FINANCIAL STABILITY REPORT

June 2016

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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 Banks
CPFA	Closed Pension Fund Administrator
CR5	Concentration Ratio (of the five largest banks)
CRMS	Credit Risk Management System
DAX	Deutscher Aktienindex (German stock index of 30 major German companies)
DFIs	Development Finance Institutions
DMBs	Deposit Money Banks
EBAs	Eligible Bank Assets
ECB	European Central Bank
EDC	Entrepreneurship Development Centre
EGX CASE 30	Egypt Stock Exchange (Cairo and Alexandria Stock Exchange) 30 Stock Index
EVD	Ebola Virus Disease
FAO	Food and Agriculture Organisation
FATF	Financial Action Task Force
FCs	Finance Companies
FCT	Federal Capital Territory
FGN	Federal Government of Nigeria
FMBN	Federal Mortgage Bank of Nigeria
FMDQ-OTC	Financial Market Dealers Quotation – Over the Counter Plc
FMF	Federal Ministry of Finance
FRACE	Financial Regulation Advisory Council of Experts
FSIs	Financial Soundness Indicators
FSR	Financial Stability Report
FSRCC	Financial Services Regulation Co-ordinating Committee
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft fur Internationale Zusammenarbeit (German Society for International Cooperation)
GSE	Ghanaian Stock Exchange
HHI	Herfindahl-Hirschman Index
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
RUFIN	The Rural Finance Institution Building Programme
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

The global economy in the first half of 2016 was characterized by, weak and uneven growth, largely owing to the continued effect of the fall in commodity prices, slow recovery in the Euro Area and China and the volatile financial markets. The growth in most advanced economies remained lackluster, with low potential growth and a gradual closing of output gaps. Emerging and developing economies witnessed low levels of output productivity and divergent growth rates. While the effect of "Brexit" has not started manifesting on output, the magnitude of uncertainty thereby complicates macroeconomic forecasts and market predictions. Inflationary pressure was projected to inch up in many countries while exchange rate depreciation was common to most emerging and developing economies.

The Nigerian foreign exchange market came under some pressure in recent times owing to a combination of factors, including: heightened demand; weaker external environment; normalisation of United States monetary policy; low crude oil prices; and disruptions in oil production. In response to these developments, the Bank implemented a combination of policies, which included upward review of the policy rate from 11 to 12 per cent and the CRR from 20 to 22.5 per cent in March 2016. In addition, the Bank introduced a flexible exchange rate regime geared towards achieving a more market-driven, transparent and liquid foreign exchange market. These key policy actions were aimed at ensuring that the Nigerian economy remained resilient to potential shocks from the global economy.

The Nigerian financial system remains stable and resilient in spite of prevailing macroeconomic challenges. The Bank will continue to focus on its main objective of maintaining price and financial system stability to support sustainable economic growth and development in Nigeria. These efforts will include strengthening its risk-based and macro-prudential surveillance approaches to further ensure the soundness and efficiency of the financial system. Monetary policy will continue to align with fiscal measures to support diversification of the economy for increased productivity, job creation and broad-based economic growth.

It is my belief that this Report will provide useful information and guidance to economic analysts and investors, and is therefore recommended for perusal.

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

Foreword

In the first half of 2016, global output growth remained sluggish. In a bid to stimulate growth, many central banks had relied on unconventional expansionary monetary policy for several years. However, the US recently commenced a normalisation of monetary policy which had divergent impacts on the economies of many emerging market economies. Also, the slowdown in China has impacted the economies of commodity exporting countries negatively.

The June 2016 *Financial Stability Report* reviews developments in the global and domestic economies. In the first half of 2016, the continued slowdown in the domestic economy, coupled with sluggish recovery in the global economy, portended increased risk to the stability of the financial system. The trend of low oil and commodity prices which led to severe fiscal contractions and low accretion to external reserves continued to impinge on the stability of the exchange rate. Inflationary pressures continued to mount in the first half of 2016, and impacted negatively on the ability of domestic borrowers to meet foreign exchange denominated obligations. The above combination of factors led to the increase in NPLs witnessed in the first half of the year. Regulatory actions during the period were taken to ensure that the financial system remained safe and sound. The CBN will continue to use both macro- and micro-prudential instruments in its oversight of the banking sector in pursuit of that goal.

Our goal in regulating the financial system is to ensure the stability of the system and its resilience to withstand unanticipated adverse shocks, while contributing to the Federal Government's efforts to grow the Nigerian economy. Consequently, this edition of the *FSR* stressed, among others, the need for banks to further strengthen their risk management and corporate governance practices, and to ensure compliance with anti-money laundering and combating the financing of terrorism (AML/CFT) regulations.

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

We continue to welcome stakeholder feedback on the Report.

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

Executive Summary

Global output growth in the first half of 2016 was sluggish and uneven, mainly because of the slow recovery of commodity prices and the impact of the British vote to exit the European Union. In many of the advanced economies, growth has remained depressed, but was divergent in emerging and developing economies. Furthermore, inflationary pressures increased in the first half of 2016 around the globe, reflecting increased domestic demand pressures, owing mainly to the expected consequences of increase in economic uncertainties. Although commodity prices recovered marginally from the position at end-December 2015, they remained generally depressed.

The international stock and currency markets recorded mixed performance during the first half of 2016. Factors that impacted the performance of many stock markets and currencies included the generally low commodity prices and the normalisation of US monetary policy. Monetary policy rates of most central banks were fairly stable in the review period.

In Nigeria, macroeconomic concerns increased as the National Bureau of Statistics (NBS) estimated that output growth contracted in the second quarter of 2016 by 2.06 per cent, compared with a growth of 2.35 per cent in the corresponding period of 2015, and that inflation had increased to 16.48 per cent. Average interest rates during the period were lower than their levels in the second half of 2015. The low average short-term rate was due mainly to increased liquidity in the system. In a bid to stem inflationary pressure, the Monetary Policy Committee tightened the stance of monetary policy during the review period.

Key monetary developments during the review period included the increase in broad money supply (M_2) by 8.26 per cent and narrow money supply by 6.47 per cent. Total bank loans and advances to the private sector of the economy grew by 17.62 per cent at the end of the first half of 2016, in contrast to the decline of 1.44 per cent at the end of the second half of 2015.

The structure of bank credit and deposits indicated that short-term maturities remained dominant. Also, the market structure of the banking system remained largely oligopolistic in the first half of 2016.

Key developments in the other financial institutions sub-sector included: the licensing of new institutions to deepen financial inclusion; the continuation of the Microfinance Certification Programme; and the implementation of new capital requirements for finance companies. The implementation of the various aspects of the National Housing Finance Programme also continued in the review period.

Monetary policy in the first two months of 2016 was accommodative, consistent with the goal of stimulating the economy. However, in March 2016, the MPR was increased and the asymmetric corridor for Standing Deposit and Lending facilities of the CBN was narrowed to curb the excess liquidity in the banking system and tame inflationary pressures.

The Bank introduced the Flexible Exchange Rate regime in the review period as part of efforts to deepen the foreign exchange market and achieve exchange rate stability. External reserves declined from $28.29 billion at end-December 2015 to $27.22 billion at end-June 2016.

The CBN continued to support the economy through various credit guarantee and intervention schemes to stimulate the real sector. These had started to yield results noted in the form of increased productivity and job creation. The National Collateral Registry (NCR), aimed at improving access to finance for MSMEs, became operational in the review period.

Financial soundness indicators for the banking system reflected a slight decline in capital adequacy positions of the banks in relation to December 2015. However, the banking industry capital adequacy ratio at end-June 2016 was above the regulatory minimum. The increasing quantum of non-performing loans posed a major concern for regulators in the review period. To address this, the Bank enhanced the supervision of the exposure of banks to the oil and gas sector and the foreign exchange market. Cross-border supervisory collaborations were also sustained.

To sustain public confidence, the Bank processed customers' petitions against banks and other financial institutions, in addition to the continued implementation of the Bank Verification Number (BVN) Scheme.

Although the outlook for the rest of the year appears to be challenging, the current measures put in place and others being considered by the Bank, together with to the efforts of the Federal Government, are expected to minimize the impact of shocks to the domestic economy.

1.0 MACROECONOMIC DEVELOPMENTS AND FINANCIAL SYSTEM STABILITY

1.1 Global Economic and Financial Developments

1.1.1 Output

Global output growth has remained sluggish and uneven since the beginning of 2016. The slow recovery of commodity prices and the recent Brexit heightened global economic uncertainties. Notwithstanding the continued monetary expansion in many of the advanced economies, growth has remained depressed in advanced and divergent in emerging and developing economies. Global output was 3.1 per cent in 2015, but the projections of 3.2 and 3.5 per cent for 2016 and 2017 were revised downwards to 3.1 and 3.4 per cent respectively, representing 0.1 percentage point reduction from the earlier projections[1]. The downward revisions of the projections were driven by the expectation that the recovery of global output growth would be slower.

In advanced economies, output growth was estimated at 1.8 per cent in 2016 and 2017 compared with 1.9 per cent in 2015. In the United States, growth was projected to decline to 2.2 per cent in 2016 from 2.4 per cent in 2015, reflecting the weaker growth recorded in the first-quarter of 2016. In the United Kingdom, output growth in 2015 was 2.2 per cent but was projected at 1.7 and 1.3 per cent for 2016 and 2017 respectively. Output growth in Japan was 0.5 per cent in 2015, but projected at 0.3 per cent in 2016 and 0.1 per cent in 2017.

In the Euro area, output growth was 1.7 per cent in 2015 and was projected to reduce to 1.6 per cent in 2016, higher than 1.4 per cent forecasted for 2017. The projection for 2016 was influenced by better-than-expected output growth of 2.2 per cent recorded in the first quarter, resulting from strong domestic demand and rebound in investments. The projected figure for 2017 was revised downwards by 0.2 percentage points, owing to increased uncertainty in consumer and business confidence.

Growth in emerging market and developing economies in 2015 was 4.0 per cent and projected at 4.1 per cent in 2016 and 4.6 per cent in 2017. In China, output growth was 6.9 per cent in 2015 but expected to decline to 6.6 per cent in 2016 and 6.2 per cent in 2017, reflecting low investment growth as the country continues to rebalance its economy. Latin America and the Caribbean output growth was projected to contract from 0.0 per cent in 2015 to negative 0.4 per cent in 2016, reflecting the economic recession in Brazil and declining commodity prices and demand. In the Middle East, output growth was projected at 3.4 per cent in 2016 from 2.3 per cent in 2015, but estimated at 3.3 per cent in 2017. However, lower oil prices and geopolitical pressures are expected to influence the outlook.

[1] IMF's July 2016 World Economic Outlook

Output growth in sub-Saharan Africa was projected to reduce significantly to 1.6 per cent in 2016, compared to 3.5 per cent in 2015. The expected decline reflected the low commodity prices, declining financing inflows and adverse climatic conditions affecting most countries of the region. In Nigeria, output growth was estimated to decline to negative 1.8 per cent in 2016 from 2.5 per cent in 2015, reflecting low oil receipts, foreign exchange volatility, inadequate power supply and the Niger Delta crises. However, output growth is expected to improve to 1.1 per cent in 2017 due to ongoing economic reforms.

Table 1. 1: Global Economic Outlook

Region/Country	**Year-on-Year**					
	2012	2013	2014	2015	2016	2017
World	**3.4**	**3.3**	**3.4**	**3.1**	**3.1**	**3.4**
Advanced Economies	**1.2**	**1.4**	**1.8**	**1.9**	**1.8**	**1.8**
United States	2.3	2.2	2.4	2.4	2.2	2.5
Euro Area	-0.7	-0.4	0.9	1.7	1.6	1.4
Japan	1.5	1.6	0.0	0.5	0.3	0.1
United Kingdom	0.3	1.7	2.9	2.2	1.7	1.3
Canada	1.7	2.0	2.5	1.1	1.4	2.1
Emerging Market and Developing Economies	**5.1**	**5.0**	**4.6**	**4.0**	**4.1**	**4.6**
China	7.7	7.7	7.3	6.9	6.6	6.2
MENA Region	4.8	2.4	2.8	2.3	3.4	3.3
Sub-Saharan Africa	4.4	5.0	5.0	3.3	1.6	3.3
Nigeria	4.3	5.4	6.3	2.5	-1.8	1.1

** Projections*
Sources: i. IMF's July 2016 World Economic Outlook
ii. Global Economic Prospects, January 2016

1.1.2 Global Inflation

Global inflationary pressures increased in the first half of 2016, reflecting increased domestic demand pressures in most countries. The rise in the rate reflects the expected consequences of increase in economic uncertainty and reduction in market confidence and investment.

Inflation in advanced economies was projected at 1.0 per cent in 2016 and 1.9 per cent in 2017 from 0.3 per cent recorded in 2015. In the US, inflation rate is estimated to increase to 1.3 per cent in 2016 and 2.2 per cent in 2017 from 0.1 per cent in 2015. Inflation in the Euro area was 0.2 per cent in 2015, projected at 0.3 per cent in 2016 and 1.4 per cent in 2017. Japan recorded 0.7 per cent in 2015, but projected to negative 0.1 per cent in 2016 and 0.7 per cent in 2017. In the United Kingdom, the rate was 0.1 per cent in 2015 less than 0.7 and 2.2 per cent projected for 2016 and 2017, respectively.

In 2015, inflation rate in Emerging and Developing Economies was 5.6 per cent, but projected to 6.6 per cent in 2016 and 5.4 per cent in 2017. The MENA Region had 6.5 per cent inflation rate in 2015 which was projected to 3.9 per cent and 4.0 per cent in 2016 and 2017, respectively. In Sub-Saharan Africa, inflation rate was 6.9 per cent in 2015 which was projected to rise to 11.1 per cent in 2016 and 9.0 per cent in 2017. The projected rates for

2016 and 2017 for Nigeria were 14.8 and 12.1 per cent, from the 9.1 per cent recorded in 2015, respectively.

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

Region/Country	2012	2013	2014	2015	2016*	2017*
Advanced Economies	2.0	1.4	1.4	0.3	1.0	1.9
United States	2.1	1.5	1.6	0.1	1.3	2.2
Euro Area	2.5	1.3	0.4	0.2	0.3	1.4
Japan	0.0	0.4	2.7	0.7	-0.1	0.7
United Kingdom	2.8	2.6	1.5	0.1	0.7	2.2
Emerging and Developing Economies/	6.1	5.9	5.1	5.6	6.6	5.4
MENA Region	9.7	9.0	6.5	6.5	3.9	4.0
Sub-Saharan Africa	9.3	6.6	6.4	6.9	11.1	9.0
Nigeria	12.2	8.5	8.1	9.1	14.8	12.1

** Projections*
Source: Bloomberg

1.1.3 Global Commodity Prices

1.1.3.1 Oil Prices

Crude oil prices remained low in the first half of 2016, reflecting the excess supply[2], lower oil demand[3] and the general slowdown in the global economy. However, the crises in the Niger Delta region of Nigeria and some MENA countries, and the Canadian wild fires disrupted supply, which accounted for some slight increases in oil price during the review period.

In June 2016, the OPEC Reference Basket[4] increased by 36.3 per cent to $45.84/b from $33.64/b in December 2015, but was lower by 23.5 per cent than the level of $59.91/b as at June 2015. Intercontinental Commodities Exchange (ICE) Brent increased by 25.5 per cent to $47.80/b in June 2016 from $38.08/b in December 2015, but was lower by 20.6 per cent than the $60.21 recorded in June 2015. West Texas Intermediate (WTI) increased by 29.4 per cent to $48.24/b in June 2016 from the $37.28/b recorded in December 2015, but was lower by 18.9 per cent than the $59.47 recorded in June 2015.

Global oil production was 95.14 mb/d in June 2016, compared to 95.12 mb/d in December 2015 and 94.67 mb/d in June 2015. The OPEC supply increased marginally in June 2016, driven majorly by supply increases in Iran and Saudi Arabia.

The growth in global crude oil demand in 2016 was projected at 0.31 mb/d above the 93.95 mb/d for December 2015. The global consumption of petroleum and other liquid fuels, which grew by 1.4 mb/d in 2015, is projected to grow further by 1.4 mb/d in 2016 and 2017, owing

[2] Including new entrants
[3] Including use of alternative energy sources and production of shale oil
[4] Reuters OPEC MOMR.

to expected increases in consumption by non-OECD member countries. The growth in consumption by non-OECD member countries was 1.0 mb/d in 2015, and is projected at 1.3 mb/d in 2016 and 1.5 mb/d in 2017, with China and India expected to account for the largest shares.

1.1.3.2 Food Prices

The Food and Agriculture Organisation (FAO) Food Price Index averaged 163.4 points as at June 2016, compared to 153.4 points as at December 2015 and 165.1 points as at June 2015, reflecting an increase of 6.5 per cent from the December 2015 position but a fall of 1.0 per cent below the level as June 2015.

The FAO Cereal Price Index averaged 156.9 points as at June 2016, reflecting an increase of 3.5 per cent from the level in December 2015, but 4.0 per cent less than the level as at June 2015. The increase as at June 2016 was triggered by a positive change in the price of maize, owing to contraction in export supplies from Brazil.

The FAO Dairy Price Index averaged 137.9 points as at June 2016, lower than the level of 149.5 points as at December 2015. The index was also lower than the 160.5 points recorded as at June 2015 by 22.6 points, or 14.1 per cent. The price as at June 2016 reflected the cumulative effects of lower prices that prevailed in the preceding three months. The decline in the dairy index was due to over production in the first half of the year.

The FAO Meat Price Index averaged 157.9 points as at June 2016, higher than the 150.0 recorded in December 2015 by 7.9 points (5.3 per cent). The value was lower than the 169.8 points recorded as at June 2015. The FAO Vegetable Oil Price Index averaged 161.9 points as at June 2016, higher than the level of 141.5 points as at December 2015 and 156.2 points as at June 2015. The increase in sunflower and rapeseed oil supplies accounted for the increase in Vegetable Oil Price index.

FAO Sugar Price Index averaged 276.0 points as at June 2016, higher than the December 2015 figure by 68.2 points (32.8 per cent). The June 2016 level was higher than the 176.8 points recorded as at June 2015. The increase in the price reflected the fall in Brazil's production owing to adverse weather conditions, and increased conversion of sugarcane to ethanol production (Table 1.3).

Table 1. 3: World Food Price Index As At June 2016

	2013	2014	June 2015	Dec 2015	June 2016
Food Price Index	209.8	201.8	165.1	153.4	163.4
Meat	184.1	198.3	169.8	150.0	157.9
Dairy	242.7	224.1	160.5	149.5	137.9
Cereals	219.3	191.9	163.5	151.6	156.9
Vegetable Oils	193.0	181.1	156.2	141.5	161.9
Sugar	251.0	241.2	176.8	207.8	276.0

** Projections **Sources**: WEO June 2016.*

1.1.4 International Financial Markets

1.1.4.1 International Stock Markets

The international stock markets recorded mixed performances during the first half of 2016. In North America, the Canadian S&P/TSX Composite, Mexican Bolsa and United States S&P 500 indices increased by 8.1, 7.0 and 2.7 per cent respectively between end-December 2015 and end-June 2016.

In Europe, the MICEX and FTSE 100 indices increased by 7.4 and 4.2 per cent, while the DAX and CAC 40 indices decreased by 9.9 and 8.6 per cent, respectively. In South America, the Argentine Merval, Brazilian Bovespa and Colombian IGBC General indices increased by 25.8, 18.9 and 13.8 per cent respectively. The increases were due to strong domestic demand and rebound in investments recorded in the first quarter of the year, while the decreases were due to the downward trend in global economic growth.

In Asia, the weakening economic conditions in China added to the bearish trend in other Asian markets. During the period under review, Japan's Nikkei 225 and China's Shanghai Stock Exchange-A indices decreased by 18.2 and 17.2 per cent, respectively, while India's BSE Sensex index increased by 3.4 per cent.

In Africa, the Nigerian NSE and South African JSE All-Share indices increased by 3.3 and 3.0 per cent, while the Ghanaian GSE ASI, Kenyan Nairobi NSE 20 and Egyptian EGX CASE 30 indices decreased by 10.4, 9.9 and 0.9 per cent respectively. Most of these markets were responding to developments in the international economic arena, especially with the normalization of the US monetary policy (Table 1.4).

Table 1. 4: Indices of Selected International Stock Markets: December 2015 and June 2016

Region/Country	Index	30-Jun-15	31-Dec-15	30-Jun-16	Y-on-Y % Change	Dec 31, 2015-June 30, 2016 % Change (YTD)
AFRICA						
Nigeria	ASI	33,456.83	28,642.25	29,597.79	-11.5	3.3
South Africa	JSE African AS	51,806.95	50,693.76	52,217.72	0.8	3.0
Kenya	Nairobi NSE 20	4,906.07	4,040.75	3,640.61	-25.8	-9.9
Egypt	EGX CSE 30	8,371.53	7,006.01	6,942.52	-17.1	-0.9
Ghana	GSE All Share	2,352.23	1,994.91	1,787.50	-24.0	-10.4
NORTH AMERICA						
US	S&P 500	2,063.11	2,043.94	2,098.86	1.7	2.7
Canada	S&P/TSX Composite	14,553.33	13,009.95	14,064.54	-3.4	8.1
Mexico	Mexico Bolsa (IPC)	45,053.70	42,977.50	45,966.49	2.0	7.0
SOUTH AMERICA						
Brazil	Bovespa Stock	53,080.88	43,349.96	51,526.93	-2.9	18.9
Argentina	Merval	11,656.81	11,675.18	14,683.49	26.0	25.8
Colombia	IGBC General	1,331.35	1,153.71	1,313.18	-1.4	13.8

EUROPE						
UK	FTSE 100	6,520.98	6,242.32	6,504.33	-0.3	4.2
France	CAC 40	4,790.20	4,637.06	4,237.48	-11.5	-8.6
Germany	DAX	10,944.97	10,743.01	9,680.09	-11.6	-9.9
Russia	MICEX	1,654.55	1,761.36	1,891.09	14.3	7.4
ASIA						
Japan	NIKKEI 225	20,235.73	19,033.71	15,575.92	-23.0	-18.2
China	Shanghai SE A	4,479.90	3,704.29	3,066.50	-31.5	-17.2
India	BSE Sensex	27,780.83	26,117.54	26,999.72	-2.8	3.4

Source: Bloomberg

1.1.5 International Foreign Exchange Markets

During the first half of 2016, most of the currencies under review experienced mixed performance owing to the slowdown in global trade and uncertainties in the international financial markets. Low commodity prices continued to adversely impact the currencies of commodity exporting Latin America and African countries during the first half of 2016. In Asia, the trends in monetary policy stance in China and Japan continued to affect their currencies.

Trends in Exchange Rates

Africa: The South African rand and the Kenyan shilling appreciated against the U.S. dollar by 6.32 and 1.19 per cent respectively, while the Nigerian naira, Egyptian pound and Ghanaian cedi depreciated against the US dollar by 30.39, 11.92 and 3.54 per cent respectively.

North America: The Canadian dollar appreciated against the US dollar by 6.15 per cent, while the Mexican peso depreciated against the US dollar by 6.71 per cent.

South America: The Brazilian real and Colombian peso appreciated against the U.S. dollar by 23.63 and 8.70 per cent, respectively while, the Argentine peso depreciated against the U.S. dollar by 14.09 per cent.

Europe: The euro and Russian ruble appreciated against the U.S. dollar by 2.22 and 13.93 per cent, respectively while the British pound depreciated against the U.S. dollar by 9.33 per cent.

Asia: The Japanese yen appreciated against the U.S. dollar by 16.48 per cent, while the Chinese yuan and Indian rupee depreciated against the U.S. dollar by 2.41 and 2.04 per cent respectively (Table 1.5).

Table 1. 5: Exchange Rates of Selected Countries (Value in currency units to US$)

	Currency	30-Jun-15	31-Dec-15	30-Jun-16	Y-on-Y % App/Dep	Dec 15 - June 2016 % App/Dep. (YTD)
AFRICA						
Nigeria	Naira	196.95	197.00	283.00	-30.41	-30.39
South Africa	Rand	12.15	15.48	14.56	-16.55	6.32
Kenya	Shilling	99.25	102.30	101.10	-1.83	1.19
Egypt	Pound	7.63	7.83	8.89	-14.17	-11.92
Ghana	Cedi	4.35	3.81	3.95	10.13	-3.54
NORTH AMERICA						
Canada	Dollar	1.25	1.38	1.30	-3.85	6.15
Mexico	Peso	15.68	17.23	18.47	-15.11	-6.71
SOUTH AMERICA						
Brazil	Real	3.18	3.96	3.21	-0.93	23.36
Argentina	Peso	9.09	12.93	15.05	-39.60	-14.09
Colombia	Peso	2,606.00	3174.50	2920.35	-10.76	8.70
EUROPE						
UK	Pound	0.64	0.68	0.75	-14.67	-9.33
Euro Area	Euro	0.90	0.92	0.90	0.00	2.22
Russia	Ruble	55.27	72.85	63.94	-13.56	13.93
ASIA						
Japan	Yen	122.12	120.20	103.19	18.34	16.48
China	Yuan	6.20	6.49	6.65	-6.77	-2.41
India	Rupee	63.65	66.15	67.53	-5.75	-2.04
Y-on-Y= Year on Year						
YTD = Year to Date						

Source: Bloomberg Daily Exchange rates

1.1.6 International Monetary Policy Rates

Monetary policy rates in most central banks were fairly stable during the first half of 2016. The Bank of Japan, Bank of England, US Federal Reserve, Bank of Canada and Bank Negara Malaysia held their rates constant. Rates was also kept unchanged in Chile, while the European Central Bank, Bank of Korea, Reserve Bank of Australia, Bank of Indonesia and Reserve Bank of New Zealand lowered their rates during the review period. The divergent monetary policy stances reflected the underlying fundamentals in the respective economies (Table 1.6).

In the BRICS, monetary policy rates varied during the review period. Brazil maintained a rate of 14.25 per cent through the first six months of 2016, Russia reduced its rate to 10.50 per cent from 11.00 per cent in June, 2016. India reduced the rate to 6.50 per cent from 6.75 per cent in April 2016, while China's rate fluctuated through the period. South Africa increased to 7.00 per cent from 6.75 per cent in March 2016.

Table 1. 6: Policy Rates Across Selected Countries (July 2015 – June 2016)

	2015						**2016**					
Country	**Jul-15**	**Aug-15**	**Sep-15**	**Oct-15**	**Nov-15**	**Dec-15**	**Jan-16**	**Feb-16**	**Mar-16**	**Apr-16**	**May-16**	**Jun-16**
Developed Economies												
Japan	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Europe	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.00	0.00	0.00	0.00
UK	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
US	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Canada	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
South Korea	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.25
New Zealand	3.50	3.50	2.75	2.75	2.75	2.75	2.75	2.75	2.25	2.25	2.25	2.25
Australia	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	1.75	1.75
ASEAN												
Indonesia	7.50	7.50	7.50	7.50	7.50	7.50	7.25	7.00	6.75	6.75	6.75	6.50
Malaysia	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
BRICS												
Brazil	14.25	14.30	14.30	14.30	14.30	14.25	14.25	14.25	14.25	14.25	14.25	14.25
Russia	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	10.50
India	7.25	7.25	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.50	6.50	6.50
PBC Base rate	4.85	5.60	5.60	5.60	5.60	5.60	5.60	5.35	5.35	5.35	5.10	4.81
South Africa	6.00	6.00	6.00	6.00	6.25	6.25	6.75	6.75	7.00	7.00	7.00	7.00
Other Emerging Economies & South America												
Mexico	3.00	3.00	3.00	3.00	3.00	3.00	3.25	3.75	3.75	3.75	3.75	4.25
Chile	3.00	3.50	3.25	3.00	3.00	3.00	3.50	3.50	3.50	3.50	3.50	3.50
Colombia	4.50	4.50	4.75	4.75	5.25	5.75	6.00	6.25	6.50	7.00	7.25	7.50
Africa												
Egypt	9.75	9.75	9.75	9.75	9.75	10.25	10.25	10.25	11.75	11.75	11.75	12.75
Ghana	22.00	22.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00
Nigeria	13.00	13.00	13.00	13.00	11.00	11.00	11.00	11.00	12.00	12.00	12.00	12.00

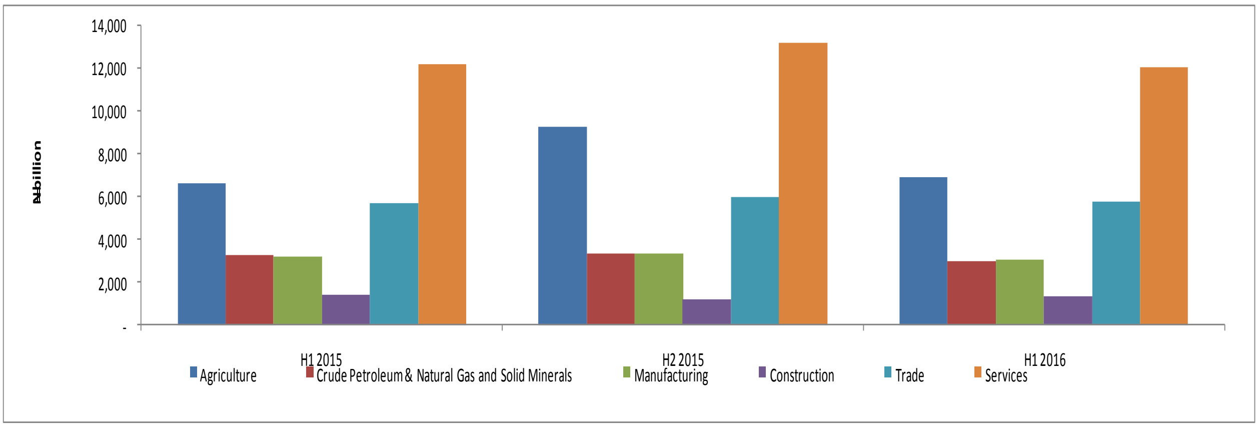
Source: Bloomberg Monthly Policy Rates

1.2 Domestic Developments

1.2.1 Output

Provisional data from the National Bureau of Statistics (NBS) indicated that output growth contracted in the first half of 2016, compared with the level in the second half of 2015. Gross Domestic Product (GDP), at 2010 constant basic prices, contracted by 2.06 per cent in the first half, compared to an expansion of 2.47 per cent in the second half of 2015. The decline recorded in the first half of 2016 was due to the decline in both oil and non-oil GDP.

Figure 1. 1: Gross Domestic Product by Sectors (₦ billion)



Growth rate in the non-oil sector contracted by 0.29 per cent in real terms in the first half of 2016, compared with the 3.10 per cent in the second half of the preceding year. The contribution of the non-oil sector GDP declined by 0.13 percentage point below the 90.86 recorded in the preceding half year but increased by 0.85 percentage point above the 89.88 per cent in the corresponding period of 2015.

Table 1. 7: Changes (per cent) in Real GDP by Sector over Corresponding Half Year

Sector	**H1 2015**	**H2 2015**	**H1 2016**
Manufacturing	-2.25	-0.70	-5.22
Construction	8.67	-0.24	-5.83
Services	5.56	3.50	-1.04
Trade	5.77	4.55	0.99
Agriculture	4.07	3.47	3.84
Crude Petroleum, Natural Resources and Solid Minerals	-7.49	-3.34	-9.53

The services sector accounted for the largest share of 37.55 per cent, while agricultural sector, trade, manufacturing and construction contributed 21.52, 17.88, 9.25, and 4.21 per cent respectively.

Further analysis indicated that the contribution of the oil sector to the real GDP in the first half of 2016 stood at 9.27 per cent, reflecting an increase of 0.13 percentage point above the 9.14 recorded in the preceding half year but a decline of 0.85 percentage point below the 10.12 per cent in the corresponding period of 2015. Nigeria's crude oil production, including condensates and natural gas liquids, was estimated at an average of 1.68 mb/d or 305.76 million barrels (mb), in the first half of 2016. This outcome reflected declines of 0.21 mb/d or 11.1 per cent and 0.24 mb/d or 12.5 per cent from the levels of 1.89 mb/d and 1.92 mb/d recorded in the first half of 2015 and the preceding half of 2015, respectively. Production outages arising from pipelines sabotage was responsible for the lower output.

Figure 1. 2: Shares of Oil and Non-oil Sectors in Real GDP (%)

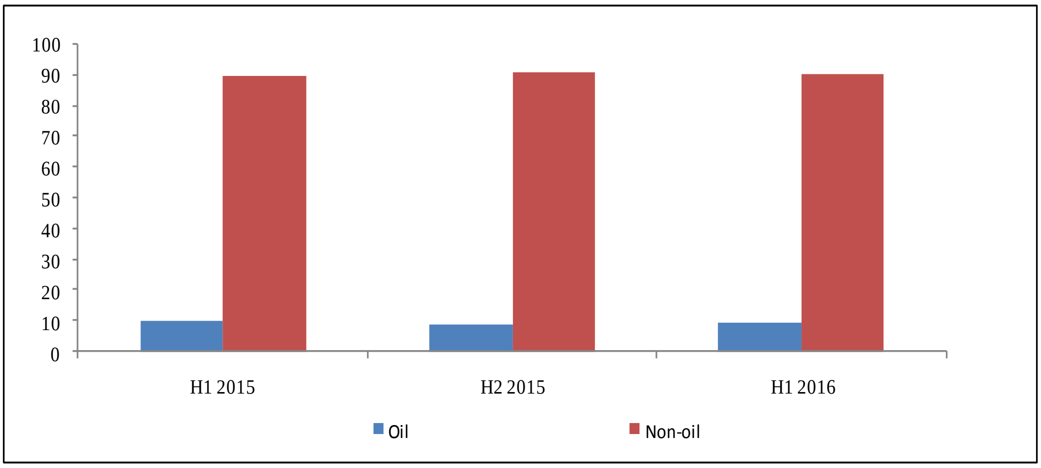
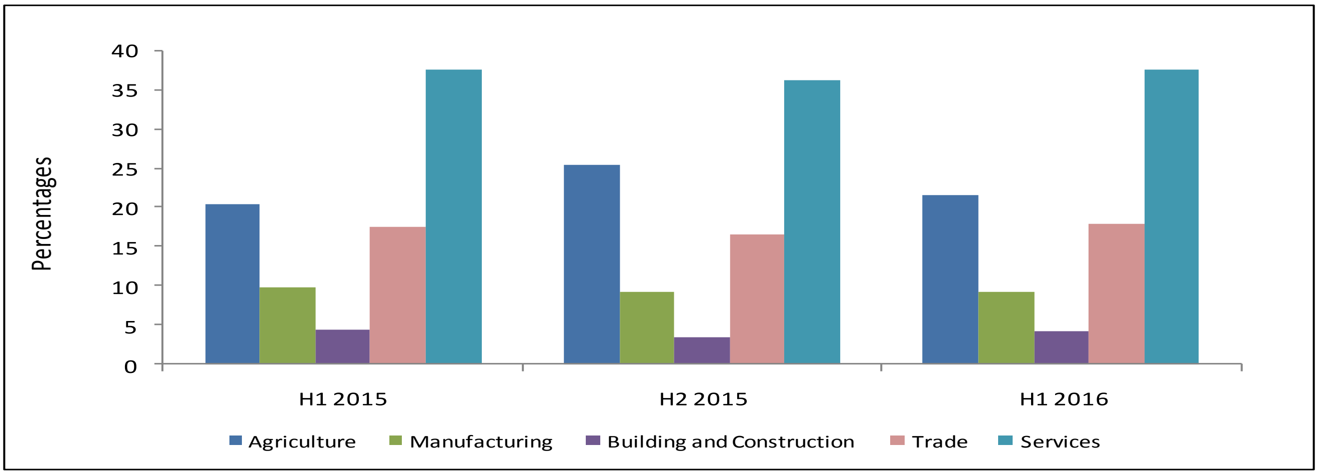


Figure 1. 3: Sectoral Shares in Total GDP (%)



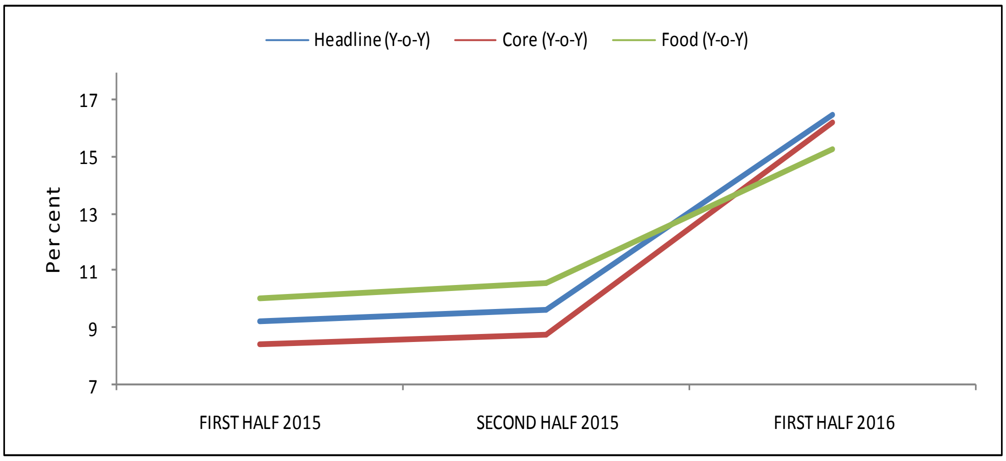
1.2.2 Inflation

National Bureau of Statistics (NBS) data showed that the all-items composite Consumer Price Index (CPI) stood at 201.70 at end-June 2016 (November 2009 = 100), compared with 180.15 and 173.17 at end-December 2015 and end-June 2015, respectively. The index for the first half of 2016 was higher than the levels in the second half of 2015 and the corresponding half of 2015 by 11.96 and 16.48 per cent, respectively. The rise in the price index relative to the preceding half year was accounted for by increases in energy cost and prices of imported food items.

Headline inflation, at 16.48 per cent in June 2016, rose by 7.47 and 7.31 percentage points above its levels in December 2015 and June 2015, respectively. The twelve-month moving average inflation rate in June 2016 was 11.37 per cent, compared with 9.01 and 8.42 per cent recorded in December 2015 and the corresponding period of 2015. In June 2016, core inflation rose by 7.49 and 7.82 percentage points to 16.22 per cent above its respective levels of 8.73 and 8.40 per cent in December and June 2015. Similarly, food inflation rose to 15.30

per cent in June 2016, compared with 10.59 and 10.04 per cent in December and June 2015, respectively. The rise relative to the preceding half year was attributed to increased prices of both domestic and imported food products (Figure 1.4).

Figure 1. 4: Inflationary Trend (Year-on-Year)

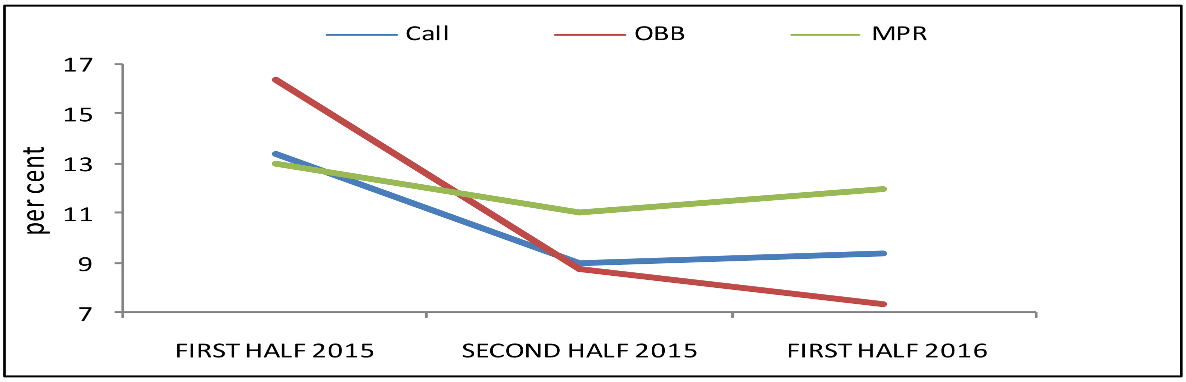


1.2.3 Interest Rates

Money market rates moved in line with the level of liquidity in the banking system during the first half of 2016. Interest rates (with the exception of interbank call rate) were lower than their levels in the second half and corresponding period of 2015. The low average short-term rate was due to increased liquidity in the system as a result of the release of Statutory Revenue Allocation to the three tiers of government and the payment of matured CBN bills, which buoyed banking system liquidity during the period. In a bid to stem inflationary pressure, the Monetary Policy Committee (MPC) tightened the stance of monetary policy during the review period. Consequently, the Monetary Policy Rate (MPR) was increased by 100 basis points to 12.00 per cent. The rate for standing lending facilities was retained at +200 basis points, while the rate for standing deposit facilities was narrowed from -700 basis points to -500 basis points. Furthermore, the Cash Reserve Requirement (CRR) was increased by 250 basis points to 22.50 per cent.

The average open-buy-back (OBB) rate fell by 1.42 percentage points to 7.34 per cent from 10.74 per cent in the second half of 2015. The average inter-bank call rate, on the other hand, edged up slightly by 0.28 percentage point to 9.28 per cent above the level in the second half of 2015. The Nigeria Inter-Bank Offered Rate (NIBOR) stood at an average of 6.73 and 9.03 per cent for the call and 30-day segments, reflecting declines of 4.00 and 4.49 percentage points, which were below their respective levels in the second half of 2015 (Figure 1.5).

Figure 1. 5: Money Market Interest Rates and MPR

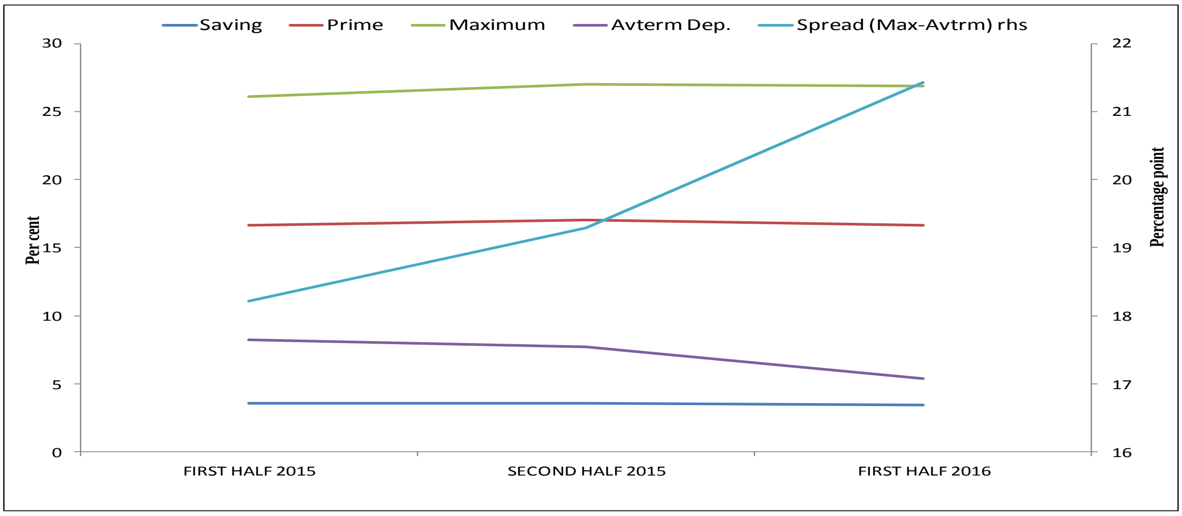


Average savings deposit rate fell by 0.15 percentage point to 3.43 per cent in the first half of 2016 from 3.58 per cent in the second half of 2015. Similarly, all other rates on deposits of various maturities fell from a range of 3.73 - 8.96 per cent in the second half of 2015 to a range of 2.79 - 6.86 per cent in the first half of 2016. Average deposit rates for 7-day, 3-month and 1-year tenors fell from 3.73, 8.96 and 8.54 per cent in the second half of 2015 to 2.79, 6.86 and 5.24 per cent in the first half of 2016, respectively.

The average prime and maximum lending rates declined by 0.44 and 0.15 percentage points below their levels in the second half of 2015 to 16.63 and 26.83 per cent in the first half of 2016, respectively. The developments in interest rates could be attributed to the tight monetary policy stance.

The average term deposit rate fell by 0.03 percentage point to 5.40 per cent, indicating increased liquidity in the banking sector during the review period. The spread between the average term deposit and the average maximum lending rates widened by 2.12 percentage points to 21.43 per cent, compared with 19.31 per cent recorded in the second half of 2015. Interest rates, except lending rates, were generally negative in real terms (Figure 1.6).

Figure 1. 6: Lending and Deposit Rates



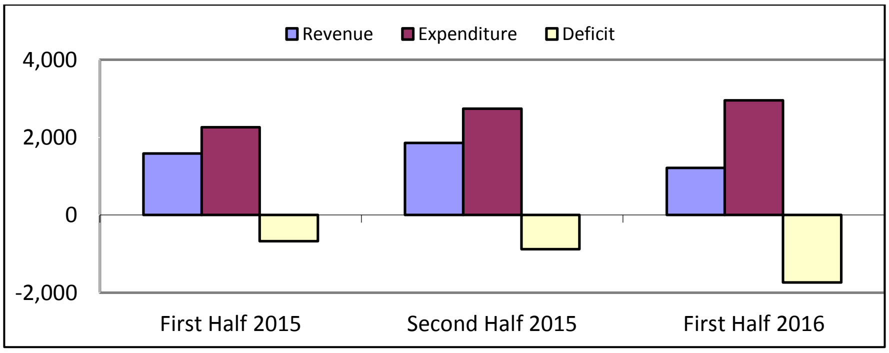
1.2.4 Fiscal Operations

The Federal Government retained revenue for the first half of 2016 declined to ₦1,212.36 billion from ₦1,853.27 billion and ₦1,583.19 billion in the second half and corresponding period of 2015, respectively. This outcome was below the first half of 2016 budget estimate of ₦2,024.90 billion by 40.1 per cent. Of this amount, ₦782.29 billion (64.5%) was received from the Federation Account; ₦89.91 billion (7.4%) was Federal Government Independent Revenue; ₦56.33 billion (4.7%) VAT Pool Account; and "Others" ₦283.83 billion (23.4%). The share from the Federation Account included current federation revenue, ₦735.40 billion (94.0%); exchange gain, ₦8.91 billion (1.1%); and NNPC refunds, ₦37.98 billion (4.9%). The low oil prices during the first half of 2016 had a significant negative impact on Government revenue.

Federal Government expenditure rose by 8.0 per cent to ₦2,952.44 billion in the first half of 2016, compared with the ₦2,734.60 billion recorded in the second half of 2015. The expenditure also grew by 30.7 per cent, relative to the level in the corresponding period of 2015. Recurrent expenditure constituted 73.5 per cent of total expenditure during the first half of 2016.

The fiscal operations of the Federal Government resulted in an overall deficit of ₦1,740.08 billion or 4.0 per cent of GDP. This was higher than the proportionate budget deficit of ₦1,110.97 billion for the first half of 2016 and the ₦881.33 billion recorded in the second half of 2015. The deficit was financed mostly from domestic sources (Figure 1.7).

Figure 1. 7: Federal Government Fiscal Operations



The consolidated domestic debt stock of the Federal Government at end-June 2016 was ₦10,606.33 billion. This reflected an increase of 20.02 per cent over the level at end-December 2015.

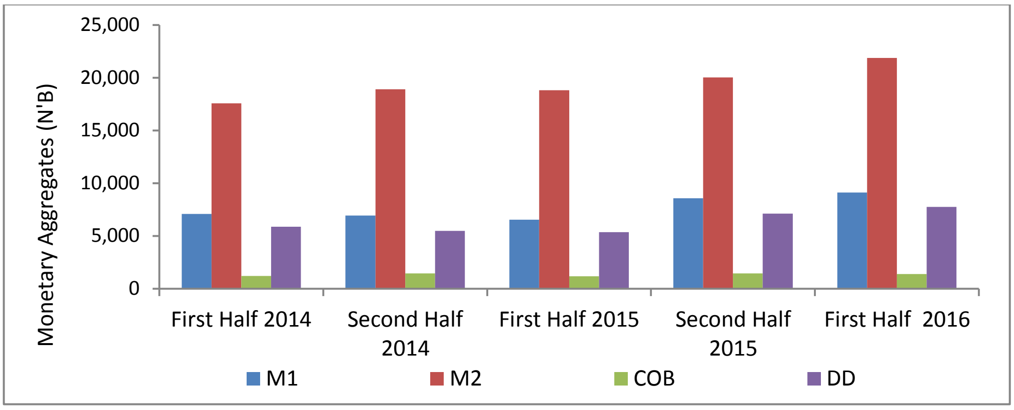
2.0 DEVELOPMENTS IN THE FINANCIAL SYSTEM

2.1 Monetary and Credit Developments[5]

Provisional data indicated that relative to the preceding December, broad money supply (M_2) grew by 8.26 per cent to ₦21,684.97 billion at end-June 2016, compared with the 5.90 per cent increase at end-December 2015, but contrasted with the decline of 0.54 per cent at end-June 2015. The increase in money stock, relative to end-December 2015 was driven largely by the increases of 25.69 and 12.52 per cent in foreign assets (net) and domestic credit (net) respectively, which was moderated by the decline of 34.59 per cent in other assets (net) of the banking system. Correspondingly, the growth in total monetary liabilities, M_2, was driven by the 6.47 and 9.61 per cent increase in narrow money (M_1) and quasi-money respectively.

Narrow money supply rose by 6.47 per cent to ₦9,125.93 billion at end-June 2016, compared with 24.14 per cent at end-December 2015, reflecting the 8.87 per cent decline in demand deposits. Currency outside banks, as a ratio of narrow money, supply fell from 17.0 per cent at end-December 2015 to 14.8 per cent at end-June 2016 (Figure 2.1).

Figure 2. 1: Trend in Monetary Aggregates

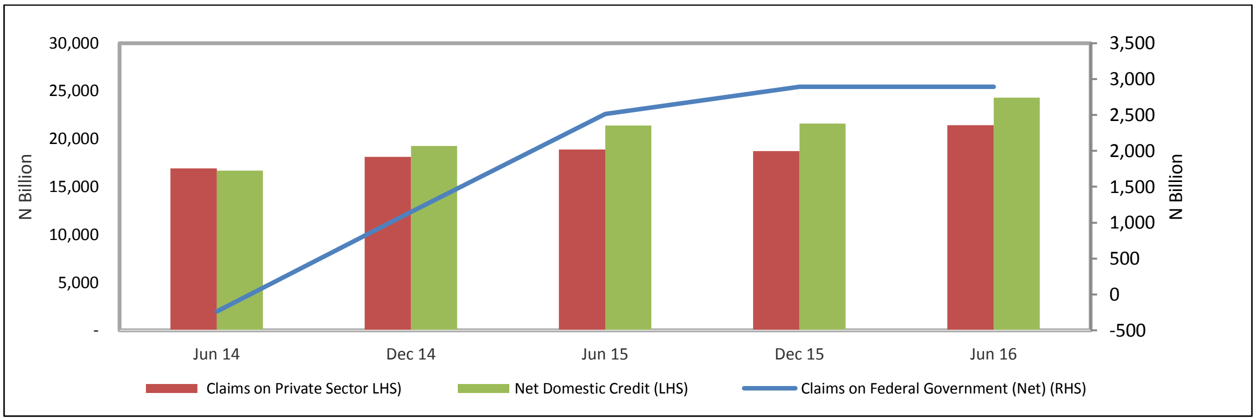


2.1.1 Aggregate Credit to the Economy

Net domestic credit (NDC) of the banking system grew by 12.52 per cent to ₦24,318.14 billion at the end of the first half of 2016, compared with the growth of 12.13 and 11.08 per cent at the end of the preceding and the corresponding periods of 2015, respectively. This reflected the increase in net claims on the private sector. In terms of growth in M_2, NDC contributed 13.51 percentage points, compared with 12.27 percentage points at the end of the preceding half year.

[5] The analysis is based on the revised June 2016 CBN Monetary Survey.

Figure 2. 2: Credit to the Economy



2.1.1.1 Claims on the Federal Government

Net credit to the Federal Government dropped marginally by ₦0.96 million to ₦2,893.19 billion at the end of the first half of 2016, in contrast to the significant growth of 151.56 per cent recorded at the end of the second half of 2015.

Table 2. 1: Growth in Monetary Aggregates (% Change)

% Change (Over preceding December)	Dec 13	Jun 14 revised	Dec 14 revised	Jun 15 revised	Dec 15 Provisional	Jun 16 Provisional
Domestic Credit (Net)	14.47	14.82	32.6	11.08	12.13	12.52
Claims on Federal Government (Net)	32.50	85.75	169.44	118.45	151.56	0.00003
Claims on Private Sector	6.86	4.53	11.93	4.27	3.29	14.45
Foreign Assets (Net)	4.26	(11.38)	(19.68)	(14.42)	(18.71)	25.69
Other Assets (Net)	19.92	(9.58)	2.53	(16.88)	1.08	(34.59)
Total Monetary Assets (M2)	1.32	12.03	20.55	(0.54)	5.90	8.26
Quasi-Money	7.36	21.07	38.73	2.17	(4.58)	9.61
Money Supply (M1)	(5.23)	0.90	-1.82	(5.25)	24.14	6.47
Currency Outside Banks	11.18	(16.25)	(0.64)	(17.63)	1.30	(5.28)
Demand Deposits	(8.72)	5.35	(2.13)	(1.99)	30.15	8.87
Total Monetary Assets (M2)	1.32	12.03	20.55	(0.54)	5.90	8.26

2.1.1.2 Claims on the Private Sector

Credit to the private sector at end-June 2016 grew by 14.45 per cent, compared with 3.29 and 4.27 per cent in the preceding and corresponding period of 2015, respectively. This reflects a 12.63 per cent increase in claims on the core private sector[6], compared with 3.12 per cent growth at the end of the second half of 2015. The contribution of claims on the private sector to the growth of total monetary assets stood at 11.42 percentage points, compared with 2.90 percentage points at the end of the second half of 2015.

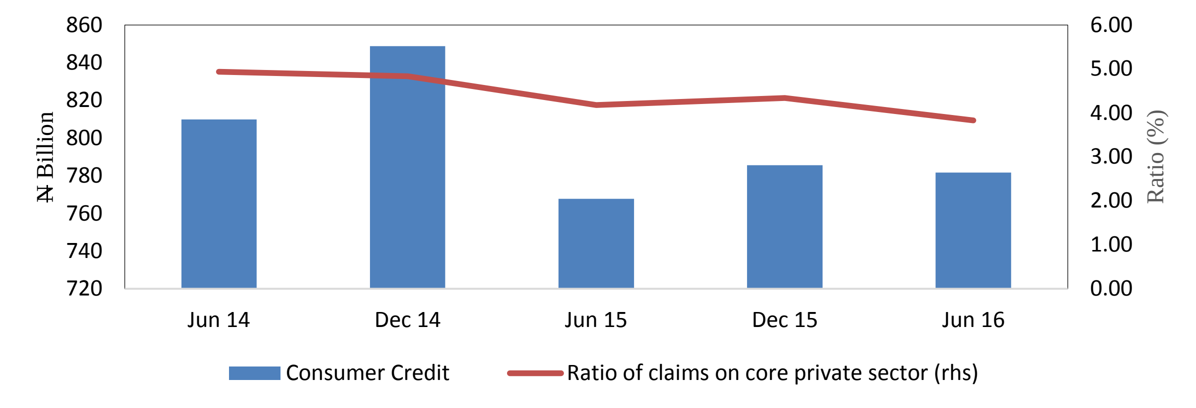
2.1.1.3 Consumer Credit

Consumer credit decreased by 0.49 per cent to ₦781.67 billion at end-June 2016 below the level at the end of second half of 2015 and in contrast to the growth of 2.32 per cent at end-December 2015. The decline was attributed to weak consumer demand and increased risk

[6]Excludes the state and local governments

aversion by banks for consumer credit. Consumer credit accounted for 3.8 per cent of the total credit to the core private sector, compared with 4.3 per cent at the end of the second half of 2015 (Figure 2.3).

Figure 2. 3: Consumer Credit

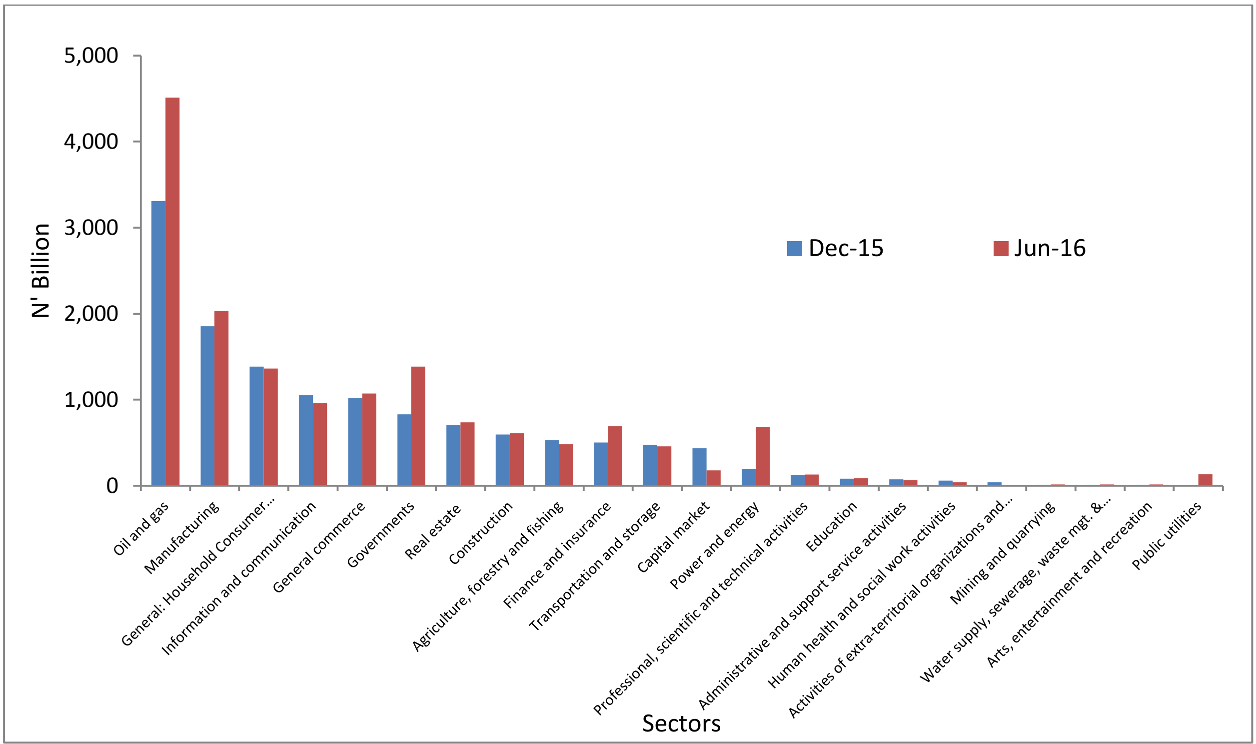


2.1.2 Sectoral Credit Utilisation

Total bank loans and advances to the private sector of the economy grew by 17.62 per cent to ₦15,677.68 billion at the end of the first half of 2016, in contrast to the decline of 1.44 per cent at the end of the second half of 2015. Relative to the second half of 2015, the amount of credit extended to the various sectors by banks during the review period showed an upward trend.

Credit to the oil and gas sector accounted for the highest share of total credit, as it accounted for 28.78 per cent of the total, compared with 24.82 per cent in the second half of 2015. The manufacturing sector accounted for 12.95 per cent of the total credit, compared with 13.91 per cent in the second half of 2015. Agriculture, forestry and fishery accounted for 3.08 per cent of the total, indicating a 0.69 percentage point decline compared with 3.77 per cent in the preceding half year (Figure 2.4).

Figure 2. 4: Sectoral Allocation of Credit



2.1.3 Reserve Money

Reserve money declined by 7.6 per cent to ₦5,372.01 billion at end-June 2016, compared with the level at end-December 2015. This was 2.66 per cent above the 2016 second quarter indicative benchmark of ₦5,232.87 billion. The fall in the sources of reserve money reflected the decrease in net domestic and other assets (net) of the CBN, while the corresponding decrease in the uses of reserve money was attributed to the decrease in currency in circulation and bank deposits with the CBN.

2.1.3.1 Currency-in–Circulation and Bank Deposits with the CBN

Currency-in-circulation, which constituted 31.36 per cent of the uses of reserve money at the end of the first half of 2016, fell by 9.32 per cent to ₦1,684.73 billion. Similarly, bank deposit with the CBN fell by 12.50 per cent at end-June 2016, compared with the 3.84 per cent decline at the end of the second half of 2015.

Figure 2. 5: Reserve Money and its Components - Sources

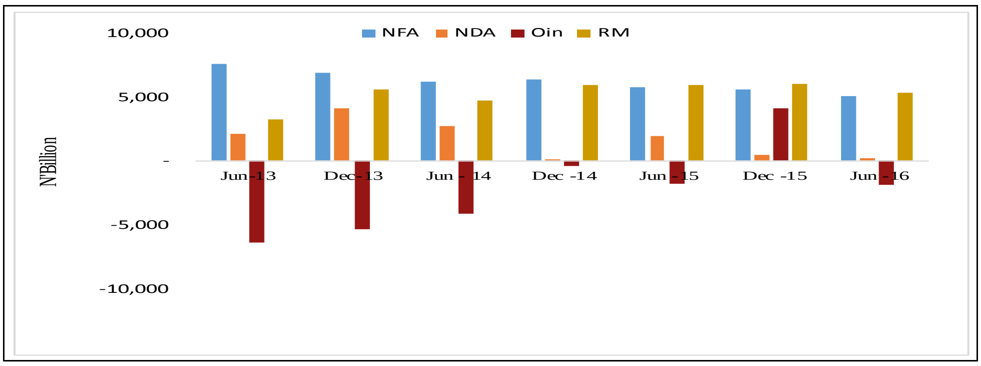
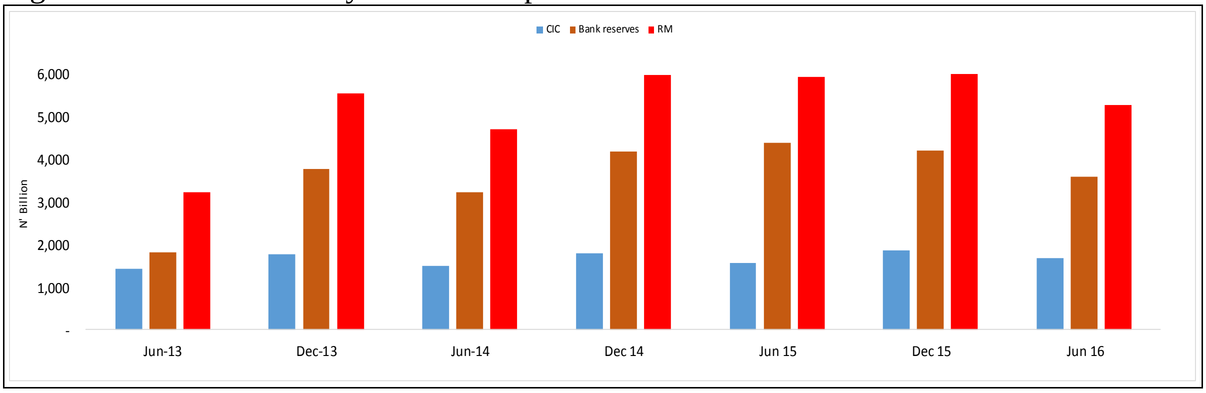


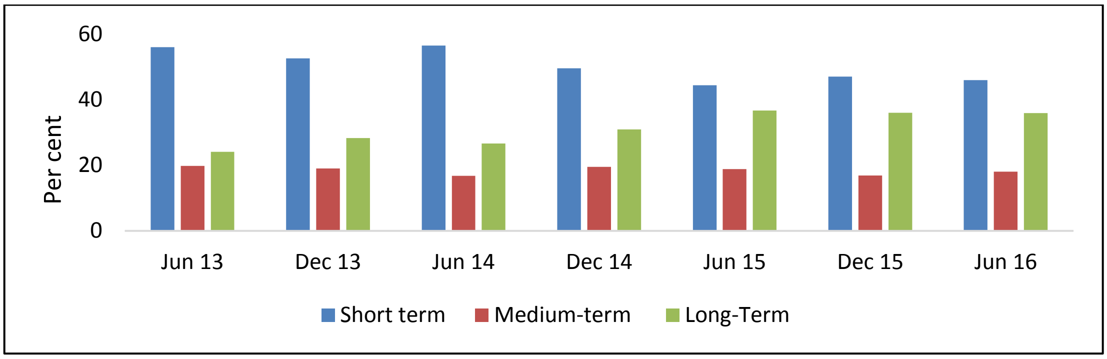
Figure 2. 6: Reserve Money and its Components – Uses



2.1.4 Maturity Structure of Bank Deposits and Credit

The structure of bank credit in the first half of 2016 indicated that short-term credit remained dominant. Credit maturing within one year accounted for 46.0 per cent, compared with 47.1 per cent at the end of the second half of 2015. The medium-term[7] and long-term[8] credit stood at 18.1 and 35.9 per cent, compared with 16.9 and 36.0 per cent at the end of the second half of 2015 (Figure 2.7).

Figure 2. 7: Distribution of Bank Loans and Advances by Maturity

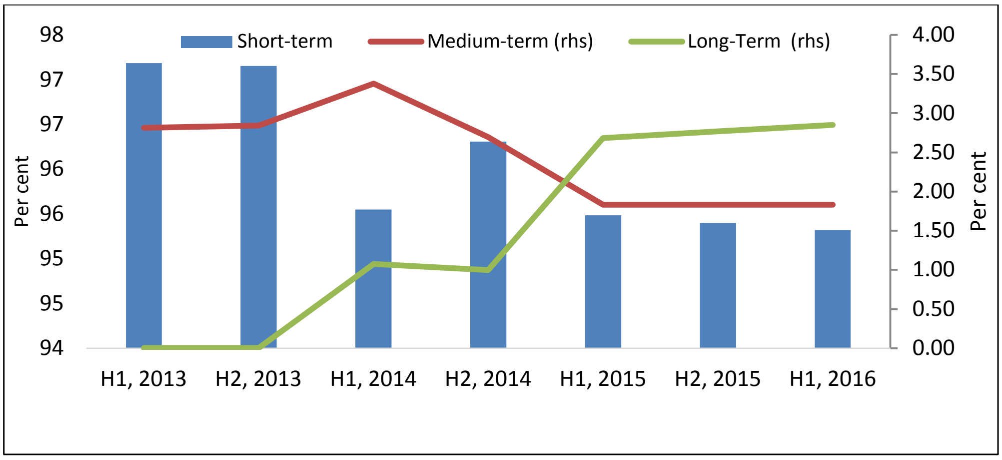


Deposits of below one-year maturity constituted 95.32 per cent (of which 75.45 per cent had maturity of less than 30 days), compared with 95.40 per cent at end-December 2015. The medium and long-term deposits constituted 1.83 and 2.85 per cent, compared with 1.83 and 2.77 per cent at end-December 2015 respectively (Figure 2.8).

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

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

Figure 2. 8: Maturity Structure of Bank Deposits



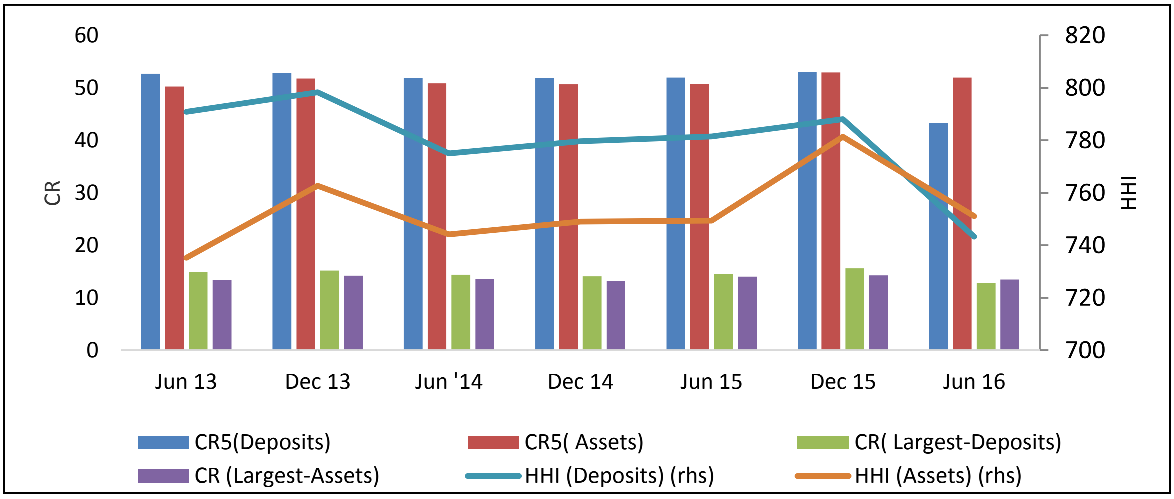
The maturity mismatch remained a constraint to the ability of banks to create long-tenored assets. However, sustained implementation of various policies by the Bank designed to de-risk and encourage lending to the real sector is expected to further improve medium to long-term lending.

2.1.5 Market Structure of the Banking Industry

In terms of size of assets and deposit of banks, the market share of the five largest banks in the first half of 2016 declined to 43.30 and 51.96 per cent, from 60.61 and 52.94 per cent in the second half of 2015 respectively. The market share of the largest bank's deposits and assets stood at 12.84 and 13.52 per cent respectively in the first half of 2016. The remaining 18 banks had market shares ranging from 0.21 to 6.58 per cent in deposits and 0.26 to 6.41 per cent in assets, reflecting low competition in the market. This finding is supported by the Herfindahl-Hirschman Index (HHI)[9] of the industry of 743.37 and 751.17 for deposits and assets, at end-June 2016, compared with 788.09 and 781.40 at end-December 2015, respectively (Figure 2.9). Despite the improvement recorded relative to the first half of the year, the structure of the banking industry in the first half of 2016 remained oligopolistic.

[9]HHI is based on a scale of 100 to 10,000.

Figure 2. 9: Market Concentration Ratios of Banks (Assets and Deposits)



2.2 New Institutions Licensed

The following category of banks and other financial institutions (OFIs) were granted the authorizations[10] indicated against their classes in the table below, during the period under review:

Table 2. 2: Update on FI Licences issued

S/N	Type of Institution	Number of New Licenses Jan. –Jun., 2016
1	Microfinance Banks	18
2	Finance Companies	3
3	Commercial Banks	1
4	Bureaux de Change	159

In total, 181 new licences were issued during the review period. In the MFB category, Yankari Savings and Loans Limited transformed to a state MFB in April, 2016, while in the commercial banking category, United Mortgages Limited transformed into Providus Commercial Bank with regional authorization on May 4, 2016.

2.3 Other Financial Institutions

There were 4,084 Other Financial Institutions (OFIs) at end-June 2016, compared with 3,905 institutions at end-December 2015, representing an increase of 179 OFIs or 4.50 per cent. The increase was attributed to the net effect of 180 new OFIs and the exit of one (1) PMB which transformed into a regional commercial bank during the review period. The total number of OFIs comprised six (6) Development Finance Institutions (DFIs), 34 Primary Mortgage Banks (PMBs), 979 Microfinance Banks (MFBs), 66 Finance Companies (FCs), 2,998 Bureaux de Change (BDCs) and one (1) Mortgage Refinancing Company.

[10] Some of the institutions were not entirely new, but transformed from one category into another.

The provisional total assets of the OFIs sub-sector increased by 6.63 per cent to ₦1,963.68 billion at end-June 2016, from ₦1,841.64 billion at end-December 2015. Total net loans/advances decreased by 6.65 per cent to ₦1,007.12 billion at end-June 2016, from ₦1,078.81 billion at end-December 2015. However, total deposits increased by 15.06 per cent to ₦620.43 billion at end-June 2016, from ₦539.22 billion at end-December 2015. Similarly, the total paid-up capital increased by 4.44 per cent to ₦463.41 billion at end-June 2016 from ₦443.71 billion at end-December 2015. The increase was due mainly to the injection of additional capital by some OFIs in compliance with regulatory requirements.

2.3.1 Development Finance Institutions

Provisional data showed that the total assets of the six (6) Development Finance Institutions (DFIs) increased by 5.50 per cent to ₦1,016.0 billion at end-June 2016, compared with ₦962.3 billion at end-December 2015. The net loans and advances of the institutions, however, decreased by 17.49 per cent to ₦566.84 billion at end-June 2016, from ₦687.02 billion at end-December 2015, reflecting the economic downturn.

The total asset base of the institutions indicated that the six (6) DFIs, namely, Bank of Industry (BOI), Federal Mortgage Bank of Nigeria (FMBN), Nigerian Export-Import Bank (NEXIM), Bank of Agriculture (BOA), National Economic Reconstruction Fund (NERFUND) and The Infrastructure Bank (TIB) accounted for 69.90, 17.23, 6.90, 3.39, 1.81 and 0.77 per cent respectively. Similarly, the respective institutions accounted for 87.74, 5.24, 5.02, 1.73, 0.19 and 0.08 per cent of the net loans/advances respectively.

2.3.1.1 Development Finance Institutions Stakeholders Forum

The maiden bi-annual consultative forum for the stakeholders of DFIs in Nigeria was held on February 23, 2016. The forum served as a platform to discuss issues and challenges affecting the sub-sector and proffer solutions on the way forward. At the forum, it was noted that DFIs contributed only ₦0.761 trillion or 5.2 per cent of the ₦14.7 trillion total credits to the economy, hence the need for a significant improvement in their contribution. Meanwhile the revised *Regulatory and Supervisory Guidelines for Development Finance Institutions in Nigeria* was formally launched during the review period.

2.3.2 Microfinance Banks

The total assets of microfinance banks (MFBs) increased to ₦455.96 billion at end-June 2016, from ₦361.04 billion at end-December 2015, reflecting an increase of 26.30 per cent. The paid-up capital and shareholders' funds of MFBs also increased by 34.08 per cent and 41.66 per cent to ₦112.87 billion from ₦84.18 billion at end-December 2015, and from ₦95.36 billion to ₦135.09 billion at end-June 2016 respectively. The increases in paid-up capital and shareholders' funds were largely attributed to the injection of additional capital by some MFBs and the accretion to reserves.

Total deposit liabilities and net loans/advances of MFBs also increased by 18.93 and 38.65 per cent to ₦191.25 billion and ₦232.73 billion at end-June 2016, compared with ₦160.81 billion and ₦167.85 billion, at end-December 2015, respectively. Reserves also increased by

101.27 per cent to ₦22.22 billion at end-June 2016, from ₦11.18 billion at end-December 2015.

2.3.2.1 Microfinance Certification Programme

The third phase of the Microfinance Certification Programme (MCP) which commenced in January 2014, continued in the review period, in compliance with the *Microfinance Policy Framework* and the *Revised Regulatory and Supervisory Guidelines for Microfinance Banks in Nigeria*. The Guidelines require all top management staff in microfinance banks to possess requisite certification in microfinance management from the Chartered Institute of Bankers of Nigeria (CIBN).

The certification examinations administered by the CIBN showed that additional 380 candidates completed the Level II of the certification examinations during the review period. As at end-June 2016, a total of 3,850 candidates had been certified by the Institute as having successfully passed the prescribed examinations for the award of the Certificate in Microfinance Banking.

Also, a two-day implementation programme on the integration of Rural Business Plan (RBP) and other products into the curriculum of MCP was held during the review period. The following issues were agreed upon on that occasion:

1. Modalities for the revision of the MCP curriculum with a view to incorporating emerging products and microfinance services, particularly the RBP, Agent Banking, Agricultural Microfinance, and Housing Microfinance for sustainable delivery.
2. The requirements for operationalizing the capacity enhancement exercise for the Training Services Providers (TSPs) under the MCP.
3. The budget and implementation framework, including deliverables and timelines.
4. Risk control measures to be adopted before accessing the Micro, Small and Medium Enterprise Development Fund (MSMEDF).

Peer Review Sessions for MFBs

The joint RUFIN/CBN sponsored peer review forum for microfinance banks held during the period under review. Feedback from participants at the forum revealed the need to increase the number of participating institutions and the frequency of meetings. The institutional synergy developed through shared experiences at the sessions is envisaged to strengthen regulatory oversight and enhance economic empowerment of micro loan beneficiaries, reducing loan defaults and contributing immensely to the government's overall strategy of poverty reduction.

2.3.3 Finance Companies

The number of licensed finance companies (FCs) stood at 69 at end-June 2016, including the three (3) newly licensed that were yet to commence operations. Total assets of FCs at end-June 2016 stood at ₦109.43 billion compared with ₦128.58 billion at end-December 2015, reflecting a decrease of 14.89 per cent. Nevertheless, funds available to the sub-sector increased significantly to ₦1.19 billion at end-June 2016 from ₦0.12 billion at end-December 2015, arising from the injection of new capital. FCs' balances with banks increased by 24.48 per cent to ₦3.33 billion from ₦2.68 billion at end-December 2015, resulting in increased liquidity in the subsector. Conversely, loans and advances, investments, fixed assets, paid up capital[11] and total borrowing declined by 27.42, 26.64, 21.11, 11.10 and 10.01 per cent to ₦39.91 billion, ₦13.72 billion, ₦11.29 billion, ₦15.35 billion and ₦67.89 billion respectively.

2.3.4 Primary Mortgage Banks

The number of PMBs in operation decreased to 34 at end-June 2016, from 35 at end-December 2015. The decrease was attributed to the conversion of United Mortgages Limited to a regional commercial bank during the review period. Consequently, National PMBs remained nine (9) at end-June 2016, while State PMBs decreased to 25 from 26 at end-December 2015.

Total assets of PMBs decreased to ₦382.63 billion at end-June 2016 from ₦389.73 billion at end-December 2015, representing a decrease of 1.82 per cent, attributed mainly to the conversion of United Mortgages Limited to a commercial bank. Similarly, loans and advances, and paid up capital decreased by 1.84 and 8.11 per cent respectively. The declines were due to the fall in the number of operating institutions in the period under review.

However, deposit liabilities increased by 1.12 per cent to ₦123.06 billion at end-June 2016 from ₦121.69 billion at end-December 2015. Reserves also increased by 14.12 per cent to ₦30.25 billion at end-June 2016 from ₦26.52 billion at end-December 2015, while investments in quoted shares increased by 43.09 per cent to ₦18.89 billion at end-June 2016 from ₦13.20 billion at end-December 2015 (Table 2.3).

Table 2. 3: Key PMB Financial Highlights as at June 30, 2016

	June 2016 (₦' billion)	December 2015 (₦' billion)	% Change
Total Assets	382.63	389.73	(1.82)
Loans and Advances	167.63	168.95	(0.78)
Paid up Capital	103.29	112.41	(8.11)
Reserves	30.25	26.51	14.12
Shareholders' Funds	133.54	138.92	(3.87)
Deposit Liabilities	123.06	121.69	1.12
Liquid Assets	58.66	64.70	(9.33)

2.3.3.1 National Housing Finance Programme

The Bank continued to pursue the four cardinal deliverables of the National Housing Finance Program (NHFP) during the period under review, namely Nigeria Mortgage Refinance Company, Housing Microfinance, Mortgage Guarantee and Technical Assistance.

[11]The decline in paid-up capital arose mainly from the inability of some FCs to render statutory returns as at the time of the *Report*.

Nigeria Mortgage Refinance Company

At end-June 2016, the NMRC had refinanced mortgages amounting to ₦2.66 billion, representing 33.25 per cent of its ₦8 billion raised from the bonds market, compared with ₦1.66 billion or 20.76 per cent of its bonds at end-December 2015. The relatively low volume of mortgages refinanced by the company remained attributable to non-conformity of most legacy mortgage loans of primary mortgage lenders to the NMRC's underwriting standards. The CBN and other stakeholders continued to ensure that the capital raised was wholly utilized for mortgage refinancing.

Housing Microfinance

The terms of reference had been developed and call for expression of interest made to qualified firms meant to provide the capacity building to participating MFBs in the pilot Housing Microfinance (HMF) Scheme. A sum of US$25 Million had been earmarked under the World Bank approved concessional US$300 Million to support the development and piloting of Housing Microfinance Products.

Mortgage Guarantee

Under the NHFP, the mortgage guarantee is structured to provide insurance cover through products designed to create easy accessibility for intending mortgagee(s). By end-June 2016 the CBN had engaged an expert with the mandate to carry out a preliminary study on the Nigerian market with a view to recommending the best institutional and operational frameworks.

Technical Assistance

During the period under review, the Technical Assistance/Capacity Building Team, of the NHFP comprising the CBN, the Federal Ministry of Finance (FMoF), Federal Ministry of Housing, Lands and Urban Development and the World Bank Group visited seven states in the country identified as part of mass literacy campaign to broaden awareness on the benefits of the programme and solicit stakeholder buy-in, as well as adoption of a model Land and Title law.

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2.3.5 Bureaux de Change

The number of licensed BDCs increased to 2,998 at end-June 2016 from 2,839 at end-December 2015. During the period under review, the Revised Operational Guidelines for Bureaux de Change became effective. Circulars were also issued to strengthen the operations of the BDC segment of the foreign exchange market.

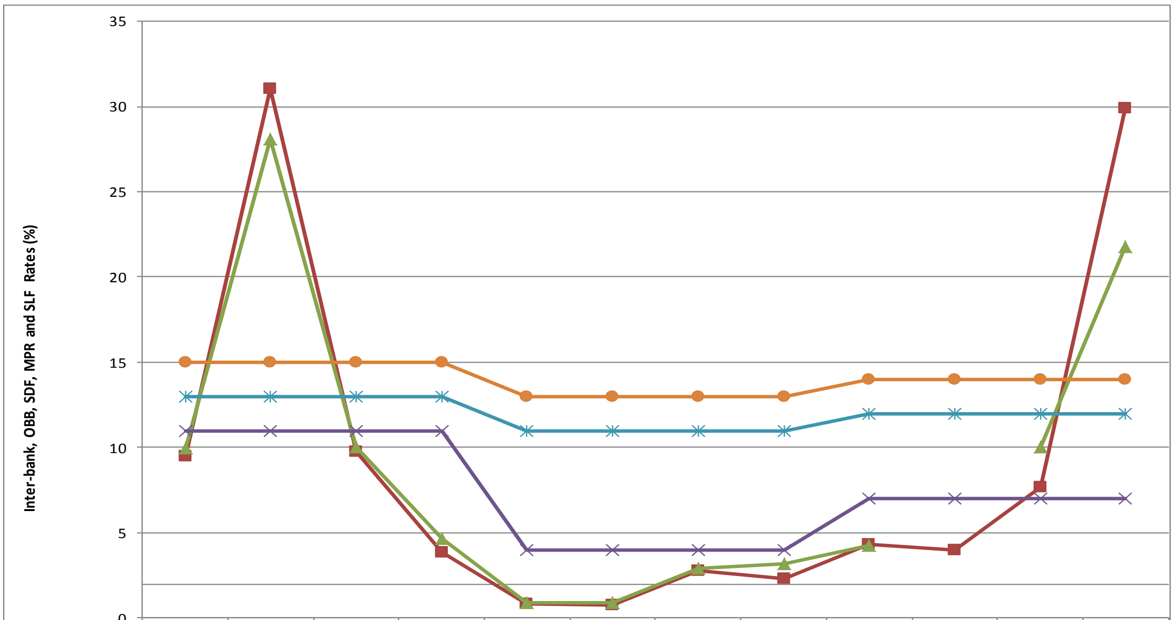
2.4 Financial Markets

2.4.1 The Money Market

The CBN maintained its accommodative monetary policy stance in the first two months of 2016 in a bid to stimulate the economy. Thus, the Monetary Policy Rate (MPR) was maintained at 11.00 per cent with the asymmetric corridor of +200/-700 basis points around the MPR for the lending and deposit rates respectively. The CRR on deposits was also retained at 20.00 per cent. However, in March 2016, the MPR was increased to 12.00 per cent, with an adjustment of the asymmetric corridor to +200/-500 basis points around the MPR, while the CRR was increased to 22.50 per cent, from 20.00 per cent. The increase was made in order to curb the excess liquidity in the banking system and to tame inflationary pressures.

Money market rates which opened low, remained flat at the beginning of the first half of 2016. The inter-bank call and open buy back (OBB) rates were at 1.50 and 1.00 per cent, on January 5, 2016 respectively. The rates traded significantly below the MPR corridor through the first quarter of 2016. However, the monthly weighted average OBB and inter-bank call rates closed at 21.75 and 29.91 per cent in June 2016, compared with 0.77 and 0.87 per cent recorded in December 2015, respectively. The monthly average OBB rate ranged from 2.90 to 21.75 per cent, while the inter-bank call rate ranged from 2.75 to 29.91 per cent during the review period.

Figure 2. 10: Money Market Rate Movements, July 2015 – June 2016



	July	August	September	October	November	December	January	February	March	April	May	June
Inter-bank	9.48	31.07	9.74	3.83	0.86	0.77	2.75	2.33	4.32	4.00	7.68	29.91
OBB	9.95	28.10	10.03	4.64	0.92	0.87	2.90	3.18	4.25		10.00	21.75
SDF	11.00	11.00	11.00	11.00	4.00	4.00	4.00	4.00	7.00	7.00	7.00	7.00
MPR	13.00	13.00	13.00	13.00	11.00	11.00	11.00	11.00	12.00	12.00	12.00	12.00
SLF	15.00	15.00	15.00	15.00	13.00	13.00	13.00	13.00	14.00	14.00	14.00	14.00

**NB: There was no OBB transaction in April 2016.

2.4.1.1 Nigerian Treasury Bills

During the review period, the 91-, 182- and 364-day tenored bills totalling ₦2,457.28 billion were issued and allotted. This reflected an increase of 52.48 per cent, when compared with the ₦1,611.52 billion recorded in the second half of 2015. Similarly, total subscriptions rose by 23.68 per cent to ₦5,057.30 billion in the first half of 2016 from ₦4,089.11 billion in the second half of 2015. The increase in NTBs issued and allotted was to finance budget deficit.

An analysis of the holding structure of investments in NTBs in the review period showed that banks took up ₦1,745.90 billion, representing 71.05 per cent of total NTBs issued, while non-bank investors took up the balance of ₦711.38 billion. In terms of total NTBs outstanding, investment by banks at end-June 2016 accounted for 40.73 per cent; the non-bank investors accounted for 58.20 per cent, while mandate customers held the balance of 1.07 per cent. Average marginal rates ranged from 4.0000 to 9.9948 per cent for the 91-day, 6.9900 to 12.3000 per cent for the 182-day, and 8.0500 to 14.9990 per cent for the 364-day tenor.

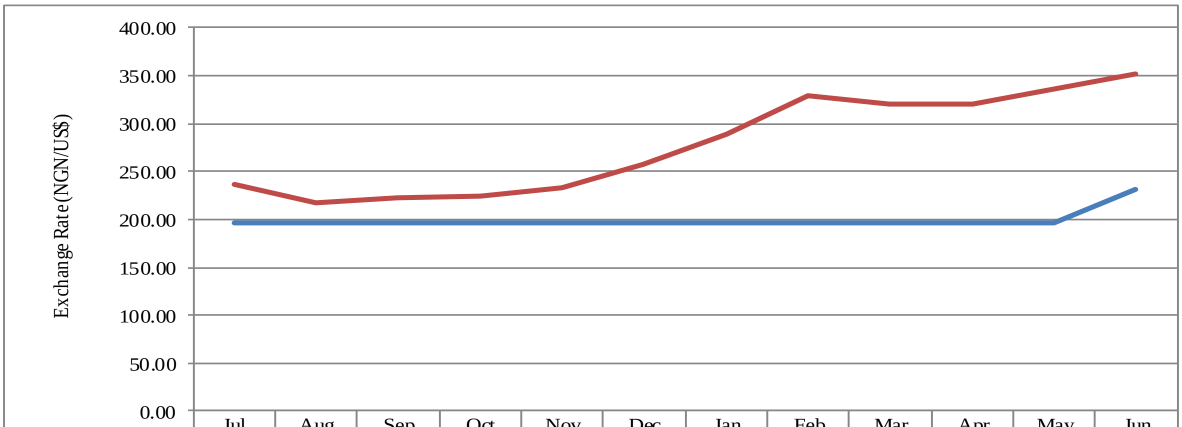
2.4.2 The Foreign Exchange Market

The Bank's efforts towards maintaining a stable foreign exchange rate were sustained in the first half of 2016. However, external shocks, speculative demand pressure and low accretion to external reserves remained the major challenges to the stability of the exchange rate. Consequently, the CBN introduced the Flexible Exchange Rate regime on June 20, 2016 and revised guidelines to strengthen the operation of the foreign exchange market were issued. The objective of the new policy was to enhance efficiency, boost liquidity and promote stability in the market.

2.4.2.3 Foreign Exchange Market Rates

In the review period, the average exchange rates at the interbank and BDC segments depreciated by 15.00 and 26.58 per cent from ₦196.99/US$ and ₦258.30/US$ as at end-December 2015 respectively, to close at ₦231.76/US$ and ₦351.82/US$ at end-June 2016, respectively (Figure 2.7).

Figure 2. 11: Inter-bank and BDC Rates, July 2015 - June 2016



	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Inter-Bank	196.97	197.00	197.00	196.99	196.99	196.99	197.00	197.00	197.00	197.00	197.00	231.76
BDC	236.30	216.64	222.68	224.83	232.40	258.30	289.78	329.83	320.93	320.71	336.93	351.82

2.4.3 The Capital Market

The Nigerian Stock Exchange (NSE) All Share Index (ASI) and Market Capitalisation (MC) recorded slight gains during the review period. The increase was due to a combination of factors, which included the general moderation of volatility in global and domestic stocks and in commodity prices.

2.4.3.1 The Bond Market

Total bonds outstanding at end-June 2016 stood at ₦7,542.17 billion, with FGN, agency, sub-national and corporate bonds constituting ₦6,571.96 billion (87.14%), ₦0.90 billion (0.01%), ₦433.24 billion (5.74%) and ₦536.07 billion (7.11%) respectively. The total bonds outstanding at end-June 2016 reflected an increase of 9.28 per cent over the end-December 2015 figure of ₦6,901.94 billion, which comprised FGN, agency, sub-national and corporate bonds valued at ₦5,936.44 billion (86.01%), ₦1.50 billion (0.02%), ₦456.45 billion (6.61%) and ₦507.55 billion (7.36%) respectively (Table 2.5).

Table 2.5: Outstanding Bonds as at 30 June 2016

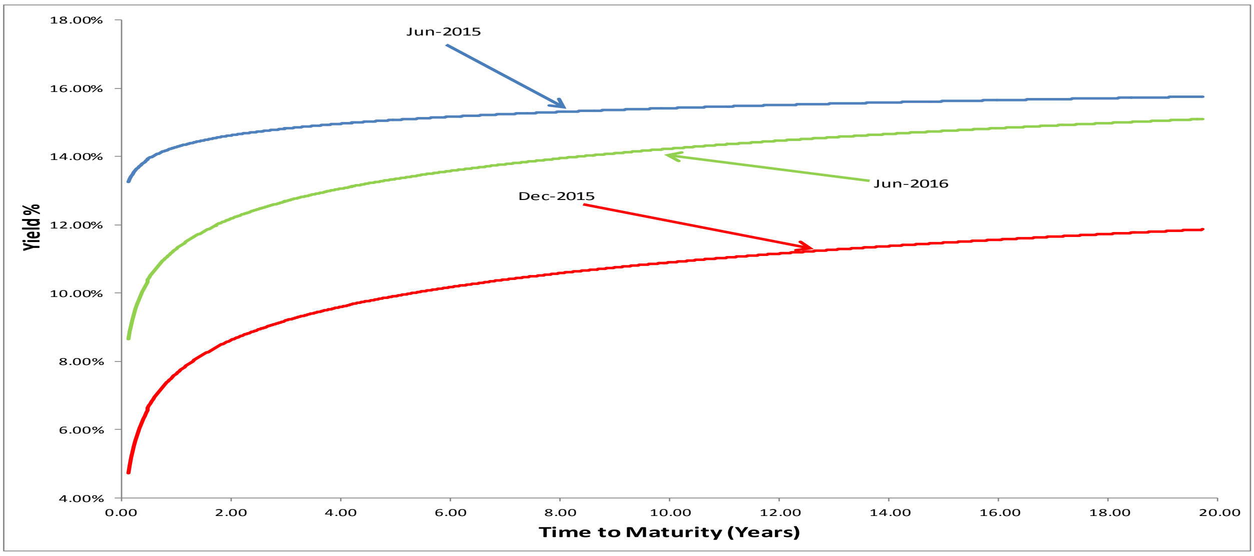
	Dec. 31, 2015 (₦' Billion)	**Jun. 30, 2016 (₦' Billion)**	**% Change**	**Proportion of Total (%)**
FGN	5,936.44	6,571.96	10.71	87.14
Agency	1.50	0.90	-40.00	0.01
Sub-National	456.45	433.24	-5.08	5.74
Corporate	507.55	536.07	5.62	7.11
Total	**6,901.94**	**7,542.17**	**9.28**	**100**

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 ₦590.00 billion, reflecting an increase of 53.25 per cent above the ₦385.00 billion offered in the second half of 2015, while public subscriptions and sales stood at ₦1,183.83 billion and ₦529.50 billion respectively. The increase in the amount offered was attributed to the need to finance budget deficit, while the over subscription was attributable to the high level of liquidity in the banking system and investor appetite for fixed income securities as well as the impressive yield on FGN bonds.

The price of FGN Bonds at the secondary market declined as a result of decreasing demand, increased stability in global economic fundamentals and improved corporate performance. Consequently, yields on FGN Bonds at end-June 2016 increased considerably, compared with the position as at end-December 2015 (Figure 2.8).

Figure 2. 12: Yield Curves for Nigeria at end-June 2016



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, same as the amount redeemed in the second half of 2015. Consequently, total outstanding agency bonds at end-June 2016 was ₦0.90 billion.

Sub-National Bonds

There was no new issue of sub-national bonds in the first half of 2016, as against the ₦61.51 billion issued by six state governments in the preceding period. A total amount of ₦19.87 billion was amortised by 12 States as against ₦32.27 billion amortised in the second half of 2015, while ₦3.35 billion was redeemed by three states. The total outstanding bonds held by 16 State Governments stood at ₦433.23 billion.

Corporate Bonds

Two corporate bonds, valued ₦30.63 billion, were issued in the review period compared with three valued ₦47.94 billion issued in the preceding period. Bonds valued ₦1.89 billion were amortised by 10 companies, while bonds worth ₦0.22 billion were redeemed by one company. The outstanding corporate bonds held by 14 companies at end-June 2016, stood at ₦536.07 billion.

Table: 2.6: Corporate Bonds issued in the first half of 2016

Company	Description	Value (₦' Billion)
FCMB	15.00 FCMB 6-Nov-2020	20.87
Transcorp Hotels Plc	15.50 Transcorp 4-Dec-2020	9.76
Total		**30.63**

2.4.3.2 The Equities Market

The NSE ASI closed at 29,597.79 at end-June 2016, reflecting an increase of 3.34 per cent above the 28,642.25 recorded at end-December 2015. Market capitalization closed higher at ₦10,165.34 billion, reflecting an increase of 3.20 per cent over the ₦9,850.61 billion recorded at the end of the preceding period. Similarly, foreign portfolio inflows were valued ₦78.83 billion, while outflows stood at ₦110.62 billion, resulting in a net outflow of ₦31.79 billion at end-June 2016, compared with ₦65.22 billion recorded at end-December 2015. The FPI transactions accounted for 40.43 per cent of total equity transactions in the period, compared with 55.09 per cent recorded in the second half of 2015. The improvement in the market indicators was attributable to the marginal recovery in some sectors of the global economy, slowdown in foreign portfolio outflows and improved activities in the domestic economy.

Table 2. 4: Domestic and Foreign Portfolio Participation in Equity Trading in the first half of 2016

Period	Total Volume (Billion)	Foreign (₦' Billion)	Foreign (%)	Domestic (₦' Billion)	Domestic (%)	Foreign Inflow (₦' Billion)	Foreign Outflow (₦' Billion)	NSE ASI	Market Cap. (₦' Billion)
May 2016	468.56	189.45	40.43	279.11	59.57	78.83	110.62	29,597.79	10,165.34
Dec. 2015	791.64	436.08	55.09	355.56	44.91	185.43	250.65	28,642.25	9,850.61
Period % Change	-40.811	-56.56		-21.50		-57.49	-55.87	3.34	3.20

During the first half of 2016, six new issues, comprising two State Government Bonds, two FGN Bonds, one corporate bond and one corporate equity were listed, while three companies were delisted from the Exchange for non-compliance with post-listing requirements. Four supplementary listings were also recorded on account of additional public offers and special placement.

In its efforts to deepen the Nigerian capital market, the Securities and Exchange Commission (SEC), among other initiatives, launched the e-Dividend Mandate Management System (e-DMMS) and encouraged investors to register on the platform.

Also to deepen the market, the Nigerian Stock Exchange (NSE) partnered with NASDAQ to acquire the SMARTS Market Surveillance system to enhance compliance and surveillance, and introduced the X-Stream trading platform as its trading engine.

2.5 Financial Inclusion

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

Implementation of the NFIS at the State Level

CBN branches, in collaboration with financial service providers and relevant government agencies, set up technical committees to facilitate the implementation of the NFIS at the State level.

Development of Financial Inclusion Targets for Banks

The Bankers' Committee assigned four banks to work with the Financial Inclusion Secretariat towards setting targets for each bank on key products and channels that would drive financial inclusion efforts. The targets were based on the number of new adult savings account customers in a year, number of loans granted to adult customers, number of new bank agents deployed, number of new bank branches established in selected local governments, and number of new ATMs to be deployed in selected local government areas. The report of the task force was approved by the Bankers' Committee in the review period.

Implementation of the Digital Financial Services Project

Two pilot schemes were selected to drive digital financial inclusion in Nigeria:

- **E-Wallet for Farmers:** Targeted at facilitating electronic payments within the agricultural value chain as well as paying Government subsidies into farmers' bank accounts rather than handing them out in cash. The digitization is expected to impact about 14 million farmers nationwide.
- **Social Safety Nets:** Targeted at 1-3 million poor households across the Country, this initiative would build on existing conditional cash transfer (CCT) programmes which have been piloted in the Country, e.g. in Ekiti and Osun States. The focus is to have government pay social welfare funds electronically to the accounts/wallets of low-income households subject to pre-determined criteria.

Mobile Money in Nigeria

During the review period, the CBN made important regulatory changes in the mobile payments market to promote the adoption of mobile money under the National Financial Inclusion Strategy (NFIS). The notable changes included: the issuance of the Shared Agent Network regulation; the Super-Agent framework; and the release of new guidelines on mobile money services, which provide for increased capitalization requirements for mobile money operators (MMOs) from ₦0.5 billion to ₦2 billion.

2.5.1 Financial Inclusion of People with Disabilities

In view of the peculiar nature of People Living with Disabilities (PLWD) and the need for them to be financially included, the MSMEDF guidelines provide for 2 per cent of its total resources, i.e. ₦4.4 billion, to be set aside for economically active PLWD. As at end-June 2016, the sum of ₦19 million (0.04% of the allocated amount) had been disbursed to PLWD.

A number of participating financial institutions (PFIs) are currently running pilots of the MSMEDF disbursement to PLWD to support their access to credit financing. In addition to disbursement by PFIs, some state governments had also disbursed loans through special purpose vehicles (SPVs). These states included Benue, Enugu, Gombe, Kaduna, Kwara and Osun.

2.5.2 Strategic Engagement with Stakeholders

In order to improve the bi-annual financial inclusion data collection process, the Financial Inclusion Secretariat held review meetings with PenCom, NAICOM, NIMC, NCC and CBN. The engagement focused on streamlining the key performance indicators per sector, introducing disaggregated data, such as gender and state as well as addressing challenges of primary data gathering from operators. The exercise was targeted at facilitating the performance of more insightful analysis by the Secretariat to support the strategy implementation process.

During the review period, a financial inclusion portal was created on the CBN website - www.cbn.gov.ng/fininc/default to highlight the National Financial Inclusion Strategy and implementation activities.

2.5.3 Financial Literacy

To commemorate the 2016 Global Money Week in Nigeria, the Bank, in collaboration with stakeholders, carried out the Global Walk for Money, Financial Literacy Fair/Exhibition and school Outreach/Mentoring Programme.

The Bank also collaborated with the Bankers' Committee Sub-committee on Financial Literacy and Enlightenment to implement the school mentoring programme in 23 States. Through this platform, 3,450 children were sensitized on the benefits of savings.

2.6 The Insurance Sector

The National Insurance Commission (NAICOM) issued a licence to a fully-fledged Takaful company to offer non-interest (ethical) insurance products during the review period.

In compliance with its corporate governance rules, the Commission enforced the 9-year tenure limit for non-executive directors in the insurance industry. This led to the mandatory retirement of over 100 non-executive directors from the insurance sector and has served to inject new blood and ideas into the boardrooms of the concerned companies.

2.7 The Pension Sector

The National Pension Commission (PenCom) established a Micro-Pension Department to drive financial inclusion through the provision of pension services to the informal sector of the economy. The objective was to provide access to pension services to low income individuals, self-employed and all persons not mandated to participate in the Contributory Pension Scheme (CPS).

2.8 Real Sector Intervention Programmes

During the first half of 2016, the CBN reviewed some of the existing programmes and introduced new initiatives as follows:

2.8.1 Risk Mitigation and Insurance Schemes

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

The NIRSAL commenced operations as a full fledged non-bank financial institution.

2.8.1.2 The Agricultural Credit Guarantee Scheme Fund

The Fund, in the first half of 2016, guaranteed 23,774 loans valued ₦3.63 billion granted by three commercial and 72 microfinance banks as against 40,734 loans, valued ₦5.99 billion, granted by five commercial and 46 microfinance banks in the second half of 2015. This outcome reflected decreases of 41.63 and 39.40 per cent in the number and value of loans guaranteed respectively. In terms of repayments, the sum of ₦4.03 billion involving 29,519 projects was repaid during the same period compared with ₦4.36 billion for 25,287 projects in the corresponding period of 2015. This achievement reflected a decrease of 7.57 and an increase of 16.74 per cent in the value and number of loans guaranteed respectively. Cumulatively, 1.025 million loans valued at ₦99.54 billion had been guaranteed from inception to June, 2016.

2.8.1.3 National Collateral Registry

The Bank established the National Collateral Registry (NCR) to help improve access to finance by MSMEs and fast track financial inclusion in Nigeria. It is an online platform that will allow low-income people and small-scale entrepreneurs to secure loans against movable assets such as machinery, livestock, and inventory. The National Collateral Registry became operational on May 25, 2016 and it can be accessed via www.ncr.gov.ng.

Meanwhile, the Bank, in collaboration with International Finance Corporation (IFC) and other stakeholders, developed an awareness/education programme to enlighten MSMEs and the financial institutions on the credit reporting system and the benefits of the NCR project in the Country. A road show was organized in Lagos on 14th June, 2016 to create awareness among micro entrepreneurs, business associations and financial service providers in the South West region.

The Bank, in June 2016, issued a circular to all financial institutions on the Secured Transactions and National Collateral registry to guide banks and other financial institutions on the use of movable assets to facilitate credit to MSMEs. Financial institutions were required to designate staff to serve as their administrator on the Registry's platform.

2.8.2 Credit Support Schemes

2.8.2.1 The Commercial Agriculture Credit Scheme

The sum of ₦35.99 billion was disbursed to 13 banks for 39 projects during the review period, compared with ₦48.91 billion disbursed to eight banks for 49 projects in the second half of 2015. This outcome reflected a decrease of ₦12.92 billion (26.42%) and 10 projects

(20.41%) in value and number respectively. The cumulative amount disbursed under the scheme from inception to June 30, 2016 stood at ₦372.39 billion to 459 projects, 46 of which were state government projects. Seven of the 413 private projects financed under CACS were owned and managed by women. The total repayments stood at ₦22.78 billion by 17 banks for 247 projects, bringing the cumulative repayments to ₦200.69 billion at end-June 2016.

Additional 883 jobs were created (325 skilled and 558 unskilled) owing to CACS intervention. This brought the cumulative number of jobs created about 1.13 million from inception to June 2016.

2.8.2.2 SME Restructuring and Refinancing Fund

Cumulative disbursements to the participating banks remained at ₦381.99 billion for 604 projects. The repayment proceeds at end-June 2016 stood at ₦152.96 billion out of which ₦148.56 billion had been re-disbursed to participating banks under the Real Sector Support Facility (RSSF). A total of 29,642 jobs were created under the scheme.

2.8.2.3 Real Sector Support Facility

Under the Real Sector Support Facility (RSSF), ₦1.10 billion was released for one project, bringing the cumulative number of projects to two, valued ₦4.60 billion at end-June 2016.

2.8.2.4 Textile Sector Intervention Fund

The CBN created a ₦50 billion Textiles Industry Intervention Fund for the restructuring of existing and provision of new facilities in the textile industry. The sum of ₦7.56 billion had been released to BOI in favour of 10 projects during the review period.

2.8.2.5 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:

- **Anchor Borrowers' Programme (ABP)**

(a) The sum of ₦40 billion had been set aside from the ₦220 billion MSMEDF for the Anchor Borrower Programme (ABP) at a single-digit interest rate of 9 per cent; and

(b) A sum of ₦14.46 billion had been disbursed to 77,990 rice farmers in Benue, Kebbi and Zamfara States.

- **Other Disbursements to SME and Micro Credit**

The sum of ₦30.24 billion was disbursed during the first half of 2016 as against ₦45.42 billion disbursed in the corresponding period of 2015. Total disbursement for SMEs and Micro Credit stood at ₦73.77 billion bringing, cumulative disbursement to ₦89.60 billion since inception. Specifically, 86,302 male and 15,345 female micro enterprise owners as well as 330 SMEs benefited from the Fund since inception.

2.8.2.6 Power and Aviation Intervention Fund

During the review period, the sum of ₦11.59 billion was disbursed to two (2) power and one (1) airline projects. Out of the amount, the sum of ₦9.61 billion was disbursed to two power projects, while an airline project received ₦1.89 billion. Cumulative disbursement from inception stood at ₦261.20 billion for 57 projects, comprising 41 power projects and 16 airline projects at end-June 2016. The sum of ₦11.35 billion was repaid by 27 obligors during the review period (Table 2.8). The cumulative total repaid thus far was ₦75.55 billion in respect of the 57 projects.

Table 2. 8: PAIF Performance as at June 30, 2016

S/N	Type	No. of Obligors	No. of projects	Amount (₦' Billion)	%	Repayments (₦' Billion)
1	Airline	10	16	120.76	46.2	39.34
2	Power	29	41	140.44	53.8	36.21
	Total	38	57	261.20	100.0	75.55

It is expected that the concessionary interest rate of 7 per cent and tenor of 10 – 15 years on the PAIF interventions would reduce the cost of funds to beneficiaries and facilitate repayments. Meanwhile, it provided the much needed life-line to the domestic airline industry.

2.8.2.7 Nigeria Electricity Market Stabilization Facility

During the first half of 2016, the sum of ₦41.88 billion was released to 15 market participants that included two (2) electricity distribution companies, seven (7) power generation companies, five (5) gas suppliers and one (1) service provider. Total disbursement of funds since inception stood at ₦106.64 billion to 23 eligible electricity market participants.

Table 2. 5: NESMF Performance as at June 30, 2016

S/N	Market Participants	Disbursements (Jan – June 2015)	Disbursements (Jan – Jun, 2016)		Cumulative as at June 30, 2016	
		Value (N' Billion)	No.	Value (N' Billion)	No.	Value (N' Billion)
1	Discos	41.05	2	8.56	7	49.62
2	Gencos	18.46	7	22.50	9	32.67
3	Gascos	5.24	5	10.36	6	23.89
4	Service Providers	0.00	1	0.46	1	0.46
	Total	**64.75**	**15**	**41.88**	**23**	**106.64**

NB: There was no approval for disbursement in the second half of 2015.

2.8.2.8 Entrepreneurship Development Centres

The number of participants trained by the Entrepreneurship Development Centres (EDCs) during the review period was 5,991 as against the target of 5,000, and the 5,927 participants trained in the second half of 2015. A total of 2,936 (49.01%) of the participants were female and 3,055 (50.99%) were male. Cumulatively, the sum of ₦1.59 billion has been accessed by the graduates since inception.

2.8.2.9 Youth Entrepreneurship Development Programme

The Youth Entrepreneurship Development Programme was launched during the review period. The programme is an initiative of the Bank in collaboration with Heritage Bank and National Youth Service Corps (NYSC). Under the programme, eligible projects will be entitled to a credit line of up to ₦3 million. The CBN set aside ₦30 billion from the ₦220 billion MSMEDF for the Programme, at a single-digit interest rate of 9 per cent. The first phase of the Youth Entrepreneurship Development Programme (YEDP) training was held in Abuja and Lagos for post-NYSC beneficiaries. A total of 65 participants were trained in Abuja while 112 were trained in Lagos.

2.8.5.10 CBN/NEXIM Export Stimulation Fund and Rediscounting & Refinancing Facility

In support of Federal Government's effort to diversify the economy and promote exports, the Bank established the ₦50 billion Rediscounting and Refinancing Facility (RRF) and the ₦500 billion Export Stimulation Facility. The two facilities were introduced to enhance the competitiveness of Nigerian exports, value-added of the country's export commodities and manufactured goods.

The Guidelines for the ₦50 billion Rediscounting and Refinancing Facility (RRF) and the ₦500 billion Export Stimulation Fund to be managed by NEXIM at an all-in interest charge of 9 per cent were also approved.

The process for the conduct of an impact assessment of all the Bank's intervention programmes has commenced.

2.9 The External Sector

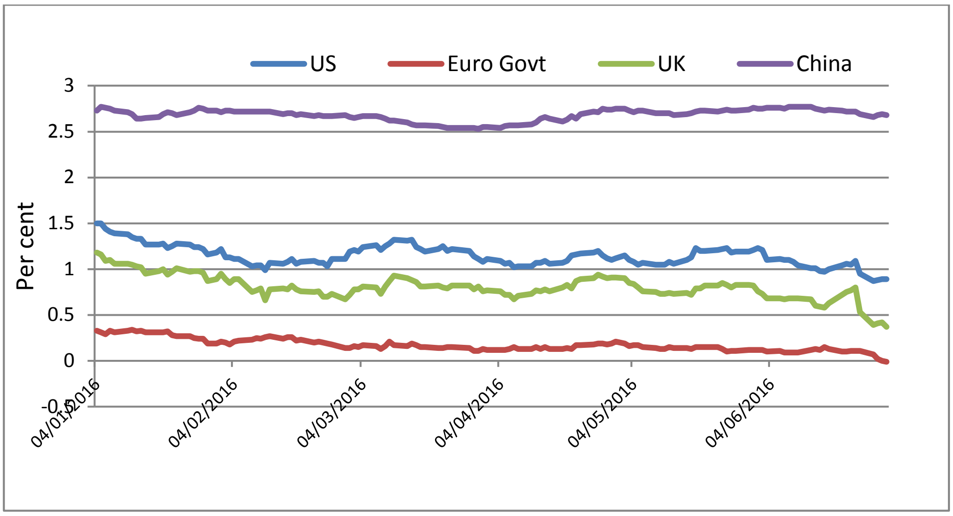
External reserve management was affected primarily by global negative rating, decline in yields and other developments in international financial markets.

In the review period, there were 72 sovereign rating downgrades compared with 42 upgrades by the major rating agencies, reflecting the increased level of risk globally. The consequence of these downgrades was the increased incidence of investors' flight to quality, which contributed to the decline in yields in major countries. As part of the expanded Asset Purchase Programme (APP), the ECB introduced the Corporate Sector Purchase Programme (CSPP), thus substantiating the ECB's stance to provide further monetary policy accommodation[12]. The APP, coupled with negative deposit facility rate of the ECB, also contributed to the very low/negative yields on Nigeria's Euro-denominated investments.

Events leading to, and the outcome of, the Brexit referendum exacerbated market volatility. Yields on GBP-denominated assets declined from 118bps as at January 4, 2016 to close at 37bps on June 30, 2016. Meanwhile, to stabilize the markets, the BOE announced that it was ready to increase its funding through existing facilities by over £250bn. Yields on US dollar and Chinese renminbi-denominated investments also declined (Figure 2.11).

[12] www.ecb.europa.eu

Figure 2. 13: Yields to Maturity on 10-year Government Bonds



Source: Bloomberg

Foreign exchange inflow during the first half of 2016 was $9.83 billion, compared with the $19.01 billion recorded in the second half of 2015, reflecting a significant decrease of 48.29 per cent. Furthermore, total foreign exchange outflow decreased by 42.4 per cent to $10.84 billion, compared with $18.82 billion at end-December 2015.

The foreign exchange flows during the review period resulted in a net outflow of $1.01 billion. This, coupled with a notional currency translation adjustment of $63.65 million, led to a $1.07 billion decrease in the level of external reserves from $28.29 billion at end-December 2015 to $27.22 billion at end-June 2016.

3.0 REGULATORY AND SUPERVISORY ACTIVITIES

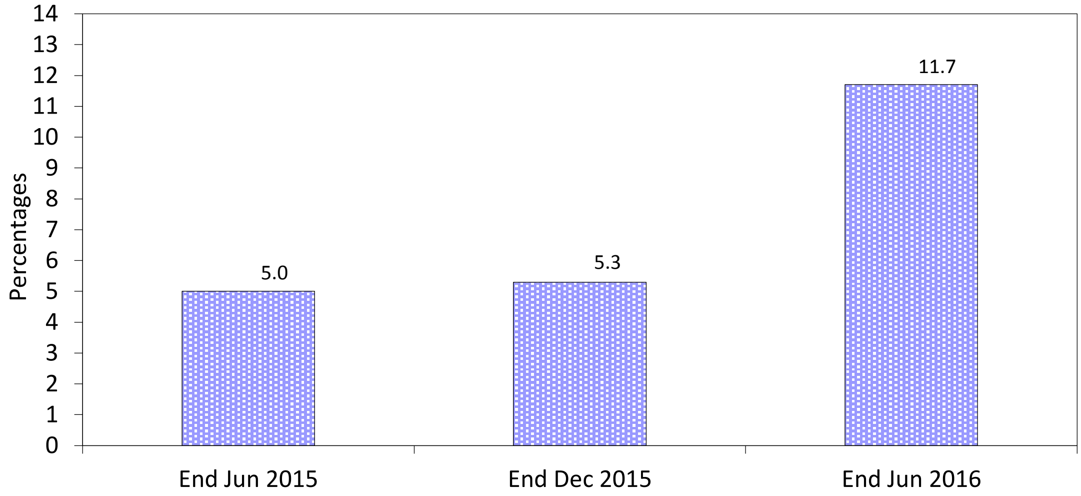
3.1 Macro-Prudential Supervision

3.1.1 Financial Soundness Indicators

3.1.1.1 Assets Based Indicators

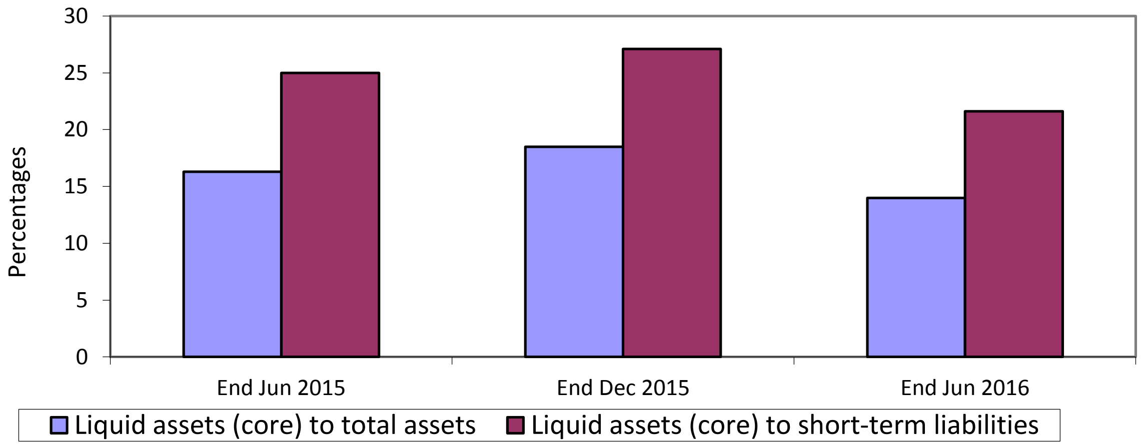
Assets quality, measured in terms of the ratio of non-performing loans (NPLs) to gross loans, weakened in the first half of 2016 deteriorating by 6.4 percentage points to 11.7 per cent at end-June 2016 (Figure 3.1). The prevailing inflationary trend and the liberalization of the foreign exchange market, which witnessed significant depreciation of the naira/dollar exchange rate, during the second quarter of 2016, contributed to the decline in assets quality. These developments led to increased cost of funds and constrained borrowers' ability to service outstanding loans, thereby increasing default risk.

Figure 3. 1: Banking Industry NPLs to Gross Loans at end-June 2016



The ratio of core liquid assets to total assets declined by 4.5 percentage points to 14.0 per cent at end-June 2016 from 18.5 per cent at end-December 2015. Similarly, the ratio of core liquid assets to short-term liabilities decreased by 5.5 percentage points to 21.6 per cent at end-June 2016, compared with 27.1 per cent at end-December 2015 (Figure 3.2).

Figure 3. 2: Banking Industry Liquidity Indicators at end-June 2016

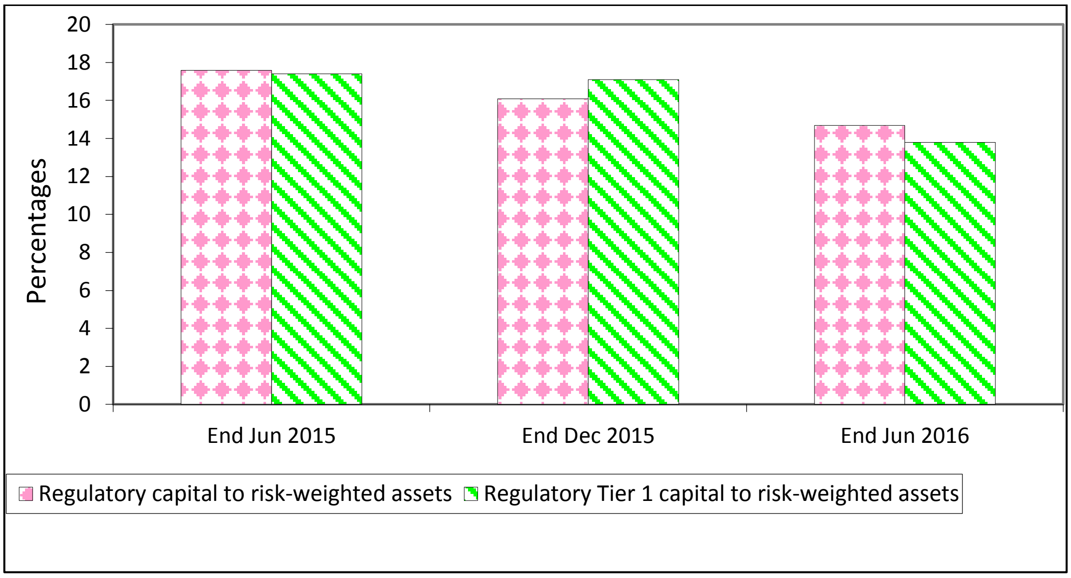


3.1.1.2 Capital Based Indicators

During the period under review, indicators of capital adequacy showed marginal declines in the Nigerian banking sector, compared with the positions in the preceding and corresponding periods of 2015. The ratio of regulatory capital to risk weighted assets stood at 15.6 per cent at end-June 2016, showing a decrease of 0.5 percentage point below the level at end-December 2015. Similarly, the ratio of tier 1 capital to risk weighted assets which stood at 15.9 per cent at end-June 2016, was 1.2 and 1.5 percentage points below the levels achieved at end-December 2015 and end-June 2015, respectively (Figure 3.3).

The industry ratio of non-performing loans net of provision to capital increased significantly to 30.9 per cent at end-June 2016 from 5.9 per cent at end-December 2015, depicting weak capacity of the sector to withstand the adverse impact of non-performing loans.

Figure 3. 3: Banking Industry Adequacy Indicators



3.1.1.3 Income and Expense Based Indicators

As a measure of the relative share of net interest earnings, the ratio of interest margin to gross income declined to 54.3 per cent in the review period from 63.8 per cent at end-December 2015. Similarly, the ratio of non-interest expenses to gross income decreased by 9.6 percentage points to 54.6 per cent. The decrease in these ratios suggests an improved efficiency of intermediation activities in the Nigerian banking sector. However, the ratio of personnel expenses to non-interest expenses increased to 41.2 per cent.

Table 3. 1: Selected Financial Soundness Indicators of the Nigerian Banking Industry

Indicators	2012		2013		2014		2015**		2016***
	End Jun	End Dec	End Jun	End Dec	End Jun	End Dec	End Jun	End Dec	End Jun
1. Assets Based Indicators									
Nonperforming loans to total gross loans *	4.5	3.7	3.9	3.4	3.5	2.9	5.0	5.3	11.7
Liquid assets (core) to total assets*	14.3	16.2	13.7	16.8	11.7	11.4	16.3	18.5	14.0
Liquid assets (core) to short-term liabilities*	19.4	22.1	19.0	23.1	16.6	16.7	25.0	27.1	21.6
2. Capital Based Indicators									
Regulatory capital to risk-weighted assets*	17.7	18.3	18.9	17.1	16.4	17.2	17.6	16.1	14.7
Regulatory Tier 1 capital to risk-weighted assets*	17.8	18.0	18.5	17.1	16.1	15.5	17.4	17.1	13.8
Nonperforming loans net of provisions to capital *	4.3	3.8	5.9	5.8	5.6	4.1	7.4	5.9	28.4
3. Income and Expense Based Indicators									
Interest margin to	67.7	62.0	65.2	63.9	62.7	51.2	53.9	63.8	61.4

gross income*									
Noninterest expenses to gross income*	59.2	64.8	62.7	68.1	65.5	56.9	69.0	64.2	54.6
Personnel expenses to noninterest expenses	39.3	42.5	39.5	36.9	38.5	36.6	31.4	36.0	41.2

***Note**: *FSIs are computed based on IMF guidelines. **The indicators for the period End June 2010 to End December 2015 are revised *** Provisional*

3.2 The Banking Industry Stress Test

3.2.1 Solvency Stress Test

The banking industry stress test captured the idiosyncratic nature of individual bank's balance sheet and macro-prudential concerns, using the bottom-up and top-down approaches. Assessment of the resilience of the Nigerian banking system was conducted by applying a series of exceptional but plausible shocks and scenarios, which effectively translate single and multi-factor shocks into banks' balance sheet.

The test covered 23[13] commercial and merchant banks, using the following risk channels: credit, liquidity, and interest rate. The resilience of the banking system was assessed against a benchmark with reference to 10 per cent CAR, 30 per cent liquidity ratio, 5 per cent NPL, sharp decline in return on asset (ROA) and return on equity (ROE).

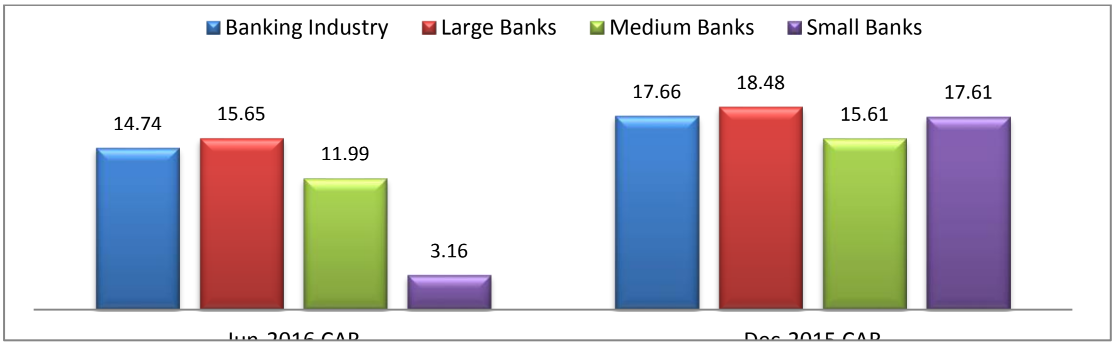
For systemic and peer assessment, the banks were classified into three groups based on their asset size as follows: Large banks are banks with assets greater than or equal to ₦1.0 trillion; medium banks have assets greater than or equal to ₦500 billion but less than ₦1.0 trillion; and small banks with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

3.2.2.1 Baseline Position

The baseline CAR for the banking industry, large, medium, and small banks stood at 14.74, 15.65, 11.99 and 3.16 per cent respectively. These levels reflected declines of 2.92, 2.83, 3.62 and 14.45 percentage points respectively compared with December 2015 positions (Figure 3.4).

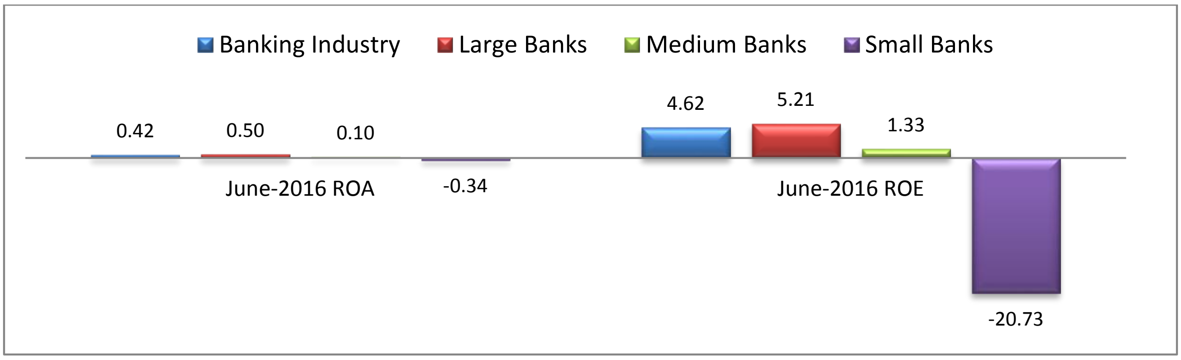
[13] This excludes one specialized bank.

Figure 3. 4: Baseline (Pre-Shock) CAR (%)



The pre-shock ROA of the banking industry, large, medium and small banks were 0.42, 0.50, 0.10 and -0.34 per cent respectively. On the other hand, the ROEs of banking industry, large, medium and small banks were 4.62, 5.21, 1.33 and -20.73 per cent at end-June 2016 respectively (Figure 3.5).

Figure 3. 5: Baseline (Pre-shock) ROAs and ROEs (%)



3.2.2.1 Analysis of Results

1. Credit Risk

The large banks were resilient to credit risk and would be able to sustain an impact of the most severe shock of a 200 per cent rise in NPLs as it resulted in 12.60 per cent CAR, which was above the 10 per cent minimum requirement. However, banking industry, medium and small bank groups, showed vulnerability to the most severe shock of 200 per cent rise in NPLs as their CAR fell to 8.01, 2.51 and -83.32 per cent respectively.

Table 3. 2: General Credit Shocks

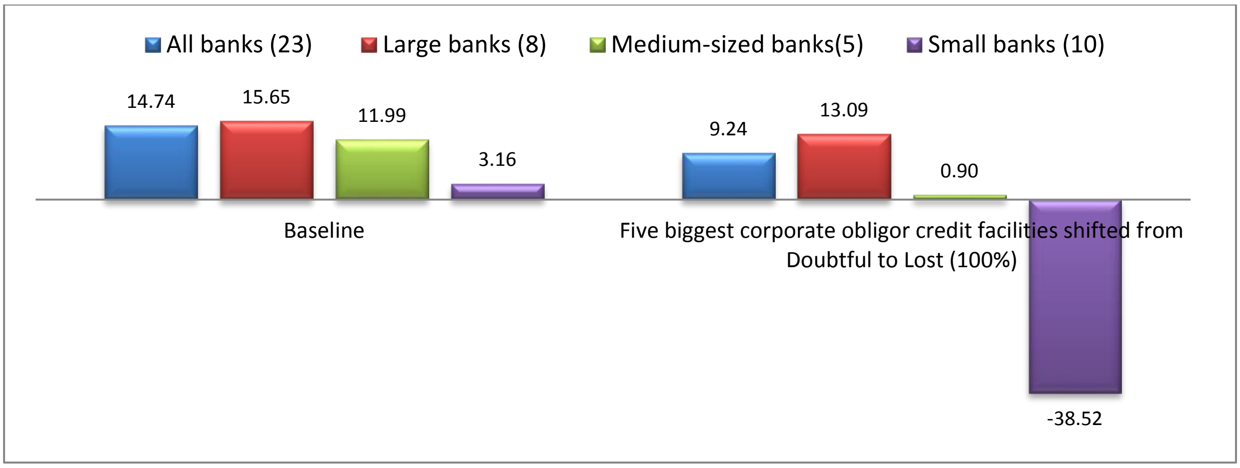
Single Factor Shocks	Solvency Ratios After Shocks			
	All Banks	Large Banks	Medium	Small
Base line CARs	14.74	15.65	11.99	3.16
Shock 1av-50% NPLs increase	13.15	14.91	9.79	-9.79
Shock 1avi-100% NPLs increase	11.50	14.15	7.49	-26.73
Shock 1avii-200% NPLs increase	8.01	12.60	2.51	-83.32

Similarly, large banks showed significant resilience to credit concentration risk as their CAR remained above 10 per cent under the respective shocks and scenarios. Under the scenario (shock) of "five biggest corporate obligor credit facilities shifting from doubtful to lost", CARs of the banking industry, large, medium and small banks would deteriorate to 9.24, 13.09, 0.90 and -38.52 per cent, from 14.74, 15.65, 11.99 and 3.16 per cent respectively. Under this scenario, large banks maintained CARs above minimum requirement of 10 per cent, while all other peered banks recorded less than 10 per cent CARs (Table 3.3 and Figure 3.6).

Table 3. 3: Credit Concentration Risk

	All Banks	Large Banks	Medium	Small
Baseline CAR	14.74	15.65	11.99	3.16
Single Factor Credit Concentration Shocks	**Solvency Ratio After Shocks**			
	All Banks	**Large Banks**	**Medium**	**Small**
2bi - Five biggest corporate obligors' credit facilities shifted from pass-through to sub-standard (20%)	14.34	15.44	11.53	0.95
2bii- Five biggest corporate obligor credit facilities shifted from sub-standard to Doubtful (50%)	13.19	14.92	9.09	-6.68
2biii - Five biggest corporate obligor credit facilities shifted from Doubtful to Lost (100%)	9.24	13.09	0.90	-38.52

Figure 3. 6: Credit Concentration Risk



2. Interest Rate Risk

The results of the stress test on the net position of interest sensitive instruments relative to "returns on assets", and "returns on equity" revealed that the banking industry peered banks maintained a stable position to interest rate risk as their pre-shock positions (in terms of capital impairment, ROA and ROE) decreased marginally, except the ROE of medium banks which declined. However, medium and small banks could not withstand the shock when 1000 bps upward parallel shift in yield curve was applied (Figure 3.7).

Figure 3. 7: Interest Rate Risk (CARs)

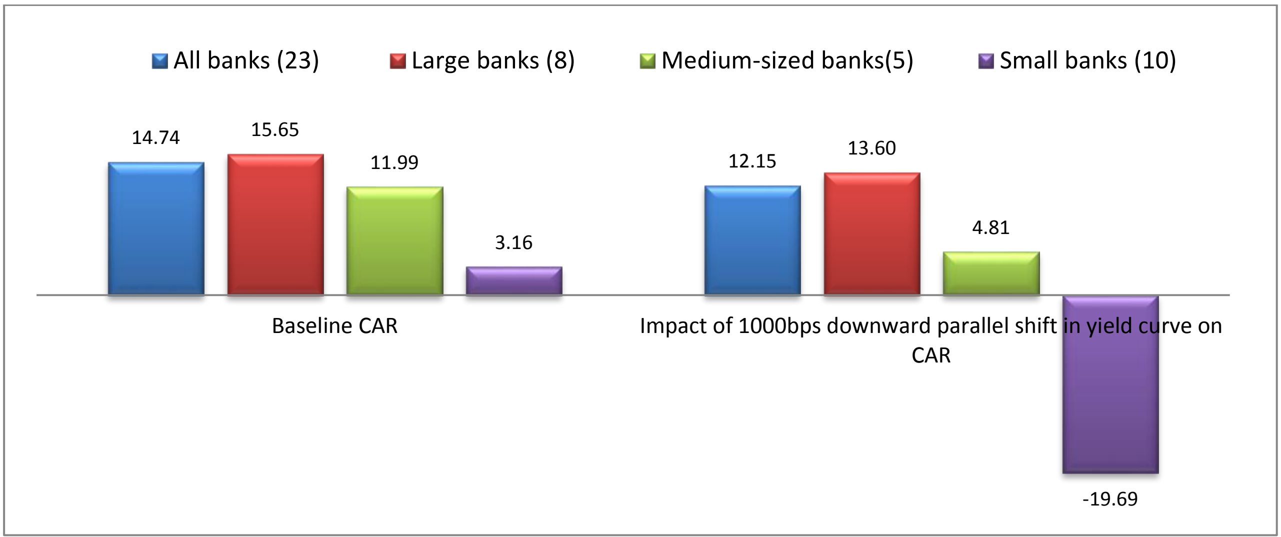


Figure 3. 8: Interest Rate Risk - ROAs and ROEs

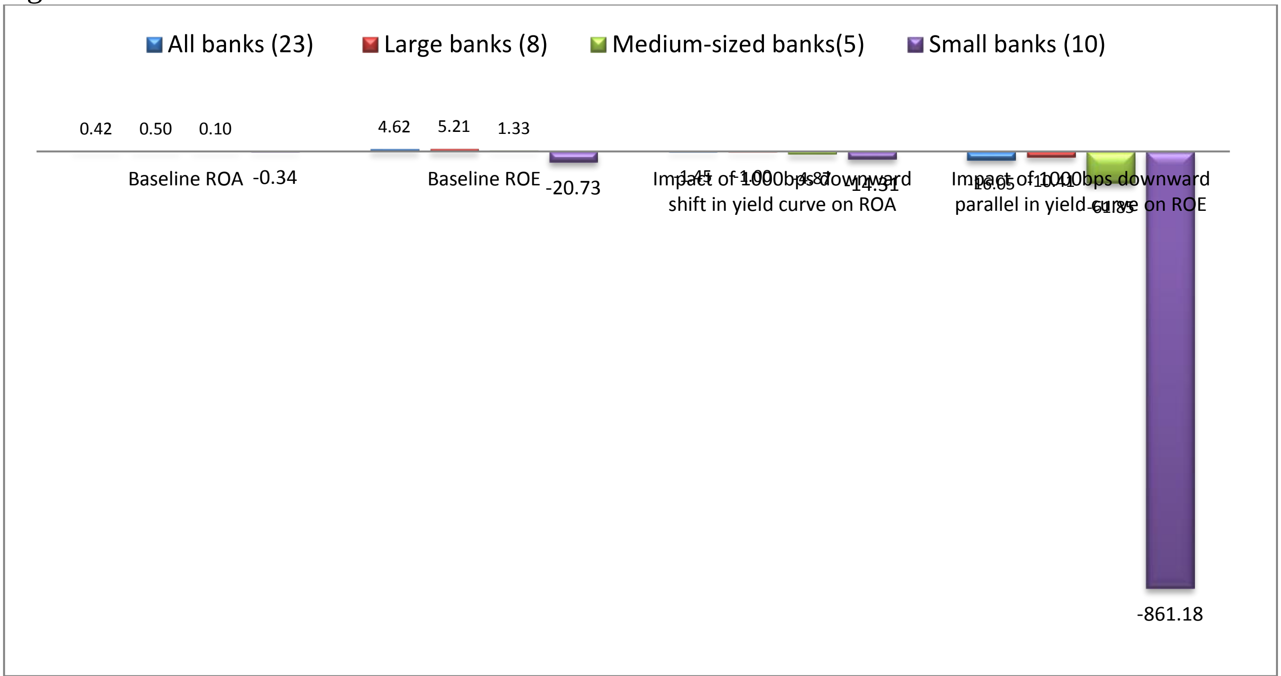


Table 3. 4: Impact of Selected Shocks on CARs, ROAs and ROEs

Most Severe Shocks (500bps to 1000bps)	Banking Industry	Large Banks	Medium Banks	Small Banks
Baseline ROAs	**0.42**	**0.50**	**0.10**	**-0.34**
Baseline ROEs	**4.62**	**5.21**	**1.33**	**-20.73**
Interest Rate Volatility (Impact on CAR)				
Shock 5biii (500bps downward parallel shift in yield curve)	13.45	14.62	8.40	-8.27
Shock 5biv (1000bps downward parallel shift in yield curve)	12.15	13.60	4.81	-19.69

Impact of Parallel Shift in Yield Curve Shocks on ROA				
Interest Rate Volatility				
Shock 5biii (500bps downward parallel shift in yield curve)	-0.52	-0.25	-2.38	-7.33
Shock 5biv (1000bps downward parallel shift in yield curve)	-1.45	-1.00	-4.87	-14.31
Impact of Parallel Shift in Yield Curve Shocks on ROE				
Interest Rate Volatility				
Shock 5biii (500bps downward parallel shift in yield curve)	-5.72	-2.60	-30.26	-440.96
Shock 5biv (1000bps downward parallel shift in yield curve)	-16.05	-10.41	-61.85	-861.18

3. Exchange Rate Risk

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

Table 3. 5: Exchange Rate Risk Shocks

Single Factor Shocks	**Solvency Ratio After Shocks**			
	All Banks	Large Banks	Medium	Small
Baseline CAR	14.74	15.65	11.99	3.16
Shock 4bi (10% appreciation in favour of Naira)	14.36	16.40	9.77	2.49
Shock 4bii (20% appreciation in favour of Naira)	13.98	17.14	7.56	1.81
Shock 4biii (50% appreciation in favour of Naira)	12.83	19.37	0.91	-0.20

4. FX Trading Risk

The results of the tests showed that the banking industry was stable to FX trading risk. The banks’ pre-shock positions, both in terms of impact on ROA and ROE would change marginally even after an induced 100 per cent decline in FX trading income. This was mainly due to the high net profit positions of the banks relative to the size of their FX trading income.

Table 3. 6: Impact of FX Trading Shocks on ROA

	All Banks	**Large Banks**	**Medium Banks**	**Small Banks**
Baseline ROA	0.44	0.70	0.06	-0.06
FX Trading Income Volatility				
Shock 7ai (10% decline in FX trading Income)	0.33	0.53	0.05	-0.06
Shock 7aii (20% decline in FX trading Income)	0.22	0.36	0.05	-0.05

Shock 7aiii (50% decline in FX trading Income)	-0.10	-0.15	0.03	-0.04
Shock 7aiv (100% decline in FX trading Income)	-0.64	-1.00	0.01	-0.02

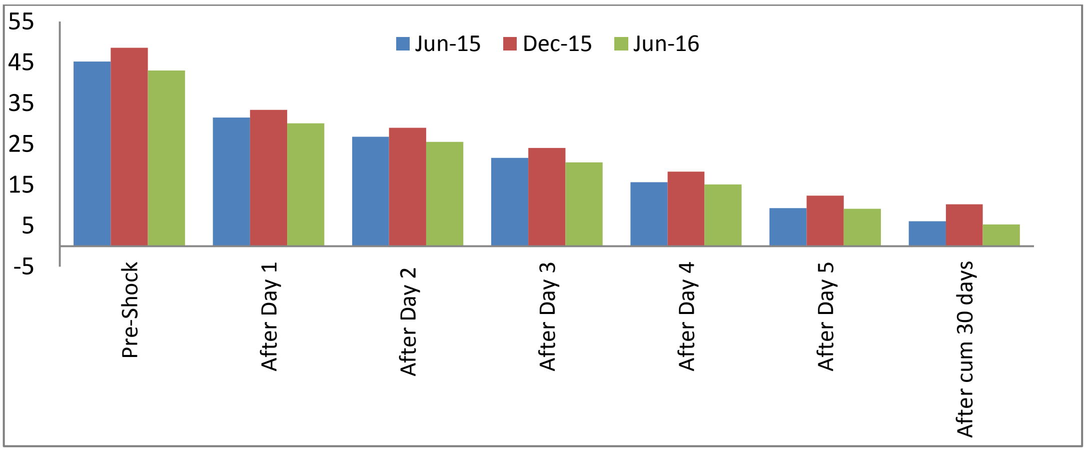
Table 3. 7: FX Trading Volatility Shock

	All Banks	**Large Banks**	**Medium Banks**	**Small Banks**
Baseline ROE	4.62	5.21	1.33	-20.73
FX Trading Income Volatility				
Shock 7ai (10% decline in FX trading Income)	3.48	3.94	1.22	-19.34
Shock 7aii (20% decline in FX trading Income)	2.34	2.68	1.10	-17.94
Shock 7aiii (50% decline in FX trading Income)	-1.06	-1.10	0.76	-13.75
Shock 7aiv (100% decline in FX trading Income)	-6.74	-7.41	0.19	-6.77

3.2.2 Liquidity Stress Test

The result of the test revealed that after a one-day run, the liquidity ratio for the industry would decline to 30.1 per cent from the 43.0 per cent pre-shock position, and to 5.3 per cent after a cumulative 30-day run. A 5-day and cumulative 30-days run on the banking industry would result in a liquidity shortfall of ₦2.2 trillion and ₦2.4 trillion respectively. The test further revealed that 19 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 Ratios after Period 1-5 day and cumulative 30-day shocks



The result revealed that the industry liquidity ratio would decline to 9.14 and 5.33 per cent, from 43.0 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		June 2016	
	Dec 2015 (21 Banks)	June 2016 (23 Banks)	System LR (%)	Liquidity Shortfall to 30% LR (₦' billion)
Test 1.1: Implied Cash Flow Test (5 Days)				
Day 1	14	11	30.09	91.46
Day 2	14	13	25.51	646.61
Day 3	15	17	20.56	1,173.54
Day 4	16	18	15.11	1,685.27
Day 5	18	19	9.14	2,171.35
Implied Cash Flow Test (30 Days)	19	19	5.33	2,437.55

Figure 3. 10: Industry Pre-shock Positions and after 5-day Shocks

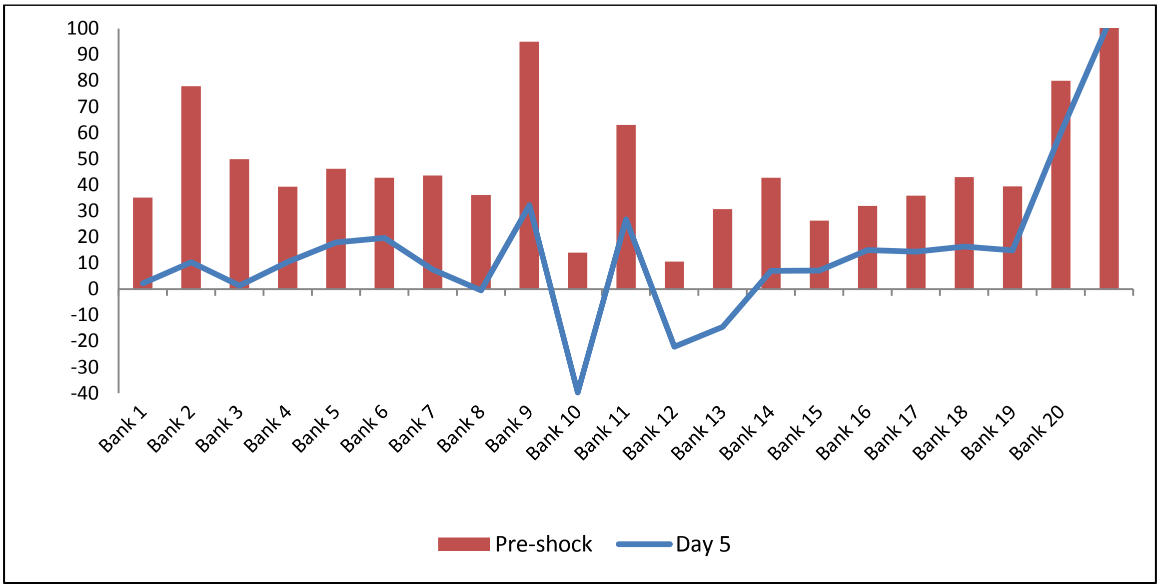
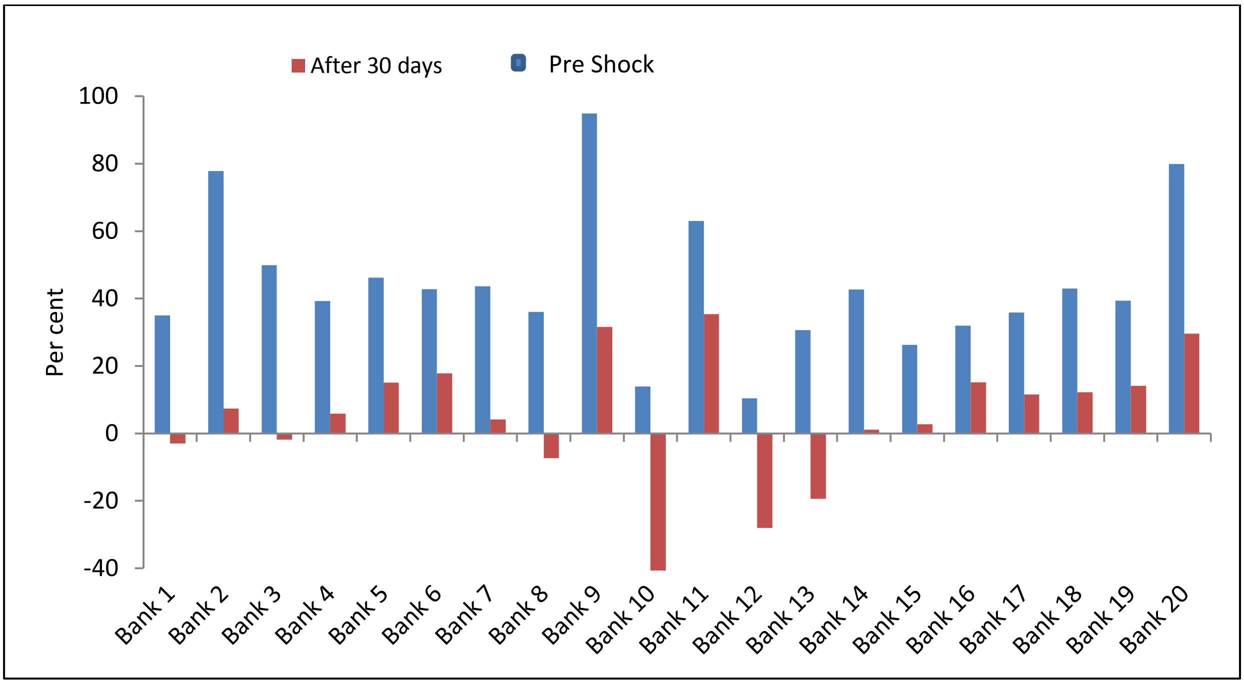


Figure 3. 11: Individual Bank Pre shock Positions and Cumulative 30-day Shocks



N.B: Banks 21, 22 and 23 were excluded from Figure 3.10 and 3.11 because of their outlier effect.

3.2.3 Maturity Mismatch

At end-June 2016, the industry pre-shock position revealed that the shorter end of the market (less than or equal to 30-day and 31- to 90-day buckets) was adequately funded. In the less than or equal to 30 day bucket, five banks were not adequately funded, while in the 31- to 90-day bucket, nine banks had funding gaps. The cumulative position for the industry showed an excess of ₦4.9 trillion assets over liabilities (Table 3.9).

Table 3. 9: Maturity Profile of Assets and Liabilities at end-June 2016

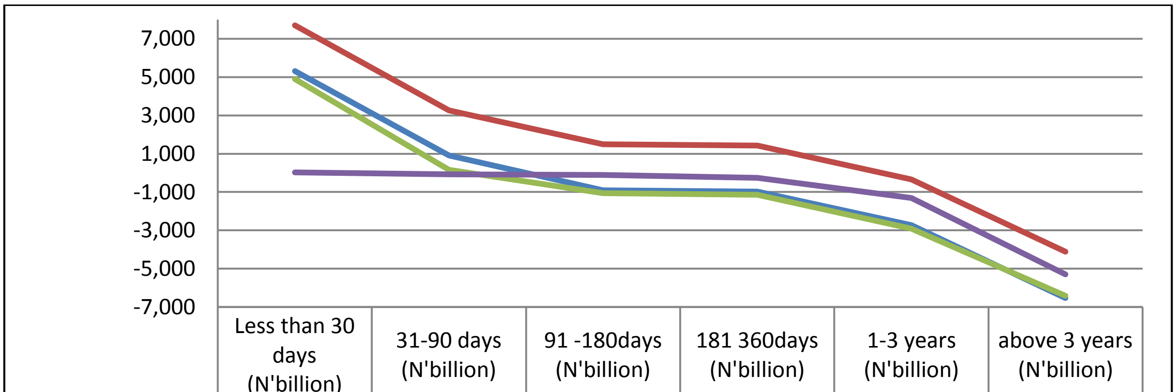
	Liabilities	**Assets**	**Mismatch**	**Cumulative**
	₦ Billion			
≤30 days	14,089.01	8,777.11	5,311.90	5,311.90
31-90 days	2,665.85	1,760.28	905.57	6,217.47
91-180 days	889.42	1,793.47	(904.05)	5,313.42
181-365 days	606.13	1,588.85	(982.72)	4,330.71
1-3 years	625.70	3,357.14	(2,731.44)	1,599.27
Above 3 years	920.36	7,451.18	(6,530.82)	(4,931.56)
Total	**19,796.47**	**24,728.03**	**(4,931.56)**	

There was a slight improvement in the post-shock result for Descriptive Maturity Mismatch test (Table 3.10, Test 2a) arising from the assumption of availability of funds from the CBN and intra-group. Although the 91- to 180-day bucket was adequately funded under Test 2a, the position deteriorated in the Static Rollover Analysis (Table 3.10, Test 2b) and the Dynamic Risk Rollover Tests (Table 3.10, Test 2c) with a mismatch of over ₦1,168 billion.

Table 3. 10: Test Results for System-wide Maturity Mismatch

Tenor	**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	7,702.09	2	4,892.49	5	23.29	5
31-90 days	3,267.23	4	152.92	15	(80.38)	6
91-180days	1,491.66	4	(1,063.02)	20	(105.50)	7
181-365days	1,422.82	6	(1,136.80)	21	(260.05)	9
1-3 years	(338.79)	16	(2,905.20)	21	(1,303.15)	15
Above 3 years	(4,118.49)	19	(6,413.42)	21	(5,291.84)	17
Total	**9,426.51**		**(6,473.04)**		**(7,017.62)**	

Figure 3. 12: Maturity Mismatch Positions (Pre- & Post-Shocks)

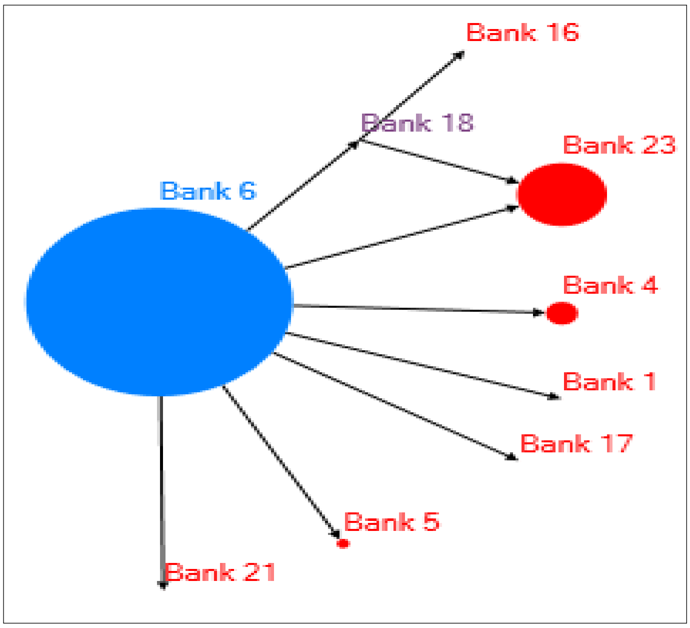


	Less than 30 days (N'billion)	31-90 days (N'billion)	91 -180days (N'billion)	181 360days (N'billion)	1-3 years (N'billion)	above 3 years (N'billion)
Pre-shock	5,312	906	-904	-983	-2,731	-6,531
Test 2a	7,702	3,267	1,492	1,423	-339	-4,118
Test 2b	4,892	153	-1,063	-1,137	-2,905	-6,413
Test 2c	23	-80	-105	-260	-1303	-5292

3.2.4 Contagion Risk Analysis through Interbank Exposures

The test conducted on banks with unsecured interbank exposures showed that two banks' CAR decreased by 1.6 percentage points each. A review of secured interbank exposures showed that four banks were central in the network. Overall, there was marginal contagion risk through unsecured interbank exposure as one bank's CAR was below the benchmark after the shock.

Figure 3. 13: Tiered Structure of Unsecured Placements at end-June 2016



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

The results of the banking industry stress tests suggest, at the general level, that the banking industry was considerably resilient. Although banks were more sensitive to credit concentration and exchange risks, these risks posed no significant threat to the health of the banks.

3.3 Supervision of Banks and Other Financial Institutions

3.3.1 Banks

3.3.1.1 Routine/Target Examinations:

During the review period, the Bank commenced the risk based examination of banks with composite risk rating of "High" and "Above Average" as at 2015 and the only subsisting discount house, which had been under the management of AMCON. The examination of other banks with composite risk rating of "Moderate" and "Low" is scheduled to follow during the second half of 2016.

The risk-based examination of the three private credit bureaux and AMCON was also conducted within the period.

Monitoring and follow-up of banks' implementation of major recommendations in the Risk Based Examination Reports for "High" and "Above Average" composite risk rated banks as well as “Medium” and “Low” composite risk rated banks as at September 30, 2015 was conducted within the first half of the year. The aim was to ensure safety and soundness of the Nigerian financial system.

3.3.1.2 Foreign Exchange Examinations

The highlights of some of the infractions from the review of foreign exchange activities of banks included: incorrect rendition of returns to regulators; failure to repatriate export proceeds promptly; non-compliance with approved net open positions; and various trade documentation lapses. Appropriate regulatory sanctions were imposed as applicable on the contravening banks.

3.3.1.3 Anti- Money Laundering/Combating the Financing of Terrorism

The AML/CFT examination of Domestic Systemically Important Banks’ (D-SIBs) branches as at December 31, 2015 was conducted in the first half of 2016. Also, selected branches of banks were examined as at May 31, 2016 to assess the level of compliance with extant AML/CFT Laws and Regulations.

A number of infractions were discovered during the exercise which bordered on identification and verification of customers, risk classification of customers, KYC documentation, identification and on-boarding of Politically Exposed Persons (PEPs), level of sophistication of AML/CFT software, transaction monitoring, threshold and suspicious transaction reporting, lack of adequate AML/CFT staff training as well as independent audit testing of the AML/CFT compliance function. However, the Bank has strengthened its sensitization schemes on the awareness of AML/CFT requirements and compliance. It is envisaged that the progress made thus far would help keep Nigeria out of the grey list and boost its chances of becoming a Financial Action Task Force (FATF) member.

3.3.1.4 Review of Exposures of Banks to Oil and Gas Sector

The huge exposure of banks to the oil and gas sector coupled with the low price of crude oil in the international market continued to generate concerns especially regarding the capacity of the obligors to meet their obligations. To proactively address these concerns, a review of the exposure of banks to the sector was conducted and appropriate actions implemented. Following the review and in line with the provisions of the *Prudential Guidelines* of July 2010, a sizable number of the facilities were downgraded and re-classified as non-performing with additional provisions effected.

3.3.1.5 Enhanced Supervision of Domestic Systemically Important Banks

Following full implementation of the Framework for the Regulation and Supervision of D-SIBs and the assessment of banks that was carried out in the second half of 2015, eight deposit money banks (DMBs) were designated as D-SIBs. As at June 30, 2016, these banks accounted for 67.95% (₦20.42 trillion) of the industry total asset of ₦30.05 trillion. Similarly, the D-SIBs also accounted for 71.3 per cent (₦12.94 trillion) of total industry deposit of ₦18.59 trillion and ₦11.19 trillion (71.47%) of the aggregate industry loans of ₦15.68 trillion.

In line with the additional reporting requirements, the banks were directed to submit reports in the following areas: Risk Governance Strategies and Business Model, Capital Adequacy Ratio and Risk Weighted Assets, Liquidity Position and Funding Plan, Risk Management Practices encompassing credit risk, market risk, operational risk and other significant risks in their business models at specified intervals.

The D-SIBs were largely compliant with regulatory requirements during the period under review, with the exception of one bank that had challenges over liquidity, capital adequacy ratio and non-performing loans.

In line with the enhanced reporting requirements contained in the Framework for the Regulation and Supervision of D-SIBs, the eight banks designated as D-SIBs submitted their maiden Recovery and Resolution Plans (RRP) in the first half of 2016. The plans provided a menu of options that the D-SIBs would deploy to address severe financial stress. Based on the weaknesses observed in the RRPs, the Bank is developing guidance notes to provide clarity on regulatory expectations and ensure standardization across the industry.

3.3.2 Cross Border Supervision

3.3.2.1 Onsite examination of offshore subsidiaries of Nigerian banks

During the half year ended June 30, 2016, the Bank planned onsite examination of six offshore subsidiaries of four Nigerian banks following the receipt of a no-objection from their respective host supervisors. However, no onsite examination visit took place during the period owing to the request from the hosts for a shift in examination dates to the second half of the year.

3.3.2.2 Offsite Analysis and Supervision

The Bank continued to receive and analyse prudential and other returns from the offshore banking subsidiaries through the parent banks during the review period. Issues of supervisory concern were highlighted for resolution by the banks. For instance, there were high non-performing loan ratios, high operating costs, and a few cases of fraud.

The parent banks were directed to submit actionable plans to the CBN on how to turn around the affected subsidiaries. Several inward and outward fit and proper persons' inquiries in respect of top management and board appointments in some subsidiaries were also processed during the period.

The Bank approved the request from some Nigerian banks to recapitalize their offshore subsidiaries. It also approved a request from a bank to divest from its offshore subsidiaries.

A bank was granted a no-objection by the CBN to establish a banking subsidiary in Mozambique with an initial paid-up capital of $35 million. The total number of cross border establishments remained at 70, comprising 60 subsidiaries and 10 representative offices, excluding the proposed bank in Mozambique.

3.3.2.3 Developments on College of Supervisors

The 20th meeting of the College of Supervisors of the West African Monetary Zone (CSWAMZ) was held in Ghana, and resolved that the responsibility for finalising the framework on crisis resolution be transferred from CBN to the West African Monetary Institute (WAMI). Members were directed to provide input on their experiences on crisis management and resolution in their respective jurisdictions to the Institute.

It was also resolved that WAMI should liaise with donor agencies and the IMF/WB to build bank examiners' capacity in key areas of supervision, particularly the assessment of compliance with the Basel Core Principles, RBS, AML/CFT and emerging issues on the IFRS.

3.3.2.4 Other Supervisory Collaborations

The CBN completed and submitted to the FSB Secretariat the questionnaire on the study commissioned by the Regional Consultative Group for Sub-Sahara Africa (RCG-SSA) on Home-Host Cooperation and Information Sharing among Bank Supervisors in the sub-region.

The 9th meeting of the Financial Stability Board Regional Consultative Group for Sub-Saharan Africa (FSB RCG-SSA) was held in Abuja. Members resolved to continue with the implementation of post financial crisis reforms, particularly those relating to the enhancement of corporate governance and risk management practices by banks and the strengthening of the AML/CFT regulations through the implementation of the legal entity identifier, the Bank Verification Number and other KYC initiatives.

3.3.2.5 Update on Memoranda of Understanding

No new or subsisting MOU was entered into or renewed during the period, although the CBN initiated two additional MOUs with Banque des Etats de l'Afrique Centrale (BEAC) and Reserve Bank of India. The bilateral MOUs would help to strengthen the subsisting multilateral MOU involving BEAC and facilitate information sharing through joint onsite examination visits.

3.4 Non-Interest (Islamic) Banking

The Bank continued to participate in the activities of the Islamic Financial Services Board (IFSB) and the International Islamic Liquidity Management Corporation (IILM) Malaysia. The CBN in conjunction with the Islamic Financial Services Board, held a workshop on facilitating the implementation of IFSB Standards 15 and 16. The training was held for regulators and operators in the non-interest finance industry.

Special training sessions on Stress Testing of Non-Interest (Islamic) Banks (NIBs) and the determination of Alpha in the computation of capital adequacy ratio (CAR) for NIBs was organized by the IFSB for the Bank.

The only full fledged non-interest (Islamic) bank was granted a national banking license in May 2016.

3.5 Other Financial Institutions

3.5.1 Routine Examination of Development Finance Institutions

A routine risk-based examination of the six Development Finance Institutions (DFIs) was conducted during the period under review. The examination reports revealed that the composite risk rating of two of the institutions was “High”, three “Above Average”, and one “Moderate”. Earnings of the institutions were rated as follows: one “Acceptable”, one “Needs Improvement” and four “Weak”, arising mainly from significant deterioration in asset quality and high provisions for loan losses.

Similarly, the capital ratings for the six DFIs were “Strong” for two and “Weak” for the other four. The prudential and soundness analysis of the DFIs also revealed that two of the institutions met regulatory Capital adequacy ratios (CAR) while the others had negative adjusted capital and CAR. All the DFIs maintained NPL ratios above the stipulated regulatory maximum of 5 per cent.

Other observed regulatory challenges confronting the DFIs included the divergence between state and private sector enterprise models; weak capital bases and constrained access to stable long-term funds; and corporate governance issues.

Regulatory letters have been issued to the respective DFIs specifying time lines for remedial actions for loan recoveries, composition of functional Board committees and instituting relevant management control functions.

3.5.2 Examination of Microfinance Banks

A total of 95 MFBs were examined during the period under review. These comprised 84 risk-based and 11 special examinations. Reports of the RBS examinations of 84 banks revealed that one MFB had “Low”, 14 “Moderate”, 19 “Above Average” and 50 “High” composite risk rating.

Supervisory letters have been issued to the respective institutions, specifying required regulatory actions within defined time lines including injection of additional capital, recovery of non-performing loan facilities and adoption of sound risk management controls among others.

3.5.3 Examination of Finance Companies

Target Examinations of 66 Finance Companies (FCs) were carried out following the expiration of the extended deadline of December 31, 2015 for compliance with the new capital requirement of ₦100 million.

Highlights of the examinations showed that 39 FCs had fully met the capitalization requirement, while six (6) were below the threshold. The reports further showed that three companies, which originally met the capital requirement, had recorded capital erosion through losses. Fourteen FCs did not meet the requirement, while three (3) others voluntarily returned their licences, raising the number of FCs that had returned their operating licenses to eight (8), including five (5) others that had surrendered their licenses before the transition period. In addition, one FC was exempted from the examination owing to a pending litigation.

3.5.4 Examination of Nigeria Mortgage Refinance Company

The report of the maiden examination of the Nigeria Mortgage Refinance Company (NMRC) conducted as at September 30, 2015 was issued during the period under review. The company's composite risk rating was "Moderate", while Capital and Earnings were both rated "Acceptable".

3.6 Developments in Basel II/III and IFRS 9 Implementation

As part of the measures to further embed the requirements of Basel II/III into supervisory policies and practices, the CBN revised the template for the submission of Capital Adequacy Returns by banks, aimed at ensuring thorough eligibility assessment of the Credit Risk Mitigation (CRM) techniques prior to recognition and application of risk weights appropriate to all the exposure classes, among others. Accordingly, all banks submitted their capital adequacy returns in line with the revised template during the review period. The banks that failed to meet the minimum capital regulatory requirement submitted capital-raising plans which are being closely monitored.

In view of the current slowdown in economic activities, the implementation of Higher Loss Absorbency (HLA) requirement for D-SIBs was shifted to July 1, 2017. Furthermore, in compliance with Pillar II requirements, all banks submitted Internal Capital Adequacy Assessment Process (ICAAP) reports for the year ended December 31, 2015, while supervisory engagements on the reports are ongoing.

In addition, banks, in compliance with regulatory requirements, commenced publication of both qualitative and quantitative disclosures of their core activities, risk profiles and methodology to stakeholders.

The CBN during the first half of the year continued its engagement with deposit money banks and their external auditors to ensure consistent application of IFRS 9 (Financial Instruments). The CBN also established a Project Team that was tasked with developing guidance to support IFRS 9 implementation in the Nigerian banking sector.

3.7 The Asset Management Corporation of Nigeria

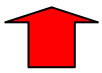
Net eligible bank assets (EBAs) being managed by AMCON increased to ₦1.74 trillion at end-June 2016 from ₦1.53 trillion at end-December 2015, mainly as a result of interest accumulation on the Corporation's loan portfolio.

The Corporation increased its pace of foreclosures and recoveries during the first half of 2016 with total recoveries of ₦46.28 billion, reflecting an increase of 178 per cent of the total recovered during the second half of 2015. A breakdown of the recoveries showed that cash recoveries, share forfeitures, property forfeitures and claw-backs amounted to ₦24.5 billion, ₦1.3 billion, ₦20.25 billion and ₦190 million respectively.

The sum of ₦120.08 billion was contributed to the Banking Sector Resolution Cost Trust Fund (BSRCTF) during the first half of 2016 from participating institutions based on their assets as at 31st December, 2015. The internal recoveries generated by AMCON as well as the contributions to the BSRCTF would be used to repay the Corporation's debt obligations which fall due for payment in December 2016.

3.8 Key Risks to the Financial System

3.8.1 Credit Risk

Risk Rating	

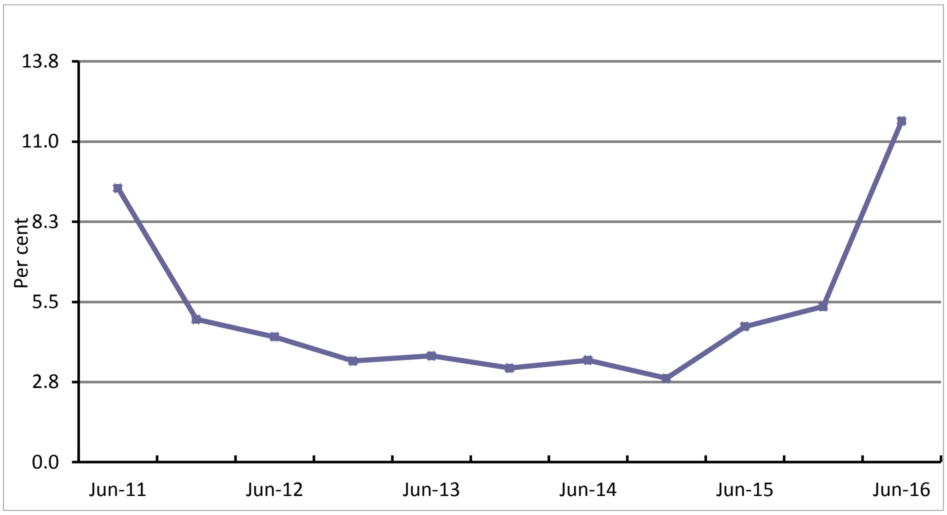
Non-performing loans in the period under review grew by 158 per cent from ₦649.63 billion at end-December 2015, to ₦1,678.59 billion at end-June 2016. The industry wide NPL ratio rose to 11.7 per cent from 5.3 per cent, thus exceeding the prudential limit of 5.0 per cent.

At end-June 2016, loans to the oil and gas sector constituted 28.77 per cent of the gross loan portfolio of the banking system as credit to that sector grew to ₦4,511.34 billion, compared with ₦3,307.87 billion at end-December 2015. Loans to State Governments rose to ₦1,386.61 billion from ₦1,053.97 billion at end-December 2015, as declining revenues continued to constrain payment of salary by some States, funding of key services and execution of developmental projects. This was despite CBN's ₦338 billion special intervention scheme designed to refinance States' debts, as well as a debt restructuring programme introduced by the Debt Management Office (DMO), which enabled States restructure their commercial loans in the preceding period. However, to prevent further financial crisis, a fresh facility of ₦90 billion with a 9 per cent interest rate was made available to the States.

The total exposure to the top 50 obligors stood at ₦5.23 trillion (33.4%) of total industry credit exposure of ₦15.68 trillion. Credit exposure to the dominant sectors as follows: 28.77 per cent to oil and gas sector; 12.95 per cent to manufacturing; 8.84 per cent to governments; and 8.69 per cent to general commerce.

Credit risk is expected to trend higher into the second half of 2016 owing to increased loan impairments resulting from the depreciation of the Naira, inability of obligors to service foreign currency-denominated loans, as well as bank exposures to the oil and gas sector.

Figure 3. 1: Non-Performing Loans

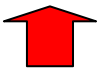


3.8.2 Liquidity Risk

Risk Rating	

The liquidity ratio for the industry decreased by 6.02 percentage points to 42.61 at end-June 2016, from 48.63 per cent at end-December 2015, but remained above the prudential minimum limit of 30 per cent by 12.61 percentage points. However, market liquidity decreased at the end of the first half of 2016 owing largely to the increase in CRR to 22.50 per cent from 20.00 per cent and MPR from 11.00 per cent to 12.00 per cent.

3.8.3 Market Risk

Risk Rating	

During the period under review, savings rate rose marginally by 0.28 percentage points from 3.33 per cent in January 2016 to 3.61 per cent in June 2016, while the maximum lending rate grew by 0.09 percentage point to 26.93 per cent in the same period. The decreasing gap between the savings and maximum lending rates between the second half of 2015 and end-June 2016, from 23.51 to 23.32 reflected increased financial intermediation efficiency.

The 91-day NTB rates closed at 8.32 per cent at end June, 2016 from 4.57 per cent as at January 2016. The increase in rate is expected to attract higher capital inflows to the market. Interbank and Open Buy Back rates closed at 35.26 and 21.75 per cent as at end-June 2016 from 0.77 and 0.98 respectively at end-December 2015. The increased rates at the end of the review period reflected developments in the money and foreign exchange markets.

The rates at the interbank segment of the foreign exchange market at ₦196.99/US$, for the most part of the review period, but closed at ₦283.00/US$ at end-June 2016. Conversely, the rate in the BDC segment fluctuated significantly during the period, rising from ₦258.30/US$ at end-December 2015 to ₦351.82/US$ at end-June 2016. The end-June exchange rates reflected the massive depreciation of the Naira following the adoption of a flexible, market-based foreign exchange regime towards the end of the half-year.

In the second half of 2016, foreign currency liquidity is expected to remain a challenge owing to low prices in global commodity markets and declining oil revenues. In addition, the recent downgrade of Nigeria to BB- from B+ is likely to increase borrowing costs.

3.8.4 Operational Risk

Risk Rating	⇧

Operational risk events reported during the period included the incidence of frauds and forgeries, increased retrenchment from banks and insecurity in some parts of the Country. Cases of fraud and forgeries increased to 9,164 at end-June 2016 from 7,183 reported at end-December, 2015. The total amount involved in the cases, however, decreased to ₦4.36 billion at end-June 2016 from ₦5.76 billion at end-December 2015. Similarly, actual losses declined to ₦1.38 billion at end-June 2016 from ₦1.89 billion at end-December 2015. Returns from banks showed that majority of frauds and forgeries were perpetrated by outsiders while some bank employees were also involved in fraudulent acts. The frauds were committed mainly through suppression and conversion of customers' deposits, illegal fund transfers, pilfering and fraudulent ATM withdrawals.

In order to check the incidence of frauds and other criminal activities, banks were directed to sensitize customers on the various types and channels of fraud using established fraud desks; resolve all intra-bank frauds via the Enterprise Fraud Management system, as well as submit reports to the Nigeria Inter-Bank Settlement System Plc on fraud information for further action.

Operational costs increased significantly owing to increases in electricity tariffs and increased petroleum product prices occasioned by the deregulation of the downstream sector. Consequently, there were an increased number of layoffs across the banking industry. Meanwhile the CBN through its Bankers' Committee declared that it would ensure that the spate of mass-sacking in the industry was minimized through moral suasion with banks.

3.8.5 Macroeconomic Uncertainties

Risk Rating	⇔

The slow growth in the domestic economy, rising inflation and increasing unemployment combined to create further uncertainties for operators in the financial system. The concern is that the shocks may be transmitted in the form of increased delinquency of loans, collapse in asset prices, instability in the foreign market and increasing inflation. However, it is expected that current Government efforts to close the fiscal gap and diversify the economy will help address the concerns.

3.9 CBN Credit Information System

The Bank continued work on the redesign of the CRMS to address the issue of lack of a unique identifier for prospective borrowers by adopting the Bank Verification Number (BVN) and Taxpayer Identification Number (TIN) as the sole individual and corporate borrowers' identifiers respectively.

The redesigned system will also eliminate some manual processes involved in the current CRMS, expand the current scope of the system to include borrowers from all lending institutions and ultimately enhance its overall efficiency and effectiveness in ensuring credit risk management.

The number of borrowers registered in the CRMS database stood at 195,159 at end-June 2016, indicating an increase of 23.91 per cent over the number recorded in the preceding year at end-June 2016. Similarly, the number of borrowers with outstanding facilities rose significantly by 51.30 per cent to 93,168 at end-June 2016 from 61,580 at end-December 2015, and the number of captured credit facilities in the database also increased significantly by 43.31 per cent to 173,050 at end-June 2016 from 120,750 at end-December 2015, owing to increased compliance by banks.

Table 3. 11: Borrowers from the Banking Sector[14]

Description	December 2015	June 2016	Absolute Change	Change (%)
Total No. of Borrowers on the CRMS	157,501	195,159	37,658	23.91
No. of Borrowers with outstanding credits	61,580	93,168	31,588	51.30
No. of Credit/facilities	120,750	173,050	42,409	43.31

3.10 The Financial Services Regulation Coordinating Committee

3.10.1 Consolidated Examination of Financial Holding Companies

The FSRCC held Knowledge of Business (KOB) and Risk Assessment Summary (RAS) working sessions in preparation for consolidated examination. Examiners of member agencies are currently conducting onsite solo examination of financial holding companies.

[14] These figures are based on submission by Commercial and Merchant Banks only and for amounts of ₦1m and above.

3.10.2 National Road Map on Sustainable Finance

The National Sustainable Finance Principles (NSFPs) and the Implementation Roadmap had been developed by the Harmonisation and Coordination Sub-Committee (HCSC), and approved by the FSRCC. Implementation of the Roadmap has commenced.

3.10.3 Framework for Domestic Systemically Important Financial Institutions

The FSRCC, through its Financial Sector Soundness Sub-Committee, embarked on developing a framework for designating Domestic Systemically Important Financial Institutions (D-SIFIs). The purpose is to encourage regulatory agencies to evolve a peer-review mechanism, particularly in their supervisory processes to upscale their standards.

3.11 Consumer Protection

The Bank received 1,473 complaints from consumers of financial services relating to excess charges, fraud, dishonoured guarantees, unauthorized deductions/transfers against DMBs and other financial institutions. A total of 1,157 complaints were resolved/closed in the period including some that were received prior to the review period. Total claims during the period amounted to ₦6.75 billion, $81,023.00 and €19,414.62 while the sums of ₦4.63 billion, $80,415.46 and €19,263.62, were refunded by financial institutions to their customers.

Compliance examination was conducted on 17 banks with respect to the *Revised Guide to Bank Charges*. The examination established a low level of compliance and defaulting banks were directed to implement specific remedial actions, including making refunds where applicable.

4.0 PAYMENTS SYSTEM

4.1 Developments in the Payments System

The Bank in pursuit of its effort towards continuous improvement of the safety and efficiency of payments system in Nigeria, recorded significant achievements under the following initiatives:

4.1.1 Implementation of the Bank Verification Number Scheme

The implementation of the Scheme has resulted in the registration of 25,176,419 individuals, while 35,508,282 out of 57,899,771 accounts had been linked to BVN. The following achievements of BVN were recorded:

a. Customers with multiple identities in different banks have largely complied with the requirements on the harmonization of their account details;
b. "Post No Debit" restrictions were placed on accounts that had not been linked to BVN;
c. Fraud and forgeries had reduced, owing to the inability to open multiple accounts for criminal purposes;
d. The Scheme has strengthened the ability of law enforcement agencies in the investigation of financial crimes;
e. It has enabled MDAs and State Governments to authenticate staff against payrolls, thereby exposing ghost workers, with consequential savings in staff costs;
f. It has aided the implementation of the Anchor Borrower Programme.

The Bank extended the deadline for BVN enrolment for Nigerian bank customers in diaspora and security personnel on special assignments to December 31, 2016.

4.1.2 Nigeria electronic Fraud Forum

The Nigeria electronic Fraud Forum (NeFF) partnered with the Nigeria Police to establish a dedicated e-Payment and Card Crime Unit. The forum is in collaboration with the judiciary to fast-track the judgement of electronic fraud cases.

4.1.3 Super-Agent Network

Following the issuance of the Guidelines for the Regulation of Agent Banking and Agent Banking Relationships in Nigeria, the CBN granted an approval-in-principle to Interswitch Financial Inclusion Services (IFIS) and Innovectives Nigeria Ltd to operate as Super Agents. This would enable the two companies to grow an active agent network for delivering financial services to banked and unbanked customers in Nigeria.

4.1.4 Treasury Single Account

In response to the need for States to implement the TSA Scheme, the Bank issued *Guidelines for the Operations of TSA by State Governments in Nigeria* designed to standardize operation of the Scheme across states. The Guidelines allow state governments to maintain TSAs with the CBN or any bank of their choice. Furthermore the Guidelines stipulate that each State

Government shall adopt a CBN licensed electronic payment platform for the operation of its TSA scheme on a full end-to-end basis, for all payments and collections.

As at end-June 2016, two State Governments[15] had commenced operation of the TSA with the CBN and three States[16] maintain TSA with commercial banks. The initiative is expected to facilitate better management of cash resources and harmonize fragmented government receipts and payments.

4.1.5 Cheque Standards and Cheque Printers Accreditation Scheme

At end-June 2016, the number of accredited cheque printers in Nigeria, remained five. The cheque printers accreditation scheme is designed to ensure that the printers comply with the Nigerian Cheque Standards, that risks associated with paper-based payment instruments are reduced and that MICR reject rates are reduced; thus, enhancing public confidence in the system.

4.1.6 Licensing of Payment System Participants

During the review period, two (2) Payment Terminal Service Providers (PTSPs) were licensed, bringing the total licensed PTSPs to 16. In addition, there were 21 mobile money operators, three (3) Card Schemes, three (3) Payment Solution Service Providers, six (6) Electronic Financial Transaction Switches and two (2) Third-Party Processors in Nigeria (Table 4.1).

Table 4. 1: Licensed Payment System Participants

License Type	**Dec. 2015**	**June 2016**
Card Schemes	3	3
Mobile Money Operators	21	21
Payment Solution Service Providers	3	3
Payment Terminal Service Providers	14	16
Electronic Financial Transaction Switches	6	6
Third Party Processors	2	2
Total	**49**	**51**

4.2 Payments System Vision 2020

In pursuit of the attainment of the Payment System Vision 2020 (PSV 2020) objectives, the CBN issued the following guidelines towards improving the efficiency and safety of the payments system:

- **Guidelines on Transaction Switching in Nigeria:** The Guidelines set out the procedures for the operation of switching services in Nigeria, including the rights and obligations of the parties to the switching contract. It also required the switching companies to meet with minimum standards for switching, as approved by the CBN.

[15] Kaduna and Zamfara

[16] Lagos, Plateau and Kwara

- **Guidelines on Operations of Electronic Payment Channels in Nigeria:** The extant standards and guidelines on ATM Operations, PoS Card Acceptance Services, Mobile PoS (MPoS) Acceptance Services, and Web Acceptance Services were consolidated into the *Guidelines on Operations of Electronic Payment Channels in Nigeria*. It sets out operational procedures, settlement framework, minimum standards and requirements for the different payment channels.

- **Guidelines for Banking Operations in the Free Trade Zones (FTZ) in Nigeria:** The purpose of the Guidelines is to provide details of regulatory and supervisory requirements necessary to promote efficient and sustainable banking services, details of permissible and prohibited activities, and incentives in Nigeria's FTZs.

In addition**,** the Bank, in line with principle 8 of BIS Principles for Financial Market Infrastructure, defined the point of settlement finality for payments via Cheque, RTGS System, Cards, Mobile and Instant Payment platform in Nigeria. The memorandum for the submission of the draft Payments System Management Bill earlier submitted to the Federal Executive Council was approved during the review period.

4.3 Large Value Payments

The volume and value of inter-bank fund transfers through the CBN RTGS System decreased to 546,283 and ₦183,365 billion at end June 2016 from 566,852 and ₦185,868 billion respectively, at end December 2015, reflecting decreases of 3.63 and 1.35 per cent, respectively. The marginal decline was attributable to the lower volume and value of government payments through the System.

4.4 Retail Payments

4.4.1 Cheque Clearing

The volume and value of cheques decreased to 5,731,805 and ₦2,894.79 billion at end-June 2016 from 7,058,954 and ₦3,000.72 billion at end-December 2015, reflecting decreases of 18.80 per cent and 3.53 per cent, respectively. The decreases were attributable to the growing awareness and convenience of alternative payment modes.

4.4.2 Instant Payment

Instant payment volume and value increased to 56,318,341 and ₦16,365.26 billion respectively, in the first half of 2016 from 41,678,698 and ₦13,593.72 billion in the second half of 2015 respectively. The increases were due to customers' preference for instant settlement.

4.4.3 NIBSS Electronic Fund Transfer Transactions

The volume and value of NEFT transactions decreased to 13,009,783 and ₦5,799.39 billion respectively, at end-June 2016 from 14,933,051 and ₦6,315.51 billion at end-December

2015, respectively. The decreases were due to customers' preference for the instant payment platform.

4.4.4 Electronic Card Transactions

Electronic card (e-card) transaction volume rose to 314,640,432 in the first half of 2016 from 275,592,061 in the second half of 2015, while the value increased to ₦2,871.46 billion in the first half of 2016 from ₦2,619.57 billion in the preceding period. The increases reflected the growing public awareness of the card payment system.

Table 4. 2: Electronic Card Transactions

Payment Channel	Number of Terminals		Number of Transactions		% Change (Volume)	Value ₦' Billion		% Change (Value)
	Dec 2015	June 2016	Dec 2015	June 2016		Dec 2015	June 2016	
ATMs	16,406	17,083	226,982,338	261,180,873	15.06	2,069.86	2,204.49	6.50
POS	119,126	121,388	18,796,892	25,337,605	34.79	247.63	308.47	24.56
Mobile	-	-	25,159,490	22,735,523	(9.6)	250.31	303.53	21.26
Internet (Web)	-	-	4,653,341	5,386,431	15.75	51.77	57.97	11.97
Total			275,592,061	314,640,432	14.17	2,619.57	2,874.46	9.73

5.0 OUTLOOK

In the near term, the impact of low commodity prices, expected impact of Brexit, prospect of rising interest rates in the US and an economic slowdown in China could increase uncertainty in global financial markets and heighten vulnerabilities in the global economy. The continued slowdown in global output observed in the first half of 2016 may worsen, as commodity exporting countries face increasing difficulties in financing fiscal deficits.

On the domestic front, the current efforts of the government are expected to minimize the impact of the slowdown in the economy. The expected gradual recovery of oil prices in the international market, as well as increased productivity in the domestic economy, arising from the diversification efforts, should boost output growth. Although inflationary pressures remain a challenge in 2016, it is expected that the current measures being taken by the monetary and fiscal authorities would likely address the underlying drivers of the upward price movements, thereby enhancing the prospects for macro-economic stability.

Furthermore, the adoption of the flexible exchange rate system is expected to boost liquidity, improve price discovery and enhance transparency in the foreign exchange market all of which would moderate exchange rate volatility and enhance financial system stability.

Cross-border banking regulation and supervision is expected to be enhanced with the establishment of additional bank specific-supervisory colleges and the implementation of the MOU with Banque des Etats de l'Afrique Centrale (BEAC).

The implementation of the revised PSV2020 document is expected to improve payment system safety, reliability and efficiency. Similarly, the completion of the BVN Scheme is expected to improve credit risk management and KYC compliance and reduce incidence of frauds in the banking system.

Given the persistent weakness and volatility in the price of crude oil, the CBN will continue to closely monitor the exposure of banks to the oil and gas sector and take appropriate actions to curtail systemic risks in the industry.

All things considered, the financial system is expected to remain resilient and adaptive to macroeconomic shocks. While challenges remain in both the global and domestic financial systems, the Bank is confident that its current proactive surveillance measures would ensure the stability and safety of the system in the near term.

Box 1: A Brief on Nigeria's Flexible Foreign Exchange System

In June 2016, the CBN introduced a Flexible Exchange Rate System. The system operates a single market structure based on two-way quotes. In the market, the CBN-appointed Foreign Exchange Primary Dealers (FXPDs), can either trade directly with the CBN, among themselves, or with Non-FXPDs. The Authorised Dealers have maximum limits of +0.5%/-10.0% of their shareholders' funds unimpaired by losses as Foreign Currency Trading Position Limits to support their obligations.

To reduce volatility and ensure stability of rates, the CBN intervenes through the following market mechanisms:
The inter-bank market, by trading with the FXPDs who in turn trade among themselves, and also, trade with Non-FXPDs; and
The Secondary Market Intervention Sales (SMIS), by dealing directly with end-users through their banks.

CBN intervention in the market is either by buying or selling foreign exchange, spot or forwards, upon receipt of valid two-way quotes on the standard amount as defined by it. On June 20, 2016, the single flexible market structure opened with the CBN requesting Authorised Dealers to submit all their outstanding foreign exchange obligations to their customers. At the end of the first trading day under the regime, the market was cleared at a marginal rate of ₦280.00/US$.

The new flexible exchange rate regime also brought about the introduction of a Naira-settled non-deliverable over-the-counter foreign exchange futures. The OTC FX futures are non-standardised and have fixed tenors and bespoke maturity dates. The FX futures are non-deliverable forwards (NDF) where counterparties settle the difference between spot rate and forward rate at maturity. Other features of the NDF include:

Settlement in Naira rather than in foreign currency;
Trading on the FMDQ OTC platform;
Posting of the various NDF tenors and their rates on the platform; and
Banks are expected to buy any tenor but only on their customers' requests backed by adequate documentation.

Box 2: Highlights of the Pensions Sector

Key highlights of the Pension Sector are provided in the following tables:

Total Pension Fund Assets at end-June 2016

Fund Type	Amount (₦' Billion)
RSA Fund	4,253.82
Closed Pension Fund Administrators (CPFA)	812.92
Approved Existing Schemes (AES)	662.58
Total Pension Fund Assets	**5,729.32**

PFA Ranking by Asset Size at end-June 2016

Rank	Market Share (%)
Top 3	54.40
Top 5	66.76
Top 10	88.32
Bottom 3	0.41
Bottom 5	1.62
Bottom 10	8.68

Portfolio Structure of RSA Funds at end-June 2016

Asset Classes	Distribution (%)
Domestic Ordinary Shares	9.97
FGN Securities	74.19
State Government Securities	2.30
Corporate Debt Securities	3.44
Supra National Bonds	0.18
Money Market Securities	9.02
Open / Close-end Funds	0.37
Private Equities	0.17
Infrastructure Fund	0.02
Cash and other assets	0.34
Total	**100**

Portfolio Structure of RSA Retiree Fund at end-June 2016

Asset	Proportional Contribution (%)
Domestic Ordinary Shares	0.63
FGN Securities	74.91
State Government Securities	4.26
Corporate Debt Securities	8.36
Supra National Bonds	0.82
Money Market Securities	9.42
Cash and other assets	1.61
Total	**100**

The average return on pension fund investment for the second quarter 2016 was 17.84 per cent for RSA and 12.13 per cent for retiree funds.

Box 3: Assumptions for Maturity Mismatch Stress Tests 2a, 2b and 2c

1. The assumptions used for the test are considered 'extreme but plausible'. The assumptions are system-wide (uniform) rather than bank-specific.

2. The assumptions are as follows:
   - An average outflow of 3.8, 5.0 and 1.5 per cent of Total Deposit, Short-term funding and Long term funding respectively over 5 days period (i.e. the percentage is reduced for subsequent days after day one to reflect the outflow in the previous days).
   - A cumulative average outflow of 22.0, 11.0 and 1.5 per cent of Total Deposit, Short-term funding and Long term funding for a 30 days test respectively.
   - The composition of total deposits, short-term funding and long-term funding in the template are as in the table below:

	5 Days Test	**30 Days Test**
	Percent outflow per day	**Cumulative outflow during 30 days (Percent)**
Total deposits	3.8%	22.0%
Demand deposits	5.0%	30.0%
Demand deposits	5%	30%
Electronic purse	5%	30%
Term Deposits	3.0%	16.8%
Term Deposits	2%	10%
Savings accounts	2%	10%
Other deposit certificates and notes	2%	10%
Domiciliary accounts	5%	30%
Short-term Funding	5.0%	11.0%
Government deposits*		
Federal government	5%	10%
State government	5%	10%
Local government deposits	5%	10%
Money at call (Schedule, MRB345)	5%	20%
Inter-bank takings (Schedule MRB341)	5%	20%
Bank deposits domestic(due to)	5%	20%
Bank deposits foreign (due to)	5%	20%
other funding liabilities	5%	20%
Long-term funding	1.5%	1.5%
Borrowing from other banks in Nigeria	2%	2%
Borrowing from other banks outside Nigeria	2%	2%
Other	2%	2%
Debentures/loan stock (under 3 years)	0%	0%
Debentures/loan stock (over 3 years)	0%	0%

*Government deposits is included in the total deposits making the total outflow on government deposits higher than 5 per cent.

   - The following assets are assumed to remain liquid (but adjusted for haircut and encumbrance) with the calculated percentage unencumbered as follows:

Assets*	**% unencumbered**
Cash and cash equivalent	100
Current account with CBN	100
CRR	30
Government Bonds & Treasury Bills and other assets with 0% risk- weighting exposure	66.5
Other Short-term investments	49
Certificates of deposits held	66.5

*Compared with the assets classified as 'liquid' for the purpose of the computation of liquidity ratio, all interbank placements, money at call and placements with discount houses are excluded from identified liquid assets. This is because, at a time of stress there is high probability that these assets will not be readily available for banks to realise, therefore, making it illiquid for the purpose of the test.

Details on unencumbered liquid assets

	Remains liquid?	**Haircut (in case of fire sale)**	**Value after haircut**	**Per cent Encumbered – PreTest**	**Per cent Unencumbered - Post Test**	**Per cent Unencumbered liquid Assets**
Assets			33.9%		23.9%	21.6%
Cash and cash equivalent	Yes	0.0%	100.0%	0.0%	100.0%	100.0%
Government Bonds & Treasury Bills and other exposure with 0% risk-weighting	Yes	5.0%	95.0%	30.0%	70.0%	66.5%
Other Short-term investment	Yes	30.0%	70.0%	30.0%	70.0%	49.0%
Certificates of deposits held	Yes	5.0%	95.0%	30.0%	70.0%	66.5%
Asset backed assets	No		0.0%		n.a.	n.a.
Equities	No		0.0%		n.a.	n.a.
Derivatives	No		0.0%		n.a.	n.a.
Bills discounted	No		0.0%		n.a.	n.a.
Other financial instruments held	No		0.0%		n.a.	n.a.
Loans and advances/leases	No		0.0%		n.a.	n.a.
Investments	No		0.0%		n.a.	n.a.
Other assets	No		0.0%		n.a.	n.a.
Fixed assets	No		0.0%		n.a.	n.a.
Due from	No		0.0%		n.a.	n.a.
Current Account with CBN	Yes	0.0%	100.0%	0.0%	100.0%	100.0%
CRR	Yes	0.0%	100.0%	70.0%	30.0%	30.0%
Secured Interbank Placement	Yes	30.0%	70.0%	30.0%	70.0%	49.0%

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