FINANCIAL STABILITY REPORT

December 2015

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LIST OF ACRONYMS

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
BDCs	Bureaux de Change
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
COB	Currency Outside Bank
CPFA	Closed Pension Fund Administrator
CR5	Concentration Ratio (of the five largest banks)
CRMS	Credit Risk Management System
DAX	DeutscherAktienindex (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
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 InternationaleZusammenarbeit (German Society for International Cooperation)
GSE	Ghanaian Stock Exchange
HHI	Herfindahl-Hirschman Index
ICE	Intercontinental Exchange
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
KYC	Know Your Customer

L/C	Letter of Credit
M_1	Narrow Money Supply
M_2	Broad Money Supply
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
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
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
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
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
WAMZ	West African Monetary Zone
WEO	World Economic Outlook
WTI	West Texas Intermediate

GOVERNOR'S STATEMENT

This edition of the CBN FSR was characterized by declining growth in the global economy. This was particularly evident among emerging market economies and commodity exporting economies, which faced revenue shortfalls and attendant macroeconomic shocks. The general decline in commodity prices, China's efforts at rebalancing its economy and the gradual tightening in US monetary policy all combined to hamper growth in many emerging market economies, including Nigeria. The strengthening of the US dollar also contributed to the slow growth. Growth in Nigeria was lower than in the corresponding period of 2014 as well as the first half of 2015. The decline in oil prices was a major factor in the decline in domestic growth.

Given the above scenario, the key task that faced monetary authorities in Nigeria in the reporting period centered on the use of effective policy tools to ensure that the shocks arising from instability in the global economy were not fully transmitted to the domestic economy. To that end, it was necessary to take bold steps in ensuring that the value of the naira was sustained. In doing this, the CBN continued to ensure that the stability of the financial system was maintained and confidence in the system was sustained. The policy tool kit included both conventional and unconventional measures and these enabled us to respond to the emerging challenges. Key financial stability issues that arose in the reporting period included the reduced foreign earnings, coupled with continued demand pressures in the foreign exchange market, leading to the depletion of the external reserves. Although inflation remained within single digit, inflationary pressures persisted.

This 12th edition of the *FSR*, like the earlier editions, analyses the key developments in the Nigerian financial system during the reporting period and the associated macro-prudential and economic stability issues. It highlights the efforts of the CBN at curbing potential contagion risks to the banking system from the general macroeconomic downturn, in the aftermath of the decline in oil prices.

The *Report* brings to the fore the need to sustain and enhance the existing collaborative endeavours, particularly with the fiscal authorities, which have so far largely assisted in addressing emerging challenges.

I believe this edition will be of immense benefit and, therefore, recommend it for use by all stakeholders.

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Governor, Central Bank of Nigeria

FOREWORD

The second half of 2015 witnessed a combination of events that portended shocks to the financial system. The decline in global growth, coupled with volatility in some of the major financial markets threatened the stability of the global financial system. The combination of macroeconomic and social disruptions in various regions noted in the June 2015 edition of the FSR persisted in the second half. The revenue shortfalls occasioned by the decline in commodity prices continued to give rise to severe fiscal contractions in some commodity exporting countries including Nigeria. The strengthening US dollar also continued to impact negatively on growth in many emerging market economies.

The December 2015*Financial Stability Report* reviews developments in the global and domestic economy. In the reporting period, the Nigerian economy continued to witness a slowdown in growth as the persistent decline in the international price of oil led to the decline in government revenue. The decline also impacted the quality of bank assets owing to their exposure to the oil and gas sector.

To ensure that the banking system remained safe and sound, regulatory actions were taken so that systemically important institutions operated in a manner that would limit contagion. While capital adequacy requirements were increased to provide a buffer for banks in the prevailing unfavourable economic climate, they were required to develop their various recovery and resolution plans. This would help ensure that in the event of a crisis, each bank would have in place an easy-to-implement recovery plan which would see it safely through the crisis. The supervisory authorities would continue to provide effective oversight of the banking sector with a view to ensuring that they are safe and sound and also contribute to the economic development of the country.

In appraising the stability of the financial system, it is understood that the goal of financial system regulators remains the enhancement of 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* 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.

Feedback on the FSR is welcome from all stakeholders.

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EXECUTIVE SUMMARY

Global output growth remained weak in the second half of 2015 as evidenced by the decline in projected output growth to 3.1 per cent, lower than the 3.4 per cent recorded in 2014. The decline was attributed to the general slowdown in economic activities in emerging markets and developing economies, China's rebalancing of economic activities away from investment and manufacturing to consumption and services, declining oil and other commodity prices and the gradual tightening of US monetary policy.

Nigeria's output growth declined to 2.47 per cent in the review period. Broad money supply increased, while the gross official reserves fell. The average exchange rate depreciated at the inter-bank and BDC segments. Year-on-year inflation rate edged up slightly to 9.6 per cent in the review period.

In the second half of 2015, average interest rates fell in response to the liquidity situation in the economy. Broad money grew by 5.90 per cent. Also, narrow money (M_1) increased by 24.14 per cent at end-December 2015, as against the 5.25 per cent decline at the end of the first half of the year.

The Monetary Policy Rate (MPR) was reduced to 11.00 percent and the symmetric corridor of 200 basis points around the MPR was made asymmetric at + 200 basis points and -700 basis points for standing lending and deposit facilities, respectively. In reaction, rates at the inter-bank funds market fell in the review period. These measures were to encourage banks to lend to the real sector of the economy. The intervention measures of the CBN were also sustained to enhance inclusive growth in the real sector.

The quality of assets in the banking sector declined marginally in the second half of 2015 compared to the position at end-June 2015. The decline in asset quality was attributed to the unfavourable macroeconomic environment in the review period. Also, capital adequacy weakened during the period. This was attributable to the fall in the level of banks' general reserves. A stress test of the banking industry revealed that, generally, it remained relatively resilient, although some banks were sensitive to credit concentration and interest rate risks which did not pose systemic threats to the industry.

The Bank continued to process customers' complaints with a view to enhancing public confidence in banks. The payments system witnessed significant developments with the implementation of the Bank Verification Number (BVN) Scheme. The Treasury Single Account (TSA), an initiative aimed at reducing the cost of government borrowing, better management of cash resources, and harmonized government receipts and payments, was fully implemented.

Generally, the global economy is expected to recover slightly in 2016, despite the prospect of rising interest rates in the US and economic slowdown in China. However, the recovery could be dampened by possible decline in commodity prices which would further constrain growth in commodity exporting countries.

In Nigeria, the NBS projects a slight recovery in 2016. Economic activities are expected to pick up as the effects of government reform policies gradually impact on the real sector. In the foreign exchange market, the spread between the interbank and BDC rates is expected to narrow, as stability is restored in the market.

1.0 MACROECONOMIC DEVELOPMENTS AND FINANCIAL SYSTEM STABILITY

1.1 Global Economic and Financial Developments

1.1.1 Output

Global output growth in 2015 remained weak. According to the IMF World Economic Outlook for 2015, the estimated output growth of 3.1 per cent was 0.3 per cent lower than the 3.4 per cent recorded in 2014. The decline was attributed to the general slowdown in economic activities in emerging markets and developing economies, China's rebalancing of economic activities away from investment and manufacturing to consumption and services, declining oil and other commodity prices and the gradual tightening of US monetary policy.

In advanced economies, the 2015 output growth estimate was revised downward to 1.9 per cent from the earlier projection of 2.1 per cent, slightly above the 1.8 per cent recorded in 2014. The modest rebound in output reflected primarily a strengthening of recovery in the euro area and a gradual return to growth in Japan. Other contributory factors include declining oil prices, accommodative monetary policies and currency depreciation. The pickup in output is expected to continue in 2016, particularly in North America. Output growth in advanced economies is projected at 2.1 per cent in 2016, which is 0.2 per cent higher than in 2015.It is, however, anticipated that this projected recovery could be dampened by downside risks.

Output growth in the US was expected to increase slightly from 2.4 per cent in 2014 to 2.5 per cent in 2015, despite strong second quarter growth of 3.9 per cent. The marginal rise in output growth in the US economy was attributed to decline in oil prices, fall in the unemployment rate, weakened inflationary pressures, dollar appreciation, and increased household spending and industrial activities.

In the euro area, output growth was 1.5 per cent in 2015, compared to 0.9 per cent in 2014, reflecting sustained recovery supported by stronger private consumption, lower oil prices and easing financial conditions that outweighed a weakening in net exports. In 2016, the euro area is expected to expand by 1.7 per cent. In the UK, growth weakened from 2.9 per cent in 2014 to 2.2 percent in 2015 and was estimated to remain at the same rate in 2016.

In Japan, output growth rose to 0.6 percent in 2015 from its zero-growth level in 2014. This reflected the rebound in domestic spending arising from quantitative and qualitative policy measures adopted during the review period.

Output growth in emerging markets and developing economies was estimated at 4.0 per cent in 2015, compared to 4.6 per cent recorded in 2014. The slowdown in output growth reflected difficult external conditions, sharp rise in financial market volatility, declining commodity prices and downward pressure on many of their currencies. Other factors were low capital inflows and the effect of the lift-off of US policy rates from the zero lower bound. Growth in China slowed to 6.9 per cent in 2015 from 7.3 per cent in 2014, reflecting, among others, the decline in investment growth and weak exports.

In Latin America, the economic downturn in Brazil was deeper than expected, and with declining commodity prices, the momentum continued to weaken in other countries in the region. Output growth in Brazil decelerated to -3.8 per cent in 2015 from 0.1 per cent in 2014. Mexico's growth of 7.5per cent in 2015 was lower than expected, reflecting slower US growth and a drop in oil production.

In Russia, output growth declined from 0.6 per cent in 2014 to -3.7 per cent in 2015, owing largely to declining commodity prices and the political turmoil in the region. The output growth in India, at 7.3 per cent in 2015, the same as in 2014, was supported by a strong expansion in the manufacturing and services sectors.

The Middle East and North Africa (MENA) region witnessed a decline in output growth from 2.8 per cent in 2014 to 2.5 per cent in 2015, owing to low oil prices and political instability in several countries.

Also, output growth in sub-Saharan Africa (SSA) in 2015 was lower than projected, as it declined to 3.5 per cent from the 5.0 per cent recorded in 2014. This was largely attributed to the fall in crude oil prices, which affected oil exporting countries like Nigeria and Angola. GDP growth in South Africa was estimated at 1.3 per cent in 2015 compared with 1.5 per cent in 2014, while in Nigeria it was estimated to decline to 3.0[1] per cent in 2015 from 6.3 per cent in 2014.

Table 1.1: Global Economic Outlook

Region/Country	**Year-on-Year**				
	2012	**2013**	**2014**	**2015**	**2016***
World	**3.4**	**3.3**	**3.4**	**3.1**	**3.4**
Advanced Economies	**1.2**	**1.4**	**1.8**	**1.9**	**2.1**
United States	2.3	2.2	2.4	2.5	2.6
Euro Area	-0.7	-0.4	0.9	1.5	1.7
Japan	1.5	1.6	0.0	0.6	1.0
United Kingdom	0.3	1.7	2.9	2.2	2.2
Canada	1.7	2.0	2.5	1.2	1.7
Emerging Markets and Developing Economies	**5.1**	**5.0**	**4.6**	**4.0**	**4.3**
China	7.7	7.7	7.3	6.9	6.3
Russia	3.4	1.3	0.6	-3.8	-0.6
Mexico	4.0	1.4	2.1	2.3	2.8
Brazil	1.8	2.7	0.1	-3.0	-1.0
MENA Region	4.8	2.4	2.8	2.5	3.6
Sub-Saharan Africa	4.4	5.0	5.0	3.5	4.0

[1] However, the latest publication of the National Bureau of Statistics puts Nigeria's growth at 2.82 per cent for 2015.

South Africa	2.2	2.2	1.5	1.3	0.7
Angola	5.2	6.8	4.8	3.5	3.5
Nigeria	4.3	5.4	6.3	3.0	4.1

** Projections by WEO July 9, 2015; January 19, 2016 update & Global Economic Prospects, January 2016*

1.1.2 Global Inflation

Global inflation generally remained low throughout 2015, reflecting the continued decline in oil prices and low aggregate demand. For most part of 2015, inflationary pressures remained relatively low in China and advanced economies, but rose slightly in several emerging markets and developing economies.

In the advanced economies, headline inflation fell to 0.3 percent in 2015from 1.4 per cent in 2014, owing to the sharp decline in commodity prices and the hedging downwards of market-based measures of inflation expectations. Core inflation remained stable at low levels, reflecting persistent economic slowdown and weak import prices, particularly in the US where the effective exchange rate had appreciated by about 15 per cent over the past year. Core inflation is expected to remain weak in 2016, but could edge up marginally if economic conditions improve. Inflation in advanced economies was projected at 3.7 per cent for 2016. Inflation in the US which was 1.6 per cent in 2014, dropped to 0.1 per cent in 2015 but is expected to rise to 1.1 per cent in 2016 as the Federal Reserve raises interest rates. Overall, the inflation rate in most advanced economies remained below their respective central banks' targets for 2015.

In the euro area, inflation declined to 0.2 per cent in 2015 from 0.4 per cent in 2014 but is expected to rise to 1.0 per cent in 2016, as economic conditions improve. Similarly, inflation in the UK moderated to 0.1 per cent in 2015 from 1.5 per cent in 2014 and is projected to rise to 1.5 per cent in 2016. Inflation in the euro area, however, remained within the European Central Bank (ECB) target of 2.0 per cent for 2015.

In Japan, inflation declined from 2.7 per cent in 2014 to 0.7 percent in 2015 and is estimated to decline further to 0.4 per cent in 2016.

Inflation in the emerging markets and developing economies rose from 5.1 per cent in 2014 to 5.6 per cent in 2015 but is expected to slow down to 5.1 per cent in 2016. In China and India it remained subdued, while in Brazil and Russia inflation was elevated as currency depreciations pushed up import prices. During the review period, the average inflation rate of emerging markets and developing economies at 5.6 per cent was higher than the 3.0 per cent inflation target of many of their central banks and the 5.5 per cent recorded in 2014.

In the MENA region, inflation remained at 6.5 per cent in 2015 as was in 2014, despite the persistent social and political crises in the region.

In sub-Saharan Africa, inflation rose from 6.4 per cent in 2014 to 6.9 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 drove down inflation marginally by the end of 2015.In Nigeria, inflation rose from 8.1 per cent in 2014 to 9.6 per cent in 2015 (Table 1.2).

Table 1.2: Global Inflation (per cent)

Region/Country	2011	2012	2013	2014	2015 *	2016*
Advanced Economies	2.7	2.0	1.4	1.4	0.3	1.2
US	3.1	2.1	1.5	1.6	0.1	1.1
Euro Area	2.7	2.5	1.3	0.4	0.2	1.0
Japan	-0.3	0.0	0.4	2.7	0.7	0.4
UK	4.5	2.8	2.6	1.5	0.1	1.5
Emerging and Developing Economies/	7.3	6.1	5.9	5.1	5.6	5.1
MENA Region	8.6	9.7	9.0	6.5	6.5	5.5
Sub-Saharan Africa	9.5	9.4	6.6	6.4	6.9	7.3
Nigeria	10.8	12.2	8.5	8.1	9.6**	9.7

Sources: *IMF World Economic Outlook, July 9, 2015 and Update January 19, 2016*
Global Economic Prospects, January 2016
* Projections

1.1.3 Global Commodity Prices

The decline in key commodity prices witnessed in the first half of 2015 continued throughout the second half, with the lowest decline of 5.42 per cent in agriculture and the highest of 40.35 per cent in crude oil. In terms of average changes between June and December 2015, energy prices declined by 37.30 per cent as the index values dropped from 76.35 at end-June 2015 to 47.87 at end-December 2015, while agricultural output fell from 90.18 at end-June 2015 to 85.29 at end-December 2015.Food prices dropped by 5.76 per cent and those of precious metals fell by 10.32 per cent during the review period (Table 1.3).

Table 1.3: Average Commodities Price (Nominal) Indices (2010 = 100)

Commodity	2011	2012	2013	2014 (a)	2015 (b)	% change (a)/(b)	Jun-15 (c)	Dec-15 (d)	% change (c)/(d)
Energy	128.69	127.57	127.42	118.30	64.91	-45.13	76.35	47.87	-37.30
Non Energy	119.77	109.52	101.68	96.98	82.44	-14.99	84.19	76.35	-9.31
Metals	113.49	96.13	90.81	84.79	66.94	-21.06	70.36	56.38	-19.87
Agriculture	121.57	114.49	106.32	102.73	89.28	-13.09	90.18	85.29	-5.42
Food	122.55	124.48	115.63	107.37	90.84	-15.40	90.76	85.54	-5.76
Precious Metal	136.27	138.46	115.09	101.11	90.59	-10.40	92.37	82.84	-10.32
Memorandum Items									
Crude Oil ($/bbl)	104.01	105.01	104.08	96.24	50.75	-47.26	61.31	36.57	-40.35

Gold ($/toz)	1569.21	1669.52	1411.46	1265.43	1160.04	-8.33	1181.50	1068.25	-9.59

Source: *Commodity Market Outlook, January 2016, World Bank Group*

1.1.3.1 Oil

World crude oil demand in December2015 was 92.9 mbd compared with 92.5 mbd in June2015, reflecting an increase of 0.43 per cent. World oil supply rose by 3.0 per cent to 94.9 mbd in December 2015 from its level in June 2015. The increased demand was partly due to higher demand from the US and other advanced economies, while the increase in world supply was due to better-than-expected growth in supply from the US, Canada, Russia and Norway.

The OPEC Reference Basket (ORB) averaged $33.64/b in December 2015 compared with $60.21/b in June 2015. The significant decline in oil price was due to oversupply in the oil market, appreciation of the US dollar and downturn in equity markets.

Developments in Crude oil futures contracts indicated significant decline in oil prices. ICE Brent ended December 2015 at $38.90/b compared with $63.5/b in June 2015, while Nymex WTI settled at $37.33/b in December 2015 compared with $59.83/b in June 2015.

1.1.3.2 Food

The Food and Agriculture Organization (FAO) Food Price Index (FPI) averaged 154.1 points, reflecting a decline of about 6.5 points when compared with 164.9 in June 2015. The decline was linked to the glut in global supply amidst weak demand and a strong US dollar.

The FAO Meat Price Index for December 2015 averaged 152.1 points, down 10.3 points when compared with the 169.5 in June 2015. It was observed that for most part of the second half of 2015, quotations fell for all categories of meat.

The FAO Dairy Price Index averaged 149.5 points in December 2015, down by 6.9 points when compared with 160.5 in June 2015. The decline stemmed from a fall in prices for milk powders. The weak demand for whole milk powder dairy products led manufacturers to focus on producing other dairy commodities.

The FAO Cereal Price Index, which averaged 151.6 in December 2015, lost 7.1 points when compared with 163.2 in June 2015. Expectation of larger supplies entering world markets following the removal of export taxes in Argentina weighed on wheat quotations. Maize prices also fell in December, amid intensifying export competition and sluggish international demand.

The FAO Vegetable Oil Price Index averaged 141.1 points in December 2015, reflecting a decrease of 9.7 per cent from 156.2 points in June 2015. However, international palm oil prices remained stable, as concerns about possible production decline in Southeast Asia were counterbalanced by weak global import demand.

The FAO Sugar Price Index averaged 207.8 points in December 2015, which was 17.5 per cent higher than the 176.8 recorded in June 2015. The driving forces behind international sugar prices were continued concerns over harvesting delays in the South-Central producing regions in Brazil, caused by excessive precipitation (Table1.3).

Table 1.3: Global Annual Average Food Price Indices, 2011- December 2015

	2011	2012	2013	2014	2015	June 2015	Dec 2015	Change June – Dec 2015
Food Price Index	229.9	213.3	209.8	201.8	164.1	164.9	154.1	-6.5
Meat	183.3	182.0	184.1	198.3	168.4	169.5	152.1	-10.3
Dairy	229.5	193.6	242.7	224.1	160.3	160.5	149.5	-6.9
Cereals	240.9	236.1	219.3	191.9	162.4	163.2	151.6	-7.1
Vegetable Oils	254.5	223.9	193.0	181.1	147.0	156.2	141.1	-9.7
Sugar	368.9	305.7	251.0	241.2	190.7	176.8	207.8	17.5

Source: *Food and Agriculture Organization of the United Nations July 7, 2015 and January 7, 2016*

1.1.4 International Financial Markets

1.1.4.1 International Stock Markets

International stock markets recorded negative performance during the second half of 2015 with most regions reflecting the bearish pattern. In North America, the Canadian S&P/TSX Composite, Mexican Bolsa and US S&P 500 indices decreased by 10.6, 4.6 and 0.9 per cent between end-June and end-December 2015, respectively.

In Asia, conditions in China added pressures on other emerging market equities. Major equity markets in Asia reported losses in the second half of 2015 as China's Shanghai Stock Exchange-A, India's BSE Sensex and Japan's Nikkei 225 indices decreased by 17.3, 6.0 and 5.9 per cent, respectively.

In South America, the Argentine Merval index increased by 0.2 per cent, while the Brazilian Bovespa and Columbian IGBC General indices lost 18.3 and 13.3 per cent, respectively. Brazil recorded the largest losses owing to declining commodity prices and deteriorating fiscal deficits.

In African stock markets, Kenyan Nairobi NSE 20, Egyptian EGX CASE 30, Ghanaian GSE, Nigerian NSE and South African JSE All-Share indices decreased by 17.6, 16.3, 15.2, 14.4 and 2.1 per cent, respectively. Most of these stock indices were responding to developments in the international economy, particularly the appreciation of the US dollar and the expected normalisation of monetary policy by the Federal Reserve.

In Europe, UK's FTSE 100, France's CAC 40 and Germany's DAX indices decreased by 4.3, 3.2 and 1.8 per cent, respectively, while Russia's MICEX increased by 6.5 per cent (Table 1.4).

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

Country	Index	End Dec-2014	30-Jun-15	31-Dec-15	YTD % Change	June 30, 2015 - Dec 31, 2015 % Change
AFRICA						
Nigeria	ASI	34,657.15	33,456.83	28,642.25	-17.4	-14.4
South Africa	JSE African AS	49,770.60	51,806.95	50,693.76	1.9	-2.1
Kenya	Nairobi NSE 20	5,112.65	4,906.07	4,040.75	-21.0	-17.6
Egypt	EGXCSE 30	8,926.58	8,371.53	7,006.01	-21.5	-16.3
Ghana	GSE All Share	2,261.02	2,352.23	1,994.91	-11.8	-15.2
NORTH AMERICA						
US	S&P 500	2,058.90	2,063.11	2,043.94	-0.7	-0.9
Canada	S&P/TSX Composite	14,632.44	14,553.33	13,009.95	-11.1	-10.6
Mexico	Mexico Bolsa (IPC)	43,145.66	45,053.70	42,977.50	-0.4	-4.6
SOUTH AMERICA						
Brazil	Bovespa Stock	50,007.41	53,080.88	43,349.96	-13.3	-18.3
Argentina	Merval	7,830.30	11,656.81	11,675.18	49.1	0.2
Colombia	IGBC General	1,512.98	1,331.35	1,153.71	-23.7	-13.3
EUROPE						
UK	FTSE 100	6,566.09	6,520.98	6,242.32	-4.9	-4.3
France	CAC 40	4,272.75	4,790.20	4,637.06	8.5	-3.2
Germany	DAX	9,805.55	10,944.97	10,743.01	9.6	-1.8
Russia	MICEX	1,396.61	1,654.55	1,761.36	26.1	6.5
ASIA						
Japan	NIKKEI 225	17,450.77	20,235.73	19,033.71	9.1	-5.9
China	Shanghai SE A	3,389.39	4,479.90	3,704.29	9.3	-17.3
India	BSE Sensex	27,499.42	27,780.83	26,117.54	-5.0	-6.0

Source: Bloomberg

1.1.4.2 International Foreign Exchange Markets

The depreciation in the currencies of major emerging markets against the US dollar observed during the first half continued in the second half of 2015. The development was largely due to the persistent decline in international crude oil prices, turmoil in financial markets, slow economic recovery in advanced economies and the impact of US monetary policy normalization. In addition, the already moderating growth in advanced countries was weakened by the increasing appreciation of the US dollar, volatile capital flows and financial system vulnerabilities. At end-December 2015, the US dollar further strengthened against other major currencies following the US Federal Reserve's decision to raise benchmark interest rates by 25 basis points, after a seven-year near zero rate.

In Asia, divergent monetary policy stances in China and Japan worsened the fragility of financial markets and currency risks in developing economies. In South American and African markets, uncertainties in commodity prices added pressures on domestic currencies.

Exchange rate developments in the second half of 2015 relative to the first half are summarised as follows:

North America: The Canadian dollar depreciated by 15.94 per cent at end-December 2015, compared with end-June 2015, while the Mexican peso depreciated against the US dollar by 14.39 per cent at the end of the second half of 2015, as the peso-dollar exchange rate moved from 15.68 in June 2015 to 17.23 in December 2015.

South America: The Brazilian real, Argentine peso, and Colombian peso depreciated significantly against the US dollar at the end of second half of 2015 by 32.83, 34.49 and 25.14 per cent respectively.

Europe: The pound sterling depreciated by 5.88 per cent as at the end of second half of 2015, compared with end-June 2015. The value of euro currency depreciated by 9.78 per cent against the US dollar during the review period, as the euro-dollar exchange rate dropped from 0.9 at end-June 2015 to 0.92 at end-December, 2015. Russian ruble depreciated by 24.13 per cent at the end of second half of 2015, as the rubble-dollar exchange rate moved from 55.27 in June 2015 to 72.85 in December 2015.

Asia: The Japanese yen exchanged for 120.2 to the US dollar at the end of the second half of 2015, compared with 122.12 yen to the US dollar the end- June 2015. This represented an appreciation of 1.6 per cent during the review period. The value of the Chinese yuan depreciated by 4.31 per cent against the US dollar at the end of the second half of 2015. India Rupee depreciated by 3.78 per cent at end-December 2015, as the exchange rate moved from R63.04 in June 2015 to R66.15 in December 2015.

Africa: The Nigerian naira, Kenyan shillings and Egyptian pound depreciated in single digit against the US dollar throughout the period under review, while the South African rand depreciated in double digit. The Ghanaian cedi however, appreciated by 14.17 per cent at the end of second half of 2015.

Specifically, the Nigeria naira depreciated from ₦196.95/$ at end- June 2015 to ₦197/$ at end-December 2015 representing a fall of 0.03 per cent in value of the naira currency against US dollar during the review period. The South African rand depreciated by 21.51 per cent at end-December 2015 as it moved from R12.15/$ at end-June 2015 to R15.48/$ at end-December 2015. The Kenya shilling also depreciated by 2.98 per cent at the end of the second half of 2015, as its exchange rate to the US dollar moved from 99.25 shillings in June 2015 to 102.3 shillings in December 2015. In the same trend, the Egyptian currency depreciated by 2.55 per cent at end-December 2015, compared with end-June 2015. The Ghanaian cedi appreciated largely at the end of second half of 2015 by14.17 per cent compared with the value at end-June 2015 (Table1.6).

Table 1.5: Exchange Rates of Selected Countries (Value in currency units to US$)

	Currency	31-Dec-14 (a)	30-Jun-15 (b)	31-Dec-15 (c)	% 1st Half Year 2015 Change b/w a and b	% 2nd Half Year 2015 Change, b/w b and c
AFRICA						
Nigeria	Naira	169.68	196.95	197	-13.87	-0.03
South Africa	Rand	11.57	12.15	15.48	-25.26	-21.51
Kenya	Shilling	90.6	99.25	102.3	-11.44	-2.98
Egypt	Pound	7.15	7.63	7.83	-8.68	-2.55
Ghana	Cedi	3.22	4.35	3.81	-15.49	14.17
NORTH AMERICA						
Canada	Dollar	1.16	1.25	1.38	-15.94	-9.42
Mexico	Peso	14.75	15.68	17.23	-14.39	-9
SOUTH AMERICA						
Brazil	Real	2.66	3.18	3.96	-32.83	-19.7
Argentina	Peso	8.47	9.09	12.93	-34.49	-29.7
Colombia	Peso	2376.51	2606	3174.5	-25.14	-17.91
EUROPE						
UK	Pound	0.64	0.64	0.68	-5.88	-5.88
Euro Area	Euro	0.83	0.9	0.92	-9.78	-2.17
Russia	Ruble	60.74	55.27	72.85	-16.62	-24.13
ASIA						
Japan	Yen	119.78	122.12	120.2	-0.35	1.6
China	Yuan	6.21	6.2	6.49	-4.31	-4.47
India	Rupee	63.04	63.65	66.15	-4.70	-3.78

1.1.5 International Monetary Policy Rates

Monetary policy rates in most central banks were fairly stable in 2015. The Bank of Japan, Bank of England, US Federal Reserve, Bank of Indonesia, Bank of Mexico, and the European Central Bank held their rates constant for most of 2015, while those of South Korea, New Zealand and Canada increased their respective rates during the second half of 2015. The Bank of Colombia which maintained its rate at 4.5 per cent for the first eight months raised it to 4.75 in September and further to 5.25 in November, closing the year with another increase to 5.75 in December 2015(Table 1.6).

Table 1.6: Summary of Policy Rates across Selected Countries, Jan 2015 – Dec 2015

Country	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
Developed Economies												
Japan	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Europe	0.05	0.05	0.05	0.05	0.05	0.1	0.05	0.05	0.05	0.05	0.05	0.05
UK	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
US	0.25	0.25	0.25	0.25	0.25	0.3	0.25	0.25	0.25	0.25	0.25	0.5
Canada	0.75	0.75	0.75	0.75	0.75	0.8	0.5	0.5	0.5	0.5	0.5	0.5
South Korea	2.0	2.0	1.75	1.75	1.75	1.5	1.5	1.5	1.5	1.5	1.5	1.5
New Zealand	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	2.75	2.75	2.75	2.5
Australia	2.5	2.25	2.25	2.25	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
ASEAN												
Indonesia	7.75	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5
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	12.3	12.25	12.3	13.3	13.25	14.0	14.25	14.3	14.3	14.3	14.3	14.25
Russia	17.0	17.0	14.0	14.0	14.0	12.0	11.0	11.0	11.0	11.0	11.0	11.0
India	7.75	7.75	7.75	7.75	7.75	7.3	7.25	7.25	6.75	6.75	6.75	6.75
China	5.6	5.35	5.35	5.35	5.10	4.85	4.85	4.60	4.85	4.35	4.35	4.35
South Africa	5.75	5.75	5.75	5.75	5.75	6.00	6.00	6.00	6.00	6.00	6.25	6.25
Other Emerging Economies &South America												
Mexico	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Chile	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.25
Colombia	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.75	4.75	5.25	5.75
Africa												
Egypt	10.3	9.75	9.75	9.75	9.75	9.8	9.75	9.75	9.75	9.75	9.75	9.75
Ghana	21.0	21.0	21.0	21.0	22.0	22.0	22.0	22.0	25.0	25.0	25.0	25.0
Nigeria	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	11.0	11.0

1.2 Domestic Developments

1.2.1 Output

Provisional data from the National Bureau of Statistics (NBS) indicated that output growth was lower in the second half of 2015, compared with the level in the first half. Gross Domestic Product (GDP), at 2010 constant basic prices, grew by 2.47 per cent in the review period, compared with a growth of 3.14 per cent in the first half of 2015. The slower growth recorded in second half of 2015 was due partly to the continued decline in the international price of crude oil, which constitutes the major source of income for the government. Other factors included shocks arising from domestic supply of refined petroleum products and the adverse impact of the insurgency in the North East of the country on economic activities.

The non-oil sector recorded 3.10 per cent growth in real terms in the second half of 2015, compared with 4.50 per cent growth in the first half of the year. However, owing to the significant decline in oil prices, the contribution of the non-oil sector GDP increased by 0.98

and 0.55 percentage points above the 89.88 and 90.31 per cent recorded in the preceding half year and the corresponding period of 2014, respectively. With respect to sectoral contribution in real terms, the services sector accounted for the largest share (36.13%), followed by the agricultural sector (25.47%), trade (16.46%), manufacturing (9.25%) and construction (3.40%).

Activities in the oil sector witnessed challenges arising from falling oil prices during the second half of 2015.However, the average daily production of crude oil rose to 1.96 million barrels per day (mb/d) in the second half of 2015, from 1.92 mb/d in the first half. Further analysis also indicated that the contribution of the oil sector to the real GDP stood at 9.14 per cent, indicating declines of 1.07 and 0.55 percentage points below the 10.12 and 9.69 per cent recorded in the preceding half year and the corresponding period of 2014, respectively.

Figure 1.1: Gross Domestic Product by Sectors (₦ billion)

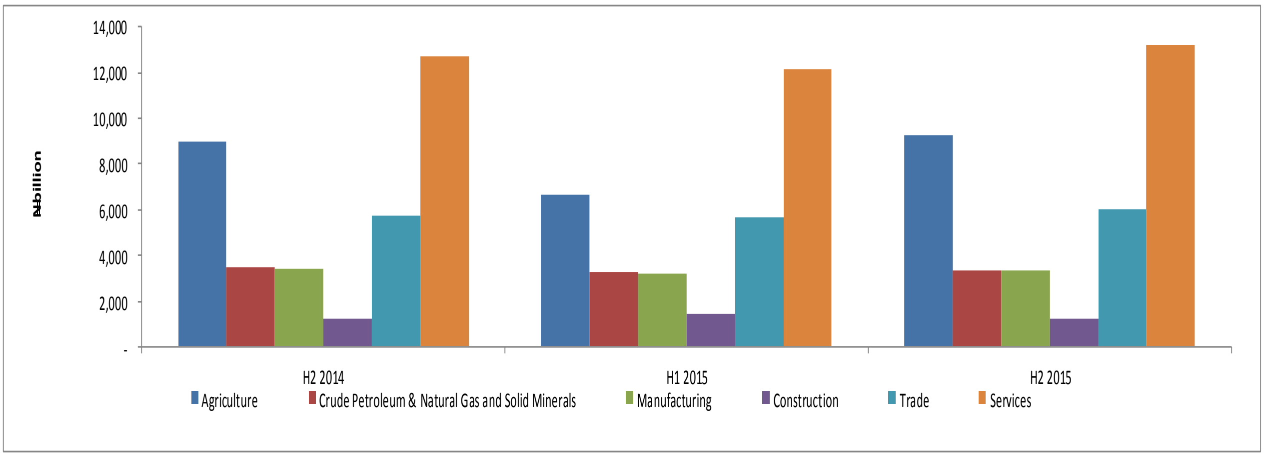


Table 1.7: Changes (per cent) in Real GDP by Sector over Corresponding Half Year

Sector	H2 2014	H1 2015	H2 2015
Manufacturing	3.6	-2.25	-0.70
Construction	5.8	8.67	-0.24
Services	10.4	5.56	3.50
Trade	6.9	5.77	4.55
Agriculture	40.5	4.07	3.47
Crude Petroleum, Natural Resources and Solid Minerals	-2.9	-7.49	-3.34

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

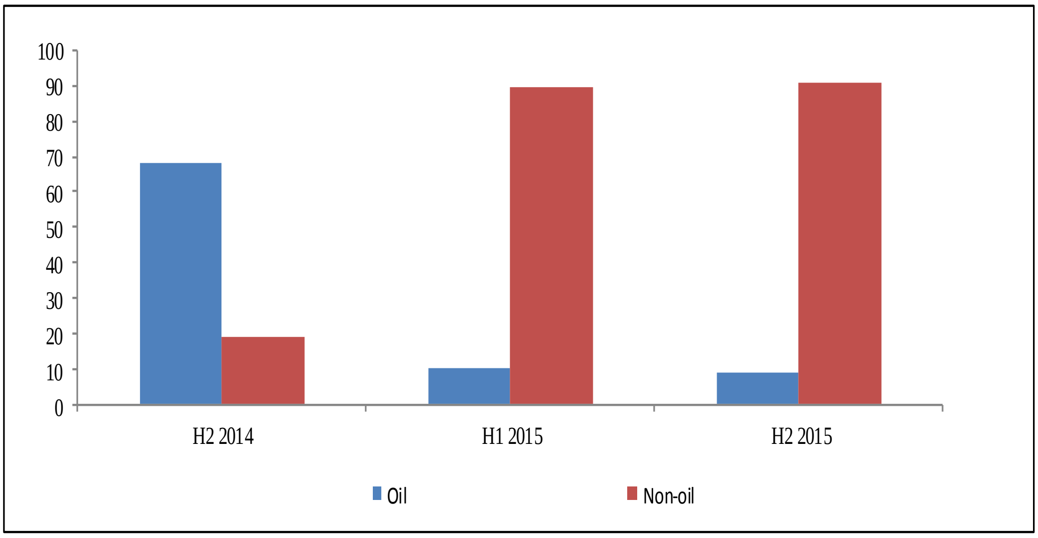
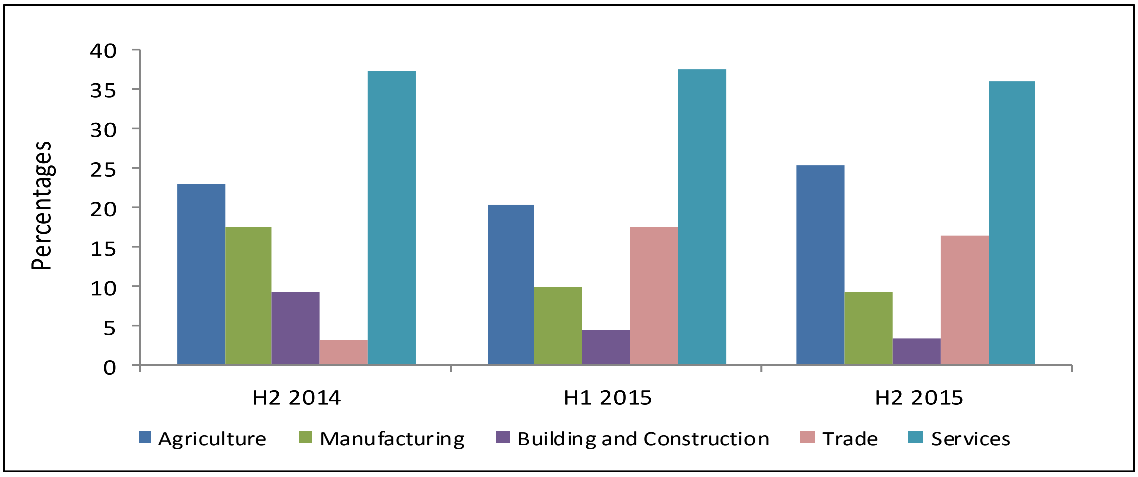


Figure 1.3: Sectoral Share in Total GDP (%)

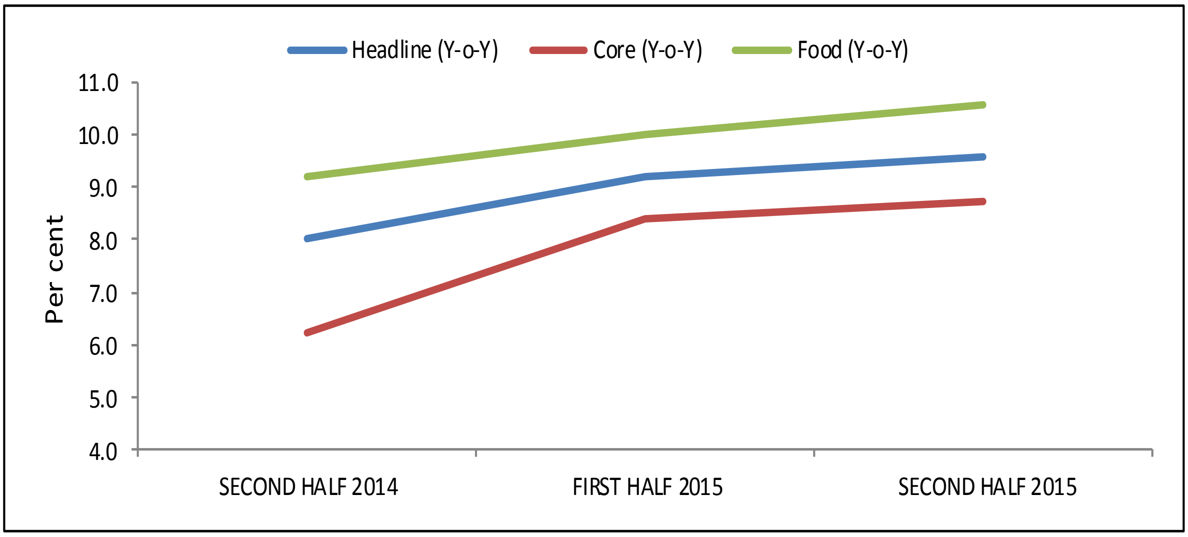


1.2.2 Inflation

Domestic inflation trended upward during the review period. Data from the NBS showed that the all-items composite Consumer Price Index (CPI) stood at 180.15 in December 2015,at November 2009 constant prices, compared with 173.17 and 164.44 at end-June 2015 and end-December 2014, respectively. Consequently, year-on-year headline inflation edged up by 0.33 percentage points to 9.55 per cent at end-December 2015, from 9.22 per cent at the end of the first half 2015.

Food price inflation accelerated to 10.59 percent year-on-year at end-December 2015, from 10.04 and 9.15 percent at end-June, 2015 and end-December, 2014, respectively. Similarly, core inflation rose to 8.73 per cent at end-December 2015, compared with 8.40 and 6.22 per cent at end-June 2015 and end-December 2014, respectively (Figure 1.4).

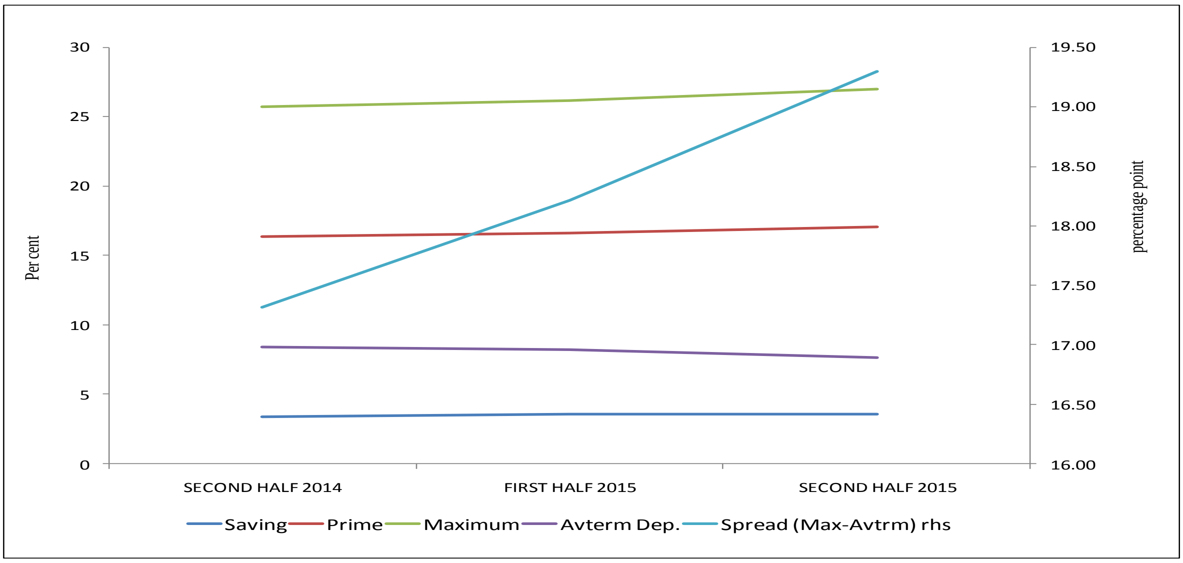
Figure1.4: Inflationary Trend (Year-on-Year)



1.2.3 Interest Rates

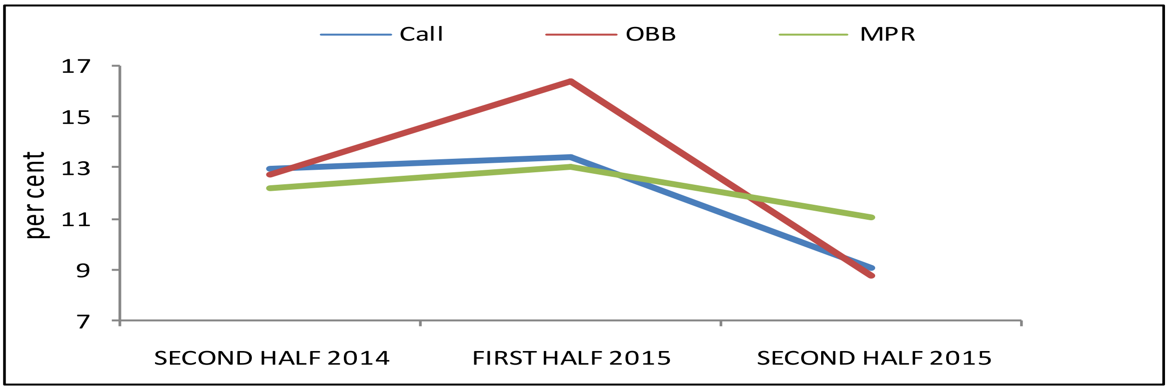
Interest rates in the second half of 2015 moved in tandem with the level of liquidity in the economy. Although there were swings in the level of liquidity in the financial market owing to the full implementation of the Treasury Single Account (TSA) and the subsequent reduction in the Monetary Policy Rate (MPR), interest rates in the second half of 2015, on the average, were lower than their levels in the first half of 2015. Savings deposit rate fell marginally by 0.01 percentage point from 3.59 per cent in the first half, to 3.58 per cent in the second half of 2015. Similarly, average deposit rates for 7-day, 3-month and 1-year tenors fell from 4.28, 9.34 and 8.82 per cent in the first half of 2015 to 3.73, 8.96 and 8.54 per cent, respectively in the second half of 2015.This trend was attributed to the reduction in the MPR by 200 basis points to 11.0 per cent coupled with the lowering of the cash reserve requirement to 20.0 per cent from 25.0 per cent in November 2015.

Figure 1.5: Lending and Deposit Rates



The average inter-bank call and open-buy-back (OBB) rates stood at 9.00 and 8.76 per cent in the second half of 2015, down from their respective levels of 13.14 and 16.42 per cent in the preceding half year. The average prime and maximum lending rates, however, rose by 0.4 and 0.6 percentage points to 17.07 and 26.98 per cent, respectively. Consequently, the spread between the average maximum lending and the average term deposit rates widened by 1.1 percentage points to19.3 per cent in the second half of 2015.

Figure 1.6: Money Market Interest Rates and MPR

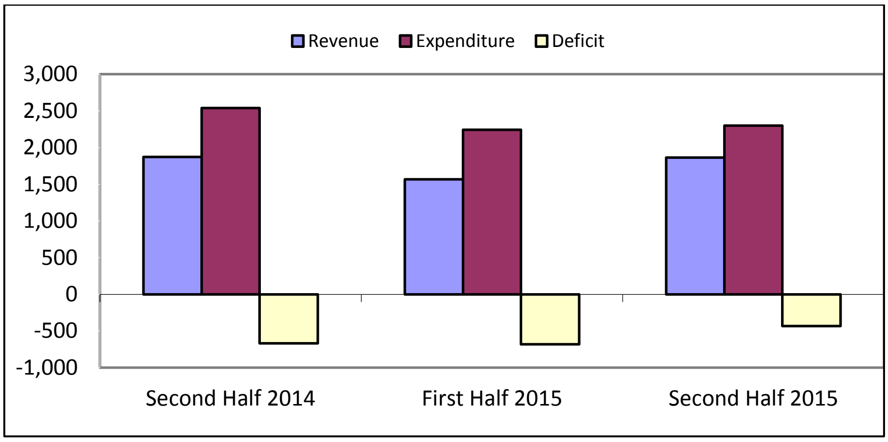


The CBN relaxed its tight monetary policy stance in a bid to stimulate economic activities. Although the Bank's expansionary policy aim of sustaining liquidity in the financial system in the aftermath of the TSA withdrawals was largely achieved; its goal of increasing lending to the real sector of the economy remained a challenge.

1.2.4 Fiscal Operations

Federal Government retained revenue for the second half of 2015 increased to ₦1,863.20 billion, above the ₦1,565.64 billion recorded in the first half of the year, and also above the budget estimate of ₦1,858.99 billion. Analysis of the retained revenue showed that the Federal Government's share of the Federation Account was ₦1,072.50 billion (57.56%); the VAT Pool Account, ₦54.70 billion (2.94%); the Federal Government Independent Revenue, ₦79.51 billion (4.27%); while others (including NNPC Refund and Exchange Gain) accounted for the balance of ₦656.49 billion (35.23%).Similarly, Federal Government expenditure grew by 2.48 per cent to ₦2,297.83 billion, above ₦2,242.12 billion in the first half of 2015, compared with the budgeted expenditure of ₦2,379.50 billion for the second half of the same year. Consequently, the fiscal operations of the Federal Government resulted in an overall deficit of₦434.63 billion, as against the proportionate budget deficit of ₦520.50 billion for the second half of 2015 and the ₦676.48 billion recorded in the preceding half year. The deficit was financed mostly from domestic sources (Figure 1.7).

Figure 1.7: Federal Government Fiscal Operations



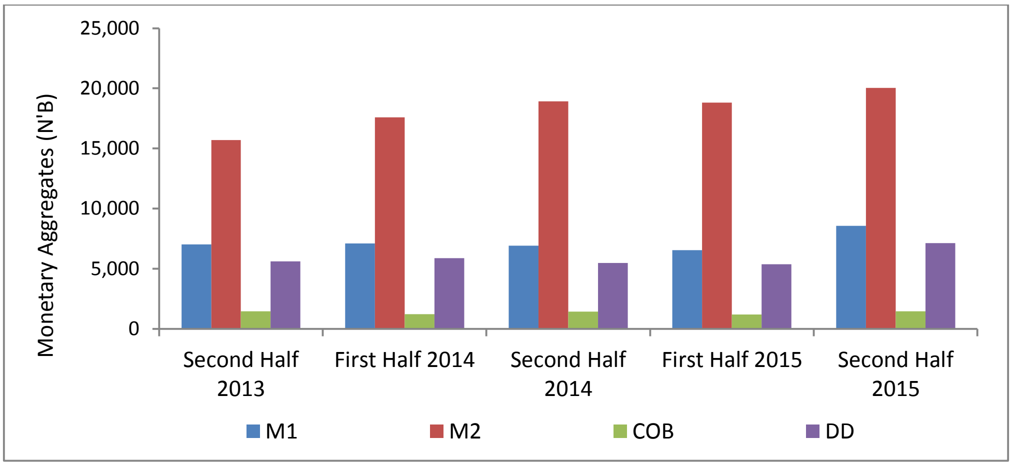
2.0 DEVELOPMENTS IN THE FINANCIAL SYSTEM

2.1 Monetary and Credit Developments[2]

Relative to the preceding December, broad money supply (M_2) grew by 5.29 per cent to ₦20,029.83 billion at end-December 2015 as against the decline of 0.54 per cent at end-June 2015. The development on the asset side was driven largely by increases of 12.13 and 1.08 per cent in domestic credit (net) and other assets (net) respectively, but was moderated by the significant decline of 18.71 per cent in foreign assets (net) of the banking system. Correspondingly, the growth in total monetary liabilities, M_2, was driven by the significant increase in narrow money (M_1), which more than offset the decline in quasi-money.

Available data indicated that M_1grew by 24.14 per cent at end-December 2015 to ₦8,571.70 billion, as against the 5.25 and 1.82 per cent decline at end-June 2015 and end-December 2014 respectively. The increase at the end of the second half of 2015 was attributed to the30.15 and 1.30 per cent growth in demand deposits (DD) and currency outside banks (COB)respectively.

Figure 2.1: Trend in Monetary Aggregates



COB, as a ratio of total monetary assets stood at 7.3 per cent, compared with the 6.3 and 7.6 per cent at the end of the first half of 2015 and the corresponding half of 2014 respectively. This indicated an improvement in the intermediation efficiency[3] of the banking industry over the level in the corresponding half of 2014.

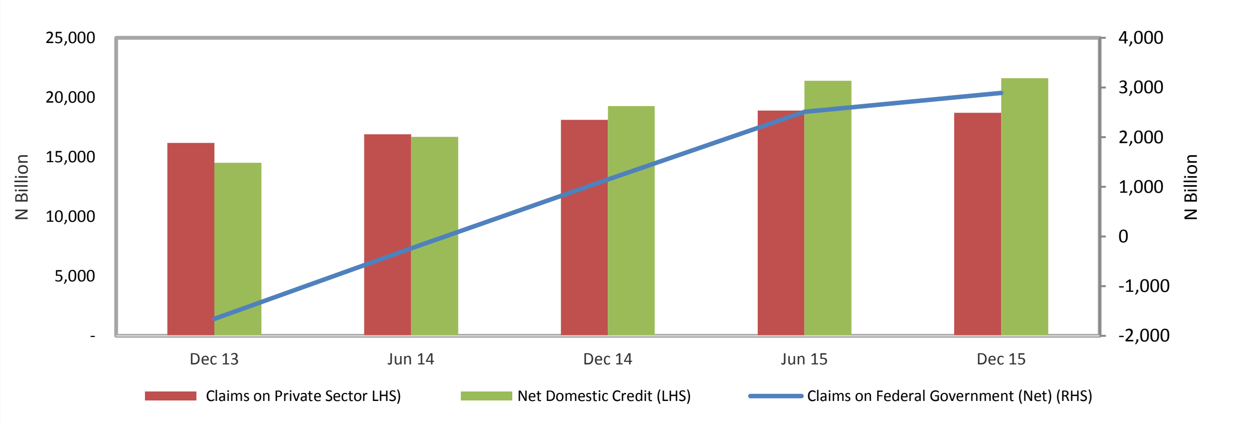
2.1.1 Aggregate Credit to the Economy

Relative to end-December 2014, net domestic credit (NDC) grew by 12.13 per cent to ₦21,612.45 billion at end-December 2015,compared with ₦21,409.77 billion at the end of the first half of 2015. The growth in NDC reflected a significant increase in net claims on the Federal Government and the modest growth in private sector credit (Figure 2.2).In terms of growth in M_2, NDC of the banking system contributed 12.37 percentage points, compared with 11.29 percentage points at the end of the first half of 2015.

[2] The analysis is based on the revised January 2016 CBN Monetary Survey.

[3] Intermediation efficiency is the ratio of COB to M_2.

Figure2.2: Credit to the Economy



2.1.1.1 Claims on the Federal Government

Net claims on the Federal Government increased by151.56 per cent to ₦2,893.19 billion at end-December 2015, compared with the 118.45 per cent increase at the end of the first half of 2015. The development reflected arise in the banking system's holdings of government securities such as Nigerian Treasury Bills and FGN Bonds.Net claims on the Federal Government contributed 9.22 percentage points to the growth rate of total monetary assets, compared with 7.20 percentage points at the end of the preceding half year.

2.1.1.2 Claims on the Private Sector

Credit to the private sector, relative to end-December 2014, increased by 3.29 per cent to ₦18,719.26 billion at end-December 2015,compared with the annualized growth rate of 8.54per cent recorded at the end of the first half of 2015. The growth in private sector credit reflected, largely, the 3.12 per cent rise in claims on the core private sector[4] (Table 2.1).

Table 2.1: Growth in Monetary Aggregates

% Change (Over preceding half year)	Jun 13	Dec 13	Jun 14 revised	Dec 14 revised	Jun 15 revised	Dec 15
Domestic Credit (Net)	3.55	14.47	14.82	32.6	11.08	12.13
Claims on Federal Government (Net)	(3.63)	32.50	85.75	169.44	118.45	151.56
Claims on Private Sector	3.57	6.86	4.53	11.93	4.27	3.29
Foreign Assets (Net)	1.34	4.26	(11.38)	(19.68)	(14.42)	(18.71)
Other Assets (Net)	(7.39)	19.92	(9.58)	2.53	(16.88)	1.08
Total Monetary Assets (M2)	0.71	1.32	12.03	20.55	(0.54)	5.90
Quasi-Money	7.33	7.36	21.07	38.73	2.17	(4.58)
Money Supply (M1)	(6.49)	(5.23)	0.90	-1.82	(5.25)	24.14
Currency Outside Banks	(13.32)	11.18	(16.25)	(0.64)	(17.63)	1.30
Demand Deposits	(5.03)	(8.72)	5.35	(2.13)	(1.99)	30.15
Total Monetary Assets (M2)	0.71	1.32	12.03	20.55	(0.54)	5.90

The growth in credit to the private sector, especially the core private sector, reflected the impact of various policies of the Bank that enhanced the lending capacity of banks and

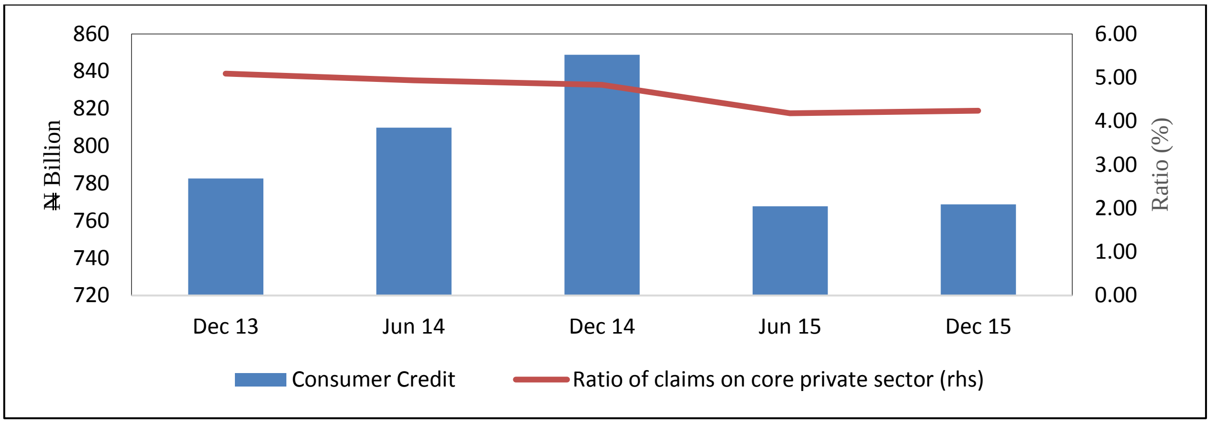
[4]Excludes the states and local governments.

encouraged increased lending to the private sector vis-à-vis the government sector. The contribution of claims on the private sector to the growth rate of total monetary assets stood at 3.15 percentage points, compared with 4.09 percentage points at the end of the preceding half year.

2.1.1.3 Consumer Credit

The volume of consumer credit granted by banks improved during the second half of 2015. Available data indicated that aggregate outstanding consumer credit stood at ₦785.53 billion at the end of the review period, compared with ₦767.69 billion at end-June 2015. This reflected an increase of 2.32 per cent, compared with 3.49 per cent at the end of the first half of 2015. Consumer credit constituted 4.34 per cent as a ratio of total credit to the core private sector, compared with 4.18 per cent in the first half of 2015 (Figure 2.3).

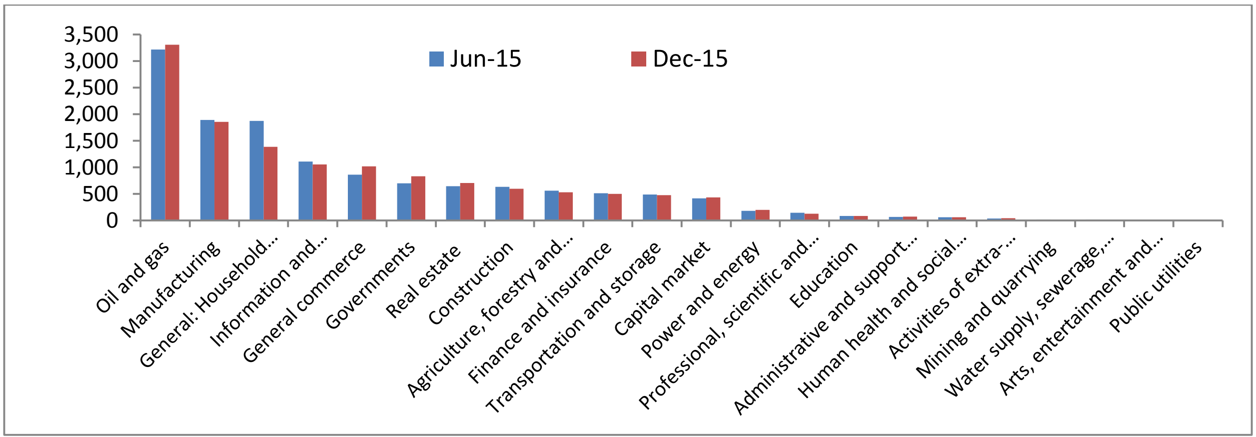
Figure 2.3: Consumer Credit



2.1.2 Sectoral Distribution of Credits

Relative to the first half of 2015, the amount of credit extended to the various sectors by banks during the review period showed a downward trend. Total credit to the various sectors of the economy fell by 1.44 per cent to ₦13,328.7 billion in the second half of 2015,as against the increase of7.07 and 16.62 per cent in the first half of 2015 and the second half of 2014 respectively.

Figure 2.2: Sectoral Distribution of Credit



The oil and gas sector continued to attract the highest share of total credit as it accounted for 24.82 per cent of the total credit, compared with 23.78 per cent in the first half of 2015. The manufacturing sector accounted for 13.91 per cent of the total credit, compared with 13.98 per cent in the preceding half year. Agriculture, forestry and fishery accounted for 4.00 per cent of the total credit, indicating a 0.13 percentage point decline below the 4.13 per cent recorded in the preceding half year (Figure 2.2 and Table 2.1).

Table 2.1: Sectoral Distribution of Credit

	June 2015		**December 2015**	
Sector	₦' Billion	Share of Total (%)	₦ 'Billion	Share of Total (%)
Oil and gas	3,215.26	23.78	3,307.87	24.82
Manufacturing	1,889.90	13.98	1,854.01	13.91
General: Household Consumer Goods/Hospitality/Religious	1,872.06	13.84	1,386.50	10.40
Information and communication	1,111.24	8.22	831.94	6.24
General commerce	859.53	6.36	1,020.69	7.66
Governments	696.87	5.15	1,053.97	7.91
Real estate	644.63	4.77	533.05	4.00
Construction	633.48	4.68	706.38	5.30
Agriculture, forestry and fishery	558.45	4.13	502.23	3.77
Finance and insurance	515.15	3.81	476.07	3.57
Transportation and storage	487.34	3.60	596.39	4.47
Capital market	414.23	3.06	437.28	3.28
Power and energy	180.72	1.34	198.71	1.49
Professional, scientific and technical activities	148.49	1.10	126.36	0.95
Education	83.7	0.62	74.52	0.56
Administrative and support service activities	65.93	0.49	61.14	0.46
Human health and social work activities	61.99	0.46	43.10	0.32
Activities of extra-territorial organizations and bodies	40.12	0.30	0.07	0.00
Mining and quarrying	20.1	0.15	11.71	0.09
Water supply, sewerage, waste mgt. & remediation activities	17.94	0.13	11.61	0.09
Arts, entertainment and recreation	6.13	0.05	12.20	0.09
Public utilities	0.06	0.00	82.98	0.62
Total	**13,523.32**	**100.00**	**13,328.77**	**100.00**

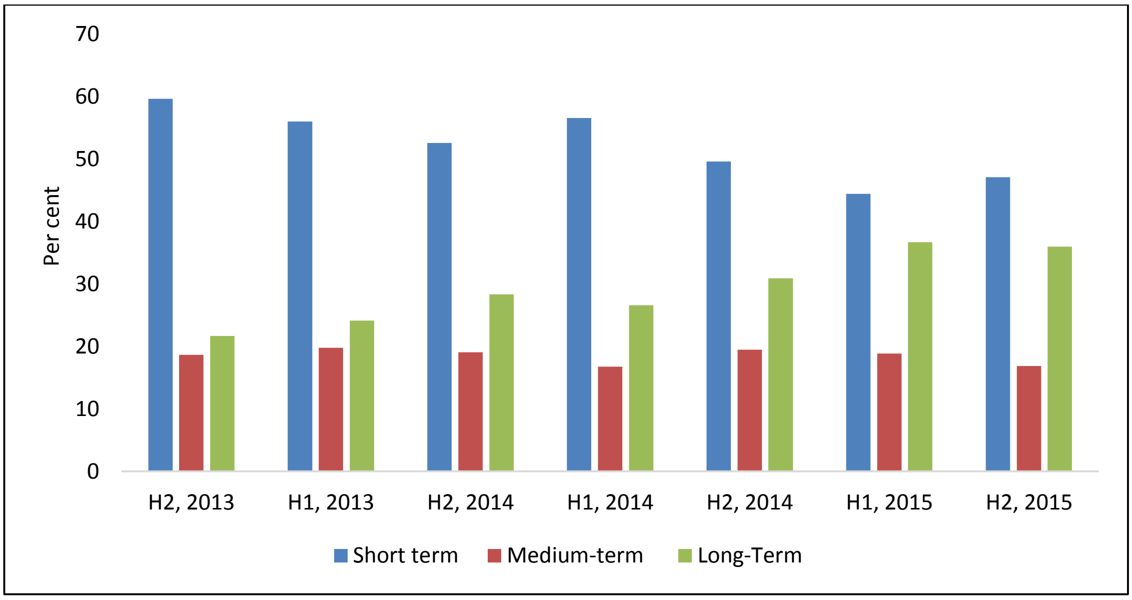
2.1.3 Reserve Money

Reserve money (RM) stood at ₦6,073.09 billion at end-December 2015, indicating an increase of 2.14 per cent, in contrast to a decline of 0.3 per cent at the end of the preceding half year. This was lower than the indicative benchmark of ₦7,059.49 billion for the fourth quarter of 2015.The growth in reserve money reflected largely the growth in net foreign assets, which grew by 12.19 per cent. Similarly, the corresponding increase in the uses of reserves reflected the 18.90 per cent growth in currency-in-circulation, which more than offset the 3.84 per cent decline in bank reserves.

2.1.4 Maturity Structure of Bank Deposits and Credit

The structure of bank credit in the second half of 2015 indicated the continued dominance of loans and advances of short-term maturities. Credit maturing within one year accounted for 47.1 per cent, compared with 44.5 per cent at the end of the first half of 2015. The medium-term[5] and long-term[6] maturities stood at 16.9 and 36.0 per cent, compared with 18.8 and 36.7 per cent, at end-June 2015respectively (Figure 2.3).

Figure 2.3: Distribution of Bank Loans and Advances by Maturity

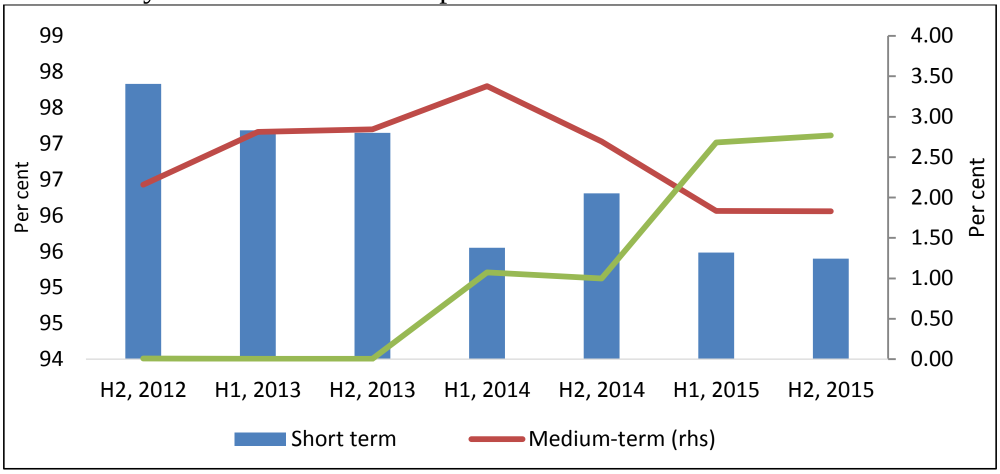


Deposits of less than one-year maturity constituted 95.40 per cent (of which 71.7 per cent had maturity of less than 30 days), compared with 95.49 per cent at end-June 2015. Further analysis showed that medium and long-term deposits constituted 1.83 and 2.77 per cent respectively, compared with 1.83 and 2.68 per cent at end-June 2015 (Figure 2.4).

[5]Medium term implies maturities ≥1yr and < 3yrs.

[6] Long term implies maturities of 3yrs and above.

Figure 2.4: Maturity Structure of Bank Deposits

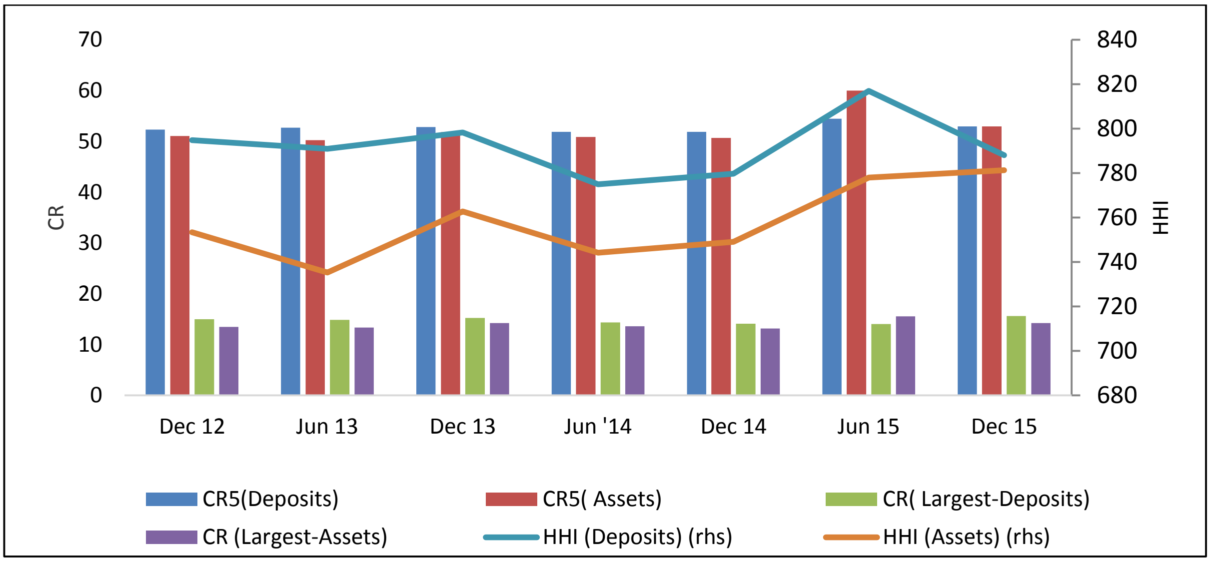


The maturity mismatch remained a constraint to the ability of banks to create long-tenored assets, thereby limiting lending to the real sector. However, continuous implementation of various policies by the Bank to de-risk and encourage lending to the real sector is expected to further improve medium to long-term lending.

2.1.5 Market Structure of the Banking Industry

On the basis of size of deposits and assets, available data showed the continued dominance of the five largest banks in the industry during the review period. The market share of the largest bank with respect to deposits and assets stood at 15.65 and 14.27 per cent in the second half of 2015, respectively. The average market share of deposits and assets of the five largest banks decreased to 52.99 and 52.94 per cent, from 54.49 and 59.98 per cent in the first half of 2015, respectively while the remaining 17 banks had market shares ranging from 0.29 to 7.19 per cent in deposits and 0.29 to 6.78 per cent in assets, reflecting low competition in the market. This is supported by the Herfindahl-Hirschman Index (HHI) of the industry (on a scale of 100 to 10,000) of 788.09 and 781.39 for deposits and assets, at end-December 2015, compared with 817.05 and 778.09 at end-June 2015, respectively (Figure 2.5). Notwithstanding the marginal improvement recorded relative to the first half of the year, the structure of the banking industry in the second half of 2015, remained oligopolistic.

Figure 2.5: Concentration Ratios of the Banking Industry Assets and Deposits



2.2 Other Financial Institutions

The number of Other Financial Institutions (OFIs) increased to 3,905 at end-December 2015, from 3,734 at end-June 2015. The increase was attributed to the licensing of 151 BDCs and21 MFBs. A primary mortgage bank converted to a commercial bank during the review period. The breakdown of the OFIs is given in Table 2.2.

Table 2.2: Other Financial Institutions at end-December 2015

Institution-Type	Number	
	June 2015	Dec. 2015
Nigeria Mortgage Refinance Company	1	1
Development Finance Institutions	6	6
Primary Mortgage Banks	36	35
Finance Companies	66	66
Microfinance Banks	937	958
Bureaux-de-Change	2,688	2,839
Total	**3,734**	**3,905**

The provisional total assets of the sub-sector decreased by 2.52 per cent to ₦1,841.64 billion at end-December 2015, from ₦1,889.21 billion at end-June 2015. Similarly, total loans and advances decreased by 9.31 per cent to ₦1,078.81 billion at end-December 2015 from ₦1,189.62 billion at end-June 2015. The decrease in loans and advances in the OFI sub-sector was attributable to the exit of one PMB**.** In addition, the licences of some MFBs and FCs were revoked. Nevertheless, paid-up capital and total deposits increased by 0.56 per cent to ₦443.71 billion and 76.47 per cent to ₦539.22 billion at end-December 2015 from ₦441.22 billion and₦305.56 billion at end-June 2015, respectively.

2.2.1 Microfinance Banks

The provisional data for microfinance banks (MFBs) showed that total assets increased to ₦361.04 billion at end-December2015, from ₦356.03 billion at end-June 2015, reflecting an increase of 1.41 per cent. Paid-up capital increased by 2.73 per cent to ₦84.18 billion from ₦81.94 billion at end-June 2015, while shareholders' funds decreased by 1.72 per cent to ₦95.36 billion at end-December 2015, from ₦97.03 billion, at end-June 2015. The decrease in shareholders' funds was attributed to increased loan loss provisioning and high operating costs.

Table 2.3: Key MFB Financial Highlights[7]

	December 2015 (₦' billion)	June 2015 (₦' billion)	% Change
Total Assets	361.04	356.03	1.41
Paid-up Capital	84.18	81.94	2.73
Shareholders' Funds	95.36	97.03	(1.72)
Deposit Liabilities	160.81	159.40	0.88
Loans and Advances	167.85	178.12	(5.77)

Total deposit liabilities increased by ₦0.88 billion from ₦159.40 billion at end-June 2015 to ₦160.81 billion at end-December 2015. Net loans and advances decreased by ₦10.27 billion to ₦167.85 billion, at end-December 2015, compared with ₦159.40 billion at end-June 2015. Similarly, shareholders' funds, decreased by ₦1.72 billion to ₦95.36 billion, at end-December 2015, compared with ₦97.03 billion at end-June 2015.

2.2.1.1 Inauguration of Peer Review Sessions for Microfinance Banks

In order to enhance the stability of the microfinance sector, the CBN, in collaboration with International Fund for Agricultural Development (IFAD) and Rural Finance Institutions Building Programme (RUFIN), organized a maiden peer review forum in October 2015 for microfinance banks mentored by RUFIN. The objective of the session was to benchmark MFBs and develop a network for operators. The central areas of focus were ownership/governance, micro credit, lending, management information system, deposit products, rural penetration and other financial products. The forum afforded operators ample exposure to share experiences with their peers and avail them the opportunity to learn from each other, and thereby mitigate the risk of failure likely to arise from making the mistakes of others and encourage replication of success.

The forum is expected to be held yearly with enhanced methodology, increased scope and active network among microfinance practitioners, leading to a more robust microfinance subsector and enhanced credit delivery to the active poor.

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

2.2.2 Primary Mortgage Banks

The number of primary mortgage banks (PMBs) in operation decreased to 35 at end-December 2015 from 36 at end-June 2015 following the conversion of one PMB to a commercial bank. The 35 PMBs at end December 2015 comprised 10 national PMBs and 25 state PMBs.

The total assets of the PMBs decreased by 6.78 per cent to ₦389.73 billion at end-December 2015 from ₦418.1 billion at end-June 2015. Similarly, paid-up capital and deposit liabilities decreased by 0.80 per cent and 16.74 per cent to ₦112.40 billion and ₦121.69 billion at end-December 2015 from ₦113.31 billion and ₦146.16 billion at end-June 2015 respectively. The decreases were due to the decline in the number of PMBs following the conversion of one national PMB to a regional bank. In the same vein, total liquid assets decreased by 34.63 per cent to ₦64.72 billion at end-December 2015 from ₦99.01 billion at end-June 2015. This notwithstanding, total loans and advances, aggregate reserves and shareholders' funds increased by 12.10, 16.43 and 2.09 percentage points to ₦168.96 billion, ₦26.51 billion and ₦138.92 billion at end-December 2105 from ₦150.72 billion, ₦22.77 billion and ₦136.08 billion at end-June, 2015 respectively.

Table 2.4: Selected Financial Highlights of PMBs at end-December 2015

	December 2015 (₦' billion)	**June 2015 (₦' billion)**	**% Change**
Total Assets	389.73	418.10	(6.79)
Paid up Capital	112.40	113.31	(0.80)
Shareholders' Funds	138.92	136.08	2.84
Deposit Liabilities	121.69	146.16	(16.74)
Loans and Advances	168.96	150.72	12.10

2.2.2.1 Uniform Underwriting Standards

The uniform underwriting standards, developed by the Nigerian Mortgage Refinancing Company (NMRC) in conjunction with the Mortgage Bankers Association of Nigeria (MBAN) and adopted by the industry, became operational during the review period. The Industry Working Group on the development of Uniform Underwriting Standards for the Nigerian mortgage sub-sector had also developed modalities to enable the informal sector to have access to loans from the PMBs and to make such loans eligible for refinancing by the NMRC.

2.2.2.2 Nigeria Mortgage Refinance Company

The company commenced operations during the review period and refinanced mortgages amounting to ₦1.66 billion, representing 20.76per cent of its ₦8.0 billion bonds and 5.53 per cent of the eligible mortgage loans of ₦30.0 billion. The relatively low volume of mortgages refinanced by the company was attributed largely to non-conformity of most legacy mortgage loans of primary mortgage lenders to the newly established NMRC's underwriting standards. Since the company could only refinance mortgages originated by its shareholders, it had commenced the process of increasing its capital to enable more PMBs to have the opportunity to invest in its equity and benefit from its services. The second round of capitalization is expected to increase the pool of eligible mortgage loans for refinancing from the current level of ₦30.0 billion to ₦100.0 billion.

2.2.3 Finance Companies

The number of Finance Companies (FCs) in operation remained 66 at end-December 2015, the same as at end-June 2015. The provisional total assets/liabilities of FCs increased marginally to ₦128.58 billion at end-December 2015 from ₦128.32 billion at end-June 2015, reflecting an increase of 0.20 per cent. Similarly, paid-up capital increased by 0.58 per cent to ₦17.27 billion from ₦17.17 billion at end-June 2015. Furthermore, borrowings increased by 0.48 per cent to ₦75.44 billion at end-December 2015 from ₦75.08 billion at end-June 2015. However, loans and advances decreased by 0.16 per cent to ₦54.99 billion at end-December 2015 from ₦55.08 billion at end June 2015, while reserves decreased by 15.76 per cent to ₦1.55 billion at end-December 2015 from ₦1.84 billion at end-June 2015.The decrease was due mainly to the economic downturn in the Country and the restructuring of the operations of the subsector in line with the new CBN guidelines. The CBN extended the deadline for implementation of the ₦100 million minimum capital requirements for FCs from end-September 2015 to end-December 2015.

2.2.4 Bureaux de Change

The number of BDCs in operation increased from 2,688 at end-June 2015 to 2,839 at end-December 2015following the licensing of 151 new BDCs. During the review period, the *Guidelines for Operation of Bureaux de Change*[8]was being reviewed to strengthen their operational modalities in line with international best practices. The Bank, in addition, penalised72 BDCs found to have contravened foreign exchange rules and regulations, while 437 were penalised for non-rendition of prescribed returns.

2.2.5 Development Finance Institutions

The provisional total assets of the six (6) reporting Development Finance Institutions (DFIs) decreased by 2.48 per cent to ₦962.3 billion at end-December 2015, compared with ₦986.8 billion at end-June 2015. Similarly, the net loans and advances of the institutions decreased by 14.73 per cent to ₦687.02 billion at end-December 2015, from ₦805.70 billion at end-June 2015. These decreases were largely attributed to continued deterioration in their financial performance.

2.3 Financial Inclusion

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

[8]The Revised Guidelines for the Operation of Bureaux de Change can be found at http://www.cenbank.org/Out/2015/FPRD/Revised%20BDC%20Circular%20and%20Guidelines-corrected-final%202015.pdf

Nation-wide Sensitization Campaign

The Financial Inclusion Secretariat embarked on monitoring visits to states in the country with lower financial inclusion in the country to assess the progress made on NFIS implementation within the year.

Nation-wide sensitization activities took place in Imo, Ebonyi, Katsina and Kaduna States to enlighten the public on financial inclusion. The Bank also conducted a financial literacy campaign tagged "CBN Fair" in Oyo, Ondo, Plateau, Bauchi, Kwara and Osun States.

Geospatial Mapping of Financial Access

The second edition of the Geospatial Mapping of Financial Access Points exercise, in collaboration with the Bill & Melinda Gates Foundation, was completed. An engagement meeting with the Federal Ministry of Finance on the Digital Financial Services project aimed at providing a roadmap for digitizing payments across the country was also organized in the review period. At the end of the Geo-spatial survey, a total of 50,838 financial access points were identified. Further work to be done include leveraging on the outcome of 2014 Geospatial mapping survey to develop a business case for service providers on expanding access points to unbanked and under-served areas.

Digital Finance Project

During the review period, the Financial Inclusion Secretariat hosted the Inaugural Digital Financial Inclusion Project meeting as per the Letter of Understanding executed by the Federal Ministry of Finance, the Central Bank of Nigeria and the Bill & Melinda Gates Foundation. The focus of the project is to increase the level of financial inclusion in Nigeria and to support the achievement of the 70 per cent payments target by the year 2020.

The Financial Inclusion Secretariat has been working with McKinsey & Co on a proof-of-concept (POC) to assess deployment of E-Wallets to farmers. A pilot POC kicked off with 68 Babban Gona farmers at a Local Government Area in the North-West region. Payments to these farmers were made electronically, with the project providing an opportunity for enrollment of farmers on the BVN platform. The lessons learnt are being expanded to guide the development of the detailed project implementation plan as mandated by the Project Steering Committee.

Financial Inclusion Product Launch for People Living with Disabilities

The Financial Inclusion Secretariat provided technical support towards the launch of a microfinance product for people living with disabilities (PLWD). The Secretariat also drafted and released terms of reference for three research studies on National Savings Mobilization, Scaling up Agent Banking Adoption and Financial Inclusion of PLWD. The selection process was being finalized at the end of the period.

Engagement with Stakeholders

The Financial Inclusion Secretariat in collaboration with EFInA organized a 4-day capacity building workshop for stakeholders focused on Financial Inclusion Eco-system, Consumer

Insights, Agent Banking, Data Measurement and Impact Analysis.During the period also, the statutory technical committee meeting for the last quarter of the year was held to review the progress made by all stakeholders towards implementation of the NFIS and to plot the roadmap for 2016 financial inclusion activities.The Bank also participated in the Microfinance Conference in Dakar, Senegal on the theme "*Accelerating Innovative Rural Finance in Africa*" and the 2015 AFI Global Policy Forum in Maputo, Mozambique. The Maputo Accord was pronounced at the forum to elicit national commitment to target setting for SME growth.

2.3.1 Financial Literacy Activities

a. MoU for the Development of Financial Literacy Curriculum for Schools in Nigeria

As part of the effort towards the development and infusion of financial literacy content into the school curricula at the basic and senior secondary levels, the Bank and the Nigerian Education Research and Development Council (NERDC) signed an MoU for developing a financial literacy curriculum for schools.

b. Workshop on Development of Child-Friendly Financial Products

The Bank, in collaboration with the Child and Youth Finance International (CYFI), organized a workshop to build the capacity of banks in developing friendly financial products for children and youths in Nigeria. The workshop was attended by participants from 16 banks.

c. 2015 World Savings Day

The CBN commemorated the 2015 World Savings Day by conducting a school mentoring programme in 14 states across the six (6) geopolitical zones of the Country. The objective of the mentoring programme was to introduce the concept and importance of savings, investments and other financial management issues to students in public schools.

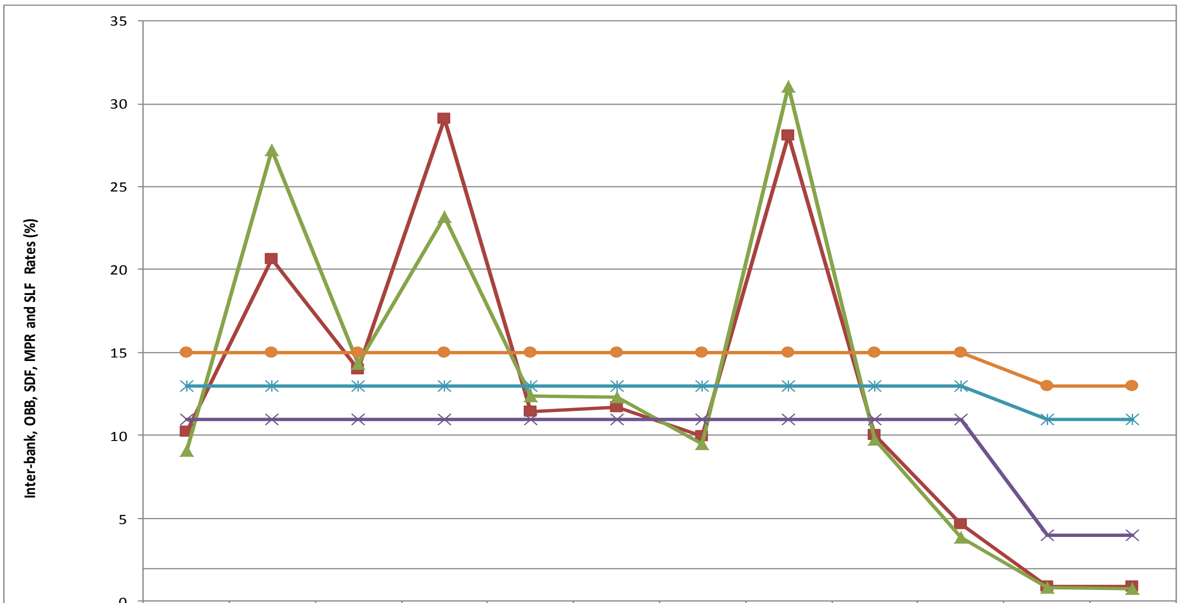
2.4 Financial Markets

2.4.1 The Money Market

The CBN relaxed its tight monetary policy stance in the second half of 2015 in a bid to stimulate the economy. In the pursuit of that objective the Bank adjusted the Monetary Policy Rate (MPR) from 13 to 11 per cent moved and from a symmetric corridor of +/-200 basis points around the MPR to an asymmetric corridor of +200 basis points and -700 basis points for lending and deposits, respectively. Cash Reserve Requirement (CRR) on deposits was reduced from 31.00 to 25.00 per cent in September 2015 and further to 20.00 per cent in November 2015. The additional 5 per cent reduction in CRR was to be accessed by banks for on-lending to the real sector at single-digit interest rate.

Activities in the money market reflected the huge liquidity surfeit in the banking system and movements in the money market rates. Consequently, money market rates declined and trended flat towards the end of the second half of 2015, as the overnight call and open buy back (OBB) rates traded significantly below the MPR corridor. The monthly weighted average OBB and inter-bank call rates closed at 0.77 and 0.87 per cent in December 2015, compared with 12.32 and 11.72 per cent recorded in June 2015, respectively. The OBB rate ranged from 0.77 to 31.07 per cent, while the inter-bank call rate ranged from 0.87 to 28.10 per cent.

Figure 2.6: Money Market Rates Movements, January – December 2015



	January	February	March	April	May	June	July	August	September	October	November	December
Inter-bank	10.22	20.62	13.97	29.11	11.45	11.72	9.95	28.10	10.03	4.64	0.92	0.87
OBB	9.06	27.19	14.31	23.20	12.37	12.32	9.48	31.07	9.74	3.83	0.86	0.77
SDF	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	4.00	4.00
MPR	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	11.00	11.00
SLF	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	13.00	13.00

2.5.1.1 Nigerian Treasury Bills

Nigerian Treasury Bills (NTBs) for 91-, 182- and 364-day tenors totaling ₦1,611.52 billion were issued and allotted during the review period. This represented a decrease of 27.86 per cent, compared with the ₦2,233.80 billion recorded in the first half of 2015. Total subscriptions stood at ₦4,089.11 billion in the second half of 2015, indicating a decrease of 21.56 per cent when compared with ₦5,213.20 billion in the preceding period. This decrease was attributed to the reduced number of foreign investors in the market as a result of the delisting of Nigeria from JP Morgan's index (GBI-EM) and the unattractive returns on the NTBs.

The holding structure of investments in NTBs in the review period indicated that banks and discount houses took up ₦1,160.52 billion, representing 72.01 per cent of total NTBs issued, while non-bank investors took up the balance of ₦451.00 billion. Investment in NTBs by banks and discount houses at end-December 2015 accounted for 37.75 per cent of the NTBs outstanding; the non-bank investors accounted for 53.85 per cent, while mandate customers[9] took up the balance of 8.40 per cent. Average marginal rates ranged from 3.6250 to 10.5000

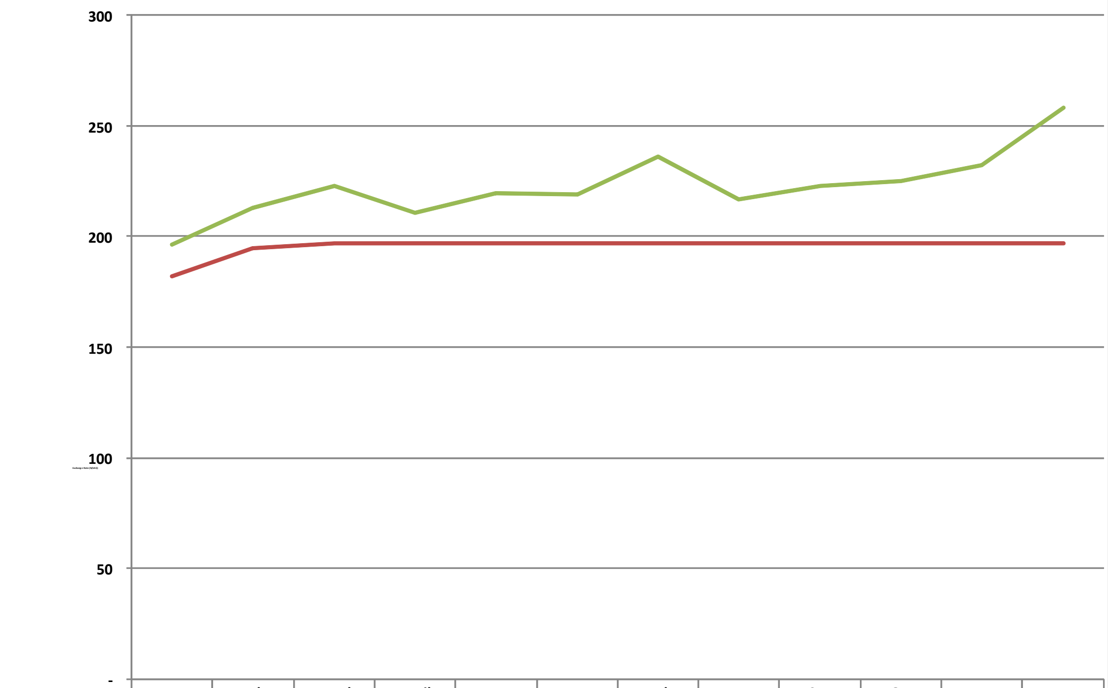
[9] These are institutions that are statutorily required to invest a portion of their funds in NTBs.

per cent for the 91-day, 6.1900 to 13.5000 per cent for the 182-day, and 7.4500 to 14.7118 per cent for the 364-day tenors.

2.4.2 The Foreign Exchange Market

The Bank's effort at maintaining a stable foreign exchange rate regime was sustained in the second half of 2015. However, the normalization policy of the US led to foreign portfolio investment reversals and pressure on the naira. Furthermore, dwindling receipts from crude oil earnings constrained the Bank's ability to meet the foreign exchange demand, resulting in the depreciation of the naira in other segments of the market. Consequently, the average exchange rate at the interbank and BDC segments depreciated from its level at end-June 2015 by 0.04 and 15.22 per cent to close at ₦196.9865/US$ and ₦258.3000/US$ at end-December 2015, respectively.

Figure 2.7: Inter-bank and BDC Rates, January - December 2015



	Jan	Feb	March	April	May	June	Jul	Aug	Sep	Oct	Nov	Dec
Inter-Bank	181.78	194.48	197.07	197.00	197.00	196.92	196.97	197.00	197.00	196.99	196.99	196.99
BDC	196.13	213.03	222.93	210.70	219.55	218.98	236.30	216.64	222.68	224.83	232.40	258.30

2.4.3 The Capital Market

The Nigerian Stock Exchange (NSE) activities remained bearish during the review period as both the All Share Index (ASI) and Market Capitalisation (MC) declined. The decline was due to a combination of factors, including the generally unimpressive performance of listed companies, global and domestic macroeconomic uncertainties, slump in commodity prices, and the contagion effects of equities sell-off from investors in developed and emerging markets.

2.4.3.1 The Bond Market

Total bonds outstanding at end-December 2015 stood at ₦6,901.94 billion, of which FGN, agency, sub-national and corporate bonds constituted ₦5,936.44 billion (86.01%), ₦1.50 billion (0.02%), ₦456.45 billion (6.61%) and ₦507.55 billion (7.35%), respectively. The total bonds outstanding at end-December 2015 reflected 19.78 per cent increase over the end-June 2015figure of ₦5,762.41 billion, comprising FGN, agency, sub-national and corporate bonds valued at ₦4,838.17 billion (83.96%), ₦297.52 billion (5.16%), ₦448.65 billion (7.79%) and ₦178.07 billion (3.09%), respectively.

Table 2.5: Outstanding Bonds

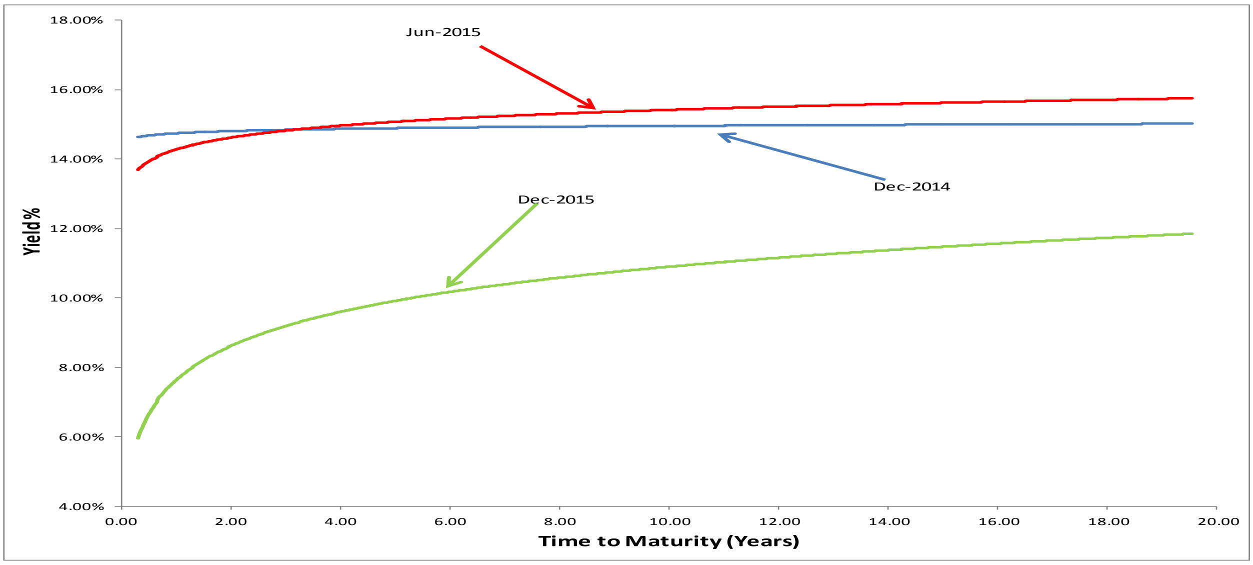
	June 2015 (₦' Billion)	December 2015 (₦' Billion)	% Change	Proportion of Total
FGN	4,838.17	5,936.44	22.70	86.01
Agency	297.52	1.50	-99.50	0.02
Sub-National	448.65	456.45	1.74	6.61
Corporate	178.07	507.55	185.03	7.36
Total	5,762.41	6,901.94	19.78	100

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 ₦385.00 billion, while public subscriptions and sales stood at ₦879.85 billion and ₦339.00 billion, respectively. The over-subscription was attributed to the increased level of liquidity in the banking system and investor appetite for fixed income assets as against equities.

The price of FGN Bonds at the secondary market increased as a result of increased liquidity in the banking system. Secondly, weakening global economic fundamentals arising from unstable external sector and concern over declining commodity prices and uncertainties in corporate performance drove investors to safe haven assets. Consequently, fixed income assets became more attractive to investors as against equities. Yields on FGN Bonds at end-December 2015 decreased considerably, compared with the position six months earlier (Figure 2.8).

Figure 2.8: Yield Curves for Nigeria



Source: *FMDQ-OTC Plc*

Agency Bonds

During the review period, no agency bond was issued. Federal Mortgage Bank of Nigeria (FMBN) bonds valued ₦0.60 billion were redeemed, while Local Contractors Receivable Management (LCRM) bonds valued ₦295.42 billion were re-classified as corporate bonds. Consequently, total outstanding agency bonds as at end-December 2015, stood at ₦1.50 billion.

Sub-National Bonds

In the second half of 2015, six (6) state governments issued new sub-national bonds valued ₦61.51 billion, as against none in the preceding period. A total amount of ₦32.27 billion was amortised by twelve (12) states as against ₦12.49 billion amortised by nine (9) states in the first half of 2015, while ₦21.44 billion was redeemed by three (3) states. The total outstanding bonds held by seventeen (17) state governments stood at ₦456.45 billion.

Corporate Bonds

Three (3) corporate bonds valued ₦47.94 billion were issued in the review period compared with two (2) corporate bonds worth ₦56.50 billion issued in the preceding period. Bonds valued ₦2.00 billion were amortised by ten (10) companies, while bonds worth ₦11.88 billion were redeemed by two (2) companies. The outstanding corporate bonds held by fourteen (14) companies at end-December 2015, stood at ₦507.55 billion.

Table: 2.6: Corporate Bonds issued in the second half of 2015

Company	Description	Value (₦' Billion)
Fidelity	16.48 Fidelity 13-May – 2022	30
Transcorp Hotels Plc	16.00 Transcorp 26-Oct-2022	10
NMRC	14.90 NMRC 29 – Jul – 2030	7.94
Total		**47.94**

2.4.3.2 The Equities Market

At end-December 2015, the NSE ASI closed at 28,642.25, reflecting a decrease of 14.39 per cent below 33,456.83 at end-June 2015. Market capitalization closed at ₦9,850.61 billion, reflecting a decrease of 13.75 per cent below the ₦11,421.02 billion recorded at the end of the preceding period. The decline in the market indicators was attributable to slowdown in global economic activities, the effects of equities sell-off in other emerging markets and increased foreign portfolio outflow. Foreign portfolio investments in the market were valued₦185.43 billion, while divestments stood at₦250.65 billion, reflecting a net outflow of ₦65.22 billion at end-December 2015. Overall, total foreign portfolio transactions (inflow and outflow) accounted for 55.09 per cent of the total equity transactions during the review period.

Table 2.6: Market Liquidity (Value Traded/Market Capitalization) (%)

2015	Market Cap (₦' Billion)	Value Traded (Billion)	Market Liquidity (%)
1stQtr	16,251.81	279.21	1.72
2ndQtr	17,017.37	278.15	1.63
3rdQtr	17,006.90	223.23	1.31
4thQtr	17,003.39	172.81	1.02

During the second half of 2015, six (6) new equities comprising three (3) Exchange Traded Funds and three (3) on Main Board were listed, while four (4) companies were delisted from the exchange for not complying with post-listing requirements. Thirteen (13) supplementary listings were also recorded on account of additional public offers, bonuses, rights issues and share conversion.

In its efforts to deepen the Nigerian capital market, the Securities and Exchange Commission (SEC) took the following initiatives:

- The Capital Market Committee (CMC) implemented Direct Cash Settlement (DCS) system. This is a process whereby cash proceeds from trades executed by brokers on the exchange settles directly into investors' bank accounts. The DCS was aimed at improving transparency, entrenching investor confidence, reducing market infractions and improving trading velocity. Consequently, on 31st December, 2015, the CMC mandated all operators to comply with the directives with effect from January 4, 2016.

- The recapitalization of capital market operators (CMOs) which was initiated in 2014 was concluded in September 2015. The upward review was aimed at enhancing the ability of the operators to improve service delivery, acquire appropriate equipment and technology, hire the right calibre of support personnel and focus on corporate objectives without compromising standards. The overall level of compliance stood at 72 per cent and the non-compliant CMOs were suspended. The review of claims and appeals from non-compliant CMOs was in progress during the review period.

- A feasibility study was carried out on the introduction of derivatives with a view to determining the preparedness of market operators, infrastructure and other requirements.

2.5 The Insurance Sector

The National Insurance Commission (NAICOM) signed a multilateral Memorandum of Understanding (MoU) with other regulators in the sub-region to form the West African Insurance Supervisors Association in September 2015. In addition, the Anglophone West African countries executed an MoU to foster information sharing and cooperation in the area of insurance supervision.

The Market Conduct Guidelines, which contained directives on claims management aimed at ensuring prompt payment, were issued to strengthen the existing brokers.

The Commission dissolved the Board of one insurance company as a result of corporate governance breaches and an Interim Management Committee was appointed to oversee the affairs of the company. Also, insurance brokers whose licences had lapsed for more than three years were delisted.

2.6 The Pension Sector

The National Pension Commission (PenCom),in collaboration with the World Pension Summit, the Netherlands, hosted the second World Pension Summit in October 2015in Abuja. The Summit discussed opportunities and challenges in the pension sector as well as global best practices.

The Commission organized the third Annual Compliance Officers Forum with compliance officers of licensed pension fund operators in 2015.The objective of the Forum was to strengthen the capacity of compliance officers to implement guidelines, rules and processes in their operational activities. This was to entrench high ethical standards and transparency, and create effective communication between the compliance officers and the Commission.

At end-December 2015, the number of licensed pension operators under the supervision of the Commission stood at 32, comprising four (4) Pension Fund Custodians (PFCs), 21 Pension Fund Administrators (PFAs) and seven (7) Closed Pension Fund Administrators (CPFAs).

Since the commencement of the Contributory Pension Scheme in Nigeria, 25 states had joined the scheme, while 11 were yet to. Ten states had fully implemented the provisions of their pension laws.

The Pension Reform Act 2014 empowers a Retirement Savings Account (RSA) holder to utilize part of retirement savings for approved mortgage purposes. A draft guideline to that effect had been exposed to stakeholders for comments.

PenCom amended the Investment Guidelines to ensure that a part of the pension funds were utilized for investment in infrastructure. Non-interest capital market products have also been addressed by the Guidelines.

The pension assets in the Country at end-December 2015 stood at ₦5.2trillion and RSA holders had grown to 6.5 million.

2.7 Real Sector Interventions

During the period under review, the CBN sustained its various intervention programmes in the real sector. The interventions were directed at bridging the observed gap in the impact of monetary policy on economic development. This resulted in the review of some of the existing programmes and the introduction of new initiatives as follows:

2.7.1 Risk Mitigation and Insurance Schemes

2.7.1.1 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 189 Credit Risk Guarantees (CRGs) valued ₦357.49 million as against 6 CRGs valued ₦700.46million in the first half of 2015. This indicated an increase in number, but a decrease in value of 183 CRGs and ₦342.97 million (48.96%), respectively, under the regular NIRSAL framework. The cumulative CRGs for 255 projects amounted to ₦21.685 billion. NIRSAL also paid Interest Draw Back (IDB) claims valued ₦37.30 million in the review period. This brought the cumulative IDB claims under NIRSAL to ₦332.52 million in respect of30 projects.

Under the NIRSAL Growth Enhancement Scheme (GES),a cumulative sum of ₦39.49 billion had been approved as CRGs for 207 projects. It had also paid the sum of ₦90.26 million as IDB for 18 projects under the GES/NIRSAL framework. The cumulative GES IDB stood at ₦439.08 million.

A total of 1,800 cotton and 1,600 rice farmers were trained by the Bankers' Committee in collaboration with the German Society for International Cooperation (GIZ) during the review period.

2.7.1.2 The Agricultural Credit Guarantee Scheme Fund

The Fund, in the second half of 2015, guaranteed 40,734 loans valued ₦5.99 billion granted by five (5) commercial and 46 microfinance banks as against 28,702 loans valued ₦5.44 billion, granted by five (5) commercial and 85 microfinance banks in the first half of 2015. This represented an increase of 41.92and 10.11 per cent in number and value of loans, respectively. Cumulatively, 1.001 million loans valued at ₦95.91 billion were guaranteed from inception to December, 2015. Furthermore, a survey was conducted during the review period to ascertain the reasons for low participation under the Scheme by banks.

2.7.1.3 National Collateral Registry

The CBN, in collaboration with the International Finance Corporation (IFC), setup the National Collateral Registry (NCR) as a financial infrastructure to deepen credit delivery to the Micro, Small and Medium Enterprises (MSMEs). A baseline survey on the level of awareness of the NCR in Nigeria was conducted, while first-level User Acceptance Tests (UAT) and streams of focal group discussions were carried out.

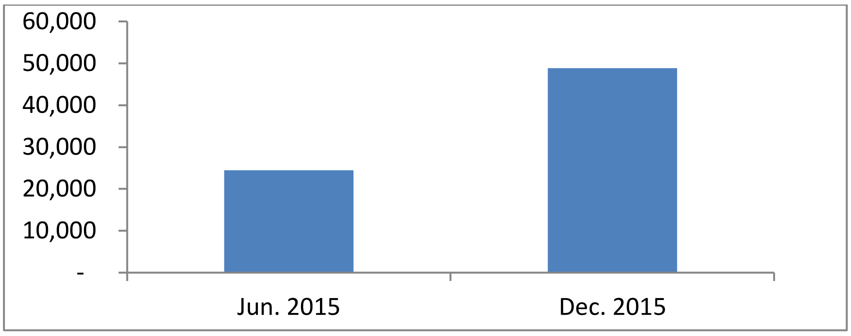
2.7.2 Credit Support Schemes

2.7.2.1 The Commercial Agriculture Credit Scheme

During the period under review, the sum of ₦48.91 billion was disbursed to 8 banks for 49 projects compared to the sum of ₦24.47 billion disbursed to 10 banks for 26 projects in the first half of 2015. This reflected an increase of ₦24.44 billion (99.86%) and 23 projects (88.46%) in value and number, respectively. The cumulative amount disbursed to the real sector under Commercial Agriculture Credit Scheme (CACS) from inception to December 31, 2015 stood at ₦336.40 billion to 420 projects, of which 31 were state government projects. Six of the 389 private projects financed under CACS were owned and managed by women. The total repayments stood at ₦47.99 billion by 17 banksfor189 projects, bringing the cumulative repayments to ₦177.56 billion at end-December 2015.

Additional 632 jobs were created (190 skilled and 442 unskilled) owing to CACS intervention. This brought the cumulative number of jobs created to 1.13 million from inception to December 2015.

Figure 2.9: Analysis of Funds released to projects, 2015 (₦'000)



2.7.2.2 The SME Restructuring and Refinancing Fund

The ₦235 billion Small and Medium Enterprises-Refinancing and Restructuring Facility (SME-RRF), established in March 2010 with a terminal date of 2025 was discontinued in December 2014 and replaced with the Real Sector Support Facility (RSSF). However, at end-December 2015, BOI had disbursed the sum of ₦17.48 billion, which brought cumulative disbursements to the participating banks to ₦381.99 billion for 604 projects. The repayment proceeds at end-December 2015 stood at ₦141.54 billion out of which ₦138.31 billion had been re-disbursed to participating banks. Total jobs created under the scheme stood at 29,642.

2.7.2.3 Real Sector Support Facility

Under the Real Sector Support Facility (RSSF), established by the CBN to close the financing gap for manufacturers, SME, and start-ups, the Bank, at its MPC Meeting held in November 2015, earmarked the CRR difference of 500 basis points for funding of projects in the real sector. In addition a total of 47 applications were received during the review period bringing the cumulative number of applications to 266, valued ₦1,178.95 billion.

2.7.2.4 Micro, Small and Medium Enterprises Development Fund

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

(a) Issuance of the revised MSMEDF Guidelines in December 2015;
(b) Launch of the Anchor Borrowers' Programme (ABP) and flag-off of the 2015 dry season farming; and
(c) Setting aside of ₦40 billion from the ₦220 billion Micro, Small and Medium Enterprises Development Fund for the ABP at a single-digit interest rate of 9 per cent.

As part of efforts to improve outreach to MSMEs and increase liquidity to fund providers nationwide, an additional sum of ₦10.41 billion was released. Specifically, 2,471 male and 8,074 female micro enterprise owners as well as 148 SMEs benefitted from the Fund during the review period.

2.7.2.5 Power and Aviation Intervention Fund

Total disbursement under this Fund remained ₦249.61 billion at end-December 2015. However, the sum of ₦11.10 billion was repaid by 45 obligors through BOI during the review period (Table 2.8).

Table 2.7: Loans Repayment as at 31st December, 2015

Type	Airline	Power	Total
No. of projects	16	39	55
Amount received by CBN as PAIF repayment in July - December 2015 (₦'billions)	4.98	6.12	11.10
Cumulative as at June, 2015 (₦'billions)	29.32	23.78	53.10
Cumulative from Inception to Dec. 2015(₦'billions)	**34.30**	**29.90**	**64.20**

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 at end-December 2015.

2.7.2.5 Nigeria Electricity Market Stabilization Facility

The CBN invested ₦213.00 billion in a special purpose vehicle - NESI Stabilization Strategy Ltd - to provide refinance for the NEMSF. Although there was no disbursement of funds during the review period, the sum of ₦64.76 billion has so far been disbursed to 18 participants since inception.

2.7.2.6 Entrepreneurship Development Centres

The Bank, at end-December 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). In addition, the CBN approved Umuahia to be the centre for the South-East CBN-EDC.

The number of participants trained by the EDCs during the review period was 5,927, representing 118.54 per cent of the target of 5,000, as against a total of 5,830 participants trained in the first half of 2015. A total of 2,228 (37.6%) of the participants were female and 3,699 (62.4%) were male. In the review period, 4,440 jobs were created; 2,511 participants' accessed loans, while the sum of ₦306.67 million was accessed by the graduates.

2.8 External Reserves

The Bank continued to implement foreign exchange management measures which began in the first half of 2015 in response to the macroeconomic developments. These measures impacted positively on the external reserves as net foreign exchange inflow during the review period stood at US$190 million. Foreign exchange inflow increased by 24.41 percent to US$19.01 billion, compared with US$15.28 billion at end-June 2015. Foreign exchange outflow, on the other hand, decreased by 10.68 per cent to US$18.82 billion, compared with US$21.07 billion in the first half of 2015.

Notwithstanding the net foreign exchange inflow of US$190 million, a notional currency translation adjustment of US$232.17 million resulted in a US$43.14 million decrease in the level of external reserves from US$28.33 billion at end-June 2015 to US$28.29 billion at end-December 2015.

3.0 REGULATORY AND SUPERVISORY ACTIVITIES

3.1 Financial Soundness Indicators

3.1.1 Asset-Based Indicators

There was a marginal decline in the quality of assets in the Nigerian banking industry in the second half of 2015, compared with the position at end-June 2015. The ratio of NPLs to gross loans increased by 0.21 percentage point to 4.86 per cent at end December 2015. The decline in asset quality was attributed to the unfavourable macroeconomic environment in the review period. The ratio of core liquid assets to total assets decreased by 2.2 percentage points to 16.3 per cent at end-December 2015 from 18.5 per cent at end-June 2015. Similarly, the ratio of core liquid assets to short-term liabilities decreased by 2.1 percentage points to 25.0 per cent at end-December 2015 compared with 27.1per cent at end-June 2015.

Figure 3.1: Banking Industry Gross Loans to Non-Performing Loans (%)

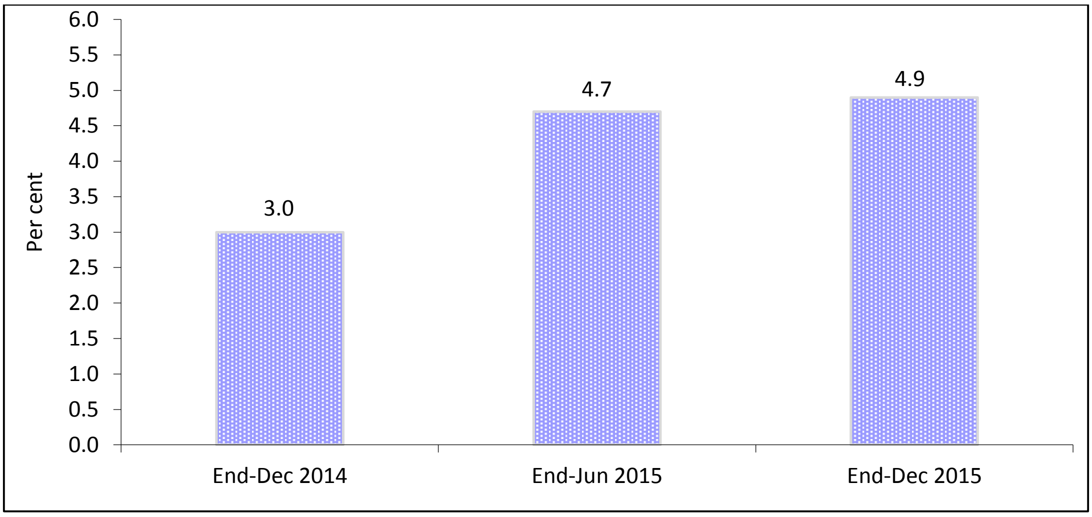
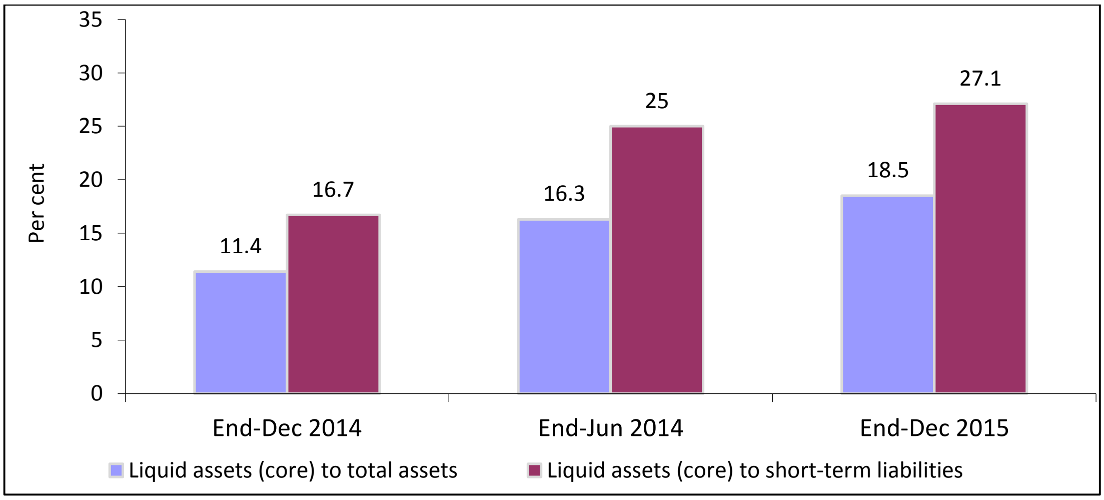


Figure 3.2: Banking Industry Liquidity Indicators



3.1.2 Capital-Based Indicators

Most indicators of capital adequacy weakened during the period. The ratio of regulatory capital to risk weighted assets stood at 17.5 per cent at end-December 2015, showing a marginal increase of 0.1 percentage point below the level at end-June 2015. Similarly, the ratio of tier 1 capital to risk weighted assets which stood at 17.4 per cent at end-December 2015 was 2.2 percentage points below the level achieved at end-June 2015. This decline was attributable to the fall in the level of banks' general reserves in the second half of 2015 (Figure 3.3).

The industry ratio of non-performing loans (net of provisions) to capital increased to 7.4per cent at end-December 2015 from 5.5per cent at end-June 2015.

Figure 3.3: Banking Industry Capital Adequacy Indicators

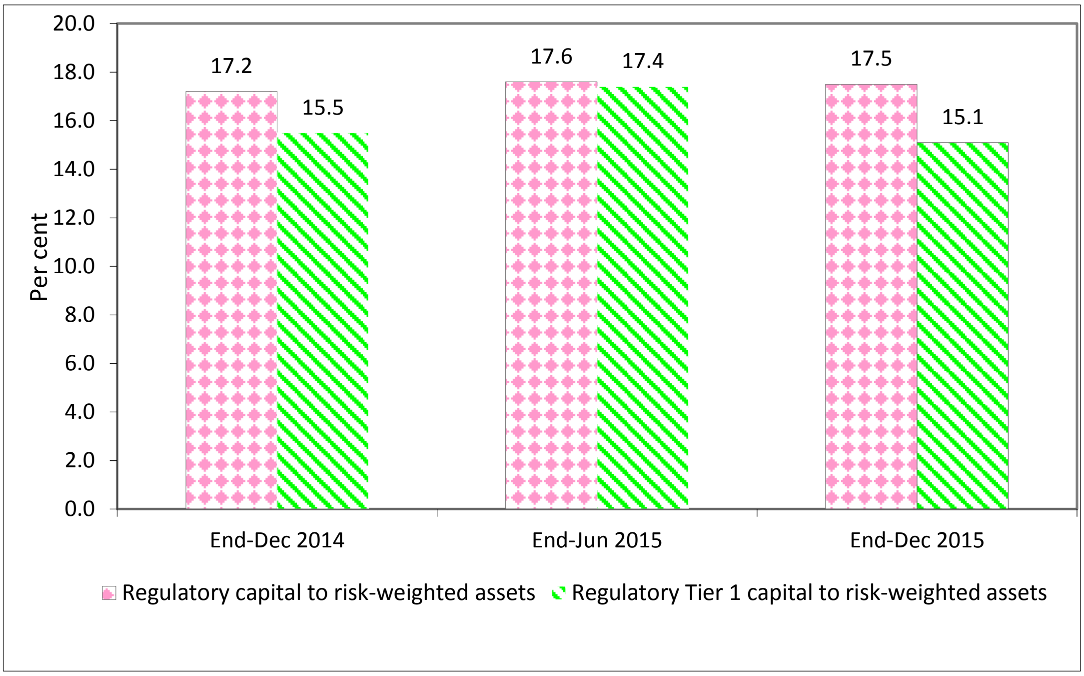


Table 3.1: Selected Financial Soundness Indicators (%) of the Nigerian Banking Industry

	2011		2012		2013		2014		2015*	
Indicators	**End June**	**End Dec**	**End June**	**End Dec**	**End June**	**End Dec**	**End June**	**End Dec**	**End June**	**End Dec**
1. Asset Based										
Nonperforming loans to total gross loans	11.6	5.8	4.5	3.7	3.9	3.4	3.5	2.9	5.3	5.0
Liquid assets (core) to total assets	11.6	16.0	14.3	16.2	13.7	16.8	11.7	11.4	18.5	16.3
Liquid assets (core) to short-term liabilities	15.2	21.8	19.4	22.1	19.0	23.1	16.6	16.7	27.1	25.0
2. Capital Based Indicators										
Regulatory capital to risk-weighted assets	4.2	17.9	17.7	18.3	18.9	17.1	16.4	17.2	17.5	17.5
Regulatory Tier 1 capital to risk-weighted assets	4.5	18.1	17.8	18.0	18.5	17.1	16.1	15.5	15.1	17.4

Nonperforming loans net of provisions to capital	40.7	7.1	4.3	3.8	5.9	5.8	5.6	4.1	5.5	7.4
3. Income and Expense Based Indicators										
Interest margin to gross income	49.4	31.0	67.7	62.0	65.2	63.9	62.7	51.2	62.2	65.0
Noninterest expenses to gross income	70.6	24.4	59.2	64.8	62.7	68.1	65.5	56.9	63.1	64.7
Personnel expenses to noninterest expenses	41.1	67.8	39.3	42.5	39.5	36.9	38.5	36.6	35.0	40.1

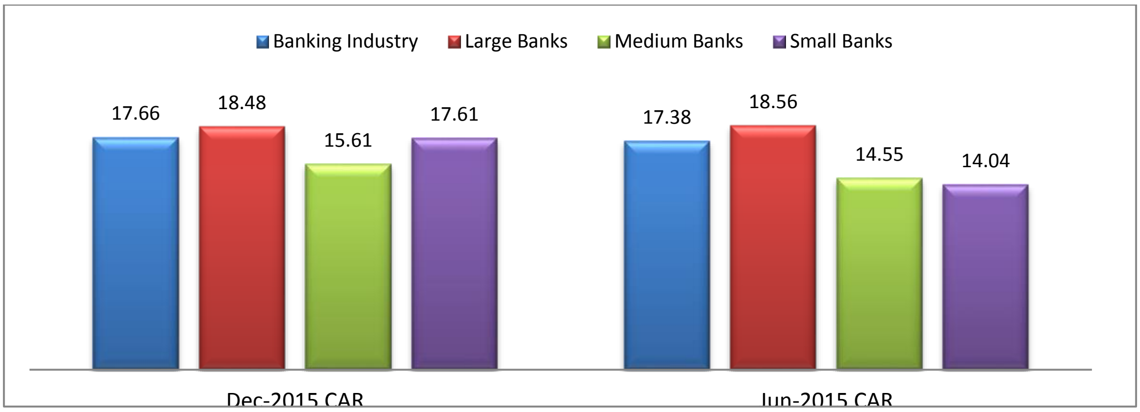
** Provisional*

3.2 Banking Industry Stress Tests

3.2.1 Baseline (Pre-shock) Position

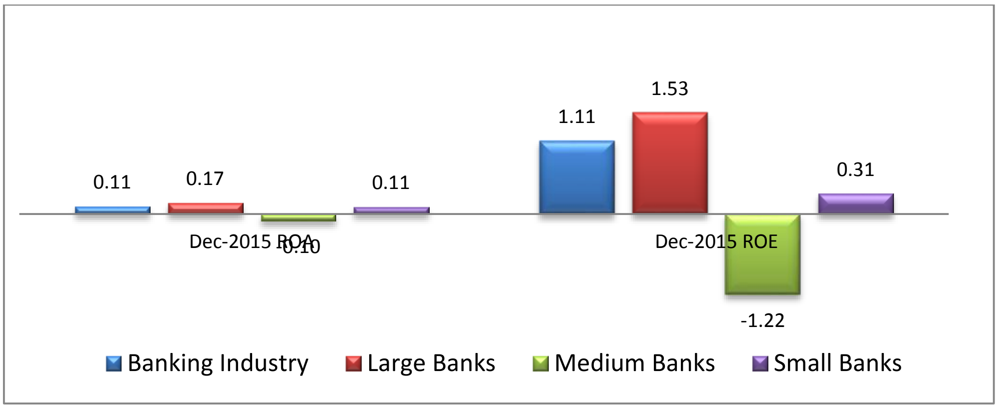
At end-December 2015, the baseline (pre-shock) capital adequacy ratio (CAR) for the banking industry, large, medium and small banks stood at 17.66, 18.48, 15.61 and 17.61 per cent, respectively. These reflected 0.28, -0.08, 1.06 and 3.53 percentage points changes over the June 2015 positions (Figure 3.2).

Figure 3.4: Baseline (Pre-shock) CARs (%)



The pre-shock return on assets (ROA) of the banking industry, large, medium and small banks were0.11, 0.17, -0.10 and 0.11 per cent, respectively. On the other hand, the return on equity (ROE) of the banking industry, large, medium and small banks were1.11, 1.53, -1.22 and 0.31 per cent in December 2015, respectively (Figure 3.3).

Figure 3.5: Baseline (Pre-shock) ROA and ROE (%)



3.2.2 Solvency Stress Test

The December 2015 solvency stress test captured the idiosyncratic nature of individual bank's balance sheet and macro-prudential concerns using the bottom-up and top-down approaches. The exercise covered the 23 Commercial and Merchant banks using the following risk elements: credit, liquidity, interest, foreign exchange rates and foreign exchange trading risks.

For systemic and peer assessment, the banks were classified into three groups based on their asset size as follows: large banks are banks with assets greater than or equal to ₦1.0 trillion, medium banks have assets greater than or equal to ₦500 billion but less than ₦1.0 trillion and small banks have assets of less than ₦500 billion.

3.2.2.1 Analysis of Results

Credit Risk

The banking industry and large banks' resilience to credit risk was robust. A simulated severe shock of a 200 per cent rise in NPLs resulted in CARs of12.77 and 16.52 per cent for banking industry and large banks, respectively, which were above the 10 per cent required regulatory minimum. However, medium and small bank groups showed vulnerabilities to severe shocks of 200 per cent rise in NPLs as their CARs fell to 7.16and 6.85 per cent respectively.

Table 3.2: General Credit Risk Shocks

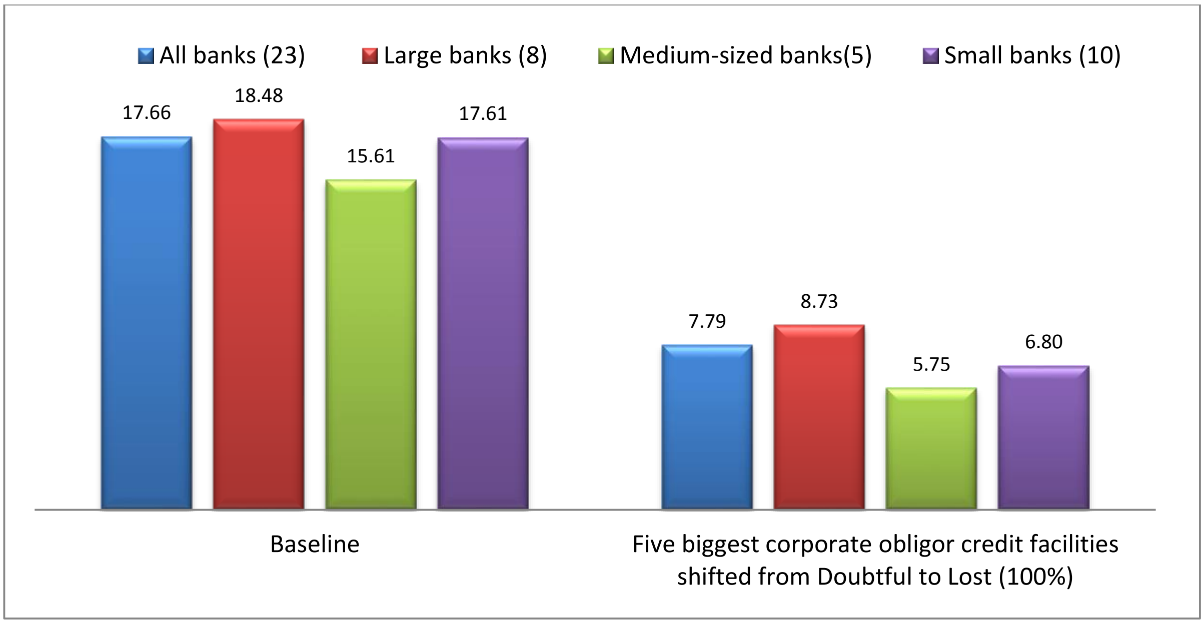
Single Factor Shocks	Solvency Ratio After Shocks			
	All Banks	Large Banks	Medium	Small
Base line CAR	17.66	18.48	15.61	17.61
Shock 1av-50% NPLs increase	16.49	18.00	13.65	15.16
Shock 1avi-100% NPLs increase	15.06	17.42	11.22	12.08
Shock 1avii-200% NPLs increase	12.77	16.52	7.16	6.85

The banking industry and all peered banks showed resilience to credit concentration risk as their CARs remained above 10 per cent under the scenario; “five biggest credit facilities shifting from pass-through to sub-standard (10% provision)”, and “five biggest credit facilities shifting from sub-standard to doubtful (50% provision)”. However, under the scenario, "five biggest corporate facilities shifting from doubtful to lost", CARs of the banking industry, large, medium and small banks deteriorated to 7.79, 8.73, 5.75 and 6.80 per cent, respectively, from the baseline. Therefore, under this scenario, none of the peered banks maintained a CAR up to 10 per cent (Table 3.3).

Table 3.3: Credit Concentration Risk

	All Banks	**Large Banks**	**Medium**	**Small**
Baseline CAR	17.66	18.48	15.61	17.61
Single Factor Credit Concentration Shocks	**Solvency Ratio After Shocks**			
	All Banks	**Large Banks**	**Medium**	**Small**
2bi - Five biggest credit facilities shifted from pass-through to sub-standard (10%)	16.77	17.60	14.72	16.64
2bii- Five biggest credit facilities shifted from sub-standard to Doubtful (50%)	13.00	13.88	10.95	12.54
2biii - Five biggest credit facilities shifted from Doubtful to Lost (100%)	7.79	8.73	5.75	6.80

Figure 3.6: Credit Concentration Risk



Interest Rate Risk

The results of the stress tests on the net positions of interest sensitive instruments relative to ROA and ROE revealed that the banking industry and peered banks weakened in interest rate risk as their pre-shock positions (in terms of capital impairment, ROA and ROE) decreased.

In addition, when the most strained shocks of 1000bps downward or upward parallel shift in the yield curvewas applied, no peered banks withstood the shocks (Figure 3.5).

Figure 3.7: CAR Under Severe Interest Rate Shock Scenario

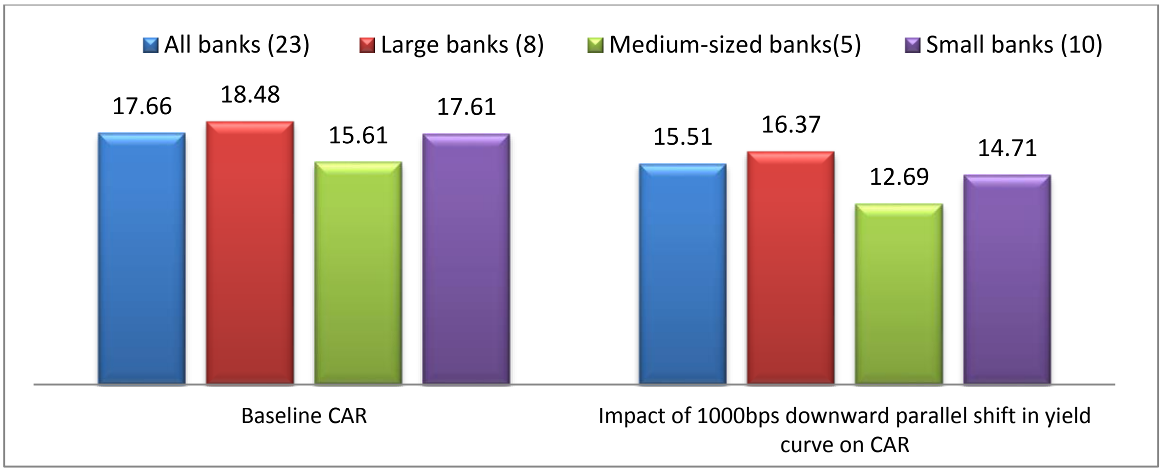


Figure 3.8: ROA and ROE Under Severe Interest Rate Shock Scenario

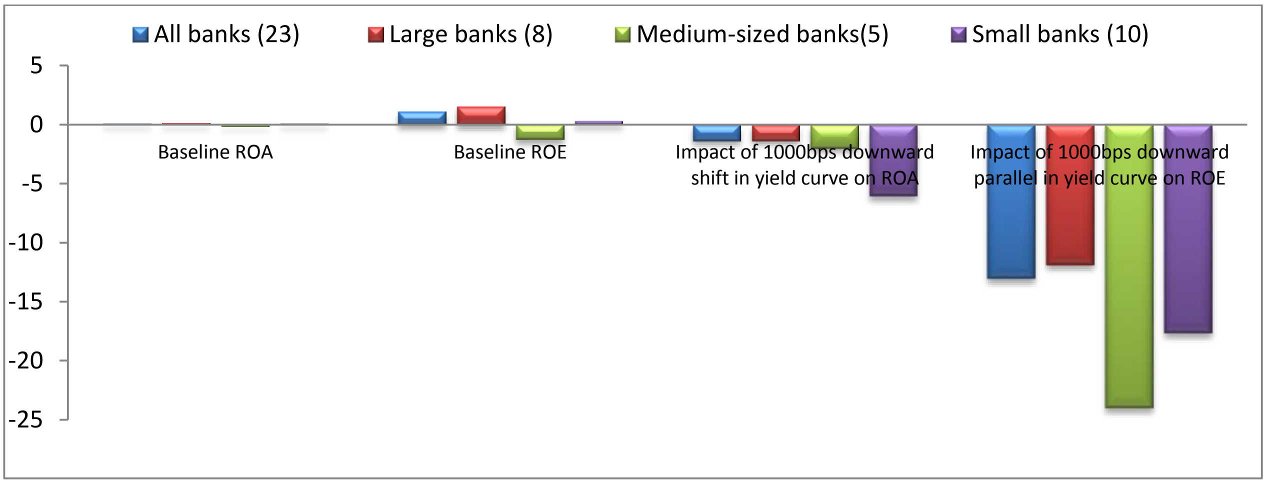


Table 3.4: Impact of Selected Shocks on CAR, ROA and ROE

Most Severe Shocks (500bps to 1000bps)	**Banking Industry**	**Large Banks**	**Medium Banks**	**Small Banks**
Baseline ROA	**0.11**	**0.17**	**-0.10**	**0.11**
Baseline ROE	**1.11**	**1.53**	**-1.22**	**0.31**
Interest Rate Volatility (Impact on CAR)				
Shock 5biii (500bps downward parallel shift in yield curve)	16.59	17.42	14.15	16.16
Shock 5biv (1000bps downward parallel shift in yield curve)	15.51	16.37	12.69	14.71
Impact of Parallel Shift in Yield Curve Shocks on ROA				
Interest Rate Volatility				
Shock 5biii (500bps downward parallel shift in yield curve)	-0.62	-0.57	-1.03	-2.97
Shock 5biv (1000bps downward parallel shift in yield curve)	-1.35	-1.31	-1.96	-6.05

Impact of Parallel Shift in Yield Curve Shocks on ROE				
Interest Rate Volatility				
Shock 5biii (500bps downward parallel shift in yield curve)	-5.97	-5.16	-12.61	-8.67
Shock 5biv (1000bps downward parallel shift in yield curve)	-13.05	-11.86	-24.01	-17.66

Exchange Rate Risk

The banking industry and all peered banks showed resilience to foreign exchange rate risk as their capital only experienced slight deterioration after the impact of a 50 per cent exchange rate appreciation shock was induced on their net foreign assets.

Table 3.5: CAR Under Exchange Rate Risk Shocks

Single Factor Shocks	**Solvency Ratios After Shocks**			
	All Banks	**Large Banks**	**Medium**	**Small**
Base line CAR	17.66	18.48	15.61	17.61
Shock 4bi (10% appreciation in favour of Naira)	17.40	18.27	15.59	18.08
Shock 4bii (20% appreciation in favour of Naira)	17.13	18.06	15.58	18.56
Shock 4biii (50% appreciation in favour of Naira)	16.35	17.43	15.53	19.98

Foreign Exchange Trading Risk

The results of the tests showed that the banking industry was stable to foreign exchange (FX) trading risk. The banks' pre-shock positions, in terms of impact on both ROA and ROE, changed marginally even after an induced 100 per cent decline in FX trading income. This was mainly due to the low contribution of FX trading income to gross income.

Table 3.6: Impact of FX Trading Shocks on ROA

	Banks			
Impact of FX Trading Shocks on ROA	**Industry**	**Large**	**Medium**	**Small**
Baseline ROA	0.11	0.17	-0.10	0.11
FX Trading Income Volatility				
Shock 7ai (10% decline in FX trading Income)	0.10	0.16	-0.07	0.03
Shock 7aii (20% decline in FX trading Income)	0.09	0.15	-0.08	0.02
Shock 7aiii (50% decline in FX trading Income)	0.06	0.11	-0.09	0.01
Shock 7aiv (100% decline in FX trading Income)	0.01	0.05	-0.11	0.00

Table 3.7: Impact of FX Trading Shocks on ROE

	Banks			
	Industry	**Large**	**Medium**	**Small**
Baseline ROE	1.11	1.53	-1.22	0.31
FX Trading Income Volatility				
Shock 7ai (10% decline in FX trading Income)	1.01	1.43	-1.29	0.27
Shock 7aii (20% decline in FX trading Income)	0.91	1.32	-1.36	0.24
Shock 7aiii (50% decline in FX trading Income)	0.60	0.99	-1.57	0.14

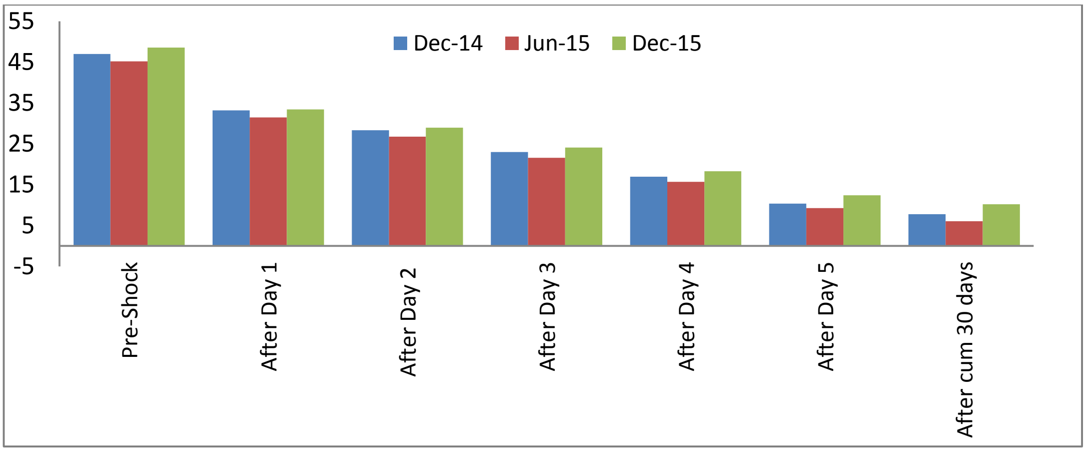
Shock 7aiv (100% decline in FX trading Income)	0.10	0.45	-1.92	-0.03

Generally, the solvency stress tests suggested that the banking industry remained relatively resilient. Although some banks were sensitive to credit concentration and interest rate risks, these did not pose systemic threats to the industry.

3.2.3 Liquidity Stress Test

The result of the test revealed that after a one-day run, the liquidity ratio for the industry would decline to 33.4 per cent from the 48.57 per cent pre-shock position, and to 10.24 per cent after a cumulative 30-day run. A 5-day and cumulative 30-daysrun on the banking industry would result in a liquidity shortfall of ₦1.79 trillion and ₦1.93 trillion, respectively. The test further revealed that 17 and 20 banks would record liquidity ratios below the prudential threshold of 30.0 per cent, following the 5-day and cumulative 30-day runs, respectively (Table 3.8).

Figure 3.9: Banking Sector Liquidity Ratio after Period 1-5 and cumulative 30-day shocks (%)



The result revealed that the industry liquidity ratio would decline to 12.41 and 10.24 per cent, from 48.57 per cent baseline position after the 5-day and cumulative 30-day shocks, respectively (Table 3.8). The result also indicated vulnerability to liquidity risk in the event that these scenarios crystallized.

Table 3.8: Liquidity Stress Test Results

Scenarios	Number of Banks with < 30% liquidity ratios		Dec 2015	
	June 2015 (22 DMBs)	Dec 2015 (21 DMBs)	System LR (%)	Liquidity Shortfall to 30% LR (₦' billion)
Test 1.1: Implied Cash Flow Test (5 Days				
Day 1	14	9	33.40	NIL
Day 2	14	14	28.98	153.12
Day 3	15	15	24.09	698.43
Day 4	16	16	18.27	1,274.06
Day 5	18	17	12.41	1,786.46
Test 1.2: Implied Cash Flow Test (30 Days)	19	20	10.24	1,927.64

Figure 3.10: Industry Pre-shock Positions and after 5 day Shocks

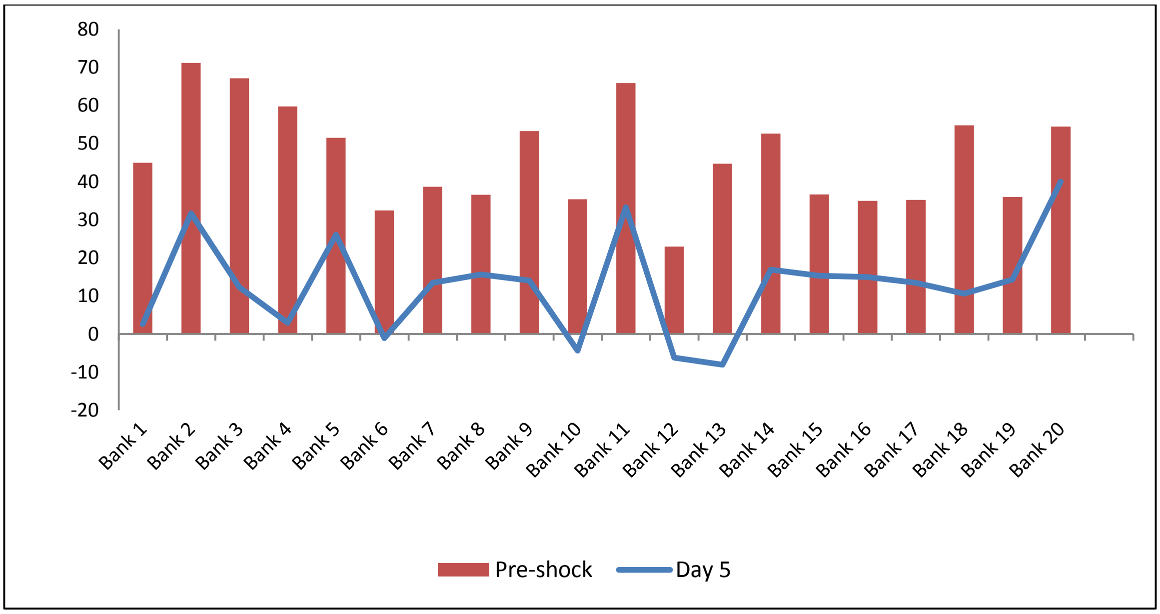
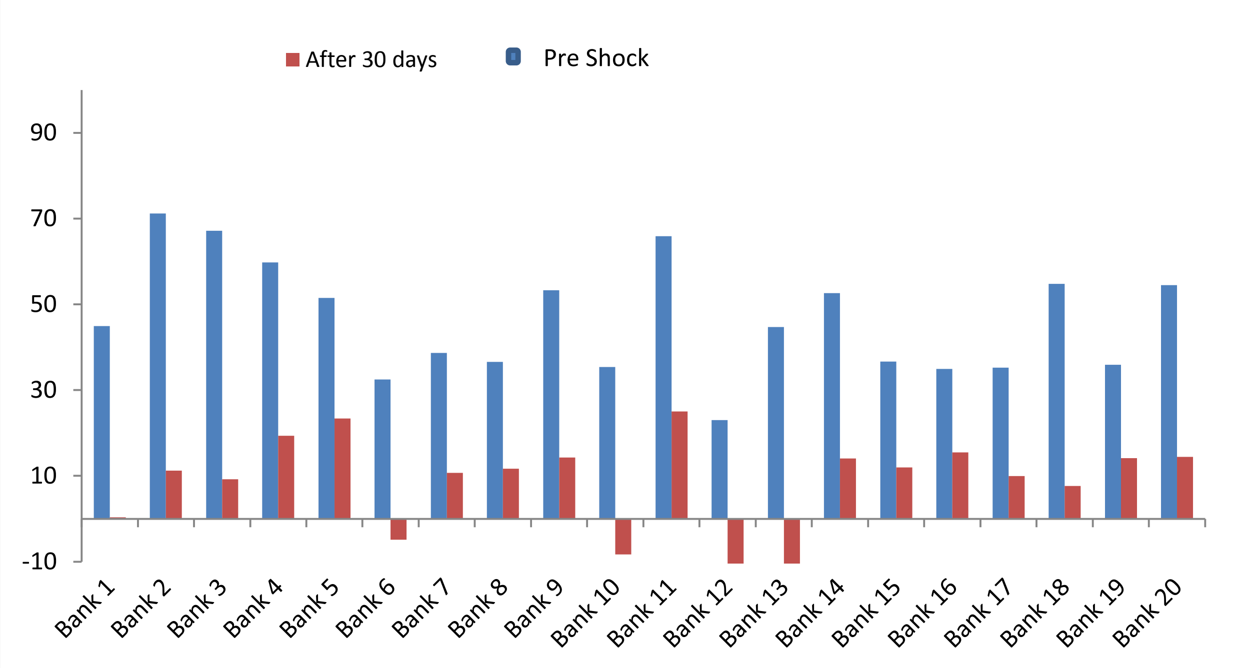


Figure 3.11: Individual Bank Pre shock Positions and Cumulative 30-day Shocks



N.B: Bank 21 was excluded from Figure 3.3 because of its outlier effect.

3.2.4 Maturity Mismatch

At end-December2015, the industry pre-shock position revealed that the shorter end of the market (≤30 day and 31-90 day buckets) were adequately funded. In the ≤30 day bucket, three (3) banks were not adequately funded, while in the 31-90 day bucket, nine (9) banks had funding gaps. The cumulative position for the industry showed an excess of ₦3.4 trillion assets over liabilities.

Table 3.9: Maturity Profile of Assets and Liabilities at end-December2015

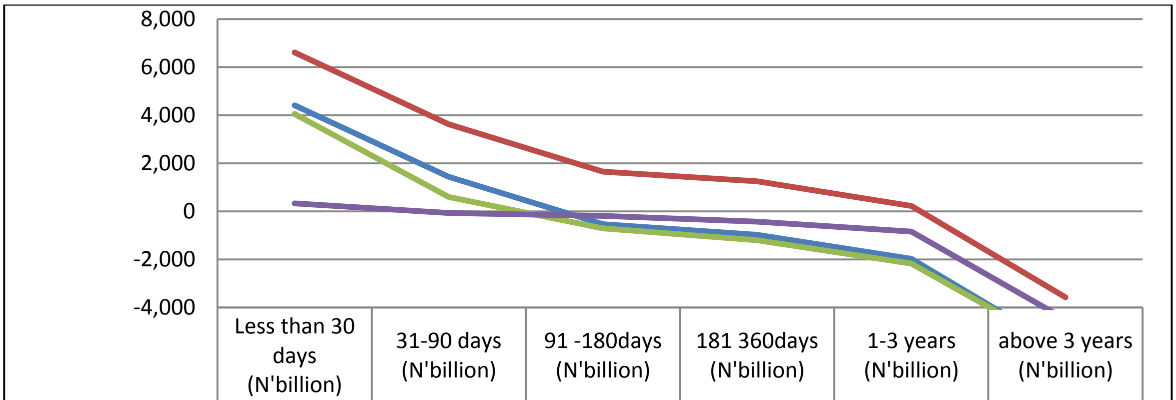
	Liabilities	**Assets**	**Mismatch**	**Cumulative**
	₦ Billion			
≤30 days	12,784.86	8,362.80	4,422.06	4,422.06
31-90 days	3,019.77	1,575.89	1,443.88	5,865.94
91-180 days	899.08	1,434.16	-535.08	5,330.86
181-365 days	855.43	1,826.40	-970.97	4,359.89
1-3 years	686.88	2,663.89	-1,977.01	2,382.88
Above 3 years	823.47	6,606.37	-5,782.89	-3,400.01
Total	**19,069.49**	**22,469.50**		

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 91-180 day bucket, which was adequately funded under Test 2a, showed a mismatch of over ₦892billion under Test 2b and 2c,the position deteriorated in the Static Rollover Analysis (Test 2b) and the Dynamic Risk Rollover Tests (Test 2c) (Table 3.10).

Table 3.10: Test Results for System-wide Maturity Mismatch

	Test 2a-Descriptive Maturity Mismatch		**Test 2b- Static Rollover risk Analysis**		**Test 2c- Dynamic Rollover risk test**	
	₦' billion	**No of banks with mismatch**	**₦' billion**	**No of banks with mismatch**	**₦' billion**	**No of banks with mismatch**
≤30 days	6,611.67	0	4,061.17	3	337.77	3
31-90 days	3,632.37	3	603.51	12	(71.08)	4
91-180days	1,660.81	3	(707.17)	18	(185.26)	5
181-365days	1,252.42	8	(1,194.84)	21	(423.55)	10
1-3 years	228.75	12	(2,167.87)	21	(837.48)	14
Above 3 years	(3,579.66)	19	(5,770.29)	21	(4,492.10)	17
Total	9,806.36		(5,175.49)		(5,671.70)	

Figure 3.12: Maturity Mismatch Positions (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	4,422	1,443.88	-535	-971	-1,977	-5,783
Test 2a	6,611.67	3,632.37	1,660.81	1,252.42	228.75	-3,579.66
Test 2b	4,061.17	603.51	-707.17	-1,194.84	-2,167.87	-5,770.29
Test 2c	337.77	-71.08	-185.26	-423.55	-837.48	-4,492.10

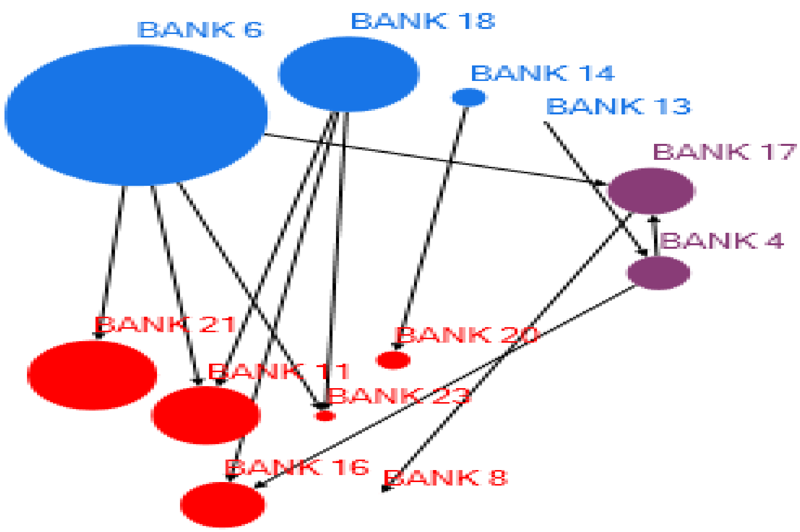
3.2.5 Contagion Risk Analysis through Interbank Exposures

During the review period, the analysis conducted on banks with unsecured interbank exposures revealed that two (2) banks were central in the network, as they were exposed to more than two counterparties in the system. A review of secured interbank exposures showed that three (3) banks were central in the network as they had three or more bilateral exposures. Overall, there was high contagion risk through unsecured interbank exposure as one bank's CAR was below the benchmark before the shock while two banks would fail to meet the CAR benchmark after the shock (Table 3.11).

Table 3.11: Result of Net Interbank Unsecured Exposures

Lending Banks	Bank 4	Bank 6	Bank 13	Bank 14	Bank 17	Bank 18	Industry
Pre-Test CAR	16.45	16.11	14.21	16.95	1.29	13.36	17.47
Post-Test CAR(%)	15.92	15.47	13.86	16.16	0.78	8.20	17.25
Net Placement (₦' Billion)	7.49	16.60	1.99	3.98	1.68	9.88	41.62

Figure 3.13: Tiered Structure of Unsecured Placements at end-December2015



Note: Node colour representation (Blue= Lenders; Red= Borrowers; Purple= Borrowers and Lenders); The sizes of the nodes represent the quantum of transactions.

3.3 Supervision of Banks

3.3.1 Routine Examination

The CBN/NDIC conducted joint risk based examinations of 22 banks and three (3) financial holding companies in the second half of 2015.The reports of these examinations have been issued to the banks. Majority of the banks maintained their previous composite risk ratings.

During the second half of the year, a consolidated supervision report was prepared for one of the three (3) financial holding companies using examination reports from other regulators of the subsidiaries in the holding company. The objectives of the consolidated supervisory exercise were, among others, to assess the group's safety and soundness and its compliance with statutory requirements as well as rules and regulations issued by regulators.

3.3.2 Foreign Exchange Examination

As part of the efforts to ascertain the level of compliance of authorized dealers with subsisting foreign exchange rules and regulations, the Bank conducted a routine foreign exchange examination covering the foreign exchange operations of banks for the period, 1st April to 30th September, 2015. The examination revealed some foreign exchange related infractions. In line with the regulatory procedure, responses were sought from the affected banks on the observations and appropriate sanctions were imposed where necessary in accordance with extant laws and regulations.

3.3.3 Spot Checks/Special Investigations

During the second half of the year, special spot checks and investigations were conducted. These included spot checks on banks' foreign exchange forward transactions, holdings of foreign currency cash and vault movements, and foreign currency cash deposits into customers' domiciliary accounts. Spot checks were also carried out on non-performing loans (NPLs) of selected banks and banks' investment and utilization of Eurobonds proceeds, on-lending foreign loans and other foreign loans received by banks in Nigeria, and collection and remittance of statutory government revenue to the Federation Account by banks (pre- and post-implementation of the Treasury Single Account).

3.3.4 Cross-Border Supervision

*3.3.4.1 Risk Based **Foreign Subsidiaries Examination***

The risk based examination of eight foreign subsidiaries was carried out in the second half of the year. Four of the examinations were done jointly with the host countries and four were solo examinations. The solo examinations revealed that, three subsidiaries had improvement in their rating to "moderate" while one improved to "above average". The joint examination Reports were being awaited from the host countries.

3.3.4.2 Supervisory Collaboration

The College of Supervisors of WAMZ (CS-WAMZ) held meetings during the review period to discuss key cross-border supervision issues within the Zone. The second meeting of the College of Supervisors of UBA Group also took place in August 2015 with eight (8) supervisors in attendance. During the meeting, members exchanged information on the soundness and performance of the UBA Group.

3.3.5 The Asset Management Corporation of Nigeria

Net eligible bank assets (EBAs) under AMCON fell to ₦1.525 trillion as at December 31, 2015 from ₦1.817 trillion as at June 30, 2015 as a result of impairments in the Corporation's loan portfolio.

The AMCON Amendment Act 2015 was signed into law. The amended Act removed certain ambiguities that had impeded the operations of the Corporation in carrying out the mandate of managing its acquired assets. The Act also established a Banking Sector Resolution Cost Trust Fund (BSRCTF) into which banks and the CBN make annual contributions to meet any shortfalls in the funding of the resolution costs for the 2008/2009 banking crisis.

The Corporation's total recoveries during the second half of 2015 amounted to ₦25.94 billion, comprising cash recoveries of ₦23.63 billion and asset forfeitures of ₦2.31 billion. Total recoveries for 2015 amounted to ₦88.98 billion, comprising cash recoveries of ₦55.23 billion and asset forfeitures of ₦31.76 billion. BSRCTF generated ₦176.99 billion during the year. The internal recoveries generated by AMCON as well as the contributions to the BSRCTF were utilized to repay the Corporation's debt obligations that fell due for payment on December 31, 2015.

3.3.6 Basel II Implementation and Measures to Build Adequate Reserves in the Nigerian Banking Sector

Banks continued to render report in accordance with the Basel II capital standard during the review period. The Nigerian banking sector remained sound, maintaining capital levels well in excess of the minimum prudential requirements.

The collapse of crude oil prices and the resultant impact on government revenues and foreign reserves portended risks to banking system stability through increase in default rates, reduction in solvency levels and volatility in exchange rates. Consequently, the CBN increased the requirement for general provisioning on performing facilities from 1 per cent to 2 per cent with effect from November 11, 2015 and banks were also required to maintain capital buffers above their minimum prudential requirements.

3.3.7 Update on Implementation of IFRS 9

IFRS 9 significantly broadens the information set that an entity is required to consider when determining its expectations of credit losses. Specifically, reporting entities are required to incorporate information from past events, current conditions, as well as reasonable and supportable forecasts in their measurement of expected credit losses.

IFRS 9 would address supervisory concerns related to build-ups of loss overhangs and the overstatement of regulatory capital in boom periods by requiring earlier and larger loan loss allowances which limit the possibility of distributing overstated profits in the form of dividends and bonuses. Through these channels IFRS 9 would eliminate the amplifying effect of the incurred loss approach of IAS 39 on pro-cyclicality and reduce capital inadequacy concerns during a crisis.

In view of the significant impact that the implementation of IFRS 9 is expected to have on the Nigerian banking sector, the CBN during the period commenced engagement with stakeholders on implementation modalities ahead of the January 1, 2018 mandatory effective date for the new standard.

3.3.8 Approved Persons Regime

In the review period, the CBN revised the *Assessment Criteria for Approved Persons' Regime*[10] for financial institutions. Broadly, the revision enhanced the fitness criteria for Board and top management positions; raised fitness requirements for DFIs by subjecting them to the same requirements as banks; and expanded the scope and coverage of the Approved Persons' Regime to include all financial institutions under the regulatory purview of the CBN.

The revised Regime allowed candidates that fail the fitness test a period of two years to undergo training in order to remedy the deficiency. Also it removed company secretaries and chief legal officers from the top management staff covered by the regime as they are management functions that could have been covered elsewhere in the regime.

3.3.9 Credit Risk Management System

The CBN continued to ensure that banks complied with the provisions of the Credit Risk Management System (CRMS) Guidelines. The CRMS continued to provide a useful platform for credit information in the banking industry.

During the period under review, the CBN deployed an upgraded CRMS stop-gap template to address gaps in the older version. Meanwhile, anew enhanced CRMS template was being developed to accommodate unique identifier codes, including the Bank Verification Number (BVN) and Taxpayer Identification Number (TIN) to improve efficiency in credit risk management in the industry.

At end-December 2015, the number of borrowers registered in the CRMS database stood at 157,501, indicating an increase of 25.63 per cent over the number recorded in the preceding year. Similarly, the number of borrowers with outstanding facilities rose by 26.09 per cent to 61,580 at end-December 2015 from 48,837 at end-December 2014 and the number of credit facilities in the database rose significantly by 54.13 per cent to 120,750 at end-December 2015 from 78,341 at end-December 2014, owing to increased compliance by banks.

Table 3.12: Borrowers from the Banking Sector[11]

Description	2014	2015	Change	% Change
Total No. of Borrowers	125,371	157,501	32,130	25.63
No. of Borrowers with outstanding credits	48,837	61,580	12,743	26.09
No. of Credit/facilities	78,341	120,750	42,409	54.13

[10]The Revised Assessment Criteria for Approved Persons' Regime can be found at http://www.cenbank.org/Out/2015/FPRD/Revised%20Fit%20and%20Proper%20-%20Combined-Final%20Oct%202015.pdf

[11]Based on submission by commercial and merchant banks for amounts of₦1m and above.

3.4 Supervision of Other Financial Institutions

3.4.1 Microfinance Banks

During the review period, 406 microfinance banks (MFBs) were examined. The exercise comprised RBS examination of 236 MFBs, spot checks on five (5) others that applied for voluntary winding up, existence checks on 30 institutions that defaulted in rendering returns consecutively over a period of six (6) months, and target examination for capital verification of 135 MFBs earlier issued regulatory directive to beef up their capital bases. Results of the examinations revealed that 27, 83 and 126 MFBs had “Moderate”, “Above Average” and “High” composite risk ratings, respectively.

3.4.2 Finance Companies

Examination of finance companies (FCs) was deferred to February 2016 to ascertain the number of FCs that met the new ₦100 million capital requirements owing to the extension of the deadline for recapitalization from end-September 2015 to end-December 2015.

3.4.3 Bureaux de Change

During the review period, special investigations on the activities of some BDC operators were conducted, including their accounts with six (6) DMBs. The result of the investigations revealed cases of non-rendition of Suspicious Transaction Reports and failure to observe proper Customer Due Diligence amongst others. The erring banks and BDCs were penalised appropriately. Target examinations were also carried out on 33 BDCs for multiple ownership and contravention of extant foreign exchange laws and regulations, in line with the revised requirements for the operations of bureaux de change in Nigeria. The report of the exercise was being finalized.

3.4.4 Development Finance Institutions

During the period under review, the capital ratings for six (6) Development Finance Institutions (DFIs) were “weak” for two (2), “needs improvement” for one (1) and “acceptable” for three (3).Meanwhile, the composite risk rating remained “high” for two (2) of the institutions, “above average” for another two (2) and “moderate” for the remaining two (2).The prudential and soundness analysis of three (3) of the DFIs revealed continued deterioration in their financial performance owing to inadequate capital, poor asset quality, continuous stream of operating losses and weak Board oversight. The poor performance of these institutions was attributed largely to instability of the Board of directors owing to the frequency of their dissolution and reconstitution. The long period of absence of effective Boards in the affected DFIs denied them of strategic direction and effective oversight.

3.4.4.1 Development Finance Institutions Stakeholder Forum

During the period under review, the Bank in collaboration with the stakeholders, established the bi-annual consultative forum for stakeholders of DFIs in Nigeria. The forum will serve as a platform to discuss issues and challenges affecting the sub-sector and proffer solutions on the way forward.

3.4.4.2 Guidelines for Development Finance Institutions

Sequel to the release of the *Regulatory and Supervisory Guidelines for Development Finance Institutions in Nigeria*, which required all DFIs to obtain CBN operating licenses, applications were received from three (3) of the six (6) existing DFIs during the review period.

3.4.5 Non-Interest (Islamic) Banking

In line with international practices, the CBN issued *Guidelines on the Governance of the Financial Regulatory Advisory Council of Experts (FRACE)*[12] otherwise known as the Shari'ah Advisory Council. The FRACE was constituted as a body to advise CBN on matters of Islamic commercial jurisprudence as they relate to the operations of non-interest (Islamic) financial institutions in Nigeria. The FRACE could also serve as advisory body to any other regulatory agencies in the financial sector that refer matters on the principles of Islamic commercial jurisprudence to it.

The Guidelines:

- Set forth the minimum composition of the FRACE and the qualification of its members;
- Define the duties and responsibilities of the Council and its members;
- Define the relationship and working arrangement between the Council and the individual Advisory Committee of Experts of Non-Interest Financial Institutions (NIFIs);
- Outline a code of conduct for members of the Council.

In the review period, the following regulations were also issued to enhance governance and operation of non-interest (Islamic) banks:

- *Guideline on the Governance of Advisory Committees of Experts for Non-interest (Islamic) Financial Institutions in Nigeria (NIFIs)*[13]; and
- *Circular on the Treatment of Hamish Al Jiddiya (Earnest Deposit)*[14].

3.5 Financial Services Regulation Coordinating Committee

The Financial Services Regulation Coordinating Committee (FSRCC) conducted consolidated examination of one out of the three financial holding companies during the second half of 2015. All the financial holding companies would henceforth be examined annually, with CBN as the lead regulator.

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[12] The *Guidelines on the Governance of the Financial Regulatory Advisory Council of Experts*can be found at http://www.cenbank.org/Out/2015/FPRD/FRACE%20COG.pdf

[13]*Guideline on the Governance of Advisory Committees of Experts for Non-interest (Islamic) Financial Institutions in Nigeria (NIFIs) can be found at* http://www.cenbank.org/Out/2015/FPRD/FRACE%20COG.pdf

[14]*Guideline on the Governance of Advisory Committees of Experts for Non-interest (Islamic) Financial Institutions in Nigeria (NIFIs)*can be found at http://www.cenbank.org/Out/2015/FPRD/CIRCULAR%20ON%20NON-INTEREST.pdf

3.6 Enhanced Supervision of Domestic Systemically Important Banks

The second half of the year 2015 heralded the full implementation of the *Framework for the Regulation and Supervision of Domestic Systemically Important Banks (D-SIBs)* which was issued by the CBN in September 2014.

The CBN adopted the indicator-based measurement approach as recommended by the Basel Committee on Banking Supervision (BCBS) and utilized the following indices in identifying banks which were systemically important to the Nigeria Financial system:

- Size - represented by total assets;
- Interconnectedness - represented by net interbank placements;
- Substitutability - represented by total credits and total deposits; and
- Complexity - represented by total number of branches and foreign subsidiaries.

Eight (8) deposit money banks (DMBs) were designated D-SIBs. At end-December 2015, D-SIBs accounted for 68.9 per cent (₦18.15trillion) of the industry total asset of ₦26.4trillion. Similarly, the D-SIBs accounted for 71.3 per cent (₦11.9trillion) of total industry deposit of ₦16.73 trillion.The D-SIBs also accounted for a significant portion of the loans and advances to the economy as at December 2015 with ₦9.54 trillion (71.45%) of the total ₦13.35trillion from the industry.

3.5.5.1 Recovery and Resolution Plans

A core aspect of the enhanced supervision of D-SIBs is the planning for either a recovery of a distressed bank or ensuring its orderly resolution. In achieving this objective, and working with the designated banks in the second half of 2015, the D-SIBs were required to submit recovery and resolution plans (RRP) on or before January 1, 2016.The recovery plan in the RRP is expected to include detailed information outlining credible recovery options that could be implemented in the event of severe stress conditions, which would restore the D-SIBs to a stable and sustainable condition. The resolution plan, on the other hand, is expected to ensure that in the event of the failure of a D-SIB, it would be feasible to resolve the bank without severe systemic disruption.

3.7 Consumer Protection

3.7.1 Complaints Management Activities

During the review period, a total of 1,010 complaints were received against banks and other financial institutions (OFIs), of which, 657, representing about 65 percent, were resolved/closed. The total claims by complainants against Deposit Money Banks (DMBs) and Other Financial Institutions (OFIs) amounted to ₦12.17 billion and US$9.60 million, while total refunds amounted to ₦4.42 billion and US$9.60 million (Table 3.13).

Table 3.13: Summary of Complaints Management Activities from July to Dec. 2015

S/No	Description	July	August	September	October	November	December	Total
A	**Number of Complaints received within the month**							
A1	Number of Complaints received against banks	110	129	116	176	117	317	965
A2	Number of Complaints received against OFIs	3	17	10	5	2	8	45
	A1 + A2	113	146	126	181	119	325	1010
B	**Amount refunded by Banks and OFIs**							
B1	(N)	58.99	1,035.19	81.23	373.16	551.27	2,315.72	4,415.56
B2	(USD)	9.60	0.00	0.00	0.00	0.00	148.11	9,60
B3	(€)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
B4	(£)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
C	**Monthly Claims by Petitioners**							
C1	(N' million)	100.22	1,770.81	114.97	387.72	540.27	9.253	12,167.88
C2	(USD)	9.60	0.00	0.00	0.00	0.00	0.00	9.60
D	Complaints Resolved per Month	32	47	26	39	30	228	402.00
E	Complaints Closed per Month	27	68	29	34	7	90	255.00
	Complaints Resolved/Closed	59	115	55	73	37	318	657
F	Regulatory Directives Issued per month	1	3	0	2	0	0	6
G	Warning letters issued per month	0	0	0	1	0	0	1.00
H	Penalty Imposed Per month	0	1	0	0	0	0	1.00
I	Mediation meetings held	2	7	2	4	0	3	18

Table 3.14: Comparative Analysis of Key Consumer Complaints Indicators

S/No	Description	1st Half 2015	2nd Half 2015	Difference	%
1	Number of Complaints received	747	1,010	263	35.21
2	Number of Complaints resolved/closed	481	657	176	36.59
3	Amount claimed (₦' billion)	8.09	12.17	4.08	50.45
4	Amount refunded (₦' billion)	1.87	4.42	2.55	136.35
5	Amount claimed (US$ Million)	0.751	9.601	8.85	1,177.27
6	Amount refunded (US$ Million)	0.96	9.60	8.64	896.13
7	Mediation meetings held	14	18	4	28.57

Compared to the first half of 2015, the number of complaints received increased by 263 or 35.21 percent. Also, the number of resolved/closed complaints increased by 176 or 35.59 per cent in the second half of 2015.

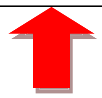
Claims by complainants increased by ₦4.08 billion or 50.45 per cent in the second half of 2015, while refunds by banks and OFIs increased by ₦2.55 billion or 136.35 per cent during the period.

3.7.2 Compliance Examination

The Bank conducted consumer compliance examination on all banks. The findings have been communicated to the affected banks for corrective actions. The Bank adopted the use of Consumer Complaint Management System (CCMS) in the management of complaints received against DMBs and OFIs.

3.8 Key Risks to the Financial System

3.8.1 Credit Risk

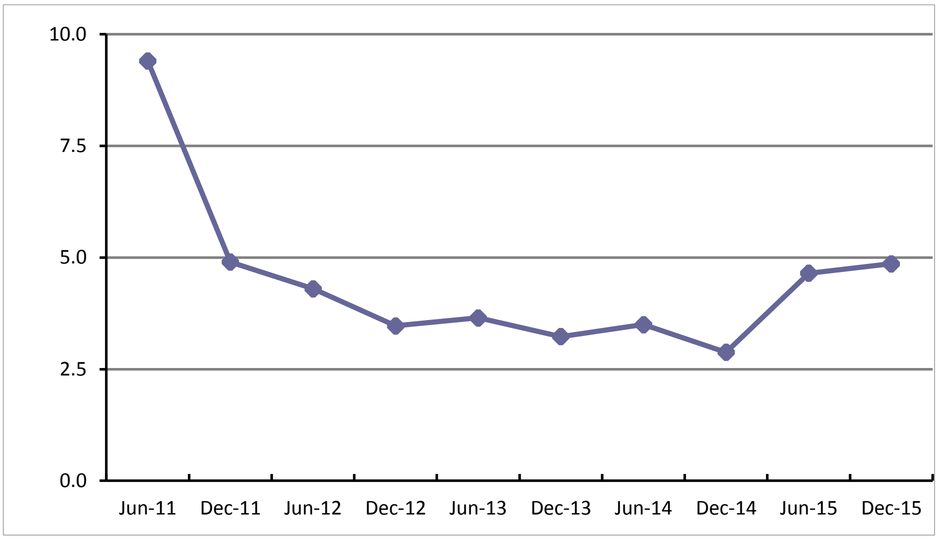
Risk Rating	

Non-performing loans, in the period under review, rose by 3.36 per cent to ₦649.63 billion at end-December 2015, from ₦628.54 billion at end-June 2015. This reflected a 78.8 per cent increase from the ₦363.31 billion recorded at end-December 2014. The NPL ratio rose to 4.86 per cent from 4.65 per cent. Although the NPL ratio remained within the prudential ceiling of 5.0 per cent, it trended closer to the upper limit. A few banks had NPL ratio above the regulatory maximum limit of 5.0 per cent; however this posed no significant risks to the industry.

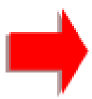
The increase in the NPL ratio was attributed largely to the continued fall in oil prices during the review period. For instance, the price of Nigeria's reference crude, Bonny Light, fell by about 60 per cent to US$38.22 at end-December 2015fromUS$62.01at end-June 2015, and this reduced Government revenue and strained fiscal positions. Also, at end-December 2015, loans to the oil and gas sector constituted 25 per cent of the gross loan portfolio of the banking system while credit to the sector rose marginally by 2.8 per cent to ₦3,307.87 billion at end-December 2015 compared to the position at end-June 2015. Loans to state governments rose by 33.9 per cent to ₦1,053.97 billion from ₦ 696.87 billion at end-June 2015.The CBN disbursed ₦338 billion to 27 states under a special intervention scheme to refinance states' debts.

It is expected that credit risk will increase due to threats of further rise in NPLs in the oil and gas sector. The CBN will continue to require banks to strengthen their contingency plans and conduct regular stress tests to mitigate the impact of the crash in oil prices on their balance sheets. The CBN has also mandated banks to publish on quarterly basis, in national newspapers, the list of bad debtors in their books to deter delinquent borrowers.

Figure 3. 1: Non-Performing Loans



3.8.2 Liquidity Risk

Risk Rating	

The liquidity ratio for the industry increased by 9.31 percentage points to 48.63 per cent at end-December 2015, from 39.32 per cent in the preceding half of the year, exceeding the prudential limit of 30 per cent. The anticipated impact of the implementation of the Treasury Single Account was compensated by the expansionary monetary policy of the Bank. The

Bank will continue to monitor the direction of liquidity in the system, using appropriate monetary policy tools.

3.8.3 Market Risk

Risk Rating	

Notwithstanding the spike in interbank and OBB rates in August 2015, there was an overall downward trend in the movement of interest rates during the second half of 2015. Rates fell significantly by end-December 2015 as 91-day NTB rates fell by over 5 percentage points from 10 per cent in July 2015 to 4.57 per cent, reflecting high level of liquidity in the system. Total deposit growth rate, also rose from -1.36 per cent as at end-June, 2015 to 19.62 per cent as at end-December 2015.

In an effort to conserve foreign exchange, the Bank released additional administrative policies during 2015. Towards the end of the first half of 2015, the cumulative annual transaction limit on naira debit cards outside Nigeria was reduced from $150,000 to $50,000, while daily cash withdrawal was pegged at $300. The Bank Verification Number (BVN) was also introduced as a requirement for foreign exchange transactions. The operating guidelines for bureaux de change (BDC) institutions was revised, including the stipulation of the mandatory submission of BVNs by directors of BDCs, in order to improve their operational efficiency.

Although the exchange rate remained stable at the interbank segment at ₦196.99/US$, it fluctuated significantly in the BDC segment, rising from ₦196.92/US$ to ₦196.99/US$ in the interbank segment and from ₦218.98/US$ to ₦258.30/US$ in the BDC segment between the first and second half of 2015. Furthermore, the removal of Nigeria from JP Morgan index contributed to the exchange rate demand pressures.

3.8.4 Operational Risk

Risk Rating	

Operational risk events reported during the period included the incidence of frauds and forgeries and insecurity in some parts of the Country. Cases of fraud and forgeries increased to 7,183 at end-December, 2015 from 5,917 reported at end-June 2015. The total amount involved in the cases, however, decreased to ₦5.76 billion at end-December 2015, from ₦11.98 billion recorded at end-June 2015. Similarly, actual losses decreased to ₦1.41 billion at end-December 2015 from ₦1.89 billion in the first half of 2015. Returns from banks showed that frauds and forgeries were perpetrated through suppression and conversion of customers' deposits, illegal fund transfers, pilfering and fraudulent ATM withdrawals.

In order to ensure a reduction in frauds and other criminal activities, banks had been directed to establish fraud desks to sensitize customers on e-fraud; manage/resolve all intra-bank fraud issues using an enterprise fraud management system, and submit reports to the Nigeria Inter-Bank Settlement System Plc on fraud information for subsequent actions. The Bank constituted a Working Group of Nigeria electronic Fraud Forum (NeFF) which facilitated the establishment of a dedicated Electronic Payment and Card Crime Unit in the Nigeria Police. The domestic implementation of the BVN exercise was concluded during the review period. All bank customers who were yet to register were availed the opportunity to do so but they would continue to experience restrictions on their accounts until they registered. Registration for Nigerian bank customers in diaspora had been extended to June 30, 2016.

4.0 PAYMENTS SYSTEM

4.1 Developments in the Payments System

In furtherance of its effort in the development of a safe, reliable and efficient payments system in Nigeria, the CBN undertook some major initiatives during the review period as highlighted below.

4.1.1 Implementation of the Bank Verification Number Scheme

The implementation of Bank Verification Number (BVN) Scheme to address the absence of unique identifier across the Nigerian banking industry continued during the review period. The CBN stipulated that by October 31, 2015, all bank customers should have the BVN, and any bank customer without the BVN would be deemed not to have met complete KYC requirements. Consequently, the following measures were implemented:

a. Nigeria residents' bank accounts without the BVN would be operated as "no customer initiated debit" account, until the account holder obtains and attaches a BVN to the account.
b. Nigeria residents' bank accounts without the BVN would continue to receive credit inflows (cash and electronic) only but would not be deactivated.
c. BVN enrolment for Nigerian bank customers in diaspora was extended to 30th June 2016.
d. Concession was granted to security personnel on special assignments to have full access to their accounts with or without BVN till 31st January 2016.

The implementation of the project resulted in the registration of 23,030,269customers at end-December 2015, while 28,303,332 out of 55,316,040 accounts had been linked with the BVN. The implementation of BVN is expected to increase the effectiveness of the payments system, among other benefits.

4.1.2 Deployment of Anti-Fraud Solution

The Bank in collaboration with key stakeholders deployed an anti-fraud solution that has the capability to flag suspicious card transactions based on predefined rules set on the system. Once a transaction is flagged as suspicious, the operator of the system sends a request to the card issuer to confirm the authenticity of the transaction or otherwise. The deployment of the anti-fraud solution will reduce fraud and increase the safety of the Nigerian payments system.

4.1.3 Global Mobile Payments Monitoring & Regulation System

The Bank implemented a monitoring solution for effective surveillance of Mobile Money Operators and their transactions. The System, managed by NIBSS, accepts and processes daily transactions data of all licensed Mobile Money Operators. The solution is expected to aid fraud management and customer complaints resolution, among others.

4.1.4 e-Dividend Mandate Management Portal

The CBN and SEC, in collaboration with relevant stakeholders, leveraged the NIBSS Document Management System to develop a common portal for uploading completed e-dividend mandate forms, detailing relevant bank account and shareholder information. The new system is expected to reduce the volume of unclaimed dividends and ensure faster, safer and more convenient dividend payment. Furthermore, the system will reduce fraud associated with diversion of dividend warrants, thus increasing the confidence of investors in the capital market.

4.1.5 NIBSS Automated Payment Services

NIBSS Automated Payment Services (NAPS) was introduced as an integrated multi-bank e-Payment, e-Collection and Payroll & Bulk payment Platform. It is designed for the instant processing of payroll, pension, personnel records and execution of funds transfer, direct debit, collections, schedule delivery and payment instructions. It was an enhancement on NIBSS Electronic Funds Transfer (NEFT) to enable settlement of transactions within 15 minutes. The system is expected to reduce float, settlement delay and settlement risk.

4.1.6 Treasury Single Account Implementation

In furtherance of the implementation of the Treasury Single Account in Nigeria, the Federal Government directed all Federal Ministries, Departments and Agencies (MDAs) to transfer their funds to their accounts with the CBN, not later than September 15, 2015. This initiative reduced the cost of government borrowing, facilitated better management of cash resources and harmonized fragmented government receipts and payments accounts, among other significant benefits.

4.1.7 Accreditation of Cheque Printers for 2015

In line with the provision of the Nigeria Cheque Printers' Accreditation Scheme (NICPAS), the Bank, in collaboration with the Bankers Committee, conducted the accreditation of the cheque printers in Nigeria for 2015. At the end of the exercise, four (4) of the existing cheque printers were re-accredited while one new company was added, bringing the total number of accredited cheque printers to five (5), at end-December 2015. The Cheque Printers' Accreditation Scheme ensures that the printers comply with the Nigerian Cheque Standards, reduces risks associated with paper-based payment instruments as well as MICR-reject rate. Thus, it increases public confidence in the system.

4.1.8 Licensing of Payment System Operators

During the review period, two (2) mobile money operators were licensed, bringing the total of mobile money operators to 21 at end-December 2015. As at 31st December 2015, there were three (3) Card Schemes, three (3) Payment Solution Service Providers, 14 Payment Terminal Service Providers, six (6) switches and two (2) third party processors in operation in Nigeria.

Table 4.1: Licensed Payment System Operators

Licence -Type	**Number**	
	June 2015	**Dec 2015**
Card Schemes	3	3
Mobile Money Operators	19	21
Payment Solution Service Providers	3	3
Payment Terminal Service Providers	14	14
Switches	6	6
Third Party Processors	2	2
Total	**47**	**49**

4.2 Payments System Vision 2020

In furtherance of the implementation of the Payments System Vision 2020, the Payment Systems Strategy Board, responsible for the governance, management and operation of the Nigeria Payments System reviewed the draft Payments System Management Bill for enactment by the National Assembly. The Bank joined the BIS International Directory in its bid to strengthen the position of Nigeria in the global financial system and to play a more active role in the Bank for International Settlement/Committee on Payment System and Market Infrastructure (BIS/CPMI).

4.3 Large Value Payments

The volume of inter-bank transfers through the CBN RTGS System increased to 566,852 at end-December 2015 from 368,519 at end-June 2015, while the value decreased to ₦185,868.00 billion at end-December 2015 from ₦188,348.46 billion at end-June 2015, reflecting an increase of 53.82 per cent in volume and a decline of 1.32 per cent in value.

4.4 Retail Payments

4.4.1 Cheque Clearing

The volume of cheques cleared increased to 7,058,954 at end-December 2015 from 6,407,507 at end-June 2015, while the value decreased to ₦3,000.72 billion at end-December 2015 from ₦3,194.74 billion at end-June 2015, reflecting an increase of 10.17 per cent and a decrease of 6.07 per cent, in volume and value respectively.

4.4.2 Instant Payment

Instant payments remained attractive to users during the review period. NIBSS Instant Payment (NIP) transaction volume increased to 41,678,698 in the second half of 2015 from 29,964,468 in the first half of 2015 and the value increased to ₦13,593.72 billion in the second half of 2015 from ₦12,055.34 billion in the first half of 2015. These changes reflected 39.09 and 12.76 per cent increases in volume and value respectively.

4.4.3 NIBSS Electronic Fund Transfer

The volume of NEFT transactions increased to 14,933,051 at end-December 2015 from 14,002,554 at end-June 2015, while the value decreased to ₦6,315.51 billion at end-December 2015 from ₦6,771.57 billion, at end-June2015. These reflected a 6.65 per cent increase in volume but a decrease of 6.74 per cent in value. The decrease was due to preference for NIP as an instant payment platform.

4.4.4 Electronic Card Transactions

Electronic card (e-card) transactions volume rose to 275,592,061 in the second half of 2015 from 243,631,218 in the first half of 2015, while the value increased to ₦2,619.57 billion in the second half of 2015 from ₦2,333.12 billion in the first half of 2015 (Table 4.1).

Table 4.1: Electronic Card Transactions

Payment Channel	Number of Terminals		Number of Transactions		% Change (Volume)	Value of Transactions (₦ Billion)		% Change (Value)
	June 2015	Dec 2015	June 2015	Dec 2015		June 2015	Dec 2015	
ATMs	15,935	16,406	206,605,285	226,982,338	9.86	1,900.39	2,069.86	8.92
POS	134,561	139,182	14,924,041	18,796,892	25.95	200.88	247.63	23.27
Mobile	-	-	18,773,872	25,159,490	34.01	192.04	250.31	30.34
Internet (Web)	-	-	3,328,020	4,653,341	39.82	39.81	51.77	30.04
Total			**243,631,218**	**275,592,061**		**2,333.12**	**2,619.57**	

5.0 OUTLOOK

Global output is projected at 3.4 per cent in 2016, indicating a more than gradual pickup in economic activity, especially in emerging markets and developing economies. The prospects of rising interest rates in the US and economic slowdown in China are expected to further fuel uncertainties. This could weaken global output. Also, growth in global trade which slowed considerably in 2015 could, with further declines in raw material prices, pose problems for commodity exporting countries. Overall, these developments could produce disappointing and uneven results on global output growth in 2016.

In Nigeria, the NBS projects output growth at 3.78 per cent for 2016. Economic activities are expected to pick up as the effects of government reform measures gradually impact the real sector. However, such development would have implications for money supply in the system and could exacerbate inflationary pressures. Consequently, there would be a need for enhanced fiscal and monetary policy coordination. Meanwhile, it is envisaged that the recent foreign exchange management policies of the CBN, coupled with fiscal/monetary policy complementarity, would stabilize the exchange rate.

Money market rates are expected to move in tandem with the level of liquidity in the banking system. Consequently, OBB and inter-bank rates are expected to remain low in the first half of 2016.In the foreign exchange market, the spread between the interbank and BDC rates is expected to narrow, as stability is restored in the market.

Mixed performance is expected in the capital market in the first half of 2016in the face of not only uncertainties and market contagion effects from volatility in global markets but also on-going domestic efforts to induce economic recovery. On the one hand, global macroeconomic uncertainties may adversely impact earnings and push asset prices further down while both global and domestic uncertainties in the capital market might likely shift investor preference to fixed income securities. On the other hand, measures being taken to stabilise the Naira, rebuild infrastructure, enhance capital spending, and stimulate economic growth are expected to improve corporate performance, restore investor confidence and impact the capital market positively.

To enhance financial system stability, the CBN would continue to encourage the development of effective crisis management and resolution plan by banks. In the first half of 2016, the initial draft recovery and resolution plan (RRP) documents submitted by the banks would be reviewed in conjunction with the management teams of the designated banks. This would enable regulators to formulate strategies for individual banks in line with the unique risks and challenges each pose to the overall financial system.

The payments system transformation initiatives of the Bank are expected to further enhance efficiency and security of transactions in the financial system.

ACKNOWLEDGEMENTS

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