



CENTRAL BANK OF NIGERIA

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**BANKING SUPERVISION  
ANNUAL REPORT**

**2015**

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The Banking Supervision Annual Report is a publication of the Central Bank of Nigeria. The publication reviews policy and operational issues in the financial sector and provides insight into the supervisory and regulatory activities of the Central Bank of Nigeria for the reporting year.

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Enquiries, observations and/or comments on this publication should be directed to:

**Director, Banking Supervision Department**

**Central Bank of Nigeria**

33 Tafawa Balewa Way

Central Business District

P.M.B. 0187

Garki, Abuja

Phone: +234 9 462 36403

Website: [www.cbn.gov.ng](http://www.cbn.gov.ng)

E-mail: [bsd@cbn.gov.ng](mailto:bsd@cbn.gov.ng)

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## ▪ FOREWORD ▪

**D**evelopments in the domestic and global economy continued to define the nature of supervisory and regulatory activities carried out by the Central Bank of Nigeria (CBN) during the year. The CBN, in response to these developments, sustained its efforts toward building a resilient and stable financial system in Nigeria.

In this regard, the CBN reviewed the Basel II Reporting Framework by issuing revised Guidance Notes and Reporting Templates to address the observed challenges in the implementation of the Framework. Specifically, the challenges included the use of inappropriate risk-weights, improper reporting of market risk and inadequate disclosure on credit risk mitigation in the computation of capital adequacy ratio. Furthermore, it commenced a review of the Credit Risk Management System to address the perennial challenges associated with the existence of multiple profiles for some borrowers due to the absence of a unique identifier and the restriction of rendition of returns to conventional banks.

Other activities in this area included the issuance of the Guidelines for the Management of Dormant Accounts and Other Unclaimed Funds, in order to harmonise the classification and treatment of inactive and dormant accounts in the industry. The Guidelines on Bancassurance-Referral Model was also introduced to provide opportunity for banks to partner insurance companies in the offering of bancassurance products. The Regulatory and Supervisory Guidelines for Development Finance Institutions (DFIs), which classifies DFIs into Retail and Wholesale, was also introduced to provide a level playing field for participants in the sub-sector.

The CBN amended its regulation on the Scope of Banking Activities and Ancillary Matters, No. 03, 2010, to allow merchant banks establish subsidiaries for the purpose of capital market and assets management activities. Accordingly, the Guidelines for the Operation of Group Structure of Merchant Banks was issued to ensure that this category of banks invest in safe assets and maintain adequate capital ratios commensurate with their risk profiles.

The Guidelines on Approved Persons' Regime was reviewed during the period to further strengthen the fitness and propriety requirements for top management and board appointments. To further strengthen the regulation and supervision of Bureaux de Change (BDCs), their operational guidelines were also reviewed.

As part of its supervisory oversight on Domestic Systemically Important Banks (D-SIBs), the Recovery and Resolution Plans (RRPs) submitted by banks designated as D-SIBs were

reviewed. The review revealed several deficiencies and provided a platform to engage the banks on the critical aspects of recovery and resolution.

The CBN continued to strengthen the regulatory framework for the monitoring of Anti-Money Laundering/Combating the Financing of Terrorism in the banking system. During the review period, the Bank commenced a self-assessment exercise to evaluate the level of the banking industry's compliance with the Financial Action Task Force Recommendations. The exercise was geared towards the commencement of the Nigeria Mutual Evaluation Exercise slated for 2018.

This edition of the Banking Supervision Annual Report provides some insight into the supervisory and regulatory activities of the CBN in the period under review. In line with its key mandate, the CBN would continue to direct its supervisory efforts toward the promotion of a safe, stable and sound financial system in Nigeria.

**OKWU. J. NNANNA (PhD)**

Deputy Governor, Financial System Stability



## ▪ PREFACE ▪

This edition of the Banking Supervision Report, an annual publication of the Financial System Stability Directorate provides a platform to communicate supervisory/regulatory developments that shaped the banking industry landscape during the period under review.

The Report is organized into five chapters. Chapter One examines developments in the banking industry in the areas of Basel II Implementation, Credit Risk Management System and private credit bureaux. The chapter also covers developments in cross border supervision, other financial institutions, and Anti-Money Laundering/Combating the Financing of Terrorism. Furthermore, the result of the Nigeria Financial Literacy Baseline Survey and the progress made in the implementation of the United States Foreign Accounts Tax Compliance Act by banks in Nigeria are also discussed.

Chapter Two covers the Framework for Supervision, highlighting the regulations issued and/or reviewed during the period. In this regard, the guidelines issued on the National Financial Literacy Framework, Approved Persons' Regime, Management of Dormant Accounts and Other Unclaimed Funds, Group Structure of Merchants Bank and Operations of Bureaux de Change, among others, were highlighted. The chapter also discusses the Implementation of the Framework for Financial Stability and the outcome of the review of the first set of Recovery and Resolution Plans submitted by D-SIBs.

Chapter Three discusses the Supervisory Activities of the CBN from both the off-site and on-site perspectives. The chapter covers the Supervision of Banks, Other Financial Institutions, Discount Houses, Credit Bureaux and Financial Holding Companies, as well as the Examination of Cross-border Subsidiaries and Branches. Bankers' Committee and Consumer Protection activities were also covered in detail.

Chapter Four presents the Performance Trend in the Banking System, highlighting the financial position, profitability and efficiency of operations of banks and other financial institutions during the period under review.

Lastly, Chapter Five details the Capacity Building activities of the Financial System Stability Directorate, outlining the training programmes attended by supervisors and the retreat held by Financial Policy and Regulation Department.

The Departmental Directors in the Financial System Stability Directorate appreciate the

contributors to this report, especially the members of the Banking Supervision Annual Report Committee for their resilient commitment to its production.

**TOKUNBO MARTINS (MRS)**

Director, Banking Supervision Department

**AHMAD ABDULLAHI**

Director, Other Financial Institutions Supervision Department

**KEVIN N. AMUGO**

Director, Financial Policy and Regulation Department

**UMMA A. DUTSE (MRS)**

Director, Consumer Protection Department



## CHAPTER 1

# DEVELOPMENTS IN THE BANKING INDUSTRY



## 1.01 ENHANCEMENT TO BASEL II REPORTING FRAMEWORK

The implementation of Basel II in the banking sector continued with a nine-month period of parallel run of Basel I and Basel II Capital Adequacy Computations, which ended in October 2014. The parallel run of the two regulations afforded banks and the regulators the opportunity to prepare for the full adoption of the new regulation. The analysis of the banks' returns during the parallel run revealed some issues, which included the use of inappropriate risk-weights, improper reporting of market risk and inadequate disclosure on Credit Risk Mitigation (CRM) in the computation of capital adequacy ratio. Consequently, revised Guidance Notes and Reporting Templates were issued in 2015. Key elements of the review and other implementation issues included:

### **Pillar 1: Minimum Capital Requirement**

National discretion was adopted in the selection of the basic approaches for calculating minimum capital requirements. Banks may thereafter adopt more sophisticated approaches with the prior approval of the CBN. Based on the review of the regulations, the following key enhancements to the guidance notes and templates were made:

#### **i. Regulatory Capital Guidance Notes**

The revised Notes introduced progressive discounting on a straight line basis at 20 per cent of debt capital instrument in the final five years to maturity; a provision to discourage reciprocal cross-holdings in the common shares of banking, financial and insurance entities; and reduced the 50 per cent limit of subordinated debt to tier 1 capital with 33.3 per cent maximum limit of tier 2 capital to tier 1 capital. Also, regulatory risk reserve was de-recognized as a qualifying capital component and any balance therein was to be netted-off against total risk weighted assets.

#### **ii. Credit Risk Guidance Notes**

The exposure classes were expanded from 12 to 13 with the inclusion of a category on "Unsettled and Failed Transactions". Over-the-Counter transaction was included as part of off-balance sheet exposures, and CRM techniques were streamlined into three, namely: Financial, Netting, and Guarantees & Derivatives. The Comprehensive Approach was also adopted for recognizing CRM by all banks for uniformity in the assessment process.

#### **iii. Market Risk Guidance Notes**

General risk capital charge for interest rate was expanded to capture vertical and horizontal disallowances. The foreign exchange risk was expanded to include all foreign assets and liabilities as well as swaps and forward positions. To ensure uniformity, the Shorthand method, which treats all currencies equally as prescribed in the Standardized

Approach, was to be used by banks in measuring their foreign exchange risk and the resultant capital charges.

Banks were directed to adopt the revised templates for the submission of their CAR returns with effect from December 31, 2015.

**Pillar 2: Supervisory Review Process**

The offsite review of the second set of banks' Internal Capital Adequacy Assessment Process (ICAAP) reports as at December 31, 2014 was carried out during the period. The review revealed inadequacies in the process of risk identification and assessment by most banks. This, alongside the onsite validation and engagement of banks as part of the Supervisory Review and Evaluation Process, led to the issuance of Individual Capital Guidance.

**Pillar 3: Disclosure Requirements**

Further guidance was provided on the medium and frequency of regulatory disclosures as stipulated in Basel II. Primarily, banks were required to make disclosures bi-annually within thirty days of the publication of their financial statements on their websites and in print to the CBN. However, annual reporting was considered sufficient for non-systemically important banks with "Low" or "Moderate" Composite Risk Rating.

The revision of the Basel II reporting framework was aimed at appropriately aligning banks' capital levels with their risks. It was also expected to enhance transparency and promote market discipline in the industry through improved disclosures.

Conscious of the need to adopt the advanced approaches for the assessment of minimum capital requirements in the near term, the CBN's focus is on the development of relevant capacity to implement the approaches.

**1.02 CREDIT RISK MANAGEMENT SYSTEM**

The review of the Credit Risk Management System (CRMS) with a view to reinforcing its objectives of encouraging good credit culture, preventing predatory borrowers and strengthening credit risk management practices in the banking industry, received the attention of the CBN in 2015. It also afforded it the opportunity to address the challenges of multiple profiles for some borrowers due to the absence of a life-long unique identifier and restriction of rendition of returns to conventional banks.

The CBN leveraged on the Bank Verification Number (BVN) for individual borrowers and the Taxpayer Identification Number (TIN) for corporate borrowers to resolve the



challenge of lack of a unique identifier. The combination of the BVN and the TIN is expected to eliminate the existence of multiple profiles for the same borrower in the CRMS.

Consequently, a project for the comprehensive redesign of the CRMS was embarked upon to:

- i. Eliminate the recurring challenges of multiple borrower profiles.
- ii. Address some architectural limitations in the area of report generation.
- iii. Expand rendition requirements to cover other financial institutions and the Asset Management Corporation of Nigeria (AMCON).
- iv. Customise submission templates for other financial institutions and non-interest banks to reflect their business model and unique types of credit.
- v. Incorporate the critical elements of the Prudential Guidelines for Banks in Nigeria.
- vi. Develop robust analytics (by leveraging the new data points) to support enhanced micro and macro prudential capabilities to:
  - a. Monitor loans-at-risk for individual banks and the industry as a whole;
  - b. Monitor concentration risk for loans by individual banks, industry, underlying collateral, etc.;
  - c. Establish the cause-and-effect relationships between events/changes in the larger economy and behaviour of loans; and
  - d. Identify and highlight relationships between different categories of borrowers.
- vii. Enhance disclosure requirements on qualitative data points such as dud cheques, insider and/or related persons, funding sources, politically exposed persons, etc.

- viii. Migrate existing data to the new CRMS after data cleansing.

As part of the engagement process with the regulated institutions, enlightenment sessions were held with representatives of financial institutions.

Taking into cognizance the gestation period of the project, a stop-gap platform was deployed in September 2015 to address some of the challenges associated with the CRMS.

The main features of the platform were as follows:

- i. Simplify the borrower confirmation process to allow for batch or single processing;
- ii. Create the profiles of the Nigeria Deposit Insurance Corporation and the AMCON with capability to report on borrower status;
- iii. Detach the CRMS from the e-FASS for optimum performance; and
- iv. Streamline the return submission process.

The credit records in the stop-gap platform would subsequently be migrated to the redesigned CRMS.

### **1.03 DEVELOPMENTS IN THE OPERATIONS OF PRIVATE CREDIT BUREAUX**

Despite the challenging economic environment, stakeholders' apathy and low awareness on the part of the general public, the credit bureaux continued to perform their statutory function of strengthening the credit risk management process in the banking industry.

The three licensed private credit bureaux recorded improved performance during the review period as the total number of registered borrowers increased by 14.1 million (48.6 per cent) to 45.8 million in 2015, from 33.2 million in 2014. In the same vein, borrowers with outstanding credits were 15.14 million in 2015 as against 13.2 million in 2014, an increase of 1.9 million (15.1 per cent). Also, the number of captured credit facilities increased by 3.76 million (18.3 per cent) to 24.3 million in 2015, from 20.6 million in 2014.

Other developments that affected the businesses of the private credit bureaux during the period included:



**i. Common Data Template**

In collaboration with other stakeholders, the CBN, in August 2015, designed a Common Data Template for credit reporting to the credit bureaux by data providers. This addressed the challenges faced in the transmission of data to the credit bureau operators arising from the use of different data templates.

**ii. Widening Credit Reporting Coverage**

In furtherance of efforts to widen the coverage of credit reporting, the CBN held meetings with the Nigerian Communications Commission and other stakeholders in the telecommunications industry, which resulted in the Global System for Mobile (GSM) communication operators subscribing to the credit reporting system.

**iii. On-site Examinations of Private Credit Bureaux**

On-site examinations of the three private credit bureaux were carried out to evaluate the quality of their databases and ascertain compliance with extant rules and regulations. The examinations highlighted the following issues among others:

- a. Partial or irregular data submission by the data providers;
- b. Low level of awareness about the services of credit bureaux;
- c. The need to improve the quality and accuracy of credit reports;
- d. Inadequate succession planning; and
- e. Existence of some outdated internal policies.

**iv. CBN Efforts to Address the Challenges**

Some of the measures taken by the CBN to address the challenges facing the private credit bureaux included:

- a. Stricter enforcement of credit bureau guidelines with respect to the submission of complete data to the bureaux, request for credit reports before the grant of facilities and quarterly review of credit facilities;
- b. Sponsorship of media campaign in collaboration with the International Finance Corporation (IFC) to enhance awareness on credit bureaux and collateral registry functions;



- c. Capacity building for staff through conferences and study tour on credit bureau operations; and
- d. Upgrade of the CBN Credit Risk Management System to receive all credit information irrespective of the amount.

Notwithstanding the challenges facing the private credit bureaux, significant improvement in their operations has been achieved. It is expected that the measures being taken, along with the on-going collaboration with stakeholders, will enhance their performance in the coming years.

#### **1.04 DEVELOPMENTS IN CROSS-BORDER SUPERVISION**

An important element in the effective supervision of financial institutions with cross border operations is cooperation between home and host regulators. Consequently, the CBN collaborated with regulators of jurisdictions where banks licensed in Nigeria had presence as well as jurisdictions that had their banking subsidiaries operating in Nigeria.

The focus of the CBN in cross-border supervision was to limit the pass-through of risk from other jurisdictions to the domestic banking system. A major strategy to achieve this was the formation of supervisory colleges as a means of coordinating and strengthening the supervision of international banking groups. In this regard, the CBN participated in the establishment of colleges by foreign supervisory agencies and set up bank specific supervisory colleges. It also signed Memoranda of Understanding (MoUs) with several offshore regulators. Below are key events that took place during the period:

- i. Colleges of Supervisors:**
  - a. College of Supervisors of the West African Monetary Zone**

The College of Supervisors of the West African Monetary Zone (CSWAMZ) provided an avenue for effective partnership and collaboration in cross-border banking supervision; development of a crisis management framework; strengthening of measures for combating money laundering and the financing of terrorism; and building capacity of bank examiners, among others.

Under the auspices of the CSWAMZ, the 15th and 16th meetings of the Legal and Institutional Issues Committee were hosted by the West African Monetary Institute in Ghana, in June and December 2015, to deliberate on the draft model Banking Act for the West African Monetary Zone (WAMZ). The meetings also reviewed the existing WAMZ Model Act in line with the revised Basel Core Principles for Effective Banking Supervision.

**b. Ecobank Transnational Incorporated**

The CBN collaborated with the Banque Centrale des Etats de l'Afrique de l'Ouest (Central Bank of West African States, BCEAO) to establish the College of Supervisors for Ecobank Transnational Incorporated. The inaugural meeting of the College was hosted by the home supervisor, BCEAO in Abidjan, Cote d'Ivoire in April 2015.

**c. United Bank for Africa Plc**

The second meeting of the College of Supervisors of the United Bank for Africa (UBA) Group took place in Abuja in August 2015 with eight supervisors in attendance. The meeting provided a platform for the UBA Group to emphasise its vision to be a Pan African bank. The Group also committed to recapitalising its foreign subsidiaries that were operating below minimum regulatory capital levels. Supervisors acknowledged the effectiveness of the information sharing session in assessing the risk profile of the UBA group towards enhancing its safety and soundness.

**ii. Committee of Bank Supervisors of Central and West Africa**

The CBN participated in the 17th Meeting of the Committee of Bank Supervisors of Central and West Africa in Kinshasha, Congo in November 2015, where it handed over leadership of the Committee to the Bank of Congo. Deliberations at the meeting centered on improving supervisory standards in member states through the implementation of Basel II and International Financial Reporting Standards.

**iii. Community of African Banking Supervisors**

Efforts to deepen cooperation with other supervisors were sustained through attendance of meetings of the Association of African Central Banks and Community of African Banking Supervisors (CABS).

The CABS established a Working Group on Cross Border Banking Supervision to develop a better understanding of cross-border banking in Africa, strengthen information sharing and foster regional co-operation among supervisors. The inaugural meeting of the Group was held in South Africa in May 2015 with the South African Reserve Bank serving as the Chair.

**iv. Memoranda of Understanding with Foreign Bank Supervisory Authorities**

The CBN, during the period under review, executed a Memorandum of Understanding (MoU) with the Bank of Mauritius, bringing the total number of MoUs on supervisory cooperation and information sharing to 17, covering 24 countries. Arrangements were at an advanced stage toward executing an MoU with the Reserve Bank of India.

The MoUs with various jurisdictions greatly facilitated information sharing on the offshore subsidiaries of Nigerian banks and served as the basis for joint and solo on-site examinations in 2015.

**v. Cross-Border Expansion and Divestments**

During the year, Access Bank Plc established representative offices in Lebanon, United Arab Emirates and India, while Guaranty Trust Bank Plc established a subsidiary in Tanzania. At end-December 2015, the offshore entities of Nigerian banks comprised of 59 subsidiaries, one associate, one branch and ten representative offices.

Keystone Bank completed the divestment of its 80 per cent stake in Orient Bank (Uganda) Limited. Similarly, UBA Plc reduced its holding in UBA Zambia to 49 per cent.

**1.05 DEVELOPMENTS IN OTHER FINANCIAL INSTITUTIONS**

Significant developments in the Other Financial Institutions (OFIs) sector during the review period are highlighted below:

**i. Microfinance Banks**

At end-December 2015, there were 958 licensed Microfinance Banks (MFBs) comprising 7 National, 103 State and 848 Unit MFBs, an increase of 74 MFBs over the 884 MFBs in operation in 2014.

During the year, 661 operators completed the certification in microfinance bank management conducted by the Chartered Institute of Bankers of Nigeria, bringing the total number of certified operators to 3,466 since inception of the programme in 2009. This was in line with the requirements of the Revised Regulatory and Supervisory Guidelines for Microfinance Banks in Nigeria.

The Committee of Microfinance Banks in Nigeria held its bi-annual meetings in three locations (Abuja, Lagos and Calabar) during the year. The focal points of the meetings included enhancing corporate governance, promoting self-regulation, improving compliance and quality of risk assets.

Similarly, a workshop to enhance the supervision of the risk assets of MFBs and non-bank financial institutions using the credit bureaux was organised by the IFC. Another workshop for selected MFBs from the Rural Finance Institution Building Programme (RUFIN)-mentored States on peer review was held in Lagos.



**ii. Primary Mortgage Banks**

The 35 licensed Primary Mortgage Banks (PMBs) comprising nine National and 26 State PMBs specialised in originating and/or servicing mortgage loans during the period. The number of PMBs reduced from 42 to 35 due to the revocation of six licences and the conversion of one PMB to a regional bank.

The Mortgage Bankers' Committee, an association comprising representatives of the CBN, NDIC, Securities and Exchange Commission, Federal Mortgage Bank of Nigeria and Managing Directors of PMBs met during the year. The Committee deliberated on the grant of foreign currency denominated mortgage loans by PMBs, review of some provisions of their guidelines and design of uniform mortgage tariff.

**iii. Development Finance Institutions**

The number of Development Finance Institutions (DFIs) did not change in 2015 as Bank of Industry (BOI); Federal Mortgage Bank of Nigeria (FMBN); Nigeria Export and Import Bank (NEXIM); Bank of Agriculture (BOA); The Infrastructure Bank Plc (TIB), and the National Economic Reconstruction Fund (NERFUND) remained in operation.

To further strengthen the operation of the DFIs, the CBN issued the Guidelines for Development Finance Institutions in February, 2015. The Guidelines categorised DFIs into Retail and Wholesale DFIs with minimum capital requirements of N10 billion and N100 billion, respectively. The Guidelines required the DFIs, although established by Acts of the National Assembly, to obtain formal licences from the CBN.

**iv. Finance Companies**

At end-December 2015, there were 66 licensed Finance Companies (FCs), an increase of two over the 64 that existed at end-December 2014.

The revised Guidelines for Finance Companies issued in 2014 required FCs to increase their minimum capital from N20 million to N100 million by end-September 2015. Following representations received from various stakeholders, the CBN granted a three-month extension of the deadline to December 31, 2015.

The CBN continued to collaborate with other agencies under the auspices of the Financial Services Regulation Coordinating Committee (FSRCC) to sanitise the FC sub-sector and rid it of illegal fund managers/wonder banks.

**v. Bureaux de Change**

The number of licensed Bureaux de Change (BDCs) increased to 2,839 at end-December 2015 from 2,523 at end-December 2014, an increase of 316. In the year under

review, the CBN sanctioned 72 BDCs for infraction of extant regulations. In addition, four BDCs were suspended from participation in the CBN foreign exchange window for failure to discharge penalties imposed on them.

The CBN will continue to monitor developments and intervene in the OFI sector to enhance delivery of financial services to critical sectors of the economy.

## **1.06 DEVELOPMENTS IN ANTI-MONEY LAUNDERING/COMBATING THE FINANCING OF TERRORISM**

Several measures to mitigate the risks posed by money laundering and the financing of terrorism in Nigeria were implemented during the period. Specifically, the regulation of Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) was strengthened while collaboration with relevant stakeholders was enhanced. Some of the measures taken in 2015 are highlighted below:

- i. In compliance with the Financial Action Task Force (FATF) Recommendations 2 (National Cooperation & Coordination) and 40 (Other Forms of International Cooperation), the CBN:
  - a. Collaborated with the Inter-Ministerial Committee (IMC) and the Nigeria Financial Intelligence Unit (NFIU), in the conduct of the second AML/CFT National Risk Assessment of Nigeria. A total of nine work groups were set up to work on the details of the assessment with the report of the exercise expected in 2016.
  - b. Hosted the quarterly meetings of the AML/CFT Stakeholders' Consultative Forum, a platform for regulators and law enforcement agencies to discuss AML/CFT issues.
  - c. Hosted some AML/CFT staff of the Reserve Bank of Malawi who visited the country to understudy the CBN's AML/CFT supervisory activities.
  - d. Participated in the bi-annual Technical Commission/Plenary Meetings of the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA), for the review of member countries' compliance with the FATF recommendations. The two meetings were held in May and November, 2015 in Cote D'Ivoire and Senegal, respectively.

- e. Conducted the Joint AML/CFT Examination of Stanbic IBTC Bank with the South African Reserve Bank.
  
- ii. Following Nigeria's application for FATF membership, the CBN commenced a self-assessment exercise to evaluate the level of the banking industry's compliance with the FATF Recommendations as part of the requirements for the country's eventual admission to the FATF. The exercise, which is due to be completed in 2016, is aimed at identifying gaps in the implementation of the FATF Recommendations and proffering solutions for addressing them prior to the commencement of the Nigeria Mutual Evaluation Exercise (MEE) in 2018.
  
- iii. A circular on the "Need to Implement Measures to Dissuade the Issuance of Dud Cheques in the Nigerian Banking System" was issued by the CBN in March 2015. The circular introduced more stringent measures against serial dud cheque issuers, including barring perpetrators from using the clearing system for a period of five years.
  
- iv. Off-site surveillance and on-site AML/CFT examination/checks of banks and other financial institutions conducted during the review period revealed a number of weaknesses, including: the absence of proper risk-profiling of customers before on-boarding; inadequate customer and transaction monitoring; and under-reporting of Politically Exposed Persons (PEP). To address these deficiencies, the affected banks were required to implement specific remedial actions and appropriate sanctions imposed, where necessary.

With respect to OFIs, a pilot AML/CFT examination was conducted on 12 selected institutions in May 2015 to evaluate the effectiveness of the AML/CFT reporting template jointly developed with the International Monetary Fund (IMF). The examination revealed, among others, the dearth of knowledge and capacity on AML/CFT issues, absence of adequate awareness on AML/CFT and non-compliance with AML/CFT regulations. Capacity building programmes were held for both operators and supervisors to enhance their knowledge and skills on AML/CFT.

On the whole, the CBN sustained its efforts at supervising, monitoring and enforcing AML/CFT laws and regulations.

## 1.07 REGULATION AND SUPERVISION OF NON-INTEREST BANKS

The CBN continued to sustain efforts toward providing a conducive operating environment for non-interest banks during the period. This enhanced the capacity of the full-fledged non-interest bank, two non-interest banking windows and a non-interest microfinance bank to offer financial intermediation in accordance with the principles of Islamic commercial jurisprudence.

The major products of the non-interest banks included, Murabaha (Cost-Plus Financing), Mudarabah (Investment Accounts), Musharakah (Partnership), Ijarah (Finance Lease), Ijarah wa iqtinah (Lease to Own), Istisna'a (Manufacturing), Wakalah (Agency), Kafalah (Guarantees) and Wadiah (Current Account).

In February 2015, the CBN issued two guidelines to further strengthen regulatory and supervisory oversight on the non-interest banks. The Guidelines on the Governance of Financial Regulation Advisory Council of Experts for Non-Interest (Islamic) Financial Institutions in Nigeria was issued to establish an expert advisory council at the CBN on Islamic banking and finance. The Guidelines set forth the composition, duties and responsibilities of the council and code of conduct, among others. The second guidelines titled, Guidelines on the Governance of Advisory Committee of Experts for Non-Interest (Islamic) Financial Institutions in Nigeria, made provisions for the establishment of an advisory body on non-interest banks. It also specifies the requirements for membership, responsibilities and reporting relationship of the advisory committee, among others

### **i. Liquidity Management**

The non-interest banks were permitted by the CBN to manage their liquidity using the following instruments:

#### **a. CBN Safe Custody Account**

This operates like conventional current account based on a contract of safe-custody of funds (Wadiah) between the depositing financial institution and the CBN, with the CBN as the custodian. The custodian at its discretion gives gift (Hibah) on the account, but the giving of Hibah shall neither be a stipulated condition of the contract nor a standardised custom.

#### **b. CBN Non-Interest Note**

This is an interest-free loan instrument between a financial institution (lender) and the CBN (borrower), which entitles the institution to raise a corresponding interest free loan from the CBN.



**c. CBN Non-Interest Asset-Backed Securities**

This is issued by the CBN based on the securitisation of its holdings in the International Islamic Liquidity Management Corporation (IILM) Sukuk. The underlying assets are United States Dollar or other reserve currencies-denominated IILM Sukuk and its tenor based on the tenors of the underlying assets.

**d. Other Liquidity Instruments**

The CBN, in its role as lender of last resort, has available Funding for Liquidity Facility and Intra-day Facility, for liquidity management by non-interest financial institutions.

**ii. On-site Examination of Non-Interest Banks**

On-site examinations of the full-fledged non-interest bank and two non-interest banking windows conducted in 2015 highlighted the following weaknesses, among others:

- a. Financing contracts were not structured in line with the approved product models;
- b. Funds from conventional banking business were comingled with those of non-interest windows; and
- c. Dearth of knowledge in the areas of product structuring, financing (credit) appraisal and project monitoring.

**iii. Capacity Building for Examiners on Non-Interest Banking**

Various capacity building programmes to enhance the competency of examiners in the regulation and supervision of non-interest banks were undertaken during the review period. In this regard, the Islamic Development Bank sponsored members of the Committee on Non-interest Banking of the CBN on a study tour of Manama, Bahrain and Malaysia. Also, the Islamic Financial Stability Board (IFSB) organised a technical workshop on the implementation of IFSB Standards for the CBN.

The CBN will continue to build the capacity of its Examiners on non-interest banking, with a view to enhancing the regulation and supervision of the sub-sector towards strengthening its role in promoting financial inclusion and sustainable growth.

**1.08 NIGERIA FINANCIAL LITERACY BASELINE SURVEY**

The report on the Nigeria Financial Literacy Baseline Survey, which was conducted in 2014, was released in 2015. The survey covered the 36 States of the Federation and the Federal Capital Territory. The questionnaires for the survey were administered on 13,320

respondents aged 16 years and above, in both urban and rural areas. The resultant data was weighted to the national population based on the 2006 Census projection for 2012, yielding a data set of 98,533,533.

The objectives of the survey were to measure the level of financial capability in Nigeria, identify key areas of concern to be addressed through financial education, provide input for policy formulation and serve as baseline for measuring progress.

### Demographic Profile of Respondents

The demographic profile of the population by location, gender and age is summarised below:

Location	Urban	Rural	National
	%	%	%
Distribution	31.1	68.9	100.0
<b>Gender</b>			
Male	48.5	50.3	49.7
Female	51.5	49.7	50.3
<b>Age Group (Years)</b>			
16-25	26.2	31.9	30.1
26-35	26.3	24.8	25.2
36-45	18.1	17.4	17.6
46-55	12.5	11.3	11.6
56-65	9.7	8.3	8.8
66+	7.2	6.4	6.6

### Major Findings of the Survey

The major findings of the survey were categorised into three main headings as follows:

- i. **Socio-economic Profile of Respondents**
  - a. Level of Education: 50.7 per cent of the respondents had only primary or no formal educational qualification.
  - b. Marital Status: Two-thirds of the respondents were married (51.1 per cent monogamous and 15.3 per cent polygamous), 24.9 per cent were single, while 8.7 per cent were separated/divorced or widowed.
  - c. Sources of Income: Agriculture was the main source of income (29.6 per cent), followed by running own business (26.1 per cent) and dependence on family/friends (25.7 per cent).
  - d. Income Level: Most households had more than one source of income

with 78.0 per cent having more than one income earner. However, income level was low with two-thirds of the respondents earning less than the minimum wage of N18,000 per month.

- e. Employment: Only 7.5 per cent were formally employed, indicating that financial education initiatives through employee-based programmes would have limited reach.
- f. Financial Vulnerability: 47.5 per cent of the respondents indicated that they often run short of money for regular expenses with their main coping mechanism being borrowing (39.5 per cent) and savings (25.0 per cent).
- g. Barriers to Financial Intermediation: Low income level was identified by the respondents as one of the main barriers to financial intermediation. Most of the respondents save and borrow for income-smoothing purposes, rather than for asset-building or productive purposes.

**ii. Financial Capability Dimensions**

- a. Knowledge and Awareness of Financial Products and Services: 70.7 per cent of the respondents were unaware of mobile-money; 36.6 per cent unaware of current account; 36.3 per cent unaware of pensions; 33.3 per cent unaware of the term “interest” and 25.9 per cent were unaware of savings account.
- b. Knowledge of Basic Financial Processes: 82.2 per cent of the respondents were unaware of basic financial processes such as paying with or receiving money through a mobile phone; 81.9 per cent unaware of insurance; 68.5 per cent unaware of how to calculate interest rate, while 33.6 per cent were unaware of how to plan for old age.
- c. Attitude to Savings and Credit: 8.8 per cent of the respondents indicated that they did not save because they did not need to; while of the 64.0 per cent of the respondents who did not have any form of loan/credit, 59.6 per cent indicated that they did not need or like credit or that credit was too expensive.
- d. Basic Numeracy Skills: 70.9 per cent of the respondents had



knowledge of addition, subtraction, multiplication and division.

- e. Financial Decisions: 54.9 per cent of the respondents indicated that they were confident in making financial decisions; while 43.0 per cent indicated that they were confident when dealing with financial institutions.

**iii. Financial Capability Competencies**

- a. Short-term Planning: 60.2 per cent of the respondents have had personal or household budgets, with 90.9 per cent always/mostly keeping to their budgets. Respondents identified income pressure rather than poor planning or over-spending as the main reasons for not keeping to their budgets.
- b. Keeping Track of Spending: 53.4 per cent of the respondents did not know or only had a fair idea of what they had spent in the previous week while 50.8 per cent did not know how much money was available for day-to-day spending.
- c. Long-term Planning: Two-thirds of the respondents indicated they had long-term financial goals; 92.0 per cent of these had developed plans to achieve these goals; while 90.0 per cent indicated that they stick to these plans.
- d. Retirement: 97.8 per cent of the respondents had retirement plans in place, but only 9.0 per cent believed that these plans would be sufficient to provide for them in retirement. A further 42.8 per cent believed that the plans would only cover their retirement in part.
- e. Children: Of the 64.0 per cent of respondents that indicated that they had children who were minors, 83.0 per cent indicated that they had plans to provide for their dependants in future, but more than half expressed concerns that the plans would not suffice.
- f. Risk Management: 58.0 per cent of respondents indicated that they did not have plans in place to provide for unexpected large expenses and more than half indicated that they were worried/very worried about incurring unexpected large expenses.
- g. Savings and Credit Behaviour: The survey indicated that the



percentage of savers (84.8 per cent) was more than double that of borrowers (35.3 per cent). Of those that had borrowed, more than a quarter indicated that their previous borrowing was to pay off other debts, an indication of debt stress among certain segments of the respondents.

- h. Seeking Advice: 50.0 per cent of the respondents seldom or never sought financial advice. Of those that did, family and friends were the main source of advice (61.0 per cent), which meant that there was little opportunity for learning about new products and services from external sources.
- i. Product Search Behaviour: More than half of the respondents actively searched for information before making savings decisions; while 62.0 per cent searched for information/alternatives before making credit decisions.

In planning financial education for those that are educated, live in urban areas and are formally employed or run small to medium-sized businesses, strategies such as formal education, employee wellness programmes, seminars, mainstream media and technology (computers and mobile phones) could be employed. Furthermore, for this group, emphasis should be on second-tier products, such as insurance, pension schemes, capital market products, (e.g. stocks and bonds) and mobile banking with the aim of educating the group on their rights, responsibilities and available redress options.

For those that have little or no education, live in the rural areas and survive on remittances, subsistence farming and micro enterprises, strategies such as face-to-face training supplemented by radio and village road shows could be used. The focus should be on financial inclusion, basic financial literacy and continuous financial education. The youths could play significant roles in educating their parents, as some consult with their children on financial matters. Also, Government and its agencies, donors and industry associations tasked with providing assistance to micro and small enterprises and farmers, should be requested to support financial education through targeting this segment.

To improve effectiveness, financial education should start at a young age when attitudes and values are being formed. Thus, financial education should be embedded in the curriculum of the formal educational system complemented by extra-curricular activities.



## **1.09 IMPLEMENTATION OF THE NIGERIA HOUSING FINANCE PROGRAMME**

The implementation of the Nigeria Housing Finance Programme continued during the period under its four components: Nigeria Mortgage Refinance Company (NMRC); Mortgage Guarantee and Insurance; Housing Microfinance; and Technical Assistance/Capacity Building. Developments under the four components were as follows:

### **i. Nigeria Mortgage Refinance Company**

The capital of NMRC increased from N7.1 billion to N7.8 billion, following the receipt of the second tranche of US\$100 million of the US\$250 million loan commitment from the World Bank as tier 2 capital. NMRC had also met the condition precedent to the receipt of the third tranche of US\$70 million from the World Bank. The company achieved this through the raising of funds totaling N8 billion from the bond market for mortgage refinancing.

Of the N8 billion raised, the NMRC applied N2.7 billion (33.3 per cent) to refinance existing legacy mortgages from participating financial institutions with the low level of refinancing attributed to the failure of some mortgages to meet the industry underwriting standards. To address this, the CBN and other stakeholders collaborated toward eliminating the encumbrances to the eligibility of such legacy mortgages.

Also, as part of measures to catalyse the funding for originating mortgages and resolve the challenges of regulatory restriction imposed on the NMRC on pre-financing, efforts were directed at establishing an intermediate finance company for the purpose of pre-financing mortgage banks. This was to address the financing gap that had hampered the creation of new mortgages.

The maiden examination of the NMRC was also conducted in the last quarter of 2015 by the CBN to ascertain its financial condition and compliance with extant rules and regulations.

### **ii. Housing Microfinance**

Under the second component of the Nigeria Housing Finance Programme, which was designed to cater for the housing needs of those at the lowest rung of the economic stratum, due diligence was carried out on 14 microfinance banks that indicated willingness to participate in the pilot scheme out of which eight were selected.

Also, terms of reference were developed to guide firms interested in building the capacity of the qualified microfinance banks, preparatory to the disbursement of the US\$15 million budgeted for on-lending.

**iii. Mortgage Guarantee and Insurance**

The Mortgage Guarantee and Insurance component was designed to widen the reach of mortgages where loan to value ratio constituted a hurdle by providing default loss protection to the mortgage lender. In this regard, plans were put in place to conduct preliminary studies on the market with a view to developing appropriate institutional and operational frameworks.

**iv. Technical Assistance/Capacity Building**

The programme continued to provide industry-wide capacity building to stakeholders, including formal training and participation in conferences and workshops. A major activity under the Technical Assistance component was a visit to the seven “frontline” States of the Federation to encourage them to adopt model land and titling laws, with a view to accelerating the process of land acquisition. With all the components initiated and running, appreciable progress had been made in the implementation of the Nigeria Housing Finance Programme.

**1.10 IMPLEMENTATION OF UNITED STATES FOREIGN ACCOUNTS TAX COMPLIANCE ACT**

The Foreign Accounts Tax Compliance Act (FATCA) was enacted by the United States of America (USA) in 2010, to improve tax coverage by targeting non-compliant USA tax payers with foreign accounts. The FATCA is to ensure that USA persons report on their foreign financial accounts and off-shore assets, and that Foreign Financial Institutions (FFIs) also report on financial accounts of USA persons who hold substantial ownership interest in foreign entities. Failure to report by an FFI will result in withholding of 30 per cent on certain payments that pass through the USA. The implementation of FATCA took effect from July 1, 2014.

The Act provides for two models of Inter-Governmental Agreements (IGAs) as highlighted below:

**i. Model 1 IGA**

This involves a partner jurisdiction collating specific information from FFIs and reporting same to the USA Internal Revenue Service (IRS). Information sharing under this arrangement can be either reciprocal or non-reciprocal, with partner jurisdictions required to meet specific data safeguard standards.

**ii. Model 2 IGA**

This is a non-reciprocal information reporting arrangement where a partner jurisdiction directs FFIs in its jurisdiction to report specific information on the accounts of USA persons to the IRS.

**iii. Steps Taken by Nigeria to Comply with FATCA**

In an effort to comply with the provisions of FATCA, the Nigerian government established an inter-agency committee to make recommendations on how to achieve compliance with the Act.

The committee comprising representatives of the Federal Ministry of Finance, Office of the Attorney General and Minister of Justice, Central Bank of Nigeria, Department of State Services, Federal Inland Revenue Services, and representatives of the banking industry recommended the adoption of the Model 1 IGA.

As an interim measure to ensure compliance, the CBN issued a circular directing banks to register with the IRS and report qualifying transactions as provided in the Act. At end-December 2015, a total of 114 Nigerian entities including 24 banks had registered with the IRS.

The Nigerian government had made substantial efforts toward compliance with the provisions of FATCA as demonstrated by the number of Nigerian entities including banks that had registered with the IRS.





## CHAPTER 2

# FRAMEWORK FOR SUPERVISION



## 2.01 IMPLEMENTATION OF FRAMEWORK FOR FINANCIAL STABILITY

In 2014, a framework titled “Enhancement of Specific Tools and Framework for Managing the Stability of the Nigerian Financial System” was developed to strengthen the resilience of the financial system and limit the impact of financial crises. The key policy thrust of the Framework included enhancement on:

- i. Macroprudential policy;
- ii. Microprudential policy; and
- iii. Crisis management continuum (comprising early intervention and recovery, indicative triggers in crisis mode and resolution and crisis handling).

Following the approval of the programme of implementation, nine work streams with members drawn from member agencies of the Financial Services Regulation Coordinating Committee (FSRCC) were set up in May 2015. The work streams and their deliverables/achievements are highlighted below:

- i. WORK STREAM 1: Establishment of the Financial System Stability Committee and the Broader Framework**
  - a. Formulated a working definition of financial stability;
  - b. Articulated the objectives of microprudential policy, macroprudential policy and the crisis management continuum framework;
  - c. Drafted terms of reference and developed rules of procedures and bye-laws for the proposed Financial System Stability Committee/enlarged FSRCC; and
  - d. Prepared complete database of existing arrangements with external stakeholders.
- ii. WORK STREAM 2: Organisational Restructuring**
  - a. Articulated the scopes of microprudential and macroprudential supervision;

- b. Identified areas for information sharing and developed protocols for the exchange of information;
- c. Identified potential areas of conflict and developed protocols for managing them;
- d. Developed a framework for the delegation of authority and defined processes and procedures for System Support Group (SSG); and
- e. Defined job roles, established staffing requirements for the SSG and prepared a draft organisational chart.

**iii. WORK STREAM 3: Development of Macroprudential Analytical Framework and Capabilities**

- a. Identified current macroprudential instruments;
- b. Identified current analytical competencies and made recommendations to close identified competency gaps;
- c. Established gaps and recommended additional tools for assessing vulnerabilities in the financial system;
- d. Reviewed existing data collection mechanisms; and
- e. Developed a framework for data and information exchange as well as modalities for automation of data collection by the regulators.

**iv. WORK STREAM 4: Preparation for Early Intervention Measures, Crisis Triggers, Management and Resolution**

- a. Reviewed existing microprudential supervisory framework of the FSRCC member agencies and documented observed gaps;
- b. Identified changes required to powers and policy tools; and
- c. Developed and integrated the various Prompt Corrective Action (PCA) documents across member agencies.

**v. Work Stream 5: Enhancement to the Microprudential Function for Structural Resilience**

- a. Reviewed existing legislations to determine gaps in respect of powers and governance;
- b. Reviewed existing microprudential indicators and instruments across the FSRCC member agencies and developed enhanced indicators and instruments;
- c. Identified gaps in policies and instruments and developed appropriate indicators to highlight vulnerabilities; and
- d. Compiled an inventory of existing methodologies for data analysis across member agencies.

**vi. WORK STREAM 6: Human Capital Development**

- a. Determined new roles/tasks expected to be performed to achieve the desired objectives of the Framework and drew-up job descriptions for the new roles/tasks; and
- b. Identified required skill set, gaps, and methods to close the identified gaps.

**vii. WORK STREAM 7: Enhancement to the External Engagement Model**

- a. Identified the external stakeholders and determined the nature of engagement;
- b. Developed a framework for the transparency of the financial stability process;
- c. Reviewed policies/frameworks of other jurisdictions; and
- d. Reviewed member agencies' policies/frameworks on external stakeholders' engagement.

- viii. **WORK STREAM 8: Legal Preparation to Underpin Financial Stability**
  - a. Reviewed member agencies' enabling legislations, rules and regulations as well as other relevant laws; and
  - b. Developed a "wish list" as elements of a comprehensive "ideal law" and proposed changes.
  
- ix. **WORK STREAM 9: Enhancement of Data Gathering and Storage Capabilities**
  - a. Assessed the suitability of current data arrangements and indicators for microprudential, macroprudential and financial stability objectives;
  - b. Collated a comprehensive data map of all required information/ market intelligence across microprudential, macroprudential, crisis handling and other financial stability-related needs; and
  - c. Determined access to data in an 'accelerated' manner and highlighted areas of duplication.

Efforts are ongoing, in collaboration with development partners, to support the implementation of the programme through the development of a Crisis Management Handbook, Data Infrastructure and Capacity Building.

## 2.02 NATIONAL FINANCIAL LITERACY FRAMEWORK

The CBN, in 2013, developed a Financial Literacy Framework as a key component of the National Financial Inclusion Strategy. The Framework sought to empower Nigerians to make informed financial decisions.

The attempt to implement the Framework, however, revealed the following drawbacks:

- i. Absence of an enabling policy and regulatory environment for financial education;
- ii. Poor stakeholder strategy to support coordination of financial literacy activities;
- iii. Exclusion of some relevant target markets for delivery of financial literacy

interventions; and

- iv. Absence of a monitoring and evaluation mechanism.

To address these drawbacks, the Financial Literacy Framework was revised and renamed the National Financial Literacy Framework in 2015. The new Framework outlines the process for the implementation of financial education programmes towards the attainment of the objectives of the financial inclusion strategy.

The revised Framework differs from the previous one in five major areas as follows:

- i. Strategic Approach**

The strategic focus of the new Framework favours the adoption of a multi-stakeholder approach to financial education in Nigeria. This was predicated on the realisation that improving the financial literacy of citizens required the commitment of stakeholders as well as the harmonisation of the existing disparate intervention programmes. Under the Framework, the CBN was charged with the responsibility of driving and coordinating the programme toward ensuring the realisation of its objectives.

- ii. Segmentation and Delivery Methodology**

In recognition of the challenges associated with a uniform delivery methodology for financial literacy, the Framework segmented the population into Adult Formal, Adult Emerging, Youth and Intermediaries markets for effective coverage.

- a. Adult Formal Segment**

This segment was made up of Upper Middle Income and Wealthy (Achievers), and Middle and Lower Middle Income (Under-banked) classes. The recommended delivery channels for this segment include print and electronic media, internet sources, workplace programmes and seminars, in-branch flyers, audio-visual and mobile phones.

- b. Adult Emerging Market (National Priority)**

This segment was primarily made up of Micro, Small and Medium Enterprises (MSMEs) and Farmers (both rural and urban dwellers). Delivery channels were listed to include Above-the-Line Media (ATL Media) such as television and radio, mobile phones, workplace programmes, government development finance initiatives, non-governmental organisations (NGOs) and other donor agencies.

- c. Youth Segment**

This group, made up of young persons aged 25 years and below, was divided into two main sub groups, namely: In-school and Out-of-school. Delivery channels include school curricula, extra curricula activities, ATL media, mobile phones, internet, edutainment, mentorship programmes, competitions and informal teaching.

**d. Intermediaries**

This group comprised community-based organisations, village and religious leaders, states and local governments, media/journalists, policy makers/regulators as well as training and research providers. Delivery channels include conferences, workshops, seminars, and train-the-trainer programmes.

The Framework accorded the Adult Emerging Market segment (MSMEs & Farmers) the status of a national priority for the delivery of financial literacy initiatives given that the segment comprised about 67 per cent of the adult population and play a significant role in job creation and poverty alleviation.

**iii. Governance Structure**

The governance structure of the revised Framework is as follows:

**a. Financial Inclusion Steering Committee**

This is the highest decision making body for financial inclusion strategy and financial literacy programme. The Committee provides strategic leadership and direction aside being in charge of the coordinating unit (i.e. the Secretariat).

**b. Financial Inclusion Secretariat**

The Secretariat is charged with the monitoring and coordination of all financial inclusion programmes, including financial literacy activities. It provides support to the Financial Inclusion Steering Committee and all other organs within the financial literacy framework.

**c. Financial Inclusion Technical Committee**

The Committee provides technical support and advice to the Financial Inclusion Secretariat on implementation activities and disbursement of funds.

**d. Financial Literacy Working Group**



The Group ensures the development and implementation of financial literacy programmes suitable for the various target groups identified in the Framework.

**iv. Implementation Plan**

The revised Framework is designed to be implemented within the short, medium and long terms, with various activities earmarked for implementation.

**v. Monitoring and Evaluation Mechanism**

The Framework prescribes the development of a monitoring and evaluation mechanism to assess the overall implementation of the programme and achievement of its objectives.

The Framework is an integral part of a comprehensive agenda for the implementation of the National Financial Inclusion Strategy. It is expected that its implementation would deliver long term benefits to individuals, households, the society and the nation at large.

### **2.03 REVIEW OF APPROVED PERSONS' REGIME**

The CBN in 2015 revised the Guidelines on "Assessment Criteria for Approved Persons' Regime for Financial Institutions" issued in 2011. The review was to, among others, strengthen the fitness and propriety requirements for various top management and board positions in the industry, as well as address implementation challenges under the old regime.

Some of the changes introduced through the revised Guidelines were in the following areas:

**i. Coverage**

The scope of other financial institutions was expanded to include Bureaux de Change, thus, making the Guidelines applicable to all financial institutions under the regulatory purview of the CBN.

**ii. Fitness Assessment**

The old Guidelines specified that the biennial assessment of the fitness and propriety of the financial institution's board and top management should be carried out, but did not place the responsibility on any party. The revised guidelines, has now placed the responsibility on the financial institution.

The new Guidelines transferred the responsibility for the submission of the following

documents from the prospective appointees to the financial institutions:

- a. Completed Approved Persons' Regime Questionnaire;
- b. Reference letters and status reports on candidates; and
- c. Evidence that the appointees are able to meet their personal financial obligations on a continuous basis while satisfactorily discharging their fiduciary responsibilities.

The Guidelines deferred the requirement for the submission of satisfactory status report from an appointee's last place of employment from the time of application for CBN's approval of the appointment to not more than six months after the appointee's engagement.

Furthermore, the Guidelines provided appointees who fail the fitness test a two-year window of opportunity within which to remedy the deficiency, failing which they may be required to relinquish their positions.

### **iii. Fitness and Propriety Requirements**

The revised Guidelines enhanced the fitness and propriety criteria for some board and top management positions. For instance, the managing director of a bank or discount house is required to possess a minimum of first degree or its equivalent in any discipline plus a higher degree or professional qualification in any business related discipline. Such appointee is also required to possess a minimum of 20 years post-qualification experience, out of which at least 15 must have been in the banking industry and, at least two as a deputy managing director or executive director, with responsibility spanning several areas of banking operations including business development and customer relationship management. Under the previous regime, a managing director was required to possess a minimum of first degree or its equivalent in any discipline, with additional qualification or degree in any business related discipline considered an advantage. Also, a managing director was required to possess a minimum of 15 years post-qualification experience out of which, at least, 10 must be in management and leadership positions.

A major proviso in the revised Guidelines is the introduction of the same fitness and propriety requirements for banks, discount houses and development finance institutions. It also included provisions to ensure sequential progression of top management appointees of banks, discount houses and development finance institutions through the ranks of assistant general manager, deputy general manager, general manager,

executive director/deputy managing director to managing director.

Other changes to the fitness and propriety requirements introduced in the Guidelines included:

- a. Independent directors were barred from having any direct material relationship with their financial institution or its officers, major shareholders, subsidiaries and/or affiliates. Also, they were barred from borrowing from their financial institution, any of its related enterprises or being part of the management, executive committee or board of trustees of an entity, charity or otherwise, supported by their financial institution.
- b. Specification of additional requirements for top management appointees of non-interest financial institutions to possess knowledge of and experience in Islamic banking and finance.
- c. Alignment of the fitness and propriety requirements for non-executive directors of microfinance banks based on their categorization.

#### **iv. Questionnaire**

A questionnaire was designed to elicit information from financial institutions to enable the CBN assess the propriety of major shareholders and members of board and top management.

The Guidelines, issued in October 2015, was to become effective January 1, 2016.

## **2.04 GUIDELINES FOR THE MANAGEMENT OF DORMANT ACCOUNTS AND OTHER UNCLAIMED FUNDS**

The absence of clear guidelines on the management of dormant accounts in Nigeria provided the latitude for disparate treatment of dormant account balances by banks. This highlighted the need for a regulatory framework to guide the management of dormant accounts. It was in this regard that the CBN, in October 2015, issued the Guidelines for the Management of Dormant Accounts and Other Unclaimed Funds. The essence of the Guidelines is to curb possible abuses in the operation of dormant and inactive accounts, set operational standards for banks and OFIs in line with best practices and to reinforce the rights of depositors and/or customers.

### **Highlights of the Guidelines**

The Guidelines categorised inactivity in accounts into two distinct types: “inactive” accounts and “dormant” accounts. Inactive accounts were defined as accounts with no customer or depositor-initiated transaction for a period of six months after the last customer or depositor-initiated transaction. On the other hand, dormant accounts were defined as accounts with no customer or depositor-initiated transaction for a period of one year after the last customer or depositor-initiated transaction. The Guidelines provided that no documentation would be required for the reactivation of an inactive account. However, the reactivation of a dormant account would require satisfactory evidence of account ownership, means of identification and present place of residence.

The Guidelines described unclaimed funds as proceeds of stale drafts, funds received from a correspondent bank without sufficient details on the rightful beneficiary, a recall of funds by sender to the remitting bank to which the Nigerian bank's account had not been debited or a judgment debt for which the judgment creditor has not claimed the judgment award.

Other salient provisions of the Guidelines covered the following areas, among others:

- i. Provision of a next-of-kin when opening an account;
- ii. Notification to an account holder of the status of the account, prior to dormancy;
- iii. Continuous monitoring of accounts for inactivity and submission of quarterly reports on dormant accounts to the CBN;
- iv. Retention of interest earning status during the period of dormancy;
- v. Zero charge for reactivation of inactive/dormant accounts;
- vi. Retention of dormant account balances as deposit liabilities in the books of banks;
- vii. Reversal of dormant account balances recognised as income, in the five years prior to the date of the Guidelines;
- viii. Perpetual retention of the records of all dormant accounts; and
- ix. Retention in a suspense account of unclaimed funds outstanding in the

books of a bank beyond six months.

The provisions of the Guidelines do not apply to savings accounts, government-owned accounts and all individual accounts that are subject of litigation and/or fraud. Similarly, savings accounts that possess the features of both current and savings accounts are excluded from the Guidelines.

The issuance of the Guidelines on the Management of Dormant Accounts and other Unclaimed Funds has not only streamlined the process for classifying inactive and dormant accounts but has also provided a veritable platform to warehouse the funds appropriately by banks.

## **2.05 GUIDELINES ON BANCASSURANCE-REFERRAL MODEL**

The CBN Regulation on the Scope of Banking Activities and Ancillary Matters No. 3, 2010 (Regulation 3) required banks to divest from all non-banking financial services, including insurance, effectively proscribing the offering of bancassurance products by banks.

However, representations were made by stakeholders for the CBN to re-consider its stance. This was premised on the expectation that bancassurance would provide a means for insurance companies to leverage on the existing customer base of banks to enhance their businesses and also offer banks the opportunity to generate income without posing additional risks. The CBN subsequently reviewed its position after due consultation.

To give effect to this, the CBN evaluated the available models of bancassurance, including the Integrated, Joint Distribution and Referral models. The Referral model was adopted based on the conviction that the model neither exposed banks to insurance risks nor precluded them from carrying out their core banking businesses. Consequently, the "Guidelines on Bancassurance Products-Referral Model" was issued in March 2015 to provide guidance to the industry.

The Guidelines, which detailed the requirements for the offering of bancassurance products required banks to obtain requisite approval from the CBN and the NAICOM prior to offering bancassurance products/services. Banks are required to:

- i. Execute Bancassurance Agreement with insurance companies. Also, any amendment to the agreement was to be subjected to the approval of the CBN with notification required upon the termination of any contract.
- ii. Conduct due diligence/periodic assessment for the purpose of selecting

a partner insurance company, subject to a maximum of two.

- iii. Refer customers to insurance companies for approved bancassurance products only.
- iv. Ensure that the referral document contains a disclaimer to the effect that the products offered are underwritten by the insurance company with no recourse to the bank for claims or any legal proceedings between the insurance company and the customer.
- v. Ensure that neither their names nor logos appear in any bancassurance policy document.
- vi. Maintain adequate records of the transactions and disclose in their financial statements all applicable commission(s) on consummated transactions.
- vii. Ensure the confidentiality of customer data at the disposal of the insurance company.

The Guidelines prohibited banks from:

- i. Undertaking insurance marketing, underwriting or claims handling and settlement;
- ii. Engaging in any other model of bancassurance;
- iii. Offering banking products that incorporate insurance features;
- iv. Offering free premium payment as a feature of any of their products;
- v. Compelling customers to take up insurance products from insurance companies with which they have bancassurance referral agreements;
- vi. Charging customers, service, processing and administration fees or any other charges for referral; and
- vii. Sharing in the premium paid by policy holders to the insurance company.

The introduction of bancassurance products has provided ample opportunities for operators in the banking and insurance sectors to collaborate in order to enhance their

businesses thus providing a window for them to grow their income.

## **2.06 OPERATION OF GROUP STRUCTURE BY MERCHANT BANKS**

The CBN, in 2010 repealed the Universal Banking Model, which had been in existence since 2001, and issued three regulations delineating banking activities into three broad categories—Commercial, Merchant and Specialised banking. The CBN Scope, Conditions and Minimum Standards for Merchant Banks Regulation No. 02, 2010 permits merchant banks to provide specialised services including acting as issuing houses, providing underwriting and asset management services, carrying out proprietary trading in debt and equity instruments and carrying out custodial services, among others.

From the commencement of the new regulation on October 4, 2010 to end-December 2015, the CBN licensed four merchant banks. However, while capital market and asset management were permissible activities for merchant banks, Section 188 of the Investment & Securities Act (ISA), 2007 and National Pension Commission (PENCOM) rules require that these activities be carried out only by legal entities that are specifically licensed for such purpose and not through internal departments or offices of a banking institution. Thus, merchant banks were required to establish subsidiaries if they were to carry out these operations. This represented a conundrum as the Regulation on the Scope of Banking Activities and Ancillary Matters, No. 03, 2010 specifically prohibited merchant banks from establishing subsidiaries.

In order to align the provisions of the ISA and PENCOM rules with the Regulation, a reconsideration of the legal limitations imposed on the operations of merchant banks was undertaken especially in view of the need to empower merchant banks to play active roles in the capital market and pension sub-sectors of the economy. The CBN thus amended the provision of Section 5(1)(e) of Regulation 3 allowing merchant banks to establish subsidiaries for the sole purpose of capital market and asset management activities.

The amendment raised a few critical issues, key among which was the need to ring fence the operations of merchant banks and by extension, depositors' funds, from risks that the activities of the subsidiaries could pose to the parent bank.

Consequently, the CBN issued the Guidelines on the Operation of Group Structure by Merchant Banks in August 2015. The Guidelines was to ensure that merchant banks and their subsidiaries invest in safe assets and maintain adequate capital ratios commensurate with their risk profiles.

The regulation provided guidance to merchant banks in their relationship with

subsidiaries in the following areas:

- i. Acceptable lending practices, risk management considerations and capital requirements arising therefrom;
- ii. Prohibition on investment-related activities in respect of equity holding, intra-group holdings and controlling interest;
- iii. Conduct of all intra-group transactions including shared services should be at arm's length; and
- iv. Effective oversight, reporting requirements and scope of permissible activities.

The amendment of Regulation 3 was to allow merchant banks carry out capital market and asset management activities which will enhance their financial intermediation role, thereby deepening the financial system.

## **2.07 REGULATORY AND SUPERVISORY GUIDELINES FOR DEVELOPMENT FINANCE INSTITUTIONS**

In support of the Federal Government's initiative to accelerate the pace of economic development through the provision of financial interventions to enterprises in some identified sectors, the CBN issued the Regulatory and Supervisory Guidelines for Development Finance Institutions (DFIs) in February 2015. This was to provide a level playing field for participants in the development finance sub-sector and attract private capital to participating financial institutions. The Guidelines was, therefore, designed to be consistent with CBN's existing regulations for all licensed financial institutions and to ensure that DFIs operate in a safe and sound manner.

Highlights of the provisions of the Guidelines are as detailed below:

### **i. Objectives**

The objectives of DFIs as specified in the guidelines are to fund enterprises for economic development; foster growth in sustainable businesses; create jobs and reduce poverty; and improve the quality of life of Nigerians.

### **ii. Powers and Duties of the CBN**

Section two specified the powers and duties of the CBN, which include the licensing and revocation of license, determination of minimum capital requirement, approval of the



appointment and removal of board and senior management, regulation and supervision, as well as any other power that may be exercised in line with the provisions of the Banks and Other Financial Institutions Act (BOFIA), Cap B3, LFN, 2004 and/or the CBN Act.

### **iii. Permissible and Non-permissible Activities**

Section three of the Guidelines specified the activities that DFIs are permitted to undertake including, providing credit facilities to eligible borrowers; refinancing of enterprises loans; investing in government securities; issuing guarantees; issuing bonds and notes to fund its operations; providing technical assistance to borrowers; and investing in the equity of start-up businesses subject to certain restrictions.

The Guidelines prohibited DFIs from accepting deposits; taking proprietary positions in real estate other than for own business; managing pension funds/schemes; managing projects on behalf of clients; providing fund/asset management services; financing capital market operations; and trading in foreign exchange, commodity and equity, among others.

### **iv. Licensing and Financial Requirements**

Section four of the Guidelines specified the documents that promoters of a DFI are required to submit to the CBN, prior to the grant of final licence. These include feasibility study, Memorandum and Article of Association and evidence of payment of applicable fees. For existing DFIs, the provision of three years audited financial statements is also a requirement.

The minimum capital requirements for Retail and Wholesale DFIs were set at N10 billion and N100 billion, respectively. Wholesale DFIs are expected to meet this requirement over a maximum period of four years, out of which a minimum of N20 billion shall be paid before the grant of Approval-in-Principle.

### **v. Corporate Governance Requirements**

Section five of the Guidelines required a DFI to have a minimum of seven and maximum of eleven directors with the number of non-executive directors exceeding executive directors at all times. The Section also pegged the tenure of executive directors to not more than five years renewable once, while non-executive directors shall serve for a fixed term of not more than four years renewable twice.

### **vi. Source of Funds**

The Guidelines under Section six specified the source of funds of a DFI to include, equity, reserves, debentures, bonds, long term loans from international financial institutions,

loans from national and supra-national governments and other bodies, funds from development partners, gifts/grants/donations and any other source as may be approved by the CBN.

**vii. Rendition of Returns**

Section seven specified the periodic returns to be rendered to the CBN. In this regard, DFIs are required to render quarterly returns on financial position; comprehensive income; cash flows; capital compliance and leverage; investments; outstanding loans and advances; and outstanding liabilities, among others. Also, DFIs are required to submit audited financial statements and management letters annually.

**viii. Prudential Requirements**

Section eight required DFIs to maintain at all times capital adequacy ratio of not less than 10 per cent and minimum ratio of Tier I capital to total assets (Tier I leverage ratio) of not less than 5 per cent. Also, Tier II capital shall not exceed Tier I capital.

The section also prescribed a minimum liquidity ratio of 10 per cent while the ratio of non-performing loans to total loans shall not exceed the level set in the Prudential Guidelines for Deposit Money Banks in Nigeria.

Furthermore, every DFI is required to maintain a reserve fund and shall out of its net profit after taxation and before any dividend is declared, transfer to the statutory reserves as follows:

- a. Where the reserve fund is less than the paid-up share capital, a minimum of 30 per cent of the net profits; or
- b. Where the reserve fund is equal to or in excess of the paid-up share capital, a minimum of 15 per cent of net profit;
- c. No transfer to the reserve fund shall be made until all identifiable losses have been made good; and
- d. A Wholesale DFI shall plough back all its profit after tax to reserve unless it has met the regulatory minimum capital of N100 billion.

The CBN will continue to play its regulatory and supervisory roles toward the orderly growth and development of the DFI sub-sector and indeed, the economy at large. It is expected that the implementation of the Guidelines will lead to a more vibrant DFI sub-sector that is well-positioned to play its role in the economy and complement the ongoing efforts of the government.

## **2.08 REVIEW OF THE GUIDELINES FOR THE OPERATIONS OF BUREAUX DE CHANGE**

In 2015, the CBN reviewed the BDC Guidelines issued in 2002 to further strengthen the regulation and supervision of the BDC sub-sector. The review incorporated the changes introduced by a circular titled "New Requirements for the Operations of BDCs in Nigeria" dated June 23, 2014. Major amendments in the revised regulation included the:

- i. Review of the proportion of total paid-up capital released on the issuance of final license to 100 per cent. Previously, only 50 per cent was released on the grant of Approval-in-Principle (AIP) and the balance on issuance of final licence.
- ii. Introduction of the requirement for customers to disclose their source(s) of foreign exchange of US\$10,000 (or its equivalent) and above.
- iii. Review of the allowable maximum spread between purchase and sales rates from 2 per cent to 3.5 per cent.
- iv. Introduction of the requirement for BDCs to have AML/CFT policy and compliance manual.
- v. Prohibition of BDCs from the establishment of branches, relocation of offices and engagement in capital market activities.
- vi. Introduction of a regime of penalties for specified infractions.
- vii. Requirement for BDCs to keep records of transactions for at least 6 years from the date of the transactions.

The CBN will continue to monitor the operations of the BDCs to ensure that the sector remains viable and is in compliance with the provisions of the Guidelines and other extant rules and regulations.

## **2.09 REVIEW OF THE RECOVERY AND RESOLUTION PLANS OF DOMESTIC SYSTEMICALLY IMPORTANT BANKS**

As part of the reform agenda in the aftermath of the global financial crisis, the regulation and supervision of institutions perceived as complex, highly interconnected, not substitutable and too big to fail attained added importance in the Nigerian financial

system. The objective was to develop a multi-pronged policy framework to:

- i. Reduce the likelihood of the failure of domestic systemically important banks;
- ii. Eliminate the use of tax-payers resources to bail out failing institutions; and
- iii. Provide the process for resolving in an orderly manner, with minimum disruption to the financial system, a failing domestic systemically important bank.

To achieve these objectives, a framework for the regulation and supervision of Domestic Systemically Important Banks (D-SIBs) in Nigeria was jointly developed by the Central Bank of Nigeria (CBN) and the Nigeria Deposit Insurance Corporation (NDIC) in September 2014. The Framework detailed the methodology for classifying banks as D-SIBs and established requirements for corporate governance, risk management, internal control, higher loss absorbency and stress testing, among others. It also required D-SIBs to submit Recovery and Resolution Plans (RRPs) to the CBN and the NDIC by the 1st of January every year. The RRP's are intended to enable failing D-SIBs to be restored to viability or resolved partially or entirely, in an orderly manner, with minimum disruption to the financial system or cost to the taxpayer, through planning and direct intervention by relevant authorities.

The D-SIBs identified, using the Framework, submitted their RRP's for the year-ended December 31, 2015 for review. The review revealed the following:

**i. The Role of the Board of Directors and Senior Management**

A number of banks demonstrated the involvement of their boards of directors and senior management in the preparation, review and approval of their RRP's. There were, however, concerns over the RRP's of a few institutions, which appeared to have been prepared without the expected degree of involvement of their boards and senior management.

**ii. Critical Functions/Services**

The identification of critical functions/services appeared to have challenged some D-SIBs in the preparation of their RRP's. This was evidenced by the failure of such institutions to state the critical functions/services they render. In the case of some other institutions, while the functions/services considered critical were identified, the institutions fell short in the description of the functions/services or the linkage thereof to the stability of the financial system.

Also, while some banks attempted to analyse their critical functions/services using

interconnectedness and substitutability as the major criteria, the quantitative data to support their judgment were not provided. There were also cases of some institutions neglecting critical functions/services they render to the financial system e.g. acting as settlement banks and their role in the interbank market.

### **iii. Risk Management and Structures**

Most banks included an overview of their legal entity and capital structures. However, some banks failed to provide an overview of their capital structures, whilst others failed to describe how they allocated capital across various business lines. A few banks provided a summary of their risk management and governance frameworks and demonstrated the linkages between their RRP's and those frameworks. The submission by some banks, however, only mentioned the integration of their RRP's into existing risk management and governance frameworks but failed to demonstrate or show any linkages between the documents.

### **iv. Scenario Analysis**

A few banks developed scenarios which captured systemic events, idiosyncratic events, and a combination of the two events as required. However, some of the scenarios developed were considered non-plausible. For instance, a bank developed stress scenarios that did not effectively test the resilience of its capital adequacy and liquidity positions and in yet another bank, the stress scenarios were considered mild and lacking in severity and thus the impact on liquidity and capital positions was negligible and not truly reflective of likely performance under stressed conditions.

### **v. Recovery Options and Impact Assessments**

Most banks considered four main recovery options: covering capital; liquidity; divestment; and business. However, some of the options were neither plausible nor realistic. Also, while some options were considered robust and capable of reviving the concerned institutions in severe stress scenarios, the timeframe for their implementation appeared unrealistic.

### **vi. Identification of Triggers**

Many of the banks categorised their triggers under four major headings: capital; liquidity; asset quality; and profitability. Some banks, however, developed additional triggers, including market-based and macroeconomic triggers. A number of banks set their recovery triggers at points where regulatory limits were breached.

### **vii. Liquidity Funding Plan**

The liquidity funding plan represented a major challenge for the banks as only a few banks properly articulated their liquidity funding plans.

**viii. Implementation Plan**

A majority of the banks provided concise plans for the implementation of their RRP's while information provided by others on their implementation strategies was limited.

**ix. Governance and Consultation**

The submission by most of the banks in this area detailed the governance structure for the management of the RRP's, the process of communication to relevant internal and external stakeholders, as well, as the escalation processes once recovery mode is activated.

The review exercise, which was the first of its type, brought to light some deficiencies both in the process of preparing the documents and the submission by the banks. The supervisory authorities will continue to engage the banks through on-site visits and meetings in a bid to address the deficiencies in their processes and documents. The initial effort at developing and reviewing the RRP's, although not perfect, is considered a step in the right direction for the banking industry. The intention is to build on that foundation to enhance the regulation and supervision of D-SIBs with a view to enhancing the resilience of the Nigerian financial system.



## CHAPTER 3

### SUPERVISORY ACTIVITIES





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

Off-site supervisory activities during the 2015 financial year focused on the monitoring of licensed institutions and issuance of appropriate supervisory guidance, aimed at ensuring the continued stability of the financial system. The major areas covered included:

#### **i. Licensing**

Two discount houses were granted approval to convert to merchant banks. Associated Discount House Ltd converted to Coronation Merchant Bank Ltd while Kakawa Discount House Ltd converted to FBN Merchant Bank Ltd. Also, approval was granted to Sun Trust Savings and Loans Ltd to convert to Sun Trust Bank Ltd as a regional commercial bank.

#### **ii. Statutory Returns**

The CBN continued to monitor the financial conditions of supervised institutions through returns rendered in compliance with Section 25 of the BOFIA, Cap B3, LFN, 2004.

#### **iii. Assessment of Board and Management**

Appointments to boards and top management positions in regulated institutions were reviewed to ensure that only fit and proper persons occupied such positions. In this regard, the appointment of 17 and 286 persons into the boards and top management positions of regulated institutions, respectively, were approved.

#### **iv. Publication of Financial Statements**

In line with Section 27 of the BOFIA, Cap B3, LFN, 2004, the audited financial statements of regulated institutions were reviewed to ensure compliance with extant regulations prior to publication.

#### **v. Branch Network**

The Bank continued to process applications and grant approvals for the opening and rationalisation of branches and other service outlets of regulated entities. The total branch network of regulated entities increased to 5,634 at end-December 2015 from 5,500 at end-December 2014.

#### **vi. Credit Risk Management System**

The CBN Credit Risk Management System (CRMS) and the private credit bureaux continued to support the administration of credit risk in the banking system. To address the challenges faced in the operations of both systems, a number of initiatives were undertaken.

In this regard, the CBN commenced a redesign of the CRMS to address the lack of an acceptable unique identifier for prospective borrowers by incorporating the Bank Verification Number (BVN) and Taxpayer Identification Number (TIN) as the individual and corporate borrower's identifier, respectively. The number of borrowers in the CRMS database increased to 157,501 at end-December 2015 from 125,334 at end-December 2014. Also, the number of registered borrowers in the database of the private credit bureaux increased to 45.8 million in 2015, from 33.2 million in 2014.

**vii. Fraud and Forgeries**

There were 13,100 cases of attempted fraud and forgeries reported in 2015 (2014: 11,447 cases), which amounted to N17.8 billion (2014: N25.8 billion) and US\$64.6 million (2014: \$31.2 million) out of which N3.3 billion (2014: N4.8 billion) and US\$659,008.1 (2014: \$9,134,935.8) were lost.

**viii. Guidelines**

In furtherance of efforts to effectively regulate licensed institutions, several guidelines were issued during the period, key among which were:

- a. Revised Assessment Criteria for Approved Persons' Regime for Financial Institutions.
- b. Guidelines for Management of Dormant Accounts and Un-claimed Funds by Banks and Other Financial Institutions.
- c. Guidelines on Bancassurance Product-Referral Model.
- d. Basel II Revised Guidance Notes on:
  - i. Regulatory Capital;
  - ii. Calculation of Capital Requirement for Credit Risk;
  - iii. Calculation of Capital Requirement for Market Risk;
  - iv. Calculation of Capital Requirement for Operational Risk;
  - v. Supervisory Review Process; and
  - vi. Pillar 3-Market Discipline.

- e. Regulatory and Supervisory Guidelines for Development Finance Institutions in Nigeria.
- f. Guidelines on the Governance of Advisory Committees of Experts for Non-interest (Islamic) Financial Institutions in Nigeria.
- g. Guidelines on the Governance of Financial Regulation Advisory Council of Experts for Non-interest (Islamic) Financial Institutions in Nigeria.

The off-site supervisory activities complemented on-site reviews of regulated institutions, contributing immensely to the stability of the financial system during the period.

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

In pursuit of its mandate of promoting a sound financial system, the CBN conducted maiden, routine and target examinations of some supervised financial institutions, as follows:

#### **i. Maiden Examination**

The CBN conducted the maiden examination of one merchant bank, which converted from a discount house during the year. The examination revealed that the bank complied with the conditions of its licensing, was adequately capitalised and did not violate our extant laws and regulations during its six months of operation.

#### **ii. Routine Examination**

The routine examination of 23 banks, three Financial Holding Companies (FHCs), three private credit bureaux and the AMCON was conducted during the year. The Risk-based Supervisory Methodology was used in the examination of the banks and FHCs, while the Compliance Methodology was adopted for the private credit bureaux and AMCON.

The examination of the banks revealed improvement in the Composite Risk Rating (CRR) of three institutions from the "Above Average" to "Moderate" category while the rating of one institution deteriorated from "Moderate" to "Above Average". There was an increase in the ratio of non-performing loans (NPL) due to significant drop in crude oil prices and exchange rate depreciation. Although, concerns were raised on senior management and board oversight in some institutions, there was general improvement in risk management and corporate governance practices.

A pilot consolidated supervision of one of the three FHCs was conducted during the

year, with the “Risk-based Solo-Plus” approach used to finalise the report in line with the Financial Services Regulation Coordinating Committee's Principles for the Implementation of Consolidated Supervision of Financial Holding Companies in Nigeria. The approach involved the solo supervision of the FHC and its subsidiaries using the Risk-based Supervisory Methodology by the respective supervisory agencies, after which the report was consolidated by the Lead Examiner of the parent company.

The examination of the three FHCs showed that the assets of the banks in the groups were not properly ring-fenced from those of their parents and other entities within the groups. Also, there was no clear delineation of some functions within the groups as some members performed roles for other members without any memorandum of understanding or service level agreements.

The examination of the three private credit bureaux and AMCON showed that the major challenges of the institutions included: undercapitalisation, poor risk management and corporate governance practices, and high cost to income ratios, among others.

**iii. Target Examination**

**a. Risk Assets Assessments**

Risk assets examination of the 24 banks was conducted to ascertain the adequacy of their provisions on risk assets and evaluate the reasonability of reported incomes. The examination revealed increases in NPL ratios in most banks, indicating deteriorating asset quality, leading to a general decline in the institutions' profits. Consequently, the industry capital adequacy ratio dropped marginally.

**b. Anti-Money Laundering Target Examination**

Two AML/CFT examinations were conducted to evaluate the institutions' compliance with the CBN AML/CFT regulations. The first exercise was conducted in the head offices and head office branches of all banks in May 2015. The second, conducted in December 2015, involved seven D-SIBs and covered a total of 20 branches.

The examinations involved a review of the banks' compliance with board approved AML/CFT policies, foreign currency transaction reporting, requirements for PEPs, three tiered KYC policy and suspicious transactions reporting, among others. Some of the findings were:

- i. Absence of proper risk profiling of customers before on-boarding;
- ii. Inadequate customer monitoring, data updates and transaction monitoring;

- iii. Rendition of nil reports to the NFIU contrary to observed reportable transactions identified during the exercise;
- iv. Gross under reporting of PEPs by the banks;
- v. Inadequate training of staff on AML/CFT; and
- vi. Breach of regulatory limits applicable to single deposits and cumulative balances on tier 1 and 2 accounts.

The affected banks were directed to correct the identified weaknesses in order to mitigate AML/CFT risks.

### **c. Foreign Exchange Examination**

The CBN conducted two foreign exchange examinations on Authorised Dealers covering October 2014 to March 2015 and April to September, 2015. The exercises were aimed at determining Authorised Dealers' compliance with foreign exchange rules and regulations. The first examination involved 22 banks, while the second exercise covered 24 banks.

Contraventions of extant rules and regulations were observed during the exercise, including exceeding the Foreign Currency Trading Position limit, utilisation of export proceeds for ineligible transactions and failure to repatriate export proceeds within the stipulated 180 days of shipment, among others.

The examinations provided the platform for the CBN to evaluate the safety and soundness of financial institutions under its purview, identify emerging risks and take appropriate supervisory actions in order to promote financial system stability.

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

The supervision of internationally active banking groups continued with the on-site review of some foreign subsidiaries in the year 2015 using both the Risk-based and Compliance methodologies. Of the 11 reviews conducted, nine were based on the Risk-based Supervisory (RBS) methodology and two on the Compliance approach. The Compliance approach was adopted because the examinations were carried out jointly with due consideration given to the supervisory approach of the host supervisor.

The selection of foreign entities visited was influenced by the results of our off-site reviews as well as the supervisory programme of host supervisory authorities where the CBN had

executed agreements for joint examination of Nigerian subsidiaries.

The objectives of the on-site reviews of foreign subsidiaries included:

- a. Assessing the board, management and group governance structures, as well as, the effectiveness of the parents' oversight on the subsidiaries;
- b. Reviewing the risk assets quality and provisioning;
- c. Determining the adequacy of the subsidiaries' capital levels; and
- d. Assessing the effectiveness of the subsidiaries' Management Information Systems in the facilitation of risk management and regulatory reporting.

Five of the reviews conducted using the RBS methodology were executed jointly with host supervisors under the auspices of the WAMZ. Under the arrangement, joint examination teams from the CBN and the host country reviewed the significant activities and risk management practices of banks with findings therefrom presented to the banks during exit discussions. Thereafter, the host supervisors were required to finalise the examination reports, determine the Composite Risk Rating of the banks and issue the supervisory letters. Also, the two reviews conducted using the Compliance approach were jointly undertaken by the CBN and relevant host authorities.

The findings from the joint reviews reflected improvements in risk management and parents' oversight over the subsidiaries with only a subsidiary visited for the first time revealing weak governance structure, poor risk management practices, poor earnings and a high ratio of non-performing loans.

The remaining four reviews conducted using the RBS methodology were 'solo' examinations. The reviews revealed improvements in the Composite Risk Ratings of three subsidiaries and deterioration in one subsidiary, owing to the buildup of non-performing risk assets from portfolio concentration in oil and gas.

In addition to the 11 reviews above, the CBN, with relevant host supervisors also conducted three AML/CFT examinations of the subsidiaries of Nigerian banks in West Africa, in line with the FATF Recommendations 19 and 40. The examinations revealed poor board oversight of AML/CFT programmes, lack of independence of the AML/CFT compliance functions and inadequacies in the self-assessment of the AML/CFT functions in some subsidiaries. Consequently, the affected subsidiaries were required to improve

on their AML/CFT regimes and ensure compliance with the more stringent requirements applicable to the Nigerian banking system.

### 3.04 SUPERVISION OF OTHER FINANCIAL INSTITUTIONS

There were 3,905 other financial institutions (OFIs) comprising six Development Finance Institutions (DFIs), the Nigeria Mortgage Refinance Company Plc (NMRC), 35 Primary Mortgage Banks (PMBs), 66 Finance Companies (FCs), 958 Microfinance Banks (MFBs) and 2,839 Bureaux de Change (BDCs) at end-December 2015.

The supervision of OFIs involved both off-site surveillance and on-site examination. Off-site surveillance entailed the review of statutory returns to evaluate the institutions' financial conditions, and processing their requests for appointments to board and top management positions, increase in capital, publication of audited financial statements, as well as, establishment, relocation and closure of branches, among others. On-site examination, on the other hand, involved field visits to the OFIs.

Highlights of the on-site examinations conducted during the period were as follows:

#### i. Microfinance Banks

During the year, on-site examinations were conducted on 639 out of the 958 MFBs in operation. The exercise covered routine examination of 475 MFBs, target examination of 129 MFBs earlier issued with regulatory directive to beef up their capital, existence checks on 30 institutions that failed to render regulatory returns for a consecutive period of six months, and spot checks on five others that applied for voluntary winding up.

The examinations revealed that 68 per cent of the institutions were well-capitalised, while 82 per cent met the prescribed liquidity ratio. The total assets and total loans of the MFBs examined during the period were N308.8 billion and N161.4 billion, respectively.

Issues of regulatory concerns from the on-site examinations included:

#### a. Portfolio-at-Risk

The average level of Portfolio-at-Risk (PAR) was 47.1 per cent during the period, compared to the prescribed maximum of five per cent. The high level of PAR indicated poor asset quality, attributable to poor credit administration, weak credit risk management and adverse economic conditions.

**b. Capital Adequacy**

The average Capital Adequacy Ratio (CAR) of the institutions examined was 4.4 per cent. This was below the prescribed minimum of 10 per cent and arose from the high level of provisions for non-performing loans and other known losses.

**c. Liquidity**

The average Liquidity Ratio of 93.7 per cent was above the prescribed minimum of 20 per cent. This indicated that the MFBs kept a high proportion of their assets in liquid form with negative impact on their financial intermediation function.

**ii. Primary Mortgage Banks**

On-site examination carried out on the 35 PMBs showed that total assets grew marginally by 0.2 per cent to N389.7 billion at end-December 2015, from N389.0 billion at end-December 2014. Also, total loans grew by 27.0 per cent to N168.9 billion at end-December 2015 from N133.0 billion at end-December 2014, attributable to the operations of the Nigeria Mortgage Refinance Company Plc, which enhanced mortgage financing.

The average level of non-performing loans was 22.4 per cent at end-December 2015, compared to 27.2 per cent at end-December 2014, which was below the regulatory limit of 30 per cent.

Following the completion of capital raising exercises by PMBs, the average CAR of the sub-sector increased to 70.4 per cent at end-December 2015 from 35.6 per cent at end-December 2014, which was above the prescribed minimum of 10 per cent.

The liquidity ratio of the sub-sector improved to 58.2 per cent at end-December 2015 from 46.1 per cent at end-December 2014. Six PMBs, however, had liquidity ratios below the regulatory minimum of 20 per cent at end-December 2015 due mainly to their investment in non-current assets held for sale.

**iii. Development Finance Institutions**

On-site examination of the DFIs as at December 31, 2015 showed that total assets increased to N1,107.9 billion from N986.8 billion and total loans and advances to N834.0 billion from N805.7 billion at end-December 2015 and 2014, respectively. Shareholders' funds unimpaired by losses, however, declined to N119.8 billion at end-December 2015 from N121.9 billion at end-December 2014 due to operating losses.



The examination also revealed that the financial conditions of four of the DFIs were weak, due largely to high levels of non-performing loans, poor earnings and weak corporate governance.

**iv. Finance Companies**

No on-site examination was carried out due to the reform exercise in the sub-sector during the period under review.

**v. Bureaux de Change**

One hundred and thirty-five (135) BDCs were examined during the review period. The exercise comprised spot checks and special investigations on 102 and 33 BDCs, respectively, leading to the imposition of sanctions on 72 BDCs that contravened extant foreign exchange rules and regulations.

The supervisory efforts of the CBN in the OFI sector were geared toward addressing the challenges in the sector to ensure that its role in promoting financial inclusion and economic development is sustained.

**3.05 ACTIVITIES OF THE BANKERS' COMMITTEE**

In 2015, the Bankers' Committee held five bi-monthly meetings and four ad hoc meetings. The meetings were to discuss urgent issues affecting the industry. Also, the Committee held a retreat in December 2015 with the theme "Creating an Enabling Environment for SME Growth".

The thrusts of the deliberations at the meetings and retreat were in the following areas:

**i. Financial Literacy and Public Enlightenment**

The Bankers' Committee developed a seven-module enlightenment programme, including an on-going school Mentorship Programme, to educate Nigerians on financial literacy. The Committee celebrated the Global Money Week Awareness in March 2015 with the theme "Save Today, Safe Tomorrow". During the celebration, banks and other financial institutions visited selected States in the Federation to carry out financial literacy sensitisation campaigns. The Managing Directors and/or Executive Directors of 23 financial institutions were assigned to secondary schools (public and private) in 21 cities with about 5,057 students participating.

**ii. Banking Sector Resolution Cost Trust Fund**

A Management Committee was constituted to enhance accountability, transparency and monitoring of the funds in the Banking Sector Resolution Cost Trust Fund. The Fund is

made up of contributions from the CBN and deposit money banks toward the redemption of AMCON's liabilities arising from the 2009 to 2011 banking crises. The Management Committee comprised representatives of the CBN and four banks with their activities guided by the AMCON Amendment Act, 2015.

**iii. Conflict Resolution/Arbitration**

In the year under review, the Bankers' Committee resolved 82 out of the 125 cases referred to it for arbitration, leaving 43 cases pending.

**iv. Treasury Single Account**

The Bankers' Committee cooperated with and supported the Federal Government on the implementation of the Treasury Single Account, which became effective in September 2015.

**v. Economic Development, Sustainability and Gender**

The Bankers' Committee in collaboration with Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ) trained over 30,000 farmers and 200 bankers as part of efforts to enhance activities in the agricultural value-chain.

In consonance with its women economic empowerment philosophy, the Bankers' Committee also organised a conference/workshop targeted at female-owned businesses in the Micro, Small and Medium Enterprises (MSME) sector to sensitise participants on the requirements for accessing MSME funds.

**vi. Payments System and Infrastructure**

In furtherance of efforts to provide a more efficient and sustainable banking system anchored on modernised infrastructure, the Bankers' Committee partnered with an electricity distribution company to develop a shared power programme. The first phase of the project covered six cluster locations in Lagos, namely: Marina, Awolowo Road, Adeola Odeku, Adetokunbo Ademola, Ajose Adeogun and Broad streets. It also developed information technology (IT) standards for the industry and nominated a representative to the Nigerian Financial Services Industry IT Standards Governance Council to champion the programme.

**vii. Competency and Industry Standards**

As part of efforts to standardise the professional competencies in the banking sector, the Committee collaborated with the Chartered Institute of Bankers of Nigeria in the review of acceptable professional certifications for the different control functions in the industry.

The Bankers' Committee, through its collaborative efforts with stakeholders, has continued to facilitate the operational efficiency of banks and proffer appropriate value-adding policies and programmes.

### **3.06 CONSUMER PROTECTION ACTIVITIES**

The CBN took measures to protect consumers of financial services during the period. Activities in this area covered complaints management and resolution, compliance examination and financial literacy programmes as detailed below:

#### **Complaints Management and Resolution**

##### **i. Complaints Received and Resolved**

A total of 1,777 complaints were received from customers in 2015 compared with the 1,215 received in 2014, an increase of 46.3 per cent. ATM and other electronic related complaints constituted the highest proportion of complaints received, followed by excess charges. Others included unauthorised deductions, fraudulent withdrawals and conversion of deposits.

The number of complaints resolved rose by 15.3 per cent to 1,138 in 2015, from 987 in 2014.

##### **ii. Total Refunds**

The total Naira refunds by banks and other financial institutions to customers during the year was N6.3 billion as against N6.2 billion in 2014, representing a marginal increase of 0.5 per cent. In respect of foreign currencies, the US Dollar refunds increased by 877.8 per cent to US\$10.6 million in 2015, from US\$1.1 million in 2014. Also, £6,000 was refunded during the year.

##### **iii. Mediation Meetings**

As part of the complaints resolution process, 32 mediation meetings involving banks, their customers and/or representatives were held in 2015 compared to 18 in 2014.

##### **iv. Penalties against Banks**

One bank was penalised in the year under review pursuant to the provisions of Section 64 of the BOFIA, Cap B3, LFN, 2004, for failure to provide documents needed for the resolution of a consumer complaint.

##### **v. Consumer Compliance Examination**

Consumer compliance examinations were conducted on 19 banks to ascertain their

compliance with extant rules and regulations. The examinations revealed substantial compliance with charges for issuance of token, interbank internet transfer and commission on turnover. However, resolution of outstanding complaints and implementation of recommendations of previous examinations were adjudged poor.

### 3.07 FINANCIAL LITERACY ACTIVITIES

#### i. Consolidated Sensitisation Programme

In continuation of the nationwide sensitisation programme which commenced in 2013, financial literacy workshops were held in ten locations in the year under review. Tagged the "CBN Fair", the programme covered Asaba, Owerri, Katsina, Kaduna, Akure, Jos, Yenagoa, Bauchi, Ilorin and Oshogbo with over 17,000 participants in attendance.

#### ii. Financial Literacy Publications

The Bank reproduced the following financial literacy publications, which formed its "Basic Information on Financial Consumer Protection" pack:

- a. Frequently Asked Questions on Financial Consumer Protection;
- b. How to Lodge Complaints; and
- c. Bank Customers Bill of Right.

A publication titled 'Basic Financial Education & Management for Secondary Schools' was also reproduced by the CBN in collaboration with an educational publisher.

These publications were distributed to participants at sensitisation programmes and other events.

#### iii. National Baseline Survey on Financial Literacy

The report of the Baseline survey on Financial Literacy, which was conducted in 2014, was released to the general public.

#### iv. Collaboration with relevant Financial Literacy stakeholders

As part of efforts to ensure a coordinated approach to financial literacy, the CBN collaborated with various stakeholders to conduct financial literacy activities including:

##### a. Child and Youth Finance International

##### i. 4th Regional Meeting for Africa

The Bank was represented at the 4th Child and Youth Finance International (CYFI) Regional Meeting for Africa held in Ghana. The meeting, a gathering of African leading

experts, researchers, business leaders, entrepreneurs, government and youth representatives and non-governmental organisations, discussed challenges to financial inclusion, entrepreneurship and economic citizenship for children and youth in Africa.

**ii. Workshop on Development of Child-Friendly Financial Products**

The CBN, in collaboration with the CYFI, organised a workshop with the theme, “Product Development and Capacity Building” to enhance the capacity of banks and other financial institutions in the development of child-friendly financial products.

Other financial literacy activities undertaken by the Bank during the year included the following:

- i. Execution of an MoU with the Nigerian Educational Research and Development Council for the infusion of financial literacy into the curriculum of primary, secondary and tertiary institutions.
- ii. Participation in activities to commemorate the 2015 Global Money Week, which included:
  - a. Global Walk for Money to raise financial literacy awareness on the objectives of the programme;
  - b. Financial Literacy Fair/Exhibition where financial institutions, development partners, NGOs, and school children exhibited various child-friendly products; and
  - c. Reach out and Mentoring Programme with the Deputy Governors, Financial System Stability and Corporate Services directorates engaging students of selected secondary schools in Abuja on financial education. This was also replicated in Yola, Ilorin, Owerri, Ado Ekiti, Calabar and Sokoto by some CBN Branch Controllers.
- iii. Participation in the commemoration of the World Savings Day in October 2015 through the conduct of school mentoring programmes in 14 schools in 14 states (Abia, Adamawa, Anambra, Bauchi, Cross River, Ekiti, Imo, Kaduna, Kano, Kwara, Nasarawa, Ondo, Plateau and Rivers). The programme served as a platform to introduce the concepts and importance of savings, investments and other financial management issues to students in Nigerian public schools.

### *Supervisory Activities*

The CBN sustained its efforts at protecting consumers against excesses of financial institutions by enhancing financial literacy amongst consumers, promoting responsible business conduct in the banking system, and providing effective redress mechanism to aggrieved consumers. The Bank will continue to place a high premium on consumer protection with a view to embedding a more robust consumer protection philosophy in the Nigerian banking industry.





## CHAPTER 4

### PERFORMANCE TREND IN THE BANKING SYSTEM





#### **4.01 PERFORMANCE TREND OF BANKS**

The total assets of the 24 banks in operation increased by N780.7 billion (3.0 per cent) to N27,018.5 billion at end-December 2015, from N26,237.8 billion at end-December 2014. The assets on the statement of financial position of the banks were cash, balances with banks and CBN, loans and advances to banks and customers, financial assets, investments, other assets and fixed assets. Net loans and advances to customers constituted the largest asset item on the statement of financial position and recorded an increase of N205.6 billion (1.7 per cent) to stand at N12,141.1 billion at end-December 2015, from N11,935.5 billion at end-December 2014.

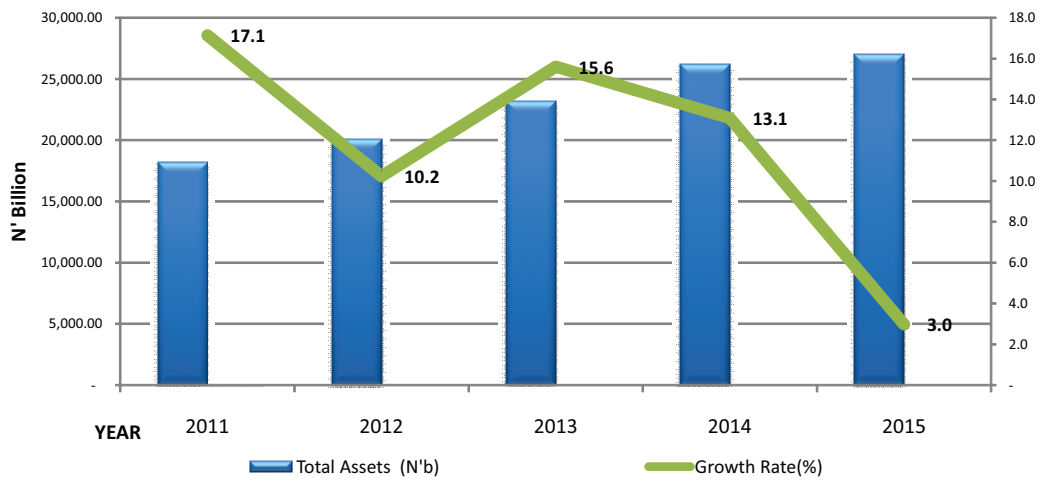
Deposits from customers, which constituted the largest liability item (74.4 per cent), decreased by N521.2 billion (2.9 per cent) to N17,502.0 billion at end-December 2015, from N18,023.2 billion at end-December 2014. The decrease was largely due to the transfer of government deposits from the banks to the CBN under the Treasury Single Account (TSA) policy.

The year-on-year growth rate of total assets between end-December 2011 and end-December 2015 was above 10 per cent, except in 2015 when the growth rate was about 3 per cent. The reduction in the growth rate was due largely to the transfer of Government deposits to the CBN under the TSA policy. The consolidated statement of financial position of banks at end-December, 2015 and 2014 is shown in Table 1.

**Table 1: Consolidated Statement of Financial Position of Banks as at December 31, 2014 and 2015**

	2015		2014*		Variance	Growth Rate
	N'billion	%	N'billion	%	N'billion	%
<b>Assets</b>						
Cash balances	480.9	1.8	469.8	1.8	11.1	2.4
Balances with banks and CBN	5,694.0	21.1	6,082.8	23.2	-388.8	-6.4
Loan and Advances to Banks	476.8	1.8	532.2	2.0	-55.4	-10.4
Loans and Advances to Customers	12,141.1	44.9	11,935.5	45.5	205.6	1.7
Financial Assets Held for Trading	530.2	2.0	429.4	1.6	100.9	23.5
Financial Assets Available for Sale	2,869.5	10.6	2,191.1	8.4	678.4	31.0
Financial Assets Held to Maturity	2,288.6	8.5	2,181.1	8.3	107.5	4.9
Assets Pledged as collateral	424.1	1.6	446.1	1.7	-22.0	-4.9
Investment in subsidiaries	309.4	1.1	296.7	1.1	12.6	4.3
Other Assets	981.3	3.6	877.0	3.3	104.3	11.9
Assets classified as Held for Sale	5.9	0.0	44.4	0.2	-38.4	-86.7
Property Plant & Equipment	816.7	3.0	752.0	2.9	64.8	8.6
<b>Total Assets</b>	<b>27,018.5</b>	<b>100.0</b>	<b>26,237.8</b>	<b>100.0</b>	<b>780.7</b>	<b>3.0</b>
<b>Liabilities</b>						
Deposit from banks	650.9	2.8	843.5	3.6	-192.6	-22.8
Deposit from customers	17,502.0	74.4	18,023.2	77.6	-521.2	-2.9
Financial liabilities held for trading	17.2	0.1	26.2	0.1	-9.0	-34.3
Borrowings	2,162.7	9.2	1,430.5	6.2	732.2	51.2
Debt instruments in issue	700.0	3.0	778.9	3.4	-78.9	-10.1
Other liabilities	2,496.3	10.6	2,118.4	9.1	377.9	17.8
<b>Total Liabilities</b>	<b>23,529.2</b>	<b>100.0</b>	<b>23,220.7</b>	<b>100.0</b>	<b>308.6</b>	<b>1.3</b>
<b>Equity</b>						
Share Capital	249.7	7.2	290.1	9.6	-40.4	-13.9
Reserves	3,239.6	92.8	2,727.1	90.4	512.5	18.8
<b>Total Equity</b>	<b>3,489.3</b>	<b>100.0</b>	<b>3,017.2</b>	<b>100.0</b>	<b>472.1</b>	<b>15.6</b>
<b>Total Liabilities and Equity</b>	<b>27,018.5</b>	<b>100.0</b>	<b>26,237.8</b>	<b>100.0</b>	<b>780.7</b>	<b>3.0</b>
Contingent Liabilities	4,368.1		4,851.6		-483.5	-10.0
<b>* IFRS Based</b>						

**Figure 1: Year-on Year Growth in Total Assets**



**i. Deposit Liabilities and Liquidity**

Analysis of deposits by type revealed that demand deposit constituted the major component of deposits held by the banks with a total of N5,930.0 billion (33.9 per cent) at end-December 2015 compared with N5,990.0 billion (33.2 per cent) at end-December 2014. Term, domiciliary, savings and other deposits accounted for 26.9 per cent, 21.7 per cent, 17.4 per cent and 0.1 per cent at end-December 2015 compared with 26.3 per cent, 25.4 per cent, 14.7 per cent and 0.3 per cent at end-December 2014, respectively. The increase in the proportion of savings deposits relative to other classes of deposits indicated increased stability in the funding of banks. The composition and trend in deposits are shown in Figures 2, 3, and 4 below.

The average industry liquidity ratio was 48.6 per cent at end-December 2015 compared with 45.7 per cent at end-December 2014. The increase was due largely to the reduction in the cash reserve requirement from the erstwhile 15 per cent on private sector deposits and 75 per cent on public sector deposits to a single rate of 20 per cent.

Figure 2: Deposit Composition (per cent) in December 2014

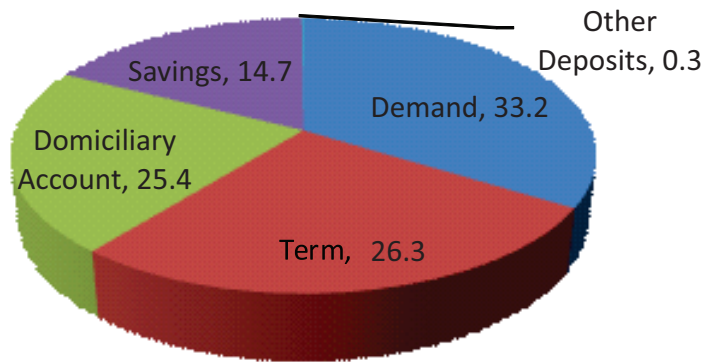


Figure 3: Deposit Composition (per cent) in December 2015

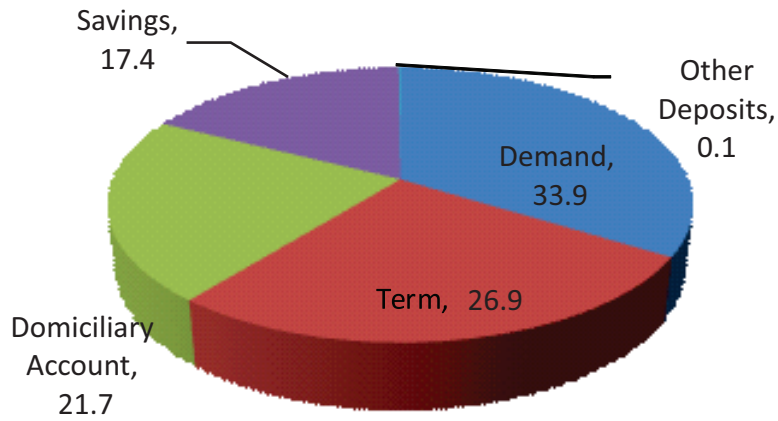
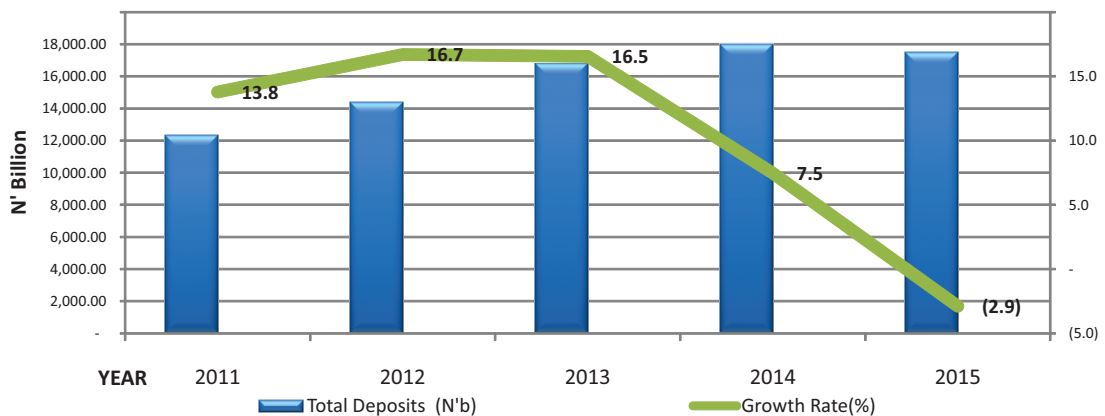


Figure 4: Trend in Total Deposits of Banks

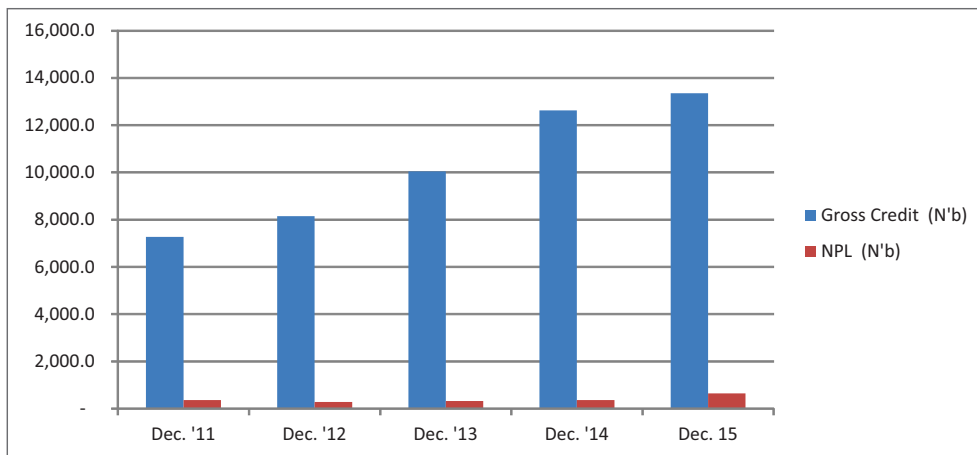


**ii. Asset Quality**

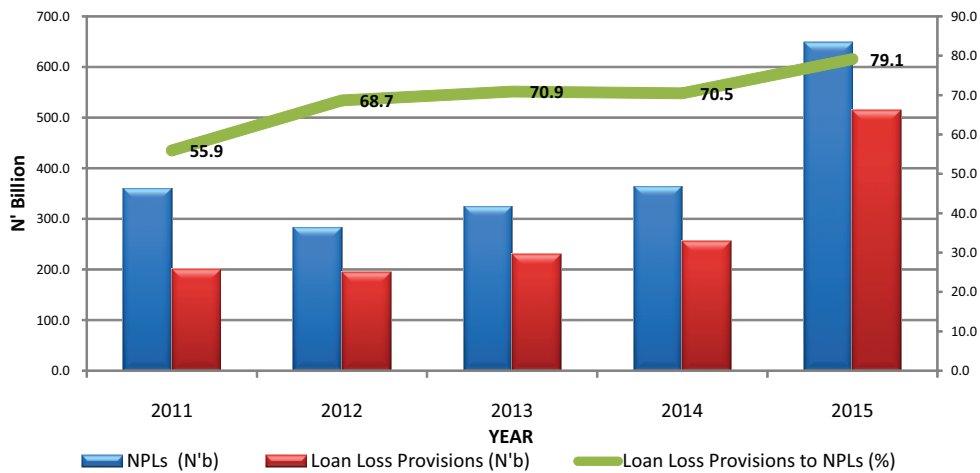
The gross credit of the banking sector increased by N724.2 billion (5.7 per cent) to N13,354.2 billion at end-December 2015, from N12,630.0 billion at end-December 2014. The quality of the credit, however, deteriorated as NPL ratio and value increased to 4.9 per cent and N649.6 billion at end-December 2015, from 2.9 per cent and N363.3 billion at end-December 2014, respectively. The deterioration was attributed to the fall in the international price of crude oil and other macroeconomic challenges faced by obligors.

Total provision to NPLs increased to 79.5 per cent at end-December 2015, compared with 70.5 per cent at end-December 2014. The trend in gross credit, NPLs and provisions are shown in Figures 5 and 6 below.

**Figure 5: Trend in Gross Credit and NPLs**



**Figure 6: Trend in NPLs, Loan Loss Provisions**



**iii. Market Share of Ten Largest Banks**

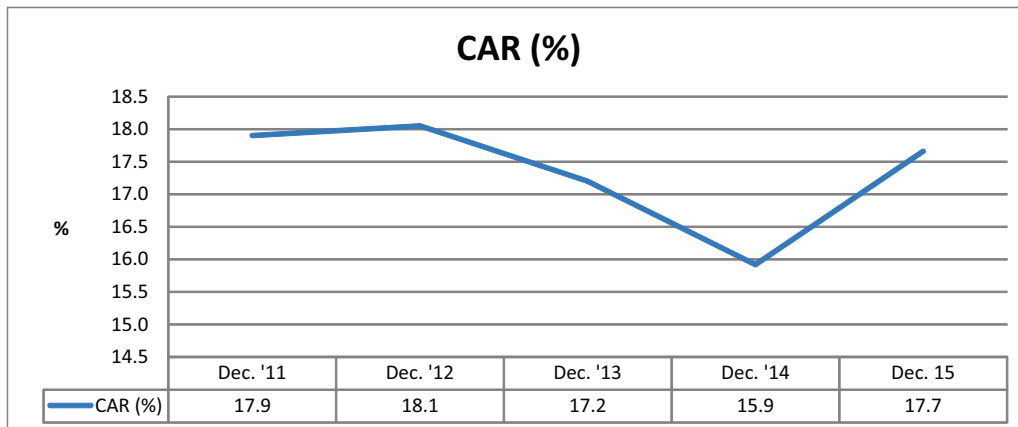
The market share of the top 5 and top 10 banks in terms of industry total assets was 52.6 per cent and 78.1 per cent at end-December 2015, compared with 50.8 per cent and 73.4 per cent, respectively, at end-December 2014. The market share of the top 5 and top 10 banks in terms of total deposits was 53.3 per cent and 79.2 per cent at end-December 2015; compared with 51.9 per cent and 76.0 per cent at end-December 2014, respectively.

Analysis of gross credit revealed that at end-December 2015, the top 5 and top 10 banks controlled 53.8 per cent and 80.4 per cent, compared with 52.9 per cent and 80.2 per cent at end-December 2014.

**iv. Capital Adequacy**

The minimum CAR requirement at end-December 2015 remained at 10 per cent and 15 per cent for banks with national and international authorisation, respectively. At end-December 2015, the industry CAR was 17.7 per cent compared with 15.9 per cent at end-December 2014. The increase was due largely to the retention of earnings and additional Tier II capital raised by the banks.

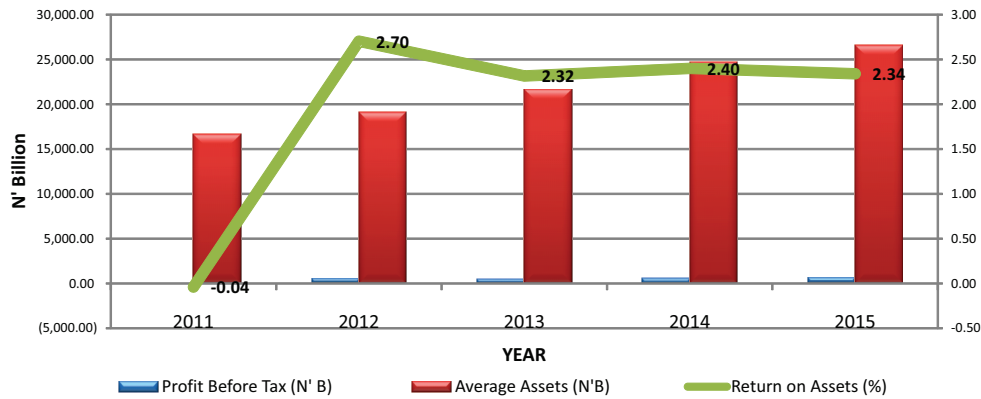
**Figure 7: Trend in Industry Capital Adequacy Ratio of Banks**



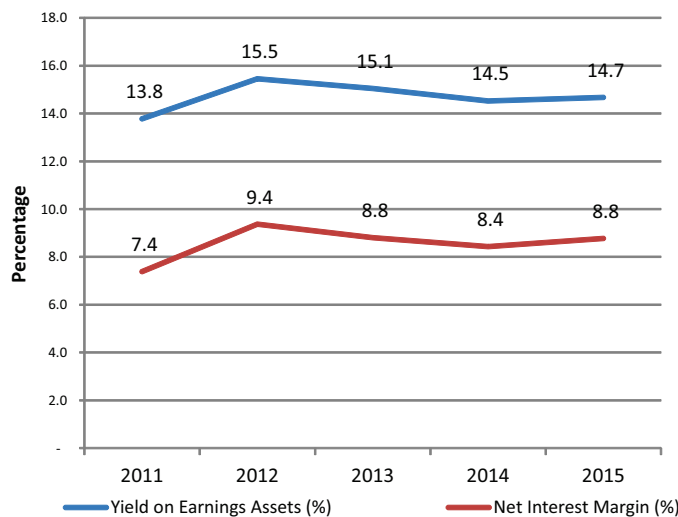
**v. Efficiency of Operations**

The yield on earning assets improved marginally to 14.7 per cent in 2015 from 14.5 per cent in 2014. However, operational efficiency, measured by cost to income ratio, deteriorated to 74.2 per cent in 2015 from 72.9 per cent in 2014. Similarly, return on assets and return on equity of the industry declined to 2.3 per cent and 18.1 per cent in 2015 from 2.4 per cent and 20.0 per cent in 2014.

**Figure 8: Trend in Average Assets, Profit before Tax and Return on Assets**



**Figure 9: Trend in Net Interest Margin and Earning Yields**



#### 4.02 PERFORMANCE TREND OF OTHER FINANCIAL INSTITUTIONS

The OFI sector recorded growth in its assets and liabilities, occasioned by fresh capital injection, retained earnings and licensing of new institutions. The consolidated Statement of Financial Position of the four OFI sub-sectors, Development Finance Institutions, Primary Mortgage Banks, Microfinance Banks and Finance Companies at end-December 2015 showed that total assets increased by 8.9 per cent to N1,841.6 billion, from N1,690.8 billion at end-December 2014. Similarly, total loans and advances increased by 2.9 per cent to N1,078.8 billion at end-December 2015, from N1,048.5 billion

at end-December 2014. Total deposits also increased by 51.0 per cent to N539.2 billion at end-December 2015, from N357.0 billion at end-December 2014.

Details of the Statement of Financial Position of the four OFI sub-sectors are discussed below:

**i. Microfinance Banks**

The total assets of MFBs increased by N60.3 billion (20.1 per cent) to N361.0 billion at end-December 2015, from N300.7 billion at end-December 2014. The main components of the total assets at end-December 2015 were cash and due from other banks 10.2 per cent (2014: 9.5 per cent); placements with banks 25.1 per cent (2014: 20.6 per cent) and net loans and advances 46.5 per cent (2014: 54.2 per cent). Net loans and advances, which constituted the largest item, increased by N4.9 billion (3.0 per cent) to N167.8 billion at end-December 2015, from N162.9 billion the previous year.

The liability and equity items also recorded increases in 2015. In this regard, the shareholders' funds increased by N4.4 billion (4.8 per cent) to N95.4 billion at end-December 2015, from N91.0 billion at end-December 2014. The increase in shareholders' funds was largely attributed to the injection of fresh capital by some MFBs. Similarly, deposits, which constituted the largest liability item, increased by N15.0 billion (10.3 per cent) to N160.8 billion at end-December 2015, from N145.8 billion at end-December 2014.

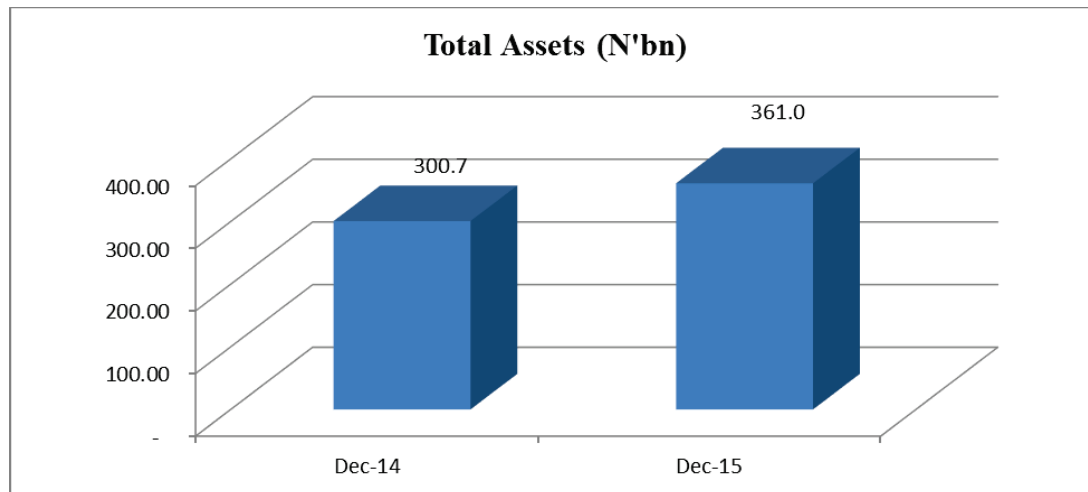
The consolidated Statement of Financial Position of the MFB sub-sector at end-December 2015 and 2014 is shown below.



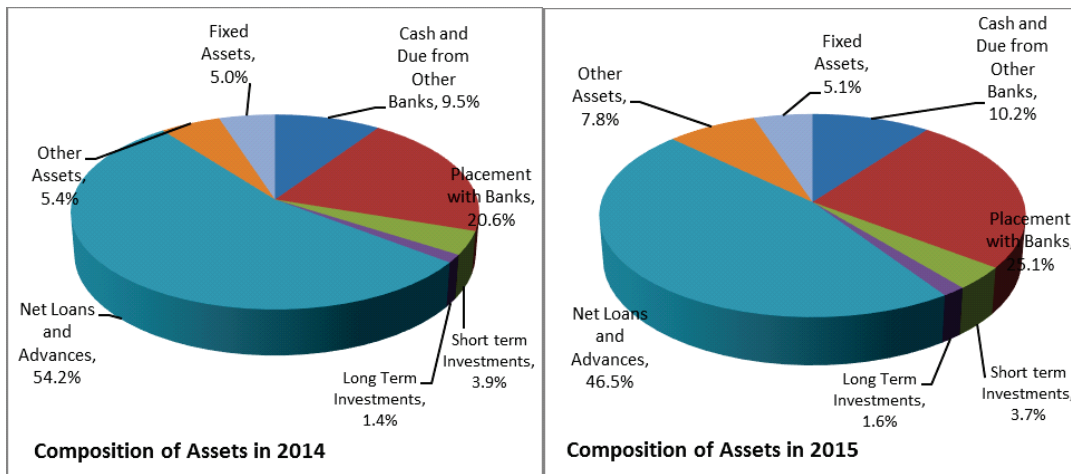
**Table 2: Comparative Consolidated Statement of Financial Position of the MFB Sub-sector**

	Dec-15		Dec-14		Variance	Growth Rate
	=N='000	%	=N='000	%	=N='000	%
<b>Assets</b>						
Cash and Due from Other Banks	36,937,047	10.2	28,637,862	9.5	8,299,185	29.0
Placement with Banks	90,660,205	25.1	61,945,347	20.6	28,714,858	46.4
Short Term Investments	13,219,719	3.7	11,722,476	3.9	1,497,243	12.8
Long Term Investments	5,788,073	1.6	4,063,099	1.4	1,724,974	42.5
Net Loans and Advances	167,849,108	46.5	162,904,989	54.2	4,944,119	3.0
Other Assets	28,225,108	7.8	16,362,941	5.4	11,862,167	72.5
Fixed Assets	18,357,815	5.1	15,094,381	5.0	3,263,434	21.6
<b>Total Assets</b>	<b>361,037,075</b>	<b>100.0</b>	<b>300,731,095</b>	<b>100.0</b>	<b>60,305,980</b>	<b>20.1</b>
<b>Financed By:</b>						
Paid up Capital	84,178,257	23.3	82,435,538	27.4	1,742,719	2.1
Reserves	11,179,980	3.1	8,573,258	2.9	2,606,722	30.4
<b>Shareholders' Funds</b>	<b>95,358,237</b>	<b>26.4</b>	<b>91,008,796</b>	<b>30.3</b>	<b>4,349,441</b>	<b>4.8</b>
Deposits	160,810,463	44.5	145,830,017	48.5	14,980,446	10.3
Takings from Other Banks	10,072,182	2.8	3,821,759	1.3	6,250,423	163.6
Long Term Loans	170,358	0.1	13,208	0.0	157,150	1189.8
Other Liabilities	94,625,835	26.2	60,057,315	20.0	34,568,520	57.6
<b>Total Liabilities</b>	<b>361,037,075</b>	<b>100.0</b>	<b>300,731,095</b>	<b>100.0</b>	<b>60,305,980</b>	<b>20.1</b>

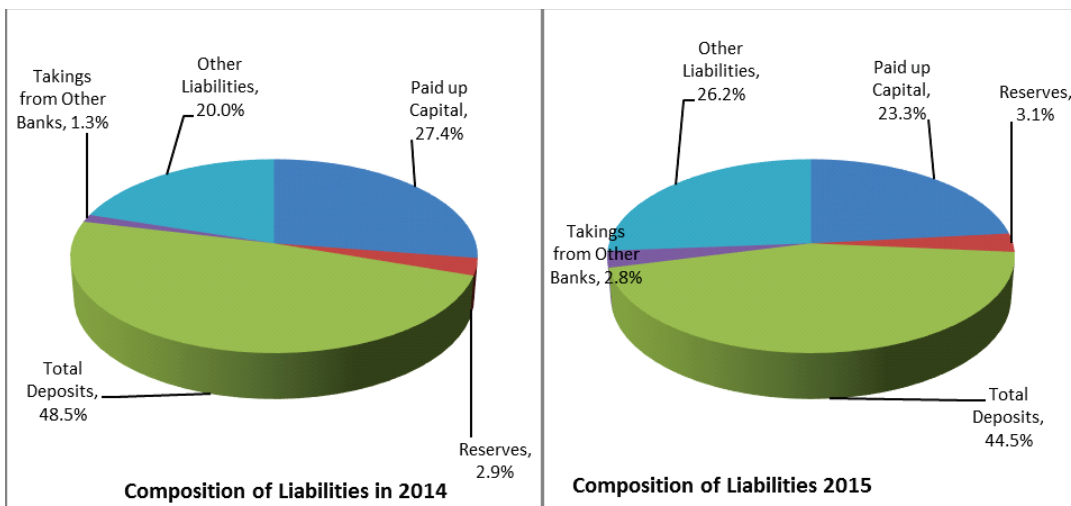
**Figure 10: Microfinance Banks Industry Total Assets**



**Figure 11: Microfinance Banks Industry Composition of Assets**



**Figure 12: Microfinance Banks Industry Composition of Liabilities**



**ii. Primary Mortgage Banks**

The total assets of the 35 PMBs increased marginally by ₦0.7 billion (0.2 per cent) to ₦389.7 billion at end-December 2015, from ₦389.0 billion at end-December 2014. The major components of total assets were cash and due from other banks 16.6 per cent (2014: 18.4 per cent); investments 18.6 per cent (2014: 31.2 per cent); loans and advances 43.4 per cent (2014: 34.2 per cent); and other assets 17.0 per cent (2014: 12.3 per cent).

Total liquid assets and investments of PMBs decreased to ₦64.7 billion and ₦72.6 billion at end-December 2015, from ₦71.4 billion and ₦121.2 billion at end-December 2014, respectively. However, loans and advances, which constituted the largest asset item, increased by ₦35.9 billion (27.0 per cent) to ₦169.0 billion at end-December 2015, from ₦133.0 billion at end-December 2014.

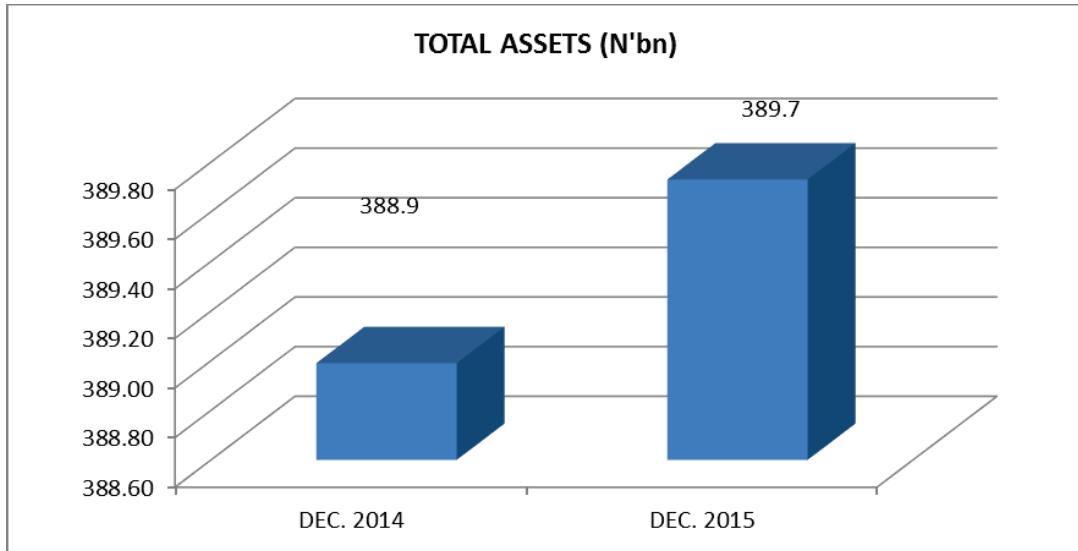
Total deposits decreased by ₦14.1 billion (10.4 per cent) to ₦121.7 billion at end-December 2015, from ₦135.8 billion largely due to the reduction in the number of operating institutions. Similarly, the shareholders' funds decreased by ₦6.9 billion (4.7 per cent) to ₦138.9 billion at end-December 2015, from ₦145.8 billion the previous year.

The consolidated Statement of Financial Position of the PMB sub-sector at end-December 2015 and 2014 is shown below.

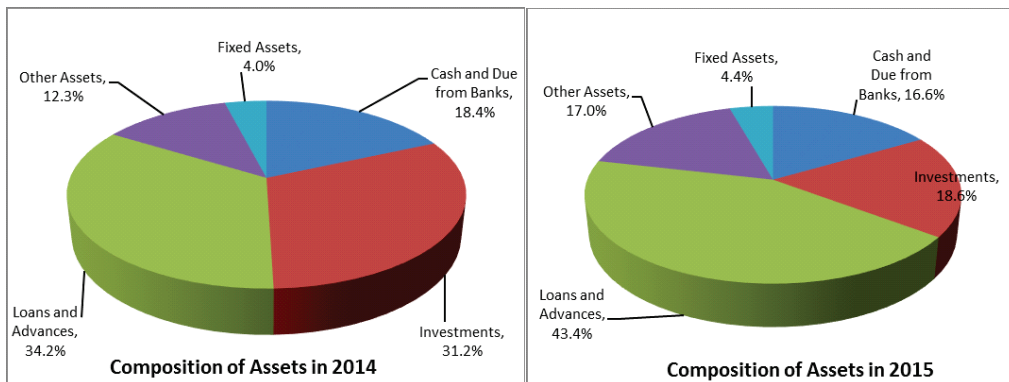
**Table 3: Comparative Consolidated Statement of Financial Position of the PMB Sub-sector**

	Dec-15		Dec-14		Variance	Growth Rate
	=N='000	%	=N='000	%	=N='000	%
<b>Assets</b>						
Cash and Due from Banks	64,696,147	16.6	71,432,976	18.4	-6,736,829	-9.4
Investments	72,597,395	18.6	121,204,545	31.2	-48,607,150	-40.1
Loans and Advances	168,953,356	43.4	133,031,899	34.2	35,921,457	27.0
Other Assets	66,386,514	17.0	47,700,007	12.3	18,686,507	39.2
Fixed Assets	17,093,570	4.4	15,622,572	4.0	1,470,998	9.4
<b>Total Assets</b>	<b>389,726,982</b>	<b>100.0</b>	<b>388,991,999</b>	<b>100.0</b>	<b>734,983</b>	<b>0.2</b>
<b>Financed By:</b>						
Paid-up Capital	112,406,057	28.8	121,692,013	31.3	-9,285,956	-7.6
Reserves	26,510,806	6.8	24,097,258	6.2	2,413,548	10.0
<b>Shareholders' Funds</b>	<b>138,916,863</b>	<b>0.0</b>	<b>145,789,271</b>	<b>37.5</b>	<b>-6,872,408</b>	<b>-4.7</b>
Deposits	121,691,666	31.2	135,815,530	34.9	-14,123,864	-10.4
Placements from Banks	5,019,807	1.3	12,271,520	3.2	-7,251,713	-59.1
Long Term Loans/NHF	49,128,053	12.6	29,660,698	7.6	19,467,355	65.6
Other Liabilities	74,970,593	19.2	65,454,980	16.8	9,515,613	14.5
<b>Total Liabilities</b>	<b>389,726,982</b>	<b>100.0</b>	<b>388,991,999</b>	<b>100.0</b>	<b>734,983</b>	<b>0.2</b>

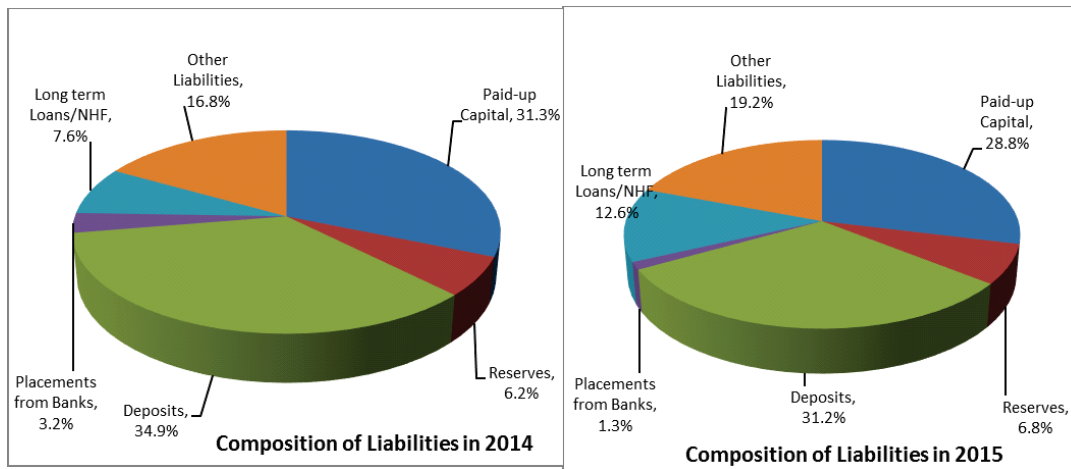
**Figure 13: Primary Mortgage Banks Industry Total Assets**



**Figure 14: Primary Mortgage Banks Industry Composition of Assets**



**Figure 15: Primary Mortgage Banks Industry Composition of Liabilities**



**iii. Finance Companies**

The total assets of FCs increased by N9.0 billion (7.5 per cent) to N128.6 billion at end-December 2015, from N119.6 billion at end-December 2014. The key components were investments 14.6 per cent (2014: 16.9 per cent); loans and advances 42.8 per cent (2014: 40.8 per cent); other assets 24.0 per cent (2014: 23.3 per cent); and fixed assets 11.1 per cent (2014: 9.7 per cent).

Total liquid assets and investments decreased by 26.1 per cent and 7.2 per cent to N9.6 billion and N18.7 billion, respectively, at end-December 2015. On the other hand, loans and advances increased by N6.18 billion (12.7 per cent) to N54.9 billion at end-December 2015 from N48.8 billion at end-December 2014.

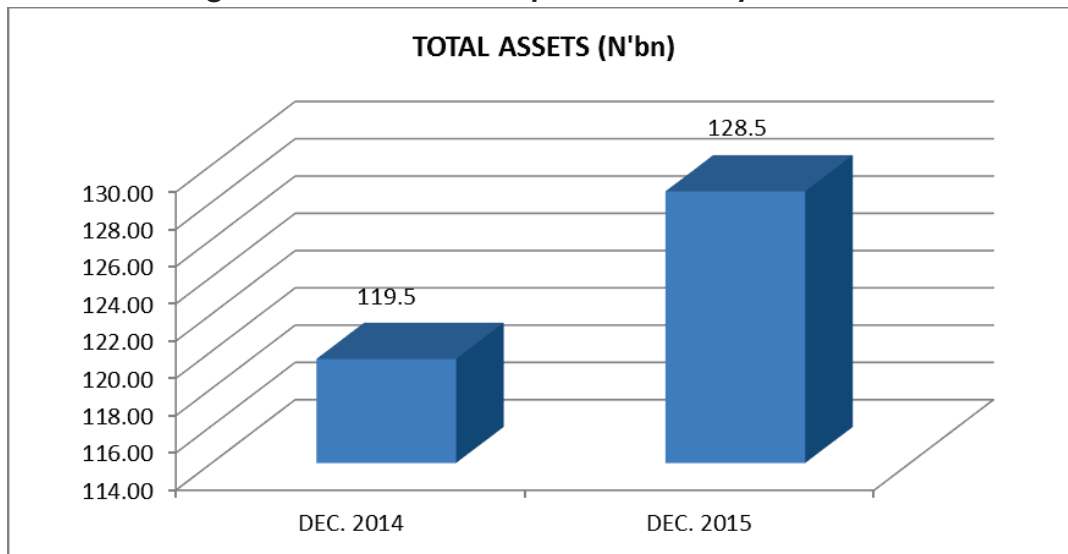
Similarly, total borrowings of the sub-sector increased by N7.02 billion (10.3 per cent) to N75.4 billion at end-December 2015, from N68.4 billion the previous year. Shareholders' funds also increased by N367.0 million (2.0 per cent) to N18.8 billion at end-December 2015, from N18.5 billion at end-December, 2014.

The consolidated Statement of Financial Position of the FC sub-sector at end-December 2015 and 2014 is shown below.

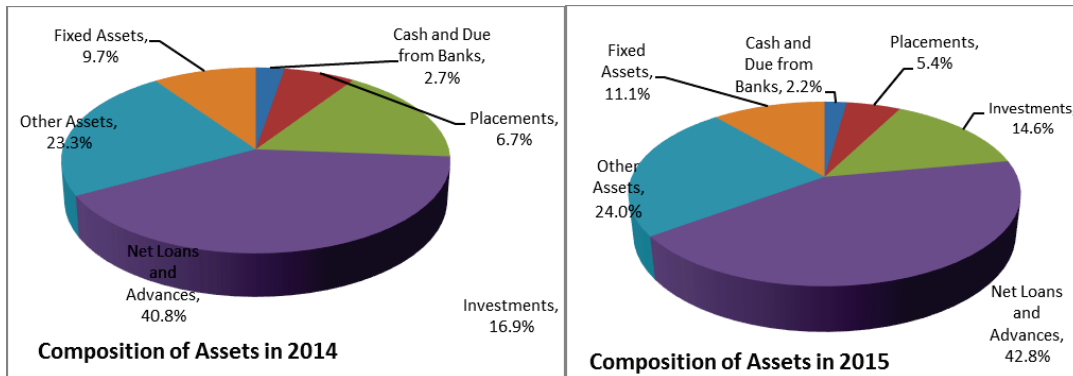
**Table 4: Comparative Consolidated Statement of Financial Position of the FC Sub-sector**

	Dec-15		Dec-14		Variance	Growth Rate
	=N='000	%	=N='000	%	=N='000	%
<b>Assets</b>						
Cash and Due from Banks	2,798,349	2.2	3,188,529	2.7	-390,180	-12.2
Placements	6,896,590	5.4	8,012,349	6.7	-1,115,759	-13.9
Investments	18,702,292	14.6	20,158,634	16.9	-1,456,342	-7.2
Net Loans and Advances	54,989,590	42.8	48,808,697	40.8	6,180,893	12.7
Other Assets	30,869,409	24.0	27,844,997	23.3	3,024,412	10.9
Fixed Assets	14,322,375	11.1	11,576,419	9.7	2,745,956	23.7
<b>Total Assets</b>	<b>128,578,605</b>	<b>100.0</b>	<b>119,589,625</b>	<b>100.0</b>	<b>8,988,980</b>	<b>7.5</b>
<b>Financed By:</b>						
Paid-up Capital	17,267,114	13.4	16,116,372	13.5	1,150,742	7.1
Reserves	1,553,017	1.2	2,336,750	2.0	-783,733	-33.5
<b>Shareholders' Funds</b>	<b>18,820,131</b>	<b>14.6</b>	<b>18,453,122</b>	<b>15.4</b>	<b>367,009</b>	<b>2.0</b>
Long-term Loans Liabilities	1,424,376	0.0	3,627,707	3.0	-2,203,331	-60.7
Total Borrowings	75,442,133	58.7	68,420,235	57.2	7,021,898	10.3
Other Liabilities	32,891,965	25.6	29,088,561	24.3	3,803,404	13.1
<b>Total Liabilities</b>	<b>128,578,605</b>	<b>100.0</b>	<b>119,589,625</b>	<b>100.0</b>	<b>8,988,980</b>	<b>7.5</b>

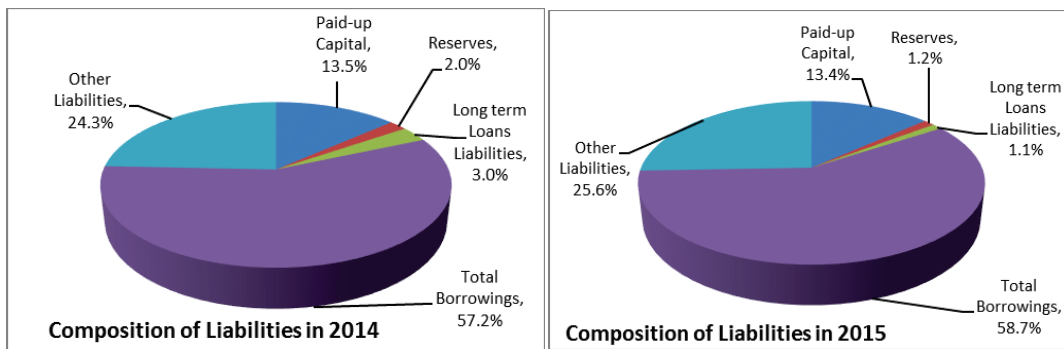
**Figure 16: Finance Companies Industry Total Assets**



**Figure 17: Finance Companies Industry Composition of Assets**



**Figure 18: Finance Companies Industry Composition of Liabilities**



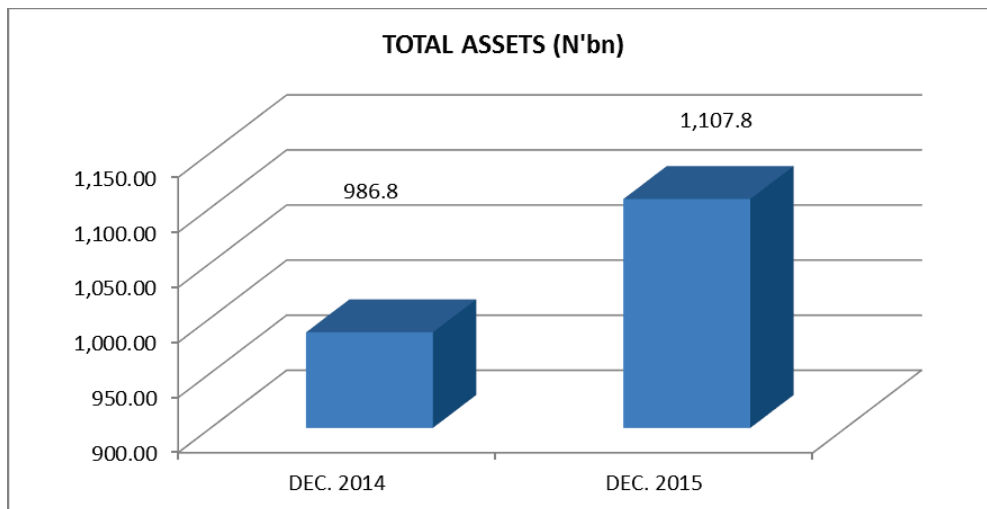
**iv. Development Finance Institutions**

The total assets of the DFIs increased by ₦121.1 billion (12.3 per cent) to ₦1,107.9 billion at end-December 2015, from ₦986.8 billion at end-December 2014. Loans and advances of the DFIs also increased by 3.5 per cent to ₦834.0 billion at end-December 2015, from ₦805.7 billion at end-December 2014.

The consolidated Statement of Financial Position of the DFI sub-sector at end-December 2015 and 2014 is shown below.

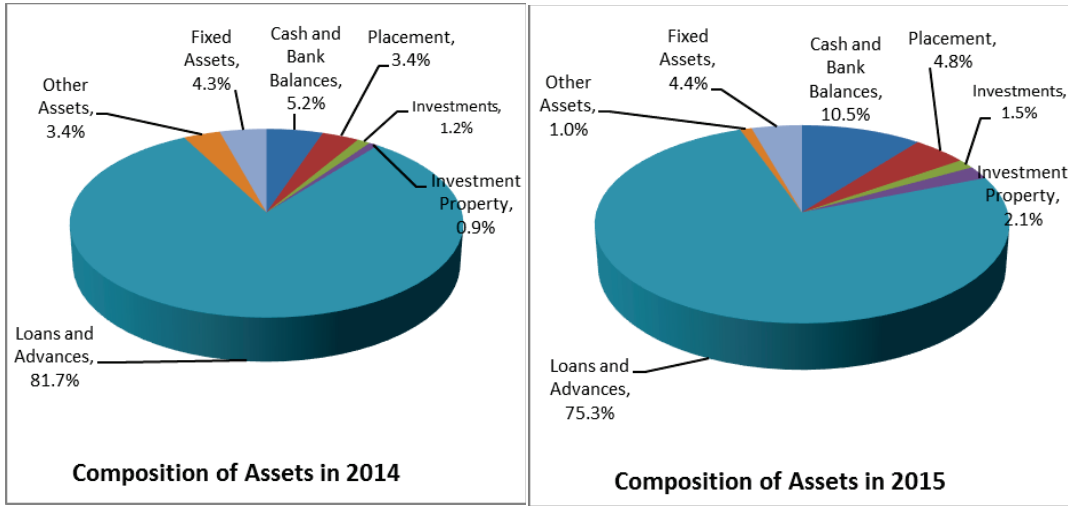
**Table 5: Comparative Consolidated Statement of Financial Position of the DFI Sub-sector**

Assets	Dec-15		Dec-14		Variance		Growth Rate	
	=N='000	%	=N='000	%	=N='000	%		
Cash and Bank Balances	116,641,175	10.5	51,194,596	5.2	65,446,579	127.8		
Placement	53,350,056	4.8	33,639,279	3.4	19,710,777	58.6		
Investment	16,669,194	1.5	11,905,224	1.2	4,763,970	40.0		
Investment Property	23,429,220	2.1	8,453,711	0.9	14,975,509	177.2		
Loans and Advances	834,036,522	75.3	805,695,466	81.7	28,341,056	3.5		
Other Assets	11,262,881	1.0	33,468,823	3.4	-22,205,942	-66.4		
Fixed Assets	48,764,864	4.4	42,404,243	4.3	6,360,621	15.0		
Deferred Tax Assets	3,594,072	0.3	12,039	0.0	3,582,033	29,753.6		
Intangible Assets	105,311	0.0	-	0.0	105,311	100.0		
<b>Total Assets</b>	<b>1,107,853,295</b>	<b>100.0</b>	<b>986,773,381</b>	<b>100.0</b>	<b>121,079,914</b>	<b>12.3</b>		
<b>Financed By:</b>								
Share Capital	232,612,742	21.0	228,795,671	23.2	3,817,071	1.7		
Reserves	(84,313,380)	-7.6	(66,675,395)	-6.8	-17,637,985	26.5		
<b>Shareholders' Funds</b>	<b>148,299,362</b>	<b>13.4</b>	<b>162,120,276</b>	<b>16.4</b>	<b>-13,820,914</b>	<b>-8.5</b>		
Due to Other Banks	22,636,195	2.0	6,408,971	0.7	16,227,224	253.2		
Projects Counterpart Funding	5,787	0.0	5,787	0.0	0	-		
Other Liabilities	230,551,190	20.8	158,866,122	16.1	71,685,068	45.1		
Long-term Liabilities	31,680,746	2.9	454,065,545	46.0	-422,384,799	-93.0		
Deferred Tax Liabilities	433,886	0.0	-	0.0	433,886	100.0		
Deposits	219,487,829	19.8	184,880,317	18.7	34,607,512	18.7		
Borrowings	454,758,300	41.1	20,426,363	2.1	434,331,937	2,126.3		
<b>Total Liabilities</b>	<b>1,107,853,295</b>	<b>100.0</b>	<b>986,773,381</b>	<b>100.0</b>	<b>121,079,914</b>	<b>12.3</b>		

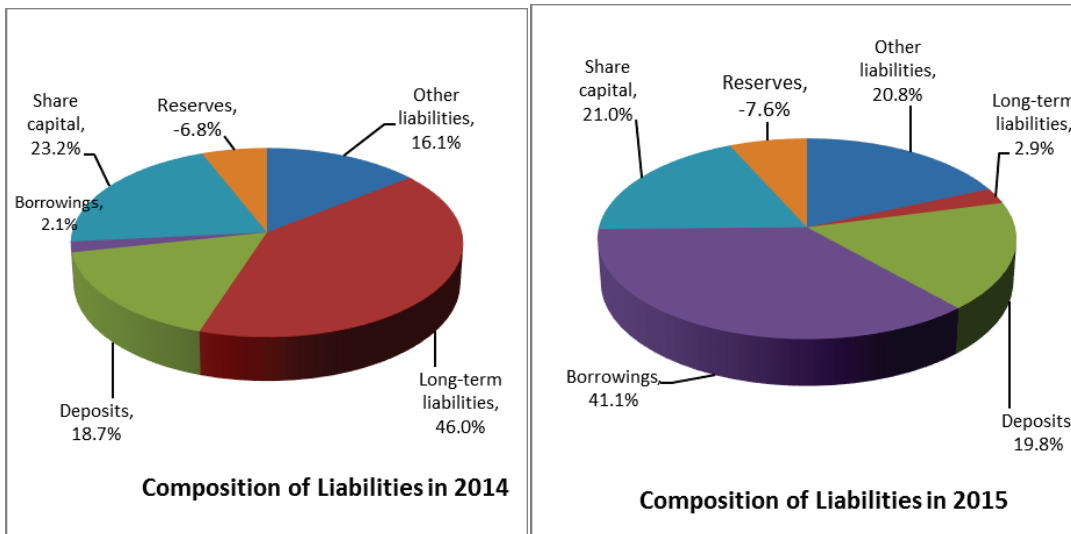
**Figure 19: Development Finance Institutions Industry Total Assets**



**Figure 20: Development Finance Institutions Industry Composition of Assets**



**Figure 21: Development Finance Institutions Industry Composition of Liabilities**







## CHAPTER 5

### CAPACITY BUILDING



## 5.01 RETREAT OF FINANCIAL POLICY AND REGULATION DEPARTMENT

The Financial Policy and Regulation Department (FPRD) held its third retreat in Owerri, Imo State from November 5-6, 2015. The retreat had 158 participants in attendance, drawn from various departments and branches of the CBN, as well as representatives of PENCOM and NAICOM.

In his opening remarks, the Director of the department, Mr. Kevin Amugo, speaking on the theme of the retreat, "Implementing Financial Policies that Leverage on Nigeria's Emergence as a Frontier Market" charged participants to use the platform to assess, fine-tune and initiate policies aimed at addressing emerging challenges in our financial markets and enhancing economic growth.

The Deputy Governor, Financial System Stability, Dr. O. J. Nnanna, in his keynote address reiterated the importance of policy formulation in ensuring a safe and sound financial system. He elaborated on the general appeal of frontier markets to portfolio investors due to their high yield potentials in relation to other markets and charged the department to develop policies to strengthen the system and reassure international investors.

### I. Papers Presented

Six papers on topical issues were presented during the programme as follows:

- i. "Data and Macroprudential Policy for Effective Decision Making in Nigeria's Financial System as a Frontier Market": Dr. (Mrs) Ngozi Egbunna of Monetary Policy Department, examined the Bank's existing statistical/financial database, highlighted gaps therein and proffered recommendations for improving it to internationally acceptable standards. She also recommended the implementation of the proposed Enterprise Data Warehouse System for reporting and data analysis.
- ii. In his paper on "Implementing the Financial Holding Company (HoldCo) Structure: The Journey So Far", Mr. A. O. Ikem of FPRD, traced the origin of financial holding company structure in Nigeria to the abrogation of the Universal Banking Model. He provided an overview of the "Guidelines for Licensing and Regulation of Financial Holding Companies in Nigeria", issued in 2014 and listed some challenges of the HoldCo structure to include:

- a. Dearth of knowledge on the concept, principle and practice of HoldCo;
- b. Double taxation issues for the banks adopting the HoldCo Structure; and
- c. Interlocking directorship.

On the way forward, Mr. Ikem recommended:

- a. Effective supervision of HoldCos to guard against the challenges that rendered the Universal Banking Model ineffective;
  - b. Collaboration with other stakeholders to resolve identified challenges;
  - c. Full implementation of consolidated supervision;
  - d. Continuous re-tooling of regulations to address emerging challenges such as those on divestment from non-permissible activities/ investments; and
  - e. The need to withstand pressure and excessive interference in banking regulation from external stakeholders, among others.
- iii. In her paper titled “Three-Tiered Know-Your-Customer: Enhancing Financial Inclusiveness for Growth and Development,” Mrs. Temitope Akin-Fadeyi, of the Financial Inclusion Secretariat, Development Finance Department, noted that the Three-Tiered KYC provides opportunities for both consumers and providers of financial services. For the consumers, it lowers the entry barrier into the formal financial system; provides access to products and services to support financial needs and asset building; and provides opportunity to contribute to the formal economy. For the service providers, it offers a risk-based approach to customer acquisition and growth; creates an avenue for mobilising savings and creating risk assets, supporting core operations; and provides opportunity to contribute to expanding the formal economy.

The feedback from the public, she stated, indicated broad support and satisfaction with the Three-Tiered KYC policy. She, however, noted that

there were mixed views on the suitability of the daily and per-transaction limits and the absence of clear distinctions between Tier 2 and Tier 3 of the policy.

In conclusion, she advised financial services regulators to:

- a. Adopt risk-based KYC regime;
  - b. Create and sustain an enabling environment for innovative technologies to cater for the financially excluded;
  - c. Support the harmonisation of identity databases; and
  - d. Enhance financial capability of citizens to drive inclusive growth.
- iv. Mr. M. N. Ekugo of the FSRCC Secretariat, FPRD, speaking on “The Role of the Financial Services Regulation Coordinating Committee in the Nigerian Financial System: Achievements, Challenges & the Way Forward”, highlighted the achievements of the Committee to include:
- a. Development of a dashboard that periodically identifies threats and vulnerabilities to financial stability, as well as measures to mitigate such risks;
  - b. Collaboration with some reputable local and foreign training institutions to provide training to staff of member agencies in consolidated supervision, International Financial Reporting Standards, macroprudential supervision and non-interest finance;
  - c. Facilitation of discussions between HoldCos and the FIRS to resolve matters relating to the double taxation of HoldCos;
  - d. Approval of the specific tools and framework for managing the stability of the financial system; and
  - e. Development of the Framework and Principles for Consolidated Supervision of Financial Institutions in Nigeria.

He enumerated some of the challenges of the Committee to include irregular meetings due to the busy schedule of members, irregular

payment of financial contributions by member agencies and the absence of a clear financial stability mandate.

Mr. Ekugo canvassed the restructuring of the FSRCC, review of its legal framework to accord it financial stability mandate, development of a crisis management framework and a robust database to support information sharing among the member agencies, as the way forward.

- v. The Project Manager, SPP/OW Report Implementation, Mr. F.E. Ahonkhai of FPRD, spoke on “Enhanced Policy Tools and Framework for Managing the Stability of Nigeria's Financial System for Optimal Economic Growth and Development”. He informed participants that adequate structures are being put in place for the implementation of the three main component policy areas of the Framework, namely, Macroprudential, Microprudential, and Crisis Management.
- vi. In his paper on “Licensing of Banks and Other Financial Institutions in Nigeria: Challenges and the Way Forward”, Mr. I.S. Tukur, FPRD, expatiated on the CBN's power to license, the basis for licensing, reforms in the licensing process, challenges and the way forward.

Prior to the above presentations, a motivational speaker, Mr. Eizu Uwaoma of Hexavia spiced the retreat with his presentation titled “Creating Superlatives on Implementing Financial Policies that Leverage on Nigeria's Emergence as a Frontier Market”.

## II. **Syndicate Session**

The retreat participants were divided into three groups to review the papers presented and discuss issues relating to the department's processes as follows:

- a. Review of the internal processes of the department with respect to policy formulation and development;
- b. The relationship of FPRD with stakeholders within and outside the CBN;
- c. The relationship, interconnectedness and coordination among the divisions in the department as well as relevant departments in the CBN, particularly the FSS directorate; and



- d. Review of work ethics including punctuality, timeliness, quality of job and attitude to work.

### III. Observations

Participants noted among others, the:

- a. Absence of a comprehensive database management system to aid macroprudential analysis of structural linkages between the financial system and the economy in the event of a financial crisis;
- b. Inadequate coordination among departments of the CBN in data gathering, storage and communication;
- c. Need for improvement in coordination and harmonisation among various departments in the publication of the CBN Annual Report and Accounts, Financial Stability Reports (FSR) and Financial Market Reports;
- d. Absence of implementable sanctions in the extant banking model; and
- e. Need to review the CBN Act and the BOFIA, Cap B3, LFN, 2004, to enhance the efficiency and effectiveness of regulation.

### IV. Recommendations

Some recommendations from the retreat included the need to:

- a. Urgently implement the proposed Enterprise Data Warehouse System with proper channels established to enhance the effective dissemination of data;
- b. Establish an inter-departmental working group to coordinate and harmonise the publication of the CBN Annual Report and Accounts, FSR and Financial Market Report;
- c. Conduct policy impact analysis to guide future policy developments and reviews;
- d. Hold regular meetings of the FSRCC to ensure timely intervention in the financial system;
- e. Put in place an efficient data gathering, storage and transmission

- mechanism for data integrity and policy efficiency;
- f. Build staff capacity to cope with their responsibilities and address emerging issues; and
- g. Encourage other financial sector regulators [Securities and Exchange Commission-(SEC), NAICOM, PENCOM] to embrace financial inclusion.

## 5.02 CAPACITY BUILDING FOR SUPERVISORS

In line with the core value of "Learning", the CBN intensified its capacity building programme for supervisors during the review period as discussed below.

### i. In-Country Programmes

Supervisors attended various in-house and vendor-driven capacity building programmes on various subjects, including Risk Management; Consolidated Supervision; Basel II and III; International Financial Reporting Standards (IFRS); Over-the-Counter (OTC) Market; Effective Report Writing; Oil and Gas Lending; Supervision of Domestic Systemically Important Banks; Financial Modelling; Audit and Internal Control; and AML/CFT.

A key component of the capacity building programme for supervisors is the Bank Examiners' Course, which covers four stages-Foundation, Level 1, Level 2 and Level 3. The course equips supervisors with the requisite knowledge and skills to effectively carry out their responsibilities. Invitations are usually extended to sister agencies such as SEC, PENCOM, Nigerian Stock Exchange as well as supervisory agencies in the West African sub-region. In 2015, the three runs of the Bank Examiners' Foundation Course were well attended by staff from both within and outside the CBN.

### ii. Foreign Programmes

In the year under review, our supervisors also participated in several foreign capacity building programmes, including those organised by the West African Institute of Financial and Economic Management, Lagos, the Federal Deposit Insurance Corporation, Federal Reserve System and IMF, USA.

The programmes covered Examination Management; Loan Analysis; Asset-Liability Management; Financial Institutions Analysis; Capital Planning and Stress Testing; Operational Risk Management; Internal Audit; Information Technology Examination; International Financial Reporting Standards; Consolidated Supervision & Risk Integration; and Advanced Banking Supervision & Financial Stability, among others.

A total of 339 staff were trained in the year with some attending more than one programme as detailed hereunder:

S/N	Course Title	Number of staff
1	Financial Modelling	2
2	Compliance Risk Management	4
3	Audit and Internal Control	4
4	Regional Course on Banking Supervision	2
5	Bank Examiners' Course (Intermediate level)	2
6	Regional Course for Bank Examiners (Foundation level)	4
7	Regional Course on Advanced Banking Supervision & Financial Stability	3
8	International Financial Reporting Standards	8
9	Regional Workshop on Consolidated Supervision	4
10	Liquidity, Market & Operational Risk Management	30
11	Risk Management in Banks & the Capital Implications	4
12	Basel II and III	5
13	OTC Market	42
14	Effective Report Writing for Examiners	35
15	Holding Company Supervision Symposium	20
16	AML/CFT	58
17	Oil & Gas Business & the Nigerian Financial System	30
18	Fundamentals of Oil & Gas Business & the Nigerian Financial System	40
19	Systemic Risk, Prudential Regulation & Supervision of Systemically Important Banks	45
20	Bank Examiners' Course Foundation	21
21	Capital Planning/Stress Testing	2
22	Payment System Policy and Oversight	1
23	U.S. Monetary Policy Implementation	1
24	Operational Risk Management and Internal Audit	35
25	Introduction to Examination School	3
26	Financial Institutions Analysis School	4
27	Asset/Liability Management School	2
28	Loan Analysis School	7
29	Examination Management School	3
30	Information Technology Examination Course	3
31	Consolidated Supervision and Risk Integration	39
32	International Financial Reporting Standards	8
33	Risk Management & Internal Controls	4
34	Advanced Banking Supervision And Financial Stability	4
35	Market Risk Analysis Seminar	1
36	Liquidity Risk Management Seminar	1
37	20 <sup>th</sup> Edition of The Boulder Microfinance Training Programme	2

38	Microfinance Course for Bank Examiners on Emerging Supervisory Challenges in the MFB sub-sector	2
39	Report Writing and Board Presentation	18
40	Consumer Protection Examination Course	28
41	Consumer Survey Methodology	6
42	Consumer Protection Concepts, Banking Standards and Financial Products Impact Assessment	20
43	Competency Modelling Workshop	3
44	Job Analysis and Job Evaluation Training	1
45	Public Awareness and Capacity Building Workshop on Nigeria Mortgage Refinancing Company	10

The CBN will continue to build the capacity of its examiners in order to adequately equip them to cope with the increasing challenges in the domestic banking system, as well as keep them abreast with developments in the global financial system.

## EDITORIAL COMMITTEE

This edition of the Banking Supervision Annual Report was compiled, reviewed and edited by the Banking Supervision Annual Report Committee, comprising the following staff of the Financial System Stability Directorate of the CBN:

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## GLOSSARY

AMCON	-	Asset Management Corporation of Nigeria
AML/CFT	-	Anti-Money Laundering and Combating of the Financing of Terrorism
ATL	-	Above-the-Line
ATM	-	Automated Teller Machine
BCEAO	-	Banque Centrale des Etats de l'Afrique de l'Ouest
BDC	-	Bureaux de Change
BOA	-	Bank of Agriculture
BOFIA	-	Banks and Other Financial Institutions Act
BOI	-	Bank of Industry
BVN	-	Bank Verification Number
CABS	-	Community of African Banking Supervisors
CAR	-	Capital Adequacy Ratio
CBN	-	Central Bank of Nigeria
CRM	-	Credit Risk Mitigation
CRMS	-	Credit Risk Management System
CSWAMZ	-	College of Supervisors of the West African Monetary Zone
CYFI	-	Child and Youth Finance International
DFI	-	Development Finance Institution
DSIB	-	Domestic Systemically Important Bank
eFASS	-	electronic Financial Analysis and Surveillance System
FATCA	-	Foreign Accounts Tax Compliance Act
FATF	-	Financial Action Task Force
FBN	-	First Bank of Nigeria
FC	-	Finance Companies
FHC	-	Financial Holding Company
FMBN	-	Federal Mortgage Bank of Nigeria
FPRD	-	Financial Policy and Regulation Department
FSR	-	Financial Stability Report
FSRCC	-	Financial Services Regulation Coordinating Committee
FSS	-	Financial System Strategy
GIABA	-	Inter-Governmental Action Group against Money Laundering in West Africa
GIZ	-	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH
IFC	-	International Finance Corporation

IFSB	-	Islamic Financial Stability Board
IGA	-	Inter-Governmental Agreement
IILM	-	International Islamic Liquidity Management
IMC	-	Inter-Ministerial Committee
IMF	-	International Monetary Fund
IRS	-	Internal Revenue Service
ISA	-	Investment and Securities Act
IT	-	Information Technology
KYC	-	Know Your Customer
MEE	-	Mutual Evaluation Exercise
MFB	-	Microfinance Bank
MoU	-	Memorandum of Understanding
MSME	-	Micro, Small and Medium Enterprise
NAICOM	-	National Insurance Commission
NDIC	-	Nigeria Deposit Insurance Corporation
NERFUND	-	National Economic Reconstruction Fund
NEXIM	-	Nigeria Export - Import Bank
NFIU	-	Nigeria Financial Intelligent Unit
NGO	-	Non-Governmental Organization
NMRC	-	Nigeria Mortgage Refinance Company
NPL	-	Non-Performing Loan
OFI	-	Other Financial Institutions
OTC	-	Over-the-Counter
PAR	-	Portfolio-at-Risk
PENCOM	-	National Pension Commission
PEP	-	Politically Exposed Person
PMB	-	Primary Mortgage Bank
RBS	-	Risk Based Supervision
RRP	-	Recovery and Resolution Plan
RUFIN	-	Rural Finance Institution Building Programme
SEC	-	Securities and Exchange Commission
TIB	-	The Infrastructure Bank
TIN	-	Taxpayer Identification Number
TSA	-	Treasury Single Account
UBA	-	United Bank of Africa
USA	-	United States of America
WAMZ	-	West African Monetary Zone

