AMCON Operating Guidelines as:

- i. Secured NPLs of eligible financial institutions (EFIs), which are sub-standard, doubtful or lost in accordance with the Prudential Guidelines whether or not so classified by an EFI; or
- ii. Unsecured NPLs which are sub-standard, doubtful or lost in accordance with the Prudential Guidelines whether or not so classified by an EFI; or
- iii. Such other instrument or asset class, which the CBN may, from time to time designate by order in writing as EBA.

Ownership and Structure of AMCON

AMCON's paid-up capital of N10 billion is subscribed to by the Federal Government of Nigeria and held in trust by the CBN and the Federal Ministry of Finance (FMoF) in equal proportion.

The Corporation's 10-member Board of Directors comprises four executive and six non-executive directors. The CBN nominates the Managing Director, three executive directors and two non-executives; the NDIC nominates a non-executive director; and the FMoF nominates the Chairman and two non-executive directors. All nominations are subject to prior approval by the President and confirmation by the Senate.

Activities of AMCON

AMCON has, since its establishment, carried out several activities aimed at further stabilising the financial system. Key among these activities are:

i. Bonds issuance

The Corporation issued five series of zero-coupon bonds with total face value of N5.67 trillion in 2010 and 2011, the proceeds of which were used to purchase NPLs, provide financial accommodation to banks and recapitalise ailing institutions. The bonds, which were initially of 3-4 year tenures, were fully guaranteed by the Federal Government of Nigeria.

ii. Purchase of EBAs

From 2010 to end-December 2014, AMCON acquired 12,737 NPLs valued at N1.75 trillion from 17 financial institutions. The valuation methodologies adopted for different categories of EBAs were as follows:

- a. **EBAs secured by real estate** – Purchased at the average of forced sale and open market values.
- b. **Loans secured by listed shares** – Purchased at a price determined by the greater of five per cent of the principal sum or 60 days moving average of the underlying stock price plus a 60 per cent premium.
- c. **Loans secured by unlisted shares** – Valuation was guided by the latest audited financial statements of debtors based on the average of net asset value, average Price Earnings (P/E) ratio of shares in a similar industry, and valuation of comparable transactions in a similar sector or industry. Notwithstanding the value computed, the minimum purchase price was set at five per cent of the principal sum.
- d. **Loans with defective perfection** – These were purchased at a discount subject to a minimum of five per cent of the principal sum.
- e. **Unsecured EBAs** – Unsecured EBAs were purchased at five per cent of the principal sum.

iii. Financial Accommodation

In line with its mandate to recapitalise ailing banks, AMCON provided financial accommodation to eligible banks in exchange for equity. In this regard, N1.47 trillion and N736.95 billion were injected by AMCON into five ailing banks and three bridge banks, respectively.

iv. Banking Sector Resolution Cost Fund

To support AMCON in meeting its obligations, the CBN and the deposit money banks set up a sinking fund known as the Banking Sector Resolution Cost Sinking Fund in January 2011. The Fund is intended to be used to meet any funding gap arising from AMCON's inability to generate sufficient cash flows to redeem its obligations. The arrangement requires deposit money banks to contribute 50 basis points of their total assets at the end of each year to the Fund, while the CBN contributes N50 billion annually for 10 years.

v. Redemption of Bonds

The Corporation, in 2013, redeemed bonds amounting to N1.04 trillion of the N1.89 trillion held by banks, in line with the terms of the indenture. The bonds, with a face value of N3.80 trillion held by the CBN, were refinanced into 10-year notes at six per cent coupon. On October 31, 2014, the Corporation redeemed the remaining bonds held by banks with a face value of N853 billion, bringing total bonds redeemed from inception to 28.19 per cent of the value issued, leaving N3.80 trillion, wholly held by the CBN, outstanding at end-December 2014.

Challenges of AMCON

AMCON, as a recapitalisation and distress resolution vehicle, has faced several challenges, including:

- i. Insufficient market depth to allow for timely and orderly disposal of EBAs;
- ii. Slow judicial process affecting loan recovery;
- iii. Slow and cumbersome procedure for processing title documents in land registries;
- iv. Dearth of information on some loans and borrowers;
- v. Difficulty in determining the fair value of some EBAs;
- vi. Possible deterioration and obsolescence of collaterals; and
- vii. Disagreements arising from the clawing back of bonds issued as consideration for EBAs.

AMCON, no doubt, has played a vital role in restoring stability to the Nigerian financial system. It contributed in resolving the huge NPLs that existed in Nigerian banks, driving down the average NPL ratio in the banking industry significantly from 35.00 per cent during the crisis period to 2.88 per cent at end-December 2014.

1.05 DEVELOPMENTS IN THE OTHER FINANCIAL INSTITUTIONS SUB-SECTOR

Developments in the other financial institutions (OFIs) sub-sector during the period under review were witnessed in the following areas:

Microfinance Banks

At end- December 2014, there were 884 licensed Microfinance Banks (MFBs), an increase

of 44 over 840 at end-December 2008. The licenced MFBs comprised five National, 54 State and 825 Unit MFBs. Within this period, 325 licences were revoked. The revoked licences included those of Community Banks that failed to meet the minimum capital requirement for conversion to MFBs, while 369 new licences were granted.

Following the introduction of the Microfinance Certification Programme (MCP) in December 2008, the CBN required senior management staff of MFBs to acquire certification in microfinance banking from the Chartered Institute of Bankers of Nigeria (CIBN). Consequently, a total of 9,601 staff and 1,406 non-executive directors of MFBs as well as 223 regulators and other supervisors were trained between 2009 and 2014.

Similarly, in 2013, the CBN, in collaboration with the Financial Institutions Training Centre (FITC), organised a course on Enterprise Risk Management for Microfinance Banks in which 1,272 staff of MFBs participated.

Interactive sessions were held with the National Association of Microfinance Banks (NAMB), set up in 2009 as a self-regulator in the sub-sector. Deliberations focused on entrenchment of good corporate governance, orderly growth and development of the sub-sector, on-line rendition of statutory returns, risk management and self-regulation.

Primary Mortgage Banks

The Revised Guidelines for Primary Mortgage Banks (PMBs) released in November 2011 became effective April 30, 2014. Significant changes in the guidelines included new minimum capital requirements and categorisation into State and National PMBs with minimum capital requirement of N2.5 billion and N5 billion, respectively.

Of the 99 PMBs at end-December 2008, the licences of 46 were revoked, one PMB engaged in voluntary liquidation and 10 were acquired by others, leaving 42 PMBs in operation at end-December 2014. Of the 42 PMBs, 32 met the minimum capital requirement while 10 were allowed additional time to complete their recapitalisation. A breakdown of the 32 PMBs showed that 10 had National, while 22 had State authorisation.

Prior to 2010, the provisioning regime for mortgage loans did not consider their lifecycle and gestation period leading to disproportionate charges on the income statements of PMBs. The review of the Prudential Guidelines for Licenced Banks in 2010 opened a window of opportunity for the enhancement of the supervision of PMBs by ensuring that the provisions on mortgage assets are better aligned to the nature and tenure of facilities.

The Nigeria Mortgage Refinance Company (NMRC) Plc was granted approval-in-principle in 2014 by the CBN, to operate as a specialised second-tier mortgage and liquidity

refinancing company. Uniform underwriting standards for mortgage loans were also introduced as the basis of qualification for loan refinancing by the NMRC.

Interactive sessions were held with PMBs under the auspices of the Mortgage Bankers Association of Nigeria (MBAN), with deliberations centred on rendition of accurate statutory returns, adequate capitalisation, refocusing of PMBs, promotion of mortgage finance, establishment of a housing intervention fund, amendment of the enabling legal framework and development of strategies to ensure affordable housing, among others.

Development Finance Institutions

The number of Development Finance Institutions (DFIs) under the supervision of the CBN as at end-December 2014 increased from five to six, following the inclusion of the National Economic Reconstruction Fund (NERFUND).

The DFIs played a significant role in promoting economic development through the provision of long-term funds at low interest rates in key sectors of the economy. In addition, one of the DFIs acts as managing agent for the Power and Aviation Intervention Fund, and the Small and Medium Enterprises Restructuring and Refinancing Facility.

The Boards of Directors of the Federal Mortgage Bank of Nigeria (FMBN) and the Nigeria Export–Import Bank (NEXIM) were reconstituted in 2010 and 2013, respectively. Also, the Nigeria Agricultural Cooperative and Rural Development Bank (NACRDB), in 2010, changed its name to Bank of Agriculture (BOA) Limited, while the Urban Development Bank was privatised and restructured with the new name of The Infrastructure Bank (TIB) Plc. Furthermore, the CBN in 2010, shored up the capital of NEXIM by injecting N18.28 billion.

To enhance the effective regulation and supervision of the DFIs, the CBN issued draft guidelines to the industry in 2014 for stakeholder comments and input.

Finance Companies

At end-December 2008, 113 Finance Companies (FCs) were in operation. Between 2009 and 2014, six new licences were granted while 55 were revoked, bringing the number of existing FCs at end-December 2014 to 64.

The CBN issued new guidelines for FCs in 2014. Key changes in the revised guidelines were: increase in minimum capital requirement from N20 million to N100 million; review of permissible activities; and inclusion of companies rendering finance lease services under the supervision of the CBN. The guidelines would take effect from September 30, 2015.

Sessions were held with FC operators, under the auspices of the Finance Houses Association of Nigeria (FHAN) to deliberate on issues, such as rendition of accurate statutory returns, adequate capitalisation and refocusing of FCs to core financing operations, corporate governance, risk management and the amendment of the enabling legal framework to enhance the development of the sub-sector.

Bureaux De Change

In 2009 Bureaux de Change (BDCs) were categorised into classes “A” and “B”, with minimum capital requirements of N250 million and N10 million, respectively. However, in November 2010, the basis for the categorisation was no longer necessary, resulting in the cancellation of the licences of all 132 Class “A” BDCs.

At end-December 2014, there were 2,523 BDCs, an increase of 1,259 from the 1,264 as at end-December 2008. In the period under review, 460 licences were revoked, while 1,719 new licences were granted.

To further strengthen the sub-sector, the CBN issued a circular, effective July 31, 2014, stipulating new conditions for the operation of BDCs. Highlights of the circular include a minimum capital requirement of N35 million; mandatory caution deposit of N35 million; and licencing fee of N1 million. Also, membership of the Association of Bureaux de Change Operators of Nigeria (ABCON), which was hitherto mandatory, was made voluntary.

During the review period, the CBN held various sessions with BDCs. Some of the issues deliberated upon included compliance with extant policies, rendition of quality statutory returns, maintenance of accounting records and self-regulation.

1.06 THE NIGERIA HOUSING FINANCE PROGRAMME: ESTABLISHMENT OF THE NIGERIA MORTGAGE REFINANCE COMPANY

The CBN, the Federal Ministry of Finance and the Federal Ministry of Land, Housing and Urban Development, in collaboration with the World Bank and other development partners, in 2013, embarked on the Nigeria Housing Finance Programme (NHFP) with the objective of addressing housing deficit in Nigeria. The programme consists of four components, namely, establishment of a mortgage refinance company, mortgage guarantee and insurance, housing microfinance; and technical assistance and capacity building.

The main component of the programme was the establishment of a mortgage refinance company. In this regard, the Nigeria Mortgage Refinance Company (NMRC) was incorporated, with a capital of N7.05 billion subscribed to by the Federal Ministry of Finance on behalf of the Federal Government (17.02 per cent), Nigeria Sovereign

Investment Authority (22.70 per cent) and deposit money banks and primary mortgage banks (60.28 per cent). The company was officially launched along with the NHFP by the President of the Federal Republic of Nigeria in January 2014.

The NMRC is expected to address liquidity challenges in the mortgage sub-sector. To refinance eligible mortgages, it will source long-term funds from the capital market through the issuance of bonds, initially guaranteed by the FGN.

To ensure effective oversight of mortgage refinancing companies in Nigeria, the CBN issued the Regulatory and Supervisory Guidelines for the Operation of Mortgage Refinance Companies in 2013.

The second component of the NHFP, the Housing Microfinance component of the NHFP is to provide housing finance, through participating MFBs to individuals who, otherwise, would have had no access to mortgage due to low or irregular income. Each participating MFB could access up to USD200,000 from the USD15 million allocated to this component for on-lending to eligible individuals.

The third component of the NHFP is the Mortgage Guarantee and Insurance, aimed at providing mortgage insurance guarantee for individuals who are unable to provide equity contribution in support of their mortgage applications. This component of the NHFP would involve the design of the guarantee framework and provide support for implementation and monitoring. It would, also, make available lines of credit to cover issuance of the guarantee to be delivered by insurance companies.

The fourth component of the NHFP is Technical Assistance and Capacity Building, under which relevant expertise and consultancy services would be provided to facilitate project implementation and capacity building. The Technical Assistance includes capacity building for the various internal stakeholders, hiring of experts for specialist areas, setting up of an electronic mortgage asset register, conducting literacy awareness programmes and the provision of general administrative support.

In support of the programme, the World Bank committed USD300 million as a concessionary loan, to be allocated to the components of the programme. The sum of USD250 million was to be allocated as Tier II capital in mortgage refinance; USD25 million for mortgage guarantee and insurance; USD15 million for housing microfinance; and USD10 million for technical assistance.

Uniform Underwriting Standards

Another positive offshoot of the NHFP was fast-tracking the development of uniform

mortgage underwriting standards for the industry. The standards, initiated by Mortgage Bankers Association of Nigeria (MBAN) in 2013, were completed by the NMRC and covered qualifying mortgages and mortgagees, documentation, amount, tenor, repayments, insurance, and title perfection, among others.

The NHFP was designed to serve as a catalyst for improved access to affordable housing finance. The benefits to the economy as a consequence of its potentials to unlock the mortgage and housing sector are enormous, and include: job creation in the supply end of the housing market, the development of the housing finance value chain and the injection of liquidity into the market.

1.07 DEVELOPMENTS IN ANTI-MONEY LAUNDERING AND COMBATING FINANCING OF TERRORISM (AML/CFT)

In realisation of the importance of an effective AML/CFT regime in Nigeria, the CBN, in collaboration with the Nigerian Financial Intelligence Unit (NFIU); the Nigeria Police; the Economic and Financial Crimes Commission (EFCC); and other stakeholders, carried out activities aimed at deterring and preventing money laundering and the financing of terrorism. In 2009, Nigeria was on the Financial Action Task Force (FATF) “Grey List” of non-compliant nations. However, necessary efforts and measures had been put in place to ensure compliance with the FATF 40 plus nine recommendations. The measures were reviewed by the Inter-Governmental Action Group against Money Laundering and Terrorism Financing in West Africa (GIABA) through its Mutual Evaluation conducted in 2008. Also the International Monetary Fund (IMF) technical assistance team visited in 2011 in furtherance of this. The implementation of the GIABA and IMF recommendations was confirmed by the International Cooperation Review Group (ICRG) following an on-site verification exercise in September 2013. Based on ICRG's report, the FATF on October 18, 2013, removed Nigeria from the FATF “Grey List” of non-compliant countries.

Other major actions taken in deterring and preventing money laundering and the financing of terrorism include:

i. Enactment of Laws and the Issuance of Regulations

To strengthen the legal framework and align the AML/CFT regime in Nigeria with international best practice, the Money Laundering (Prohibition) Act (MLPA) and Terrorism Prevention Act (TPA) were enacted in 2011. Also, the AML/CFT Regulation issued in 2009 by the CBN was revised in 2011 and 2013 to align it with the MLPA and TPA.

The CBN further required financial institutions to obtain, prior to opening any account for designated non-financial institutions, evidence that the entity had registered with the

Special Control Unit against Money Laundering (SCUML). The measure is expected to enhance SCUML's capacity to supervise institutions under its purview, thereby further strengthening the AML/CFT regime.

Other regulations issued included uniform account opening format for financial institutions (FIs) and a policy on Safe Deposit Boxes (SDBs) requiring financial institutions to monitor the activities of owners of SDBs. Furthermore, the CBN developed an AML/CFT framework applicable to its operations, and created AML/CFT units in its Head Office and branches to render reports to the AML/CFT Compliance Office in the Governor's Department.

ii. Risk-Based Approach to AML/CFT

To enhance the efficiency and effectiveness of supervision, the CBN extended the risk-based supervisory approach to the supervision of AML/CFT operations of Financial Institutions. In this regard, the AML/CFT RBS Framework was issued in 2011 to complement the AML/CFT Regulation.

iii. Terrorism Financing

The CBN circulated the United Nations Consolidated List of persons or entities involved in terrorism financing and/or terrorist activities to financial institutions under its purview for appropriate action. The Bank also issued circulars and notifications in respect of terrorism financing for compliance by financial institutions.

iv. Co-operation with Stakeholders

In recognition of the importance of cooperation, as required by FATF recommendations 2 and 40, the CBN continued to collaborate with stakeholders as detailed below:

a. Domestic Stakeholders

The CBN sustained cooperation with domestic stakeholders through the exchange of information, joint examinations and training programmes, to ensure a holistic approach to AML/CFT policy implementation. In this regard, the AML/CFT Stakeholders' Consultative Forum, a platform for regulators in the financial industry and law enforcement agencies, was established in September 2012.

b. International Stakeholders

The CBN collaborated with the US Department of State, the US Department of the Treasury, and the US Embassy in Nigeria through meetings, exchange of information and training. It

also hosted officials of the US Internal Revenue Service and the Bureau of International Narcotics and Law Enforcement Affairs, on a working visit in 2013. Additionally, it participated in the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) Technical Commission/Plenary meetings.

v. Financial Inclusion

To promote financial inclusion, the CBN AML/CFT Regulation was revised in 2013 to allow third parties (such as clergymen, village or clan heads and school headmasters) with acceptable means of identification, to identify socially disadvantaged persons for account opening purpose. Also, the CBN issued the Tiered KYC Requirement to implement flexible account opening requirements for low-value and medium-value account holders. In addition, the Bank following the efforts of the Independent National Election Commission (INEC) to issue voters' cards with biometric features, issued a circular to banks and other financial institutions, allowing them to accept permanent voters' cards as a means of identification.

Efforts at combating money laundering and financing of terrorism were sustained through the strengthening of regulations, collaboration with stakeholders and capacity building. The progress made in this regard led to the removal of Nigeria from the FATF “Grey List” in 2013. Furthermore, the FATF, during its June 2014 Plenary in Paris, approved Nigeria's application to commence the process of becoming a FATF member.

The CBN would continue to sustain its efforts to ensure that the Nigerian financial system is not a fertile ground for money laundering and the financing of terrorism.

1.08 DEVELOPMENTS IN CROSS-BORDER SUPERVISION

The CBN, in 2008, issued the Guidelines on Offshore Expansion of Banks to govern the cross-border operations of Nigerian banks. The guidelines detailed the minimum capital, risk management and corporate governance requirements, for banks seeking offshore expansion. However, requirements for formalised collaboration between the CBN and foreign bank supervisors on on-site and off-site supervision, crisis management and bank resolution, were not covered by the guidelines.

To address these shortcomings, the CBN, in 2010, issued the Framework for Cross-Border Supervision of Banks, which provided for collaboration between the CBN and supervisors in jurisdictions where Nigerian banks had presence. It also extended the risk-based supervision (RBS) approach, adopted in 2008 and applied on a consolidated basis, to cross-border entities. This is to ensure that all risks within a banking or financial group are promptly identified and mitigated, irrespective of where such risks exist. The Framework

also included guidance on offshore expansion of Nigerian banks as well as entry of foreign banks into the country.

To give effect to the provisions of the Framework, a cross-border supervision group with responsibility for monitoring the activities of offshore subsidiaries and coordinating on-site visits and bilateral meetings with foreign regulators was created in the Banking Supervision Department.

Major Developments

Major developments in the regulation and supervision of cross-border entities of Nigerian banks during the period under review were:

i. Establishment of the College of Supervisors of the West African Monetary Zone

The College of Supervisors of the West African Monetary Zone (CSWAMZ) was established following a decision by the Committee of Governors of Central Banks of the West African Monetary Zone (WAMZ) at its meeting held in Banjul, The Gambia, in July 2010. The objectives of the College as enunciated in its enabling Charter are to:

- a. Facilitate exchange of information and assessments among supervisors to enhance the efficiency and effectiveness of the supervision of institutions on a solo and consolidated basis;
- b. Enable supervisors develop a common understanding of the risk profile of banking groups as the start point for risk-based supervision at solo and consolidated levels;
- c. Ensure proper coordination of the decisions of individual supervisory authorities in the Zone;
- d. Coordinate supervisory review and risk assessment processes of members towards the establishment of supervisory plans and joint on-site visits to avoid duplication of work and reduce regulatory burden; and
- e. Contribute to consistent implementation of WAMZ directives and the convergence of member states' supervisory practices.

The College had its inaugural meeting in Abuja, Nigeria, on August 16, 2010 and held 16 other meetings during the review period.

The CSWAMZ continues to provide a platform for enhancing supervisory cooperation,

harmonising supervisory processes, building capacity, enhancing corporate governance, and promoting financial stability in the WAMZ.

ii. Memoranda of Understanding with Foreign Bank Supervisory Authorities

The CBN executed Memoranda of Understanding (MoUs) on supervisory cooperation and information sharing with 16 foreign banking supervisory authorities covering 23 countries (see Appendix I). The MoUs covered a broad range of supervisory issues, including licensing, off-site and on-site supervision, corporate governance, capacity building and bank resolution. Also, the CBN enjoyed enhanced cooperation with the Prudential Regulatory Authority and Financial Conduct Authority, UK and the Office of the Comptroller of Currency, U.S.A. during the period.

The MoUs formed the basis for the implementation of the joint home-host on-site risk assessments of the offshore subsidiaries of Nigerian banks and the solo on-site supervisory reviews carried out by the CBN since 2011. The MoUs also facilitated the efficient and amicable resolution of some problem subsidiaries.

iii. On-site Examinations

A total of 39 on-site examinations of the subsidiaries of Nigerian banks were jointly carried out by the CBN and the host supervisors in WAMZ member-countries during the review period. There were also 29 solo examinations of foreign subsidiaries carried out during the same period.

iv. Rendition of Returns

Nigerian banks commenced the rendition of monthly returns on the activities of their offshore subsidiaries in the last quarter of 2011. The returns were reviewed and issues of supervisory concern were escalated to the parent bank for corrective action.

v. Community of African Bank Supervisors

The Community of African Bank Supervisors (CABS) was established following a decision of the Governors of the Association of African Central Banks (AACB) at its meeting in Algiers, Algeria on August 30, 2012. The CABS is a technical sub-committee of the AACB, and comprises heads of supervision of member central banks. The CBN and supervisors representing 28 central banks as well as other stakeholders participated at the community's inaugural meeting in Algiers, Algeria, on January 9 and 10, 2013.

vi. College of Supervisors for United Bank for Africa

A supervisory college for United Bank for Africa Plc (UBA) and its banking subsidiaries was established with the inaugural meeting held on June 18 and 19, 2014. The meeting, which was attended by 10 bank supervisors representing 18 host jurisdictions, deliberated and agreed on the strategic direction, governance and risk profile of the bank.

vii. College of Supervisors for Ecobank Transnational Incorporated

The CBN and BCEAO signed an agreement in Abidjan, Cote d'Ivoire, on November 30, 2013, for the establishment of a college of supervisors for the banking subsidiaries of Ecobank Transnational Incorporated (ETI). The inaugural meeting of the College, earlier scheduled to hold from November 26 to 27, 2014 in Abidjan, was called off due to the outbreak of Ebola Virus Disease.

viii. Committee of Banking Supervisors of West and Central Africa

The CBN hosted the 17th Meeting of the Committee of Banking Supervisors of West and Central Africa from December 18 to 20, 2014 in Abuja, Nigeria, during which all member countries ratified the Committee's charter.

ix. Cross-Border Expansion and Divestments

The offshore subsidiaries, representative offices and branches of Nigerian banks are mainly located in Sub-Saharan Africa and the United Kingdom, with a few in China and the United States. Between January 2010 and December 2014, 10 new cross-border subsidiaries and three representative offices were established by four Nigerian banks, while five banks divested or closed down nine subsidiaries and two representative offices. As a result, the total number of offshore establishments increased to 69, comprising 61 subsidiaries, one branch and seven representative offices, from 67 at end-December 2008 (see Appendices II and III).

Also during the period, the number of subsidiaries and representative offices of foreign banks in Nigeria increased from 11 to 15, with one representative office converting to a subsidiary and four new representative offices established (see Table 1).

a. Expansion and Divestments by Nigerian Banks

First Bank of Nigeria Ltd (FBN), in September 2011, acquired a 75 per cent stake in Thorens Plc, a non-bank holding company with a banking subsidiary in the Democratic Republic of Congo (DRC). In compliance with the CBN Regulation on the Scope of Banking Activities and Ancillary Matters, No. 3 of 2010, FBN divested from the acquiree's non-banking businesses

by end-December 2013. In June 2013, FBN also acquired 100 per cent equity stake in the West African operations of the International Commercial Bank Group with subsidiaries in Ghana, The Gambia, Sierra Leone, Senegal and Guinea.

Diamond Bank Plc, in September 2012, acquired Intercontinental Bank UK Ltd, while Guaranty Trust Bank (GTB) acquired 70 per cent equity in Fina Bank Ltd, Kenya, along with its subsidiaries in Rwanda and Uganda. In addition, Access Bank, FBN and GTB opened new representative offices in China, United Arab Emirates and Hong Kong, respectively.

In contrast, UBA divested from UBA The Gambia; Access Bank Plc divested from Access Bank Cote d'Ivoire, Access Bank Burundi and Intercontinental Bank (UK) Ltd, which became its subsidiary following the acquisition of the bank's Nigerian parent in 2011. The defunct Oceanic International Bank Plc, in 2011, divested from its four subsidiaries in Cameroon, Chad, The Gambia, Sao Tome and Principe and the representative office in China. In the same vein, FCMB, in 2014, closed its representative office in South Africa. Keystone Bank (The Gambia) Ltd ceased to be the subsidiary of Keystone Bank Ltd, following its takeover by the Central Bank of The Gambia (CBG) in May 2014. Similarly, Access Bank (The Gambia) Ltd was taken over by the CBG on May 5, 2014, though returned to the owners on May 12, 2014 following the injection of additional capital and a commitment, by Access Bank Plc, to enhance the corporate governance of the subsidiary.

b. Expansion and Divestment by Foreign Banks

During the review period, FirstRand Bank Ltd converted its representative office to a merchant bank, Rand Merchant Bank Ltd, while four representative offices of foreign banks were opened as shown below:

Table 1: Licensed Foreign Bank and Representative Offices

SN	Name of Bank/ Rep. Bank	Country of Origin	Date Licensed
1	Byblos Bank Representative Office Nig. Ltd	Lebanon	Aug. 22, 2008
2	Absa Bank Representative Office Nig. Ltd	South Africa	Sept. 01, 2010
3	Banque Libano Francais Representative Office Nig. Ltd	Lebanon	Feb. 20, 2012
4	Rand Merchant Bank Ltd ¹	South Africa	Nov. 22, 2012
5	UBS (Nigeria) Representative Office Ltd	Switzerland	July 4, 2014

¹ Rand Merchant Bank commenced operations as a representative office in 2008

a. Capital Augmentation for Offshore Subsidiaries of Nigerian Banks

Several regulators in Africa increased the minimum paid-up capital requirements of banks in their jurisdictions, citing the need to enhance financial soundness, corporate governance and the resilience of their banking systems. In some cases, more stringent requirements for foreign banks were prescribed, which led to capital calls by subsidiaries from their Nigerian parents. Between 2009 and 2014, a total of USD501.50 million, GBP87.00 million and CFA18.20 billion were injected as additional capital into 51 offshore subsidiaries of Nigerian banks.

The combined effect of the incessant increases in minimum capital requirements, especially the discriminatory capital regime for foreign banks, difficult operating environment in host countries and the global financial crisis necessitated the issuance of a circular dated May 18, 2012, titled “Recapitalisation of Offshore Subsidiaries of Nigerian Banks”. This circular placed restrictions on the recapitalisation of foreign subsidiaries of Nigerian banks and encouraged the subsidiaries to source fresh capital from their jurisdictions.

To address the concerns raised by some stakeholders on the intent of the circular, the CBN issued clarifications in a circular referenced: BSD/DIR/GEN/RFS/06/016 dated March 28, 2013.

Challenges to Effective Cross-Border Supervision

Some challenges faced in the supervision of cross-border banking entities during the period under review included:

- a. Differences in legal frameworks, regulatory powers and supervisory practices, which created room for regulatory arbitrage;
- b. Language differences, which hindered effective communication;
- c. Inadequate resources and other logistics, resulting in the late issuance of examination reports; and
- d. Conflicts in scheduling on-site visits due to differences in priorities and examination timetables of home and host supervisors.

The issuance and implementation of the “Framework for Supervision of Cross-border Banks”, in 2010, enhanced the supervision of cross-border operations of Nigerian banks, through improved exchange of supervisory information, joint examinations and establishment of colleges of supervisors.

1.09 MACROPRUDENTIAL REGULATION

Recent developments in the financial system have created the need for regulators to broaden their focus beyond microprudential oversight to encompass measures aimed at ensuring the stability of the financial system. This is due to the inadequacy of microprudential regulation to prevent systemic risks, as its focus is on ensuring the safety and soundness of individual financial institutions. Hence, the need for a robust system of regulation and supervision that recognises and prevents weaknesses in the financial system, while at the same time maintaining an environment that is conducive to financial innovations.

Macroprudential regulation seeks to safeguard the financial system by concentrating on factors that could affect its stability. It considers interactions among financial institutions, market infrastructure and the wider economy and evaluates the system to identify weaknesses and threats and develop appropriate intervention tools. Macroprudential tools such as stress tests, early warning systems, trend analysis, among others, are used to analyse information for early detection and resolution of potential threats to financial system stability.

Macroprudential Activities

The CBN refocused its effort on macroprudential regulation, in tandem with the goal of establishing financial stability during the period under review. In this regard, the Bank carried out the following activities:

i. Creation of the Macroprudential Function

The CBN, in March 2010, established the Macroprudential and Trend Analysis Division in the Financial Policy and Regulation Department to monitor and analyse vulnerabilities in the financial system using various macroprudential tools.

The financial stability function was strengthened through the creation of the Financial System Stability Committee (FSSC), charged with the responsibility of coordinating financial stability policies with the Monetary Policy Committee (MPC) to ensure that monetary policy is shaped by systemic risk trends, consistent with the goals of price stability.

In addition, the Financial Sector Regulation Co-ordinating Committee (FSRCC), a coordinating platform for regulators and supervisors in the Nigerian financial services sector, was reinvigorated to enhance regulatory co-ordination and co-operation.

ii. Macroprudential Framework

To strengthen the existing supervisory process, a framework aimed at enhancing specific tools for managing the stability of the financial system was developed. The Framework, adopted by the FSRCC in 2014, has three components, one of which is the Macroprudential Policy that emphasises consideration of the impact of fiscal and monetary policy instruments on the financial system; policy harmonisation and resolution of conflict of objectives; role of stakeholders; and quality of data and information sharing. The other components are the Microprudential Policy and the Crisis Management Continuum.

iii. Macroprudential Tools in Use

The CBN currently uses the following tools in its macroprudential supervisory activities:

- a. **Reserve Requirement:** The CBN, at various times, changed the cash reserve requirement to influence banking system liquidity and credit availability. In particular, different CRR rates were applied to private and public sector deposits in line with monetary policy stance.
- b. **Dynamic Provisioning:** The 1990 Prudential Guidelines was defective in addressing the issues of pro-cyclicality and provisioning regime for loan exposures to projects with long gestation. The CBN, in 2010, revised the prudential guidelines to address the key concerns.
- c. **Net Open Position Limit:** To reduce the risk of adverse movements in exchange rates on the safety and soundness of banks, the CBN prescribed limits on the net open position in foreign currency assets and liabilities held by banks. Amendments to the limits were made to reflect changing circumstances in the business environment.
- d. **Capital Requirements:** The CBN, taking into cognisance the risk profile of individual institutions, changing banking sector dynamics, the need for banks to support the economic growth and development objectives of the country, implemented changes to the capital requirement of banks. In this regard, the Basel II approach to calculating minimum capital requirement for banks was adopted in 2014.
- e. **Stress Test:** Stress tests were conducted on a quarterly basis starting from June 2010 to assess the resilience of individual banks and the industry to shocks. Credit risk was assessed on aggregate level, sectorial level and on the basis of concentration. Also measured, were market risk exposures in the areas of interest

rate and exchange rate risks. Liquidity was stressed to determine the capacity of banks to withstand extreme, but plausible daily or cumulative withdrawals; and the maturity mismatch or rollover risk caused by inability to generate funding liabilities to support assets created in the different buckets. Furthermore, contagion risk analysis was used to assess the financial inter-connectedness of institutions in transmitting shocks to the banking system. An analysis of bilateral links among different institutions was conducted using interbank placements, takings and money at call, with emphasis on unsecured exposures.

- f. Financial Soundness Indicators:** The IMF Core Indicators were used on a quarterly basis to identify possible vulnerabilities, their causes and implications to the financial system and to proffer policy actions to address or minimise their potential impact. The financial soundness indicators were applied on both micro and macro basis.

It is expected that the macroprudential tools deployed by the CBN, complemented by microprudential instruments, would contribute towards the continued resilience of the Nigerian financial system.

1.10 REVIEW OF THE PRUDENTIAL GUIDELINES

The Prudential Guidelines were first issued in November 1990 following concerns over the measurement of the quality of banks' credit portfolio. The Guidelines stipulated the classification criteria and loss provisioning, with loans classified as either performing or non-performing, using both objective and subjective criteria. Non-performing loans (NPLs) were classified into Sub-standard, Doubtful or Lost categories depending on set criteria. Accordingly, banks were required to review, quarterly, facilities to obligors to determine if they were being operated in line with agreed repayment terms.

However, despite the improvements recorded in the areas of disclosure, transparency and financial reporting, some drawbacks were identified as follows:

- i. In some instances, the Guidelines did not reflect current realities, as general provisions were inadequate to cushion the effect of losses in an unexpected event;
- ii. The specific provisioning arrangement did not consider the cash flow characteristics of loans, thus discouraging lending to critical sectors of the economy;
- iii. The Guidelines did not address issues relating to the valuation of collateral, except in the course of realisation;

- iv. The Guidelines were more suitable for working capital, commodity, retail and corporate lending; and
- v. The provisioning requirements were pro-cyclical rather than counter-cyclical.

The Revised Prudential Guidelines

To address the drawbacks of the 1990 Prudential Guidelines, and serve as a compendium of all prudential requirements, the CBN issued the revised Prudential Guidelines (PG) in 2010. **The revised Guidelines were also to:**

- i. Enhance provisioning policies and practices consistent with sound risk management practices in banks;
- ii. Align provisioning with life cycle and gestation periods of specific industry loan types;
- iii. Provide a framework to ensure that provisioning was counter-cyclical (dynamic); and
- iv. Provide a framework that recognised credit risk deceleration and mitigation through “haircut” adjustments for “Lost” facilities.

The salient provisions in the revised Guidelines that impacted on risk management practices in the Nigerian Banking system include the following:

i. Loan Types

The Guidelines identified two types of loans, namely Specialised Loans and Other-than-Specialised Loans (normal loans) with different provisioning regimes. The classification and provisioning regime for the Specialised Loan types considered the cash flow characteristics and gestation periods of the loan type. These specialised loans include mortgage loans, margin loans, object finance, project finance, real estate loans, small and medium enterprise loans and agriculture loans. Both Specialised Loans and Other-than-Specialised Loans are classified as performing or non-performing. However, the non-performing Specialised Loan types are further classified into five categories, namely, Watch-list, Sub-standard, Doubtful, Very Doubtful or Lost, while the non-performing Other-than-Specialised Loan types are classified into three categories: Sub-standard, Doubtful or Lost.

ii. Margin Facilities

Margin facilities are to be marked-to-market on a daily basis and the excess of loan balance over the market value provisioned and charged to the profit or loss account. Any increase in the mark-to-market value from the previous valuation can only be recognised to the extent of previous charge off.

iii. Haircut Adjustments

Haircut adjustments for collateralised facilities were introduced to encourage banks to utilise more credit enhancement and mitigation strategies. The adjustments would take into consideration the quality and realisability of the underlying collaterals. Only perfected and realisable collaterals with no restrictions on sale, and regularly valued with transparent methods of valuation, could be considered for haircut adjustments. They were applicable to all loan types classified as “Lost”. The collateral instruments eligible for haircut adjustments include: cash and cash equivalents; treasury bills and other government securities; quoted and other traded securities; bank guarantees; receivables of blue chip companies; residential legal mortgage; commercial legal mortgage; and other items as may be defined by the CBN from time to time.

Non-performing loans and the haircut adjustment calculations, including valuation of collaterals, should be reviewed by the bank's auditors and ratified by the regulators. Such review of valuation by external auditors does not fall under the valuation services prohibited by the CBN Code of Corporate Governance. A maximum of one year is allowed for the haircut adjustments, pending which the collaterals should be realised. In other words, where the facilities on which haircut adjustments have been applied remain non-performing after one year, the adjustments shall be disregarded.

iv. Documentation

All documentation used in collateralised transactions must be legally enforceable in all jurisdictions, and the valuation of residential and commercial properties should be carried out by independent professional valuers.

v. Adequacy of Provision

Under the revised Guidelines, the CBN shall issue general provisioning guidelines as a counter-cyclical measure from time to time, pending its replacement with dynamic provisioning. The CBN can mandate banks to make additional provision

where there is: evidence of excessive concentration in a bank's portfolio; high number of loans classified under watch-list restructured or rescheduled loans; adverse macro-economic developments affecting the industry to which the bank is exposed; poor board oversight; and insider dealings, among others.

vi. Alignment with IFRS

To align the provisions computed using the Guidelines with the IFRS impairments, banks were required to make provisions for loans as prescribed in the relevant IFRS Standards. The IFRS impairments shall be compared with the Guidelines' provisions. Where the provisions per the Guidelines are higher than the IFRS impairments, banks shall retain the excess provision in non-distributable reserves (regulatory risk reserve). Where the Guidelines' provision is less than the IFRS impairments, the bank shall make additional provision and charge same to income.

vii. Risk Management

The Guidelines also contains provisions on risk management with banks expected to prepare comprehensive credit policies duly approved by their boards of directors. The credit policy should among others, cover loan administration, disbursement and appropriate monitoring mechanism, and reviewed at least every three years. Banks are also required to obtain credit reports from at least two credit bureaux before granting any facility to their customers and provide evidence that a search had been conducted on the borrower in the CBN's Credit Risk Management System (CRMS) database. Banks are also required to be rated by a credit rating agency on a regular basis and the reports submitted to the CBN.

viii. Information on Lending

The Guidelines placed additional responsibility on banks in respect of the submission of comprehensive information on their lending. Banks are required to render returns to the CBN based on the International Standard Industrial Classification of All Economic Activities (ISIC).

The provisions of the revised Guidelines are considered as minimum requirements. Therefore, banks are expected to implement more stringent and forward-looking policies and practices to enhance their risk mitigation strategies.

1.11 THE ROLE OF THE CENTRAL BANK OF NIGERIA IN FINANCIAL LITERACY

A survey by a financial sector development organisation, Enhancing Financial Inclusion in

Africa (EFInA) in 2010, indicated that 46.3 per cent (39.2 million) of adult Nigerians did not have access to any form of financial services. This level of exclusion was high compared with what obtained in other African countries (South Africa, 24 per cent; Uganda, 30 per cent; Botswana, 33 per cent; Kenya, 33 per cent; and Ghana, 44 per cent). This was attributed to low level of financial literacy, lack of knowledge of service providers, and the services or benefits derivable from accessing financial services.

To address the observed deficiencies, and in line with its mandate, the CPD undertook a number of financial literacy enhancing initiatives during the period under review, including:

- i. Development of the Financial Literacy Framework to provide a road map for the attainment of the objectives of the financial literacy initiatives;
- ii. A National Baseline Survey on Financial Literacy to, among other objectives, determine the levels of financial literacy and capability among various socio-demographic segments of the population. In 2014, the CBN in collaboration with the National Bureau of Statistics, constituted a Technical Committee to ensure the successful implementation of the project;
- iii. Financial literacy and consumer protection sensitisation and mass awareness programmes conducted in 12 States, across the six geo-political zones of Nigeria;
- iv. Commemoration of the Global Money Week (GMW), in conjunction with the Bankers' Committee and other stakeholders to promote financial literacy among youths.
- v. The Financial Literacy Steering Committee (FLSC) and the Financial Literacy Implementation Committee (FLIC) were inaugurated in 2013 with the aim of improving financial literacy in Nigeria;
- vi. Advocacy and Stakeholder Engagements;
- vii. Financial Literacy Publications such as Basic Financial Education & Management for Secondary Schools, Basic Information on Financial Consumer Protection;
- viii. Financial Literacy Mapping Exercise to identify and coordinate the activities of all organisations engaged in financial literacy activities in Nigeria was conducted in collaboration with GIZ; and
- ix. Schools outreach and mentoring programme to inculcate in students savings and investment habits.

CHAPTER TWO:
FRAMEWORK OF SUPERVISION

2.01 THE REVISED BANKING MODEL

The Universal Banking Model, which was adopted by the CBN in January 2001, was discontinued in 2010 as part of the banking sector reforms initiated by the CBN, following the global financial crisis from 2007 to 2008. Under the Universal Banking Model, banks were allowed to operate as financial supermarkets, offering diverse financial services such as capital market, insurance, asset management, pension and custodial services. As a result of inadequate skills and risk management practices to cover the entire spectrum of activities, unintended operational losses began to erode the capital base of most banks. Some banks engaged in speculative, high-risk activities in the capital market by creating margin loans, a number of which became non-performing in the wake of the slump in the capital market. In effect, the laudable objectives of the UB model were exploited by operators to the detriment of core banking practices. Therefore, remedial action was imperative to refocus the Nigerian banking system for effectiveness.

To this end, reforms aimed at protecting customer deposits from speculative and high-risk activities, and enabling banks focus on their core mandate, were introduced. In furtherance of these objectives, a new banking model was introduced to replace the UB model with effect from November 15, 2010. The revised model was introduced vide a Regulation titled, “Regulation on the Scope of Banking Activities and Ancillary Matters NO. 03, 2010”, under which banks were permitted to operate only as:

- i. Commercial banks;
- ii. Merchant banks; or
- iii. Specialised banks, which include non-interest banks, microfinance banks, mortgage banks and development finance institutions.

Commercial banks may be authorised to carry on business on a regional, national or international basis in accordance with extant regulation.

General Prohibitions

The revised model prohibits banks from having equity stake in non-banking subsidiaries, except: small and medium scale industries, agricultural enterprises and venture capital companies; banking institutions incorporated outside Nigeria with the permission of the CBN; companies jointly established by two or more banks with the approval of the CBN for the purpose of promoting the development of the money market or improving the delivery of banking services in Nigeria; and as a Custodian.

Banks are also prohibited from: acquisition of real estate or immovable property, other than as business premises for own use; granting any loan to any persons to invest in the primary issues of any bank; and granting any loan to facilitate the acquisition of any entity related to the bank.

The model required banks engaged in prohibited activities to divest from such enterprises and ensure that all interests in real estate or immovable properties acquired, other than as permitted, were disposed of.

Compliance Plans

Banks were required to submit compliance plans approved by their Boards of Directors to the CBN, not later than 90 days from November 15, 2010. The plans were to specify, among others, the type of banking licence required; how the bank intended to comply with the provisions of the Regulation; and the business justification for the approach proposed.

Where a plan was considered satisfactory by the CBN, an approval-in-principle (AIP) was to be issued, following which the bank could commence the restructuring of its operations and affairs for the purposes of bringing them in conformity with the provisions of the Regulation and the compliance plan. Where a compliance plan was considered unsatisfactory, the CBN would issue the applicant bank a deficiency letter, stating the inadequacies identified, requiring it to submit a revised plan.

Transition Arrangements

The transition arrangements required a bank granted AIP to ensure that from the approval date its business operations were conducted in accordance with the terms of the AIP and the approved compliance plan. Banks were required to obtain in writing the CBN's approval for any deviation from the approved compliance plan. The banks were also expected, not later than five days after the end of each month, to submit to the CBN for its review, a progress implementation report.

Divestment/Acquisition of Related Enterprise

Any divestment from related enterprises contemplated by the bank in compliance with the Regulation shall be within the stipulated time. Furthermore, divestment/acquisition of related enterprises shall be: (a) transparent and carried out on an arms' length basis, and in accordance with all the relevant laws, and any guidelines or rules provided by the CBN in that regard, (b) in the interests of the depositors of the bank, and (c) for the long-term financial viability and soundness of the bank.

The Regulation also specified that in all cases, the consideration for the divestment of related enterprise shall be on cash basis only or any other divestment arrangement proposed by the bank and approved by the CBN.

Issuance of New Banking Licence

The regulation provided for the issuance of new banking licences to reflect the registration status of banks. In this regard, a bank that had been granted AIP by the CBN or has had the terms of its licence varied, was required to, not later than 60 days before the effective date, apply to the CBN to have its Universal Banking Licence exchanged for an appropriate licence to conduct business under the revised model.

Revocation of Licence

Where, by the effective date, any bank does not possess an appropriate banking licence under BOFIA, such bank shall be required to deliver its Universal Banking Licence to the CBN, and shall cease to carry on banking business in Nigeria.

The change from universal banking to the monoline banking model has helped to safeguard customer deposits from speculative and other high risk activities and encouraged banks to focus on their core mandates. This will further enhance the safety and soundness of the banking system.

2.02 FRAMEWORK FOR MANAGING FINANCIAL SYSTEM STABILITY

In the aftermath of the global financial crisis, countries and multilateral institutions undertook measures to strengthen the resilience of their financial systems and minimise the frequency and impact of financial crises, towards ensuring financial system stability. To this end, the CBN developed a framework for managing the stability of the Nigerian financial system. The Framework titled 'Enhancement of Specific Tools and Framework for Managing the Stability of the Nigerian Financial System', took into cognisance the causes of the Nigerian banking crisis of 2009 and the regulatory weaknesses that contributed to the 2007/08 global financial crisis, among others.

Overview of the Framework

The framework was approved by the Financial System Regulation Coordinating Committee (FSRCC) in 2014 and consisted of three complementary policy components:

- i. Macroprudential policy (Component I), designed to:
 - a. Provide an early warning system (in relation to both conjectural and

structural issues) to identify, monitor and analyse risks and vulnerabilities in the financial system;

- b. Propose possible remedies and, subject to an agreed decision-making process, ensure that the remedies are put into effect;
- ii. Microprudential policy (Component II), aimed at:
 - a. Providing structural strength by ensuring high quality supervision of individual entities; and
 - b. Contributing to macroprudential and crisis management policies.
 - iii. Crisis management continuum (Component III), expected to prepare and test, in a most effective manner, arrangements for handling activities involved in:
 - a. Early intervention and recovery;
 - b. Triggers for moving into crisis mode; and
 - c. Resolution and crisis handling.

To ensure the delivery of financial stability, the Framework emphasised the need to review existing legislations governing key institutions in the financial system. It also emphasised the international dimension to financial stability, engagement between different authorities in the financial system and capacity building in terms of skillsets, quality of resource persons and training.

Institutional Arrangements

The Framework was structured around the existing institutional arrangements of the FSRCC with expanded mandates and features. It provides for the setting up of the Financial System Stability Committee (FSSC) as the institutional focus of authority which is an enlarged FSRCC with responsibilities widened to cover decision making on, and delivery of, financial stability objectives. The envisioned FSSC is intended to have, on a statutory basis, a parallel status with the Monetary Policy Committee (MPC), which will result in a two-pronged approach to managing the financial system.

A System Support Group (SSG) would be established to serve as the secretariat of the FSSC, produce analysis and options for macroprudential policy, and ensure effective contribution of microprudential policy and crisis management continuum to the overall financial stability framework.

Furthermore, it recommended the setting up of a Programme Management Office (PMO) to midwife the process leading to the establishment of the SSG. It will also develop the overall financial system stability framework, legal and regulatory framework and other frameworks along the lines of the three financial stability objectives.

Transparency and Accountability

The Framework provides for the enhancement of accountability by ensuring transparency of process and policy decisions. It covers a broad range of issues, including processes, tasks and tools necessary to deliver policy in each of the component policy areas.

Implementation Progress

By end-December 2014, the following milestones had been achieved in the implementation of the project:

- i. Approval of the Framework by the FSRCC;
- ii. Constitution of the Programme Management Office (PMO);
- iii. Constitution of nine work streams to realise the objectives of the Framework;
- iv. Sensitisation of key stakeholders; and
- v. Obtaining funding commitments from member agencies of the FSRCC towards the implementation of the programme.

It is expected that the Framework, when fully implemented, would significantly resolve the following challenges to sustaining financial stability in Nigeria:

- i. Defining financial stability as a precursor to identifying the agencies responsible for specifying protocols for addressing threats thereto;
- ii. Identifying an appropriate structure that is best suited to safeguarding financial stability through effective coordination, communication and sharing of responsibilities;
- iii. Managing the trade-off between growth and financial stability given the complex linkages and interdependencies in the economy;
- iv. Reforming the regulatory architecture such that ultimate responsibility for financial stability rests with a single agency and a protocol for response in a crisis situation is established; and

- v. Creating a balance between fiscal policy and financial stability.

2.03 FRAMEWORK FOR BASEL II IMPLEMENTATION

As part of the reforms in the banking industry, the CBN, in 2011, undertook a comprehensive review of the Basel II document and adapted elements for implementation in Nigeria. The implementation was expected to:

- i. Ensure banks maintain sufficient high quality capital;
- ii. Strengthen risk management processes; and
- iii. Enhance the international competitiveness of the banking system.

The CBN issued Guidance Notes on Regulatory Capital Measurement and Management for the Nigerian Banking System on December 10, 2013, following industry consultations. A total of six Guidance Notes, which were essentially a distillation of the main requirements of the Basel II Framework, were issued, taking into consideration areas of national discretion.

The Guidance Notes were structured around the three mutually reinforcing pillars of the Basel II Framework, as follows:

i. Pillar 1

The notes specified minimum requirements and the acceptable approaches for quantifying credit, market and operational risks for the purpose of determining regulatory capital.

National discretion was exercised in several areas to reflect the peculiarities of the environment in which banks operate, including the non-use of external credit assessment institutions (ECAIs) and the minimum capital adequacy ratio of 10 per cent for banks with national and regional authorisation and 15 per cent for Domestic Systemically Important Banks (D-SIBs) and those with international authorisation (as against the Basel requirement of 8 per cent).

In computing the capital requirement for credit risk, banks were required to adopt the standardised approach, however, all forms of corporate claims were to be treated as unrated. In assessing the capital requirement for operational risk, banks were to use the basic indicator approach, although, they could adopt the standardised approach, with the prior approval of the CBN. In assessing the capital requirement for market risk exposure, banks were required to use the standardised approach.

It is expected that with the development of an effective credit assessment system, collation of sufficient data and additional experience, banks will be better positioned to adopt the more advanced and sophisticated approaches for the computation of capital.

ii. Pillar II

The guidance notes on the ICAAP required banks to render returns on the key features of their ICAAP, including risk exposures, stress tests conducted and the level of capital adequate to support their risk profile. Financial institutions were also required to include a self-assessment report on the enterprise risk management processes, deficiencies and corrective measures.

In general terms, the following points summarise the broad expectations of the CBN with respect to each ICAAP submitted:

a. Board and Senior Management Oversight

The Board of Directors is responsible for the ICAAP, which should be developed in accordance with the risk appetite of the bank. Senior Management is responsible for the implementation to ensure conformity with the bank's operations and environment.

b. Sound Capital Assessment

There should be policies and procedures to identify, measure, monitor, mitigate and report all material risks affecting banks' operations. Capital adequacy goals should be set in relation to an institution's risk profile, business and strategic plans.

c. Comprehensive Assessment of Risks

Banks are required to identify risks at operating unit, enterprise and group levels, as well as from external sources.

d. Stress Testing

Reporting institutions are expected to use quantitative and qualitative methodologies to assess their vulnerability to specific events or joint movements of economic and financial market variables under adverse scenarios.

e. Monitoring and Reporting

Banks should have a system for monitoring and reporting risk exposures, and assessing how their changing business risk profiles affect their capital needs.

f. Internal Control Review

Banks should carry out periodic reviews to ensure appropriateness of the ICAAP, accuracy and completeness of data and validation of stress testing scenarios.

iii. Pillar III

The Guidance Notes on Pillar III mandated institutions to develop a formal disclosure policy, approved by the Board of Directors. Consequently, institutions were to disclose information relating to their core activities, risk profiles and methodologies used. They were also to ensure that disclosures are appropriate and devoid of references to other sources.

Regulatory Reporting

A template was issued for the measurement of regulatory capital, and banks were required to report to the CBN using the template.

2.04 FRAMEWORK FOR THE SUPERVISION OF SYSTEMICALLY IMPORTANT BANKS

As a fallout of the global financial crises, there was the need to develop a special supervisory regime for systemically important banks in view of the impact that their failure would have on the financial system.

The Basel Committee on Banking Supervision (BCBS) in October 2012, in collaboration with the Financial Stability Board (FSB), released the principles for the assessment methodology and Higher Loss Absorbency (HLA) requirements for Domestic Systemically Important Banks (D-SIBs). The Framework is complementary to the Basel Committee's November 2011 framework on Global Systemically Important Banks (G-SIBs). Thus, SIBs became the focus of legislation and regulatory reforms, leading to increase in capital requirements and introduction of higher capital surcharges for such banks.

It is against this background that the CBN developed a supervisory framework for the regulation and supervision of D-SIBs in Nigeria.

The Framework

The Framework for Regulation and Supervision of D-SIBs, issued in September 2014, focused on the supervision of D-SIBs using the indicators identified by the FSB. The framework also adopted similar indicators used by the BCBS in determining Global Systemically Important Financial Institutions (G-SIFIs).

Objective

The overarching objective of the framework for D-SIBs is to ensure that they are subjected to an appropriate degree of oversight and regulation. Specifically the framework is aimed at:

- i. Ensuring compliance with the BCBS recommendations on the supervision of D-SIBs;
- ii. Ensuring transparent assessment of the basis for their regulation;
- iii. Creating incentives for stronger risk management practices that would reduce the systemic risk SIBs pose to the system;
- iv. Limiting the impact of external negativities on the financial system;
- v. Identifying banks that pose systemic risk to the financial system;
- vi. Applying more intensive supervision to SIBs; and
- vii. Developing credible and effective resolution plans and strategies.

Assessment Methodology in the D-SIBs Framework

i. Identification of D-SIBs

Methods of identifying D-SIBs, as contained in the BCBS document, include the indicator-based measurement approach, bucketing approach and supervisory judgment requiring periodic review and refinement. The CBN framework adopted the indicator-based measurement approach as well as supervisory judgment.

a. Indicator-based Measurement Approach

The approach considers the following factors in the classification of D-SIBs:

Size

The Framework adopted total assets as the determinant in the assessment of size.

Interconnectedness

The Framework recognised net-interbank transactions as the determinant of interconnectedness. It measures interconnectedness by the volume of an institution's intra financial systems assets and liabilities, short-term financing by interbank and money

market operations.

Substitutability

It identified total credits (net) and total deposits of a bank as the determinants for substitutability.

Complexity

The indicator-based measurement approach views complexity from the perspective of an institution's network of both domestic and foreign subsidiaries, as well as its affiliation with institutions in other sectors of the financial system, which can complicate the process of its liquidation. The major determinants of complexity considered were the branch network and number of foreign subsidiaries.

Using the indicator-based measurement approach, a weight of 30 per cent each was assigned to Size and Substitutability, while Complexity and Interconnectedness were weighted 25 per cent and 15 per cent, respectively. The determinants within Complexity were each assigned 12.5 per cent, while determinants under Substitutability were each assigned 15 per cent weight.

Supervisory judgment was used in moderating the results derived from the assessment taking into cognisance the domestic environment.

Higher Loss Absorbency (HLA)

In the computation of Capital Adequacy Ratio (CAR), Tier 2 capital is limited to 50 per cent of the total qualifying capital. However, banks designated as D-SIBs are required to maintain a minimum CAR of 15 per cent out of which Tier 2 capital should not be more than 25 per cent of the qualifying capital. In other words, Tier 1 capital should be at least 75 per cent of the bank's qualifying capital. In addition, under the Framework D-SIBs are required to maintain Higher Loss Absorbency (HLA) or additional capital surcharge of 1 per cent to their minimum required CAR of 15 per cent, irrespective of the type of operating licenses they possess. The 1 per cent should be met with Common Equity Tier 1 (CET1) capital.

Recovery and Resolution Planning

The Framework also required SIBs to develop recovery plans which are to be submitted to the CBN and NDIC in January, every year.

Qualification for Designation as SIB

The assessment criteria require that for a bank to be classified as a D-SIB, it must have met the assessment criteria for six consecutive months. Any bank classified as SIB would remain as such for a period of six months after which a re-assessment would be carried out by the CBN. All D-SIBs are expected to comply with the requirements of the Framework by March 1, 2015.

Compliance with the new HLA requirements has been deferred to September 1, 2016 to enable banks prepare for the D-SIB regime.

2.05 GUIDELINES FOR THE SUPERVISION OF OTHER FINANCIAL INSTITUTIONS

The CBN, during the period, reviewed the framework for the supervision of Microfinance Banks (MFBs) and the guidelines for MFBs, Primary Mortgage Banks (PMBs), Bureaux de Change (BDCs), and finance companies (FCs) to strengthen the operations, regulation and supervision of OFIs. Details are set out below:

i. Microfinance Banks

The Microfinance Policy, Supervisory and Regulatory Framework for Nigeria, which was issued in December 2005 was reviewed in April 2011. The review introduced a new capital regime for MFBs, with categorisation as Unit (N20 million), State (N100 million) and National (N2 billion).

Furthermore, the Regulatory and Supervisory Guidelines for MFBs in Nigeria were revised in 2013 to:

- a. Introduce tenor limits of five years (renewable once) and four years (renewable twice) for executive directors and non-executive directors, respectively;
- b. Allow a unit MFB to open a branch within its local government area, subject to availability of free funds of at least N20million;
- c. Preclude unit MFBs from appointing executive directors;
- d. Increase the minimum number of directors from three to five;
- e. Specify the minimum ratio of micro-loans to total loans at 80 per cent; and
- f. Introduce deposit insurance for MFBs.

The review also covered licensing requirements, capacity building and prudential requirements. It increased the maximum tenor for external auditors of MFBs from three to 10 years, while prohibiting MFBs from holding annual general meetings prior to the

approval of the publication of their audited financial statements by the CBN.

ii. Primary Mortgage Banks

The Guidelines for PMBs in Nigeria were revised in November 2011 to reposition the sub-sector and enhance access to affordable housing. The Guidelines, which changed the nomenclature of primary mortgage institutions (PMIs) to PMBs, categorised PMBs into State and National, with minimum capital requirements set at N2.5 billion and N5 billion, respectively, up from N100 million. The Guidelines permitted National PMBs to operate in all parts of Nigeria, while State PMBs were restricted to a state.

Furthermore, the Guidelines reviewed the permissible and non-permissible activities of PMBs, and introduced cash reserve requirement (CRR) on private and public sector deposits and uniform underwriting standards for mortgages and commercial real estate financing.

A circular dated August 25, 2014 with reference number OFI/DIR/GEN/CIR/01/009 was issued to operationalise 2 per cent CRR on private sector deposits and 75 per cent on public sector deposits, as directed by the Monetary Policy Committee.

iii. Mortgage Refinance Companies

In preparation for the take-off of mortgage refinance in Nigeria, the CBN in August 2013, issued the Regulatory and Supervisory Framework for the Operations of Mortgage Refinance Companies in Nigeria. The Framework detailed the licensing and capital requirements, permissible activities, risk management, corporate governance and prudential requirements of mortgage refinance companies (MRCs), among others. The Framework set the minimum capital for MRCs at N5 billion. The MRC was set up to improve liquidity and enhance the capacity of PMBs to provide mortgages.

iv. Finance Companies

The inability of FCs to discharge their mandate effectively, and the need to appropriately situate them within the integrated financial architecture, necessitated a comprehensive reform in the sub-sector. Consequently, the CBN revised the Guidelines for Finance Companies in April 2014.

The Revised Guidelines, increased the minimum capital requirement of FCs from N20 million to N100 million, introduced new prudential requirements, reviewed permissible and non-permissible activities as well as corporate governance, among others. The deadline for compliance with the Revised Guidelines was set as September 30, 2015.

v. Bureaux de Change

To further liberalise the foreign exchange market and enhance its capacity to efficiently allocate foreign exchange, the CBN, in February 2009, restructured BDCs. The objective of the new structure was to facilitate end-user access to foreign exchange from official sources in order to enhance the productive capacity of small and medium-scale enterprises, thus boosting economic growth. BDCs were categorised into class “A” and “B”, with minimum capital requirements of N500 million (later reviewed to N250 million) and N10 million, respectively. However, the licensing of Class “A” BDCs was discontinued in November 2010 and existing licenses were withdrawn.

To further reposition the BDCs, the CBN issued new requirements for the operations of BDCs vide a circular referenced FPR/DIR/GEN/CIR/01/009 dated June 23, 2014. The new requirements, which took effect from July 31, 2014, increased the minimum capital requirement from N10 million to N35 million, and reviewed upward the mandatory caution deposit from US\$20,000 to N35 million. Also, ownership of multiple BDCs was prohibited, while the requirement for membership of Association of Bureau de Change Operators of Nigeria (ABCON) as a precondition for the operation of a BDC was cancelled.

vi. Development Finance Institutions

To entrench best practices in the operations of development finance institutions (DFIs) and facilitate the achievement of their mandates, the draft guidelines for the operations of retail and wholesale DFIs were exposed to the industry in 2014. The draft guidelines covered licensing, regulation and supervision of wholesale DFIs and retail DFIs under the purview of the CBN. The proposed regime would provide an avenue for private investors to establish DFIs.

2.06 FRAMEWORK FOR THE SUPERVISION OF FINANCIAL HOLDING COMPANIES

Following the repeal of the Universal Banking (UB) model in 2010, the CBN issued Regulation No. 3, on the Scope of Banking Activities and Ancillary Matters, which prohibited banks from engaging in non-banking financial services. To further facilitate the implementation of the revised model, the CBN issued the Guidelines for Licensing and Regulation of Financial Holding Companies in Nigeria in August 2014. The Guidelines covered the definition and structure of a financial holding company (FHC), licensing requirements, ownership and control, corporate governance, permissible and non-permissible activities, prudential regulation, as well as supervisory arrangements.

Highlights of the Guidelines are as detailed below:

i. Definition and Structure

The Guidelines defined a FHC as a company whose principal object includes the business of a holding company set up for the purpose of making and managing (for its own account) equity investment in two or more companies, being its subsidiaries, engaged in the provision of financial services, one of which must be a bank.

A FHC is only permitted to have a two-level hierarchy, the parent and intermediate group.

ii. Licensing Requirements

The Guidelines stipulated the licensing requirements for a FHC, including the conduct of “fitness and propriety” test on the promoters and members of the board and management.

iii. Corporate Governance

The Guidelines subjected FHCs to the codes of corporate governance issued by the CBN and the Securities and Exchange Commission (SEC). It emphasised that extant regulations on the disqualification of certain persons from serving on the board or management of banks shall apply to FHCs. Also, appointments to the board and top management positions shall be subject to prior approval of the CBN.

iv. Permissible Activities

The Guidelines enumerated the permissible activities of FHCs to include, holding equities in approved subsidiaries and providing broad policy direction for the subsidiaries in risk management, internal control, human resources, compliance and any other services as may be approved by the CBN. It further provided for shared services between the FHC and its subsidiaries, subject to the prior approval of the CBN.

v. Non-Permissible Activities

The Guidelines prohibited a FHC from investing in non-financial firms, borrowing from the banking system to capitalise itself or any of its subsidiaries, and obtaining a loan based on the guarantee of its banking subsidiary, except where the loan is secured by dividend income or fees from shared services.

Furthermore, the Guidelines disallowed subsidiaries of a FHC from acquiring shares in the FHC or any subsidiary in the group.

vi. Prudential Requirements

The minimum paid-up capital of a FHC shall exceed the sum of the minimum paid-up capital

of all subsidiaries in the group. The Guidelines limited a FHC's total exposure on contingent liabilities on behalf of its subsidiaries to 20 per cent of the FHC's shareholders' funds.

It also stipulated limits on intra-group transactions, dividend payment and investments in fixed assets.

vii. Supervision

The Guidelines vested the responsibility of supervising FHCs in the CBN, on a consolidated basis, in accordance with the Framework for the Consolidated Supervision of Financial Holding Companies in Nigeria issued by the FSRCC. Their subsidiaries shall be supervised by the respective sector supervisors.

2.07 FRAMEWORK FOR CROSS-BORDER SUPERVISION

In recognition of the importance of supervision of cross-border banks, the Basel Committee, in 1992, issued “The Minimum Standards for the Supervision of International Banking Groups and their Cross-Border Establishments”.

The standards were based on two fundamental principles, namely:

- i. No foreign banking establishment should escape supervision, and
- ii. Supervision should be “adequate” and consistent across member jurisdictions.

The latter principle placed supervisory responsibility on both the home and host supervisors of the parent bank and its affiliates. Cross-border supervision is aimed at mitigating regulatory arbitrage that may be created through the expansion of banks to other jurisdictions.

In 2010, the CBN issued the Framework for Cross-Border Supervision of Banks (see Appendix 2), which replaced the Guidelines on Minimum Requirements for Offshore Expansion of Banks issued in 2008. The Framework was issued to address weaknesses of the 2008 Guidelines, mainly, the absence of procedures and protocols for on-site and off-site supervision, cooperation and collaboration between the home and host supervisors, crisis management and cross-border bank resolution.

The Framework set out procedures for conducting risk-based supervision of cross-border operations of Nigerian banks with a view to ensuring the soundness and stability of the financial system. It also sought to establish the process of facilitating mutual cooperation and collaboration between the CBN and regulators of other jurisdictions where Nigerian banks had or may have presence.

For the effective implementation of the Framework, a unit was created in the Banking Supervision Department in 2010, to monitor the activities of the offshore subsidiaries.

The Framework includes sections on the preconditions for the establishment of cross-border entities (within and outside Nigeria), guidelines for conducting status enquiries, and procedures to be followed for the closure of cross-border entities. The information requirements for effective cross-border supervision, methodology for risk-based supervision, expectations from parent bank and the host country supervisors, and the procedure for crisis resolution were also covered.

Key Elements of the Framework

The Framework detailed the requirements for the establishment, regulation, supervision and resolution of cross-border entities. Key among these are:

- i. Only banks with international authorisation are allowed to establish subsidiaries offshore, with such internationally authorised banks required to maintain CAR of 15 per cent;
- ii. The CBN shall establish a Memorandum of Understanding (MoU) with the host regulatory and/or supervisory agency as a prerequisite for the establishment of an offshore branch, representative office or subsidiary by a Nigerian bank;
- iii. The consent of the CBN shall be a condition precedent to the establishment or closure of any offshore branch, representative office or subsidiary outside Nigeria;
- iv. The consent of the home regulators is a condition precedent for any foreign bank seeking to establish an offshore branch, representative office or subsidiary within Nigeria;
- v. Offshore subsidiaries of Nigerian banks seeking to establish offshore branches, subsidiaries or representative offices are required to obtain prior approval of the CBN;
- vi. Nigerian banks with offshore subsidiaries are required to put in place functional risk management policies and procedures that would cover all their offshore operations; and
- vii. Banks with offshore subsidiaries are also required to put in place databases that could integrate the financial records of the offshore entity into that of the parent bank.

Memorandum of Understanding with Other Supervisory Authorities

The execution of an MoU between the CBN and host regulators, covering a broad range of supervisory issues including licensing, off-site and on-site supervision, corporate governance, capacity building, information exchange and bank resolution, is a condition precedent for the establishment of cross-border presence.

The MoU is expected to facilitate the exchange of information on a continuous basis, between home and host supervisors. Such information include examination findings, confidential reports on proposed directors and staff of cross-border banks, events that may affect the stability of banking institutions in the other jurisdiction, and any sanctions or other actions taken that would be relevant to the other supervisor.

The execution of MoUs provided the basis for the CBN to implement joint home-host on-site and solo supervisory reviews of the offshore subsidiaries of Nigerian banks. MoUs have also facilitated the resolution of challenges facing subsidiaries, through effective collaboration between the CBN and host supervisors.

The CBN, at end-December 2014, had executed MoUs on supervisory cooperation and information sharing with 19 foreign banking supervisory authorities covering 24 countries.

Although there had been several challenges in the conduct of cross-border supervision, the 2010 Framework provided proper guidance and direction. It provided the basis for the CBN's engagement with foreign regulators in carrying out consolidated supervision of cross-border banking entities, thereby strengthening the supervisory process.

2.08 FRAMEWORK FOR THE SUPERVISION OF PRIVATE CREDIT BUREAUX

The CBN, in January 1998, established the Credit Risk Management System (CRMS), a public credit registry that required banks to report all credits of N1 million and above. Although, the CRMS helped to minimise the prevalence of serial defaulting borrowers in the banking industry and strengthened the credit appraisal procedures of banks, its operations were limited to deposit money banks, while regulatory returns only covered credits of N1 million and above. These shortcomings severely limited its effectiveness.

The shortcomings were addressed with the advent of private credit bureaux (PCBs), which were provided for by Section 57 of the CBN Act, 2007. The operations of the PCBs are expected to cover all sectors of the economy and provide credit reports on all individual or corporate borrowers. PCBs are licensed and supervised by the CBN.

To further strengthen the operations of credit bureaux, the CBN in 2008, released the Guidelines for the Licensing, Operations and Regulations of Credit Bureaux in Nigeria, which led to the emergence of three PCBs in 2009.

The Guidelines were revised in November 2013 to address the challenges that emerged, among which were:

- i. Inadequate public awareness of the relevance and operational modalities of credit bureaux;
- ii. Absence of unique identifier, which made consolidation of credits and credit information difficult;
- iii. Absence of a reliable and accurate data collection and dissemination method; and
- iv. Absence of guides on data usage.

The revised Guidelines, divided into 12 sections, was renamed “Guidelines for the Licensing, Operations and Regulations of Credit Bureaux and Credit Bureaux Related Transactions in Nigeria”. Highlights of the Guidelines include:

i. Licensing Requirements

Applications for licence shall be accompanied by a non-refundable fee of N250,000, and specified documents, including Memorandum and Article of Association, stating the principal object as credit bureau services, evidence of incorporation and a feasibility report. The Guidelines also prescribed minimum capital of N500 million and detailed two licensing stages: approval-in-principle and final operating licence.

ii. Restrictions on Ownership

Investment in a credit bureau by a bank and its subsidiaries shall not exceed 10 per cent of the total paid-up capital of the credit bureau. Also, a bank shall not invest in more than one credit bureau at any given time.

iii. Permissible Uses of Credit Bureau Information

Users of credit bureau information must have permissible purposes, listed in the Guidelines to include: processing applications for credit or guarantee, opening of new accounts, prospective or current employment, tenancy contracts, insurance policies and requests to validate the correctness of credit information held by credit bureaux upon written consent from the individual or entity or a competent court.

iv. Data Collection

Credit bureaux are authorised to collect data on the background and credit history of borrowers to determine their identity, banking relationships, overall debt exposure, repayment behaviour and other contractual obligations. The data may be collected from banks and other financial institutions, the CBN CRMS, insurance companies, asset management companies, courts, suppliers of goods and providers of services on a post-paid or payment by instalments, other credit bureaux licensed by the CBN and any other entity that has relevant data and information that complies with the permissible purposes.

v. Information Dissemination and Consent of Data Subjects

Data providers such as banks are required to notify their customers or potential customers of the duty to seek credit reports from, and report credit information on them to licensed credit bureaux.

vi. Responsibilities of Credit Bureaux

The responsibilities of credit bureaux as contained in the Guidelines include:

- a. Implementing data quality control and business continuity procedures;
- b. Utilising credit information solely for permissible purposes;
- c. Adopting reasonable procedures to ensure that data providers can update data regularly, at least monthly;
- d. Providing unrestricted access to all credit information;
- e. Observing a perpetual duty of confidentiality with regard to the credit information in their database;
- f. Ensuring that all users and data providers, not statutorily under the regulatory purview of the CBN, are bound by the duties of care and diligence specified in the Guidelines; and
- g. Having reasonable and accessible dispute resolution processes and procedures.

vii. Type of Data Collected by Credit Bureaux

Credit files on each data subject maintained by the credit bureau shall contain, at a minimum, personal information such as name, nationality, photograph, means of identification; or legal status, shareholding structure and certification of incorporation or

registration in the case of a company. They should also contain credit data, detailing loan value and authorised credit limit, the outstanding balance, type of facility or product, maturity date, and payment habits, among others.

viii. Fees and Charges

Credit bureaux may charge fees for their services, which shall be approved by the CBN.

ix. Opening and Closure of Branches

A credit bureau is required to obtain the approval of the CBN before opening, relocating or closing an office.

x. Submission of Returns and Audited Financial Statements

Credit bureaux shall submit to the CBN, monthly returns, not later than 10 working days of the following month. They are also required to submit their audited financial statements not later than three months after the year-end.

Credit bureau operations have witnessed remarkable growth since inception in 2009. The number of registered facilities grew from 78,189 in December 2010, to 18,640,000 in June 2012 and 29,285,471 at end-December 2014. Similarly, the number of borrowers grew to 17,043,822 in 2014 from 14,523,780 as at June 2012.

The operations of PCBs in Nigeria have laid a solid foundation for the provision of quality credit information on borrowers for better decision-making by banks and other credit institutions.

2.09 FRAMEWORK FOR CORPORATE GOVERNANCE

The CBN, in 2014, revised the Code of Corporate Governance for Banks and Discount Houses in Nigeria, issued to the industry in 2006. The revised Code addressed the inadequacies of the previous Code and aligned it with contemporary developments in the industry and international best practices. The provisions included the requirement for the establishment of board audit committees, remuneration of executive directors, requirements for external auditors to report on risk management and for CEOs to review statutory returns.

The revised Code provided clear guidelines on key aspects of governance and was structured to achieve the following objectives:

- i. Provide a basis for effective governance of banks and other financial institutions;

- ii. Promote board awareness of its fiduciary and other responsibilities to the institutions, shareholders and other stakeholders;
- iii. Serve as a guide to financial institutions in the development of their governance policies and processes; and
- iv. Promote adequate and timely disclosure of material items to shareholders and other stakeholders.

The Code covered the board, management, shareholders, responsibilities of stakeholders, disclosures, risk management, ethics and professionalism, as well as conflict of interest.

Specific changes introduced in the revised Code included:

- i. Limiting the tenure of banks' chief executives to a maximum of two terms of five years each;
- ii. Limiting the tenure of external auditors to a maximum period of ten years from the date of appointment after which the audit firm shall not be reappointed by the same institution until after another period of 10 years;
- iii. Enhancing disclosure and transparency requirements in areas such as risk management, composition of board committees, directors' remuneration, board performance evaluation, directors' interests and related party transactions, ethics and professionalism;
- iv. Modifying the list of mandatory board committees, replacing the board credit committee with the board governance and nominations committee;
- v. Strengthening the independence of the board audit committee (BAC) and external auditors by requiring banks to avoid changing more than one-third of the BAC members and the external auditors in the same financial year; and
- vi. Introducing provisions on the rights and functions of shareholders.

In addition, the Code required banks to develop procedures for whistle-blowing to encourage reporting of unethical practices.

Other Corporate Governance Initiatives

Prior to the issuance of the revised Code of Corporate Governance, the CBN in 2010 revised the Prudential Guidelines, which introduced the following governance-related measures:

- i. Prohibition of the appointment of the Governor and Deputy Governors of the CBN and the Managing Director and Executive Directors of the NDIC, in any capacity in banks and their subsidiaries under the supervision of the CBN, until after the expiration of five years from the date of their exit from office; and
- ii. Prohibition of the appointment of Departmental Directors of the CBN and the NDIC, in any capacity in banks and their subsidiaries under the supervision of the CBN, until after the expiration of three years from the date of their exit from office.

In addition to the above, the CBN, in June 2011, issued the Circular on Approved Persons Regime, which introduced mandatory and continuous fitness and propriety tests for persons occupying board and top management positions in banks. The tests shall be conducted biennially or at any period as may be specified by the CBN from time to time.

Another circular dated March 13, 2014 was issued to banks, mandating a “cooling off” period of three years for executive directors of banks aspiring to take up non-executive directorship positions in the banks or their subsidiaries under the supervision of the CBN.

2.10 COMPETENCY FRAMEWORK FOR THE BANKING INDUSTRY

The CBN, in collaboration with the Bankers' Committee, issued the Competency Framework for the Nigerian Banking Industry in November 2012. The objectives of the Framework were to:

- i. Define the minimum knowledge, skills and competencies needed for operators and regulators to perform optimally on their jobs or tasks;
- ii. Standardise capacity and competency development with a view to nurturing and producing a knowledgeable, skilled and competent workforce for the Nigerian banking industry;
- iii. Establish standard competency requirements for each job role to serve as a guide to Nigerian banks in their talent recruitment and development programmes;
- iv. Provide standards for training certification, evaluation and accreditation to ensure the provision of quality training in the Nigerian banking industry;
- v. Ensure that practitioners continually update their knowledge and skills;
- vi. Serve as a tool for banks to assess their human capital capabilities;

- vii. Identify competency gaps and develop required learning interventions to bridge identified gaps; and
- viii. Provide a basis for sustaining career development in the Nigerian banking industry.

The Framework identified some roles that were of operational or regulatory significance and designated them as Control Functions. There were 35 Control Functions, grouped into two – Significant Influence Functions and Customer Functions. Significant Influence Functions were those that materially impact on the activities of the bank, while Customer Functions were those that could influence customers' decisions on investment and service adoption.

For effective implementation of the policy, the CBN would host a database to serve as a reference point and reservoir of information on approved persons in the Nigerian banking industry. Reporting institutions will be required to update the database with details of approved persons and access it as part of their due diligence prior to the engagement or appointment of persons to control functions. The Framework includes a “Code of Practice for Approved Persons”, on the basis of which the conduct of individuals who perform control functions would be gauged.

Under the Framework, training and certification would be conducted by accredited local and foreign training service providers, while the Chartered Institute of Bankers of Nigeria (CIBN) will serve as the accreditation agency. The accreditation agency will not render training services.

To attain and maintain competency in a particular job role, an individual in a control function is expected to accumulate annually, a minimum number of predetermined learning-credit points, through attendance, and successful completion of accredited training programmes. Training service providers shall submit information on accredited programmes attended by individuals to the database.

Baseline Assessment

A baseline competency assessment was carried out in 2013 to ascertain the educational and professional qualifications, as well as cognate experience, of staff manning control functions in the industry. The result of the assessment showed that out of the 5,257 persons assessed, 35 per cent met the minimum requirements for the positions they occupied. The remaining 65 per cent that did not meet the minimum requirements were mainly branch managers, who did not possess relevant professional qualifications.

Remedial Action Plans

Following the baseline assessment, the reporting institutions submitted remedial action plans, which were reviewed and adopted as a basis for ongoing monitoring. The plans indicated that some officers would need two to four years to meet the professional certification requirement. The CBN has continued to monitor the implementation of the remedial plans submitted by the banks.

The CBN will continue to strengthen capacity in the banking industry through effective implementation of the Competency Framework. In this regard, competency reviews will form part of on-site assessments of banks. The development of the competency management IT solution is in progress and, when completed, would facilitate effective implementation of the Framework.

2.11 FINANCIAL LITERACY FRAMEWORK

The CBN launched the National Financial Inclusion Strategy (NFIS) in 2012. The objectives of the initiative include supporting the empowerment of Nigerians, facilitating their involvement in economic activities and enabling them contribute to national economic growth and development. It is expected that the achievement of these objectives would reduce the rate of adult exclusion from access to finance from 46.3 per cent in 2010 to 20 per cent in 2020.

Among the priorities of the NFIS is the development and implementation of a National Financial Literacy Framework (FLF) to guide the delivery of programmes that would increase the awareness and understanding of financial products and services.

Objectives of the Financial Literacy Framework

The overarching objective of the Financial Literacy Framework is to empower Nigerians with quality financial education, to enable them make informed financial decisions. Specifically, the Framework seeks to improve the knowledge and skills of individuals in setting realistic financial goals regarding savings, loans, pensions and insurance. It also seeks to increase an individual's appreciation of personal financial planning and risk and reward trade-off in investment choices and decisions.

Other objectives of the Framework are to assist the financially excluded to understand and access financial services, know their rights and obligations in financial contracts, increase their ability to generate and save income and provide a platform for a multi-stakeholder approach to financial literacy and consumer protection in Nigeria.

Governance and Implementation Structure

The governance structure of the Framework is as follows:

- i. **Financial Literacy Steering Committee (FLSC):** This Committee, chaired by the Governor of the CBN, is responsible for setting strategic and policy direction for financial literacy in Nigeria. Other members of the committee include chief executives of financial system regulatory agencies in Nigeria and two representatives of the Bankers' Committee.
- ii. **Financial Literacy Implementation Committee (FLIC):** The Implementation Committee supports the Steering Committee in ensuring that financial literacy and financial education policies are implemented.

The Committee comprises representatives of the member organisations in the Steering Committee and other stakeholders.

- iii. **Financial Literacy Working Groups:** These are focused on priority areas of implementation and are charged with ensuring that the design of financial literacy programmes are targeted at different segments of the population and delivered through a variety of media and channels. The working groups are:
 - a. Curriculum Development and Integration in Schools
 - b. Mass Sensitisation and Awareness Creation
 - c. School Outreach and Mentoring

Target Markets

The Framework identifies groups, segmented on the basis of common financial education needs and channels, as target markets. Such groups include school children, youths and undergraduates, educated persons, uneducated persons, financial service providers and their staff, as well as policymakers, regulators and other key stakeholders.

Review of the National Financial Literacy Framework

The existing Framework is being reviewed to reflect the necessity for an enabling policy and regulatory environment for financial education. The review is also expected to result in the development of an explicit stakeholder strategy to support the coordination of activities and ensure effectiveness and refinement of the target markets for the delivery of financial education interventions.

CHAPTER THREE:
SUPERVISORY ACTIVITIES
(2009 - 2014)

3.01 OFF-SITE SUPERVISION OF BANKS, DISCOUNT HOUSES, CREDIT BUREAUX AND FINANCIAL HOLDING COMPANIES

The CBN continued with the off-site supervision of banks, discount houses, credit bureaux and financial holding companies (FHCs) to ensure the safety and soundness of the financial system. Between 2009 and 2014, off-site supervisory activities focused on the following major areas:

i. Licencing

Following the adoption of the new banking model the CBN issued a circular titled “Regulation on the Scope of Banking Activities and Ancillary Matters No. 3, 2010” (Regulation 3). Pursuant thereto, the CBN licenced FBN Holdings Plc, Stanbic IBTC Holdings Plc and FCMB Holdings Plc as non-operating financial holding companies.

Furthermore, the CBN, on November 10, 2011, issued a banking licence to Jaiz Bank Plc to operate as a full-fledged non-interest bank, while Stanbic-IBTC Bank Plc was granted approval to operate a non-interest banking window. Sterling Bank Plc was, also, granted approval to operate a non-interest banking window on December 11, 2013, while Rand Merchant Bank Ltd was granted approval to convert from a representative office to a merchant bank on November 22, 2012.

Regulatory approval was also granted for the conversion of First Securities Discount House Ltd to a merchant bank in 2012 (FSDH Merchant Ltd), while the licence of the insolvent Express Discount Ltd was revoked in 2013. Two discount houses (Kakawa Discount House Ltd and Associated Discount House Ltd) applied for conversion to merchant banks and were granted Approvals-in-Principle in 2014. On the other hand, Consolidated Discounts Ltd was taken over by AMCON in 2014 due to its inability to continue as a going concern.

The CBN granted licences to three privately owned credit bureaux in 2009. The companies commenced operations as follows: CRC Credit Bureau Ltd, in June 2009; XDS Credit Bureau Ltd, in August 2009 and CRS Credit Bureau Ltd, in January 2010.

ii. Regulatory Guidelines

During the period under review the CBN issued guidelines to financial institutions, including:

- a. Prudential Guidelines for Banks and Discount Houses;
- b. Supervisory Framework for Banks and Other Financial Institutions in Nigeria;

- c. Regulation on the Scope of Banking Activities and Ancillary Matters (Regulation 3);
- d. Implementation of Sustainable Banking Principles by Banks, Discount Houses and Development Finance Institutions in Nigeria;
- e. Guidelines on the Operations of Discount Houses;
- f. Guidelines for the Licensing and Regulation of Credit Bureaux in Nigeria;
- g. Competency Framework for the Nigerian Banking Industry;
- h. CBN Anti-Money Laundering/ Combating the Financing of Terrorism (AML/CFT) Risk-Based Supervision (RBS) Framework;
- I Regulatory Capital Measurement and Management Framework for the Implementation of Basel II/III for the Nigerian Banking System;
- j. Framework for Regulation and Supervision of Domestic Systemically Important Banks; and
- k. Framework for the Supervision of Financial Holding Companies.

iii. Statutory Returns

Statutory returns of banks and discount houses were submitted daily, weekly, monthly, quarterly, half-yearly and annually to the CBN using the electronic Financial Analysis and Surveillance System (eFASS). During the period under review, the inadequacies of the eFASS, including its incompatibility with IFRS, necessitated the deployment of an interim reporting application, Financial Analysis (FinA). The returns of the credit bureaux and FHCs continued to be manually submitted on a monthly and a quarterly basis, respectively.

iv. Assessment of Board and Management

The requests for appointments to board and top management positions in banks, discount houses, credit bureaux and FHCs continued to be reviewed by the CBN in collaboration with other regulatory and security agencies. This was to ensure that only fit and proper persons were appointed into such positions. In this regard, the CBN approved the appointments of 59, 78, 240, 192, 171 and 120 persons into the boards and top management of institutions in 2009, 2010, 2011, 2012, 2013 and 2014, respectively. It also declined the approval of appointments of some nominees on the grounds of not meeting the specified requirements contained in the “Prequalification for Appointment to Board and Top Management Positions in Nigerian Banks,” and the “Assessment Criteria for Approved Persons’ Regime

for Financial Institutions, issued on January 4, 2001 and June 21, 2010, respectively. During the period, 100 persons resigned from board and top management positions.

Following the outcome of an investigation, which revealed that some banks were in grave financial condition, the CBN in 2009, removed the executive management of eight banks, namely: Oceanic International Bank Plc, Intercontinental Bank Plc, Union Bank of Nigeria Plc, Afribank Nigeria Plc, BankPHB Plc, Finbank Plc, Spring Bank Plc and Equitorial Trust Bank Ltd.

v. Authorisation of Publication of Financial Statements

In line with Section 27 of the Banks and Other Financial Institutions Act (as amended), the CBN continued to review and approve for publication, the financial statements of banks, discount houses, credit bureaux and FHCs.

vi. Branch Network

The CBN continued to process applications and grant approval for the opening and rationalisation of branches, cash centres and other channels of deposit money banks. The bank branch network grew from 5,437 at end-December 2009 to 5,500 branches at end-December 2014. The annual distribution of branches were as follows: (December 2009: 5,437), (December 2010: 5,678), (December 2011: 5,648), (December 2012: 5,408), (December 2013: 5,477) and (December 2014: 5,500).

vii. Credit Risk Management System

The credit management processes of regulated institutions were enhanced through the supervision and monitoring of returns to the Credit Risk Management System (CRMS) database. The numbers of borrowers in the CRMS database were 67,606; 73,154; 77,210; 86,400; 103,914; and 125,334 at end-December 2009, 2010, 2011, 2012, 2013 and 2014, respectively.

During the period under review, the three private credit bureaux witnessed significant improvement in the utilisation of their services and turnover. There was also a significant increase in the number of registered borrowers, from 78,189 in December 2010, to 29,285,471 at the end of 2014.

viii. Contraventions and Sanctions

In line with relevant provisions of BOFIA, the CBN continued to sanction institutions that violated extant laws and regulations. The number of banks and discount houses that were penalised were 13 in 2009; 11 in 2010; 17 in 2011; 20 in 2012; 23 in 2013; and 26 in 2014.

ix. Consumer Complaints

The CBN continued to receive and deal with complaints by consumers of financial services. The number of consumer complaints received was 772 in 2010; 830 in 2011; 1076 in 2012; 1101 in 2013 and 1215 in 2014. Of these complaints 172, 189, 109, 266 and 987 were resolved in 2010, 2011, 2012, 2013 and 2014, respectively. These resulted in refunds of N2.79 billion; N2.65 billion; N2.50 billion; N2.96 billion; \$1.02 million and Euro 83.00; and N6.25 billion and \$1.08 million to customers in 2010, 2011, 2012, 2013 and 2014, respectively.

x. Fraud and Forgery

Between January 1, 2009 and December 31, 2014, a total of 34,102 incidences of fraud and forgery amounting to N161.078 billion were reported by the banks, out of which cases involving the sum of N33.756 billion were successfully perpetrated.

3.02 ON-SITE SUPERVISION OF FINANCIAL HOLDING COMPANIES, BANKS, DISCOUNT HOUSES AND CREDIT BUREAUX

Pursuant to its mandate, the Banking Supervision Department conducts different types of examination, including maiden, routine, target, and special.

Maiden Examinations

The Department, during the review period, carried out Maiden Examinations on three licensed credit bureaux in 2010; the Asset Management Corporation of Nigeria in 2011; a non-interest bank in 2012; two merchant banks in 2013; and the three financial holding companies in 2014. The maiden examinations of the two merchant banks followed the conversion of one from a discount house and the other from a representative office. The examinations revealed that the institutions were adequately capitalized and their affairs were being conducted in line with extant laws and regulations.

Special Examination

Following the adverse impact of the global financial crisis on banks' exposures to the capital market and the energy sector, the CBN in 2009, conducted special examinations of all the deposit money banks. The primary focus of the exercise was to assess the health of the banks with particular focus on liquidity, capital adequacy and corporate governance. The examination, which revealed a number of weaknesses including poor assets quality depicted by high levels of non-performing loans in some institutions, and poor corporate governance and risk management practices, was the basis for the well-publicized CBN

intervention that was aimed at protecting depositors, restoring public confidence and safeguarding the integrity of the banking system.

Routine Examination

Following a pilot run on two banks in 2008, 12 banks were examined using the risk based supervisory (RBS) methodology in 2010; 16 in 2011; 16 in 2012; and 21 in 2013. In 2014, the RBS methodology was used in the examination of all the 24 deposit money banks as well as 2 discount houses.

Reports of the examinations carried out over the period following the 2009 special examination showed overall improvements in the composite risk rating (CRR), which is the final assessment of institutions' soundness. Notwithstanding the above, concerns relating to risk management, corporate governance, and board and senior management oversight, were raised.

Also, one discount house was examined using the compliance approach, the result of which revealed material erosion of its capital, which threatened its going concern status. The CBN therefore, took over the affairs of the institution, following which it was acquired by the AMCON.

In addition, routine examinations of the three credit bureaux were conducted in 2011, 2012, 2013 and 2014 and the AMCON in 2012, 2013 and 2014.

Target Examination

The department during the period conducted target examinations on all the institutions under its purview as at December 31, every year. The examinations, which focused on the risk assets of institutions, were primarily to determine the adequacy of provisions on risk assets for the financial year in line with paragraph 12.4 of the Prudential Guidelines for Banks and Discount Houses issued in 2010. The target examinations were also carried out to assess the reasonability or otherwise of institutions' reported income for the financial year.

Prior to 2011, foreign exchange examination was carried out as an integral part of routine examination. However, in 2011, foreign exchange examination was separated due to emerging risks and the added importance attached to foreign exchange transactions in banks. The main objective of the examination was to ensure banks' compliance with extant foreign exchange regulations. The exercise covered critical areas such as the analysis of sources and uses of foreign exchange; review and reconciliation of nostro accounts; and trade documentation. The examination revealed that most DMBs were not compliant with

extant regulations on foreign exchange transactions including approved Net Foreign Currency Trading Position; returns rendition; documentation and issuance of certificates of capital importation.

To further highlight the importance of foreign exchange examination, the FX Examination Group, with responsibility for foreign exchange examination, was created in the department in 2012.

3.03 ON-SITE EXAMINATION OF CROSS-BORDER SUBSIDIARIES AND BRANCHES

Following the issuance of a framework for cross-border supervision of banks in 2010, the CBN in June 2011 recommenced the on-site examination of offshore branches and subsidiaries of Nigerian banks. The on-site examinations were carried out using the risk-based supervision (RBS) methodology, except for subsidiaries in The Gambia, Sierra Leone and Guinea, which were examined using the compliance-based approach in line with the supervisory methodology of the host supervisors.

The on-site examinations were carried out on joint and solo basis.

i. Joint Examination

This arrangement involved the host supervisor leading the examination with specific areas of the work assigned to members of the home and host supervisory team based on proven competencies. Supervisory findings and recommendations were discussed and agreed by both parties before presentation to the regulated institution. Upon the conclusion of the examination, the host supervisor retained the responsibility for collating and finalising the supervisory report for issuance as well as following up on the implementation of supervisory recommendations.

ii. Solo Examination

Under the solo arrangement, the on-site examination of offshore subsidiaries was carried out solely by CBN examiners, with supervisory findings and recommendations discussed with the host supervisor at the end of the visit.

On-site Examinations

A total of 68 on-site examinations of offshore subsidiaries and branches were conducted, out of which 39 were joint and 29 were solo.

In 2011, the CBN and host supervisors jointly examined 14 subsidiaries of seven Nigerian banks in The Gambia, Ghana, Guinea, Liberia and Sierra Leone, under the auspices of the

College of Supervisors of the West African Monetary Zone (CSWAMZ), (see Appendix IV and V). Five of the subsidiaries were assigned a composite risk rating of 'moderate', seven were rated 'above average' and two 'high'.

In 2012, the CBN conducted eight joint and 11 solo examinations in Africa, Europe, and the United States of America. Of the 19 entities examined, six were assigned a composite risk rating of 'moderate', seven were rated 'above average' and six 'high'.

Twenty-one (21) on-site visits were undertaken in 2013, 15 with host supervisors and six on solo basis. Six entities were assigned composite risk rating of 'moderate', eight were rated 'above average' and seven were rated 'high'.

In 2014, the CBN conducted 14 on-site examinations of offshore entities, out of which two were joint and 12, solo. Three entities were assigned a composite risk rating of 'moderate', two 'above average', and one 'high'; while the reports of the remaining eight were being finalised at end-December 2014.

General Findings

The on-site examination of the offshore subsidiaries highlighted the following common observations:

- a. High percentage of non-performing loans (NPLs);
- b. Declining profitability due to high operating cost;
- c. High credit concentration;
- d. Poor corporate governance;
- e. Poor risk management practices and weak internal controls; and
- f. High incidence of fraud and forgery.

Other supervisory concerns were funding, liquidity, regulatory compliance and market risks. The funding risks arose from overdependence on the parent banks and the CBN for wholesale funds and deposits as well as the dearth of stable retail deposits. The major source of risk for the banks was inadequate AML/CFT procedures, as well as volatility in the foreign exchange and derivatives markets.

Overall, the CBN sustained efforts at ensuring that foreign subsidiaries, branches and representative offices of Nigerian banks are closely monitored, while enhancing regulatory cooperation with host supervisors.

3.04 IMPLEMENTATION OF BASEL II IN NIGERIA

Pre-Commencement

As part of preparations towards the implementation of Basel II in Nigeria, the CBN conducted a baseline survey of the industry between July and August 2012.

The survey was to gauge the level of preparedness of the industry for the implementation of Basel II, proffer appropriate solutions to bridge any gaps identified and determine the effects of the implementation of Basel II on individual banks, the banking industry and the Nigerian economy.

Findings of the baseline survey:

- i. Quality of capital assessment: Seven of the 21 banks had no Tier 2 capital, while 1 bank had more than 50 per cent of its capital in the form of Tier 2. Furthermore, only 4 banks used hybrid debt capital.
- ii. Calculation methodologies and approaches: Ten banks proposed the adoption of the Standardised Approach, six planned to adopt the Internal Ratings-Based (IRB) Approach, while five were undecided.
- iii. Risk management: Eight banks used more than one credit risk mitigation technique, eight used the standard supervisory haircuts, while three used their own-estimate haircuts. In addition, 12 banks had an internal audit function that reviewed their risk management systems on a regular basis.
- iv. Market Risk Practices and Exposures: Industry exposure to market risk was generally low. However, banks had clearly defined policies and procedures for calculating market risk, and used mark-to-market or mark-to-model approaches for valuation.
- v. Operational Risk: Data collection remained a major challenge for most banks.
- vi. Liquidity Risk: The assessment of liquidity risk indicated that most banks had liquidity contingency plans, with the main sources of funding being domestic counterparties.

Commencement of Implementation

Following a review of the baseline survey, an action plan was developed and draft guidelines for the measurement and calculation of capital for banks issued to the industry

in December 2012 for stakeholder comments. Thereafter, the CBN released Guidance Notes for Basel II implementation in Nigeria on December 10, 2013.

The Guidance Notes

The Guidance Notes required banks to commence a six-month parallel run of Basel I and Basel II regulatory capital adequacy computations with effect from January 2014. However, challenges encountered during the period of the parallel run necessitated a three-month extension with the adoption of Basel II provisions commencing on October 1, 2014.

The basic approaches for calculating minimum capital requirements for the three categories of risks under Pillar 1, namely: credit, market and operational risks, were adopted. The approaches are:

- i. For credit risk capital requirement, banks were directed to adopt the Standardised Approach. However, all exposures to corporate entities were to be treated as unrated and assigned a risk weight of 100 per cent;
- ii. For market risk capital requirement, banks were required to adopt the standardised measurement method based on the “building block” approach for estimating their capital requirements for market risk;
- iii. To calculate their capital requirement for operational risk, banks were required to adopt the Basic Indicator Approach by applying a factor of 15 per cent to average positive three-year annual gross income.
- iv. Concerning the Supervisory Review Process, banks were required to develop an ICAAP to ensure that the risks being faced were identified, measured, assessed and monitored on an on-going basis and that current and future internal capital requirements took into consideration growth prospects, corporate strategies, changes in anticipated risks, as well as stress requirements. On its part, the CBN would conduct the Supervisory Review and Evaluation Process (SREP) on banks' internal capital assessment to review the soundness of the ICAAP and evaluate it against the expectations outlined in the guidance notes.
- v. The guidance notes also set out the qualitative and quantitative disclosure requirements, frequency, and procedure.

The basic approaches were expected to be implemented for two years in anticipation of the development of a robust rating system in Nigeria within the period; and the enhancement of the capacity of banks to gather reliable data and gain experience that would prepare

them for the adoption of the advanced approaches.

Parallel Run of Pillar I Implementation

Following the commencement of the parallel run of the implementation of Pillar I of Basel II in 2014, banks had started rendering their monthly returns using Basel II rules. The analysis of the returns revealed several anomalies, key among which were:

- i. Inappropriate use of risk-weights, e.g. exposures to banks outside Nigeria (including foreign currency);
- ii. Improper reporting of market risk;
- iii. Ineligible disclosures on credit risk mitigation (CRM);
- iv. Incorrect classification of exposures and inappropriate application of credit risk mitigation by banks.

These anomalies formed the basis for further engagement with the banks in July 2014, to provide clarity and additional guidance on implementation.

ICAAP Submission

Financial institutions were required to submit their ICAAP documents on an annual basis beginning with the first ICAAP submissions at end-December 31, 2013, on or before April 30, 2014.

A review of the ICAAP reports was carried out in line with the requirements of the Guidance Notes on the Supervisory Review and Evaluation Process (SREP), leading to further engagement with the institutions. The dialogue process was used to convey critical observations made during the review to the institutions and reiterate supervisory expectations.

Capacity Building for Implementation

Recognising the importance of building the capacity of examiners as part of the implementation process, 175 examiners from the CBN and the NDIC were sensitised on the review of ICAAP documents

Also, training on the requirements of Pillar II was organised for 121 examiners from the CBN and NDIC.

The implementation of Basel II in Nigeria is designed to enhance risk management

practices in banks, align banks' capital with their risks, encourage transparency and promote market discipline. The framework provides incentives for banks to develop their risk management systems as part of the investment needed for successful implementation. Ultimately, banks that adopt sound risk management practices will be rewarded with lower capital requirements.

3.05 REVIEW OF INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS OF BANKS

The CBN, in December 2013, issued a circular referenced BSD/DIR/CIR/GEN/LAB/06/053 on the Implementation of Basel II/III in Nigeria. The circular introduced the six Guidance Notes for capital measurement and management for banks, in line with the three pillars of the Basel II Framework. The Guidance Notes, which provided broad guidelines on the application and implementation of the Basel II Framework, were on:

- i. Calculation of Regulatory Capital
- ii. Calculation of Capital Requirement for Credit Risk
- iii. Calculation of Capital Requirement for Market Risk
- iv. Calculation of Capital Requirement for Operational Risk
- v. Supervisory Review and Evaluation Process
- vi. Pillar III – Market Discipline

The circular further requires financial institutions to conduct an internal capital adequacy assessment annually, commencing end-December 2013. The resultant Internal Capital Adequacy Assessment Process Report (ICAAP) was to be submitted to the CBN not later than four months after the financial year-end.

A review of the ICAAP reports was carried out in line with the requirements of the Guidance Notes on the Supervisory Review and Evaluation Process (SREP). The notes provided for two broad aspects of the supervisory review process, namely:

- i. The Internal Capital Adequacy Assessment Process; and
- ii. The Supervisory Review and Evaluation Process.

Supervisory Review and Evaluation

A total of 26 ICAAP reports received from banks and discount houses, for the financial year

ended December 31, 2013, were reviewed. The supervisory review process was conducted to evaluate the soundness of banks' ICAAP against the expectations set out in the guidance notes. In this regard, the comprehensiveness of the ICAAP, quality of risk management, appropriateness of the financial institutions' internal capital targets and their capacity to meet the targets, were assessed. The major observations from the review included:

i. Risk Identification

The 26 reporting financial institutions identified significant risks that could impact their operations and strategic objectives.

In 2013, a total of 38 risk types, were identified by the financial institutions as incidental and likely to impact the achievement of their objectives. (See Table 2).

List of All Risk Types Identified by FIs in the 2013 Financial Year							
SN	Risk Type	SN	Risk Type	SN	Risk Type	SN	Risk Type
1	Credit risk	11	Downgrade risk	21	Model risk	31	Structural risk
2	Market risk	12	Equity risk	22	Money laundering risk	32	Systemic risk
3	Operational risk	13	External risk	23	Pension risk	33	Taxation risk
4	Accounting risk	14	Franchise risk	24	Regulatory/Compliance risk	34	Technology risk
5	Business Cycle risk	15	Fraud risk	25	Reputational risk	35	Underwriting risk
6	Business risk	16	Insurance risk	26	Residual risk	36	Valuation risk
7	Collateral Management risk	17	Investment risk	27	Securitization risk	37	Volume and margin risk
8	Concentration risk	18	IRRBB	28	Settlement risk	38	Wrong way risk
9	Counterparty/Settlement risk	19	Legal risk	29	Strategic/business risk		
10	Country risk	20	Liquidity risk	30	Stress test risk		

Source: ICAAP Reports

i. Risk Measurement and Capital Allocation

The financial institutions in their risk measurement and capital allocation used various sources of data, including loss data, risk management reports, litigation records and macro-economic trends. Institutions thereafter, either allocated capital to these risks or showed evidence of having appropriate and effective mitigants in place.

ii. Stress Testing

Some financial institutions were able to demonstrate the existence of a programme for conducting stress tests, which showed the adequacy of their internal capital assessments and the robustness of their capital cushions/buffers above the regulatory minimum. Institutions that had challenges in providing adequate stress testing frameworks were engaged and mediated in the post ICAAP review.

Section 2.0 of the SRP Guidance Notes vests the ownership of the ICAAP on the boards of the financial institutions. However, there was inadequate evidence in the ICAAP submissions to support or demonstrate clear ownership and/or the involvement of the board in the process. Also, there was little information on the involvement of other stakeholders and external parties in the review. Further to the identification of these shortcomings, the attention of the institutions was drawn thereto with a view to correcting them.

iii. Engagement and Dialogue

In 2014, the CBN, as part of the supervisory review and evaluation process, engaged 12 banks and two discount houses in dialogue to clarify and justify their ICAAP submissions. The dialogue sessions were also used to relay to the institutions critical observations made in the course of the review and reiterate supervisory expectations.

The review of the first set of ICAAP submissions has deepened the knowledge of both the supervisors and the institutions on the process and requirements of an in-depth capital adequacy assessment. It is expected that the experience gained from the exercise would be brought to bear on subsequent preparations and reviews.

3.06 IMPLEMENTATION OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

Roadmap for the Adoption of IFRS

The Federal Executive Council, on July 28, 2010, approved the adoption of IFRS in Nigeria, through a phased transition approach beginning January 1, 2012.

In the first phase, publicly listed and significant public interest entities were to adopt IFRS by January 1, 2012. Included in this category were DMBs, discount houses, credit bureaux and publicly listed OFIs. The second phase involved all other public interest entities, which were required to adopt IFRS by January 1, 2013. Non-Interest banks and unlisted PMBs fell into this category.

In the third phase, all small and medium-sized entities were expected to adopt IFRS for SMEs by January 1, 2014. Included in this category were OFIs under the purview of the CBN, which were not included in the first and second phases. Entities that did not meet the requirement for reporting under IFRS for SMEs were to use Small and Medium-sized Entities Guidelines on Accounting (SMEGA) Level 3, issued by the United Nations Conference on Trade and Development (UNCTAD).

Approach to IFRS Implementation

The framework for IFRS implementation, approved in December 2010, assigned roles to major internal and external stakeholders and spelt out the governance structure to include the following:

Project Implementation Committee;

Steering Committee; and

Technical Committee.

The Project Implementation Committee, comprising the Deputy Governor, Financial System Stability (DG-FSS) as Chair, the Managing Director of NDIC as alternate Chair and members of the Steering Committee, was designated the overall policy organ of the project. The Implementation Committee was responsible for ensuring effective supervision and implementation, as well as budgetary approvals and all major engagements relating to the project.

The Steering Committee comprised eight members, five from the CBN and three from the NDIC, and had the responsibility of providing direction and guidance in the implementation of the project.

The Technical Committee, which comprised members from the CBN and NDIC, is a sub-committee of the Steering Committee. The Committee was structured into six work groups, namely: Gap/Impact Analysis; Legislative Review; Information Technology Review; Internal Reporting; Capacity Building; and Mobilisation, Sensitisation and Administration.

At the commencement of implementation, banks were required to develop institution-specific plans, carry out gap/impact analysis and provide quarterly updates on the project implementation. The Technical Committee conducted on-site verifications to confirm the accuracy of the reports submitted by the banks and also gauge preparedness to convert from Nigerian Generally Accepted Accounting Principles (NGAAP+) to IFRS by January 1, 2012.

Guidance Notes were issued to aid the implementation of the project, including those on application of optional exemptions and creation of “Regulatory Risk Reserve Account”.

Benefits from the Adoption of IFRS

The adoption of IFRS in the Nigerian banking sector was expected to:

- i. Engender more robust disclosures, thus enhancing the level of transparency.
- ii. Improve understanding and comparability of financial statements, with potential for driving increase in investment in the sector.
- iii. Reduce costs associated with preparing different sets of financial statements to meet the requirements of different regulatory authorities by internationally active banks.

Implementation Challenges

The transition from NGAAP+ to IFRS posed substantial challenges to operators, regulators and auditors. The challenges related to:

- i. Difficulties in determining the fair values for assets and liabilities, given the depth of the Nigerian financial markets;
- ii. Technical issues, relating to realignment of systems, data availability, and infrastructure;
- iii. Inadequate capacity pertaining to knowledge of IFRS, development of models for impairment testing, valuation, among others;
- iv. Relatively short time allowed for implementation, making it difficult to test and validate models and systems; and
- v. Prohibitive cost of conversion, especially for smaller institutions.

Despite these challenges, the project was successfully concluded as all deposit money banks and discount houses commenced IFRS reporting on January 1, 2012, and published IFRS-compliant financial statements for the year ended December 31, 2012.

The implementation of IFRS in the Nigerian banking sector provided an opportunity for the sector to attain global comparability in financial reporting. It led to improved transparency as a result of the substantial disclosure required under IFRS. The more detailed disclosures would assist stakeholders in evaluating the true financial positions of financial institutions as a basis for informed decision making. Also, internationally active banks were no longer required to prepare different sets of financial statements to meet the requirements of different regulatory authorities, thereby reducing costs.

3.07 ACTIVITIES OF THE BANKERS' COMMITTEE

The Bankers' Committee held 36 scheduled meetings and five retreats between 2009 and

2014. The Committee also held breakfast meetings, mostly at the instance of the CBN, to deliberate on issues of urgent national importance in between the planned meetings. Discussions at the meetings of the Committee during the review period centred on the following issues:

i. Common Accounting Year-End

As part of efforts to create a level playing field for operators in the industry, the Committee participated actively in the drive towards the adoption of a uniform accounting year-end for all deposit money banks, discount houses and their subsidiaries. In this regard, the Committee, at its meeting in January 2008, adopted December 31 as the common accounting year-end in the industry, effective 2009.

ii. International Financial Reporting Standards (IFRS)

In 2009, following discussions with the Nigeria Accounting Standards Board (NASB) and other stakeholders, the Bankers' Committee supported the adoption of the International Financial Reporting Standards (IFRS) in Nigeria, with January 1, 2012 as the adoption date by all listed entities including deposit money banks. The financial statements of the deposit money banks and discount houses at end-December 2012 were fully IFRS compliant.

iii. Asset Management Corporation of Nigeria

The Bankers' Committee participated in the discussions leading to the establishment of the Asset Management Corporation of Nigeria (AMCON) on July 19, 2010. To support AMCON and strengthen the financial system, the Committee on January 14, 2011, established the Banking Sector Resolution Cost Fund to pool funds for shortfalls that may arise from the operations of the Corporation.

iv. Contribution to Real Sector Development

The Bankers' Committee, had since 2009, held annual retreats focused on the development of three key sectors of the economy, namely, agriculture, power and transportation. In line with the action plans developed at the maiden retreat, the Committee has recorded significant successes. These successes include: increased lending to the power and manufacturing sectors and SMEs; enhanced collaboration with state governments and Federal Ministries, Departments and Agencies in the identification of investment opportunities; establishment of CBN intervention funds targeted at the real sector; commencement of the Industry Infrastructure Transformation Programme to reduce industry cost of service; and economic advocacy resulting in regulatory reforms.

v. Cashless Policy

In recognition of the importance of the payments system to national economic development and in appreciation of the undermining effect of the dominance of cash transactions, the Bankers' Committee collaborated with the CBN to implement the Cashless Policy. This seeks to deploy modern payment infrastructure to increase the density and availability of alternative channels of payment. The Cashless Policy commenced with a pilot run in Lagos on January 1, 2012, aimed at reducing the amount of physical cash in circulation and encouraging more electronic-based transactions.

vi. Gender Diversity

The Bankers' Committee, during the review period, advocated the appointment of qualified women into leadership and decision-making positions in the industry. In this regard, it declared 2012 as the year of 'Women Economic Empowerment'. Consequently, a decision was reached to allocate 40 per cent of senior management and 30 per cent of board positions in banks and discount houses to women by 2014.

vii. Financial Markets' Initiatives

During the review period, the Bankers' Committee also carried out the under listed activities aimed at developing the financial market:

- a. Streamlined money market operations - repo market, securities lending and foreign exchange trading;
- b. Established the FMDQ Bloomberg E-Bond Trading System;
- c. Developed a competency framework for the industry;
- d. Facilitated market deepening for infrastructure bonds;
- e. Securitised loans through the listing of corporates; and
- f. Deepened the market through interface and engagement with the National Pension Commission (PENCOM), Pension Fund Operators Association of Nigeria (PenOp), Securities and Exchange Commission (SEC) and Nigeria Commodity Exchange (NCX).

viii. Sustainable Banking

The Bankers' Committee led efforts at enhancing the principles of sustainability in banking, in recognition of the importance of a balanced approach to growth and development. To

this end, the Committee executed a joint commitment statement with sector regulators and financial services providers, towards the implementation of the Nigerian Sustainable Banking Principles (NSBP). The NSBPs comprised nine principles, three sector guidelines and guidance notes.

The Principles were developed to guide banks in the evaluation and management of environmental and social issues associated with their core activities and operations (i.e. physical branches, assets and infrastructure used by banks as well as suppliers, contractors and third party providers that support the banks).

ix. Shared Services Initiatives

In collaboration with the CBN, the Committee, during the period, embarked on a Shared Services programme intended to achieve the following key objectives:

- a. Reduce industry cost-to-serve by 30 per cent;
- b. Increase access, convenience and service levels across the industry; and
- c. Enable greater financial inclusion and integration of financial services into the economy.

The initiatives to achieve the above objectives include:

Cash management, which was aimed at industrialising cash management and logistics (storage, processing and movement);

Payment systems transformation aimed at facilitating the growth of electronic payments and increasing the availability, reliability and security of electronic channels;

IT infrastructure and services, aimed at increasing the efficiency and reducing the cost of operations and/or maintenance of IT and infrastructure (application management, data centre, shared network, shared power, etc.);

IT standards aimed at aligning IT standards across the industry to improve efficiency, while driving data integrity and enabling information exchange; and

Back office operations aimed at enabling cost reduction through shared back office operations (centralised processing, collections, etc.).

x. The National Financial Inclusion Strategy

The Committee participated in the development and deployment of the National Financial Inclusion Strategy, launched in October 2012. The objective was to reduce the number of adults excluded from access to financial services from 46.3 per cent in 2010 to 20 per cent in 2020. The strategy identified the need to increase access to financial services (credit, payment, savings, products etc.) and channels [ATMs, Points of Sale (PoS), retail agents, DMB branch networks etc.] to achieve the target.

xi. Security

The Committee, at its meeting of August 13, 2013, agreed to contribute N1 billion for the purchase of security hardware, including armoured personnel carriers, patrol vehicles and ballistic vests, as part of the banking community policing initiative.

xii. Bank Verification Number

In furtherance of efforts to ensure the safety and soundness of the banking system, the Committee, in collaboration with the CBN, launched the Bank Verification Number (BVN) project in February 2014. The project was designed to leverage on biometrics to enhance the process of identity management through the creation of a unique identifier for each customer in the banking system.

Overall, the Bankers' Committee continued to occupy a unique position that positively impacted the banking industry during the review period. Through engagement with stakeholders and numerous initiatives, the Committee contributed significantly to the safety and soundness of the Nigerian banking system.

3.08 SUPERVISION OF OTHER FINANCIAL INSTITUTIONS

At end-December 2014, there were 3,519 other financial institutions (OFIs), comprising 884 microfinance banks (MFBs), 42 Primary Mortgage Banks (PMBs), 64 Finance Companies (FCs), six Development Finance Institutions (DFIs) and 2,523 Bureaux de Change (BDCs).

Off-site surveillance of OFIs was conducted through regular review of statutory returns to ascertain their financial condition. Also, requests for appointments to board and top management positions; increase in capital; establishment, relocation and closure of branches; and publication of audited financial statements, among others, were processed.

Highlights of on-site examinations carried out during the review period, were as follows:

i. Microfinance Banks

On-site examinations were conducted on 668 MFBs in 2009; 820 in 2010; 790 in 2011; 844 in 2012; and 797 in 2013. Of the 884 MFBs in existence at end-December 2014, on-site examinations were conducted on 834. Fifty MFBs were not examined as they had not operated for up to six months at end-December 2014 to qualify for maiden examinations. The examinations revealed that 50 percent of the institutions were well-capitalised, while 80 percent were liquid. However, the average portfolio-at-risk, which stood at 47 percent at end-December 2014, exceeded the prescribed maximum of five percent, indicating poor asset quality. The total assets of MFBs were N166.64 billion, N170.58 billion, N190.70 billion, N222.77 billion, N270.90 billion and N327.52 billion at end-December 2009, 2010, 2011, 2012, 2013 and 2014, respectively.

Post-examination monitoring exercises conducted during the period revealed, generally, a low level of compliance with examiners' recommendations by MFB operators. Appropriate penalties were imposed on defaulting institutions.

Regulatory concerns from the on-site examinations during the period under review included:

a. Level of Non-Performing Loans

The average level of portfolio-at-risk (PAR) ranged from 45.6 to 51.8 percent, during the period under review, compared to the prescribed maximum of five percent. The high level of PAR indicated poor asset quality, attributable to poor credit administration, weak credit risk management, and harsh economic conditions.

b. Capital Adequacy

Average Capital Adequacy Ratio (CAR) of the sub-sector was above the prescribed minimum of 10 percent during the period, except in 2012 when it was 6.23 percent as a result of capital depletion arising from higher provisions for non-performing loans and other known losses.

c. Liquidity

Average Liquidity Ratio of the sub-sector, which ranged between 71 and 102 percent during the period, was above the prescribed minimum of 20 percent. This indicated that the MFBs did not effectively play their role as financial intermediaries within the host communities.

ii. Primary Mortgage Banks

On-site examinations were conducted by the CBN and the NDIC on nine, 100, 75 and 89 PMBs in 2009, 2010, 2012 and 2013, respectively. During the third quarter of 2014, the RBS methodology was introduced in the examination of 32 out of the existing 42 PMBs, with the balance of 10 PMBs representing those that had not met the new minimum capital requirements. The examinations revealed the dominance of commercial loans over mortgage loans, indicating that the operational focus of PMBs was not on their core mandate of creating mortgage assets. Following appeals by stakeholders, the deadline for the conclusion of the recapitalisation exercise in respect of the 10 PMBs was extended to end-December 2014. The total assets of PMBs were N333.49 billion, N358.81 billion, N357.12 billion, N348.14 billion, N484.01 billion and N413.67 billion at end-December 2009, 2010, 2011, 2012, 2013 and 2014, respectively.

iii. Finance Companies

Three new institutions were licenced in 2014, increasing the number of FCs in operation from 61 at end-December 2013, to 64 at end-December 2014. In 2013, on-site examinations were carried out on 55 out of the 61 FCs. Issues of regulatory concern from the examination included, under-capitalisation, poor asset quality, weak corporate governance, inadequate risk management practices and poor quality of manpower. Twenty-two FCs had shareholders' funds (unimpaired by losses) above the regulatory minimum of N20 million, while 39 operated below the threshold. The average NPL ratio stood at 40.7 per cent, well above the prescribed maximum of 20 per cent.

Consequently, as part of reform measures to reposition the FCs, the minimum capital requirement was increased from N20 million to N100 million in April 2014, with a compliance deadline of September 30, 2015.

The on-site examination of the 64 FCs at end-September 2014 commenced in December 2014 using the RBS methodology. The total assets of FCs were N120.90 billion, N113.78 billion, N117.59 billion, N78.31 billion, N103.05 billion and N119.59 billion at end-December 2009, 2010, 2011, 2012, 2013 and 2014, respectively.

The off-site assessment of FCs at end-December 2014 resulted in the following classifications:

- a. Twenty-four (24) were categorised as sound;
- b. Six (6) as marginal;
- c. Six (6) as unsound; and

- d. Twenty-four (24) as technically insolvent.

Four (4) FCs were not assessed as they were undergoing restructuring.

iv. Development Finance Institutions

There were six DFIs under the supervisory purview of the CBN at end-December 2014, namely: Bank of Agriculture (BOA); Bank of Industry (BOI); Federal Mortgage Bank of Nigeria (FMBN); Nigerian Export-Import Bank (NEXIM); The Infrastructure Bank (TIB); and the National Economic Reconstruction Fund (NERFUND).

On-site examination of the DFIs was conducted annually from 2009 to 2013, with the 2013 examination based on the RBS methodology. The total assets of the six DFIs grew from N442.20 billion at end-December 2012 to N586.66 billion at end-December 2013, while total loans and advances grew from N219.64 billion to N358.21 billion during the same period. Shareholders' funds increased from N70.85 billion at end-December 2012 to N225.9 billion at end-December 2013.

Examination of the six DFIs at end-December, 2013, revealed that the financial conditions of three were weak, due largely to weak corporate governance, and high levels of non-performing loans, which resulted in negative shareholders' funds.

v. Bureaux de Change

The number of BDCs increased from 1,601 in 2009 to 1,959, 2,051, 2,278 and 2,889 in 2010, 2011, 2012 and 2013, respectively. The increase was as a result of the liberalisation of access to foreign exchange by the CBN during the review period. The number of BDCs, however, declined to 2,523 at end-December 2014, largely as a result of the inability of some institutions to meet the revised minimum capital requirements set during the year.

Spot checks were conducted on selected numbers of BDCs yearly from 2009 to 2014. The spot checks conducted in 2014 revealed that operators contravened regulations mainly in the areas of documentation and utilisation of foreign exchange. Erring institutions were appropriately sanctioned.

In realisation of the importance of the OFI sub-sector in promoting economic development through the provision of credit and financial services to the economy, the CBN embarked on a number of reform programmes and initiatives to address challenges facing the sub-sector. It is expected that as these reforms and initiatives take root, the sub-sector would be revitalised to deliver on its mandate.

3.10 CONSUMER PROTECTION ACTIVITIES

The CBN had over the years implemented measures aimed at addressing complaints from consumers of financial services. Consistent with this policy, a Consumer Protection Office (CPO) was created in the Financial Policy and Regulation Department (FPRD) in 2010. However, the activities of the office centred mostly on complaints management, with little attention to financial literacy and regulation of market conduct. To address this shortcoming, the Consumer Protection Department (CPD) was created in April 2012.

The overarching mandate of the department was to develop and implement a framework that promotes consumer confidence in the financial system through policies designed to:

- i. Provide redress mechanisms for complaints by consumers against banks and other financial institutions;
- ii. Promote financial education;
- iii. Ascertain the level of compliance with policies and regulations by financial institutions; and
- iv. Ensure fair and responsible market conduct among financial service providers.

The department was structured into three divisions, namely Consumer Education, Market Conduct, and Complaints Management.

Activities of the Consumer Protection Department

During the period under review, the department carried out the following activities:

i. Sensitisation Programmes

Phased sensitisation workshops, which involved engagements with consumer groups, financial service providers and selected print and electronic media, were held across the six geopolitical zones. The focus of the sensitisation programme was to acquaint consumers of financial services of their rights, and the operators on the need to be fair in handling consumers' affairs, while the media was to create publicity on the existence of the consumer protection regime.

The first phase of the programme, held in 2013, covered Abeokuta, Kano, Port Harcourt, Gombe and Jos; while the second phase, held in 2014, covered Enugu, Ibadan, Sokoto, Calabar, Bauchi, Owerri, and Minna. The sensitisation programme is expected to cover the entire country in due course.

ii. Baseline Survey

The CBN, in collaboration with the National Bureau of Statistics (NBS), conducted a national baseline survey in April 2014 to determine the level of financial literacy in Nigeria. This was to enable the development of evidence-based financial literacy programmes and policies.

iii. Complaints Management

Between March 2010 and December 2014, a total of 4,994 complaints from customers of financial institutions were received. Out of this, 1,723 were resolved or closed, resulting in total refunds of N17.15 billion, \$2.10 million and €83.00 to consumers.

As part of the complaint management process, six, 36 and 18 meetings were held to resolve disputes between customers and financial service providers in 2012, 2013 and 2014, respectively.

iv. Compliance Spot Checks

In 2012, compliance spot checks were conducted on 20 banks to ascertain the level of compliance with the requirements of a circular referenced FPR/DIR/CIR/GEN/01/020 issued on August 16, 2011 mandating banks to establish Consumer Protection Helpdesks to handle customer complaints. Findings of the spot checks revealed that all the banks established helpdesks. However, in many instances the helpdesks were inadequately manned.

In 2013, spot checks were conducted on 20 banks to determine their compliance with provisions of the Guide to Bank Charges (GBC) and other regulatory directives. The exercise revealed the following compliance levels:

- a. Structure and manning of Consumer Protection Helpdesks as specified in the Helpdesk circular (95 per cent);
- b. Adoption of the template for disclosure of consumer complaint information in financial statements (65 per cent);
- c. Commission on Turnover (CoT) charges (80 per cent); and
- d. Interest payment on savings account (65 per cent).

In 2014, the checks were conducted on 20 banks with the following average compliance levels:

- a. CoT charges (80 per cent);
- b. Charges for SMS alert (80 per cent);
- c. Minimum disclosure requirements in offer letters (83 per cent);
- d. Lending and facility fees (97 per cent); and
- e. Upload of complaints on the Consumer Complaints Management System – CCMS (20 per cent).

v. Tools for Effective Consumer Protection

The Consumer Complaints Management System (CCMS), a web portal that enables the submission, monitoring and resolution of consumer complaints, was deployed by the CBN in July 2013, with a pilot run on four banks. By end-December 2014, all DMBs had successfully been connected to the platform.

vi. Issuance of Policies and Frameworks

The following policies and frameworks were issued:

- a. The revised Guide to Bank Charges, effective April 1, 2013, which standardised fees for financial products and services offered by banks, in collaboration with the Bankers' Committee.
- b. A circular referenced FPR/DIR/CIR/GEN/01/020 and dated August 16, 2011 which directed that:

Financial institutions should establish consumer complaints' help desks in their head offices and branches;

Complaints against financial institutions should be lodged with the affected institution by customers before being escalated to the CBN;

Consumer complaints at the head offices and branches of banks should be managed by an officer not below the grade of an AGM and Senior Banking Officer, respectively;

Financial institutions should submit monthly returns on all customer complaints to the CBN; and

Financial institutions should disclose information on consumer complaints

received and resolved in their approved financial statements.

- c. The Financial Literacy Framework issued in 2012, which details strategies for improving financial literacy.

vii. Establishment of Consumer Protection Champions' Forum

To enhance the relationship between the operators and consumers of financial services, a Consumer Protection Champions' Forum was established in 2013. The objective of the Forum was to improve interaction and understanding with banks on consumer-related initiatives. Banks were required to appoint consumer protection champions who would liaise with the CBN on relevant policy issues. The Forum met twice during the review period.

Challenges

Challenges affecting the entrenchment of a robust consumer protection regime in the industry were identified to include:

- i. Inadequate internal capacity to deal with the rising number of complaints by customers of financial institutions.
- ii. Inadequate consumer education, inhibiting the exercise of their rights.
- iii. Corporate culture that does not support the exercise of consumer rights in some financial institutions.

The stability of the banking system is largely dependent on consumer confidence, which is best guaranteed by effective redress mechanisms, robust financial literacy regime and fair market regulation. To further entrench consumer protection in the Nigerian banking industry, efforts are being made to review the Financial Literacy Framework and also develop a Consumer Protection Framework that would provide context and direction for the execution of consumer protection initiatives.

CHAPTER FOUR:
PERFORMANCE TRENDS IN THE
BANKING SYSTEM

4.01. BALANCE SHEET STRUCTURE AND TRENDS

The total assets of the 24 Deposit Money Banks (DMBs) increased by N3,073.4 billion, from N23,202.1 billion at end-December 2013, to N26,275.5 billion at end-December 2014, representing an increase of 13.2 per cent. The composition of the total assets at end-December 2014 was cash and due from other banks 25.6 per cent (2013: 25.1%); money at call/placements 1.4 per cent (2013: 1.9%); government securities 11.6 per cent (2013: 17.2%); other short-term funds 0.9 per cent (2013: 0.6%); net loans and advances 44.6 per cent (2013: 39.7%); investments 9.0 per cent (2013: 9.1%); other assets 4.1 per cent (2013: 3.5%) and fixed assets 2.8 per cent (2013: 3.0%).

Net loans and advances, which constituted the largest item, increased by N2,510.1 billion from N9,212.9 billion at end-December 2013 to N11,723.0 billion as at end-December 2014, representing an increase of 27.3 per cent.

The liability items also recorded increases between December 2013 and December 2014. In this regard, total deposit liabilities increased by N1,251.7 billion from N16,771.7 billion at end-December 2013 to N18,023.4 billion at end-December 2014, representing an increase of 7.5 per cent.

The aggregate balance sheets from 2009 to 2014 with breakdown of components are shown in Figures 1, 2, 3 and 4.

Figure 2: Banking Industry Total Assets (2009-2014)

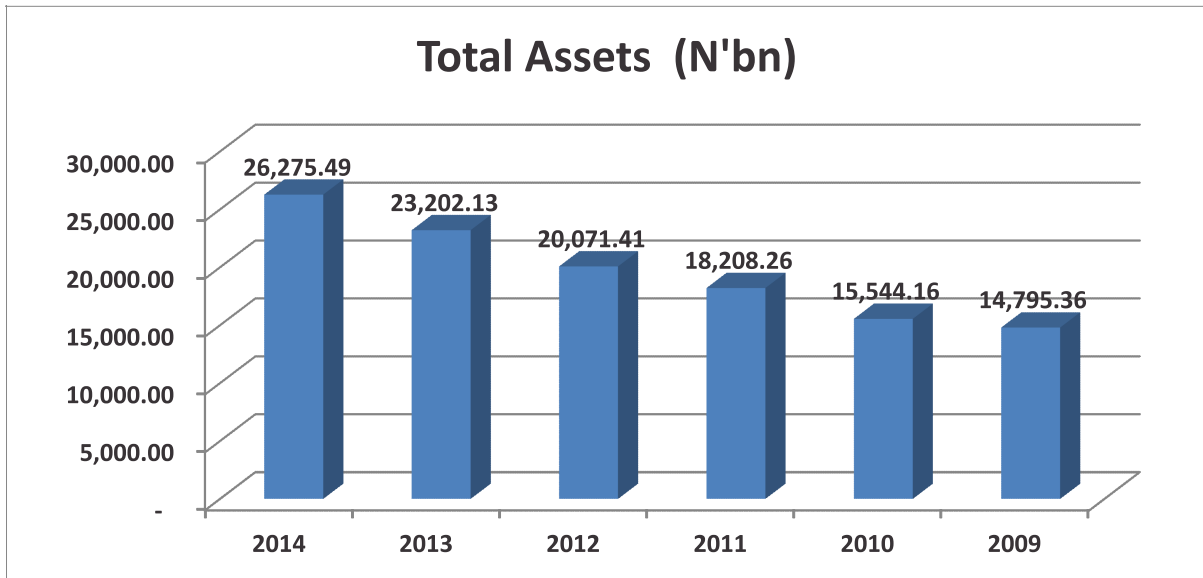


Figure 3: Banking Industry Composition of Assets (2009-2014)

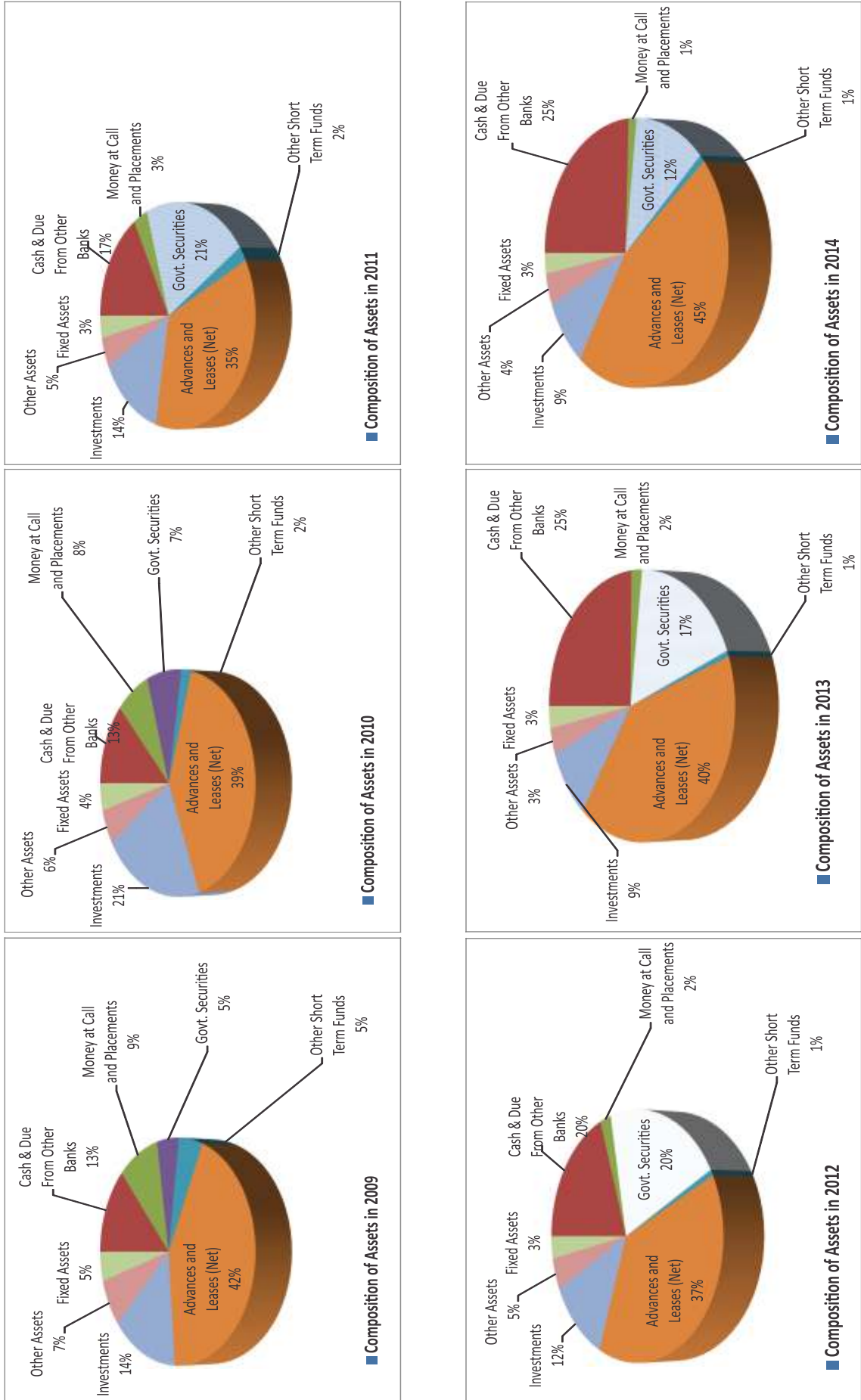
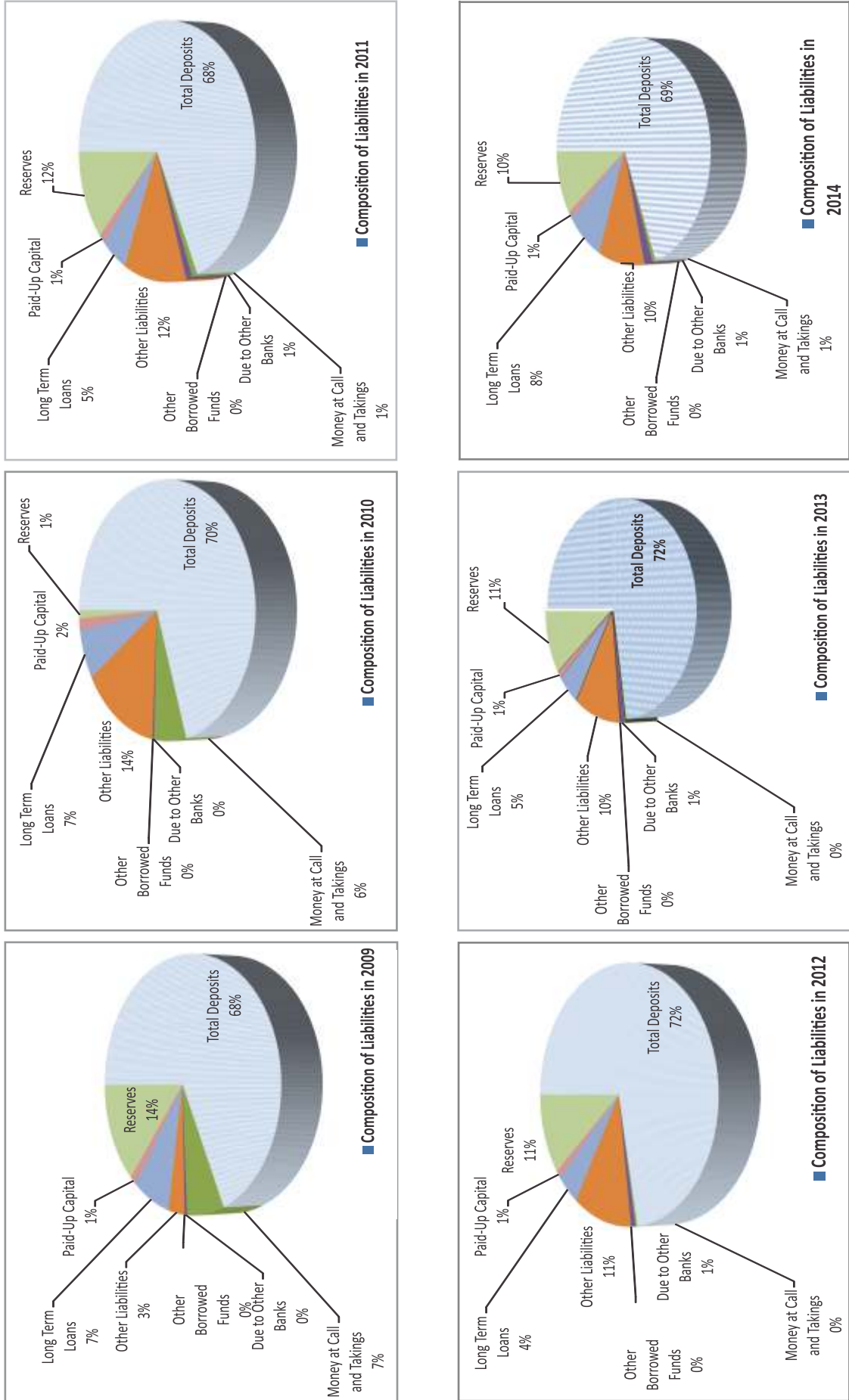


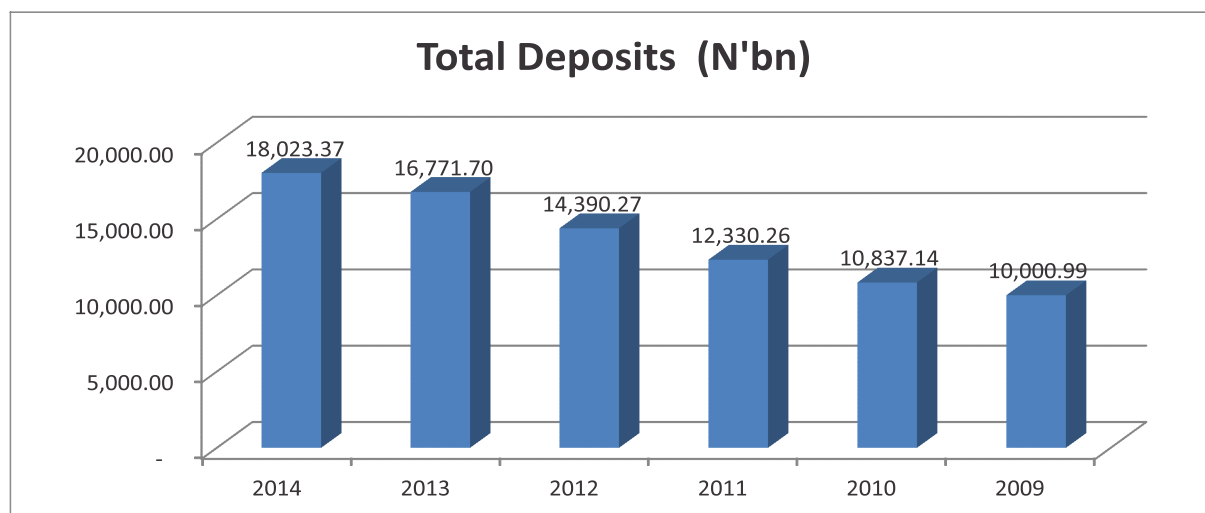
Figure 4: Banking Industry Composition of Liabilities (2009-2014)



DEPOSIT LIABILITIES AND LIQUIDITY

Deposit liabilities grew from N10,001.0 billion at end-December 2009, to N10,837.1 billion, N12,330.3 billion, N14,390.3 billion, N16,771.7 billion and N18,023.4 billion at end-December 2010, 2011, 2012, 2013 and 2014; representing growths of 8.4, 13.8, 16.7, 16.7 and 7.5 per cent, respectively (see Figure 5).

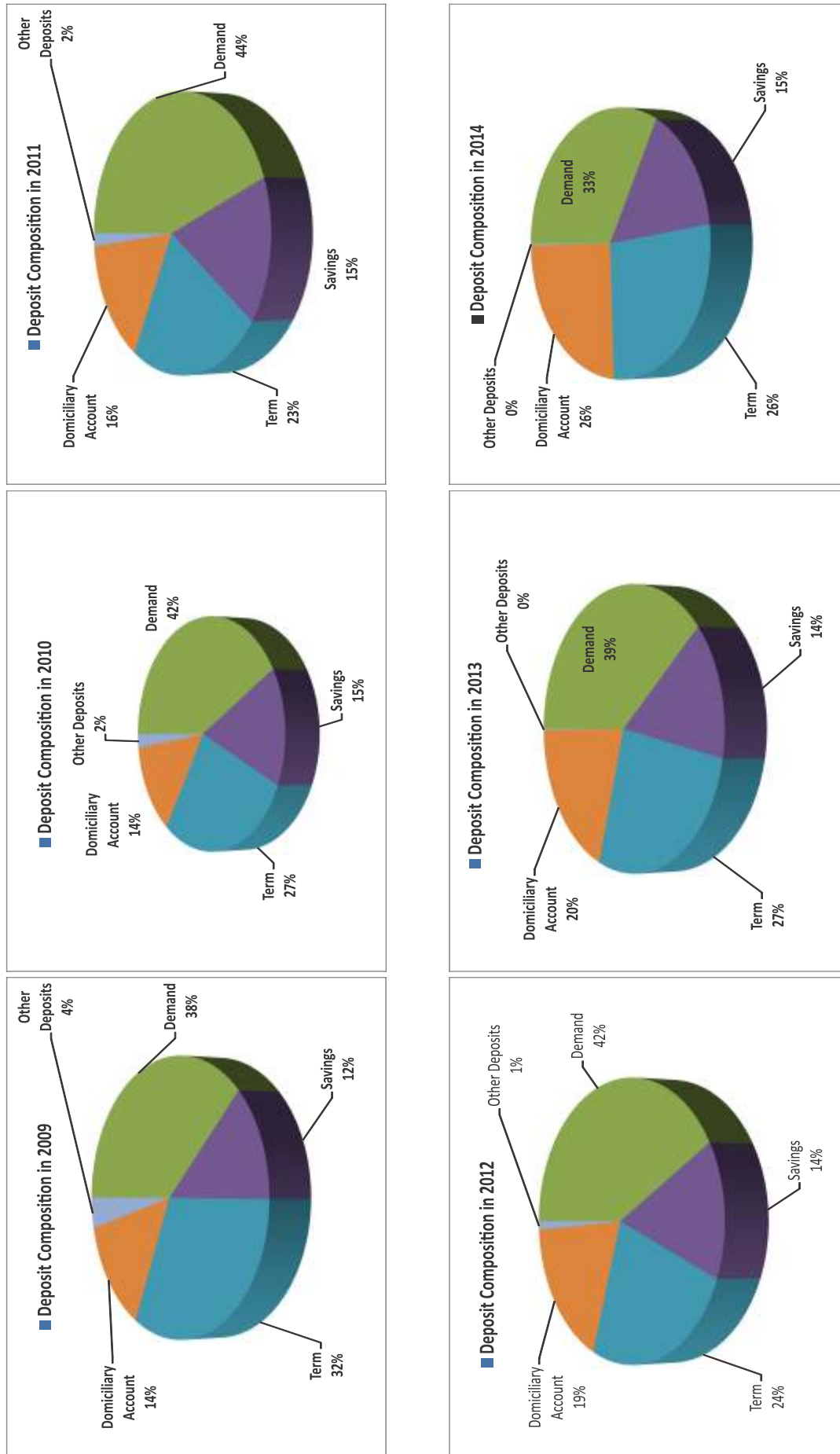
Figure 5: Banking Industry Total Deposits (2009-2014)



Analysis of deposits by type revealed that demand deposit was the largest component accounting for 37.8, 41.7, 44.3, 41.8, 38.8 and 33.2 per cent in 2009, 2010, 2011, 2012, 2013 and 2014, respectively. (Figure 6).

In terms of the maturity profile of the deposits, 73.69 per cent of the deposits matured within 30 days at end-December 2014, which indicated a preponderance of short-term funds. This continued the trend from the preceding years, where short-term deposits comprised 74.51, 77.04, 76.40, 76.30 and 73.16 per cent of total deposits at end-December 2013, 2012, 2011, 2010 and 2009, respectively.

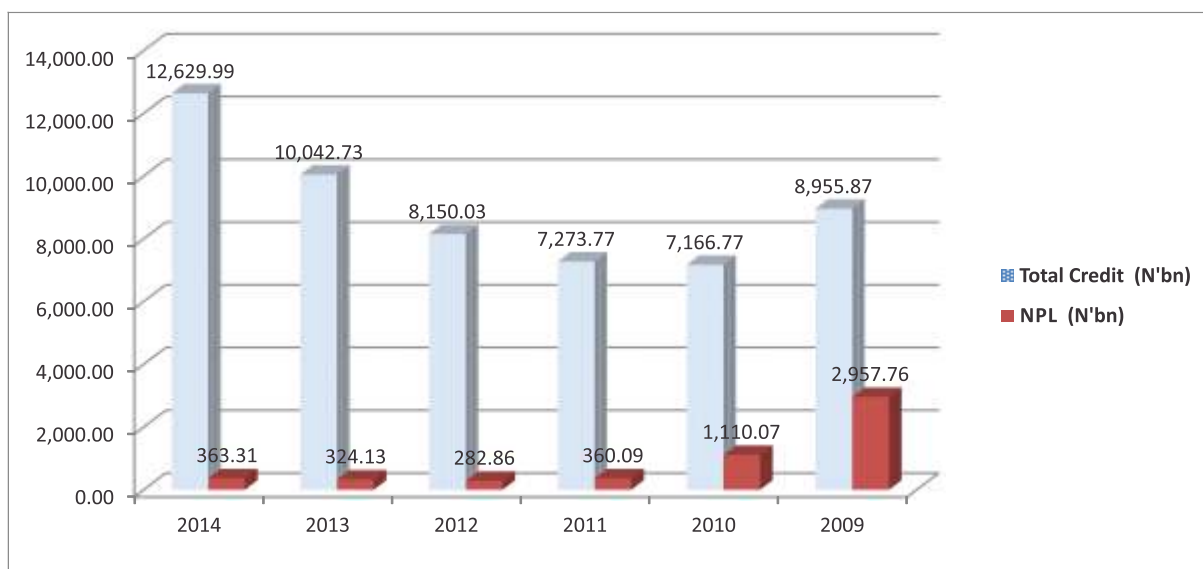
Figure 6: Banking Industry Composition of Deposits (2009-2014)



ASSET QUALITY

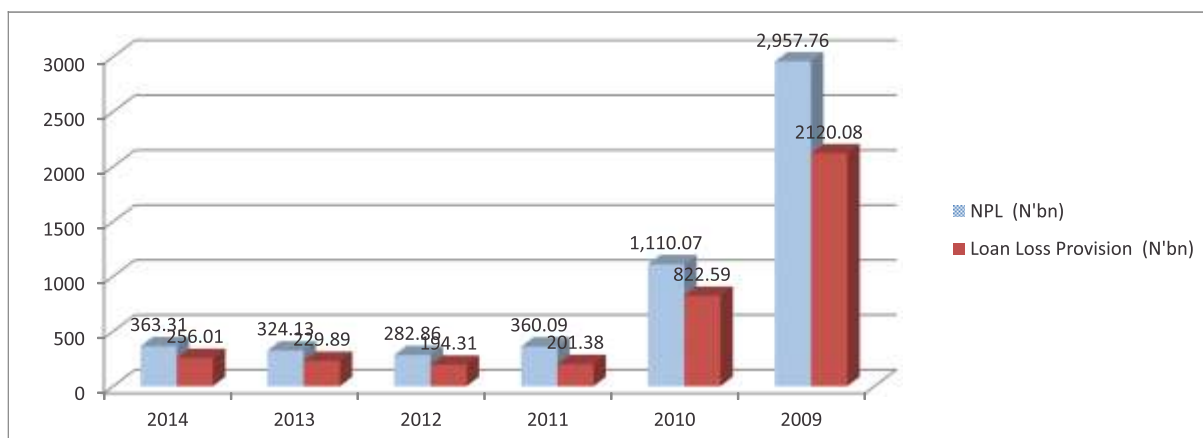
Gross loans and advances declined by N1, 789.10 billion from N8,955.90 billion at end-December 2009 to N7,166.80 billion at end-December 2010. The decline was largely attributable to the sale of non-performing loans (NPLs) to AMCON by banks. It, however, grew steadily to N7,273.80 billion, N8,150.00 billion, N10,042.70 billion and N12,630.00 billion at end-December 2011, 2012, 2013 and 2014, respectively; representing growth of 1.5, 12.0, 23.2 and 25.8 per cent, as shown in Figure 7.

Figure 7: Non Performing Credit to Total Credit (2009 - 2014)



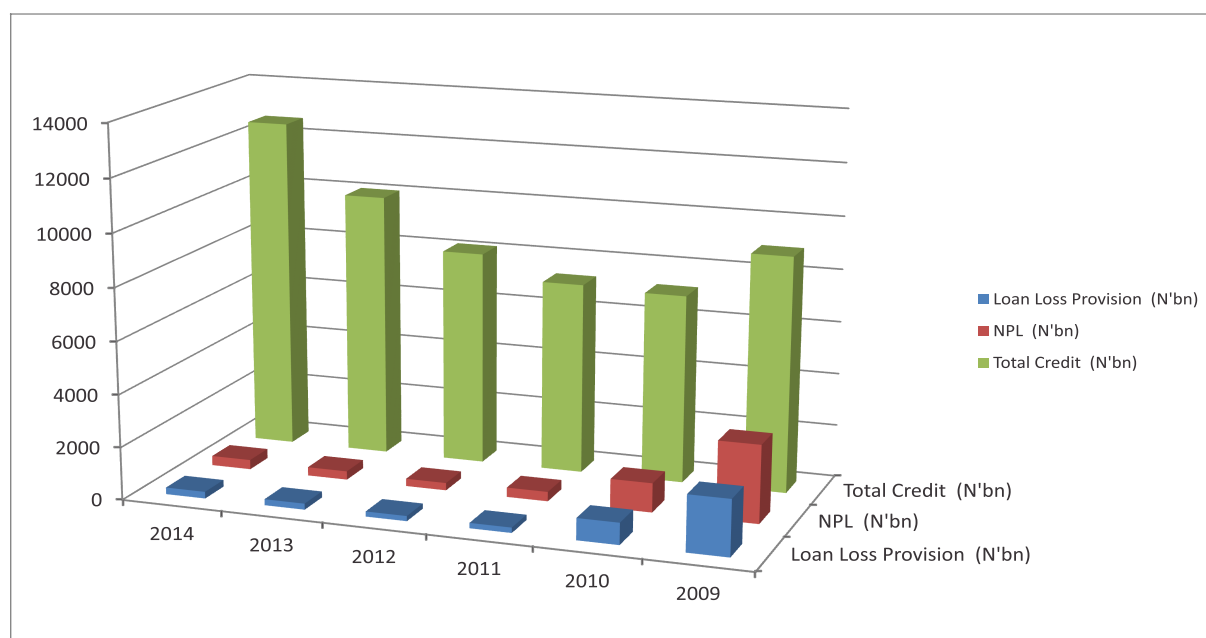
The NPL ratio declined steadily from 33.03 per cent at end-December 2009 to 15.49, 4.95, 3.47, 3.23 and 2.88 per cent at end-December 2010, 2011, 2012, 2013 and 2014, respectively.

Figure 8: Loan Loss Provision to Total Credit (2009 - 2014)



The ratio of total provisions on loans and advances to NPLs stood at 71.70, 74.10, 55.90, 68.70, 70.90 and 70.50 per cent at end-December 2009, 2010, 2011, 2012, 2013 and 2014, respectively.

Figure 9: Total Provisions on Loans and Advances to NPLs (2009-2014)



MARKET SHARE OF THE LARGEST BANKS

The audited financial statements of the DMBs revealed that the top five largest banks controlled 51.90 per cent of the industry total assets at end-December 2014, compared with 51.10 per cent at end-December 2013. Similarly, the top ten largest banks controlled 77.9 per cent of the industry total assets at end-December 2014, compared with 77.30 per cent at end-December 2013.

The market share of loans and advances to customers of the top five DMBs at end-December 2014 was 53.70 per cent, compared with 52.50 per cent at end-December 2013. Similarly, the market share of loans and advances to customers of the top ten DMBs at end-December 2014 was 77.90 per cent, compared with 77.30 per cent at end-December 2013. In like manner, the top five and top ten DMBs held 52.80 and 79.80 per cent of deposits as at end-December 2014 compared with 52.20 and 79.80 per cent, respectively as at December 2013. (see Appendix 9).

CAPITAL ADEQUACY OF BANKS

At end-December 2014, the industry capital adequacy ratio was 15.92 per cent compared with 17.20 per cent at end-December 2013. The decline was largely due to the adoption of the Basel II regulatory capital framework, which took effect in October 2014. This

increased the total risk-weighted assets with the inclusion of risk-weighted assets for market and operational risks in the CAR computation. The Basel I framework recognised only credit risk-weighted assets in the computation of CAR.

4.02. EFFICIENCY OF BANKING OPERATIONS

The overall performance of the banking industry improved in 2014 relative to 2013.

Table 3: Efficiency of Banking Operations (2009 – 2014)

Efficiency Measures	2009	2010	2011	2012	2013	2014
Yield on Earning Assets (%)	23.69	16.31	13.78	15.45	15.05	14.53
Return on Assets (%)	(9.82)	4.09	(0.04)	2.70	2.32	2.40
Return on Equity (%)	(60.07)	57.65	(0.27)	21.50	18.97	20.03
Net Interest Margin (%)	10.77	9.55	7.39	9.37	8.80	8.43
Efficiency (%)	181.91	60.36	100.38	70.70	73.88	72.92

Source: CBN Electronic Financial Analysis and Surveillance System (eFASS)

Return on equity and return on assets increased from 18.97 and 2.32 per cent in 2013 to 20.03 and 2.40 per cent in 2014. Similarly, operational efficiency, measured by cost-to-income ratio, improved to 72.92 per cent in 2014 from 73.88 per cent in 2013.

Yield on earning assets decreased from 15.05 per cent in 2013 to 14.53 per cent in 2014. While average earning assets increased by 12.40 per cent over the period, the interest income increased by 8.52 per cent. The net interest margin decreased to 8.43 per cent in 2014 from 8.80 per cent in 2013.

Figure 10: Trend in Average Assets, Profit Before Tax and Return on Assets

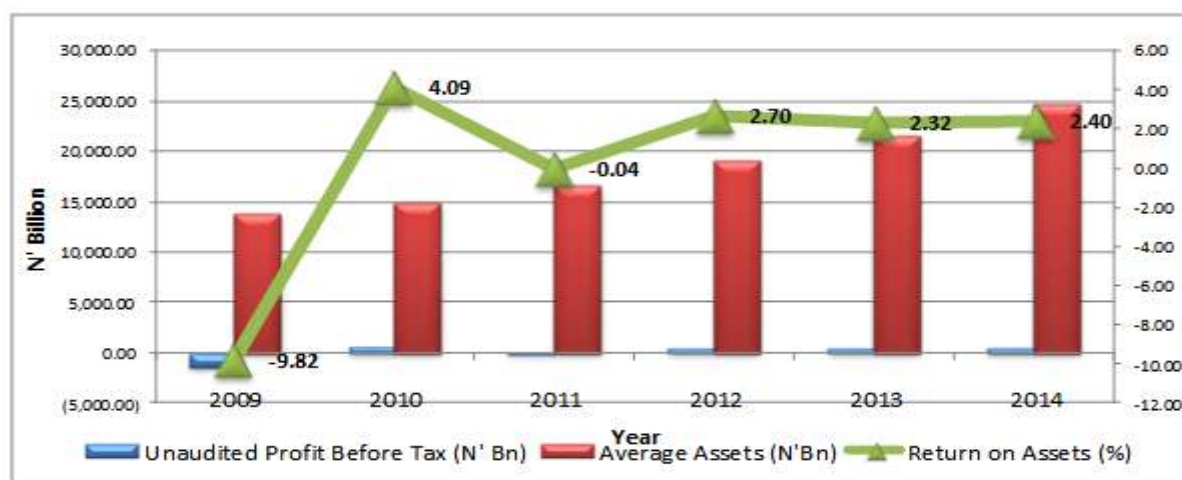


Figure 11: Trend in Shareholders' Funds, Profit before Tax and Return on Equity

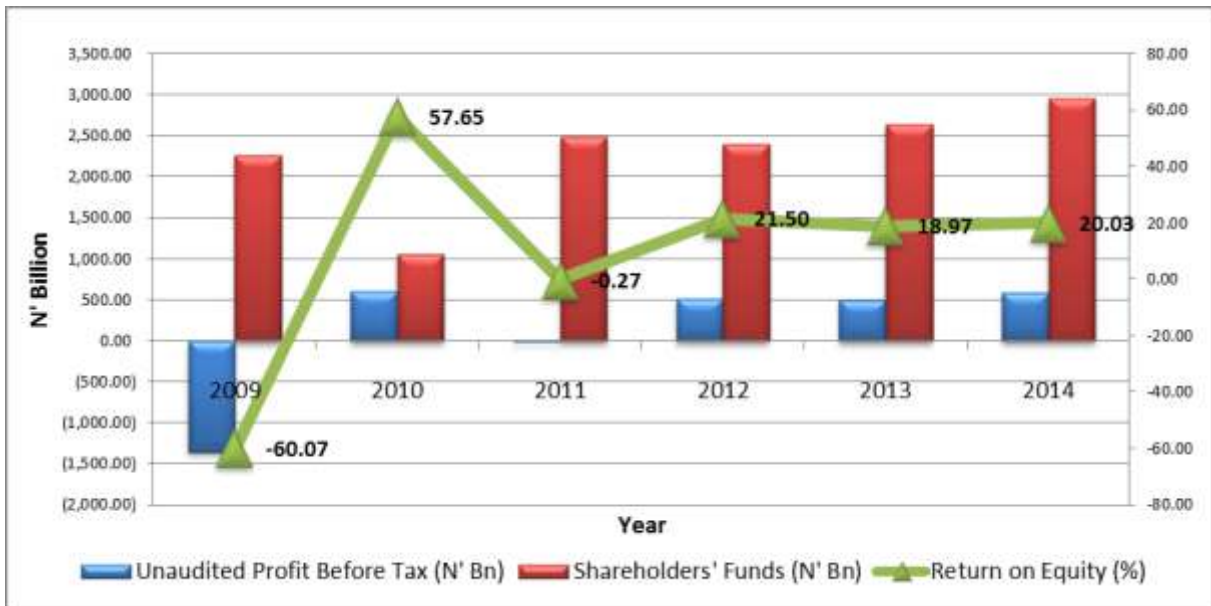
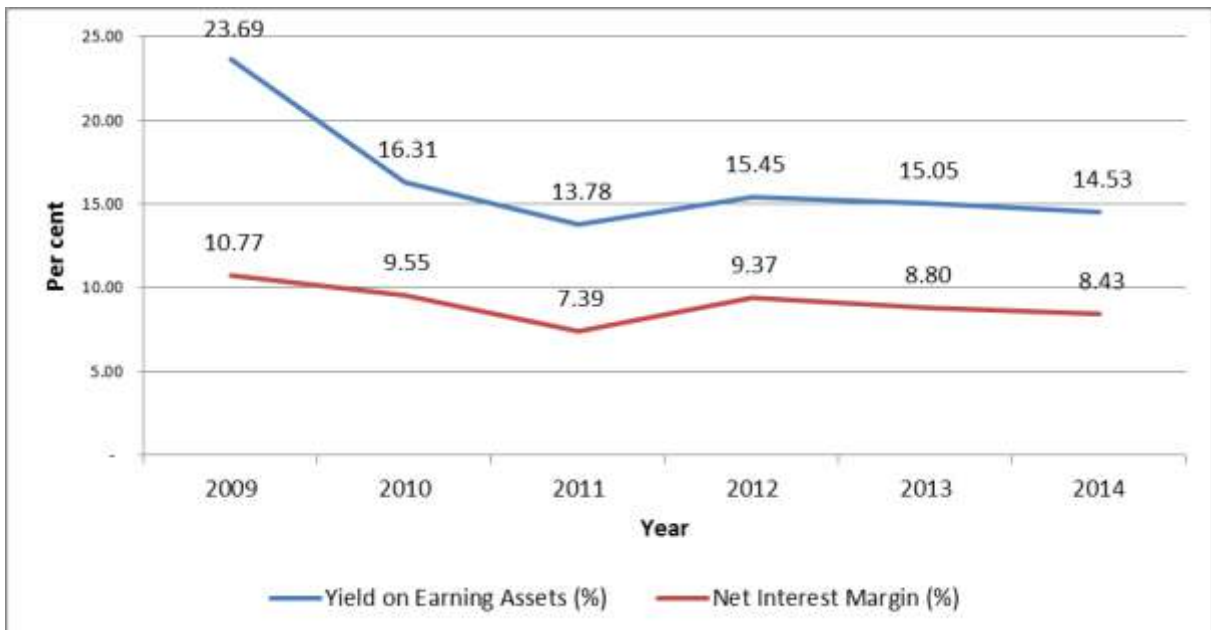


Figure 12: Pricing and Yield on Earning Assets



CHAPTER FIVE:
CAPACITY BUILDING

5.01. CAPACITY BUILDING FOR SUPERVISORS

The CBN continued to build the capacity of supervisors during the period under review. The banking reforms embarked upon by the CBN, the adoption of risk-based supervision, the implementation of IFRS and Basel II, and other supervisory initiatives, necessitated the need to upscale the skills and competencies of supervisors.

Bank Examiners' Courses

The primary platform for training and capacity building for supervisors is the Bank Examiners' courses conducted for CBN examiners and supervisors from other regulatory agencies within Nigeria and the West African Monetary Zone (WAMZ).

The Course, conducted in modules, is intended to acquaint participants with the concepts and general practice of bank examination, and to equip them with the basic tools for supervision.

The CBN carried out a comprehensive review of the training curriculum in 2013 to reflect developments in the financial system, since 2007, when the last review was conducted. The review included changes to the course content and the introduction of a pre-course assessment for CBN participants.

A total of 417 supervisors were trained between 2009 and 2014, at Foundation, Level I, II and III stages of the Bank Examiners' courses, as shown below:

Table 4 : Number of Supervisors Trained (2009 – 2014)

S/N	Year	Number
1.	2009	52
2.	2010	70
3.	2011	82
4.	2012	62
5.	2013	78
6.	2014	73

Table 5: Number of Supervisors trained from other agencies (2009-2014)

Year	Staff from Other Nigerian Regulatory Authorities	Staff from Foreign Jurisdiction	Comment
2009	26	16	
2010	30	19	
2011	24	11	
2012	15	13	
2013	12	15	
2014	10	6	Reduction due to Ebola outbreak

Other Local Training

Various training programmes were organised in the following areas:

- i. Consolidated Supervision: A total of 127 examiners were trained.
- ii. Enterprise Risk Management: A total of 201 examiners were trained
- iii. Risk-Based Supervision (RBS): A total of 222 staff were trained on RBS within the review period in five runs, between 2011 and 2014.
- iv. International Financial Reporting Standards (IFRS): All examiners in the department received intensive training in IFRS in 2013. A total of 194 examiners were trained at the end of the program conducted in four batches.
- v. Basel II: The Bank trained 215 supervisors on ICAAP and Basel II in 2014. The training was conducted for the CBN and NDIC examiners.
- vi. FITC Open Program: Thirty examiners were trained in various components of risk factors, organised by the Financial Institutions Training Centre (FITC).
- vii. Other Local Training: Supervisors were further exposed to courses, seminars and workshops on anti-money laundering, consolidated supervision, corporate governance, market risk, credit risk, operational risk, oil and gas, and non-interest banking.

Overseas Training

The number of examiners that attended various foreign courses in the period under consideration was as follows:

Table 6: Number of Supervisors Trained (2009 – 2014)

S/N	Year	Number
1.	2009	54
2.	2010	77
3.	2011	57
4.	2012	101
5.	2013	44
6.	2014	54

The courses included the Introduction to Examination, Loan Analysis and Examination Management schools organised by the Federal Deposit Insurance Corporation (FDIC), Arlington, USA; The Leadership Programme of the Toronto International Leadership Centre, Toronto, Canada; Risk-based Supervision course organised by the Office of the Superintendent of Financial Institutions, Ottawa, Canada; and Office of the Comptroller of Currency, Washington D.C., USA.

The CBN would continue to sustain its efforts at capacity building in order to adequately equip supervisors to cope with the increasing challenges of supervision.

5.01. SUPERVISORS' CONFERENCES AND RETREATS

The CBN held Bank Examiners' conferences and a retreat in the review period as follows:

- i. **2009 Bank Examiners' Conference**, held on 11th and 12th February, 2010 at Kwara Hotels, Ilorin.
- ii. **2011 Bank Examiners' Conference**, held on 28th and 29th July, 2011 at Nike Lake Resort, Enugu.

iii. 2012 Bank Examiners' Retreat, held from 21st to 23rd March, 2013 at Nike Lake Resort, Enugu.

These events have, over the years, provided a veritable platform to discuss topical issues and developments in the industry and articulate strategies to enhance the effectiveness of supervision.

5.02.1 BANKING SUPERVISION DEPARTMENT

2009 BANKING SUPERVISION DEPARTMENT'S ANNUAL BANK EXAMINERS' CONFERENCE

The theme of the 2009 BSD Annual Conference was **Restoring Confidence in the Banking System – Role of the Bank Supervisor**. The objective of the Conference was essentially to review the role of bank supervisors in fostering confidence in the banking system.

The Conference featured presentation of the following four papers by distinguished industry professionals and academics in the financial sector:

- a. Restoring Confidence in the Banking System - The Role of the Bank Supervisor;
- b. Enthroning Sound Corporate Governance and Zero Tolerance for Unsound Practices;
- c. Consumer Protection and Education in the Banking Industry, and
- d. Implementing Effective Risk-Based Management Practices in Banks.

2011 BANKING SUPERVISION DEPARTMENT'S ANNUAL BANK EXAMINERS' CONFERENCE

The theme of the 2011 BSD Annual Conference was: **Implementation of Basel II and III in Nigeria and Transition to IFRS: Challenges Ahead of Bank Regulators**

The topics covered during the conference included:

- a. Implementation of Basel II and III in Nigeria and Transition to IFRS: The Challenges Ahead for Bank Regulators;
- b. Introduction to Islamic Banking in Nigeria: Supervisory and Regulatory Challenges;
- c. Enhancing Transparency and Disclosure by Banks: Imperatives for Basel II/III and IFRS Implementation;

- d. International Financial Reporting Standards: Requirements and Adoption; and
- e. Risk-Based Supervision: The Journey So Far with Nigerian Banks.

2012 BANKING SUPERVISION DEPARTMENT RETREAT

The theme of the 2012 BSD Annual Retreat was “**The Impact of the Adoption of Basel II & III and International Financial Reporting Standards (IFRS) on the Nigerian Banking Sector**”.

The retreat began with a preliminary session where all the groups in the department made presentations bordering on strategies to move the department forward.

The topics covered during the retreat included:

- a. Testing for impairment: The Provision of Prudential Guidelines vs IFRS;
- b. Treatment of Financial Instruments under IFRS (IAS 32, 39, IFRS 7 & 9);
- c. The Impact of the Adoption of Basel II and III on the Nigerian Banking System: Prospects and Challenges; and
- d. Adoption of Standardised Approach to Credit Risk.

5.02.2 OTHER FINANCIAL INSTITUTIONS SUPERVISION DEPARTMENT RETREATS

The Other Financial Institutions Supervision Department (OFISD) held a conference in 2010 and a retreat in 2011 and 2013. The conference and retreats were used as opportunities to review the department's strategies and processes towards enhancing the delivery of its mandate.

2011 Retreat

The 2011 retreat was held at Ijebu-Ode, Ogun State, from October 27 to 29, 2011 with the theme, “Redefining an Effective Platform for Efficient Supervision of the Other Financial Institutions (OFIs) Sub-sector”.

The papers delivered included:

- a. The Banking Reforms and its Implication for Effective Supervision of OFIs;
- b. IFRS Implementation and Compliance Issues in OFIs;
- c. Risk-Based Supervision in OFIs; and

d. Branchless Banking and Financial Inclusion: The Role of OFIs.

2013 Retreat

The 2013 retreat was held at Enugu, Enugu State from October 31 to November 1, 2013, with the theme, “Reforming OFIs for Economic Development”.

The objectives of the retreat were to:

- a. Review the department's internal processes and assess how well it had fared in meeting its mandates;
- b. Identify major challenges to the effective delivery of these mandates; and
- c. Develop strategies and action plans for a more efficient and effective supervision of the OFI sub-sector.

Papers delivered at the retreat were:

- a. Current Issues and Challenges in OFIs;
- b. Challenges of the Implementation of Risk-Based Supervision in OFIs;
- c. Reforming Primary Mortgage Banks (PMBs) for Accelerated Mortgage Delivery;
- d. Reforming Microfinance Banks (MFBs) to Facilitate Financial Inclusion;
- e. Overview of the Finance Company Sub-sector Reform Agenda; and
- f. Feasibility of Implementing IFRS for OFIs.

5.02.3 FINANCIAL POLICY AND REGULATION DEPARTMENT RETREAT AND CONFERENCE

Maiden Retreat of 2011

The Financial Policy and Regulation Department (FPRD) held its maiden retreat in Enugu, Enugu State, from September 28 - 29, 2011. The theme of the retreat was “The Role of Financial Policy and Regulation in Achieving Financial System Stability”. The forum provided an opportunity to review the department's work processes and evolve strategies to reposition and reform the Nigerian banking sector towards addressing the weaknesses exposed by the global financial crisis.

The objectives of the retreat were to:

- i. Carry out a self-examination of the performance of the department in the first 18 months of its existence;
- ii. Identify major challenges to the effective delivery of its mandates and develop strategies and action plans to address them; and
- iii. Enhance interpersonal interaction and teamwork in the department.

The following papers were presented and discussed by participants in plenary sessions:

- a. Strengthening the Nigerian Banking System through an Effective Regulatory Framework, Policy Formulation, Implementation and Impact Assessment;
- b. Implementing the New Banking Model in Nigeria – Issues, Challenges and the Way Forward;
- c. Anti-Money Laundering and Combating the Financing of Terrorism (AML/CTF) – A Tool for Financial System Stability;
- d. Enhancing Financial Sector Regulation and Supervision through Inter-Agency Cooperation;
- e. Preventing Systemic Banking Crisis through Macro Prudential Supervision; and
- f. Promoting Effective Consumer Protection in the Nigerian Banking Industry.

The Maiden Conference

The theme of the maiden conference of the department held in Enugu, Enugu State from November 19 to 20, 2012, was “Achieving Banking System Soundness and Stability through Effective Financial Policy and Regulation”. The theme underpinned the role of policy and regulation in creating an enabling environment for the realisation of financial stability in Nigeria.

Papers presented at the Conference were:

- i. Practical Approach to Financial Policy Formulation, Implementation and Impact Assessment;
- ii. How Macro-Prudential Regulations Complement Micro-Prudential Regulation in the Quest for Financial System Stability;
- iii. Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT) and

Financial System Stability: What Connection?;

- iv. Modalities for Enhancing Inter-Agency Cooperation among Financial Regulators; and
- v. Redirecting the Nigerian Banking System to Traditional Banking Roles.

5.02.4 CONSUMER PROTECTION DEPARTMENT RETREAT

The Consumer Protection Department held its maiden retreat in Abuja, F.C.T, March 14 -16, 2013, with the theme “Developing a Strategic Road Map for Consumer Protection in the Nigerian Financial Services Industry”. The main objective of the retreat was to share ideas and develop a medium-term strategy for the attainment of the objectives of the department.

Papers presented at the retreat included:

- i. Legal Framework for Consumer Protection in Banking;
- ii. Collaboration Opportunities in the Consumer Protection Space;
- iii. Managing Consumer Complaints;
- iv. Global Consumer Protection;
- v. Global Trends in Consumer Education & Financial Literacy;
- vi. Strategic Planning Framework;
- vii. Vision and Strategic Positioning of the CBN; and
- viii. The roles of CBN in Consumer Protection – An Operator's Perspective.

EDITORIAL COMMITTEE

The Consolidated Banking Supervision Annual Reports covering the years 2009 – 2014 was compiled, reviewed and edited by the Banking Supervision Annual Report Committee, comprising the following staff of the Financial System Stability Directorate of the CBN:

- | | | | |
|----|-----------------------|---------------|--|
| 1. | Abu O. Idris | Chairman | Banking Supervision |
| 2. | Thompson O. Sunday | Vice-Chairman | Banking Supervision |
| 3. | Michael C. Akuka | Member | Financial Policy and Regulation |
| 4. | Jackson Imandi | Member | Other Financial Institutions Supervision |
| 5. | Sani B. Muhammed | Member | Consumer Protection |
| 6. | Ibrahim S. Rimintsiwa | Member | Other Financial Institutions Supervision |
| 7. | Usman Abdulqadir | Secretariat | Banking Supervision |
| 8. | Lawal J. Ahmed | Secretariat | Banking Supervision |

APPENDICES

Appendix I

COMPLETE EXECUTED MEMORANDUM OF UNDERSTANDING AS AT 31/12/14

S/N	NAME OF REGULATOR	DATE	STATUS
1.	Bank of Mauritius	4/12/2014	Executed
2.	Central Bank of Sudan	05/02/2014	Executed
3.	Bank of Tanzania	31/12/2012	Executed
4.	Banco De Mozambique (BOM)	01/11/2012	Executed
5.	Bank of the Republic of Burundi	04/10/2012	Executed
6.	*Banking Commission of The West African Monetary Union (BCEAO)	20/09/2012	Executed
7.	Bank of Uganda (BOU)	01/11/2011	Executed
8.	National Bank of Rwanda (NBR)	06/05/2011	Executed
9.	Bank of Zambia (BOZ)	14/06/2011	Executed
10.	Central Bank of Kenya (CBK)	23/06/2011	Executed
11.	China Banking & Regulatory Commission (CBRC)	13/12/2010	Executed
12.	**CSWAMZ (Gambia, Ghana, Guinea, Nigeria, Liberia & Sierra Leone)	30/07/2010	Executed
13.	Bank Negara, Malaysia	23/03/2010	Executed
14.	Central Bank of Liberia	04/11/2009	Executed
15.	Bank of Sierra Leone	16/12/2009	Executed
16.	Central Bank of the Gambia	16/12/2009	Executed
17.	South African Reserve Bank	20/03/2008	Executed
18.	Comptroller of the Currency Administrator of National Banks (OCC)	-	Working Relationship
19.	Financial Conduct Authority (FCA), UK (now Prudential Regulatory Authority)	-	Working Relationship

*BCEAO is responsible for bank supervision in eight West African countries

**Individual MOUs were also signed with each member of the CSWAMZ since the College is not a statutory body.

APPENDIX II**ACQUISITIONS DURING THE PERIOD 2009**

SN	Name of Parent Bank	Subsidiary Acquired	2014 Date Approved	Amount Invested in US\$	Amount Paid in GBP
1	First Bank Nigeria Ltd	Banque Internationale du Congo D.R. (B.I.C.)	Sept. 2010	63million	
2	Diamond Bank Plc	Intercontinental Bank UK Ltd	Sept. 2012		36million
3	First Bank Nigeria Ltd	International Commercial Bank (ICB) Ghana Ltd		63million	
4	First Bank Nigeria Ltd	ICB The Gambia Ltd		9million	
5	First Bank Nigeria Ltd	ICB Guinea Ltd		13.5million	
6	First Bank Nigeria Ltd	ICB Sierra Leone Ltd		10million	
7	First Bank Nigeria Ltd	ICB Senegal Ltd		12.5million	
8	Guaranty Trust Bank Plc	Fina Bank Ltd Kenya		110 million*	
9	Guaranty Trust Bank Plc	Fina Bank Ltd Uganda		-	
10	Guaranty Trust Bank Plc	Fina Bank Ltd Rwanda		-	

**The purchase consideration was for Fina Bank Kenya and its two subsidiaries in Uganda and Rwanda*

Appendix III

LIST OF FOREIGN SUBSIDIARIES OF NIGERIAN BANKS AT END-DEC. 2014

S/N	BANK	COUNTRY PRESENCE	Total No.
1	Access Bank Plc	1. Congo DRC	7 sub 1 rep
		2. Rwanda	
		3. Sierra Leone	
		4. Gambia	
		5. Ghana	
		6. United Kingdom	
		7. Zambia	
		8. China Rep Office	
2	Mainstreet Bank Plc	9. Dublin, Republic of Ireland	1 sub
3	Diamond Bank Plc	10. Cote D'Ivoire	5 sub
		11. Senegal	
		12. Togo	
		13. Benin	
		14. UK	
4	FCMB Plc	15. United Kingdom	1 sub
5	First Bank of Nig. Plc	16. United Kingdom	7 sub 3 rep
		17. Congo DRC	
		18. South Africa Rep. office	
		19. China Rep. office	
		20. Abu Dhabi Rep. office	
		21. ICB Ghana	
		22. ICB Gambia	
		23. ICB Guinea	
		24. ICB Sierra Leone	
		25. ICB Senegal	
6	Guaranty Trust Bank Plc	26. Cote D'Ivoire	9 sub 1 rep
		27. Gambia	
		28. Ghana	
		29. Liberia	
		30. Kenya (Fina Bank Ltd.)	
		31. Rwanda (Fina Bank Ltd.)	

		32. Uganda (Fina Bank Ltd.)	
		33. Sierra Leone	
		34. United Kingdom	
		35. Hong Kong Rep. Office	
7	Keystone Bank	36. Sierra Leone	3 sub
		37. Liberia	
		38. Uganda	
8	Skye Bank Plc	39. Sierra Leone	3 sub
		40. Gambia	
		41. Guinea	
9	United Bank for Africa Plc	42. UBA New York Branch	19 sub 1 branch
		43. UBA Capital Europe, UK	
		44. UBA Benin	
		45. UBA Burkina Faso	
		46. UBA Cameroon	
		47. UBA Chad	
		48. UBA Congo Brazzaville	
		49. UBA Congo (DRC)	
		50. UBA Côte d'Ivoire	
		51. UBA Gabon	
		52. UBA Ghana	
		53. UBA Guinea	
		54. UBA Kenya	
		55. UBA Liberia	
		56. UBA Mozambique	
		57. UBA Senegal	
		58. UBA Sierra Leone	
		59. UBA Tanzania	
		60. UBA Uganda	
		61. UBA Zambia	
10	Union Bank Plc	62. Benin	2 sub 1 rep
		63. UK	
		64. South Africa Rep. office	

11	Zenith Bank Plc	65. Gambia	4 sub 1 rep
		66. Ghana	
		67. Sierra Leone	
		68. South Africa Rep office	
		69. United Kingdom	
Total: 69 (61 subsidiaries, 7 Rep offices, 1 branches)			

Appendix IV: Onsite Visits to Nigerian Banks Offshore Subsidiaries

Year of Visit	2011	2012	2013	2014
SN	Names of Subsidiaries			
1	Guaranty Trust Bank Sierra Leone Ltd	Access Bank Ghana	UBA Ghana Ltd	ICB (FBN) Ghana Ltd
2	Skye Bank Sierra Leone Ltd	Access Bank Rwanda	Access Bank Congo D.R.	UBA Ghana
3	GTB Ghana	Access Bank U.K.	Global Bank Liberia (Keystone)	FBN UK Ltd
4	United Bank of Africa Ghana	Keystone Bank Sierra Leone	Access Bank Gambia	Zenith Bank UK Ltd
5	Keystone Gambia	FBN U.K. Ltd	Skye Bank Guinea	Access Zambia Ltd
6	Access Bank Gambia	Finbank Burundi	UBA Liberia	Access Bank UK Ltd
7	Intercontinental Bank Ghana	Global Bank Liberia (Keystone)	Access Bank Ghana	GTBank UK Ltd
8	UBA Sierra Leone	GTBank Ghana	GTB Ghana	Union Bank UK Ltd
9	Skye Bank Guinea	GTBank Liberia	GTBank Sierra Leone	UBA Mozambique
10	Zenith Bank Gambia	GTBank U.K.	Access Bank Sierra Leone	UBA Congo D.R.
11	Skye Bank Gambia	Orient Bank (Keystone) Uganda	Skye Bank Sierra Leone	Orient Bank Uganda Ltd
12	Access Bank Ghana	UBA Ghana	GTBank Liberia	UBA Zambia
13	UBA Liberia	UBA Kenya	GTBank Gambia	UBA New York
14	GTB Liberia	UBA Liberia	Zenith Bank	GTBank Kenya

15		UBA New York	Keystone Bank Gambia	
16		UBA Uganda	Skye Bank Gambia	
17		Zenith Bank U.K.	FCMB (UK) Limited	
18		Zenith Sierra Leone	UBA Capital Europe UK	
19		*UBA Tanzania Ltd	Diamond Bank U.K. Ltd	
20			FBN (Banque Internationale De Credit) DRC	
21			Access Bank Congo D.R.	
22				

**UBA Tanzania was scheduled for onsite visit in December 2012 but the visit took place in January, 2013*

Appendix V: Onsite Supervision of Nigerian Banks Offshore Subsidiaries

Composite Risk Rating	Number of Off Shore Subsidiaries Visited				Total
	2011	2012	2013	2014	
High	2	6	7	1	16
Above Average	7	7	8	2	24
Moderate	5	6	6	3	20
Low	-	-	-	-	
Total	14	19	21	14	68
Solo Visit	-	11	6	12	29
Joint Home-Host Visit	14	8	15	2	39

NB: The report of eight banks were not yet finalized at end-2014.

ACRONYMS

AFC	-	African Finance Corporation
AfDB	-	African Development Bank
AiP	-	Approval-in-Principle
AMCON	-	Asset Management Corporation of Nigeria
ATM	-	Automated Teller Machines
BAS	-	Banking Analysis System
BDC	-	Bureaux de Change
BOFIA	-	Banks and Other Financial Institutions Act
BoI	-	Bank of Industry
BVN	-	Bank Verification Number
CTR	-	Currency Transaction Reports
DFI	-	Development Finance Institution
CAC	-	Corporate Affairs Commission
CAR	-	Capital Adequacy Ratio
CB	-	Community Bank
CBN	-	Central Bank of Nigeria
CEO	-	Chief Executive Officer
CIBN	-	Chartered Institute of Bankers of Nigeria
COBAC	-	La Commission Bancaire de L'Afrique Centrale
CRMS	-	Credit Risk Management System
CRR	-	Cash Reserve Requirement
CTR	-	Currency Transaction Reports
DFI	-	Development Finance Institution
ECOWAS	-	Economic Community of West African States
eFASS	-	electronic Financial Analysis and Surveillance System
EFCC	-	Economic and Financial Crimes Commission
FATF	-	Financial Action Task Force
FBN	-	First Bank of Nigeria

FC	-	Finance Companies
FHAN	-	Finance Houses Association of Nigeria
FIRS	-	Federal Inland Revenue Service
FITC	-	Financial Institutions Training Centre
FIU	-	Financial Intelligent Unit
FMBN	-	Federal Mortgage Bank of Nigeria
FSA	-	Financial Services Authority
FSRCC	-	Financial Services Regulation Coordinating Committee
FSS	-	Financial System Strategy
GDP	-	Gross Domestic Product
ICPC	-	Independent Corrupt Practices Commission
ICT	-	Information Communication Technology
IDC	-	Industrial Development Corporation
IFC	-	International Finance Corporation
IFEM	-	Inter-bank Foreign Exchange Market
IMF	-	International Monetary Fund
IT	-	Information Technology
KYC	-	Know Your Customer
MFB	-	Microfinance Bank
MFI	-	Microfinance Institutions
MOFI	-	Ministry of Finance Incorporated
MoU	-	Memorandum of Understanding
MPC	-	Monetary Policy Committee
MPD	-	Monetary Policy Department
MPR	-	Monetary Policy Rate
MRR	-	Minimum Rediscount Rate
MSME	-	Micro, Small and Medium Enterprise
NACB	-	National Association of Community Banks
NACRDB	-	Nigeria Agricultural Co-operative and Rural Development Bank

NASB	-	Nigeria Accounting Standards Board
NA	-	National Assembly
NBS	-	National Bureau of Statistics
NCCT	-	Non Co-operative Countries and Territories
NDIC	-	Nigeria Deposit Insurance Corporation
NDLEA	-	National Drug Law Enforcement Agency
NERFUND	-	National Economic Recovery Fund
NEXIM	-	Nigeria Export - Import Bank
NFIU	-	Nigeria Financial Intelligent Unit
NGO	-	Non-governmental Organization
NHF	-	National Housing Fund
NIBSS	-	Nigerian Inter Bank Settlement System
NIPOST	-	Nigerian Postal Service
NPL	-	Non-Performing Loan
NSE	-	Nigerian Stock Exchange
OECD	-	Organization for Economic Co-operation and Development
OFI	-	Other Financial Institutions
OFISD	-	Other Financial Institutions Supervisory Department
OMO	-	Open Market Operations
OFSI	-	Office of the Superintendent of Financial Institution
P & A	-	Purchase and Assumption
P & L	-	Profit and Loss
PAR	-	Portfolio-at-Risk
PBT	-	Profit Before Tax
PENCOM	-	Pension Commission
PEP	-	Politically Exposed Person
PLC	-	Public Liability Company
PMI	-	Primary Mortgage Institutions
PN	-	Promissory Note

RBS	-	Risk Based Supervision
RI	-	Reporting Institution
RMI	-	Risk Mitigation Programme
RoA	-	Return on Assets
RoE	-	Return on Equity
RoI	-	Return on Investment
RTGS	-	Real Time Gross Settlement
SEC	-	Securities and Exchange Commission
SMEEIS	-	Small and Medium Enterprises Equity Investment Scheme
SMIEIS	-	Small and Medium Industries Equity Investment Scheme
STR	-	Suspicious Transaction Report
UBA	-	United Bank for Africa
UDB	-	Urban Development Bank
UNCTAD	-	United Nations Conference on Trade and Development
BCEAO	-	La Commission Bancaire de L'Union Montetaire' L'Ouest
WAFSA	-	West African Financial Supervisory Authority
WAIFEM	-	West African Institute for Financial and Economic Management
WAMI	-	West African Monetary Institute
WAMU	-	West African Monetary Unit
WAMZ	-	West African Monetary Zone

