FINANCIAL STABILITY REPORT

June 2015

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LIST OF ACRONYMS

ACL	Audit Command Language
AIPs	Approvals-in-Principle
AMCON	Asset Management Corporation of Nigeria
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
ASI	All Share Index (Nigerian Stock Exchange Index)
ATMs	Automated Teller Machines
BCEAO	Banque Centrale des Etats de l'Afrique de l'Ouest (Central Bank of West African States)
BDCs	Bureaux de Change
BOA	Bank of Agriculture
BOFIA	Banks and Other Financial Institutions Act 1991 (as amended)
BOI	Bank of Industry
BRICS	Brazil, Russia, India, China, and South Africa
BVN	Bank Verification Number
CACS	Commercial Agriculture Credit Scheme
CAR	Capital Adequacy Ratio
CBN	Central Bank of Nigeria
CIBN	Chartered Institute of Bankers of Nigeria
CIFTS	CBN Inter-bank Fund Transfer System
COB	Currency Outside Bank
CR6	Concentration Ratio (of the six largest banks)
CRMS	Credit Risk Management System
DAX	Deutscher Aktienindex (German stock index of 30 major German companies)
DFIs	Development Finance Institutions
DMBs	Deposit Money Banks
EBAs	Eligible Bank Assets
ECB	European Central Bank
EDC	Entrepreneurship Development Centre
eFASS	Electronic Financial Analysis and Surveillance System
EGX CASE 30	Egypt Stock Exchange (Cairo and Alexandria Stock Exchange) 30 Stock Index
EVD	Ebola Virus Disease
FAO	Food and Agriculture Organisation
FATF	Financial Action Task Force
FCs	Finance Companies
FCT	Federal Capital Territory
FGN	Federal Government of Nigeria
FMBN	Federal Mortgage Bank of Nigeria
FMDQ-OTC	Financial Market Dealers Quotation – Over the Counter Plc
FMF	Federal Ministry of Finance
FRACE	Financial Regulation Advisory Council of Experts
FSIs	Financial Soundness Indicators
FSR	Financial Stability Report
FSRCC	Financial Services Regulation Co-ordinating Committee
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft fur Internationale Zusammenarbeit (German Society for

	International Cooperation)
GSE	Ghanaian Stock Exchange
HHI	Herfindahl-Hirschman Index
HMF	Housing Microfinance
ICAAP	Internal Capital Adequacy Assessment Process
ICE	Intercontinental Exchange
ICFA	Implied Cash Flow Analysis
IFRS	International Financial Reporting Standards
IFSB	Islamic Financial Services Board
IMF	International Monetary Fund
IOSCO	International Organisation of Securities Commissions
KYC	Know Your Customer
L/C	Letter of Credit
M_1	Narrow Money Supply
M_2	Broad Money Supply
MCP	Microfinance Certification Programme
MENA	Middle East and North African Countries
MFBs	Microfinance Banks
MICEX	Moscow Interbank Currency Exchange
MoUs	Memoranda of Understanding
MPR	Monetary Policy Rate
NAICOM	National Insurance Commission
NBS	National Bureau of Statistics
NDC	Net Domestic Credit
NDIC	Nigeria Deposit Insurance Corporation
NERFUND	National Economic Reconstruction Fund
NEXIM	Nigerian Export-Import Bank
NFIU	Nigerian Financial Intelligence Unit
NGAAP	Nigerian Generally Accepted Accounting Principles
NGL	Non-Gas Liquids
NIBOR	Nigeria Interbank Offered Rates
NIBSS	Nigerian Inter-bank Settlement System
NIRSAL	Nigerian Incentive-based Risk Sharing System for Agricultural Lending
NMRC	Nigeria Mortgage Re-finance Company Plc
NPLs	Non-Performing Loans
NSBP	Nigeria Sustainable Banking Principles
NSE ASI	Nigerian Stock Exchange All Share Index
NSE 20	Nairobi Stock Exchange 20-Share Index
NYMEX	New York Mercantile Exchange
OBB	Open Buy Back
OFIs	Other Financial Institutions
OPEC	Organisation of Petroleum Exporting Countries

ORB	OPEC Reference Basket
PAIF	Power and Aviation Infrastructure Fund
PCBs	Private Credit Bureaux
PENCOM	National Pension Commission of Nigeria
PFAs	Pension Fund Administrators
PFCs	Pension Fund Custodians
PMBs	Primary Mortgage Banks
PoS	Point of Sale
PSV 2020	Payments System Vision 2020
RDAS	Retail Dutch Auction System
ROA	Return on Assets
ROE	Return on Equity
RTGS	Real-Time Gross Settlement System
S&P/TSX	Standards and Poor's Composite Index of the Toronto Stock Exchange
SEC	Securities and Exchange Commission
SMEs	Small and Medium Enterprises
SMECGS	Small and Medium Enterprises Credit Guarantee Scheme
WAMZ	West African Monetary Zone
WDAS	Wholesale Dutch Auction System
WEO	World Economic Outlook
WTI	West Texas Intermediate

GOVERNOR'S STATEMENT

The period, January to June 2015, which this 11th edition of the CBN's *FSR* covers, witnessed divergent growth trajectories in the global economy. While in advanced economies, output growth was projected at 2.1 per cent in 2015 compared with the 1.8 per cent for 2014, in emerging and developing economies, growth is projected at 4.2 per cent in 2015, marginally lower than the growth rate of 4.6 per cent attained in 2014. The growth in advanced economies reflected the strong growth in the US and improved recovery in the euro area, as well as gains of lower oil prices. The slow growth in emerging and developing markets reflected slower growth in China, a weaker output growth in Russia as well as downward expectations of potential growth in commodity exporting countries. Growth in Sub-Saharan Africa dropped to 4.4 per cent in 2015 from 5.0 per cent in 2014. This was attributable to the sharp and continued decline in oil prices and the impact of the Ebola Virus disease in the West African Sub-region.

The slow recovery from the 2008 financial crises persisted even in the face of the marginal improvement in global output; while across mature markets, the strengthening of the US Dollar and the weakening of the Euro and Yen dominated market expectations. The Greek bailout crisis also headlined financial markets in the euro area during the period. Currency devaluations and large foreign reserve fluctuations characterised most of the oil producing countries, as low oil revenue drove huge fiscal deficits. Rising interest and exchange rates featured across emerging and developing markets during the period. Overall, as a consequence of these developments, global growth expectations for 2015 were revised down from 4.6 to 4.2 per cent *(July World Economic Outlook)*.

For an emerging economy, such as Nigeria, the challenge arising from these developments centred on the need to strike a delicate balance between conventional and unconventional measures in the choice of policy tools and strategies for responding to the situation. The major financial system stability issues that faced Nigeria in the reporting period were: the continued pressure on the naira in the foreign exchange market, leading to significant depletion of the external reserves, and the devaluation of the naira by 8.42 per cent during the reporting period. Although inflation remained within the single digit threshold; inflationary pressures persisted.

This 11th edition of the FSR, like the earlier editions, highlights the key developments in the Nigerian financial system during the reporting period and the associated macro-prudential and economic stability issues. It details the efforts of the Central Bank of Nigeria to curb the pressure on the naira and stabilise the exchange rate as well as facilitate the strengthening of the economy through real sector intervention schemes. These measures include the review of the foreign exchange market windows and the inclusion of additional items to the Forex exclusion list.

The Report aptly notes that headwinds remain, given that oil exports from Iran and lower global demand will further dampen oil prices, thus portending continued decline in oil revenue accruing to Nigeria. There is, therefore, the need to sustain and enhance the existing collaborative endeavours, particularly with the fiscal authorities which have so far proved most helpful in combating the emerging challenges. I am confident that with this support and the continued understanding from our international partners, the growth and development of the Nigerian financial system and the larger economy would be sustained on a stable trajectory.

It is on this note that I commend this 11th *FSR* for the use of all stakeholders in the Nigerian project.

Godwin I. Emefiele, CON
Governor, Central Bank of Nigeria

FOREWORD

In the first half of 2015, the stability of the global financial system was threatened by a combination of macroeconomic and social disruptions in various countries. In particular, commodity exporting countries have been faced with dwindling earnings culminating in fiscal contractions. Also, the strengthening of the US dollar has had a negative impact on the macroeconomic developments in many emerging market economies.

The June 2015 *Financial Stability Report* reviews developments in the global and domestic economy. In the reporting period, the decline in the international price of oil led to a dwindling of government revenue, an increase in non-performing assets in banks and a slow-down in general economic activity. Inflation, though within single-digit, increased in the review period. Regulatory actions during the period were taken to ensure that the financial system remained safe and sound, and continued to contribute to economic growth. In this regard, the CBN would continue to use both macro- and micro-prudential instruments in its oversight of the banking sector.

The goal of financial system regulators remains the enhancement of the stability of the financial system and its resilience to withstand unanticipated adverse shocks while contributing to the growth of the real economy. A stable financial system should facilitate economic growth and development necessary for improved standard of living. This edition of the *FSR* has highlighted the need for effective coordination among fiscal, monetary and regulatory authorities, which would help in the achievement of policy goals and targets while ensuring sustainable economic growth.

This edition of the *FSR* is divided into five sections. Section One reviews the global and domestic economic and financial developments, highlighting key stability issues. Section Two chronicles developments in the financial system, while Section Three covers regulatory and supervisory activities. Key developments in the payments system are highlighted in Section Four. Finally, Section Five provides the near-term outlook for financial stability.

We continue to welcome stakeholder feedback on the Report.

O. J. Nnanna, Ph. D.
Deputy Governor, Financial System Stability

EXECUTIVE SUMMARY

Global growth in 2015 was projected at 3.3 per cent, a 0.1 percentage point decline from the 2014 figure. The slowdown in growth was attributed to the sustained fall in oil and commodity prices, and the mixed impacts of a strengthening US dollar and weakening of the euro and yen on emerging markets. Inflationary pressure was generally low across countries in the first half of 2015, arising from the dampening effects of declining commodity prices and slow output growth. In sub-Saharan African countries, inflation was largely contained owing to low global food and fuel prices.

Generally, international stock markets recorded positive performance during the first half of 2015. In Africa, the Ghanaian GSE All-share and South African JSE All-Share indices increased, while the Nigerian NSE ASI, Kenyan NSE 20 and Egyptian EGX CASE 30 indices all decreased. These outcomes arose from developments in the global economy, especially with the appreciation of the US dollar and expectations about the Federal Reserves' quantitative easing.

During the first half of the year, the US dollar appreciated against most emerging market currencies. This was attributed to various factors: including the continued decline in energy prices; turmoil in financial markets; slow recovery in advanced economies and the impact of normalization on US monetary policy. The dollar appreciation further increased capital flow volatility and signalled financial system vulnerabilities in some of the emerging market economies.

In Nigeria, provisional data indicated an 8.74 per cent decline in output growth in the first half of 2015. Inflation increased despite the Bank's contractionary monetary policy, as the year-on-year headline inflation increased to 9.2 per cent from 8.0 per cent at end-December 2014. The Monetary Policy rate was retained at 13.0 per cent. In the review period, average interest rates remained relatively stable owing to regulatory liquidity management measures.

Key monetary aggregates declined in the first half of 2015. Broad money supply (M_2) fell by 0.5 per cent relative to the level at end-December 2014. The decrease in broad money supply reflected the decline in net foreign assets arising from the fall in foreign exchange earnings and other assets (net) of the banking system. Narrow money supply also fell by 5.3 per cent at end-June 2015, from the position at end-December 2014, due to the decline in currency outside banks and in demand deposits.

Net domestic credit of the banking system continued to grow, though at a slower pace than in the preceding and corresponding periods of 2014. The development reflected the increase in net claims on the Federal Government and private sector credit. The structure of credit indicated the continued dominance of short-term maturities. The banking industry deposit and asset structure remained dominated by few banks.

During the review period, the CBN continued to monitor developments in the banking system, and carried out supervisory activities aimed at ensuring that domestic banks remained resilient and sound. It continued to promote the stability of the banking system through effective micro and macro supervision of banks and the industry, respectively.

In the review period, the reform in the mortgage sector continued with the issuance of the license for the Nigeria Mortgage Refinance Company and the launching of uniform underwriting standards for the mortgage industry.

Towards enhancing the safety and soundness of financial groups, the FSRCC commenced pilot consolidated risk-based examination of one of the financial groups in the Country. Examiners for the exercise were drawn from the agencies with supervisory responsibilities for entities in the group.

The CBN continued to evolve new initiatives and policies to engender safety and confidence in the payments system. Meanwhile, the registration of bank customers under the Bank Verification Number (BVN) scheme continued as the deadline for the use of BVN in banking transactions was extended from June 30, 2015 to October 31, 2015.

In addition to the traditional banking risks, insecurity in some parts of the Country remained a concern for the system. Also, rising inflation, slow output growth, dwindling government revenue and the growing non-performing loans (NPLs) portend challenges for the financial system.

Overall, the Nigerian economy presents potential opportunities to investors in view of the expected benefits of on-going reforms, and the activities of the CBN in mitigating emerging system.

1.0 MACROECONOMIC DEVELOPMENTS AND FINANCIAL SYSTEM STABILITY

1.1 Global Economic and Financial Developments

1.1.1 Output

Macroeconomic and financial developments during the first six months of 2015 produced mixed results. The slow pace of economic recovery following the 2008 global financial crisis continued during the review period, resulting in a marginal[1] improvement in global output. Growth in global output was projected at 3.3 per cent in 2015, representing a marginal decline of 0.1 percentage point from the 3.4 per cent in 2014. The moderation in growth was attributed to the sustained fall in oil and commodity prices, diverging growth trajectories in major economies and the redistributive effects of a strong US dollar as well as the weak euro and yen. The financial stability risks around these developments were both rising and rotating as "continued financial risk-taking and structural changes in credit markets kept shifting the locus of financial stability risks from advanced to emerging markets economies, from banks to shadow banks, and from solvency to market liquidity risks"[2].

In advanced economies, output growth was projected at 2.1 per cent in 2015, compared with 1.8 per cent for 2014. Growth was affected by contractions in the US in the first quarter of 2015, occasioned by harsh winter weather and reduction in oil investments. Output growth in the US was projected to be marginal at 2.5 per cent in 2015 compared with 2.4 per cent in 2014. However, output in the euro area was projected to grow at 1.5 per cent, up from 0.8 per cent in 2014. Economic recovery in Europe broadened, due largely to low oil prices boosting domestic demand and corporate profitability. Meanwhile, growth in the UK was projected to decline by 0.5 per cent while Japan's was expected to improve by 0.9 per cent from a negative of 0.1 per cent in 2014.

In emerging market and developing economies, there was a slowdown as the projected output growth was estimated at 4.2 per cent for 2015, compared with 4.6 per cent in 2014. The downward trend was attributable to low growth in China and its implications for emerging Asia, weak output growth in Russia and the downward revision to potential growth in commodity exporting countries. China's economy which grew by 7.4 per cent in 2014 was expected to slow down to 6.8 per cent in 2015, owing to decline in manufacturing output and property investments.

Growth in India was projected at 7.5 per cent in 2015, up from 7.3 per cent in 2014. This would be supported by a strong expansion in the manufacturing and services sectors. In Brazil, growth was projected to decelerate to negative 1.5 per cent in 2015, down from 0.1 per cent in 2014. Similarly, in the Middle East and North Africa (MENA) area, output was

[1]This was in spite of the expansionary monetary policies implemented by several central banks.

[2] IMF GFSR, April 2015

projected to decline slightly to 2.6 in 2015 from 2.7 per cent in 2014 which was due to low oil prices and political instability in several countries of the region.

Growth in sub-Saharan Africa was projected to decline to 4.4 per cent in 2015, down from 5.0 per cent in 2014. This was attributed largely to the fall in crude oil prices, which affected oil exporting countries like Nigeria and Angola as well as the impact of the Ebola Virus disease that slowed economic activities in some parts of West Africa. GDP growth in South Africa was estimated at 2.0 per cent in 2015, compared with 1.5 per cent growth in 2014, while growth in Nigeria was expected to slow down to 4.5 per cent in 2015, from 6.3 per cent in 2014.

In general, the level of financial stability risk has risen since October 2014, due largely to increased volatility in financial markets, shifts in asset prices, lower growth in output and lower commodity prices in low income developing economies.

Table 1. 1: Global Economic Outlook

		Year-on-Year			
Region/Country	**2012**	**2013**	**2014**	**2015***	**2016 ***
World	3.4	3.3	3.4	3.3	3.8
Advanced Economies	1.2	1.4	1.8	2.1	2.4
United States	2.3	2.2	2.4	2.5	3.0
Euro Area	-0.7	-0.4	0.8	1.5	1.7
Japan	1.5	1.6	-0.1	0.8	1.2
United Kingdom	0.3	1.7	2.9	2.4	2.2
Canada	1.7	2.0	2.4	1.5	2.1
Emerging Market and Developing Economies	5.1	5.0	4.6	4.2	4.7
China	7.7	7.7	7.4	6.8	6.3
MENA Region	4.8	2.4	2.7	2.6	3.8
Sub-Saharan Africa	4.4	5.0	5.2	4.4	5.1
Nigeria	4.3	5.4	6.3	4.5	5.0

* Projections

Sources: i. WEO April 2015 and WEO Update July 9, 2015
ii. Global Economic Prospects, June 2015

1.1.2 Global Inflation

Inflationary pressures across countries eased during the first half of 2015, reflecting the dampening effect of declining oil prices, sliding output growth and falling commodity prices. Inflation in advanced economies, which was projected at 1.8 per cent in 2015, compared to the 1.6 per cent achieved in 2014, was low and in some cases deflationary. In the US, although the inflation rate declined from negative 0.09 per cent in January to negative 0.2 per cent in April 2015, it rose to 0.12 per cent in June 2015, which was still below the Federal Reserve Bank's target of 2.0 per cent. In the euro area, the inflation rate was, for most of the review period, low as it moved from 0.5 per cent in December 2014 to 0.60 per cent in January 2015. It then dropped to 0.01 per cent in April, before inching up to 0.20 per cent in

June 2015. It however remained within the ECB's target of 2.0 per cent. In the United Kingdom, the inflation rate declined from 0.32 per cent in January to 0.08 per cent in both May and June 2015. The rates were significantly below the Bank of England's target level of 2.0 per cent. Overall, the inflation rate in most advanced economies remained low and below their respective Central Banks' targets during the first half of 2015.

Inflation in China and India remained subdued, while in Brazil and Russia, inflation was elevated as currency depreciations pushed up import prices. China's annual inflation rose from 0.90 per cent in January to 1.70 per cent in April before easing to 1.50 per cent in June 2015. The inflation rate in India eased from 7.17 per cent in January to 5.79 per cent in April and 5.74 per cent in June 2015. In Brazil, inflation assumed an upward trajectory in the first half of 2015, as the rate moved from 7.70 per cent in January to 8.17 per cent in April and 8.89 per cent in June 2015. During the review period, the average inflation rate of many emerging and developing market economies, at 5.6 per cent, was higher than the 3.0 per cent lower band of many of their central banks' policy rates and 5.5 per cent achieved in 2014.

In sub-Saharan African countries, inflation remained largely contained owing to low global food and fuel prices, albeit with a small uptick towards the end of the first half of 2015. The inflation rate in sub-Saharan Africa rose from 6.7 per cent achieved in 2014 to an estimated 7.0 per cent in 2015, reflecting the pickup of inflation in Nigeria and Angola, the region's largest oil exporters. However, among oil importers, the impact of falling oil and commodity prices is expected to drive inflation down marginally by the end of the year.

Overall, it is expected that global inflation would rise gradually by end-2015 and that, although previous declines in commodity prices would contribute to low global inflation in the short to medium- term, once the lag effects fade out, inflation might assume an upward trend.

Table 1. 2: Global Consumer Prices/Inflation (per cent)

Region/Country	2011	2012	2013	2014	Second Quarter 2015	2015 Forecast
Advanced Economies	2.7	2.0	1.4	1.6	0.5	0.6
US	3.1	2.1	1.5	2.0	0.0	0.3
Euro Area	2.7	2.5	1.3	0.5	0.2	0.2
Japan	-0.3	0.0	0.4	2.7	0.5	0.8
UK	4.5	2.8	2.6	1.6	0.0	0.2
Emerging and Developing Economies/	7.3	6.1	5.9	5.5	4.7	4.7
MENA Region	8.6	9.7	9.0	7.6	5.7	3.3
Sub-Saharan Africa	9.5	9.3	6.6	6.7	7.7	7.3
Nigeria	10.8	12.2	8.5	8.3	9.2	8.7

Sources: WEO October 2015 & July Update 2015

1.1.3 Global Commodity Prices

1.1.3.1 Oil Prices

The OPEC Reference Basket (ORB) averaged US$60.21/b in June 2015 owing to increased demand, strong refined product markets, inventory draw-downs, and the on-going geopolitical turmoil in some oil producing countries. The ORB was down by US$1.95 from the US$62.16 pb in recorded in May 2015 month-on-month (m-o-m), but remained significantly lower, compared with the corresponding period of 2014.

Crude oil futures prices were mixed during the review period, with the ICE Brent falling by US$1.86 to end at US$63.75 pb and the Nymex/WTI gaining 46 cents to reach US$59.83 pb. Stronger-than-expected demand growth and signs of a slowdown in US crude supply boosted oil futures during the review period. The fundamentals pointed to oversupply which continued to put pressure on prices. The ICE Brent contract was up by US$4.47 month-on-month at US$65.61 pb, while the Nymex/WTI contract rose by US$4.74 to US$59.37 pb. Both contracts were down year-to-date. The Trans-Atlantic spread narrowed from US$6.25 pb in May to US$3.92 pb in June amid stronger US refinery margins and higher crude intake compared with Europe or Asia[3]. The Brent premium to WTI decreased to around US$6.25 pb.

[3] OPEC Monthly Oil Market Report, July 2015

Global oil demand was expected to grow by 1.28 mbd in June 2015, higher than 0.96 mbd in 2014. Total oil consumption was estimated to pick up in the second half of 2015, leading to a total oil demand of 92.50 mbd for 2015. Non-OPEC oil supply in 2015 was projected at 0.86 mbd, in line with the previous forecast and below strong growth of 2.17 mbd in 2014. OPEC NGLs are forecast to grow by 0.19 mbd to average 6.02 mbd in 2015, following a growth of 0.18 mbd in 2014. In June, OPEC production averaged 31.38 mbd.

1.1.3.2 Food Prices

The Food and Agricultural Organization (FAO) Food Price Index stood at 165.1 points in June 2015, down from the 166.6 in May. Cereals and dairy products accounted for much of the month's decline, although meat quotations also fell. On the other hand, oil and sugar markets firmed. The June 2015 level puts the FAO Food Price Index at its lowest level since September 2009.

The FAO Cereal Price Index stood at 163.2 points in June 2015, indicating continued decline since December 2014. Ample stocks, combined with generally favourable crop outlook, continued to keep international prices under downward pressure. In addition, the FAO Dairy Price Index stood at 160.5 points in June, down by 7 points from the 167.5 in May 2015. Milk powders and butter were the main commodities affected, while cheese remained stable. Furthermore, the FAO Meat Price Index stood at 169.8 in June compared with 170.9 points in May and 170.8 in April 2015. Generally, lower prices for meat exports from the United States have continued to weigh down on the index.

The FAO Vegetable Oil Price Index stood at 156.2 in June 2015 up from the 154.1 points in May, but up by 3.9 points or 2.6 per cent from April. However, driven by rising quotations for both palm and soya oils, the index was 41 points or 21 per cent below the figure for the corresponding period of 2014. Similarly, the FAO Sugar Price Index was 176.8 in June, down from the 189.3 points recorded in May, reflecting an increase of 3.7 points or 2.0 per cent from April 2015, due largely to a slow start of the crushing season in Central/South Brazil, as raw sugar prices remain under the pressure of large supplies and growing surpluses in 2014/15.

Table 1. 3: Global Food Price Indices, 2011-June 2015

FAO Price Index	2012	Yearly Avg. 2013	Yearly Avg. 2014	June 2014	Dec. 2014	June 2015	Change Dec 2014 – June 2015
Food	213.3	209.8	201.8	208.9	186.2	165.1	-11.33
Meat	182.0	184.1	198.3	202.8	197.5	169.8	-14.03
Dairy	193.6	242.7	224.1	236.5	174.0	160.5	-7.76
Cereals	236.1	219.3	191.9	196.1	183.9	163.5	-11.09
Vegetable oil	223.9	193.0	181.1	188.8	160.7	156.2	-2.80
Sugar	305.7	251.0	241.2	258.0	217.5	176.8	-18.71

Source: Food and Agriculture Organization of the United Nations

1.1.4 International Financial Markets

1.1.4.1 International Stock Markets

During the first half of 2015, stock markets recorded mixed performance in most regions. In North America, the Mexican Bolsa and S&P 500 indices increased by 10.0 and 3.4 per cent, between end-January and end-June 2015, respectively, while the Canadian S&P/TSX Composite decreased marginally by 0.8 per cent during the same period.

In Asia, conditions in China exacerbated the pressure on other emerging market equities, given that as the second largest in the world, the Chinese economy could be the main driver of global output growth. Except for India and Japan, most equity markets in Asia reported losses in June 2015, although in Malaysia, Indonesia, Thailand, Korea and Taiwan, equities recorded strong inflows. During the period under review, China's Shanghai Stock Exchange-A and Japan's Nikkei 225 indices increased by 33.2 and 14.5 per cent, respectively, while India's BSE Sensex index decreased by 4.8 per cent.

In Latin America, the Argentine Merval and Brazilian Bovespa indices increased by 43.2 and 13.2 per cent, respectively, while the Columbian IGBC General index lost 4.2 per cent.

In Africa, the Ghanaian GSE All-share and South African JSE All-Share indices increased by 4.0 and 4.1 per cent, respectively, while the Nigerian NSE ASI, Kenyan NSE 20 and Egyptian EGX CASE 30 indices decreased by 3.5, 4.0 and 6.2 per cent, respectively. In addition to domestic conditions, most of these stocks were responding to developments in the international economy, especially with the appreciation of the US dollar and expectations about the Federal Reserves' monetary easing.

In Europe, France's CAC 40, Germany's DAX and Russia's MICEX indices increased by 4.0, 2.3 and 0.4 per cent, respectively, while UK's FTSE 100 decreased by 3.4 per cent (Table 1.4).

Table 1.4: Indices of Selected International Stock Markets at end-June 2015

Country	Index	End-June 2014	End-Dec. 2014	End-June 2015	YTD % Change
AFRICA					
Nigeria	NSE All-Share Index	42,482.49	34,657.15	33,456.83	-3.5
South Africa	JSE All-Share Index	50,945.26	49,770.60	51,806.95	4.1
Kenya	Nairobi NSE 20 Share index	4,885.04	5,112.65	4,906.07	-4.0
Egypt	EGX CASE 30	8,162.20	8,926.58	8,371.53	-6.2
Ghana	GSE All-Share Index	2,373.38	2,261.02	2,352.23	4.0
NORTH AMERICA					

US	S&P 500	1,960.23	2,058.90	2,063.11	0.2
Canada	S&P/TSX Composite	15,146.01	14,632.44	14,553.33	-0.5
Mexico	Bolsa	42,737.17	43,145.66	45,053.70	4.4
SOUTH AMERICA					
Brazil	Bovespa Stock	53,168.22	50,007.41	53,080.88	6.1
Argentina	Merval	6,537.61	7,830.30	11,656.81	48.9
Columbia	COLCAP		1,512.98	1,331.35	-12.0
EUROPE					
UK	FTSE 100	6,743.94	6,566.09	6,520.98	-0.7
France	CAC 40	4,422.84	4,272.75	4,790.20	12.1
Germany	DAX	9,833.07	9,805.55	10,944.97	11.6
Russia	MICEX	1,476.38	1,396.61	1,654.55	18.5
ASIA					
Japan	NIKKEI 225	15,162.10	17,450.77	20,235.73	16.0
China	Shanghai SE A	2,144.74	3,389.39	4,479.90	32.2
India	BSE Sensex	25,413.78	27,499.42	27,780.83	1.0

1.1.4.2 International Foreign Exchange Markets

During the first half of 2015, currencies of major emerging markets depreciated against the US dollar. This largely arose from the continued decline in international crude oil prices, turmoil in financial markets, slow economic recovery in advanced economies and the expected impact of normalization in US monetary policy. The already moderating growth in advanced countries was weakened by the strengthened US dollar, volatile capital flows and financial system vulnerabilities. At end-June 2015, the US dollar continued to strengthen against other currencies on expectations that the US Federal Reserve would raise interest rates.

In Asia, divergent monetary policy stances in China and Japan worsened the fragility of financial markets and currency risks in developing economies. In Latin America and African markets, uncertainties in commodity prices have added pressures on domestic currencies. Exchange rate developments in the first half of 2015 are summarised as follows:

- **North America:** The Canadian dollar appreciated against the US dollar by 38.02 per cent, while the Mexican Peso depreciated by 17.27 per cent.

- **South America:** The Brazilian real, Argentine peso, and Colombian peso depreciated against the US dollar by 28.71, 10.56, and 27.96 per cent, respectively.

- **Europe:** The pound sterling, euro and Russian ruble depreciated against the US dollar by 7.81, 18.89 and 38.50 per cent, respectively.

- **Asia:** The Japanese yen and Indian rupee depreciated against the US dollar by 17.06 and 5.44 per cent, respectively. The Chinese yuan remained unchanged against the US dollar.

- **Africa:** The Nigerian naira, South African rand, Kenyan shillings, Egyptian pound and Ghanaian cedi, depreciated against the US dollar by 20.14, 12.51, 11.74, 6.29 and 22.99 per cent, respectively (Table 1.5).

Table 1. 5: Exchange Rates of Selected Currencies (Value in Currency Units to US$)

Economy	Currency	30-Jun-14	31-Dec-14	30-Jun-15	YTD % Change
AFRICA		**a**	**b**	**c**	
Nigeria	Naira	157.29	169.68	196.95	-13.85
South Africa	Rand	10.63	11.55	12.15	-4.94
Kenya	Shilling	87.6	90.6	99.25	-8.72
Egypt	Pound	7.15	7.15	7.63	-6.29
Ghana	Cedi	3.35	3.22	4.35	-25.98
North America					
Canada	Dollar	1.67	1.16	1.21	-4.13
Mexico	Peso	12.98	14.75	15.69	-5.99
South America					
Brazil	Real	2.21	2.66	3.1	-14.19
Argentina	Peso	8.13	8.47	9.09	-6.82
Colombia	Peso	1877.44	2376.51	2606	-8.81
Europe					
UK	Pound	0.59	0.64	0.64	0.00
Euro Area	Euro	0.73	0.83	0.9	-7.78
Russia	Ruble	33.99	60.74	55.27	9.90
Asia					
Japan	Yen	101.29	119.84	122.12	-1.87
China	Yuan	6.20	6.21	6.20	0.16
India	Rupee	60.19	63.04	63.65	-0.96

Source: *Bloomberg*

1.1.5 International Monetary Policy Rates

Monetary policy rates of most central banks were fairly stable during the first half of 2015. The Bank of England, US Federal Reserve, Bank of Canada, and the European Central Bank maintained their rates at 0.50, 0.25 and 0.75 and 0.05 respectively, while the Banks of Japan, South Korea, Australia and New Zealand lowered their rates to 0.01, 1.75, 2.00 and 3.25 respectively, during the review period. The Bank of Indonesia which maintained its rate at 7.75 per cent for the first five months of the year reduced it to 7.5 per cent in June 2015. The Bank Negara Malaysia left its rate unchanged at 3.25 per cent during the first half of 2015. Similarly, rates were kept constant in Chile, Colombia and Mexico.

In the BRICS, monetary policy rates varied during the period. Russia and South Africa kept their rates; Brazil raised its rate; while India and the Peoples Bank of China (PBC) reduced their rates during the review period. The rates remained the same in Nigeria (Table 1.6).

Table 1.6: Policy Rates Across Selected Countries (July 2014 – June 2015)

	2014						2015					
Country	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**March**	**April**	**May**	**June**
Developed Economies												
Japan	0.07	0.07	0.03	0.06	0.06	0.06	0.07	0.07	0.02	0.06	0.07	0.01
Euro Zone	0.15	0.15	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
UK	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
US	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Canada	1.00	1.00	1.00	1.00	1.00	1.00	0.75	0.75	0.75	0.75	0.75	0.75
South Korea	2.50	2.25	2.25	2.00	2.00	2.00	2.00	2.00	1.75	1.75	1.75	1.75
New Zealand	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.25
Australia	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.25	2.25	2.25	2.00	2.00
ASEAN												
Indonesia	7.50	7.50	7.50	7.50	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.50
Malaysia	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
BRICS												
Brazil	11.00	11.00	11.00	11.00	11.25	11.75	12.25	12.25	12.75	13.25	13.25	13.75
Russia	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25
India	7.00	7.00	7.00	7.00	7.00	7.00	6.75	6.75	6.50	6.50	6.50	6.25
PBC Base rate	5.60	5.60	5.60	5.60	5.60	5.60	5.60	5.35	5.35	5.35	5.10	4.81
South Africa	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75
Other Emerging Economies & South America												
Mexico	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Chile	3.75	3.50	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Colombia	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Africa												
Egypt	9.25	9.25	9.25	9.25	9.25	9.25	8.75	8.75	8.75	8.75	8.75	8.75
Ghana	19.00	19.00	19.00	19.00	21.00	21.00	21.00	21.00	21.00	21.00	22.00	22.00
Kenya	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	10.00
Nigeria	12.00	12.00	12.00	12.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00

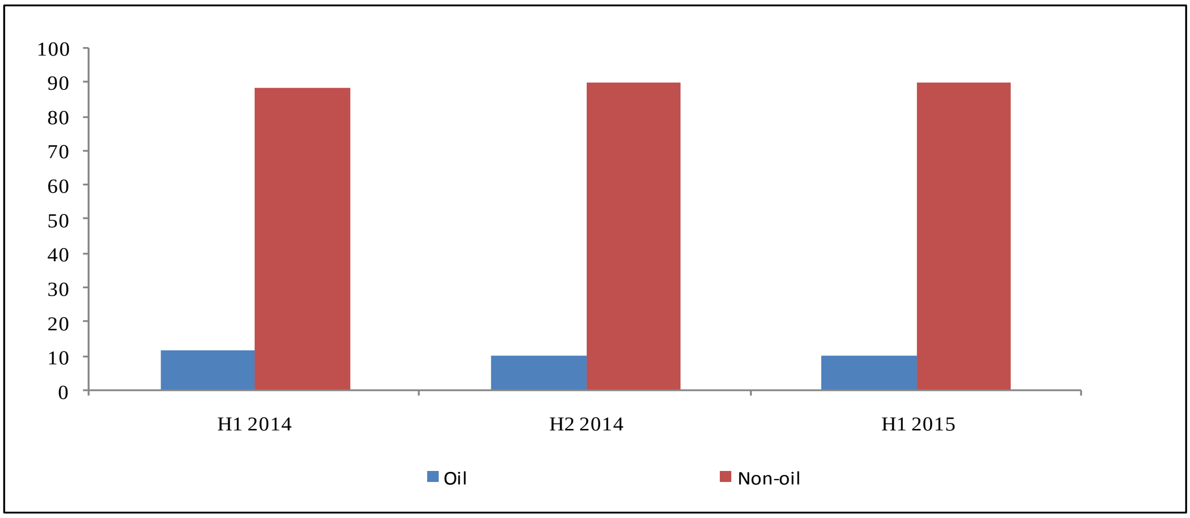
Source: *Bloomberg Monthly Policy Rates*

1.2 Domestic Developments

1.2.1 Output

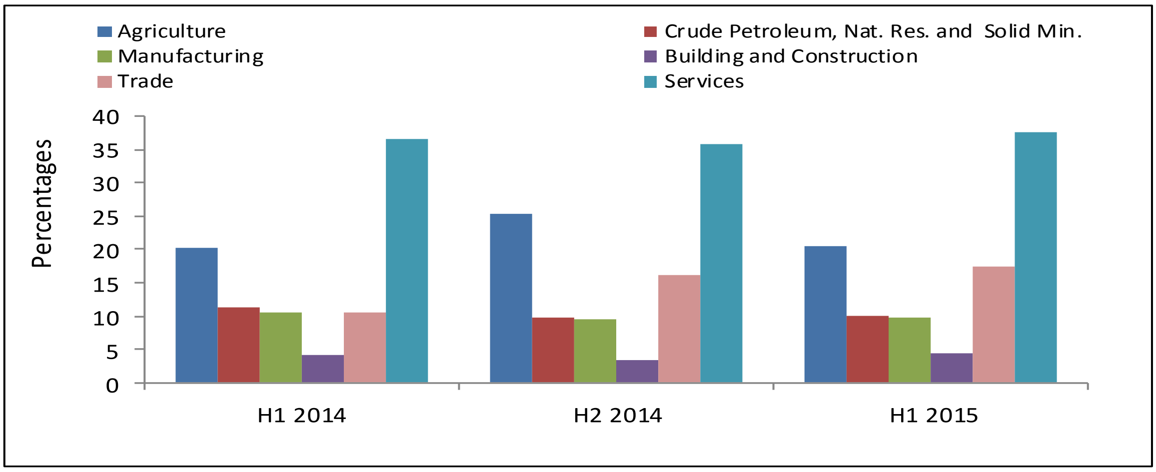
Data from the National Bureau of Statistics (NBS) indicated that the real Gross Domestic Product (GDP), at 2010 constant basic prices, declined by 8.7 per cent in the first half of 2015, in contrast to the growth of 13.0 per cent in the second half of 2014. It was, however, negative 2.6 percentage points below the 6.1 per cent decline recorded in the corresponding period of 2014. The non-oil GDP continued to be the main driver of the total GDP growth during the period under review.

Figure 1.1: Share of Oil and Non-oil Sectors to total GDP (%)



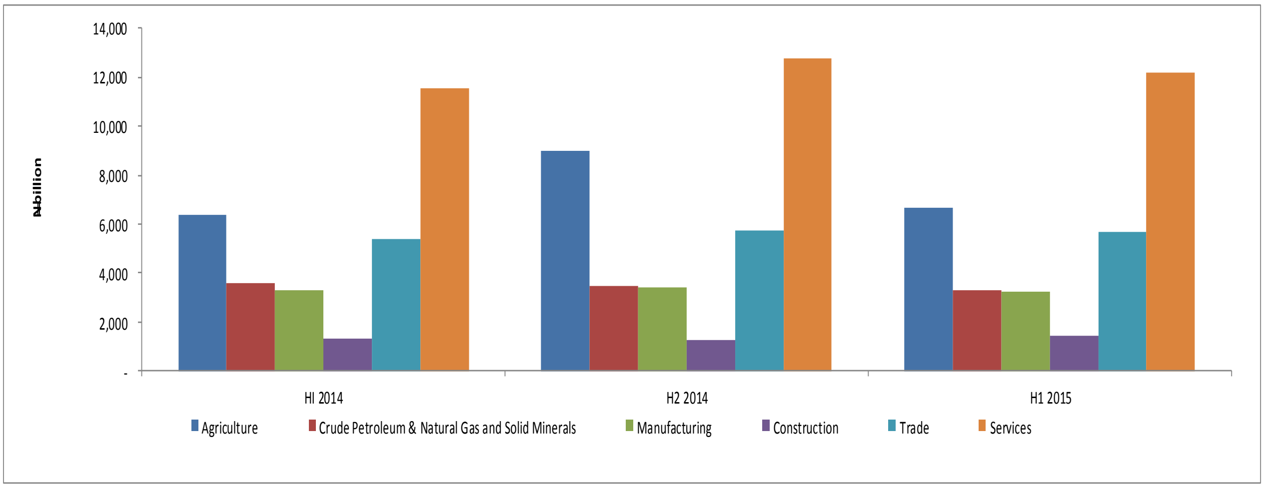
Growth in non-oil real GDP declined by 9.2 per cent in the first half of 2015, compared with the 7.0 per cent decline in the corresponding half of 2014. The development in the non-oil sector was attributed to the 26.0 per cent decline in agriculture. However, the non-oil GDP contribution to real GDP grew by 1.2 percentage points when compared with the level in the corresponding period of 2014.

Figure 1.2: Sectoral Share in Total GDP (%)



In terms of sectoral contribution, the services sector accounted for the largest share (37.48%) of real GDP. This was followed by agriculture (20.5%), industry (20.2%), trade (17.5%) and construction (4.4%). The oil sector contribution to real GDP improved slightly by 0.4 percentage point to 10.1 per cent, compared with 9.7 per cent recorded in the second half of 2014. It, however, fell by 1.2 percentage points when compared with the level recorded in the corresponding period of 2014. The global decline in the price of crude oil and other domestic challenges in the oil sector continued during the first half of 2015.

Figure1.3: Gross Domestic Product by Sector (₦' billion)

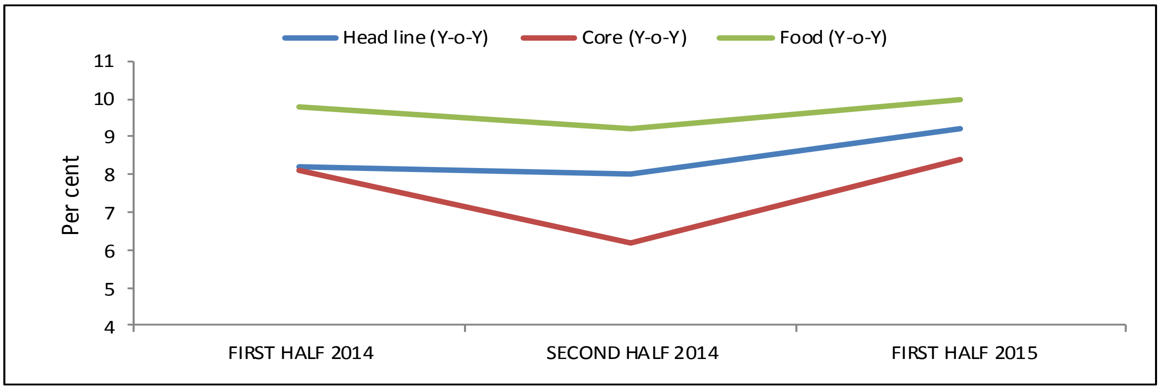


1.2.2 Inflation

National Bureau of Statistics (NBS) data showed that the all-items composite Consumer Price Index (CPI) stood at 173.2 in June 2015 (November 2009 = 100), compared with 164.4 and 158.6 at end-December 2014 and end-June 2014, respectively. The index for the first half of 2015 was higher than the levels in the second half of 2014 and the corresponding half of 2014 by 5.4 and 9.2 per cent, respectively. The rise in the price index was accounted for by increases in the prices of food and non-alcoholic beverages; housing, water, electricity, gas and other fuels; clothing and footwear; transport; furnishing, household equipment and maintenance; health; and education.

Headline inflation rose by 1.2 and 1.0 percentage points to 9.2 per cent in June 2015 above its levels in December 2014 and June 2014, respectively. The relative stability of the headline inflation (which had been in single digit since the second half of 2014) continued throughout the first half of 2015. The Twelve-Month Moving Average inflation rate at end-June 2015 was 8.4 per cent, compared with 8.0 per cent apiece recorded at end-December 2014 and the corresponding period of 2014. At end-June 2015, core inflation rose by 2.2 and 0.3 percentage points to 8.4 per cent above its respective levels of 6.2 and 8.1 per cent at end-December and end-June 2014. However, food inflation rose to 10.00 per cent at end-June 2015, compared with its levels of 9.2 and 9.8 per cent at end-December and end-June 2014, respectively. The increase was attributed to decreased food production occasioned by the insurgency in the North Eastern part of the Country (Figure 1.4).

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

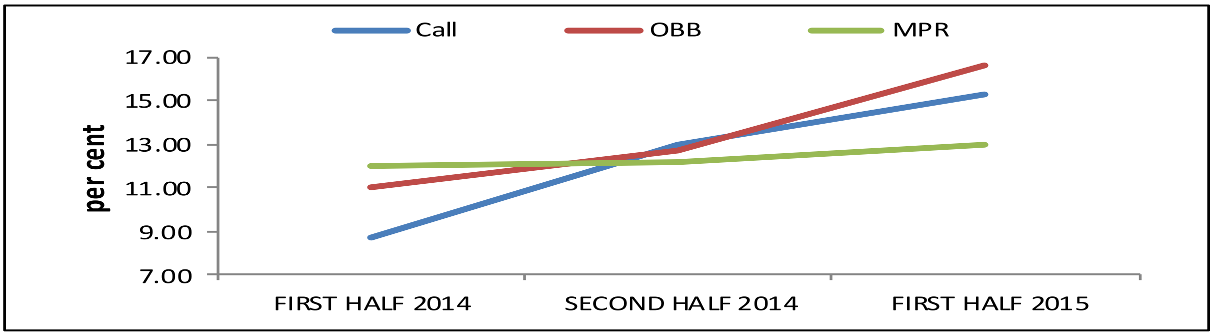


1.2.3 Interest Rates

Money market rates moved largely in tandem with the level of liquidity and were generally stable in the first half of 2015. The increase in spending towards the 2015 general elections, the fiscal injections through statutory revenue allocation and OMO maturities, made the interbank money market highly liquid during the period. The market experienced occasional spikes in rates, especially during the pre- and post-election periods, reflecting the liquidity conditions in the system. For instance, the secured Open-Buy-Back (OBB) rate rose by 18.13 and 8.89 percentage points to 27.2 and 23.2 per cent in February and April 2015. Similarly, in February and April 2015, the unsecured interbank rate rose by 10.4 and 15.14 percentage points to 20.62 and 29.11 per cent, respectively. However, the sale of CBN bills and government securities as well as foreign exchange interventions by the Bank moderated and stabilized the rates in the first half of 2015.

The impact of maintaining the policy rate at 13.00 per cent with a symmetric corridor of ±200 basis points and the harmonization of both public and private sector CRR in May 2015, sustained the relative stability in market rates. The average OBB rates rose by 3.36 percentage points to 16.41 per cent, while inter-bank call rates averaged at 16.18 per cent, representing 1.68 percentage points above the level in the second half of 2014. The NIBOR closed at an average of 17.36 and 15.05 per cent for the call and 30-day segments, representing an increase of 3.7 and 2.4 percentage points, above the levels in the second half of 2014, respectively (Figure 1.5).

Figure 1.5: Money Market Interest Rates and MPR



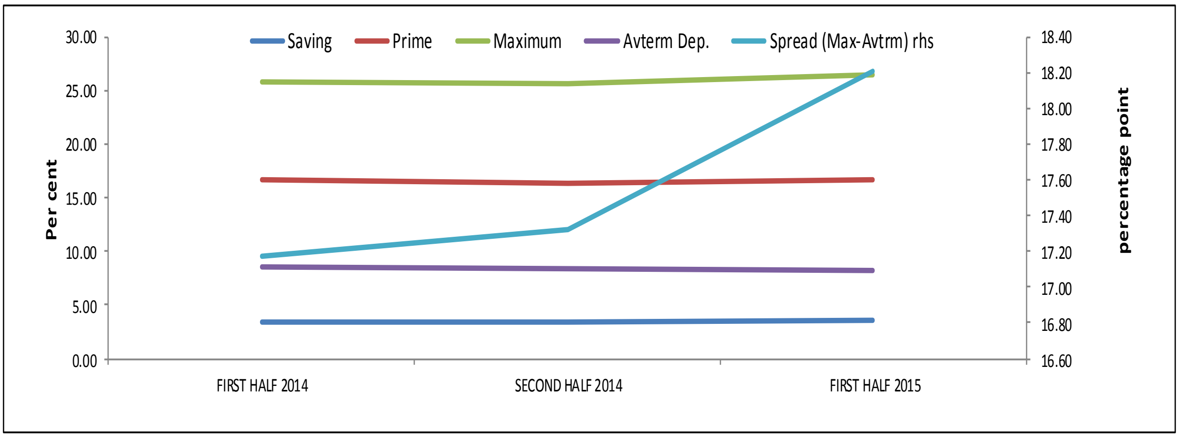
With the exception of the 7-day, 12- and over 12-month deposit rates, all other rates increased in the first half of 2015, compared with the levels in the second half of 2014. Available data indicated that both the average prime and maximum lending rates increased by 0.25 and 0.71 percentage points to 16.63 and 26.43 per cent, in the first half of 2015 above the levels in the second half of 2014, respectively. The rise in lending rates reflected increased demand for credit by the non-bank public.

The average term deposit rate fell by 0.17 percentage point to 8.22 per cent, indicating that banks were liquid in the review period. The spread between the average term deposit and the average maximum lending rates widened by 0.88 percentage point to 18.21 per cent above 17.32 per cent recorded in the second half of 2014.

The average savings rate of the banks improved slightly by 0.19 percentage point to 3.59 per cent in the first half of 2015, compared with its level in the second half of 2014. Average rates on deposits of various maturities fell from a range of 4.4 – 9.8 per cent in the second half of 2014 to a range of 4.3 – 9.5 per cent at the end of the first half of 2015. The developments in interest rates were attributed to the tight monetary policy stance of the Bank.

With the actual inflation rate at 9.2 per cent for June 2015, the lending rates (prime and maximum) and the 3- and 6-month deposit rates were positive in real terms (Figure 1.6).

Figure 1.6: Lending and Deposit Rates



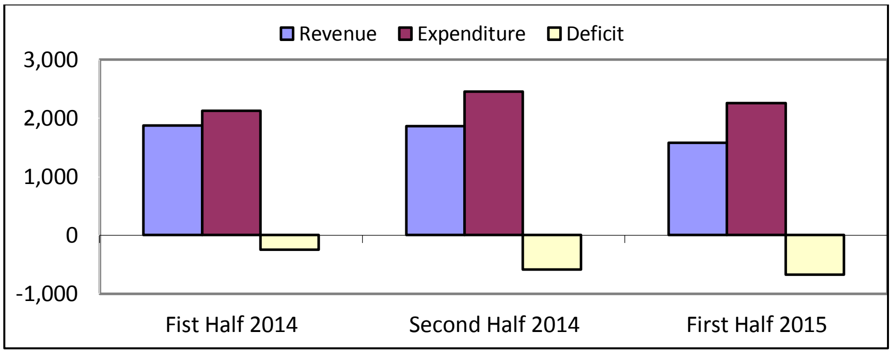
1.2.4 Fiscal Operations

The Federal Government Retained Revenue for the first half of 2015 declined to ₦1,583.19 billion below ₦1,870.71 billion and ₦1,881.04 billion in the second and first halves of 2014, respectively. It also fell by 14.8 per cent below the first half of 2015 budget estimate of ₦1,858.99 billion. An analysis of the retained revenue revealed that the share from the Federation Account was ₦1,180.11 billion or 74.5 per cent, Federal Government Independent Revenue ₦290.93 billion or 18.4 per cent, VAT Pool Account ₦57.43 billion or 3.6 per cent, and "others", ₦54.72 billion or 3.5 per cent. The share from the Federation Account included current federation revenue, N1,031.80 billion (87.4%); exchange rate gain, ₦96.44 billion (8.2%); NNPC refunds, ₦44.71 billion (3.8%); and Excess Crude, ₦7.16 billion (0.6%).

Federal Government expenditure fell by 8.1 per cent to ₦2,259.66 billion in the first half of 2015, compared with ₦2,128.70 billion recorded in the second half of 2014. However, it grew by 6.2 per cent, relative to the level in the corresponding period of 2014. Recurrent expenditure constituted 82.88 per cent of the total expenditure during the first half of 2015.

The fiscal operations of the Federal Government resulted in an overall deficit of ₦676.47 billion or 2.1 per cent of Gross Domestic Product at 2010 Constant Basic Prices. This was much higher than the proportionate budget deficit of ₦520.51 billion for the first half of 2015 and the ₦587.98 billion recorded in the second half of 2014. The deficit was financed mostly from domestic sources (Figure 1.7).

Figure 1. 7: Federal Government Fiscal Operations



The decline in international oil prices which started in the second half of 2014 continued throughout the first half of 2015, with serious negative impact on government revenue in 2015. The stock of Federal Government consolidated debt at end-June 2015 (1st half 2015) was ₦10,428.49 billion or 32.0 per cent of GDP. This reflected an increase of 9.1 per cent over the level at the end of the second half of 2014. The breakdown showed that the domestic debt was ₦8,396.59 billion or 80.6 per cent of the total, while the external debt amounted to ₦2,021.10 billion (US$10.32 billion) or 19.4 per cent of the total. The domestic debt charges on the Federal Government instruments at the end of the first half of 2015 was ₦528.54 billion or 1.63 per cent of GDP. This represented an increase of 23.9 per cent over the level at end-December 2014. The development was attributed to the rise in the stock of FGN domestic debt during the review period. The external debt service amounted to ₦30.91 billion (US$0.16 billion) or 0.10 per cent of GDP and indicated an increase of 13.0 per cent over the level at end-December 2014.

2.0 DEVELOPMENTS IN THE FINANCIAL SYSTEM

2.1 Monetary and Credit Developments[4]

The CBN sustained its tight monetary policy stance in the first half of 2015, keeping the policy rate at 13.00 per cent throughout the period. Consequently, growth of monetary aggregates was sluggish and fell below the levels at end-December 2014. Currency-in-circulation and currency outside bank fell below the levels at the end of the second half of 2014, though both remained stable throughout the review period. Aggregate credit to the domestic economy grew by 11.1 per cent owing, largely, to the significant growth in net claims on the Federal Government, while consumer credit slowed in tandem with the growth in credit to the private sector.

Provisional data indicated that broad money supply (M_2) fell by 0.5 per cent to ₦18,811.4 billion at end-June 2015, below the level at end-December 2014. The position was in contrast to the growth of 12.0 per cent in the first half of 2014. The decline in broad money supply reflected the drop in net foreign assets and other assets (net) of the banking system, which suppressed the growth in aggregate credit. The decline in net foreign assets, in turn, reflected the fall in foreign exchange earnings.

Narrow money supply fell by 5.3 per cent to ₦6,542.39 billion at end-June 2015, compared with 1.8 per cent at end-December 2014. This development reflected the 17.6 and 1.99 per cent respective decline in currency outside bank (COB) and demand deposits, respectively. Currency outside bank, as a ratio of narrow money supply, fell from 20.8 per cent at end-December 2014 to 18.1 per cent at end-June 2015 as a result of growth in e-payments.

2.1.1 Aggregate Credit to the Economy

Net domestic credit (NDC) of the banking system grew by 11.1 per cent to ₦21,409.77 billion at the end of the first half of 2015, compared with the growth of 32.6 and 14.8 per cent at the end of the preceding and the corresponding period of 2014. The development reflected the increase in net claims on the Federal Government and the private sector credit.

2.1.1.1 Claims on the Federal Government

Net credit to the Federal Government rose by 118.45 per cent to ₦2,512.46 billion at the end of the first half of 2015, compared with the growth of 169.44 per cent or ₦1,150.11 billion recorded at the end of the second half of 2014. The development reflected, wholly, the rise in investment in treasury securities by the banking system, particularly Nigerian Treasury Bills, which grew by 10.4 per cent. Persistent increase in credit to government deprives the private sector of needed credit to boost economic growth.

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[4] The analysis is based on the revised July 2015 CBN Monetary Survey.

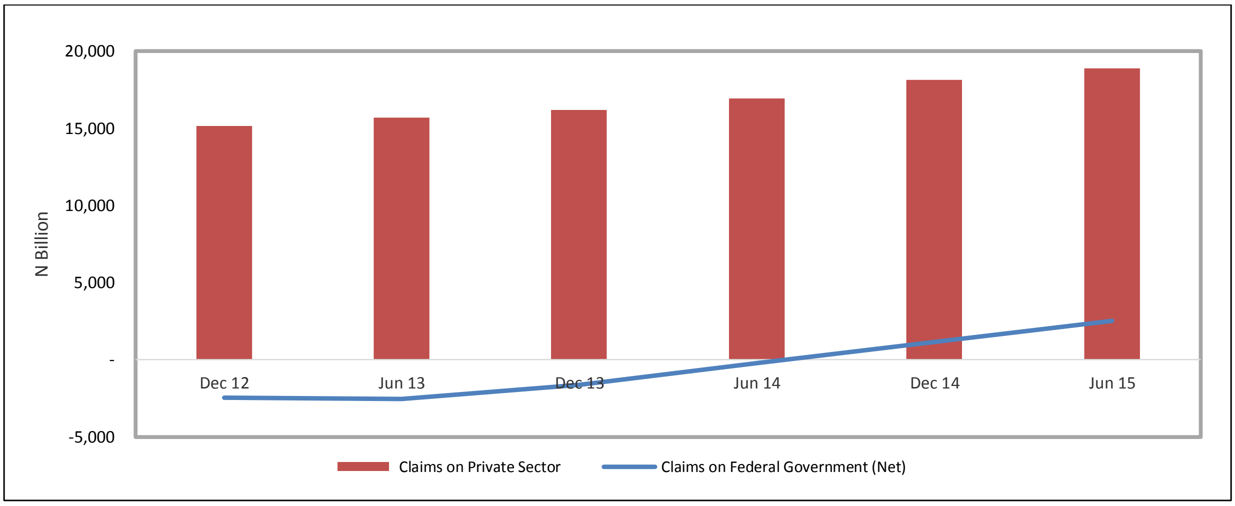
Table 2.1: Growth in Monetary Aggregates

% Change (Over preceding half year)	Jun 13 revised	Dec 13 revised	Jun 14 revised	Dec 14 revised	Jun 15 provisional
Domestic Credit (Net)	3.55	14.47	14.82	32.6	11.08
Claims on Federal Government (Net)	(3.63)	32.50	85.75	169.44	118.45
Claims on Private Sector	3.57	6.86	4.53	11.93	4.27
Foreign Assets (Net)	1.34	4.26	(11.38)	(19.68)	(14.42)
Other Assets (Net)	(7.39)	19.92	(9.58)	2.53	(16.88)
Total Monetary Assets (M2)	0.71	1.32	12.03	20.55	(0.54)
Quasi-Money	7.33	7.36	21.07	38.73	2.17
Money Supply (M1)	(6.49)	(5.23)	0.90	-1.82	(5.25)
Currency Outside Banks	(13.32)	11.18	(16.25)	(0.64)	(17.63)
Demand Deposits	(5.03)	(8.72)	5.35	(2.13)	(1.99)
Total Monetary Assets (M2)	0.71	1.32	12.03	20.55	(0.54)

2.1.1.2 Claims on the Private Sector

Credit to the private sector at end-June 2015 grew by 4.3 per cent, compared with the growth rate of 11.9 and 4.5 per cent in the preceding and corresponding periods, respectively. The development reflected the 4.6 per cent increase in claims on the core private sector[5], compared with the 14.1 per cent growth at the end of the second half of 2014. The contribution of claims on the private sector to the growth of total monetary assets stood at 4.1 percentage points, compared with the 12.3 percentage points at the end of the second half of 2014.

Figure 2.1: Distribution of Credit to the Economy

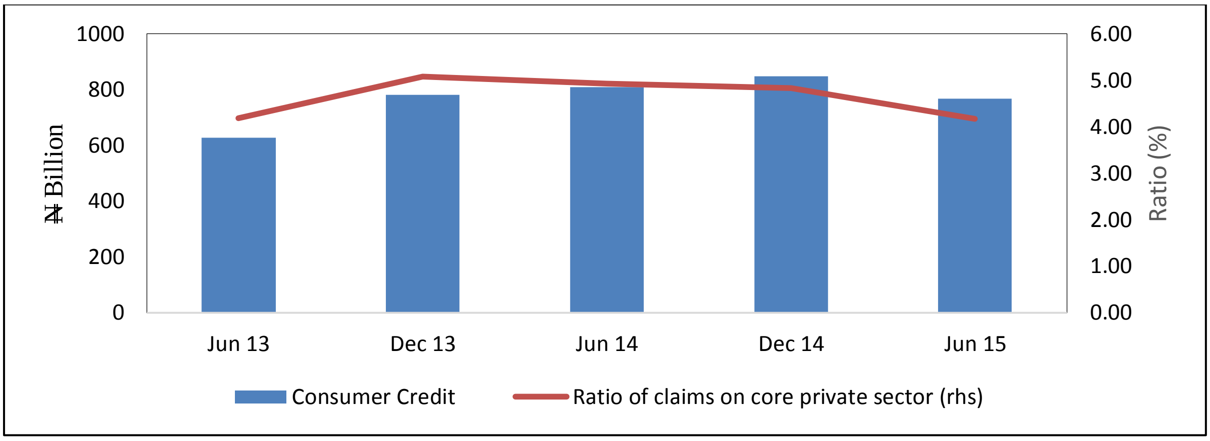


[5]Excludes the state and local governments

2.1.1.3 Consumer Credit

Consumer credit, at ₦768.67 billion, fell by 9.6 per cent at end-June 2015 below the level at the end of second half of 2014, in contrast to the growth of 4.8 per cent at end-December 2014. It constituted 4.2 per cent of total credit to the core private sector, compared with 4.8 per cent at the end of the preceding half year (Figure 2.2). This was attributed to increased risk aversion for consumer credit.

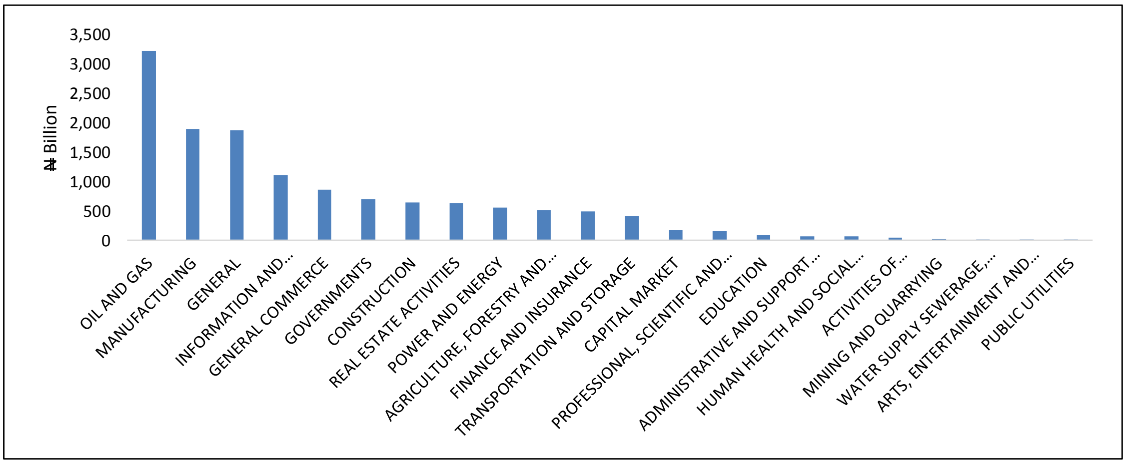
Figure 2.2: Consumer Credit



2.1.2 Sectoral Credit Utilization

Total bank loans and advances to the private sector of the economy grew by 4.2 per cent to ₦13,804.2 billion at the end of the first half of 2015, 2.7 percentage points lower than the level recorded at the end of the second half of 2014. The decline in private sector credit reflected the tight monetary policy stance of the Bank. Of the total loans outstanding, credit to the oil and gas sub-sector accounted for the highest share (23.78%), followed by manufacturing (13.98%) and general commerce (13.84%). The share of agriculture, forestry and fishery (3.8%) was 0.1 percentage point lower than the level recorded at the end of the second half of 2014 (Figure 2.3).

Figure 2.3: Sectoral Allocation of Credit



2.1.3 Reserve Money

Reserve money fell by 0.3 per cent to ₦5,945.97 billion at end-June 2015, below the level at end-December 2014. The fall in reserve money reflected mainly the 9.3 per cent decline in net foreign assets of the CBN, following low foreign exchange inflow. The corresponding decline in the uses of reserve money was attributed, largely, to the 13.1 per cent fall in currency-in-circulation as bank reserves at the CBN increased by 5.2 per cent in the review period.

2.1.3.1 Currency-in–Circulation/Banks' Deposits with the CBN

Currency-in-circulation, which constituted 26.3 per cent of the uses of reserve money at the end of the first half of 2015, fell by 13.1 per cent to ₦1, 562.6 billion. Bank deposit with the CBN grew by 5.2 per cent at end-June 2015, compared with 26.7 per cent at the end of the second half of 2014. The growth in deposits with the CBN reflected an increase of 104.9 and 23.3 per cent in merchant banks and non-interest banks' demand deposits, respectively.

Figure 2.4: Reserve Money and its Components - Sources

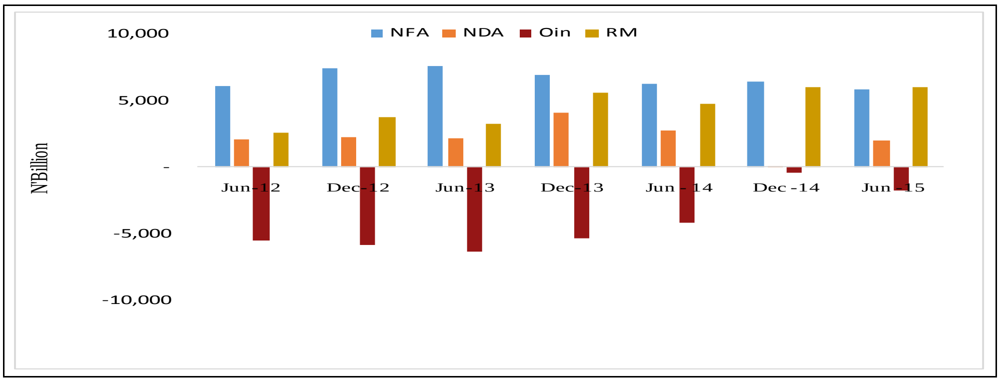
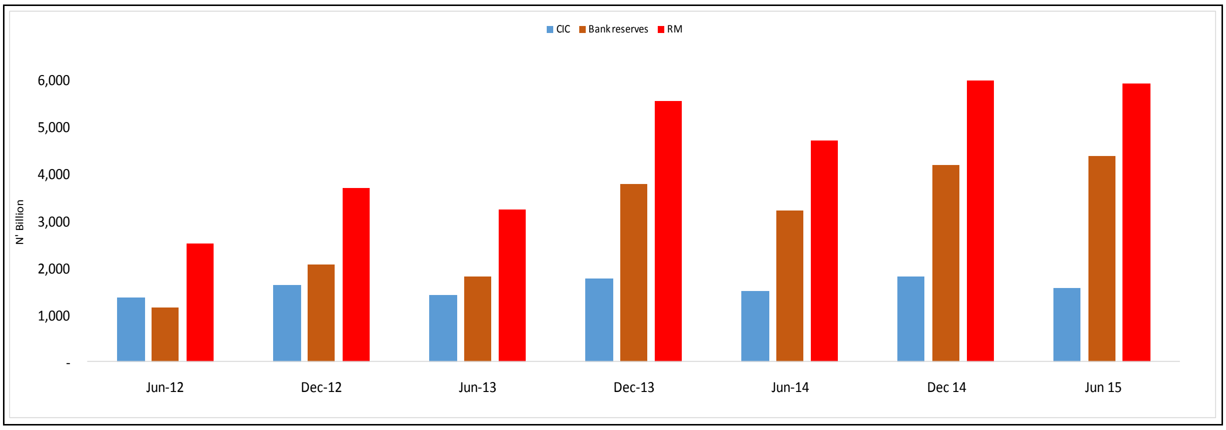


Figure 2.5: Reserve Money and its Components - Uses



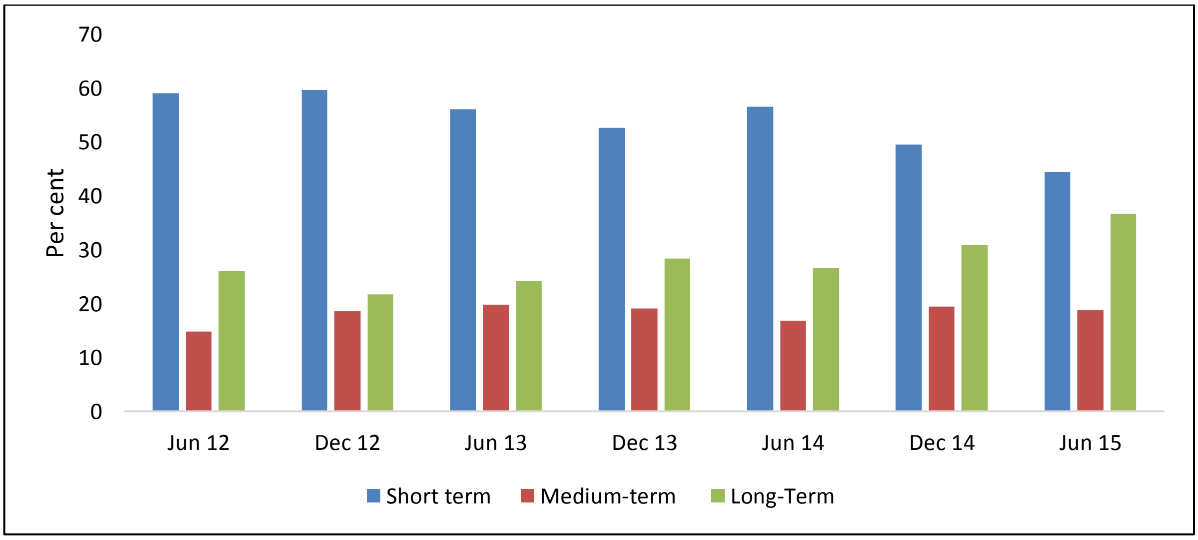
Currency Outside Bank

Currency Outside Banks (COB) fell by 17.6 per cent to ₦1,183.99 billion at end-June 2015, compared with the decline of 18.6 per cent at end-December 2014. As a ratio of broad money supply, COB constituted 6.3 per cent in the first half of 2015, a slight decline from 6.9 per cent recorded at the end of the corresponding period of 2014, reflecting the growth in the use of e-payment channels.

2.1.4 Maturity Structure of Bank Deposits and Credit

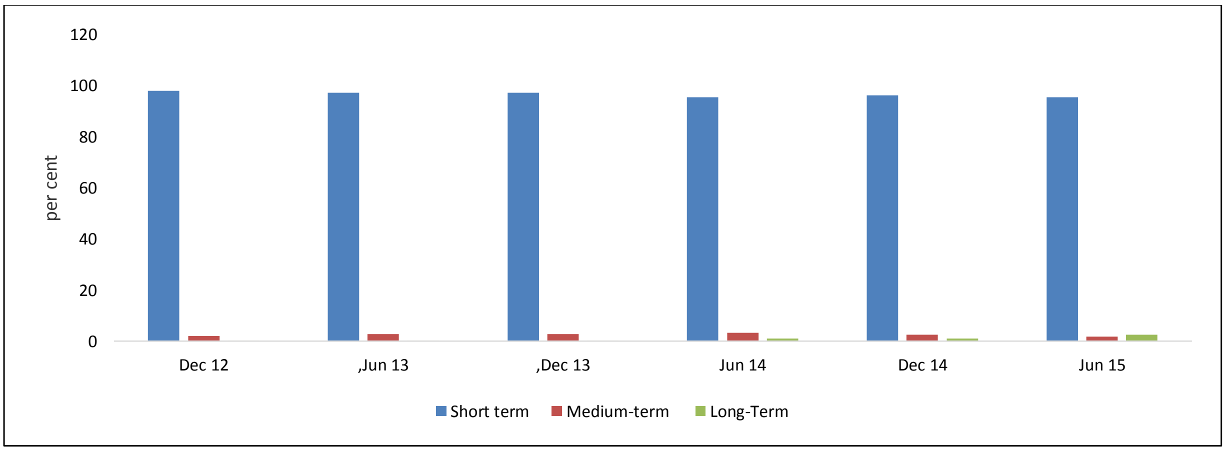
The structure of bank credit in the first half of 2015 indicated that short-term credit remained dominant. Credit maturing within one year accounted for 44.5 per cent, compared with 49.6 per cent at the end of the second half of 2014. The medium-term (≥1yr and <3yrs) and long-term (3yrs and above) credit stood at 18.8 and 36.7 per cent, compared with 19.5 and 30.9 per cent at the end of the second half of 2014, respectively (Figure 2.6).

Figure 2.6: Distribution of Credit by Maturities



Similarly, deposits of below one-year maturity constituted 95.5 per cent (of which 73.0 per cent had maturity of less than 30 days), compared with 96.3 per cent at end-December 2014. Further analysis showed that the medium and long-term deposits constituted 1.8 and 2.7 per cent, compared with 2.7 and 1.0 per cent recorded at end-December 2014, respectively (Figure 2.7).

Figure 2.7: Maturity Structure of Bank Deposits



Although some improvements were observed, especially with the credit structure, the consequences of a maturity mismatch remained a constraint to the ability of banks to create long-tenored assets, including lending to the real sector.

2.1.5 Market Structure of the Banking Industry

The banking system remained largely oligopolistic in the first half of 2015. Available data showed that the average market share of assets and deposits of the five largest banks (concentration ratio –CR_5) stood at 44.4 and 54.3 per cent, compared with 50.7 and 51.9 per cent at the end of the second half of 2014, respectively. The market share of the largest bank, with respect to assets and deposits, stood at 15.6 and 14.1 per cent, compared with 13.2 and 14.1 per cent at the end of the second half of 2014, respectively. During the period under review, a total of 17 banks had market shares ranging between 0.16 to 7.8 per cent in assets and 0.14 to 7.06 per cent in deposits, reflecting low level of competition in the market. This is supported by the Herfindahl-Hirschman Index (HHI) of the industry (on a scale of 100 to 10,000) at 778.07 and 814.53 for assets and deposits, respectively.

Figure 2.8: Market Concentration Ratios of Banks (Assets and Deposits)

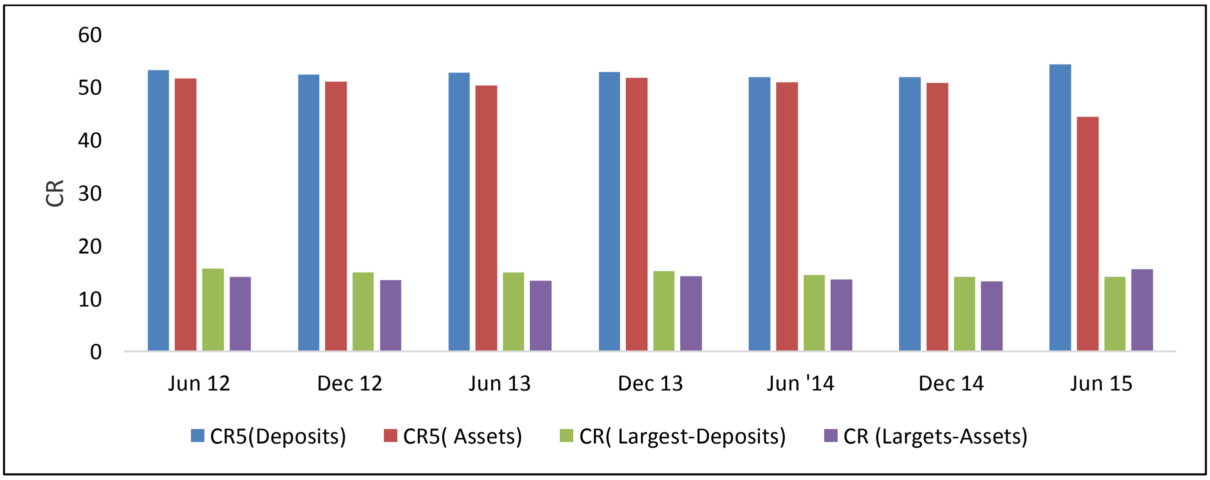
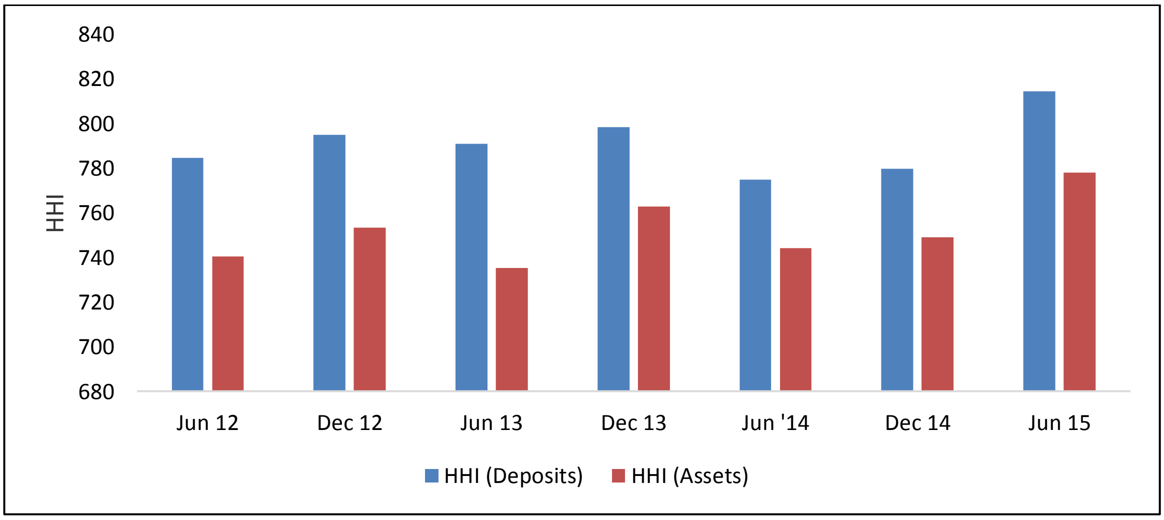


Figure 2.9: Herfindahl-Hirschman Index for the Nigerian Banking Industry



2.2 Other Financial Institutions

There were 3,733 Other Financial Institutions (OFIs) at end-June 2015, compared with the 3,538 institutions at end-December 2014, reflecting an increase of 195 OFIs or 5.5 per cent. The increase was attributed to the net effect of 201 new OFIs (165 BDCs, 2 FCs and 34 MFBs) and the exit of six (6) PMBs, during the review period. The breakdown of the OFIs is given in Table 2.2.

Table 2. 2: Institutions in the OFI Sub-sector

Institution-Type	**Number**	
	June 2015	**Dec 2014**
Development Finance Institutions	6	6
Primary Mortgage Banks	36	42
Nigeria Mortgage Refinance Bank	1	1
Microfinance Banks	937	903
Finance Companies	66	64
Bureaux de Change	2,688	2,523
Total	**3,734**	**3,539**

The total assets of the sub-sector increased by 11.73 per cent to ₦1,889.21 billion at end-June 2015, from ₦1,690.8 billion at end-December 2014. The total paid-up capital, however, decreased by 0.80 per cent to ₦441.22 billion at end-June 2015, from ₦444.8 billion at end-December 2014, while the total net loans/advances increased by 13.46 per cent to ₦1,189.62 billion at end-June 2015, from ₦1,048.5 billion at end-December 2014. Total deposits decreased by 14.41 per cent to ₦305.56 billion at end-June 2015, from ₦357.0 billion at end-December 2014.

2.2.1 Microfinance Banks

The provisional data for microfinance banks (MFBs) showed that total assets increased to ₦356.03 billion at end-June 2015, from ₦300.73 billion at end-December 2014, reflecting an increase of 18.39 per cent. Paid-up capital decreased by 0.61 per cent to ₦81.94 billion from ₦82.44 billion at end-December 2014, while shareholders' funds of MFBs increased by 6.61 per cent to ₦97.03 billion at end-June 2015, from ₦91.01 billion, at end-December 2014. The decrease in the industry paid-up capital was attributed to non-rendition of returns by some MFBs operating in the North East.

Table 2. 3: Key MFB Financial Highlights[6]

	June 2015 (₦' billion)	Dec. 2014 (₦' billion)	% Change
Total Assets	356.03	300.73	18.39
Paid up Capital	81.94	82.44	(0.61)
Shareholders' Funds	97.03	91.01	6.61
Deposit Liabilities	159.40	145.83	9.31
Loans and Advances	178.12	162.91	9.34

Total deposit liabilities and net loans & advances increased by 9.31 and 9.34 per cent to ₦159.40 billion and ₦178.12 billion at end-June 2015, compared with ₦145.83 billion and ₦162.91 billion at end-December 2014, respectively. Reserves also increased by ₦6.52 billion to ₦15.09 billion at end-June 2015, from ₦8.57 billion at end-December 2014. The continued improvement in the operations of functional MFBs was attributed to the sustained regulatory oversight and improved compliance by operators.

2.2.1.1 Housing Microfinance Project

During the period under review, the Bank received Expressions of Interest (EOIs) from 14 MFBs in the pilot Housing Microfinance (HMF) Scheme. A final review report on the EOIs was submitted. The Nigeria Housing Finance Programme (NHFP) is expected to select a maximum of eight (8) MFBs to pilot the scheme and engage a firm as the Task Manager to implement the Report on the selected MFBs, as well as prepare a draft technical agreement for execution of the pilot scheme by the selected MFBs.

2.2.1.2 Unified Core Banking System for MFBs

The Bank collaborated with development partners and other stakeholders to establish a Unified Core Banking System for the MFB sub-sector. Consequently, the National Microfinance Banks Unified IT Platform (NAMBUIT) was inaugurated during the period under review. The unified platform would enable the CBN to have adequate oversight of the assets and liabilities of the subsector, provide an early-warning system, foster pro-active regulatory intervention, and ultimately lead to improved soundness and stability of the microfinance sub-sector.

[6] The financial highlights cover the data for fully operational MFBs.

The expected benefits of the unified IT platform for the MFBs are as follows:

i. Reduction in the cost of acquisition of IT software arising from economies of scale and savings in annual maintenance cost derivable from shared services;
ii. Harmonization of disaster recovery and business continuity processes;
iii. Promotion of effective back-end processes;
iv. Centralization of the web-based platform for MFBs;
v. Facilitation of access to MFB data from both on-site and off-site locations;
vi. Integration of payment systems for ease of interface with commercial banks' platforms;
vii. Enhancement of data quality and integrity.

2.2.2 Primary Mortgage Banks

The number of primary mortgage banks (PMBs) in operation decreased from 42 at end-December 2014 to 36 at end-June 2015, comprising 10 PMBs with national authorization and 26 with state authorization. The decrease was attributed to the failure of six (6) PMBs with state authorization to meet the recapitalization deadline of 31st December, 2014. Consequently, the aforementioned six PMBs were categorized as non-operational following the approval of the CBN Committee of Governors for their revocation, subject to the approval by the Board.

Total assets of PMBs increased by 7.48 per cent to ₦418.1 billion at end-June 2015 from ₦389.0 billion at end-December 2014. Similarly, total loans and advances, and deposit liabilities and liquid assets of PMBs increased by 13.3, 7.6 and 20.9 per cent from ₦133.03 billion, ₦135.82 billion and ₦81.89 billion to ₦150.72 billion, ₦146.16 billion and ₦99.01 billion, at end-June 2015 respectively. However, the paid-up capital and aggregate reserves declined from ₦121.69 billion and ₦24.10 billion at end-December 2014 to ₦113.31 billion and ₦22.77 billion at end-June 2015 respectively. Consequently, shareholders' funds declined by ₦9.71 billion from ₦145.79 billion at end-December 2014 to ₦136.08 billion at end-June 2015, reflecting a decrease of 6.66 per cent.

2.2.2.1 Nigeria Housing Finance Programme

The Nigeria Housing Finance Programme (NHFP), a collaborative initiative involving the CBN, the World Bank, and Federal Ministries of Finance; Lands, Housing and Urban Development; Justice; continued with the pursuit of its four cardinal deliverables during the period under review, namely:

(a) Establishment and funding of a mortgage refinance company;
(b) Introduction of a housing microfinance programme;
(c) Introduction of a mortgage guarantee scheme; and
(d) Provision of technical assistance to mortgage stakeholders.

Establishment and Funding of a Mortgage Refinance Company

The Nigeria Mortgage Refinance Company Plc (NMRC) was granted a licence to operate as a mortgage refinance company on 18th February 2015. The NMRC has published the Uniform Underwriting Standards for mortgage originators as a precondition for refinancing, and appointed four (4) audit firms to evaluate the legacy mortgages for refinancing.

The CBN processed and obtained the "No-objection" from the World Bank for the disbursement of a second tranche of US$100 million to the NMRC. As at 30th June 2015, a cumulative sum of US$120 million had been disbursed by the Bank to the NMRC, with the first tranche of US$20 million transferred to NMRC in June 2014. The CBN also approved a request from the NMRC for "No-objection" to raise ₦140 billion through issuance of bonds. The first series of N10 billion was issued during the period under review, paving the way for the refinancing of legacy mortgages by the NMRC.

Introduction of a Housing Microfinance Programme

The Housing Microfinance Programme (HMFP) was designed as a window to finance housing development for low income earners who have limited access to mortgages. The Nigeria Housing Finance Programme (NHFP) is expected to support the development of new and/or emerging HMF products. During the period under review, the sum of US$5 million was provided by the World Bank[7] as soft loans to MFBs for tested HMF products.

Introduction of a Mortgage Guarantee Scheme

The Mortgage Guarantee component of the NHFP was designed to address gaps in respect of equity down payments by mortgage beneficiaries. During the review period, NHFP developed the Terms of Reference (TOR) and obtained a "No-objection" from the World Bank for the Business and Feasibility Plan to introduce a Mortgage Guarantee and Insurance Product. The mortgage guarantee is expected to be rolled out in 2016 to provide insurance cover to those eligible for mortgage payment, including adequate cash flow but inadequate equity down payment under the NHFP as specified in the Project Operational Manual (POM).

Provision of technical assistance to mortgage stakeholders

This component of the NHFP is designed to provide industry-wide capacity building, timely and reliable market related information as well as support and development of electronic Mortgage Asset Registry System (eMARS).

2.2.2.2 Cash Reserve Requirement for PMBs

During the review period, the policy on CRR for PMBs was maintained. Following the extension of the cash reserve requirement facility to PMBs, each PMB now maintains two accounts with the CBN: the Current and CRR accounts. To this end, PMBs are now granted access to the CBN discount window. Accordingly, legacy CRR balances of relevant PMBs were credited to their CRR accounts at the CBN. Also, the CRR is used to warehouse on

[7] The US$5 million was part of the US$300 million World Bank Housing Finance Facility.

monthly basis 2.0 per cent of the adjusted deposit liabilities of private sector deposits and 75.0 per cent of all public sector deposits held by the PMBs in line with the MPC decision.

2.2.2.3 Uniform Underwriting Standards

The Uniform Underwriting Standards (UUSs) issued was adopted as published by the NMRC in conjunction with the Mortgage Bankers' Association of Nigeria (MBAN).

2.2.3 Finance Companies

The number of Finance Companies (FCs) in operation increased to 66 at end-June 2015, from 64 at end-December 2014, owing to the licensing of 2 new FCs. The provisional total assets/liabilities of FCs increased to ₦128.32 billion at end-June 2015, from ₦119.60 billion at end-December 2014, reflecting an increase of 7.29 per cent. Similarly, paid-up capital increased by 6.51 per cent to ₦17.17 billion from ₦16.12 billion at end-December, 2014. Reserves decreased by 21.37 per cent to ₦1.84 billion at end-June 2015, from ₦2.34 billion at end-December 2014. Borrowings also increased by 9.73 per cent to ₦75.08 billion from ₦68.42 billion at end-December 2014, while, loans and advances increased by 12.85 per cent to ₦55.08 billion at end-June 2015, from ₦48.81 billion at end-December 2014. During the review period, the CBN issued circulars to remind all FCs of their recapitalization deadline of September 30, 2015 in line with the *Revised Guidelines for Finance Companies in Nigeria.*

2.2.4 Bureaux de Change

During the review period, the directors of 103 BDCs were blacklisted for sundry infractions of extant rules and regulations. Similarly, 75 of the 100 BDCs examined in October/November 2014 were penalized. Two (2) BDCs were suspended as their registered office addresses could not be located, while the licence of one (1) BDC was revoked for non-compliance with regulatory directives.

2.2.5 Development Finance Institutions

The total assets of the six (6) reporting Development Finance Institutions (DFIs) increased by 11.95 per cent to ₦986.8 billion at end-June 2015, compared with ₦881.5 billion at end-December 2014. Similarly, the net loans and advances of the institutions increased by 14.50 per cent to ₦805.70 billion at end-June 2015, from ₦703.7 billion at end-December 2014.

2.3 Financial Inclusion

Pursuant to the implementation of the National Financial Inclusion Strategy, the following activities were executed during the review period:

Financial Inclusion Governing Committees

Financial Inclusion Governing Committees (Technical and Steering Committees) were inaugurated in January 2015 to support the implementation of the National Financial Inclusion Strategy. Four (4) Working Groups namely, Product**,** Channels**,** Special Intervention and Financial Literacy Groups were set up to develop necessary work plans for the period of July 2015 to June 2016. Membership of the governing committees was also expanded to include key associations in the financial services sector.

Digital Finance Project

The CBN collaborated with the Federal Ministry of Finance and the Bill and Melinda Gates Foundation in strengthening digital payment systems in Nigeria. To achieve this goal, the Bill and Melinda Gates Foundation commissioned a consulting firm to develop a roadmap, highlighting the key interventions required for an end-to-end digital financial services infrastructure in order to improve financial inclusion in Nigeria.

Geo-Spatial Mapping Survey

The second round of the Geo-spatial Mapping Survey which began in November 2014 was completed in April 2015. A total of 50,838 financial access points were geo-tagged during the survey. Analysed data from the survey would be uploaded to Financial Services for the Poor (FSP) maps by the end of September 2015.

Engagement with Internal and External Stakeholders

In furtherance of its engagement with relevant stakeholders, the Financial Inclusion Secretariat (FIS) met with seven industry associations during the period under review. The discussions focused on the National Financial Inclusion Strategy implementation and their expected roles and responsibilities. The agencies were invited to the Governing Committees on Financial Inclusion to strengthen the working groups and integrate them into the implementation process.

A status update on the progress of financial inclusion was presented to the Bankers Committee at its 316th meeting. The Committee was acquainted with the focus of the Strategy and the roles it was expected to play.

The Bank was represented at the 7th Annual G-24/AFI Roundtable which was a high-level platform for engaging Emerging Countries' policymakers in discussions on globally relevant financial inclusion policy issues. It also participated in the 6th Financial Inclusion Strategy Peer Learning Group meeting. Both meetings afforded the Bank the opportunity to share knowledge with peer countries on concrete ways by which the National Financial Inclusion Strategy objectives would be achieved.

Impact of the Financial Inclusion Strategy

Implementation of the National Financial Inclusion Strategy has impacted positively on the lives of the citizens of Nigeria as it has improved their access, usage and quality of financial services and products. Recent data from the Access to Financial Services Survey conducted by the Enhancing Financial Innovation and Access (EFInA) showed that the number of banked adults increased from 32.5 per cent in 2012 to 36.3 per cent in 2014; the number of financially excluded adults improved slightly from 39.7 per cent in 2012 to 39.5 per cent in 2014. Existing micro insurance products provided low income earners income insurance opportunities.

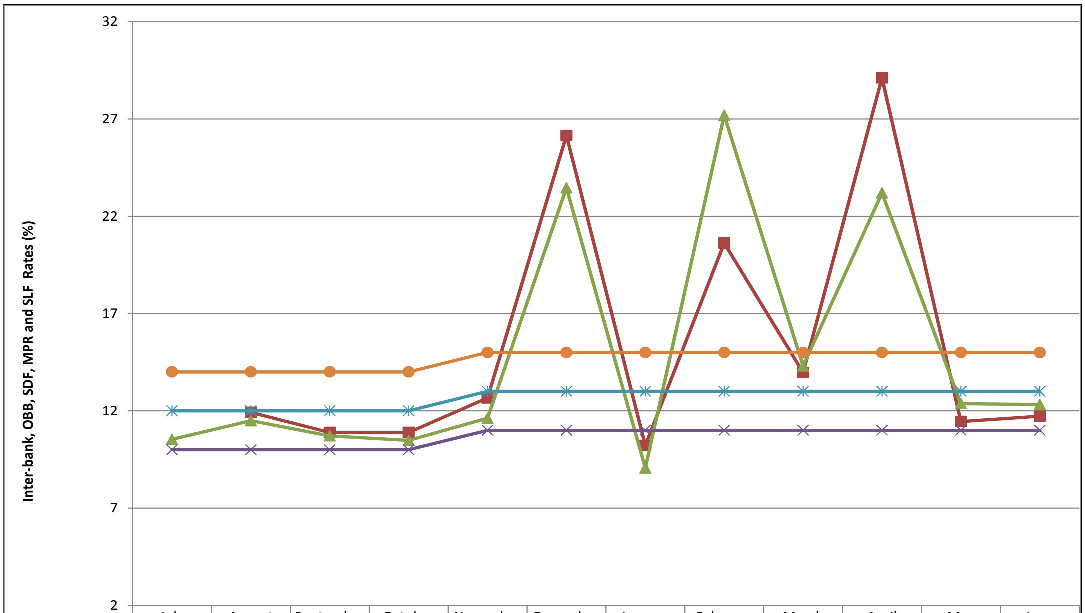
2.4 Financial Markets

2.4.1 Money Market

The Bank retained its Monetary Policy Rate (MPR) at 13.00 per cent during the review period. Cash Reserve Requirement (CRR) on private and public sector deposits from 15.00 and 75.00 per cent was harmonized in May 2015 to 31.00 per cent for both sectors. The net foreign currency trading position limit was reviewed in January 2015, from 0.1 to 0.5 per cent of total shareholders' fund unimpaired by losses.

Movements in money market rates were influenced largely by liquidity conditions in the banking system. Both the OBB and inter-bank call rates traded occasionally outside the MPR corridor and peaked at 27.19 per cent in February 2015, and 29.11 per cent in April 2015. The monthly weighted average inter-bank call rate ranged from 10.22 to 29.11 per cent, while the OBB rate ranged from 9.06 to 27.19 per cent. The monthly weighted average OBB and inter-bank call rates closed at 12.32 and 11.72 per cent at end-June 2015, compared with 23.46 and 26.15 per cent recorded at end-December 2014, respectively.

Figure 2. 10: Money Market Rates Movements, July 2014 – June 2015



	July	August	September	October	November	December	January	February	March	April	May	June
Inter-bank		11.92	10.89	10.89	12.66	26.15	10.22	20.62	13.97	29.11	11.45	11.72
OBB	10.53	11.49	10.71	10.48	11.62	23.46	9.06	27.19	14.31	23.20	12.37	12.32
SDF	10.00	10.00	10.00	10.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00
MPR	12.00	12.00	12.00	12.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00
SLF	14.00	14.00	14.00	14.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00

2.4.1.1 Nigerian Treasury Bills

Nigerian Treasury Bills (NTBs) for 91-, 182- and 364-day tenors totalling ₦2,233.80 billion were issued and allotted during the review period. This indicated an increase of 35.40 per cent compared with ₦1,649.75 billion between July and December 2014. Total public subscriptions stood at ₦5,213.20 billion in the first half of 2015, reflecting a significant increase when compared with ₦2,434.19 billion in the preceding period. This increase was traceable to renewed investors' interest in the market.

A review of the holding structure of investments in NTBs indicated that banks and discount houses took up ₦1,605.09 billion, representing 71.85 per cent of total NTBs issued, while non-bank investors took up the balance of ₦628.71 billion. Average marginal rates ranged from 9.7990 to 11.2000 per cent for the 91-day, 12.7000 to 14.4500 per cent for the 182-day, and 12.8000 to 15.8990 per cent for the 364-day tenors.

At end-June 2015, investment in NTBs by banks and discount houses accounted for 36.97 per cent of the NTBs outstanding; the non-bank investors accounted for 54.44 per cent, while the CBN took up the balance of 8.59 per cent.

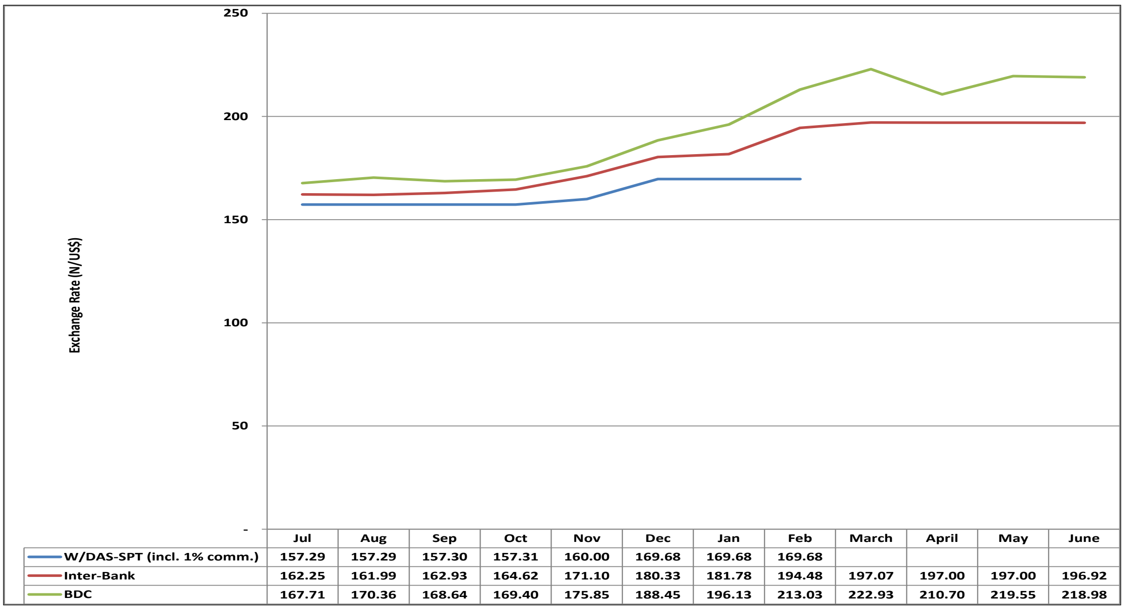
2.4.2 Foreign Exchange Market

In the first half of 2015, the Bank's effort at maintaining a stable foreign exchange rate regime was sustained. The combined effect of the US economic growth, tapering of quantitative easing and prospect of a higher interest rate regime led to the strengthening of the US dollar. In addition, the continued fall in commodity prices, declining foreign portfolio inflows and capital reversals, resulted in a fall in accretion to foreign reserves. Consequently, increased foreign exchange demand pressure led to the depreciation of the naira against the US dollar at both the inter-bank and bureaux de change (BDC) segments.

In February 2015, the naira further depreciated against the US dollar, following the closure of the rDAS window. The closure was due to the need to curtail undue market arbitrage. However, the CBN continued to intervene in the inter-bank segment to moderate the rates.

The average exchange rate at the inter-bank and BDC segments depreciated by 8.42 and 13.94 per cent to close at ₦196.9159/US$ and ₦218.9773/US$ at end-June 2015, respectively.

Figure 2. 11: rDAS, Inter-bank and BDC Rates, July 2014 – June 2015



2.4.3 The Capital Market

The Nigerian Stock Exchange (NSE) activities remained bearish during the review period as both All Share Index (ASI) and Market Capitalization (MC) declined. The decline was due to a combination of factors, including the mixed performance of listed companies, domestic macroeconomic concerns, decline in foreign reserves, as well as equities sell-off by investors. These combined to drive down asset prices and erode investors' confidence.

2.4.3.1 The Bond Market

Total bonds outstanding at end-June 2015 stood at ₦5,762.41 billion, of which FGN, agency, sub-national and corporate bonds constituted ₦4,838.17 billion (83.96%), ₦297.52 billion (5.16%), ₦448.65 billion (7.79%) and ₦178.07 billion (3.09%), respectively. The total end-June 2015 figure reflected a 1.18 per cent increase over the end-December 2014 figure of ₦5,695.37 billion, comprising FGN, agency, sub-national and corporate bonds valued ₦4,783.63 billion (83.99%), N325.97 billion (5.72%), ₦461.14 billion (8.10%) and ₦124.63 billion (2.19%), respectively.

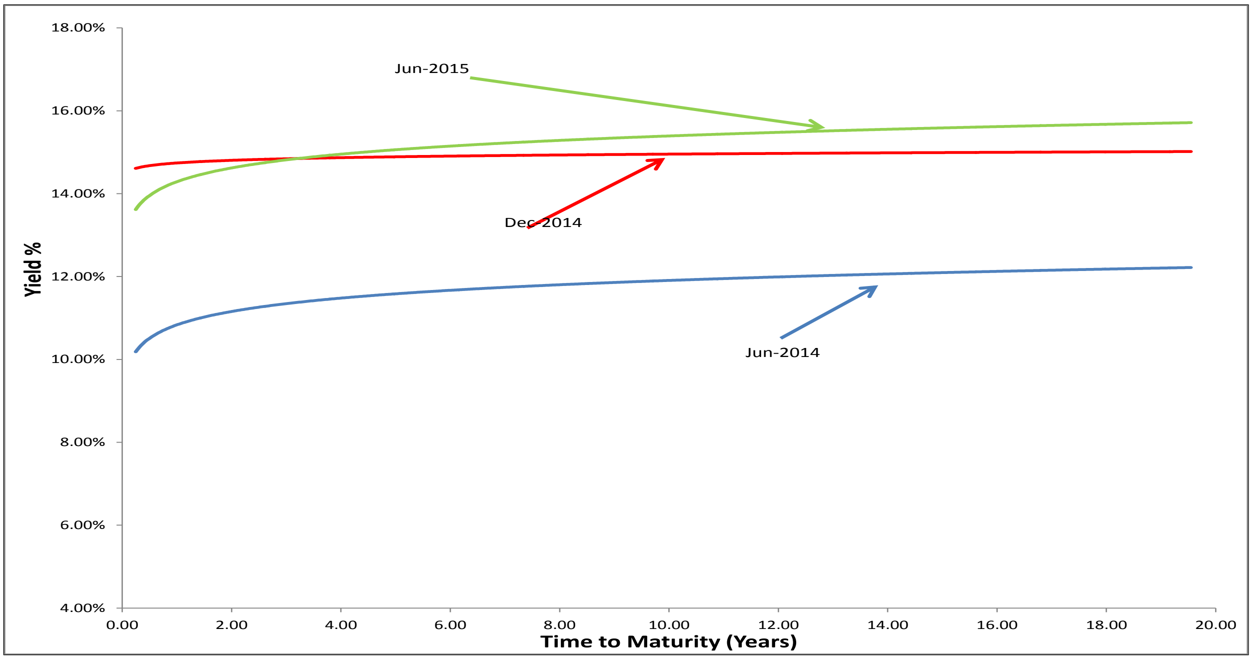
Table 2.4: Outstanding Bonds

	December 2014 (₦' billion)	**June 2015 (₦' billion)**	**% Change**	**Proportion of Total (%)**
FGN	4,783.63	4838.17	1.14	83.96
Agency	322.97	297.52	-7.88	5.16
Sub-National	461.14	448.65	-2.71	7.79
Corporate	124.67	178.07	42.83	3.09
Total	**5,692.41**	**5,762.41**		**100**

FGN Bonds
New issues and re-openings of FGN Bonds series 1, 2 and 3 were auctioned during the review period. The total value of FGN Bonds offered for sale was N468.22 billion, while public subscriptions and sales stood at N872.12 billion and N449.72 billion, respectively. The over-subscription was attributed to the increased level of liquidity in the banking system.

The price of FGN Bonds at the secondary market declined as a result of investors' sell-off over concerns on crude oil price decline and exchange rate policy reviews. Consequently, yields on the Bonds at end-June 2015 increased, compared with the position at end-December 2014 (Figure 2.10).

Figure 2. 12: Yield Curves for Nigeria



Agency Bonds
During the review period, no agency bond was issued. However, Federal Mortgage Bank of Nigeria (FMBN) bonds valued at ₦25.45 billion were redeemed. Consequently, total outstanding agency bonds stood at ₦297.52 billion.

Sub-National Bonds
In the first half of 2015, there was no new issue, as in the preceding period. However, nine (9) state governments amortised part of their bonds valued ₦12.49 billion. The total outstanding bonds held by 15 state governments stood at ₦448.65 billion.

Corporate Bonds
Two (2) corporate bonds valued ₦56.50 billion were issued in the review period compared with two (2) corporate bonds worth ₦15.50 billion issued in the preceding period. Meanwhile, bonds valued ₦3.10 billion were amortised by eight (8) companies.

Table 2. 5: Corporate Bonds Issued in the first half of 2015

Company	**Description**	**Value (₦ Billion)**
FCMB	14.25 FCMB 1 20-NOV-2021	26.00
UBA	16.45 UBA 1 30-DEC- 2021	30.50
Total		**56.50**

2.4.3.2 The Equities Market

At end-June 2015, the NSE ASI closed at 33,456.83, reflecting a decrease of 3.46 per cent below the 34,657.15 at end-December 2014. Market capitalisation closed at ₦11,421.02 billion, reflecting a decrease of 0.61 per cent below the ₦11,490.75 billion recorded at the end of the preceding period. The decline was attributable to sell-off by investors. However, the market had witnessed a steady rise at the beginning of the year up to April. Foreign portfolio investments in the market were valued ₦285.40 billion, while divestments amounted to ₦303.59 billion, reflecting a net outflow of ₦18.19 billion at end-June 2015. Overall, total foreign portfolio transactions (inflow and outflow) accounted for 52.87 per cent of the total equity transactions (inflow and outflow) during the review period.

During the first half of 2015, two (2) new equities (one each on Main Board and Exchange Trust Fund) were listed, while three companies voluntarily requested to be delisted from the Exchange. In efforts to deepen the Nigeria capital market, the Securities and Exchange Commission (SEC) took the following initiatives and made amendments to some of its basic rules, which included:

- Approval of the Par Value Rule in June 2015. The Rule states that "notwithstanding its par value, the price of every share listed on the Exchange shall be determined by the market, save that no share shall trade below a price floor of one Kobo per unit (₦0.01)".
- Release of six (6) new rules to the capital market. These are: Code of Conduct for Rating Agencies; Code of Conduct for Underwriters; Code of Conduct for Trustees; Rules on Securitization; Rules on National Investors Protection Fund and Rules on Trading Unlisted Securities on Over the Counter (OTC) markets in Nigeria.
- Development of a Corporate Governance Scorecard for listed companies in the Country. The Scorecard will assess the level of compliance with the SEC Code of Corporate Governance by public companies on an annual basis.

2.5 Real Sector Interventions

The achievement of price and financial stability objectives provides the context for central banks' involvement in the real sector. This often takes the form of dedicating credits to the real sector, subsidizing the prices of such credits, supporting capacity building, establishing and regulating development finance institutions and some types of emergency interventions.

Over the years, the CBN has made efforts to support the real sector to enable it to contribute to the overall development of the economy. The largely informal nature of the real sector, coupled with a relatively inefficient financial system, had hampered effective resource mobilization as a result of low output, wide interest margins as well as high transaction costs, among others. In order to achieve the core objective of price stability, there must be monetary stability and a sound financial environment with unhindered access to capital. These requirements informed the need for the CBN to initiate the various intervention funds discussed below.

2.5.1 Risk Mitigation and Insurance Schemes

2.5.1.1 The Nigeria Incentive-based Risk Sharing System for Agricultural Lending

As part of its function to de-risk lending to the agricultural value chain in Nigeria, the Nigeria Incentive-based Risk Sharing System for Agricultural Lending (NIRSAL) during the period approved six (6) Credit Risk Guarantees (CRGs) valued ₦700.46 million as against 11 CRGs valued ₦3.089 billion in the second half of 2014. This indicated a decreases in number and value of 5 CRGs (45.45%) and ₦2.39 billion (77.32%), respectively, under the regular NIRSAL framework. The cumulative CRGs for 66 projects amounted to ₦21.327 billion. It also paid Interest Draw Back (IDB) claims valued ₦50.46 million in the review period. This brings the cumulative IDB claims under NIRSAL to ₦295.22 million in respect of twenty-five (25) projects.

Under the Growth Enhancement Scheme (GES)/NIRSAL framework the cumulative sum of ₦32.99 billion was approved as CRGs for 158 projects. NIRSAL also paid IDB under the GES/NIRSAL framework valued ₦90.26 million for 18 projects. The cumulative GES IDB stood at ₦439.08 million.

The CRG covers provided to over 158 agro dealers across the Country during the review period has enabled the supply of subsidized inputs to a target 6 million farmers during the rainy season. In terms of capacity building, a total of 27,142 farmers selected for commodity value chains including cocoa, tomato, cotton and rice were trained in collaboration with GIZ - German Society for International Cooperation.

2.5.1.2 The Agricultural Credit Guarantee Scheme Fund

In the first half of 2015, the Fund guaranteed 28,702 loans valued ₦5.44 billion granted by five (5) commercial and 85 microfinance banks as against 36,909 loans valued ₦7.07 billion, granted by 8 commercial and 42 microfinance banks in the second half of 2014. This indicated a decrease of 22.24 per cent in number of loans and 23.01 per cent in value of loans. Cumulatively, 960,565 loans valued ₦89.91 billion were guaranteed from inception to June 2015. In addition, a circular on procedures for guarantee processing and Interest Drawback Programme (IDP) filling was issued to participating banks.

2.5.1.3 National Collateral Registry

The CBN in conjunction with other relevant stakeholders sustained the work towards the launching of the Secured Transactions and National Collateral Registry and its subsequent take-off. Consequently, the Inter-Agency Committee finalized and submitted a draft Bill on Collateral Registry to the Federal Executive Council for consideration and enactment.

2.5.2 Credit Support Schemes

2.5.2.1 The Commercial Agriculture Credit Scheme

During the period under review, the Commercial Agriculture Credit Scheme (CACS) Guidelines were reviewed and a memorandum on re-pricing of its interest rate was approved. The number of focal commodities under the Scheme was also expanded to include dairy and oil palm produce.

The sum of ₦24.47 billion was released to 10 banks for 26 projects in the first half of 2015, compared with ₦28.74 billion in favour of 52 projects in the second half of 2014. This showed a decrease of ₦4.27 billion (14.86%) and 26 projects (50%) in value and number, respectively. The cumulative amount released to the real sector under CACS from inception to June 2015 stood at ₦287.49 billion to 333 private and 37 state government projects. Out of the 333 private projects financed under CACS, eight (8) were owned and managed by women. The total repayments stood at ₦23.676 billion by 15 banks for 247 projects, bringing the cumulative repayments to ₦128.88 billion.

About 1,294 additional jobs were created (324 skilled and 970 unskilled) owing to CACS intervention.This has brought the cumulative number of jobs created to 1,131,600 from inception to end-June 2015.

2.5.2.2 The SME Restructuring and Refinancing Fund

The ₦235 billion Small and Medium Enterprises-Refinancing and Restructuring Facility (SME-RRF) which was established in March 2010 with an original terminal date in 2025, was discontinued in December 2014 and replaced with the Real Sector Support Facility (RSSF). This Facility was conceived to succeed the RRF with the objective of ensuring sound financial system stability through vibrant SMEs contribution to the economy. The cumulative amount disbursed at end-June 2015 by BOI under SME-RRF stood at ₦360.73 billion for 602 projects. The repayment proceeds at end-June 2015 stood at ₦113.72 billion, while total jobs created under the scheme was 2.11 million.

2.5.2.3 N300 Billion Real Sector Support Facility

At end-June 2015, a total of 219 applications were received under the Real Sector Support Facility (RSSF), of which five (5) applications valued ₦152.0 billion were approved. However, only ₦3.5 billion had thus far been disbursed for one (1) of the projects. The specific sectors targeted to benefit from the Facility included manufacturing, agricultural value chain and services.

2.5.2.4 Micro, Small and Medium Enterprises Development Fund

During the period under review, activities carried out by the CBN under the Micro, Small and Medium Enterprises Development Fund (MSMEDF) included:

(1) The review of the Guidelines to address some key issues including: reduction of interest rate for PFIs from 3 per cent to 2 per cent; reduction of the financial asset collateral requirement from 75 per cent to 50 per cent; removal of corporate governance structure from the checklist for PFIs; and reduction of the required audited accounts from two to one year.

(2) Post-disbursement verification exercises in collaboration with Development Finance Officers (DFOs) on Special Purpose Vehicles (SPVs) in 13 States. This revealed several infractions which are being addressed, including improper communication of repayment schedules to beneficiaries/borrowers; charging of upfront interest charges and excessive commission on turn over (COT); multiple borrowings and non-disbursement of balances ranging from ₦15 million to ₦50 million.

(3) Collaboration with the Bankers' Committee to organize a workshop that addressed the issue of low access to MSMEDF by banks. The learning points from the workshop included: the need to increase the list of eligible activities provided for in the Guidelines; annual bank performance survey report on lending to SMEs; excellence awards to deserving banks under the MSMEDF; and the need for review of SME credit policies in banks.

As part of the efforts to improve outreach to MSMEs and increase liquidity to fund providers nationwide, an additional sum of ₦45.42 billion was released. Specifically, 9,663 male and 15,547 female micro enterprise owners and 67 SMEs benefitted from the Fund during the review period. In addition, the Scheme elicited the participation of 24 State Governments, 13 Deposit Money Banks (DMBs) and 56 microfinance banks (MFBs)

2.5.5 Power and Aviation Intervention Fund

The Power and Aviation Intervention Fund (PAIF) was introduced to stimulate and sustain investment in the power and airlines sub-sectors through the provision of long-term credit.

In the first half of 2015, total disbursement was ₦13.26 billion in favour of one (1) airline and one power project. The sum of ₦249.61 billion was released to BOI and disbursed through banks to 55 projects for 39 power projects (valued ₦128.85 billion) and 16 airline projects (valued at ₦120.76 billion). Also the sum of ₦11.71 billion was repaid by 46 obligors through BOI under the PAIF during the review period.

Table 2. 6: Loans Repayment in ₦' Billions at end-June, 2015

Type	Airline	Power	Total
No of projects	15	36	51
Amount received by CBN as PAIF repayment in January-June 2015 (₦)	4.74	6.98	11.71
Cumulative as at Dec , 2014	24.58	16.80	41.39
Cumulative from inception to June, 2015	29.32	23.78	53.10

PAIF interventions have contributed to the reduction in the cost of funds and operations to beneficiaries owing to the concessionary interest rate of 7 per cent and tenor of 10 – 15 years on the loans. It also provided the much needed life-line to the domestic airline industry. The power projects financed by PAIF increased total generating capacity by 865.7 MW.

2.5.2.5 Nigeria Electricity Market Stabilization Facility

The CBN invested ₦213 billion in a special purpose vehicle - NESI Stabilization Strategy Ltd - to provide refinance for the NEMSF. The sum of ₦64.76 billion was disbursed to 18 participants within the reporting period as set out below:

Table 2. 7: NEMSF Disbursements from Feb. – Jun. 2015

S/No	NESI Participants	No	Cumulative Amount Disbursed (February – June, 2015) ₦' Billion
1.	DISCOs	5	41.06
2.	GENCOs	7	18.46
3.	GASCOs	6	5.24
	TOTAL	18	**64.76**

The facility is aimed at putting the Nigerian electricity supply industry on a path of viability and sustainability, including facilitating the settlement of legacy gas debts and payment of outstanding obligations due to market participants, service providers and gas suppliers that accrued during the Interim Rules Period (IRP Debts).

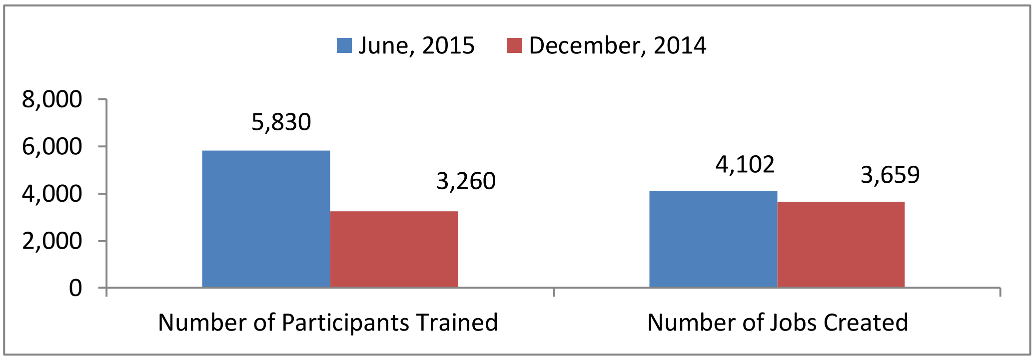
The intervention in the Nigerian electricity supply industry has contributed to the improvements recorded, which included resolution of problems relating to revenue shortfalls, debt overhang, illiquidity and poor gas pricing mechanism. Thus the industry was able to move its pricing mechanism from the Interim Rules Period (IRP) to a Transition Electricity Market (TEM) Regime.

2.5.2.6 Entrepreneurship Development Centres

The Bank, at end-June 2015, had five (5) entrepreneurship development centres (EDCs) operating in North-West (Kano); North-East (Maiduguri); North Central (Makurdi); South-West (Ibadan); South-South (Calabar); and one (1) Outreach Centre for the North-Central (Minna). During the period under review, the Bank developed a portal to showcase the achievements of the EDCs from inception in 2008 to date. The aim of the portal was to expose graduates of the EDCs to financial institution and development partners and to enable them to access funds from prospective financial institutions. The key performance indicators for the implementing agencies of the EDCs were also reviewed to include people living with disabilities.

The number of participants trained by the EDCs during the review period was 5,830, representing 97.1 per cent of the target as against a total of 3,260 participants trained in the second half of 2014. This represents an increase of 2,570 in the number of participants trained. 2,361 (40.4%) of the participants were female and 3,469 (59.5%) were male. A total of 4,102 jobs were created within the period and 1,805 participants accessed loans, while the sum of ₦496.43 million was accessed by the graduates.

Figure 2. 13: Figure 2. 14: Analysis of Number of Participants and Jobs Created



2.6 External Reserves

Gross external reserves stood at US$28.33 billion at end-June 2015, compared with US$34.24 billion at end-December 2014, representing a decrease of 17.3 per cent. The end-June 2015 level of reserves was equivalent to 5.8 months compared with 7.0 months of imports at end-December 2014. The fall in reserves was due to the sharp decline in foreign exchange inflow from US$23.66 billion in the second half of 2014 to US$15.28 billion at end-June 2015. The development reflected a decrease of US$8.38 billion or 35.4 per cent. Total foreign exchange outflow was US$21.07 billion in the first half of 2015, compared with US$26.33 billion in the second half of 2014, indicating a decrease of 20.0 per cent.

Thus, there was a net outflow of US$5.79 billion from the external reserves, compared with US$2.61 billion at end-December 2014. The net position, coupled with the unrealized exchange rate loss of US$0.12 billion, accounted for the US$5.91 billion decrease from the level at end-December 2014 to US$28.33 billion at end-June 2015.

Measures adopted by the CBN to manage the external reserves in the review period, in the face of the collapse of oil prices and consequent sharp decline in petro-dollar receipts, included the discontinuation of the Dutch Auction System (DAS) sales window and rechannelling of all eligible transactions to the inter-bank window. Further measures included the restriction of the utilization of export proceeds for eligible transactions and the inclusion of 41 items in the list of items not valid for foreign exchange in all the segments of the Nigerian foreign exchange markets.

3.0 REGULATORY AND SUPERVISORY ACTIVITIES

3.1 Macro-Prudential Supervision

3.1.1 Financial Soundness Indicators

3.1.1.1 Asset-Based Indicators

The quality of assets in the banking sector deteriorated in the first half of 2015, compared with the position at the end of December 2014. The ratio of non-performing loans (NPLs) to Gross Loans increased by 1.77 percentage points to 4.65 per cent at end-June 2015. The fall in asset quality could be attributable mainly to the devaluation of the naira and the rising inflationary trend. While the naira exchange rate has fallen from ₦169.69/US$ in December 2014 to ₦196.91/US$ at end-June 2015, headline inflation rose from 8.0 per cent at end-December 2014 to 9.2 per cent in June 2015. These adverse macroeconomic developments increased the cost of production for most businesses; thereby, curtailing their capacity to service outstanding obligations. The ratio of core liquid assets to total assets decreased by 0.7 percentage points to 10.7 per cent at end-June 2015 from 11.4 per cent at end-December 2014. Also, the ratio of core liquid assets to short-term liabilities decreased by 0.90 percentage points to 15.8 per cent at end-June 2015 as compared with 16.7 per cent at end-December 2014.

Figure 3. 1: Banking Industry NPLs to Gross Loans

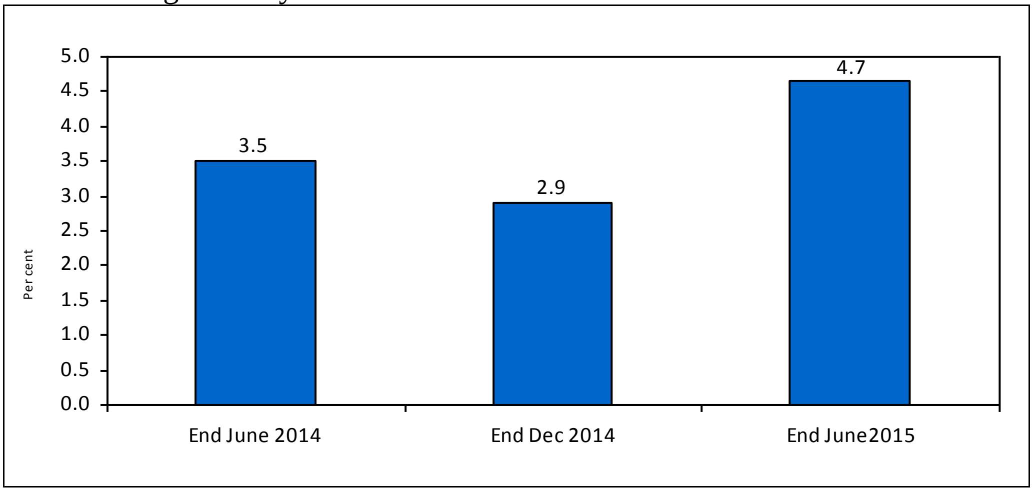
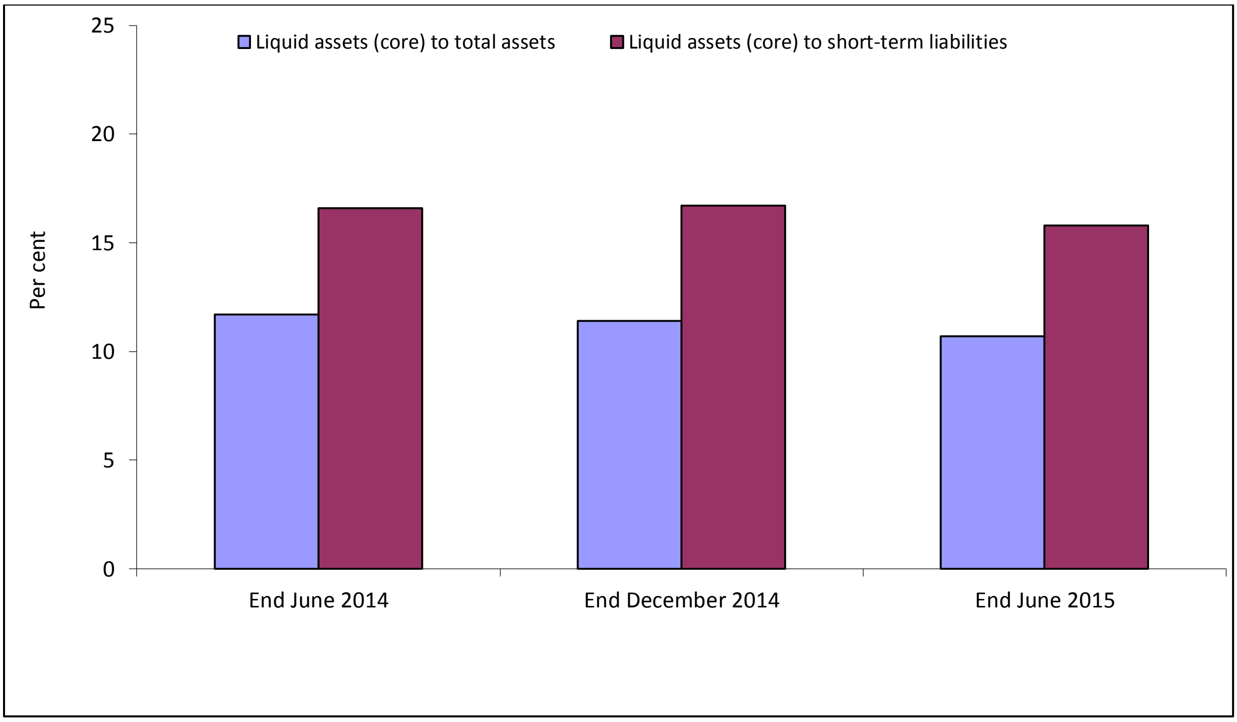


Figure 3. 2: Banking Industry Liquidity Indicators

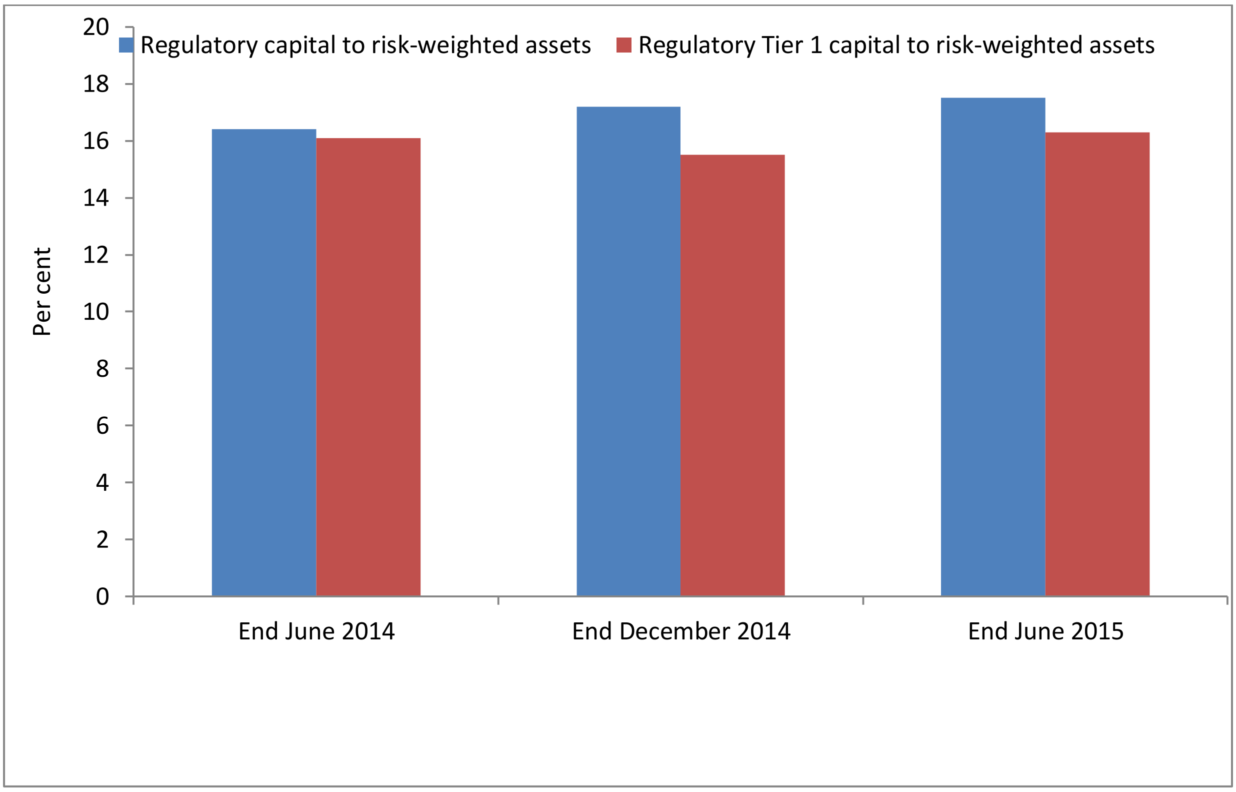


3.1.1.2 Capital-Based Indicators

Most indicators of capital adequacy showed marginal improvement. The ratio of regulatory capital to risk weighted assets stood at 17.52 per cent at end-June 2015, showing increases of 0.3 and 1.1 percentage points above the levels at end-December 2014 and end-June 2014 respectively. Similarly, the ratio of tier 1 capital to risk weighted assets, which stood at 16.3 per cent at end-June 2015 was 0.8 and 0.2 percentage points above the level achieved at end-December 2014 and at end-June 2014, respectively.

The industry ratio of non-performing loans (net of provisions) to capital increased to 11.9 per cent at end-June 2015 from 4.1 per cent at end-December 2014, showing increased vulnerability to credit risk.

Figure 3. 3: Banking Industry Adequacy Indicators



3.1.1.3 Income- and Expense-Based Indicators

The ratio of interest margin to gross income declined to 43.32 per cent in the review period, from 51.2 per cent at end-December 2014. Also, the ratio of non-interest expenses to gross income and personnel expenses to non-interest expenses decreased by 10.8 and 0.1 percentage points to 46.1 and 37.3 per cent at end-June 2015 from 56.9 and 37.4 per cent at end-December 2014, respectively. The decreases in these ratios reflected improvements in cost management measures by banks.

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

Indicators	2010		2011		2012		2013		2014		2015**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**	**(11)**
	End Jun	**End Dec**	**End Jun**	**End Dec**	**End Jun**	**End Dec**	**End Jun**	**End Dec**	**End Jun**	**End Dec**	**End June**
1. Assets Based Indicators											
Nonperforming loans to total gross loans *	38.3	20.1	11.6	5.8	4.5	3.7	3.9	3.4	3.5	2.9	4.65
Liquid assets (core) to total assets*	12.9	11.7	11.6	16.0	14.3	16.2	13.7	16.8	11.7	11.4	10.7
Liquid assets (core) to short-term liabilities*	16.4	14.9	15.2	21.8	19.4	22.1	19.0	23.1	16.6	16.7	15.8
2. Capital Based Indicators											
Regulatory capital to risk-weighted assets*	1.5	1.8	4.2	17.9	17.7	18.3	18.9	17.1	16.4	17.2	17.5
Regulatory Tier 1 capital to risk-weighted assets*	2.4	2.2	4.5	18.1	17.8	18.0	18.5	17.1	16.1	15.5	16.3
Nonperforming loans net of provisions to capital *	308.4	133.5	40.7	7.1	4.3	3.8	5.9	5.8	5.6	4.1	11.9
3. Income and Expense Based Indicators											
Interest margin to gross income*	51.9	53.6	49.4	31.0	67.7	62.0	65.2	63.9	62.7	51.2	43.3
Noninterest expenses to gross income*	65.7	50.2	70.6	24.4	59.2	64.8	62.7	68.1	65.5	56.9	46.1
Personnel expenses to noninterest expenses	40.1	36.8	41.1	67.8	39.3	42.5	39.5	36.9	38.5	37.4	37.3

Note: All figures are in percentages, except otherwise indicated
*Note: *FSIs are computed based on IMF guidelines. The indicators for the period End June 2010 to End December 2014 are revised*
*** Provisional*

3.2 Banking Industry Stress Tests

3.2.1 Baseline (Pre-shock) Position

Overall, there was an improvement in the baseline CAR of the Nigerian banking industry at end-June 2014 compared to the December 2014 position. The baseline CAR rose by 0.23 percentage point over the December 2014 position to 17.38 per cent at end-June 2015. This was driven mainly by improvements in the baseline CAR of the large banks which rose by 1.03 percentage points over their December 2014 position to 18.56 per cent at end-June 2015. Equally, the number of banks with CAR greater than the 15 per cent prudential hurdle rate for international banks increased from 13 at end-December 2014 to 16 at end-June 2015. However, the number of banks with CAR less than 5 per cent also increased from 0 to 3 over the period. The three banks are not among the domestic systemically important banks (D-SIBs).

Liquidity ratio (LR) of the Nigerian banking industry decreased by 6.5 percentage points to 39.3 per cent from the 45.8 per cent December 2014 position. The decline in the LR position was driven mainly by the large and medium banks with 6.5 and 7.4 percentage points decrease respectively from their December 2014 LR position to 36.9 per cent and 45.5 per cent respectively. This decline may be traced to the sustained tight monetary policy stance of the CBN.

Furthermore, the number of banks in the LR bucket greater than 40 per cent decreased from 18 as at December 2014 to 12 in June 2015. On the other hand, the number in the LR bucket less than 40 per cent but greater than 30 per cent and less than 30 per cent but greater than 20 per cent increased from 4 to 8, and 1 to 2 respectively.

Figure 3. 4: Baseline CAR Highlights

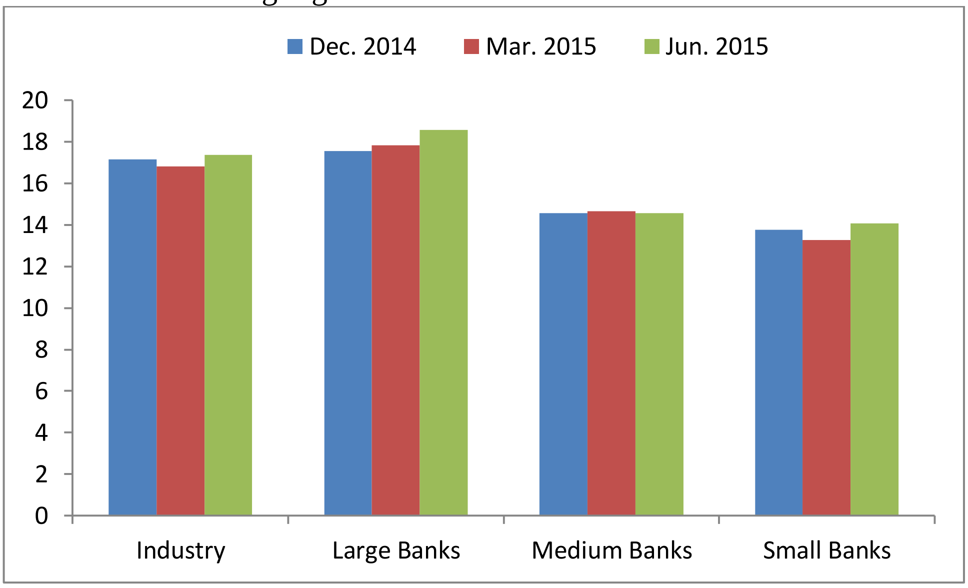
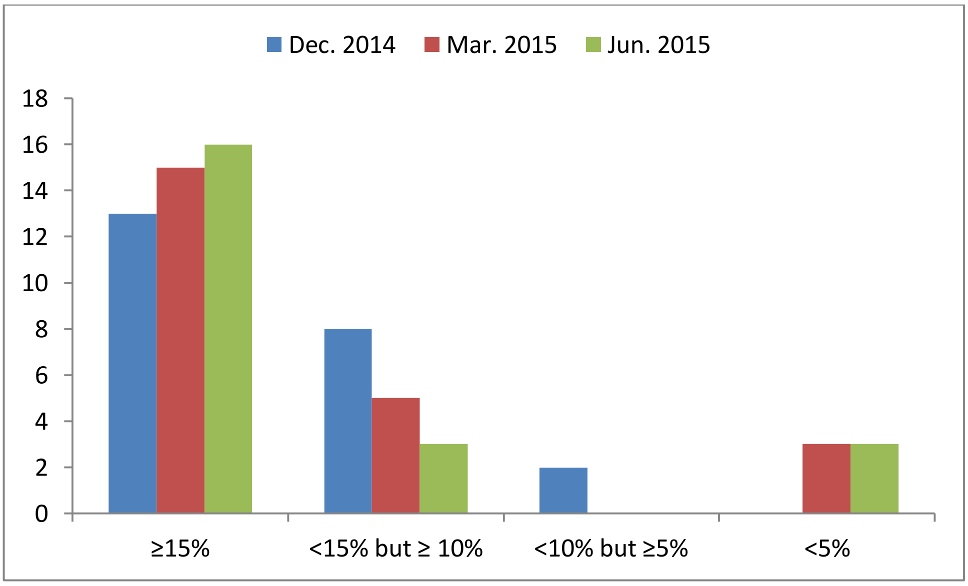


Figure 3. 5: Number of Banks in CAR Buckets



The banking industry return on assets (ROA) fell from 3.13 per cent as at December 2014 to 0.34 per cent at end of June 2015, a 2.8 percentage point decrease. The decline in ROA is attributable to the increase in average assets, particularly for large banks, and sharp decline in net income of the industry. This trend was similar across the three bank categories except for the average assets of small banks which marginally declined over the period.

On the other hand, the industry return on equity (ROE) increased by 1.9 percentage points from the 21.23 per cent position in December 2014 to 23.14 per cent in June 2015. This positive change was driven solely by the large banks. The large banks ROE grew by 27.4 percentage points from 21.12 per cent to 48.52 per cent. The ROE of the medium and small banks declined by 6.6 and 10.1 percentage points from 25.18 and 16.22 per cent to 18.58 and 6.12 per cent, respectively.

3.2.2 Solvency Stress Test

The Top-down (TD) balance sheet stress tests were conducted covering all 22 licensed deposit money banks in the Nigerian banking industry[8]. The solvency TD stress tests assessed the resilience of the Nigerian banking system to a wide range of risk factors including credit, interest rate, foreign exchange rate, and liquidity risks.

The stress tests quantified the impacts that large but plausible negative shocks on these risk factors, based on historical antecedents and expert judgements, could have on the capital positions of the banks. Resilience of the banking system to these shocks was assessed against defined prudential hurdle rates.

The TD stress tests are usually applied on a bank-by-bank basis and on an aggregate basis to determine the impact of specific stress scenarios on the banking industry. Furthermore, banks were classified into three broad groups for systemic and peer assessment. Banks in the "large" category had assets greater than or equal to ₦1 trillion. The "medium" category comprised of banks with assets less than ₦1 trillion but more than ₦500 billion while the "small" category comprised of banks with assets less than ₦500 billion.

The banking industry witnessed credit growth of 29.5 per cent to ₦13.5 trillion compared to that of December 2014. The oil and gas sector continued to dominate credit allocation with 23.8 per cent of the total sectoral credit (24.4% in December 2014). Although the proportion of credit to the sector declined by 0.6 percentage points when compared to that of December 2014 position, credit to the sector grew by 26.3 per cent in absolute terms, similar to the rate of the total credit growth. Nonetheless, the banking industry showed resilience to the impact of a shock of 50 per cent credit default in the oil and gas sector. Under this scenario, industry CAR remained above the prudential hurdle rate at 13.55 per cent. However, this CAR is 0.52 percentage points lower than the end-December 2014 position under the same scenario.

Vulnerability to credit concentration in the oil and gas sector manifested under the shock scenario of a 100 per cent credit default. Under this shock scenario, industry CAR declined to negative 0.45 per cent, reflecting 3.68 percentage point decrease compared to the same situation in December 2014. This deterioration in the industry resilience was driven by the increased vulnerability of the large and medium banks to credit concentration in the oil and

[8] The number of banks decreased to 22 from 23 in December 2014 following acquisition of one bank by another during the review period.

gas sector. Under this shock scenario, the large and medium bank's CAR decreased to negative 0.42 and negative 0.35 per cent respectively while that of the small banks fell to 3.34 per cent.

Figure 3. 6: CAR after General Credit Shocks of 100% & 200% Increase in NPL

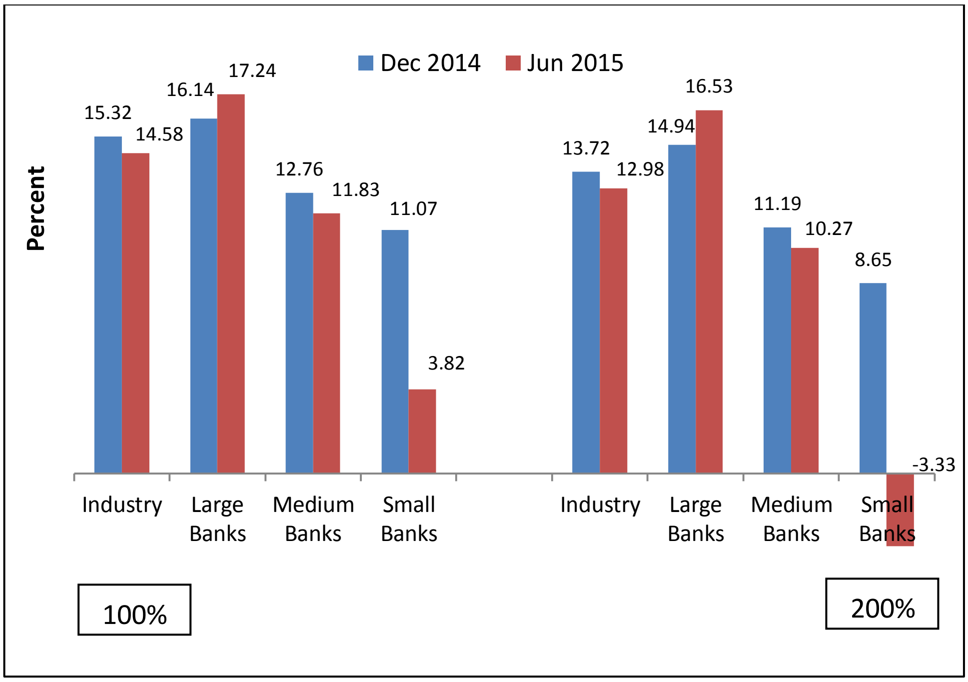


Figure 3. 7: Number of Banks in CAR Buckets after Credit Shock of 100% & 200% Increase in NPL

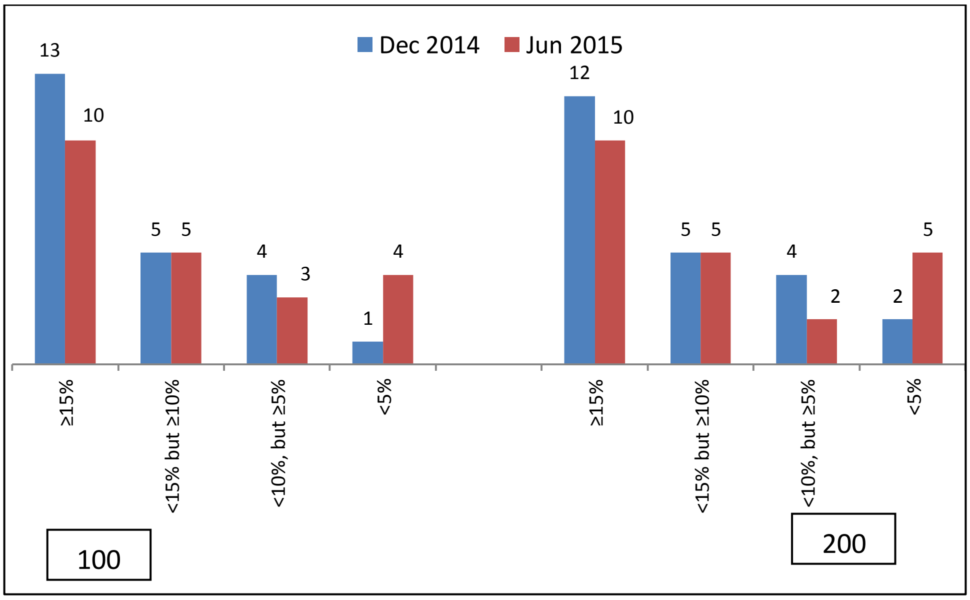


Figure 3. 8: Sectoral Credit Allocations

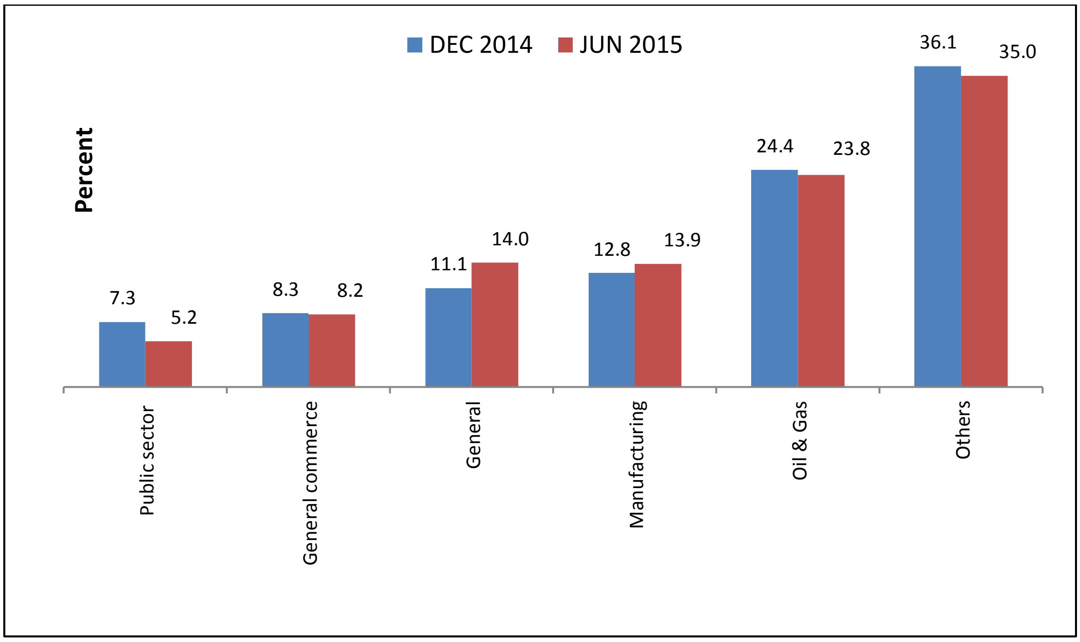
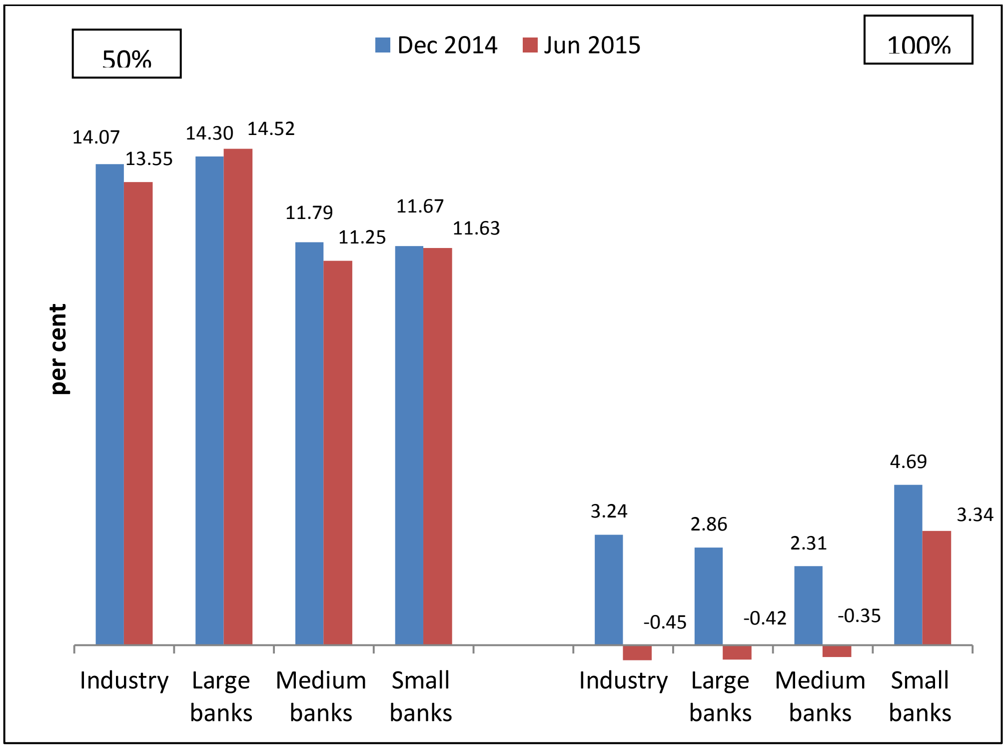


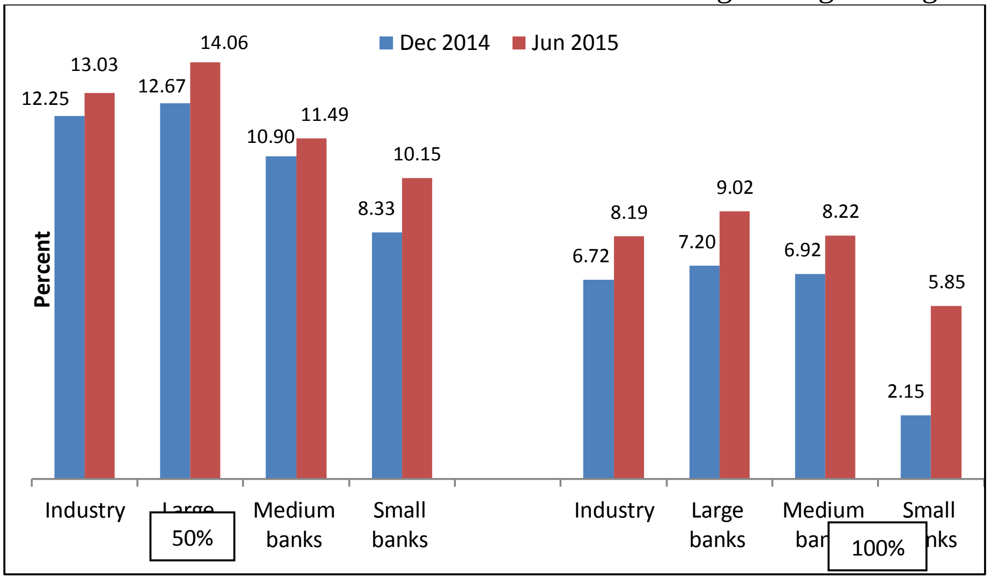
Figure 3. 9: CAR after Shock of 50% & 100% Oil and Gas Credit Default



3.2.2.1 Credit Concentration Risk – 5 Largest Single Obligors

Total credit exposure to 5 largest single obligors as a proportion of the total credit exposure of the industry decreased from 19 per cent in December 2014 to 13.4 per cent. Consequently, the industry showed more resilience to credit concentration risk to the 5 largest single obligors. Under the shock scenarios of 50 per cent default of the 5 largest single obligors, industry CAR remained above the prudential hurdle rate at 13.03 per cent. However, under the 100 per cent default shock scenario, industry CAR fell below the hurdle rate to 8.19 per cent. This reflected a corresponding 0.78 and 1.47 percentage points improvement in CAR compared to the situation in December 2014 under the two shock scenarios, respectively. The picture was similar for the large, medium and small bank categories.

Figure 3. 10: CAR after Shock of 50% & 100% Default of 5 Largest Single Obligors



3.2.3 Liquidity Stress Test

Liquidity stress test was conducted using the Implied Cash Flow Analysis (ICFA) and the Maturity Mismatch/Rollover Risk approaches to assess the resilience of the banking industry to liquidity and funding shocks.

The ICFA approach assessed the ability of the banking system to withstand unanticipated substantial withdrawal of deposits, as well as short-term wholesale and long-term funding over a 5-day and cumulative 30-day periods, with specific assumptions on the fire sale of assets. The test assumed a gradual average outflow of 3.8, 5.0 and 1.5 per cent of total deposits, short-term funding and long-term funding respectively, over a 5-day period (Test 1.1) and cumulative average outflow of 22.0, 11.0 and 1.5 per cent of total deposits, short-term funding and long-term funding respectively, on a 30-day balance (Test 1.2). It also assumed that the assets listed in Table 3.2 would remain unencumbered after a fire sale:

Table 3. 2: Assets Unencumbered after a Fire Sale

S/N	Assets	% Unencumbered
1	Cash and cash equivalent	100
2	Current account with CBN	100
3	Government Bonds & Treasury Bills and other assets	66.5

	with 0% risk-weighting exposure	
4	Certificates of deposit held	66.5
5	Other Short-term investments	49
6	Collateralized placement and money at call	49
7.	CRR	30

The Maturity Mismatch/Rollover Risk approach assessed the funding maturity mismatch and the rollover risk for assets and liabilities in the 0-30 and 31-90 day buckets, with the assumption on the availability of funding from the CBN and intra-group sources, as described below:

i. Test 2a: *Descriptive Maturity Mismatch:* This assumed that the baseline mismatch remained, but 5.0 per cent of total deposits would be made available from the CBN and intra-group funding;

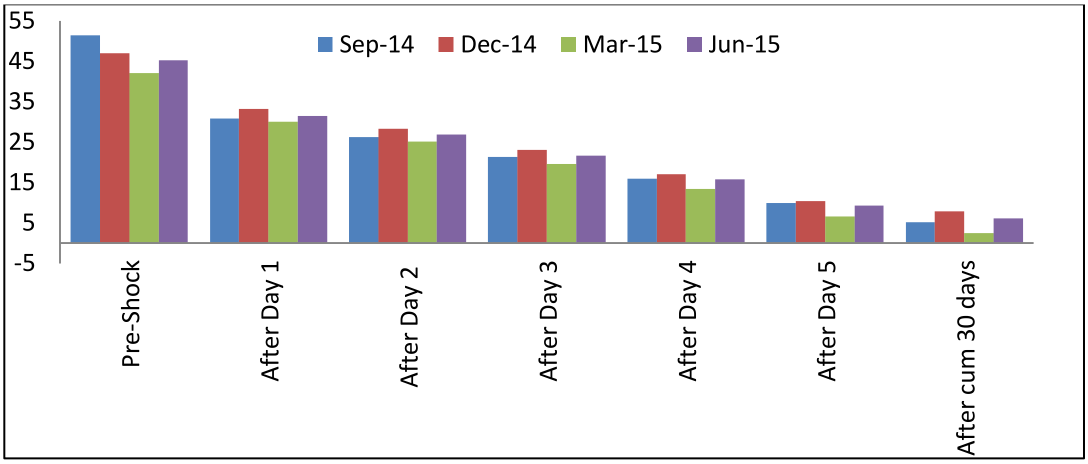
ii. Test 2b: *Static Rollover Risk:* This assumed that 80.0 and 72.0 per cent of the funding in the 0-30 day and 31-90 day buckets would be rolled over with no possibility of closing the funding gap from other buckets. However, 5.0 per cent of total deposits would be available from the CBN and intra-group funding; and

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

Analysis of Liquidity Stress Test Results

After a one-day run, the liquidity ratio for the industry decreased to 31.5 per cent from the 39.3 per cent pre-shock position, and to 6.1 per cent after a cumulative 30 days run. A 5-day and cumulative 30-days-run on the banking system resulted in a liquidity shortfall of ₦2.38 trillion and ₦2.59 trillion, respectively. The test revealed that 18 and 19 banks recorded liquidity ratio below the prudential threshold of 30.0 per cent, following the 5-days and cumulative 30-days runs, respectively.

Figure 3. 11: Banking Sector Liquidity Ratio after Period 1-5 and cumulative 30-day shocks (%)



The test results revealed that the industry liquidity ratio declined to 9.30 and 6.10 per cent, from 39.3 per cent baseline position after the 5-day and cumulative 30-day shocks, respectively (Table 3.3). The result of the stress tests indicated potential vulnerability to liquidity risk in the event that these scenarios crystallized.

Table 3. 3: ICFA System Level Results

Total Number of Banks tested	**Number of Banks with < 30% liquidity ratio**		**June 2015**	
23	**June 2015 (22 DMBs)**	**Dec 2014 (23 DMBs)**	**System LR**	**Liquidity Shortfall to 30% LR (₦' billion)**
Test 1.1: Implied Cash Flow Test (5 Days)				
Day 1	14	9	31.5	248.66
Day 2	14	14	26.8	806.25
Day 3	15	16	21.6	1,350.28
Day 4	16	17	15.7	1,882.32
Day 5	18	19	9.3	2,381.65
Test 1.2: Implied Cash Flow Test (30 Days)	19	20	6.1	2,585.97

Figure 3. 12: Industry Position after 1-5 day and Cumulative 30-day Shocks

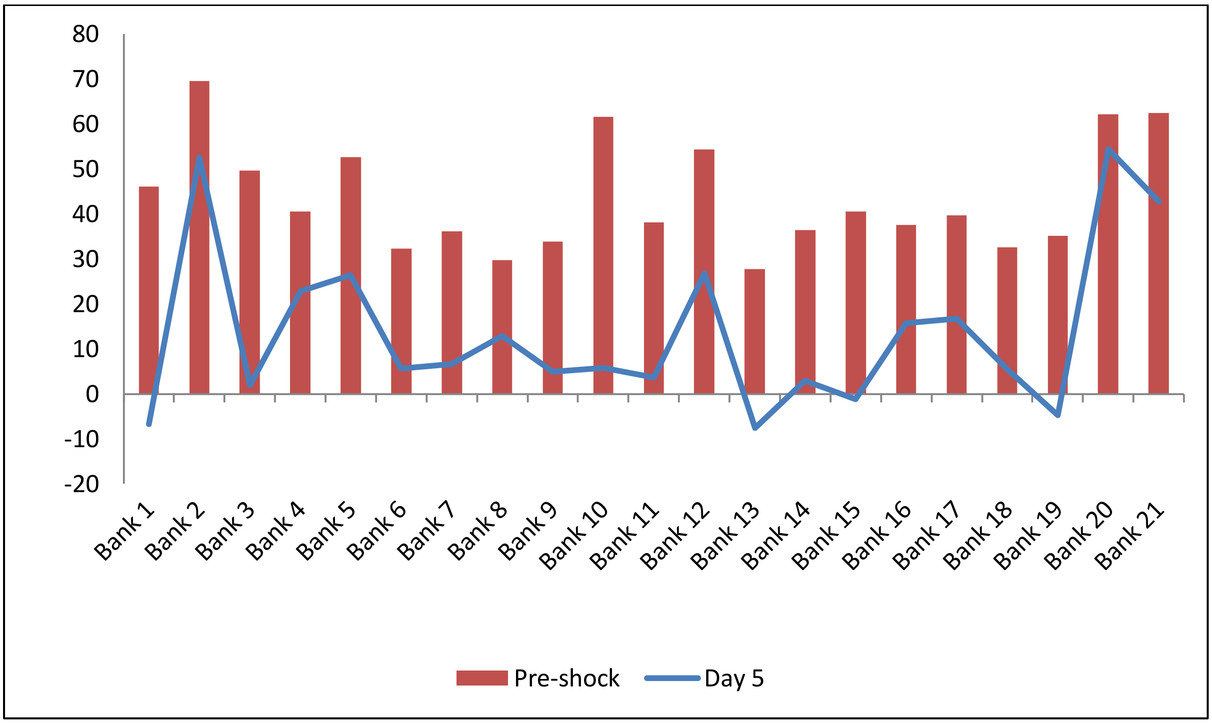
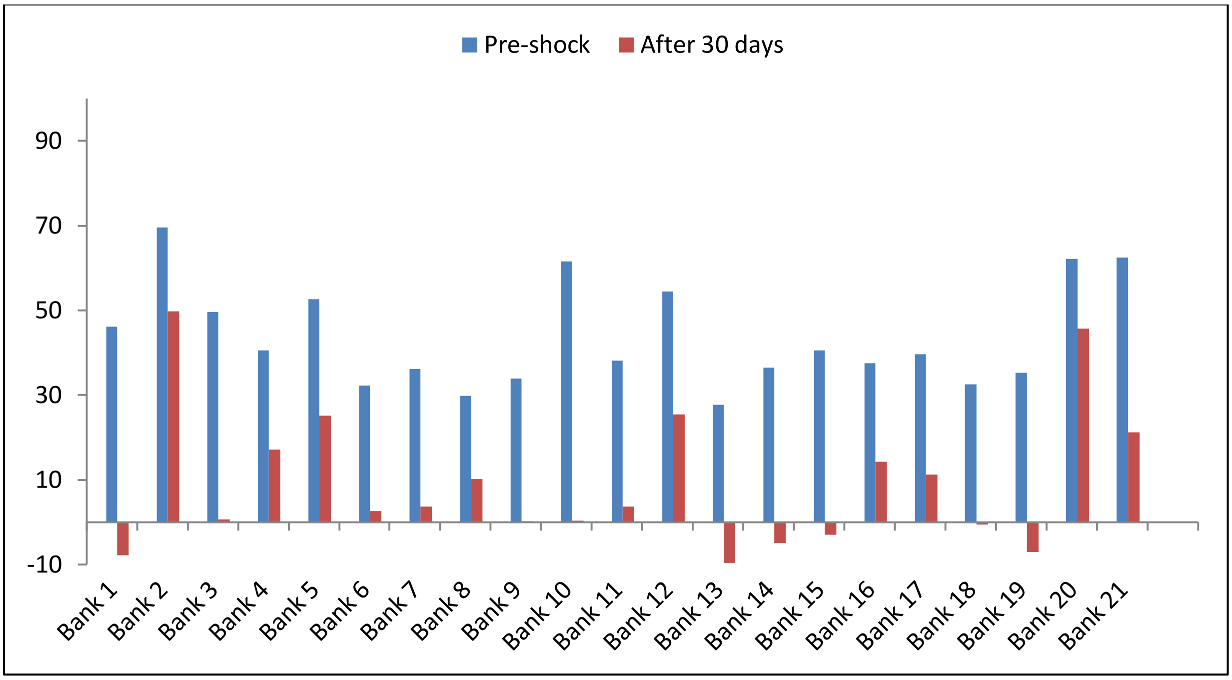


Figure 3. 13: Individual Bank Positions after a 5-day and Cumulative 30-day Shocks



N.B: Bank 23 was excluded from Figure 3.13 because of its outlier effect.

Maturity Mismatch

At end-June 2015, the industry pre-shock position revealed that the shorter end of the market (<30 days and 31-90 days buckets) were adequately funded. However, within the less-than 30 days bucket, two banks were not adequately funded, while in the 31-90 days bucket, 10 had funding gaps. The cumulative position for the industry showed an excess of ₦2.5 trillion assets over liabilities.

Table 3. 4: Maturity Mismatch at end-June 2015

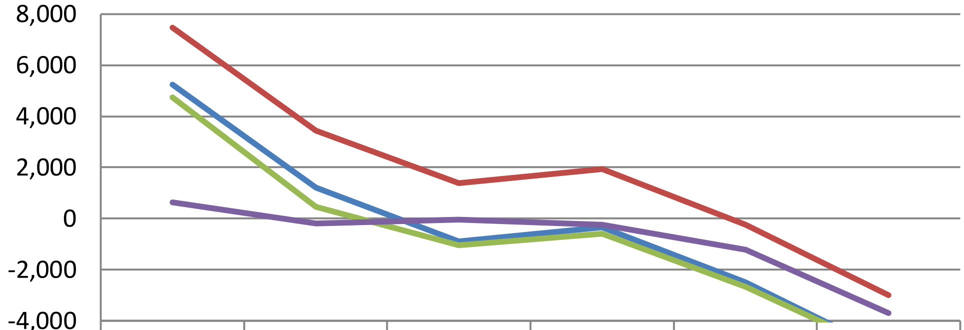
	Liabilities (₦ Billion)	**Assets (₦ Billion)**	**Mismatch (₦ Billion)**	**Cumulative (₦ Billion)**
Less than 30 days	13,761.66	8,518.95	5,242.71	5,242.71
31-90 days	2,711.88	1,493.96	1,217.92	6,460.63
91-180 days	936.16	1,822.59	-886.43	5,574.20
181-365 days	910.71	1,244.74	-334.03	5,240.17
1-3 years	587.52	3,093.68	-2,506.15	2,734.01
Above 3 years	933.0	6,191.61	-5,258.61	-2,524.60
Total	**19,840.93**	**22,365.53**		

There was a slight improvement in the post-shock result for Descriptive Maturity Mismatch test (Test 2A) arising from the assumption of availability of funds from the CBN and intra-group. Although the 90-180 day bucket, which was adequately funded under Test 2a, showed a mismatch of over ₦1 trillion under Test 2b, the position deteriorated in the Static Rollover Analysis (Test 2B) and the Dynamic Risk Rollover Tests (Test 2C).

Table 3. 5: System Wide Maturity Mismatch

	Test 2a- Descriptive Maturity Mismatch (₦' billion)	**No of banks with mismatch**	**Test 2b- Static Rollover risk Analysis (₦' billion)**	**No of banks with mismatch**	**Test 2c- Dynamic Rollover risk test (₦' billion)**	**No of banks with mismatch**
Less than 30 days	7,477.55	0	4,732.08	4	622.10	4
31-90 days	3,447.42	1	447.56	19	(191.55)	5
91-180days	1,395.48	6	(1,041.24)	23	(51.47)	9
181-365days	1,932.90	6	(589.77)	23	(231.34)	10
1-3 years	(245.35)	15	(2,672.29)	23	(1,219.08)	13
Above 3 years	(2,990.29)	21	(5,240.97)	23	(3,708.10)	18
Total	11,017.71		(4,364.63)		(4,779.44)	

Figure 3. 14: Maturity Mismatch Position (Pre- & Post-Shocks)



	Less than 30 days (N'billion)	31-90 days (N'billion)	91 - 180days (N'billion)	181 360days (N'billion)	1-3 years (N'billion)	above 3 years (N'billion)
Pre-shock	5,243	1,217.92	-886.43	-334.03	-2,506	-5,258
Test 2a	7,477.55	3,447.42	1,395.48	1,932.90	-245.35	-2,990.29
Test 2b	4,732.08	447.56	-1041.24	-589.77	-2,672.29	-5,240.97
Test 2c	622.1	-191.55	-51.47	-231.34	-1219.08	-3708.1

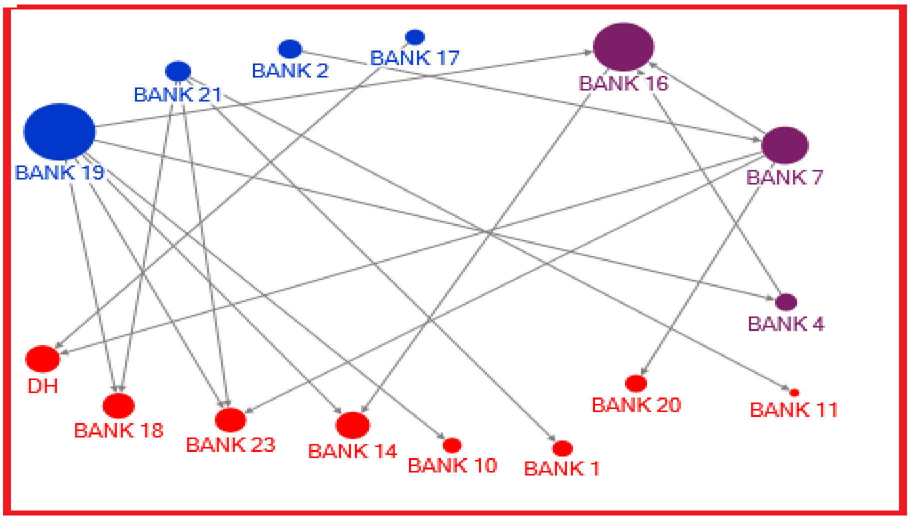
3.2.4 Contagion Risk Analysis through Interbank Exposures

During the review period, the analysis conducted on banks with unsecured interbank exposures revealed that three (3) banks were central in the network, as they were exposed to more than two counterparties in the system. A review of secured transactions showed that six (6) banks were central in the network as they had three or more bilateral exposures. Overall, as indicated in the analysis, there was no contagion risk through unsecured interbank exposure as there was no undercapitalized bank after the shock at baseline position (Table 3.6).

Table 3. 6: Result of Net Interbank Uncollateralized Exposures

Lending Banks	Bank 2	Bank 4	Bank 7	Bank 16	Bank 17	Bank 19	Bank 21	Industry
Pre-Test CAR	18.67	16.03	15.77	11.53	13.02	17.48	18.94	16.90
Post-Test CAR(%)	16.18	14.85	14.70	11.25	12.35	14.29	14.14	16.27
Net Placement (₦' Billion)	5.97	18.00	28.50	1.99	3.98	52.00	6.92	

Figure 3.15: Tiered Structure of Unsecured Placements at end-June, 2015



Note: Node colour representation (Blue= Lenders; Red= Borrowers; Purple= Borrowers and Lenders)

3.3 Supervision of Banks

3.3.1 Routine and Target Examinations

Risk assets examination of all banks and discount houses was carried out to ascertain the quality of bank assets and the adequacy of loan loss provisioning to facilitate the approval for publication of banks' 2014 annual accounts.

Monitoring and follow-up of the banks' responses to major observations of the Risk Based Examination Reports as at September 30, 2014 was conducted during the first half of the year. The aim was to facilitate the implementation and enforcement of Examiners' recommendations.

Also, the risk based examinations of AMCON and the private credit bureaux were conducted during the review period. Similarly, the Bank, in collaboration with host supervisors, conducted routine examination of a Nigerian bank's off-shore subsidiary. The outcome of the examination was being awaited.

3.3.2 Foreign Exchange Examinations

The first quarterly review of foreign exchange activities of all the banks for 2015 was conducted, mainly to ascertain compliance with foreign exchange laws and regulations. The review covered foreign exchange operations for the period October 1, 2014 to March 31, 2015. Infractions observed were failure to issue certificates of capital importation to beneficiaries within the prescribed time limit of 24 hours of receipt of funds, incorrect rendition of returns to regulators, failure of banks to monitor the repatriation of export proceeds and non-compliance with approved Net Open Positions. There were also instances of inadequate documentations of importations. Appropriate regulatory actions were taken on the contraventions.

Following the sustained decline in crude oil prices, the depreciation of the naira and sustained demand pressures in the foreign exchange market, a special investigation was undertaken in the first half of 2015 to ascertain the role of authorised dealers in the persistent depreciation of the currency. The report was being finalized.

3.3.3 Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) Activities

The CBN, in conjunction with the IMF, developed Off-site Risk Assessment Tools, including the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) risk assessment matrix. These regulatory tools provided the platform for implementation of the AML/CFT off-site Risk Based Supervision (RBS) in compliance with Financial Action Task Force recommendations.

The CBN carried out AML/CFT compliance examination of banks at end-May 2015 which included a review of foreign currency deposits in banks pre- and post- 2015 General Elections. The exercise revealed that there were cases of inaccurate rendition of Foreign Transaction Reports, Suspicious Transaction Reports, poor and inadequate Customer Due Diligence and non-identification of Politically Exposed Persons. The affected banks were penalised for the infractions.

3.3.4 Spot Checks/Special Investigations

In the review period, the Bank carried out spot checks on utilization of Eurobonds and on-lending as well as other foreign loans received by banks in Nigeria. Also, a special investigation was carried out to ascertain the degree of compliance by banks with extant rules on collections and remittances of statutory government revenue into the Federation Account.

3.3.5 Cross-Border Supervision

In January 2015, joint AML/CFT examinations were conducted on subsidiaries of three (3) Nigerian banks in three (3) West African countries, in line with the Basel Core Principles for Effective Banking Supervision and FATF Recommendations 19 and 40.The examinations revealed that the host requirements for AML/CFT in some countries were not stringent enough and the foreign subsidiaries were required to make improvements by complying with the more stringent home-Country requirements. Concerns were also expressed on the independence of the AML/CFT oversight function in some countries, while others were cautioned on the inadequacy of AML/CFT self -assessment and the lack of board oversight on the AML/CFT programme.

3.3.5.1 Supervisory Collaborations

a. Supervisory College for Ecobank

The CBN in its efforts to ensure effective collaboration and exchange of information on the Ecobank Group, jointly championed the formation of a College of Supervisors of Ecobank

Transnational Incorporated with Banque Centrale des Etats de l'Afrique de l'Ouest (Central Bank of West African States, BCEAO). The Secretariat of the College is hosted in Abidjan by BCEAO which is also saddled with the responsibility of the lead regulator for the Group. The inaugural meeting took place in April 2015 in Abidjan, Cote D'Ivoire.

b. College of Supervisors of WAMZ

A meeting of the College of Supervisors for the West African Monetary Zone (CSWAMZ) took place in Ghana from April 15 – 17, 2015. The meeting provided an opportunity for discussion of issues affecting the banking industry in the Zone, including the need to: build effective partnership and collaboration in cross-border banking supervision; develop a crisis management framework, strengthen measures for combating money laundering and the financing of terrorism; and build capacity for bank examiners, among others. On AML/CFT the following resolutions were reached at the meeting:

- Improve compliance with the 40 FATF Recommendations;
- Conduct rigorous examination of financial institutions and enhance/ facilitate strong cooperation among national agencies;
- Introduce a strong sanctioning regime which is critical for deterring infractions and offences; and
- Embark on continuous training to build capacity and prevent infractions.

The draft Crisis Resolution Framework for the West African Monetary Zone (WAMZ) which was championed by the CBN was presented to member countries during the meeting.

c. Community of African Bank Supervisors

A Working Group (WG) on Cross Border Banking Supervision was established by the Community of African Bank Supervisors (CABS) to develop a better understanding of cross-border banking in Africa, strengthen information sharing and regional co-operation among supervisors as well as discuss other issues affecting the supervisory authorities. The inaugural meeting of the Group was held in South Africa in May 2015. The South African Reserve Bank (SARB) serves as the Chair of the Working Group.

One of the major outcomes of the meeting was the resolution that SARB should articulate the terms of reference for the WG and develop a template on information sharing for members to populate on a quarterly basis.

3.3.5 Framework for the Regulation and Supervision of D-SIBs

The implementation of the Framework for the Regulation and Supervision of Domestic Systemically Important Banks in Nigeria (D-SIBs) commenced on March 1, 2015. However, compliance with the additional 1 per cent capital surcharge for banks in this category was rescheduled to July 1, 2016.

3.3.6 The Asset Management Corporation of Nigeria

The AMCON during the review period continued the resolution of its eligible bank assets (EBAs) acquired following the 2008/2009 banking crisis. Net EBAs stood at ₦1.82 trillion at end-June2015, from ₦1.86 trillion at end-December 2014. On the other hand, assets under its management amounted to ₦228.34 billion at end-June 2015, compared with ₦206.57 billion at end-December 2014.

The Corporation's total recoveries during the review period were valued ₦54.1 billion, comprising cash of ₦33.6 billion and assets forfeiture of ₦20.5 billion. The assets forfeited consisted of securities of ₦2.5 billion and other forfeitures of ₦18 billion**.** At end-June 2015, the total recoveries of AMCON amounted to ₦560.60 billion, representing 30.80 per cent of the total outstanding EBAs.

The Banking Sector Resolution Cost Trust Fund, established under the AMCON Amendment Act 2015 to support the Corporation in the redemption of its liabilities, generated ₦176.99 billion in the review period as contributions by banks and the CBN based on their assets at end-December 2014.

3.3.7 Update on Basel II Implementation

Towards the implementation of Basel II, the CBN issued revised Guidance Notes on credit, market, and operational risks, regulatory capital, Pillar 3 disclosure requirements and the reporting template for submission of capital adequacy ratio returns, in June 2015.

The review addressed challenges observed in the first year of Basel II implementation and clarified expectations from reporting institutions. Consequently, the reporting template for regulatory capital adequacy ratio was reviewed to incorporate changes to the Guidance Notes. Among other things, the revised regulations and reporting requirements clarified the capital adequacy ratio requirement of 10 or 15 per cent for banks, based on a bank's level of authorization or systemic significance; clarified the computation rules to ensure that banks do not recognize the regulatory risk reserve as a component of qualifying capital; and refined the computation rules for market risk exposures to take into account horizontal and vertical disallowances.

The revised Guidance Notes introduced a requirement for Pillar 3 disclosures to be published by banks on a bi-annual basis. The Guidance Notes further required D-SIBs to publish information on a more frequent basis in recognition of their level of business, international affiliations and other financial sector dynamics.

At end-June 2015, all the 10 banks with international authorization met the minimum capital adequacy ratio requirement of 15 per cent, while 3 out of 14 banks with national and regional authorization could not meet the minimum capital adequacy ratio of 10 per cent. The affected banks were given up to June 30, 2016 to recapitalize. The efforts of these banks to implement their recapitalization plans are being monitored.

During the review period, 21 banks and two discount houses submitted reports on their Internal Capital Adequacy Assessment Process (ICAAP) while four (4) banks that were involved in integration could not meet the June 30, 2015 deadline for submission.

3.4 Supervision of Other Financial Institutions

3.4.1 Microfinance Banks

During the review period, 110 microfinance banks (MFBs) were examined. Regulatory letters were issued to 63 MFBs that infringed prudential requirements.[9] These institutions were required to take corrective actions, including injection of funds to regularize their capital positions, maintenance of sufficient liquid assets and recovery of non-performing credits, especially insider-related credits. The boards of these institutions were further directed to address observed lapses before July 31, 2015.

3.4.2 Finance Companies

During the period under review, the Bank concluded the analysis of the RBS examination of 64 finance companies (FCs) at end-December 2014, which showed that 50 FCs were active with composite risk ratings of Low (2), Moderate (9), Above Average (7), and High (32), respectively. Of the 14 remaining, six (6) were restructuring, seven (7) inactive, while one (1) went into voluntary liquidation.

3.4.3 Bureaux de Change

During the review period, 102 bureaux de change (BDCs) were examined to assess their compliance with regulations on foreign exchange acquisition and utilisation. The reports revealed that 30 BDCs had clean bills of health, while the rest had various infractions, such as gaps in their accounting systems, non-submission of annual audited accounts to the CBN, unauthorised relocation of business addresses and documentation lapses. The erring institutions were appropriately penalised.

3.4.4 Development Finance Institutions (DFIs)

Routine Risk-Based Examination of the six (6) Development Finance Institutions (DFIs) was conducted during the period under review. The Examination Reports revealed that the Composite Risk Rating of two (2) of the institutions was High, two (2) Above Average and two (2) Moderate. Earnings of 2 of the institutions were rated "acceptable" while the earnings of the remaining four institutions were rated "weak", arising from significant deterioration in asset quality, high provisions for loan losses, and high and increasing overheads. Each of the four institutions sustained losses over the last three years ended December 2014, indicating the need to institute improved enterprise risk management practice, among other corrective measures, in these institutions.

[9] These included maintaining negative adjusted capital, portfolio-at-risk exceeding the permissible 5.0 per cent benchmark, liquidity ratio below the stipulated minimum of 20.0 per cent and non-performing insider-related credit facilities.

Issues of regulatory concern in the DFIs included: board instability leading to weak oversight; high expenditure profile; poor asset quality; loss of focus on their core mandates; low level of IT utilization; and regulatory breaches. These issues were being addressed through heightened surveillance.

Guidelines for Development Finance Institutions

Regulatory and Supervisory Guidelines for Development Finance Institutions in Nigeria were issued during the review period. The Guidelines were designed to ensure that DFIs operate in a safe and sound manner. Provisions under the Guidelines include, sanctions and questionnaires for major shareholders and appointees to board and management positions in banks and other financial institutions. Under the Guidelines, the existing DFIs established by Acts of the National Assembly and listed in BOFIA (as amended) are not required to obtain fresh licenses from the CBN. However, other DFIs established under any other law or arrangements are required to obtain the CBN licence.

3.5 Financial Services Regulation Coordinating Committee

3.5.1 Consolidated Examination of Group Structures in the Nigerian Financial Sector

During the review period, member agencies of the FSRCC, with supervisory responsibilities for the entities in FBN Holdings[10] (one of the three licensed financial holding companies[11]) commenced a pilot run of the consolidated examination of the group. The process started with the Risk Assessment Summary (RAS) session for the entities in the group. This was with a view to ensuring seamless conduct of the consolidated examination of the group structures in the Nigerian financial sector. The on-site examination is scheduled for second half of 2015.

3.5.2 Illegal Fund Managers/'Wonder Banks'

As part of efforts to sanitize the system during the period under review, the Inter-agency Committee on Illegal Fund Managers closed down a total of 56 Illegal Fund Managers (IFMs) and transferred the balances in their bank accounts to an escrow account with the CBN, pending the appointment of liquidators by the Federal High Court. The Committee also released a total of ₦340 million to liquidators of IFMs for onward payment to customers.

3.6 Nigeria Sustainable Banking Principles

3.6.1 Compliance with the NSBP Reporting Template

The CBN continued to review and monitor quarterly reports from banks in line with the reporting template issued to the industry. The review focused on the implementation progress of the Nigeria Sustainable Banking Principles (NSBP), including adequacy of the Environmental and Social risk policies.

[10] These include CBN, NDIC, PenCom, NAICOM, SEC and the NSE.

[11] The three licensed financial holding companies are FCMB, Stanbic IBTC and FBN Holdings.

The review revealed that some banks had not kept pace with the expected implementation plan. The affected banks were advised to address gaps in their respective environmental and social policies and procedures as well as improve capacity of employees, amongst others.

3.7 Consumer Protection

3.7.1 Complaints Management Activities

A total of 747 complaints involving the sums of ₦8.09 billion and US$751,744.26 were received in the review period. Also, during the period, a total of 481 cases, including some outstanding cases from previous periods, were resolved or closed. The refunds effected with respect to these cases amounting to ₦1.87 billion and US$963,920.05 were made to customers. The value of cumulative claims by complainants against banks and other financial institutions (OFIs) amounted to ₦8.09 billion, while cumulative refunds to complainants totalled ₦2.38 billion, US$957,920.00 and GB£6,000.00.

Table 3.7: Summary of Complaints Management Activities from January to June 2015

S/N	Description	January	February	March	April	May	June	Total
1	Number of Complaints received	63	188	143	86	93	174	747
2	Number of Complaints resolved/closed	22	126	85	78	79	91	481
3	Amount claimed (₦' Billion)	.524	1.002	1.54	0.44	0.97	3.61	8.09
4	Amount refunded (₦' Billion)	0.52	0.38	0.30	0.30	0.22	0.15	1.87
5	Amount claimed (US$)	7,500	738,244.26	-	GBP 6,000	0	0	751,744.26
6	Amount refunded (US$)	250,827.65	707,092.40	-	GBP 6,000	0	0	963,920.05
7	Mediation meetings held	0	1	4	2	2	5	14

In comparison to the second half of 2014, the number of complaints received reflected a decrease of 35 or 4.48 per cent. Also, the number of resolved/closed complaints decreased by 23 or 4.56 per cent. Similarly, cumulative claims by complainants in the review period decreased by ₦7.58 billion or 48.37 per cent compared with the second half of 2014. Refunds by the banks to complainants declined by ₦510.37 million or 21.46 per cent.

A summary of the comparative analysis between reports for first half of the year 2015 and second half of the year 2014 is presented in Table 3.8:

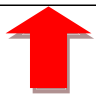
Table 3. 8: Summary of Complaints

S/No	Description	1st Half 2015	2nd Half 2014	Difference	%
1	Number of Complaints received	747	782	-35	(4.48)
2	Number of Complaints resolved/closed	481	504	-23	(4.56)
3	Amount claimed (₦' Billion)	8.09	15.67	(7.58)	(48.37)
4	Amount refunded (₦' Billion)*	1.87	2.38	(0.51)	(21.46)
5	Amount claimed (US$)	751,744.26	1,505,552.09	(753,807.83)	(50.07)
6	Amount refunded (US$)*	963,920.05	901,864.19	62,055.86	6.88

* The amount includes complaints from previous periods that were resolved during the reporting period.

3.8 Key Risks in the Financial System

3.8.1 Credit Risk

Risk Rating	

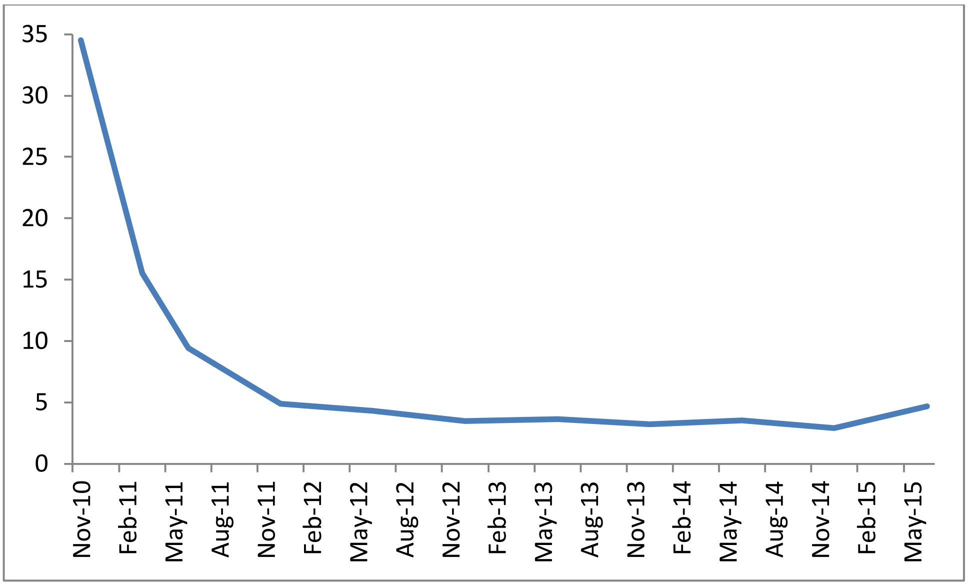
There was a decline in the quality of bank assets in the period under review as NPLs increased by approximately 70.0 per cent to ₦628.54 billion at end-June 2015, from ₦363.31 billion at end-December 2014. At 4.65 per cent from 2.88 per cent, the NPL ratio remained within the prudential limit of 5.0 per cent, though trended closer to the regulatory threshold, reflecting greater levels of stress in the banking industry.

Falling crude oil prices impacted adversely on government revenues and overall fiscal operations. The development resulted in dwindling revenue to State Governments and oil and gas operators. In view of the significant exposure of banks to these sectors, NPLs are likely to increase, leading to higher credit risk.

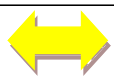
Further dimensions of credit risk that may arise in the second half of 2015 include NPLs resulting from foreign currency exposures; thus, straining banks' capacity to meet their foreign currency obligations.

The Bank will continue to monitor the developments while requiring banks to strengthen their contingency plans and to conduct regular stress tests to mitigate the impact of the crash in oil prices on their balance sheets.

Figure 3.16: Non-Performing Loans at end-June 2015

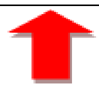


3.8.2 Liquidity Risk

Risk Rating	

The liquidity ratio for the industry was 39.3 per cent at end-June 2015, compared with 45.68 per cent at end-December 2014, indicating a 6.36 percentage points decline. The drop in liquidity ratio was attributable to increased withdrawals from banks in the run-up to the 2015 elections. Despite the decline, the industry liquidity ratio met the prescribed minimum of 30.0 per cent. The unification of public and private sector deposits' CRR at 31.0 per cent doused the decline. Overall, the Nigerian banking industry was exposed to minimal liquidity risk during the review period.

3.8.3 Market Risk

Risk Rating	

Interest rates trended upwards during the review period, except interbank and time deposits (over 12-months maturity), which declined. Interbank rates peaked at 24.24 per cent in April 2015 but dipped to 10.85 per cent in June 2015. Average savings deposit rate was 3.60 per cent at end-June 2015 compared with 3.46 per cent at end-December 2014, reflecting a 0.14 percentage point growth.

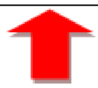
The growth in total deposits decreased from 7.60 per cent to 1.67 per cent at end-June 2015. The decline could be attributed to the high yield on government securities and uncompetitive savings rates offered by the banks.

The CBN adjusted the official exchange rate in February 2015 to ₦194.48/US$ from ₦169.68/US$ and discontinued the rDAS window to stabilise the exchange rate. Towards that end, the Bank introduced other demand management measures, including the exclusion of 41 import items from accessing funds from any of the foreign exchange windows.

The premium between the interbank and BDC rates widened from ₦14.34 in January 2015 to ₦22.06 at end-June 2015, as the BDC exchange rate depreciated by 22.85 per cent from ₦196.12/US$ to ₦218.97/US$.

The impact of exchange rate depreciation on banks was reflected in the increasing cost of servicing foreign currency obligations. The situation also underscored the need to sustain the measures already in place to mitigate the market risks linked to volatility in oil price, potential reversals of foreign portfolio investments (FPIs) and inadequate supply of foreign exchange to meet the increasing demand.

3.8.4 Operational Risk

Risk Rating	

Key operational risks reported were incidents of fraud and forgeries, disruption of banking activities during the fuel crisis, slow implementation of the unique identifiers (BVN) Scheme and insecurity in some parts of the Country. Cases of fraud and forgeries decreased to 5,917 at end-June 2015 from 6,250 at end-December 2014. However, the amount involved increased to ₦11.98 billion at end-June 2015 from the ₦9.0 billion recorded in the second half of 2014. Actual losses from these incidents decreased to ₦1.89 billion at end-June 2015 from ₦3.04 billion in the second half of 2014.

Banks experienced operational challenges owing to protracted fuel shortages and epileptic power supply. These challenges emphasized the need to fast-track the implementation of the Shared Services Scheme. Meanwhile prolonged insecurity in the North-East continued to be affect the operations of banks in that region.

4.0 PAYMENTS SYSTEM

During the review period, the payments system witnessed a number of developments relating to agent banking and other payment channels as highlighted below.

4.1 Oversight of the Payments System

During the review period, an on-site verification of compliance by banks with the various directives on the payments system was undertaken. The exercise revealed that 16 out of the 24 banks fully complied with the Bank's directives while the remaining banks were at different levels of compliance. Meanwhile, off-site monitoring of banks and other institutions continued. In order to improve the level of compliance with the directives, the Bank will continue to carry out spot checks on the banks.

4.1.1 Agent Banking

The Guidelines for Agent Banking were reviewed during the reporting period to incorporate licensing requirements for super agents.

4.1.2 Payments System Governance in Nigeria

In line with the implementation of the Payments System Vision (PSV) 2020 Strategy Document Release 2[12], the CBN inaugurated the Payments System Strategy Board, Payments Scheme Boards and Initiatives Working Groups during the review period.

4.1.3 Regulatory Framework for Mobile Payment Services in Nigeria

The Regulatory Framework for Mobile Payment Services in Nigeria was revised during the review period with the objective of streamlining standards and requirements for mobile money services. The revised framework recognised only two (2) models for the implementation of the mobile payment services, namely bank-led and non-bank led. It excluded the Telco-led model (where the main initiator is a mobile network operator). This exclusion will enable the CBN to have greater control of its monetary policy operations, minimize risk and ensure that the service is only provided by institutions licensed by the CBN.

4.1.4 Bank Verification Number Scheme

The deadline for enrolment of bank customers for the have Bank Verification Number (BVN) was extended from June 30 to October 31, 2015 with a view to facilitating the smooth completion of the project. The Scheme is expected to provide a unique identifier for all bank customers, and minimize fraud.

[12] The document can be accessed on www.cbn.gov.ng/icps2013.

4.1.5 Sanction Screening
In its bid to combat the financing of terrorism and money laundering through the banks, the CBN, in the review period, mandated all Nigerian banks to adopt the SWIFT Sanction Screening Service for transfers originating from them.

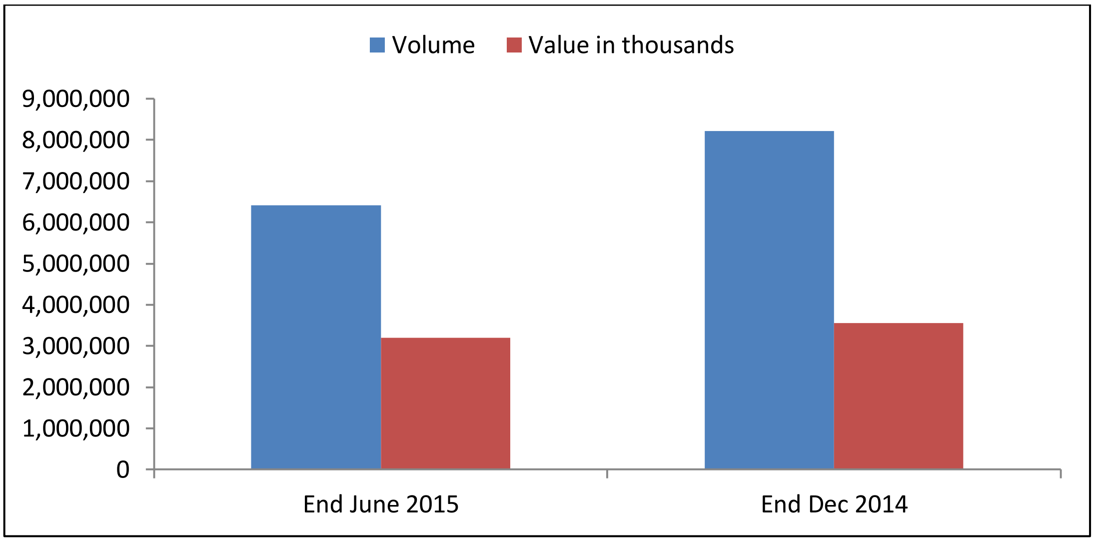
4.1.6 International Money Transfer
In the review period, the Bank issued Guidelines for the licensing and regulation of international money transfer service.

4.2 Large Value Payments
The volume and value of inter-bank transfers through the CBN RTGS System increased to 368,519 and ₦188,348.46 billion at end-June 2015, from 251,004 and ₦137,498.46 billion at end-December 2014, reflecting increases of 46.82 and 36.98 per cent in volume and value, respectively.

4.3 Retail Payments

4.3.1 Cheque Clearing
The volume and value of cheques processed decreased to 6.41 million and ₦3,194.74 billion, respectively, at end-June 2015, from 8.22 million and ₦3,558.41 billion at end-December 2014; reflecting decrease of 22.06 and 10.22 per cent, in volume and value, respectively. This development was attributed to growing preference for e-payment channels.

Figure 4. 1: Volume and Value of Cheque Clearing



4.3.2 Instant Payment Options
The instant payment options remained attractive to users during the review period. NIBSS Instant Payment (NIP) transaction volume increased to 29.96 million in the first half of 2015

from 23.99 million in the second half of 2014 and the value increased to ₦12,055.34 billion in the first half of 2015, from ₦10,783.74 billion in the second half of 2014. The increases were due to customer preference for instant settlement.

4.3.3 Nigeria Electronic Funds Transfer Transactions

The volume of transactions through Nigeria Electronic Funds Transfer (NEFT) decreased from 15.57 million at end-December 2014 to 14.00 million at end-June 2015, while the value decreased to ₦6,771.57 billion from ₦7,259.68 billion, at end-December 2014. The decline was due to preference for the NIP alternative payment platform.

4.3.4 Electronic Cards

Electronic card (e-card) transactions, other than cash withdrawals at ATMs, increased in volume and value from 31.22 million and ₦402.53 billion at end-December 2014 to 37.03 million and ₦ 432.73 billion at end-June 2015, respectively. On the other hand, the volume and value of ATM transactions decreased to 206.61 million and ₦1,900.39 billion in the first half of 2015 from 224.60 million and ₦2,043.47 billion in the second half of 2014. The decreases could be attributed to the growing awareness of customers of other existing e-payment channels.

Table 4. 1: Electronic Card Transactions Highlights

Payment Channel	Number of Terminals		Number of Transactions		% Change (Volume)	Value of Transactions		% Change (Value)
	Dec 2014	Jun 2015	Dec 2014	Jun 2015		Dec 2014 (₦ Billion)	Jun 2015 (₦ Billion)	
POS	82,549	102,855	11,845,922	14,924,041	25.98	174.35	200.88	15.22
Mobile	-	-	16,041,466	18,773,872	17.03	184.71	192.04	3.97
Internet (Web)	-	-	3,337,083	3,328,020	-0.27	43.47	39.81	-8.42
Sub-Total			31,224,471	37,025,933	18.58	402.53	432.73	7.50
ATMs	15,935	15,699	224,595,575	206,605,285	-8.01	2,043.47	1,900.39	-7.00
Total			**255,820,046**	**243,631,218**		**2,446.00**	**2,333.12**	

During the period under review, the CBN, in its effort to minimize e-payment frauds directed banks, switches and payments service providers to set up anti-fraud desks to manage electronic payments fraud. Also, banks were directed to adopt the two-factor authentication procedure designed to further enhance their internal banking control processes.

In addition, the CBN directed banks to implement the following measures on Nigerian Issued Card-Present Fraud in Non-EMV Environments;

- Collate data on card frauds abroad and forward to CBN not later than January 31, 2015. Subsequently, all data on card fraud occurring abroad should be rendered on the NIBSS Fraud portal;
- Implement Anti-Fraud solution on their cards management system, not later than January 30, 2015;

- Ensure that from the February 1, 2015, only customers that expressly indicated their intention of travelling to non-EMV jurisdictions would have their cards default to the magnetic stripe and for the period indicated by the cardholder only. To this end, banks should ensure that their customers are adequately educated;
- Carry out regular awareness campaigns for cardholders on tips to avoid fraud in non-EMV environment;
- Ensure strict compliance on PCIDSS by their vendors/partners involved in card processing activities.

5.0 OUTLOOK

Output growth in the second half of 2015 is expected to be subdued owing to a combination of factors, including dwindling oil revenue inflow and security challenges. Also, inflationary pressures is projected to raise headline inflation in the second half of the year to 9.3, 9.3, 9.8, 10.0 and 10.0 per cent in July, August, September, October and November 2015, respectively. The persistent dwindling oil receipts and falling demand for Nigerian crude will pose significant challenges to the Country in various areas, particularly the financing of the desired infrastructural development programmes and job creation.

However, the on-going reform efforts by the present administration, including the diversification of the economy, fiscal and monetary policy transparency measures are expected to moderate volatility in domestic prices and improve growth prospects.

As market operators watch developments in the economy amidst positive sentiments that heralded the new administration, the second half of the year is expected to experience an elevated tempo of activities in the money market. This optimism is expected, not only to subsist, but also to facilitate the direction of policies aimed at enhancing real sector development. Recent monetary policy measures are expected to moderate excess liquidity and strengthen exchange rate stability to attract foreign capital inflow.

Overall, the Nigerian economy presents potential opportunities to investors in view of the likely benefits of the on-going reforms which would augur well for financial stability.

Appendix 1: Institutions licensed in the First Half of 2015

The following category of banks and other financial institutions (OFIs) were granted the authorizations indicated against their classes during the period under review:

S/N	Type of Institution	Number of Institutions	Authorization
1	Microfinance Bank	31	Licensed
2	Bureau De Change	96	Licensed
3	Primary Mortgage Bank (Mortgage Refinancing Company Ltd)	1	Primary Mortgage Banking Licence with National Authorization
4	Merchant Bank (Coronation Merchant Bank Ltd and Kakawa Merchant Bank	2	Merchant Banking Licence with National Authorization
5	Commercial Bank (Suntrust Savings & Loans Ltd)	1	Approval-In-Principle (AIP) for Regional Commercial Banking Licence

Other relevant details about the institutions that were granted final approval and A-I-P in the period under review are provided below:

a) **Institutions that were granted final licence**:

1. Nigeria Mortgage Refinance Company (NMRC) Plc, on February 18, 2015;
2. Coronation Merchant Bank Ltd, on April 30, 2015;
3. Kakawa Discount House Ltd to operate as a Merchant Bank, on May 18, 2015.

b) **Institutions granted Approval-In-Principle:**

1. SunTrust Savings & Loans Ltd, on January 19, 2015.

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