CENTRAL BANK OF NIGERIA

BANKING SUPERVISION ANNUAL REPORT 2018

The Banking Supervision Annual Report is a publication of the Central Bank of Nigeria. The Report provides insight into the supervisory and regulatory activities of the Central Bank of Nigeria during the reporting year.

Enquiries and 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
E-mail: bsd@cbn.gov.ng

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FOREWARD

The Banking Supervision Annual Report (BSAR) is a medium through which the Central Bank of Nigeria (CBN) communicates the activities of departments under its Financial System Stability Directorate to stakeholders. The publication provides useful information on developments in the banking industry, policies, supervisory activities and the performance trend of the institutions that are under the regulatory and supervisory purview of the CBN.

The stability of the financial system remains the overarching objective of the Financial System Stability Directorate. It is noteworthy that in 2018 the financial system remained strong, recording remarkable improvements in capital adequacy, quality of risk assets, earnings and liquidity, compared with the parameters in 2017. Consumer protection activities also witnessed an upswing. However, losses from fraud and forgery cases, in terms of number and value, increased during the period, necessitating additional measures to effectively curtail the undesirable development.

Some significant developments that occurred during the period included industry-wide implementation of IFRS 9, effective January 1, 2018. This reduced the retained earnings of deposit money banks, in spite of the moderation occasioned by the application of the balances in banks' regulatory risk reserves. To cushion the effect of the impact on the capital of banks, a four-year transitional arrangement, in line with the guidelines provided by the Basel Committee on Banking Supervision, was adopted.

The CBN also issued codes of corporate governance to entities in the other financial institutions sub-sector to strengthen their governance practices. A risk-based cyber-security framework to guide banks in addressing cyber-security risks and building their cyber resilience was also issued. To effectively supervise activities in the payments system space, a new department, the Payments System Management Department was created in the Financial System Stability Directorate of the CBN. Accordingly, this edition of the Report also covers the activities in the payments system.

As my first Foreword to the BSAR, following my appointment as Deputy Governor, Financial System Stability in 2018, I am honoured to work with a great team of professionals passionately dedicated to delivering a sound and stable financial system in Nigeria. It is my firm belief that this edition of the BSAR will keep readers, researchers, scholars and other stakeholders well-informed of the regulatory and supervisory activities of the CBN and provide context for some of the policy pronouncements.

We welcome your enquiries and/or feedback.

MRS. AISHAH AHMAD, CFA
Deputy Governor, Financial System Stability

PREFACE

The Banking Supervision Annual Report outlines the key activities embarked upon by the CBN in the regulation and supervision of banks and other financial institutions under its purview.

This edition of the Report is divided into five chapters. Chapter one discusses developments in the Nigerian foreign exchange market, anti-money laundering and combating the financing of terrorism, cross-border supervision and the Nigerian housing finance programme, among others.

Chapter two focuses on the general framework for supervision, with emphasis on the guidelines issued for licensing and regulating payment service banks, the risk-based cyber-security framework for banks and payment service providers, and the code of corporate governance for other financial institutions. The implementation of IFRS 9 in the banking industry, the sustainable finance principles and the revision to the corporate governance scorecard are also discussed.

Chapter three provides information on off-site and on-site supervision of banks and other financial institutions; consumer protection activities of the CBN; and activities of the Bankers' Committee.

The penultimate chapter details the performance trend of banks and other financial institutions, while chapter five covers the retreats and capacity building programmes embarked upon by the departments in the Financial System Stability Directorate of the CBN.

The departmental directors in the Financial System Stability Directorate wish to express their appreciation to all the contributors and members of the Banking Supervision Annual Report Committee for their dedication and commitment to the production of this report.

AHMAD ABDULLAHI
Director, Banking Supervision Department

'TOKUNBO MARTINS (MRS.)
Director, Other Financial Institutions Supervision Department

KEVIN N. AMUGO
Director, Financial Policy and Regulation Department

KOFO S. SALAM-ALADA
Director, Consumer Protection Department

SAM C. OKOJERE
Director, Payments System Management Department

CHAPTER 1

DEVELOPMENTS IN THE BANKING INDUSTRY

1.01 DEVELOPMENTS IN THE FOREIGN EXCHANGE MARKET

The foreign exchange policy thrust for 2018 was to consolidate on the gains recorded in 2017 in maintaining the stability in the foreign exchange market. Several measures undertaken in the review period included:

a. Enhancement of access to foreign exchange by retail end-users and operators engaged in manufacturing, agriculture, airlines, petroleum and small and medium enterprises;

b. Abolition of charges on sale of foreign exchange for invisible transactions (PTA/BTA, school fees and medical) by authorized dealers, effective February 12, 2018;

c. Increased frequency of foreign exchange sales to authorised Bureaux de Change (BDCs) from two to three times a week, effective May 28, 2018;

d. Engagement of pre-shipment inspection agents for non-oil exports;

e. Introduction of mandatory collateral of ₦1 billion in Government/CBN securities for banks that intend to participate in OTC trade settlement, effective June 1, 2018;

f. Issuance of regulation for transactions with authorized dealers in Renminbi and commencement of sale of the currency through Authorized Dealers for trade-backed transactions, effective June 6, 2018;

g. Introduction of a revised foreign exchange manual to streamline documentation requirements, enhance transparency and engender compliance by stakeholders, effective August 1, 2018;

h. Introduction of special intervention foreign exchange cash sales to BDC operators, to meet increased demand for PTA/BTA during the yuletide, effective November 29, 2018;

i. Inclusion of fertilizer on the list of import items "Not valid for foreign exchange" in the Nigerian foreign exchange market, effective December 7, 2018; and

j. Continuous intervention in the Inter-bank foreign exchange market by the CBN.

To assess the effectiveness of the measures and authorised dealers' compliance with extant rules and regulations, off-site surveillance, routine and ad-hoc examination were conducted during the period.

Volume of Foreign Exchange Acquired and Utilised by Banks

The total number of authorised dealers increased to 27 in 2018 from 26 in 2017 following the commencement of operations of a merchant bank. The total volume of foreign exchange (FX) acquired and utilised by the authorised dealers in 2018 were $85.6 billion and $86.7 billion, respectively. This represented increases of $29.9 billion or 53.7 per cent and $33.5 billion or 63.0 per cent when compared with the total volume of FX acquired of $55.7 billion and utilised of $53.2 billion in 2017. The growth was mainly driven by CBN intervention and activities in the Investors and Exporters (I & E) window of the market.

The total volume of foreign exchange acquired in 2018 comprised $66.1 billion Spot, $13.6 billion Forwards and $5.9 billion OTC FX Futures; while foreign exchange utilised comprised $70.2 billion Spot, $10.9 billion Forwards and $5.6 billion OTC FX Futures.

The analysis of total foreign exchange acquired showed that CBN intervention and I & E Window contributed 40.0 per cent and 22.4 per cent, respectively. Others included purchases from Interbank, retail remittances, oil companies, government agencies, unutilised LC balances, customers' own funds/not valid for FX, third currency transactions and intra company purchases, which amounted to 37.6 per cent.

Table 1: Consolidated Summary of Foreign Exchange Position

Sources (Inflow)	Spot	Forward	Futures	Total	%	Application (Outflow)	Spot	Forward	Futures	Total	%
	$'m	$'m	$'m	$'m			$'m	$'m	$'m	$'m	
Open Position B/F (Positive Position)	217.6	-	-	217.6	0.3	Open Position B/F (Negative Position)	1,453.3	-	-	1,453.3	1.7
	-	-	-				-	-	-		
Autonomous Funds	-	-	-			**Visible**	-	-	-		
CBN Intervention	17,756.2	11,884.1	4,568.7	34,209.0	40.0	Letters of Credit	5,858.4	6,740.9	287.4	12,886.7	14.9
Domiciliary Accounts	2,552.9	0.0	-	2,552.9	3.0	Bills for Collection	2,464.6	1,014.0	66.3	3,545.0	4.1
Other Banks (Interbank Purchases)	6,653.9	276.2	2.0	6,932.1	8.1	Telegraphic Transfer (Small Imports)	565.8	-	-	565.8	0.7
Export Proceeds	944.4	-	-	944.4	1.1	**Invisible**	-	-	-	-	
Capital Importation/ FDI	15,455.0	23.9	220.0	15,698.9	18.3	Foreign Securities	37.1	3.6	-	40.7	0.0
Retail Remittances (eg WUMT)	1,949.2	-	-	1,949.2	2.3	Credit / Debit Cards	490.9	-	-	490.9	0.6
Oil Companies	229.3	-	-	229.3	0.3	BTA / PTA	282.6	0.3	-	282.9	0.3
Government Agencies	135.7	-	-	135.7	0.2	Education	198.4	0.4	-	198.8	0.2
Repurchase of un-utilized Balances	682.4	0.4	-	682.8	0.8	PHR	189.8	1.5	-	191.3	0.2

Other spot Purchases	14,946.8	1,403.3	1,139.0	17,489.1	20.4	Medical	2.6	-	-	2.6	0.0
Others	-	-	-	-	-	Airlines Remittances	771.4	85.2	-	856.6	1.0
Foreign Loan	722.3	-	-	722.3	0.8	Dividend & Capital Repatriation	16,193.2	373.0	1,092.5	17,658.7	20.4
Syndicated Loans	-	-	-	-	-	Repayment of Foreign Loans	1,522.2	595.1	492.8	2,610.2	3.0
	-	-	-	-		Others	2,057.8	203.9	412.6	2,674.3	3.1
	-	-	-	-		Other Banks (Interbank Sales)	8,629.7	329.8	420.8	9,380.3	10.8
	-	-	-	-		Other spot Sales	13,810.0	861.3	2,298.6	16,969.9	19.6
	-	-	-	-		Bureaux-de-Change	-	-	-	-	-
Not valid for Foreign Exchange(sourced from own Domiciliary account)	3,833.4	4.7	-	3,838.1	4.5	Not valid for Forex (sourced from own Domiciliary Account)	3,833.7	4.7	-	3,838.4	4.4
				-		Sale to CBN - (Unutilized Allocations)	2,227.9	586.0	314.0	3,127.8	3.6
				-		Other Sales to CBN	9,614.9	76.2	231.7	9,922.8	11.4
Total	**66,079.1**	**13,592.6**	**5,929.7**	**85,601.4**	**100.0**	**Total**	**70,204.3**	**10,876.0**	**5,616.7**	**86,697.0**	**100.0**

Source: Monthly Summary of Foreign Exchange Position Rendered by Authorised Dealers

Movement in Exchange Rate

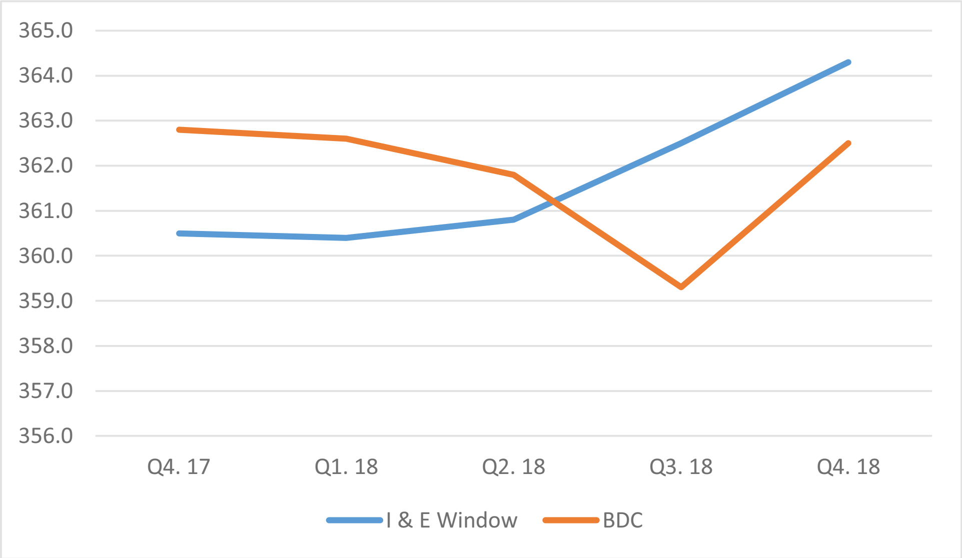
The measures adopted by the CBN impacted positively on the exchange rate, resulting in its stability throughout the year, as depicted in the table and accompanying graph below:

Table 2: Movement in Foreign Exchange Rate between Fourth Quarter of 2017 and 2018

FX Rate	Q4. 17	Q1. 18	Q2. 18	Q3. 18	Q4. 18
I & E Window (₦/$)	360.5	360.4	360.8	362.5	364.3
BDC (₦/$)	362.8	362.6	361.8	359.3	362.5

Source: CBN

Figure 1: Trend of I & E Window and BDC Foreign Exchange Rates in 2018



Exchange rates in the I & E Window and BDC segment hovered around ₦362.0 and ₦361.6 to the US dollar, respectively.

Foreign exchange regulations, complemented by the measures introduced during the period, continued to yield positive results towards the achievement of the CBN's mandate of ensuring a stable exchange rate.

1.02 DEVELOPMENTS IN CROSS-BORDER SUPERVISION

Cross border supervisory activities involving the off-site review of regulatory reports, on-site examination of the offshore subsidiaries of Nigerian banks, participation in the meetings of supervisory colleges and other regional co-operation arrangements continued in 2018. The essence was to minimise the transfer of risks from the subsidiaries to the Nigerian banking system. Specific activities in this regard included:

Cross-border Expansions and Divestments

At end-December 2018, the number of offshore subsidiaries of Nigerian banks returned to 58, from 55 reported at end-December 2017. This resulted from the unsuccessful attempt by Polaris Bank Limited to divest from three of its subsidiaries. The number of representative offices, affiliates and international branches however, remained six, one and two, respectively, bringing the total number of offshore entities to 67 at end-December 2018.

During the year, a letter of 'no objection' was issued to a Nigerian bank to establish a subsidiary in Cameroon with an initial capital of $25 million. The subsidiary was yet to commence operations at end-December 2018.

Three Nigerian banks injected additional capital amounting to $101.4 million to strengthen the capital position of their subsidiaries and meet the regulatory requirements in their host jurisdictions.

Supervisory Colleges

i. College of Supervisors of the West African Monetary Zone

The College of Supervisors of the West African Monetary Zone (CSWAMZ) was established to enable supervisors in the zone collaborate in the pursuit of a safe, sound and resilient banking system. The College was also to promote the convergence of the regulatory and supervisory practices for banks and banking groups of member states.

In furtherance thereof, four meetings were hosted by the Central Bank of The Gambia, Bank of Ghana (twice) and the Central Bank of Nigeria during the year. Deliberations at the meetings focused on the joint examination of subsidiaries of Nigerian banks; risk-based supervision; AML/CFT; Basel II and International Financial Reporting Standards (IFRS). Other developments in the West African region were also discussed with a view to identifying and monitoring emerging risks that might threaten the financial stability of the zone.

The College also recorded significant progress in its objective of building the capacity of members through the delivery of high level seminars on cyber-security and training on stress testing. The CBN contributed in building members' capacity in the areas of risk-based supervision, Basel II/III capital standards and cyber-security. It also hosted the staff of other member central banks on study visits.

During the year, the Model Act for Banks and Financial Holding Companies was completed and the approval of the Committee of Governors of the WAMZ was obtained for college members to adopt the provisions in their jurisdictions. The development of the WAMZ Framework on Crisis Management and Banking Resolution continued during the period. Also, work commenced on the introduction of a unique identifier for bank customers (bank verification number) in the WAMZ.

ii. College of Supervisors of Ecobank Transnational Incorporated

The fourth meeting of the College of Supervisors of Ecobank Transnational Incorporated was held in Abidjan, Cote d'Ivoire from October 29-30, 2018. The meeting resolved to conduct a joint inspection of the Group in 2019 as a result of the high credit and geographical concentrations and risks in the operations of over 45 per cent of the subsidiaries.

iii. College of Supervisors of Standard Chartered Bank

The meeting of the College of Supervisors of Standard Chartered Bank was held in London, United Kingdom, from July 19-20, 2018. The meeting afforded participants the opportunity to understand the Group's governance structure, enterprise-wide risk management and liquidity culture. Participants also benefitted from other supervisors' perspectives on cyber risk.

Other Regional Cooperation Arrangements

i. Community of African Bank Supervisors Working Group on Crisis Management and Banking Resolution

The Community of African Bank Supervisors Working Group on Crisis Management and Bank Resolution (WG-CMBR) analysed the questionnaires on banking resolution regimes administered to the members of the Association of African Central Banks. The responses indicated that members had resolution authorities with clear mandates but limited scope. The questionnaires also revealed the absence of some key attributes for effective resolution regimes such as resolution funds, crisis management groups and resolvability assessments. Inadequacies were also noted in set-off and contractual netting procedures, frameworks for the implementation of recovery and resolution planning as well as information sharing and information management systems. The report of the Working Group, which was chaired by the CBN, was submitted to the Committee of Banking Supervisors and formed the major basis for defining the Group's advocacy work in the areas of early intervention, resolution planning and financial safety nets in Sub-Saharan Africa.

ii. Committee of Banking Supervisors of West and Central Africa

The CBN hosted a seminar on Risk-based Supervision (RBS) and Basel II/III Implementation for the Committee of Banking Supervisors of West & Central Africa (CBSWCA) in Abuja from May 7-18, 2018. The seminar was part of the experience sharing programme that was designed to build the capacity of participants in critical areas where member countries have agreed to harmonise standards.

iii. Other Collaborative Efforts

The CBN hosted the officials of the Bank of Uganda on a study tour with focus on Anti-Money Laundering and Combating the Financing of Terrorism from May 21-June 8, 2018.

Furthermore, the CBN, as part of experience sharing and capacity building in the sub-region, provided technical assistance to the Central Bank of The Gambia on the implementation of Basel II/III through an IMF-sponsored programme between

November 5 and 9, 2018 in Banjul. Also, technical assistance was provided to the Bank of Sierra Leone on the implementation of RBS methodology from September 19-23, 2018 in Freetown.

The CBN will continue to monitor the operations of the cross-border entities of Nigerian banks to minimise the pass-through of risk to the domestic financial system. Collaboration with regulators in the sub-region to build capacity and strengthen the supervision of offshore entities would also be sustained.

1.03 DERIVATIVES MARKET

Transactions in the derivative market maintained a positive trajectory during the year, evidenced by growth in notional value of ₦21.3 trillion in 2018 from ₦17.0 trillion in 2017, indicating an increase of 25.0 per cent. The transactions were dominated by FX Swaps, which constituted 46.5 per cent, followed by FX Forwards with 32.0 per cent and FX Futures with 21.4 per cent. In terms of counterparties, transactions with clients accounted for 57.7 per cent; the CBN, 34.0 per cent; and inter-bank, 8.3 per cent.

The growth in 2018 resulted from increases in FX Swaps to ₦9.9 trillion from ₦7.8 trillion; FX Forwards to ₦6.8 trillion from ₦5.7 trillion; and FX Futures to ₦4.6 trillion from ₦3.5 trillion. However, there was a drop in transaction volumes of FX options, which declined to ₦2.7 billion from ₦4.0 billion and Cross Currency Interest Rate Swap (CCIRS), which decreased to ₦3.4 billion from ₦59.9 billion.
The market turnover is presented in the table below:

Table 3: Derivative Market Turnover by Product Type

S/N	Products	Bank to Bank	Bank to CBN	Bank to Client	Total	
		₦'Billions				Per cent
1	FX Swaps	1,604.3	1,124.4	7166.8	9,895.4	46.5
2	FX Futures	7.8	2,683.0	1,870.7	4,561.5	21.4
3	FX Forwards	148.5	3,430.0	3,238.5	6,816.9	32.0
4	FX Options	0.0	0.0	2.7	2.7	0.0
5	CCIRS	3.4	0.00	0.0	3.4	0.1
	Total	**1,763.9**	**7,237.3**	**12,278.7**	**21,279.8**	
	Per cent	**8.3**	**34.0**	**57.7**	**100**	

The average monthly derivative transactions for 2018 was ₦1.8 trillion with values ranging from ₦1.1 trillion in January to ₦2.8 trillion in December 2018. In terms of distribution, the monthly figures for six months (January, February, May, July, September and October) were below the monthly average while those of six months (March, April, June, August, November and December) were above.

The monthly transaction trend is presented below:

Table 4: Monthly Transaction Trend

Month	CCIRS	FX Forward	FX Future	FX Options	FX Swaps	Total
	₦'Billions					
January	0	342.1	88.6	0	632.8	**1,063.5**
February	1.8	745.0	168.3	0	575.1	**1,490.1**
March	1.7	757.0	268.7	0	924.8	**1,952.2**
April	0	422.8	437.8	0	939.6	**1,800.3**
May	0	449.7	296.9	0	866.4	**1,613.0**
June	0	514.5	1,160.	0	716.8	**2,391.9**
July	0	469.1	286.7	0	684.3	**1,440.1**
August	0	710.6	275.0	0	826.7	**1,812.4**
September	0	443.0	422.5	0	671.1	**1,536.5**
October	0	522.3	212.7	2.7	570.8	**1,308.4**
November	0	816.0	373.2	0	872.2	**2,061.3**
December	0	625.0	570.4	0	1,615.1	**2,810.3**
	3.5	**6,817.1**	**4,561.4**	**2.7**	**9,895.7**	**21,280.0**

The derivative market witnessed appreciable growth during the year, maintaining the positive trend observed since the commencement of the collection of derivative market data in 2016. This trend is expected to be sustained in the near to medium term with increased awareness and participation in the market and diverse product offerings.

1.04 DEVELOPMENTS IN OTHER FINANCIAL INSTITUTIONS

The following developments were recorded in the Other Financial Institutions (OFIs) sub-sector during the review period:

Microfinance Banks

The number of licensed microfinance banks (MFBs) was 885 at end-December 2018, comprising 8 National, 135 State, and 742 Unit MFBs. This represented a reduction of 123 compared with 1,008 at end-December 2017, following the revocation of some licences and issuance of new ones.

The CBN, in collaboration with the National Association of Microfinance Banks, commenced the deployment of the National Association of Microfinance Banks Unified Information Technology (NAMBUIT) banking software in 11 MFBs selected for the pilot phase. The NAMBUIT was developed to enable MFBs connect directly to the Nigeria Inter-Bank Settlement System (NIBSS) in order to deepen the payments system.

The implementation of the housing microfinance component of the Nigeria Housing Finance Programme commenced during the period. To provide adequate guidance on how to achieve the goals of the programme, a workshop on Environmental & Social Management System was organised for participating MFBs. Subsequently, the seven MFBs selected for the pilot phase disbursed funds to the beneficiaries.

In furtherance of efforts to improve access to finance, the CBN issued a framework for the establishment of a special investment fund for MFBs for on-lending to economically active entrepreneurs at single digit interest rate.

In order to address the weak capital base of MFBs, the CBN reviewed the minimum capital requirement as follows: Unit MFB (₦200 million from ₦20 million); State MFB (₦1billion from ₦100 million); and National MFB (₦5 billion from ₦2 billion). The MFBs were given until April 2020 to comply.

In continuation of the Microfinance Certification Programme (MCP), the Chartered Institute of Bankers of Nigeria (CIBN) administered two examinations in April and October 2018. Consequently, 1,222 operators were certified, which increased the number of certified operators to 5,790 at end-December 2018 from 4,568 at end-December 2017.

The 20th and 21st meetings of the Committee of Microfinance Banks in Nigeria were held during the period. Deliberations at the meetings centred on rendition of monthly returns; submission of audited accounts; implementation of IFRS 9; new capital requirements; sensitisation on the BVN scheme; use of credit bureaux for status enquiry on loan customers; National Collateral Registry; AML/CFT measures; and uniform application platform for MFBs.

Primary Mortgage Banks

The number of primary mortgage banks (PMBs) in operation at end-December 2018 increased to 35 (12 National PMBs and 23 State PMBs) compared with 34 (11 National PMBs and 23 State PMBs) at end-December 2017, following the failed merger of two PMBs.

The Mortgage Bankers' Committee held its 18th and 19th meetings during the period. Deliberations at the meetings focused on the challenges facing the sub-sector given the housing gap and low-level contribution of mortgage to the gross domestic product.

A 2-day workshop with the theme: "The Nigeria Housing Finance Program so far – Achievements and Challenges", was organised for managing directors/chief executive officers of PMBs. The workshop was organised by the CBN to keep stakeholders abreast of developments relating to the Nigeria Housing Finance Programme. An industry mortgage underwriting standards for the informal sector, which was developed by the Mortgage Bankers Association of Nigeria, the Nigeria Mortgage Refinance Company (NMRC) and the CBN/NHFP, was launched during the workshop.

Development Finance Institutions

The number of development finance institutions (DFIs) reduced to seven at end-December 2018 from eight at end-December 2017, following the delisting of NERFUND (in liquidation).

The CBN granted approval to the NMRC to serve as the host institution for the Nigeria Mortgage Guarantee Company (NMGC). It also approved the company's investment in NMGC's equity subject to a limit of ₦1.5 billion.

The NMRC issued a 15-year ₦11 billion Series 2 bond with a coupon rate of 13.8 per cent as part of its ₦440 billion medium term note programme. The issuance of the bond was part of the conditions precedent to drawdown of the third tranche of the $250 million loan granted to it under the NHFP. Having fulfilled this condition, the NMRC accessed the third tranche of $48.1 million, bringing the total amount received to $168.1 million at end-December 2018.

The NHFP organised a workshop for speakers of state houses of assembly, judicial officials, mortgage sector associations and government agencies from July 9-10, 2018. The purpose of the workshop was to advocate for the adoption of the Model Mortgage & Foreclosure Law (MMFL) by all states of the Federation. Two states, Lagos and Kaduna, have passed laws in line with MMFL provisions, while some states were at various stages of adoption.

Finance Companies

The number of finance companies (FCs) reduced to 69 at end-December 2018 from 81 at end-December 2017, following the revocation of some licenses and issuance of new ones.

The bi-annual consultative meeting of the CBN with the managing directors of FCs was held to discuss the challenges facing the sub-sector, including poor corporate governance, skill gap, IFRS 9 implementation, rendition of returns and high cost of fund.

The reporting template for FCs, which was re-designed to enhance compliance and timely rendition of returns, became operational during the review period.

Bureaux De Change

The number of licensed Bureaux De Change (BDCs) increased to 4,492 at end-December 2018 from 3,740 at end-December 2017. This followed the grant of operational licences to 752 new BDCs during the period.

The CBN continued to strengthen the OFIs sub-sector in 2018 through initiatives and collaborations aimed at repositioning the sub-sector for efficient delivery of credible and reliable financial services in the economy.

1.05 IMPLEMENTATION OF THE NIGERIA HOUSING FINANCE PROGRAMME

The Nigeria Housing Finance Programme (NHFP), which commenced on March 5, 2014 was wound down on December 31, 2018. The project comprised four components, namely: establishment of a mortgage refinance company, establishment of a mortgage guarantee company, a pilot housing microfinance and technical assistance.

Nigeria Mortgage Refinance Company

In continuation of its objective of refinancing mortgages, having fulfilled the disbursement-linked indicator for financing the Naira equivalent of $120 million, the NMRC in September 2018, received the sum of $48.1 million being the 3rd tranche of the $250 million World Bank/IDA subordinated loan. This tranche brought the total amount received by the NMRC to $168.1 million out of the $250 million earmarked for the project. The 2015/2016 recession and depreciation of the Naira accounted for the NMRC's inability to access the entire $250 million World Bank/IDA facility. The depreciation of the Naira in particular, doubled the Naira amount required to refinance the mortgages as the disbursement-linked indicator was dollar based. At end-December 2018, NMRC had refinanced a total of ₦18 billion mortgages.

Mortgage Guarantee Company

A number of activities was carried out during the year to facilitate the establishment of the Mortgage Guarantee Company (MGC). These included the completion of the feasibility study for the company, shareholders agreement, draft memorandum and articles of association; a road-show to raise the required capital of ₦6 billion; and the recruitment of senior management team. Following the completion of all preliminary and preparatory tasks, efforts are underway to raise the required capital.

Housing Microfinance

Of the $7.5 million drawn down from the World Bank in October 2017, a total of $1.8 million (₦555.1 million) had been disbursed by the seven participating MFBs under the pilot phase of the programme. The housing microfinance consultants conducted an assessment of the conformity and performance of the loans, following which the Project Administration Team intervened to compel remedial actions in one of the banks.

Technical Assistance

The Technical Assistance component of the programme was limited to payments to consultants and defraying the project's operational expenses, during the period.

Other Developments

To ensure proper regulation and supervision, mortgage refinance and mortgage guarantee businesses were designated banking business by the CBN.

The implementation of the NHFP has contributed in changing the housing finance landscape in Nigeria through making long term sustainable refinance available in the mortgage market and introducing housing microfinance products. It is also expected that when the mortgage guarantee company becomes operational, the programme would further enhance access to housing in Nigeria.

1.06 ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM

As part of efforts to ensure compliance with the Anti-money Laundering /Combating the Financing of Terrorism (AML/CFT) regulations by banks, the CBN carried out the following activities during the review period:

AML/CFT Risk Assessment Tool

In collaboration with the IMF, the CBN developed the AML/CFT Risk Assessment Tool to strengthen its supervisory regime. The tool consists of a risk assessment matrix and questionnaire for assessing banks' exposure to money laundering and financing of terrorism (ML/FT) risks in selected business activities and the adequacy of their risk mitigation strategies. The tool was implemented as part of the risk-based supervision process with the following supervisory templates deployed to enhance the process:

a. Risk Assessment Summary for documenting the ML/FT risk profile of banks, consistent with the framework used for prudential supervision;

b. Off-site Risk Assessment Matrix for assessing the degree of exposure to ML/FT risks in selected business activities; and

c. Matrix for assessing the adequacy of ML/FT risk mitigation systems.

Preparatory to the utilisation of the tool for the conduct of AML/CFT Risk-based Supervision, examiners were trained and thereafter a pilot AML/CFT RBS examination was conducted in six banks.

AML/CFT Return Rendition and Analysis Software

To achieve effective off-site surveillance of banks, the CBN developed the AML/CFT Data Rendition, Analysis and Processing Software, which automated banks' AML/CFT processes for returns rendition, collation and analysis.

CBN AML/CFT Administrative Sanctions Regulations, 2018

In collaboration with stakeholders, the CBN developed the AML/CFT Administrative Sanctions Regulations, 2018 to operationalise the Financial Action Task Force (FATF) Recommendation 35, on effective, proportionate and dissuasive sanctions and the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) 2007 Mutual Evaluation recommendations. The regulation, which specifies sanctions for infractions related to AML/CFT by financial institutions under the purview of the CBN also addresses the personal liabilities of board members and top management staff.

Independent Verification of Customers' Identity Cards

To overcome the challenge associated with independent verification of the means of identification stipulated in the AML/CFT regulation, a project on establishing a single verification platform of the statutory means of identification issued by relevant authorities such as the Federal Road Safety Corps, the Nigeria Immigration Service, the Independent National Electoral Commission and the National Identity Management Commission, commenced during the period. The NIBSS would host the verification platform.

Inter-Governmental Action Group against Money Laundering in West Africa Plenary

Along with delegates from GIABA, FATF, IMF, World Bank, United Nations, UNODC, USA, France, regulators and financial intelligence units from all ECOWAS countries, the CBN participated in the GIABA plenary held in May and November, 2018 in Senegal and The Gambia, respectively. The plenary deliberated on contemporary and emerging AML/CFT issues. Country reports were presented and deliberated upon following which compliance ratings were agreed.

In view of the importance of effective AML/CFT regulation and supervision in promoting a safe and sound financial system, the CBN remains committed to ensuring that banks and other financial institutions are not used as conduits for ML/FT activities.

CHAPTER 2

FRAMEWORK FOR SUPERVISION

2.01 IMPLEMENTATION OF IFRS 9

As part of the measures to enhance transparency and improve disclosure in financial reporting in Nigeria, the International Financial Reporting Standard (IFRS) was adopted on January 1, 2012. This made it mandatory for the relevant reporting entities to apply all revisions to the standards as well as new accounting standards issued by the International Accounting Standards Board. Thus, when IFRS 9 (Financial Instruments), which replaced IAS 39 (Financial Instruments: Recognition and Measurement), came into effect on January 1, 2018, its adoption became imperative.

IFRS 9 stipulates a new approach for the classification of financial instruments, driven by cash flow characteristics and the business model in which the asset is held. It also introduces a more risk sensitive valuation of assets, the Expected Credit Loss (ECL) model, to replace the Incurred Loss Model (ILM) under IAS 39. The early recognition of credit losses and improved transparency of the impairment regime is expected to mitigate the pro-cyclical tendencies of the incurred loss approach under IAS 39.

The ECL model has a wider impairment scope, including off-balance sheet engagements and the impact of Forward-Looking Macroeconomic Information (FLI), resulting in significant increase in impairment charges, on the implementation of the standard on January 1, 2018. The difference in the application of the ECL model and the ILM on the first day of application of IFRS 9, the "day-one impact", if not properly managed could result in unintended consequences for banks' capital and financial system stability.

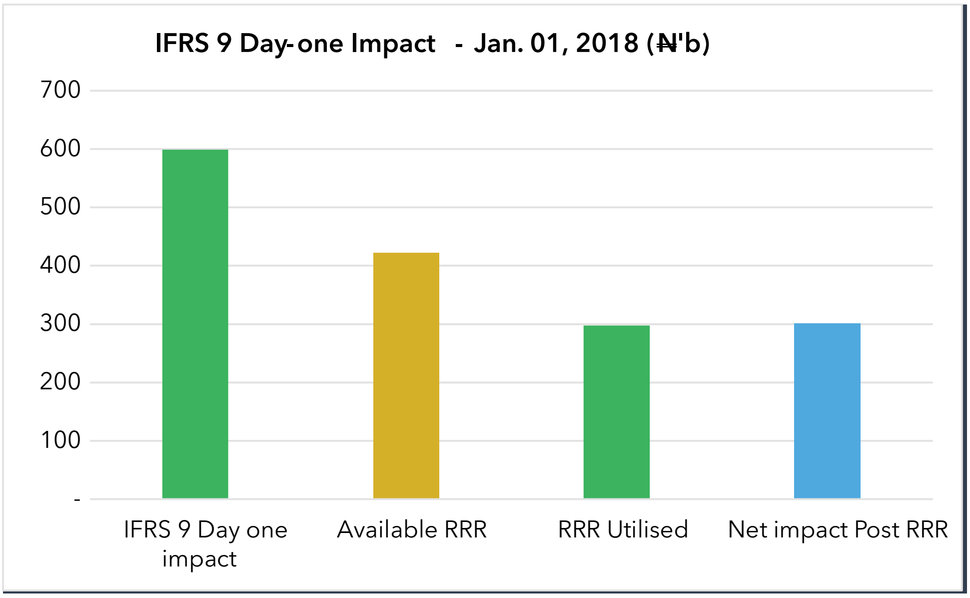
Preparatory to the implementation of the standard, the CBN issued a Guidance Note specifying its expectations on areas requiring significant exercise of judgment by banks, the use of simplification methods and practical expedients permitted by the standard as part of a comprehensive transition programme from IAS 39 to IFRS 9. Also, some regulatory return templates were re-designed to incorporate the new classification requirements of IFRS 9. The banks subsequently commenced the rendition of returns using the redesigned templates. The CBN monitored the progress of implementation through the analysis of the returns and engagement with the implementation teams of banks. The on-site examination manual was also reviewed to comply with the standard and examiners were trained on the validation of the IFRS 9 impairment model.

Transitional Arrangement

In line with global policy response to cushion the likely capital shock arising from the implementation of the ECL model, as specified by the Basel Committee on Banking Supervision (BCBS) in its Standard titled, "Regulatory Treatment of Accounting Provisions – Interim Approach and Transitional Arrangements" of March 2017, the CBN carried out an impact assessment of IFRS 9 on the banking industry after the adoption of the standard in January 2018. Based on the analysis and consultation with stakeholders, a Guidance Note titled, "Transitional Arrangements - Treatment of IFRS 9 Expected Credit Loss for Regulatory Purposes by Banks in Nigeria" was issued in October 2018.

The result of the impact analysis is summarised in the chart below:

Figure 2: IFRS 9 Day-one Industry Impact



The transitional arrangement required banks to amortise the "Adjusted Day-one Impact", that is, the excess of the ECL impairment over IAS 39 impairment, adjusted by the Regulatory Risk Reserve (RRR – a reserve to hold the difference between prudential provision and IFRS impairment) as at the transition date, over a four-year period. The adjusted day-one impact, will be amortized using the Static Approach on a straight-line basis over the four-year transition period by writing back the unexpired portion of the impact to Tier 1 capital for prudential purposes.

Details of the transitional arrangement, which commenced on January 1, 2018 and is due to terminate on December 31, 2021 are shown below:

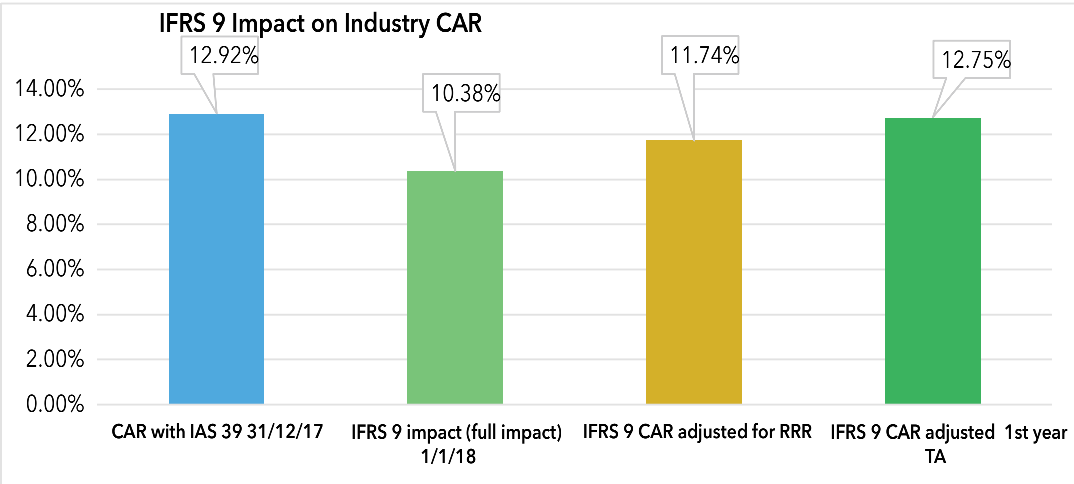
Year 0 (January 1, 2018)	4/5 of Adjusted Day-one Impact
Year 1 (December 31, 2018)	3/5 of Adjusted Day-one Impact
Year 2 (December 31, 2019)	2/5 of Adjusted Day-one Impact
Year 3 (December 31, 2020)	1/5 of Adjusted Day-one Impact
Year 4 (December 31, 2021)	Nil

The transitional arrangement did not apply where the RRR fully absorbed the day-one impact. The banks shall continue to account for the differences between the IFRS 9 impairments and prudential provisions in line with Section 12.4 of the CBN Prudential Guidelines for Banks and Discount Houses, 2010.

The arrangement led to the smooth transition from IAS 39 to IFRS 9, as it provided opportunity for the banking sector to spread the ₦301 billion industry IFRS 9 adjusted day-one impact over a period of four years, thereby avoiding the 2.4 per cent negative impact on industry capital adequacy ratio (CAR).

The impact of the transitional arrangement is depicted in figure 3 below:

Figure 3: IFRS 9 Impact on Industry Capital Adequacy Ratio



Given the dynamic nature of the banking industry, the CBN will continue to monitor developments with a view to instituting appropriate policy measures in line with the requirements of local laws and internationally accepted guidelines and conventions.

2.02 IMPLEMENTATION OF THE NIGERIAN SUSTAINABLE FINANCE PRINCIPLES

The Nigerian Sustainable Finance Principles (NSFP) was issued in May 2016 by the Financial Services Regulation Coordinating Committee (FSRCC), an umbrella body of the financial industry regulators and supervisors. The Principles focus on the role of the financial services industry in facilitating economic prosperity, while ensuring environmental sustainability and social development. This was in realisation of its potential to save costs, increase revenues, reduce risks, develop human capital and improve access to finance.

The Principles, which is expected to drive long-term sustainable growth, is set out under five categories as shown below:

Principle 1: Environmental, Social and Governance Considerations
Under this principle, member agencies are expected to embed Environmental, Social and Governance (ESG) considerations into their operations and decision making processes to avoid, minimize or offset negative impacts.

Principle 2: Collaborative Partnerships and Capacity Building
Member agencies are required to collaborate with stakeholders to raise awareness on ESG issues, build capacity, manage risks, develop innovative solutions and promote widespread action across the Nigerian financial system.

Principle 3: Financing of Priority Sectors of the Economy
Member agencies are to promote the financing of the priority sectors of the economy, while ensuring balance with ESG considerations.

Principle 4: Human Rights, Women Economic Empowerment, Job Creation and Financial Inclusion
Under this principle, member agencies are expected to respect human rights, promote women economic empowerment, support job creation and enhance financial inclusion.

Principle 5: Reporting and Disclosures
Member agencies are to regularly report on progress in the implementation of the principle and require entities they supervise and/or finance to make appropriate disclosures on their ESG activities.

A thirty-month implementation period, beginning May 2016, was agreed. The NSFP reinforced the Nigeria Sustainable Banking Principles (NSBP), which was issued by the CBN in 2012.

Consistent with the NSFP, the following milestones were achieved in the implementation of the principles:

a. Approval of the Environmental & Social Sustainability Policy and Operations manual by the CBN Board (Principle 1), which serves as a communication tool for the implementation of the CBN's sustainability agenda (Principle 5);

b. Creation of the Environmental Sustainability/Corporate Social Responsibility Division in the Governors' Department where the Environmental Sustainability Office is domiciled (Principle 1);

c. Appointment of a Special Adviser to the Governor on Sustainable Banking (Principle 1);

d. Continuous monitoring to ensure compliance with the Principles in the CBN(Principle 1);

e. Formulation of three sector guidelines – Agriculture, Power, and Oil & Gas (Principles 1 and 2);

f. Creation of awareness and sensitisation of relevant stakeholders on the E&S initiatives of the CBN (Principle 2);

g. Conduct of Green House Gas audit of the CBN Head Office to ascertain the carbon footprint of its operations (Principle 2);

h. Installation of solar panels as alternative sources of energy in selected branches; waste paper management - installation of multi-chamber recycle bins on each floor of the Head Office building; waste to wealth programme – recycling of paper waste into useful products; migration from usage of generator to public power supply, resulting in significant reduction in carbon emission and gasoline usage; use of energy-saving bulbs; and installation of metered and faucet taps for water conservation in the Head Office and some branches (Principle 2);

i. Engagement with other stakeholders for training of CBN staff; capacity building of staff through in-house, in-plant and external training (Principle 2);

j. Participation in the monthly meetings of the NSBP Steering Committee (a sub-committee of the Bankers' Committee) and Sustainability Champions of all DMBs for collaboration and capacity building (Principle 2);

k. Celebration of the annual CBN Sustainability Award aimed at incentivising and rewarding deserving banks (Principle 2). The award is structured into five categories, namely: Sustainable Bank of the year; Sustainable Bank of the year in Women Economic Empowerment; Sustainable Transaction of the year (Agricultural sector); Sustainable Transaction of the year (Oil & Gas sector); and Sustainable Transaction of the year (Power sector);

l. Environmental and Social assessment of the CBN's intervention projects to ensure compliance (Principle 3); and

m. Celebration of Sustainability Days (for example, the International Women's Day on March 8 and the World Environment Day on June 5, annually) (Principle 4).

Laudable progress has been made in the implementation of the NSFP and NSBP. The CBN is committed to ensuring that its operations and those of supervised entities are conducted in an environmentally and socially responsible manner.

2.03 GUIDELINES FOR LICENSING AND REGULATION OF PAYMENTS SERVICE BANKS IN NIGERIA

The CBN issued the "Guidelines for Licensing and Regulation of Payment Service Banks (PSBs) in Nigeria", on October 26, 2018. The essence was to leverage the use of technology to promote financial inclusion with a view to enhancing access to financial services by the rural poor, low income earners and the financially excluded.

The overarching objective was to enhance financial inclusion by increasing access to deposit products and payment/remittance services to small businesses, low-income households and other financially excluded entities through high-volume low-value transactions in a secured technology-driven environment.

Highlights of the Guidelines are detailed below:

Financial Service Touch-points
The Guidelines requires PSBs to operate mostly in the rural areas and unbanked locations with financially excluded persons as target. They are also to maintain at least 25 per cent of their financial service touch-points in rural areas or as may be stipulated by the CBN from time to time. Furthermore, PSBs may operate through banking agents in line with the CBN's Guidelines for the Regulation of Agent Banking and Agent Banking Relationships in Nigeria.

The Guidelines also permits PSBs to establish coordinating centres in clusters of outlets to superintend and control the activities of the financial service touch-points and banking agents.

Permissible and Non-permissible Activities
The Guidelines permits PSBs to accept deposits from individuals and small businesses, which shall be covered by deposit insurance scheme. They may also carry out payments and remittances (including inbound cross-border personal remittances) services. Other permissible activities include the operation of electronic wallet, rendition of financial advisory services, investment in FGN and CBN securities, issuance of debit and prepaid cards and such other activities as may be prescribed by the CBN from time to time.

PSBs are however, prohibited from granting any form of loans, advances and guarantees (directly or indirectly); accepting foreign currency deposits; dealing in foreign exchange except as prescribed in the Guidelines and accepting closed scheme electronic value (e.g. airtime) as a form of deposit or payment. They are also prohibited from engaging in insurance underwriting and undertaking any other transaction not permitted under the Guidelines.

Licensing and Financial Requirements

The Guidelines stipulates the licensing requirements for a PSB to include the formal presentation of a proposal covering business case, vision and strategy, governance arrangements, risk management, compliance and financial viability.

The financial requirements include non-refundable application fee of ₦500,000.00; minimum capital of ₦5 billion and a non-refundable licensing fee of ₦2 million.

The Guidelines requires the use of the words "Payment Service Bank" as part of the registered or licensed name of a PSB. Also, where a PSB is a subsidiary of another entity, the Guidelines prohibits the PSB from using any name that links it to its parent company.

Prudential Regulation

The Guidelines requires PSBs to maintain Statutory Reserves in line with Section 16 of BOFIA and empowers the CBN, as it deems appropriate, to require PSBs to maintain additional capital for specific risks. Also, for payment of dividends, the Guidelines prohibits a PSB from declaring or paying dividends on its shares until it has completely written off all its preliminary and pre-operational expenses; made adequate provisions for actual and contingent losses; met all matured obligations; and satisfied the minimum capital adequacy ratio requirement of 10 per cent or as may be prescribed by the CBN, among others.

PSBs are expected to maintain at least 75 per cent of their deposit liabilities in CBN securities, Treasury Bills and other short-term federal government debt instruments at any point in time.

Know Your Customer Requirements

PSBs are required to comply with relevant provisions of the Money Laundering (Prohibition) Act, 2011 (as amended); Terrorism Prevention Act, 2011 (as amended); CBN AML/CFT Regulations for Banks and Other Financial Institutions, 2013; other relevant laws; and regulations on KYC issued by the CBN. The Guidelines also requires PSBs to adopt risk based approach in the conduct of KYC, ensure that customers comply with KYC requirements and maintain robust, effective and efficient AML/CFT software solutions.

Corporate Governance Requirements

PSBs are expected to comply with the provisions of the CBN Code of Corporate Governance for Banks and Discount Houses in Nigeria and the Revised Assessment Criteria for Approved Persons' Regime for Financial Institutions.

The issuance of the Guidelines for Licensing and Regulation of PSBs is designed to promote financial inclusion and deepen access to financial services. The CBN will ensure the effective implementation of the Guidelines towards achieving these objectives.

2.04 RISK-BASED CYBER-SECURITY FRAMEWORK AND GUIDELINES FOR DEPOSIT MONEY BANKS AND PAYMENT SERVICE PROVIDERS

Following the increase in the number and sophistication of cyber-attacks targeted at financial institutions, it became imperative for banks and Payment Service Providers (PSPs) to strengthen their cyber defences. In this regard, the CBN in October 2018 issued the Risk-based Cyber-security Framework and Guidelines for Deposit Money Banks and Payment Service Providers, to enhance their cyber resilience. The Framework, which provides the minimum requirements that entities should put in place in their cyber-security programmes, is effective January 1, 2019.

Highlights of the Framework

The Framework, which provides a risk-based approach to managing cyber-security risk has five major sections as highlighted below:

a. Cyber-security Governance and Oversight: This captures the responsibilities of the board, senior management, risk management and other control functions as well as Information Security Steering Committee. It also stipulates that DMBs and PSPs shall appoint qualified individuals as chief information security officers, charged with the responsibility of overseeing and implementing their cyber-security programme.

b. Cyber-security Risk Management System: This covers expectations in the areas of cyber risks assessment, measurement, mitigation, monitoring and reporting.

c. Cyber-security Operational Resilience: This details the minimum controls DMBs/PSPs are required to put in place to support and provide business services even in the event of unprecedented cyber-attacks. It covers controls on access right management, secure system configuration, cyber-security awareness, data loss prevention, system life cycle management, vulnerability management, continuous security monitoring and enhanced incident response capabilities.

d. Metrics, Monitoring & Reporting: This covers reporting and monitoring of the DMBs/PSPs processes to ensure compliance, providing feedback on the effectiveness of controls and serving as basis for appropriate management decisions.

e. Compliance with Statutory and Regulatory Requirements: This requires board and senior management of DMBs/PSPs to ensure compliance with all relevant statutes and regulations including the Nigerian Cybercrimes (Prohibition, Prevention etc.) Act, 2015 and all CBN directives. The entities are also expected to avoid breaches of legal, statutory, and regulatory obligations related to cyber-security and of any other security requirements.

In addition, the Framework contains seven appendices, which provide clarity on such issues as critical systems and cyber-incidents; cyber-security self-assessment tools; know your environment; enhancing cyber-security resilience; informative references; cyber-threat intelligent sources and reporting templates.

Towards enhancing the cyber resilience of DMBs/PSPs, the CBN will ensure the effective implementation of the Risk-based Cyber-Security Framework and Guidelines for Deposit Money Banks and Payment Service Providers.

2.05 CODE OF CORPORATE GOVERNANCE FOR OTHER FINANCIAL INSTITUTIONS

To enhance corporate governance practices in the other financial institutions sub-sector, the CBN developed distinct governance codes for various classes of institutions in the sub-sector as follows:

a. Microfinance Banks;

b. Primary Mortgage Banks;

c. Finance Companies;

d. Development Finance Institutions;

e. Bureaux de Change; and

f. Mortgage Refinancing Companies.

The codes draw from the extant Code of Corporate Governance for Banks and Discount Houses in Nigeria and other extant best practice regulations.

The codes, which were issued on October 24, 2018, prescribe minimum governance requirements that are unique to the different classes of institutions and become effective April 1, 2019. The key provisions of the codes are discussed hereunder:

i. Board Size

The codes specify the minimum and maximum number of directors for each class of institutions. In fixing the board size, consideration was given to the number of mandatory board committees, the nature of business and the availability and associated costs of engaging directors.

ii. Independent Directorship

With the exception of BDCs, all the classes of institutions are mandated to appoint independent directors to their boards in line with CBN Guidelines on the Appointment of Independent Directors. Specifically, the codes require the boards of MFBs with unit and state authorisation, FCs and PMBs with state authorisation to have at least one independent non-executive director (INED), whereas mortgage refinance companies, DFIs, MFBs and PMBs with national authorisation are required to have at least two.

iii. Appointment and Tenure of MD/CEO and Non-Executive Directors

The board of the institutions shall consist of executive directors (EDs) and non-executive directors (NEDs), with the number of NEDs exceeding EDs. However, unit MFBs and BDCs shall have the MD/CEO as the only executive director.

With the exception of BDCs, the tenure of all the EDs shall be for a maximum period of 10 years, consisting of two terms not exceeding five years each. For BDCs, the tenure of the MD/CEO shall be five years, renewable subject to the approval of the CBN. For the NEDs, the tenure is fixed at four years per term, renewable twice.

iv. Annual Board Appraisal

The codes mandate the institutions to appoint independent consultants to carry out Board appraisal on an annual basis.

v. Board Committees

With the exception of the BDCs, the codes require the institutions to establish, at a minimum, Board Risk Management, Audit, Governance and Nominations and Credit committees. In small institutions, however, the functions of the Risk Management and Audit committees may be performed by a single committee.

vi. Enhanced Reporting

The codes require the institutions to submit returns on compliance with the whistle-blowing policy on a semi-annual basis to the Director, Other Financial Institutions Supervision Department, CBN, not later than seven days after the end of the relevant period. The rendition of false information to the CBN shall attract appropriate sanctions, including monetary penalties and suspension of the MD/CEO for six months in the first instance and possible removal thereafter.

vii. Separation of Powers

The codes prohibit two members of the same family from simultaneously holding the positions of Chairman and MD/CEO or ED in an institution. The codes also prohibit two members of the same family from simultaneously holding the positions of Chairman and MD/CEO of the institution's subsidiary/ies. Furthermore, the codes provide that the positions of the Chairman and MD/CEO shall be separate.

The implementation of the provisions of the codes will assist in entrenching sound corporate governance practices in other financial institutions and engender public confidence in the sub-sector.

2.06 REVISED CORPORATE GOVERNANCE SCORECARD

The Corporate Governance Scorecard was developed as a tool for assessing banks' compliance with the CBN Code of Corporate Governance for Banks and Discount Houses in Nigeria. A pilot assessment was conducted in 2017 using the scorecard. The result of the assessment revealed that the scorecard did not properly measure the performance but characteristics of the banks, as entities that were known to have governance challenges were inappropriately rated. Further analysis showed that the questions in the scorecard were skewed towards assessing the characteristics rather than the performance of the management control functions, thus underscoring the need for revision of the scorecard.

In 2018, the scorecard was revised to remedy the challenges encountered during the pilot run. The review provided an opportunity to strike a balance between characteristics and performance in the scoring of control functions and benchmark the scorecard against international good practices to enhance its effectiveness. The review also involved the introduction of new questions, removal/rephrasing of some existing ones and changes in the scoring system to enrich the assessment process.

The revised scorecard is divided into five sections, covering areas specified in the CBN Code and additional two sections for bonus and penalty questions.

Along with the revised scorecard, a detailed guidance note for assessors, aimed at minimising subjectivity in assessment, was developed. The guidance note provides instructions on scoring, the role of the assessor in the process and the criteria to be used in scoring each question. The guidance note is made up of the following sections:

Section 1: Scoring methodology
Section 2: Board & management/ethics & professionalism
Section 3: Treatment of shareholders
Section 4: Disclosure and transparency
Section 5: Rights of other stakeholders
Section 6: Risk management
Section 7: Bonus and penalty questions
Section 8: Appendix (Assessors documentation and interview checklist)

The revised scorecard will be utilised in the conduct of quarterly corporate governance assessments beginning in the first quarter of 2019.

CHAPTER 3

SUPERVISORY ACTIVITIES

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

The key activities in the off-site surveillance of banks, credit bureaux and financial holding companies (FHCs) in 2018 are as discussed hereunder:

Licensing

The total number of licensed banks remained 27 (21 commercial, five merchant and one non-interest) and three FHCs as no institution was licensed during the period. In terms of banking authorisation, there were 10 international, 15 national and two regional banks.

Regulation

Several guidelines and circulars were issued to enhance the regulation and supervision of financial institutions under the purview of the CBN. Some of these were:

a. Guidelines for Licensing and Regulation of Payment Service Banks in Nigeria, which prescribes the minimum requirements for the licensing and regulation of PSBs. The aim is to further deepen financial inclusion by enhancing access to financial services for the unbanked segments of the society.

b. Risk-based Cyber-security Framework and Guidelines for Deposit Money Banks and Payment Service Providers, which provides guidance on the minimum requirements to be put in place by banks and PSPs in their cyber-security programmes.

c. Transitional Arrangements: Treatment of IFRS 9 Expected Credit Loss for Regulatory Purposes by Banks in Nigeria, which provides guidance on the transitional arrangements to cushion the day-one impact of IFRS 9.

d. Code of Corporate Governance for Other Financial Institutions, which prescribes the minimum requirements for entrenching sound governance practices in MFBs, PMBs, FCs, DFIs, MRCs and BDCs.

e. Revised Nigeria Bankers' Clearing System Rules, which provides rules for efficient operation of the Automated Clearing System, speedy and efficient collection of cheques, automated clearing house instrument, bills and other payment instruments payable or deliverable to member banks of the Nigeria Bankers' Clearing System by a system or systems of clearing. The rules also provide mechanism and framework for the clearing and settlement of payment instruments among member banks.

f. Regulation for Bill Payments in Nigeria, which specifies the minimum standards to be complied with for processing bill payment transactions. The regulation covers bill payment on various payment channels and any payment platform that seeks to integrate the payment side of commercial activity and merchant aggregators in Nigeria. The payment methods include cheques, cards, direct debit, instant payments, automated clearing house, etc.

g. Revised Regulations for the Direct Debit Scheme in Nigeria, which prescribes standards guiding the provision and implementation of Direct Debit schemes and also stipulates procedures that are aimed at ensuring the efficacy of the scheme, while adequately protecting the interests of direct debit customers and operators.

Rendition of Statutory Returns

Banks and credit bureaux rendered returns in line with Section 25 of the Banks and Other Financial Institutions Act, Cap B3, LFN 2004. The returns formed part of the basis for assessing the financial condition of the banks and credit bureaux.

Grant of Regulatory Approvals

The appointments of 205 persons, comprising 35 board members and 170 top management staff, were approved during the period.

Approvals for the establishment and rationalisation of branches were also granted to banks. At end-December 2018, the number of branches increased to 5,462 from 5,450 at end-December 2017.

The audited financial statements of banks, credit bureaux and FHCs for the year ended December 31, 2017 were also approved for publication. The total assets, profit, expenses and shareholders' funds for the banks at end-December 2017 and 2016 as per their audited financial statements are as shown below:

Table 5: Audited Financial Data of Banks at End-December 2017 and 2016

S/N	Financial Data	Dec - 17 Total ₦'000	Dec - 16 Total ₦'000
1	Total Assets	32,096,762,634	29,323,579,130
2	Gross Earnings	4,077,078,499	3,452,778,386
3	Interest Income	3,022,383,730	2,470,019,085
4	Total Expenses	(2,781,447,708)	(2,331,882,246)
5	Profit Before Tax	686,179,719	578,786,369
6	Profit After Tax	576,980,943	471,129,814
7	Shareholders' Funds	4,435,412,364	4,125,298,398

Credit Risk Management System and Credit Bureaux Database

The number of reported credit facilities on the re-designed Credit Risk Management System increased by 84.8 per cent to 4,976,292 at end-December 2018 from 2,692,403 at end-December 2017. Also, the total number of facilities with outstanding balances in the database increased by 31.6 per cent to 1,866,468 at end-December 2018 from 1,418,081 at end-December 2017.

The number of credit records, subscribers and borrowers as well as the value of credit facilities in the database of the three credit bureaux at end-December 2018, are presented below:

Table 6: Credit Bureaux Data at End-December 2018

S/N	Description	CRC Credit Bureau	CR Services	First Central Credit Bureau
1	Number of credit records	23,775,163	46,607,328	20,846,145
2	Number of subscribers	1,186	489	1,020
3	Value of credit facilities	₦23.1 trillion	₦23.7 trillion	₦16.6 trillion
4	Number of borrowers	14,656,028		13,142,703

Monitoring and Enforcement

The monitoring of banks, credit bureaux and FHCs to ensure compliance with extant laws and regulations as well as the implementation of recommended remedial actions was sustained during the period.

Fraud and Forgeries

Incidences of fraud and forgeries in the banking industry trended upwards as the number of attempted fraud and forgery cases increased to 46,370 with a total Naira value of ₦37.8 billion at end-December 2018 from 32,578 with a total Naira value of ₦12.7 billion at end-December 2017. Actual losses increased to ₦14.4 billion at end-December 2018 from ₦2.5 billion at end-December 2017. Similarly, the US Dollar component of the amount involved and actual losses were $8.7 million and $1.2 million at end-December 2018 compared with $3.9 million and $0.5 million at end-December 2017.

Most of the fraud and forgery cases were perpetrated by outsiders although some involved the employees of banks. To address the rising trend of fraud and forgeries, banks were required to enhance their internal control measures and improve IT audit to routinely check employees' activities, among others.

The "Blackbook"

During the period, 742 persons were blacklisted for fraud and dishonesty while 170 persons were also blacklisted for miscellaneous offences so as to prevent their re-engagement in the banking industry. This increased the total number of blacklisted persons to 22,825 at end-December 2018, from 21,922 at end-December 2017.

The CBN will sustain its off-site surveillance of banks, credit bureaux and FHCs towards ensuring a resilient and sound financial system.

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

On-site supervision of institutions under the purview of the CBN in 2018 involved the following:

Maiden Examination

The maiden examination of a merchant bank, which commenced operations in February 2018, was conducted. The examination revealed that the bank was adequately capitalised and continued to implement its strategies towards gaining market share and was also in compliance with the conditions of its licence.

Routine Examination

Twenty-six DMBs, three FHCs, three credit bureaux and the Asset Management Corporation of Nigeria (AMCON) were examined during the year. The risk-based approach to supervision was applied in the examination of the DMBs and FHCs, while the credit bureaux and AMCON were examined using the compliance approach.

The examination revealed an improvement in asset quality over the previous year, indicating that developments in the economy, including exchange rate stability, improved crude oil prices and relative stability in the oil producing areas of the Niger Delta positively impacted the banking system. However, the implementation of IFRS 9 led to additional impairments (day-one impact) of ₦301 billion (after moderation by the regulatory risk reserve), which negatively affected the capital adequacy ratios of DMBs. The CBN, therefore, instituted a transitional arrangement that allowed banks to spread the adjusted day-one impact over four years (2018 to 2021), thus cushioning the effect of the standard on banks' capital. Other issues observed included weak board and senior management oversight and non-performing insider-related loans. Consequently, 23 DMBs maintained their previous Composite Risk Rating (CRR); two improved from 'Above Average' to 'Moderate'; while one deteriorated from 'Moderate' to 'Above Average'.

The three FHCs were examined using the "Risk-based Solo-plus" consolidated supervision model. The model involves the examination of an FHC and its subsidiaries at the same cut-off date using the RBS methodology and consolidating the reports of members of the group thereafter.

The result of the examination revealed that the CRR of one FHC improved from 'Above Average' to 'Moderate' while two maintained their previous ratings. Although improvements were generally observed in the area of ring-fencing the operations of the banks in the groups, it remained a source of regulatory concern.

The examination of the three credit bureaux revealed that they were compliant with the minimum capital requirement. It also revealed that the introduction of the common data template had helped to improve data quality as submissions that did not meet the minimum requirements were rejected by the system. Despite these achievements, poor risk management and corporate governance practices remained a challenge.

The examination of AMCON revealed a change in strategic direction from negotiation, settlement and restructuring of Eligible Bank Assets (EBAs) to EBA Evaluation and Enforcement, based on perceived superiority of enforcement over negotiation in the resolution of non-performing loans. The new focus is expected to enhance the Corporation's loan recovery efforts.

The book value of the Corporation's proprietary assets as at the examination cut-off date of September 30, 2018 was ₦186.9 billion compared with ₦209.9 billion as at September 30, 2017, representing a decline of ₦23.0 billion or 11.0 per cent. The decline was largely due to the disposal of a substantial quantity of banks' shares valued at ₦22.4 billion, in the first quarter of 2018 and the redemption of the International Finance Corporation Bond of ₦8.0 billion, which matured in February 2018.

Target Examination

i. Risk Assets Assessment Examination

The Risk Assets examination of 26 banks with a cut-off date of December 31, 2017, was conducted during the year. The examination focused on the banks' risk assets and the adequacy of their provisions in line with the Prudential Guidelines for Deposit Money Banks in Nigeria. The reasonableness of reported earnings, expenses and profits were also assessed. The examination revealed an improvement in the quality of risk assets and increases in earnings and capital.

ii. Anti-Money Laundering Target Examination

The AML/CFT examination of all banks was conducted during the period. The examination covered the head office branch and two selected branches of each bank. The examination indicated inadequacies in the AML/CFT practices of some banks in the areas of rendition of suspicious transaction reports; conduct of enhanced due diligence; identification and reporting of the transactions of politically exposed persons; monitoring of employee conduct; AML/CFT trainings for employees; rendition of foreign currency transaction reports; sanctions screening etc. Banks that contravened the AML/CFT laws and regulations were sanctioned and required to remedy the observed lapses.

iii. Cross Border AML/CFT Examination

In order to prevent subsidiaries of Nigerian banks from being used as conduits for money laundering, a number of Nigerian banks' foreign operations/subsidiaries were visited within the West and East African sub-regions to assess their compliance with the CBN AML/CFT Regulations, 2013 and AML/CFT laws and regulations of the host countries. Key observations from the examination included inadequate staffing; failure to conduct proper due diligence on PEPs; poor customer risk assessment; lack of AML/CFT training for the board and senior management; and non-automation of suspicious transaction monitoring and reporting systems.

iv. Foreign Exchange Examination and Target Examination

The routine foreign exchange examination of 26 authorised dealers (ADs), consisting of 22 DMBs and 4 merchant banks, and ad-hoc reviews/spot checks, were conducted during the year, to assess compliance with extant foreign exchange rules and regulations, review the utilisation of foreign exchange acquired for eligible transactions and ascertain the reasonableness of exchange rates applied.

Significant infractions observed from the routine examination, which covered the period April 1, 2017 to March 31, 2018 included:

a. Failure to repatriate export proceeds within 90 days of oil and 180 days of non-oil shipment by exporters;

b. Breach of the net open position and foreign currency trading position limits;

c. Non-submission of exchange control documents after 30 and 90 days of negotiation of shipping documents by oil and non-oil import customers, respectively;

d. Sale of more than the maximum of $20,000 per quarter to small scale importers;

e. Non-inclusion of NXP form reference numbers in SWIFT messages evidencing repatriation of export proceeds; and

f. Sale of personal travel allowance to customers more than once a quarter.

The spot checks were targeted at customers' complaints and other emerging issues/challenges in the foreign exchange market. Special investigations were also conducted into the activities of some banks in the I & E Window to determine eligibility of the transactions funded and reasonableness of exchange rates applied, among others. ADs that were found culpable were sanctioned accordingly to deter further breach.

Improvements in macroeconomic conditions in the review period resulted in improved asset quality, earnings and shareholders' funds. The CBN remains committed to enhancing its supervisory processes to ensure the safety and soundness of the financial system.

3.03 ON-SITE EXAMINATION OF CROSS-BORDER ENTITIES

The CBN conducts regular on-site examination of the foreign subsidiaries/branches of Nigerian banks to ensure that the risks in the entities are properly identified, measured and mitigated. The examination also involves the evaluation of the condition of the entities and their impact on the banking groups. This is to provide an independent verification of the adequacy of their policies, procedures and controls. The exercise also involves following-up on the implementation of the recommendations in the previous examination reports.

In this regard, five off-shore banking subsidiaries were examined in collaboration with their host supervisors in the WAMZ in 2018.

The focus of the examination was to:

a. Assess the adequacy of the entities' governance structures;

b. Review the adequacy of parent companies' oversight of the policies, procedures and processes of the entities;

c. Review the risk assets and assess the processes used in the determination of impairments;

d. Evaluate the adequacy of the entities and groups' capital;

e. Assess the adequacy of the management information system in facilitating effective monitoring, risk management and regulatory reporting; and

f. Provide support for efforts to harmonize supervisory practices in the WAMZ.

Five offshore banking subsidiaries located in The Gambia (3), Sierra Leone (1) and Ghana (1) were examined under the auspices of the WAMZ.

The three subsidiaries in The Gambia were jointly examined with the host supervisor, using the RBS methodology as part of efforts to facilitate the transition of The Gambia to the RBS approach and pave way for the common risk assessment of Nigerian banks in The Gambia. The CRRs of the three entities were 'High', 'Above Average' and 'Moderate'. The 'High' and 'Above Average' ratings were attributable to weak controls leading to deterioration in asset quality, weak earnings and inadequate capital. The 'Moderate' rating was as a result of the moderation of the Overall Net Risk by strong earnings and capital.

The examination of the subsidiary in Sierra Leone, which was conducted in collaboration with the Bank of Sierra Leone, was aimed at building the capacity of its examiners following a study tour in Nigeria and the facilitation of RBS training by the CBN Examiners. The examination revealed high credit concentration, dependency on few sources for deposits, weak internal controls and poor risk management practices leading to an 'Above Average' rating.

The examination of the entity in Ghana, which was also carried out in collaboration with the Bank of Ghana, revealed that the risk profile of the subsidiary remained 'Moderate'.
To address the identified weaknesses, the entities were required to implement the remedial actions recommended by the examiners.

The CBN sustained its effort at ensuring that cross-border entities of Nigerian banks are effectively supervised through collaboration with host regulators, capacity building and the use of a common risk assessment methodology across the West African sub-region.

3.04 SUPERVISION OF OTHER FINANCIAL INSTITUTIONS

At end-December 2018, there were 5,488 OFIs comprising 7 DFIs, 35 PMBs, 69 FCs, 885 MFBs and 4,492 BDCs; an increase of 617 compared with 4,871 (8 DFIs, 34 PMBs, 81 FCs, 1,008 MFBs and 3,740 BDCs), at end-December 2017.

The CBN conducted on-site examination of 908 OFIs in 2018. The highlights of the examination are as follows:

Microfinance Banks

A total of 714 MFBs were examined in 2018 out of which the RBS methodology was applied on 482 MFBs, while the compliance methodology was used for 232 MFBs that were identified as unsound or insolvent. In general, the examination revealed that some institutions were undercapitalised and had poor asset quality, attributable to lax credit administration and weak risk management practices.

The industry CAR of 2.0 per cent was below the prescribed minimum of 10 per cent, despite 548 MFBs meeting the minimum requirement. The industry portfolio-at-risk ratio (PAR) was 50.7 per cent, which was above the 5 per cent regulatory limit. Fifty-two MFBs (5.8 per cent) had PAR below 5 per cent. The industry liquidity ratio of 100.2 per cent was above the regulatory minimum of 20 per cent with six MFBs failing to meet the requirement. Of the 482 MFBs examined using RBS, the CRR of 287 was 'High'; 151, 'Above Average'; and 44, 'Moderate'.

Development Finance Institutions

All the seven DFIs were examined using the RBS methodology. The examination revealed significant deterioration in the quality of their risk assets, necessitating huge provisions for loan losses. Other issues of regulatory concern included weak capital base; shortage of long-term funds; high operating costs; poor corporate governance practices; weak internal controls; and weak risk management systems. The CRR of four DFIs was 'High'; one, 'Above Average'; one, 'Moderate'; and one, 'Low'. The average CAR was 35.5 per cent. Four of the institutions met the CAR requirement of 10 per cent, while three did not. The average NPL ratio was 29.1 per cent, with one of the DFIs operating below the regulatory limit of 5 per cent. The average liquidity ratio of the industry was 165.4 per cent, with that of five DFIs above the regulatory minimum of 30 per cent.

Primary Mortgage Banks

All the 35 PMBs were examined, with 28 examined using the RBS methodology and seven using the compliance approach. The examination revealed challenges in the areas of corporate governance, risk management practices and liquidity. Some also engaged in non-permissible activities.

The CRR of 19 PMBs was 'High'; four, 'Above Average'; and five, 'Moderate'. The average CAR of the sub-sector was 22.8 per cent. Four national and five state PMBs met the minimum regulatory capital requirement for their licence categories. Twenty-nine PMBs had CAR above the minimum requirement of 10 per cent. The average NPL ratio was 57.0 per cent, with nine PMBs having NPL ratios below the regulatory limit of 30 per cent. The average liquidity ratio was 94.9 per cent, with the liquidity ratio of 28 PMBs above the regulatory minimum of 20.0 per cent.

Finance Companies

A total of 52 FCs were examined at end-December 2018 out of which 48 were examined using the RBS methodology and four, the compliance approach. The examination revealed deteriorating risk asset quality, poor corporate governance and high operating costs, among others. Thirty four FCs had CRR of 'High'; ten, 'Above Average'; three, 'Moderate'; and one, 'Low'. Twenty four of the institutions met the minimum regulatory capital of ₦100 million while 29 had CAR above the minimum requirement of 12.5 per cent. The industry NPL ratio was 42.6 per cent, with 12 FCs recording NPL ratios below the regulatory limit of 10 per cent.

Bureaux De Change

A total of 100 BDCs were examined at end-December 2018 to assess their compliance with extant laws and regulations. The examination revealed lapses in the areas of maintenance of proper books of account, display of exchange rates and AML/CFT caution notices and rendition of returns to the Nigeria Financial Intelligence Unit. Appropriate monetary penalties were imposed on erring BDCs while some others were suspended from bidding for foreign exchange.

The OFIs sub-sector continued to grapple with various challenges including capital inadequacy, weak corporate governance and poor risk management practices. The CBN will continue to put in place necessary measures to promote the efficiency of the sub-sector.

3.05 ACTIVITIES OF THE BANKERS' COMMITTEE

The Bankers' Committee carried out various activities in 2018, key among which were:

Meetings

Six bi-monthly meetings were held to deliberate on issues affecting the industry, including:

a. The need to boost lending to preferred sectors of the economy, particularly the agricultural and manufacturing, to enhance their contribution to employment generation and economic growth;

b. The need to incentivise lending to the preferred sectors with the CBN agreeing to release funds from banks' Cash Reserve Requirement for this purpose. The CBN also agreed to provide foreign exchange for the importation of the required equipment on the condition that raw materials are sourced locally;

c. A proposal to use customers' BVNs as substitute for the verification of their addresses, with the Committee resolving that the BVN should not serve as a substitute for address verification;

d. Addressing the delay being experienced by airline operators in their efforts to source funds from the Investors & Exporters window;

e. Encouraging local production of the 42 items on the CBN restriction list for purchase of foreign exchange;

f. Establishment of a National Microfinance Bank to deepen financial inclusion through the provision of affordable finance to create jobs;

g. Support for the Federal Government's Trader Money (aka Trader Moni) initiative with ₦6 billion from the Agri-Business Small and Medium Enterprises Investment Scheme Fund set aside for the provision of microcredit to micro enterprises to deepen financial inclusion; and

h. A proposal for the establishment of Financial Ombudsman Services in Nigeria was considered by the Committee.

Retreat

The Committee held its annual retreat with the theme "Export-led Transformation of the Economy – Engine for Sustainable, Inclusive Growth" from December 8-9, 2018. The theme was informed by the need to urgently diversify the economy by focusing on the exportation of local produce. Papers presented during the plenary and break-out sessions included Trends in Global Economy and Implications for Nigeria; Diversifying the Nigerian Economy: Focus on Exports; Journey to Economic Transformation: Lessons Learned from Export-Led Economies; and Unlocking Climate Investment Opportunities for Banks.

Recommendations from the Retreat focused on the role of the Committee in increasing non-oil exports; de-risking the export process; providing off-grid power solutions for small and medium enterprises; and developing standards and regulations for exports.

Shared Agent Network Expansion Facility

The Committee, in collaboration with the CBN, established the Shared Agent Network Expansion Facility to provide financing for licensed super agents and mobile money operators for network expansion and deepening financial inclusion. The initiative, designed to roll out 500,000 agent networks to offer basic financial services to an estimated 60 million Nigerians that are currently un-banked, was launched on March 28, 2018.

Commemoration of the 5th Anniversary of the Nigerian Sustainable Banking Principles

The 5th anniversary of the launch of the Nigerian Sustainable Banking Principles (NSBP) was celebrated on October 4, 2018. At the event, stakeholders were encouraged to reflect on the lessons/experiences gained and explore how these could be translated into further commitment and action. Speaking at the occasion, Mr. Wayne Dunn, a sustainability expert, agreeing that the objective of businesses is to make profit; however, opined that the path to profit was shifting. He stated that sustainability, social responsibility and environmental stewardship were keys to the shift. Concluding, he noted that, though there were several milestones worth celebrating, a lot more needed to be done to align the NSBP with the sustainable development goals and other global imperatives.

The event ended with a symbolic signing of the statement of commitment by the CBN and the banks.

During the period, the Bankers' Committee through its various initiatives supported the CBN in deepening financial inclusion, delivering financial services and enhancing financial literacy. In the years ahead, the CBN will continue to count on the support of the Committee in these and other areas.

3.06 CONSUMER PROTECTION ACTIVITIES

The following activities were undertaken in 2018 in the effort to enhance consumer confidence in the financial system:

Complaint Management and Resolution

i. Complaints Received and Resolved

A total of 3,051 complaints were received from consumers against financial institutions. The complaints represented an increase of 29.9 per cent compared with the 2,349 received in 2017. Complaints against banks accounted for 99.4 per cent while 0.6 per cent were against OFIs. The categories of the complaints included ATM dispense error, excess charges, account management issues, card-related and international trade/guarantees, among others. Along with complaints brought forward from the prior period, a total of 6,219 were resolved or closed, representing an increase of 3,709 or 147.8 per cent compared with 2,510 in 2017.

ii. Refunds

Total refunds to customers during the period were ₦9.9 billion, $1.8 million, €26,319.4 and £2,890.0 compared with ₦13.8 billion, $2.6 million, €6,940.0 and £196.0 in 2017. This brought the cumulative refunds to customers at end-December 2018 to ₦68.5 billion, $20.1 million, €52,606.0 and £9,086.0.

iii. Mediation Meetings

A total of 23 mediation meetings involving banks and aggrieved consumers were held in the period compared with 32 in 2017.

iv. Regulatory Sanction

Pursuant to the provision of Section 64 of the Banks and Other Financial Institutions Act, Cap B3, LFN, 2004, 10 banks were sanctioned for breaches of extant laws and consumer protection regulations.

Compliance Examination

In April 2018, the consumer compliance examination of 21 banks, covering the period October 2017 to March 2018, was conducted. The examination focused on compliance with four aspects of the Guide to Charges by Banks and Other Financial Institutions in Nigeria, 2017, namely: outward telegraphic/SWIFT charges, SMS notification charges, current account maintenance fee and compliance with agreed interest rates. Other areas covered were compliance with directives arising from previous examination and resolution of outstanding complaints.

The compliance levels were adjudged to be 100.0 per cent for outward telegraphic/SWIFT charges; 52.4 per cent for SMS notification charges; 100.0 per cent for current account maintenance fees; 95.3 per cent for agreed interest rates; 90.0 percent for directives arising from previous examinations; and 22.6 per cent for the resolution of outstanding complaints.

Financial Literacy

In collaboration with stakeholders, the CBN continued its financial literacy activities as follows:

i. Distribution of Financial Education Materials

Consumer financial education materials developed to serve various segments of the Nigerian population were distributed to consumers through the branches of the CBN in Awka, Bauchi, Yola, Ibadan, Calabar and Port Harcourt. The materials were also distributed during the Financial Inclusion State Steering Committee awareness campaign in Uyo.

ii. Global Money Week

The Global Money Week with the theme "Money Matters Matter", was commemorated in March 2018 with a school mentoring programme in Kogi, Taraba, Ebonyi, Akwa Ibom, Jigawa, Osun and Abuja. A total of 10,030 students/school children participated.

In collaboration with the Bankers' Committee, the school mentoring programme covering 523 schools was extended to the 36 States and the Federal Capital Territory (FCT). A total of 62,478 students were sensitised and 4,867 new bank accounts were opened for the students.

iii. World Savings Day

The 2018 World Savings Day was celebrated on October 31, 2018. As part of the celebrations, 960 students drawn from 12 secondary schools in 12 States across the six geopolitical zones of the country were mentored. Also, the Bankers' Committee enlightened 57,084 students in secondary schools nationwide on savings.

iv. Implementation of the Financial Education Curriculum in Basic and Senior Secondary Schools

In collaboration with the Nigeria Educational Research and Development Council, a training programme for selected school teachers, preparatory to the implementation of the pilot phase of the Financial Education Curriculum and Teacher's Guide, was conducted between June and July, 2018.

v. Financial Education Programme for Micro, Small, and Medium Enterprises and Farmers

In February, 2018, a train-the-trainer programme for micro, small, and medium enterprises (MSMEs) and farmers in Delta, Ebonyi, Niger and Osun States was conducted. Similar training was conducted for members of staff of the Federal Ministry of Women Affairs & Social Development in the FCT and the International Institute of Islamic Banking and Finance, Bayero University, Kano.

vi. National Peer Group Educator Programme

In furtherance of efforts to drive financial literacy to the grassroots by leveraging on the National Youth Service Corps (NYSC) programme, the CBN, with support from the German Society for International Cooperation (GIZ), the Federal Ministry of Youth and Sports Development and the NYSC, reviewed the content and strategy of the National Peer Group Educator Programme.

vii. CBN Fair

The CBN Fair was organised in Katsina, Kaduna, Imo, Delta, Ondo, Sokoto, Oyo, Kebbi, Gombe and Bauchi States to sensitise consumers/participants on their rights and responsibilities in their dealings with financial institutions, the channels available to them for resolving issues and how to lodge complaints, among others.

The CBN will continue to take steps to engender consumer confidence in the financial system through the effective implementation of its redress mechanism, enhancement of market conduct by financial institutions and sustenance of its various financial literacy programmes.

3.07 PAYMENTS SYSTEM ACTIVITIES

A new department, the Payments System Management Department (PSMD), was created in 2018 with the responsibility for licensing, regulating, supervising and monitoring the operations of Payment Service Providers and financial technology companies in Nigeria. The following initiatives and policies were implemented by the department within the review period:

Framework and Guidelines

The Regulation on Instant (Inter-Bank) Electronic Funds Transfer Services in Nigeria and the Regulatory Framework for the Use of Unstructured Supplementary Service Data (USSD) for Financial Services in Nigeria were issued.

The Regulation on Instant (Inter-Bank) Electronic Funds Transfer Services in Nigeria specifies the requirements for Instant electronic funds transfer services on various payment channels and any payment platform that provides instant electronic funds transfer services in Nigeria. The regulation also covers the rights and responsibilities of stakeholders, types of transactions, settlement procedures and dispute resolution, among others.

The Regulatory Framework for the Use of Unstructured Supplementary Service Data (USSD) for Financial Services in Nigeria establishes the rules and risk mitigation strategies to be considered when implementing USSD for offering financial services. It also covers participants in the USSD ecosystem, eligibility for unique short code, vulnerability and mitigations, and dispute resolution, among others.

Nigeria Electronic Fraud Forum

The Nigeria Electronic Fraud Forum is charged with the responsibilities of:

a. Educating and informing banks and other stakeholders on electronic fraud issues and trends;

b. Proactively sharing fraud data/information amongst banks and service providers to enable prompt responses to prevent and/or limit fraud losses; and

c. Developing fraud and risk management strategies and defining key requirements in relation to e-payment security.

During the review period, the Forum unveiled its annual report titled, "Tightening the BELT of e-fraud Prevention: A 4-sided Approach". This was in addition to industry engagements that were aimed at tackling ineffective e-product designs and issues associated with account management.

Electronic Payment Channels

The volume and value of e-payment transactions through the various channels [comprising ATM, point of sale (PoS), mobile and internet] increased by 25 per cent to 1.3 million and by 15 per cent to ₦11.1 billion, respectively in 2018, compared to 1.0 million and ₦9.1 billion in 2017. A breakdown of e-payment transactions for 2018 indicated that ATM remained the most used channel, accounting for 68 per cent, followed by PoS terminals and mobile payments with 23 per cent and 5 per cent, respectively. The web (internet) was the least patronized, with 4 per cent. In terms of value, ATM accounted for 58 per cent; PoS, 22 per cent; mobile channels, 16 per cent; and web (internet), 4 per cent. Details are represented in the charts in figures 4 to 7 below:

Figure 4: Electronic Payment Channels by Volume in 2018

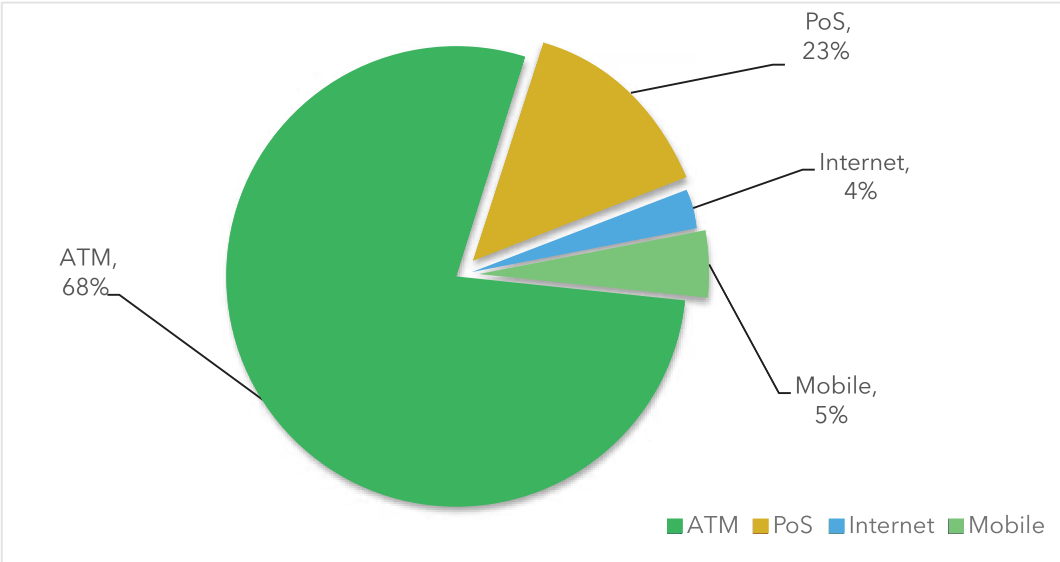


Figure 5: Electronic Payment Channels by Value in 2018

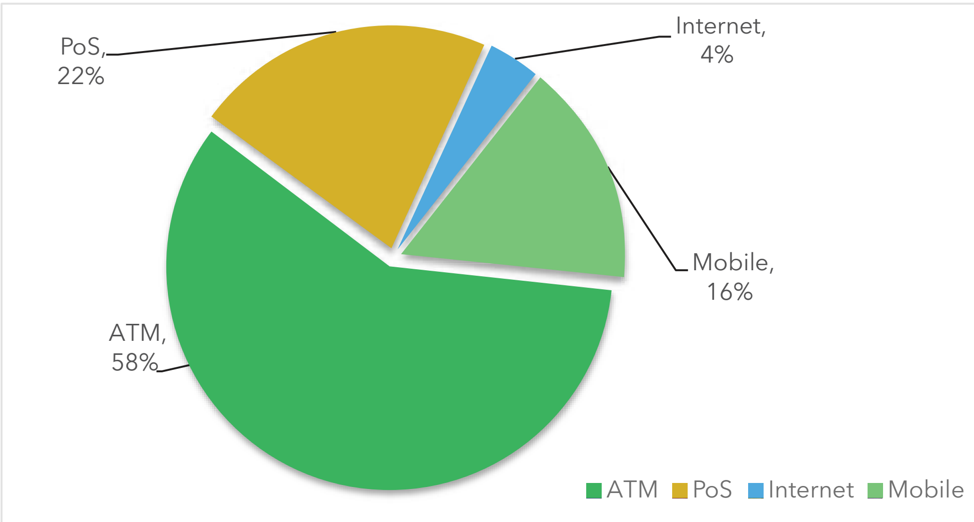


Figure 6: Volume of Electronic Payments (Million)

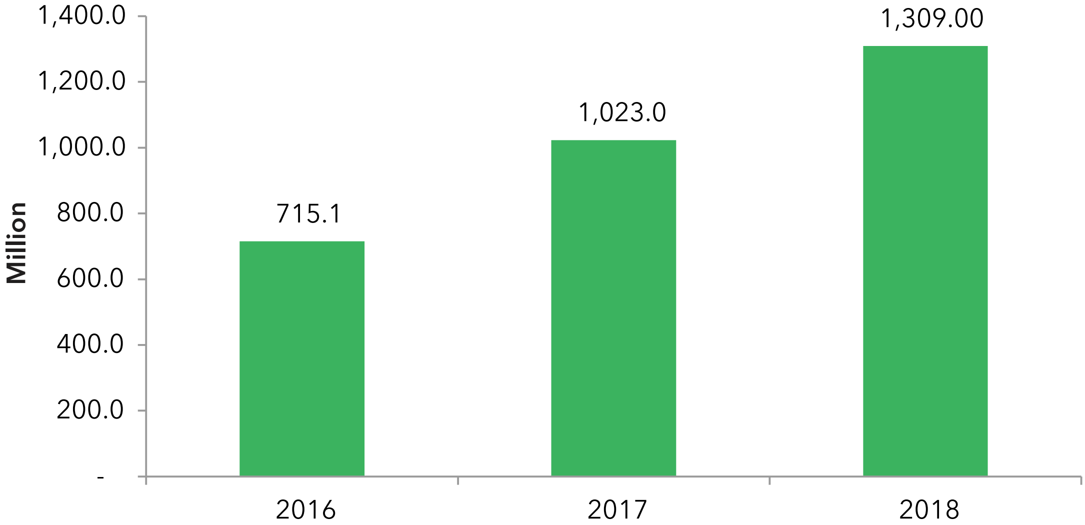
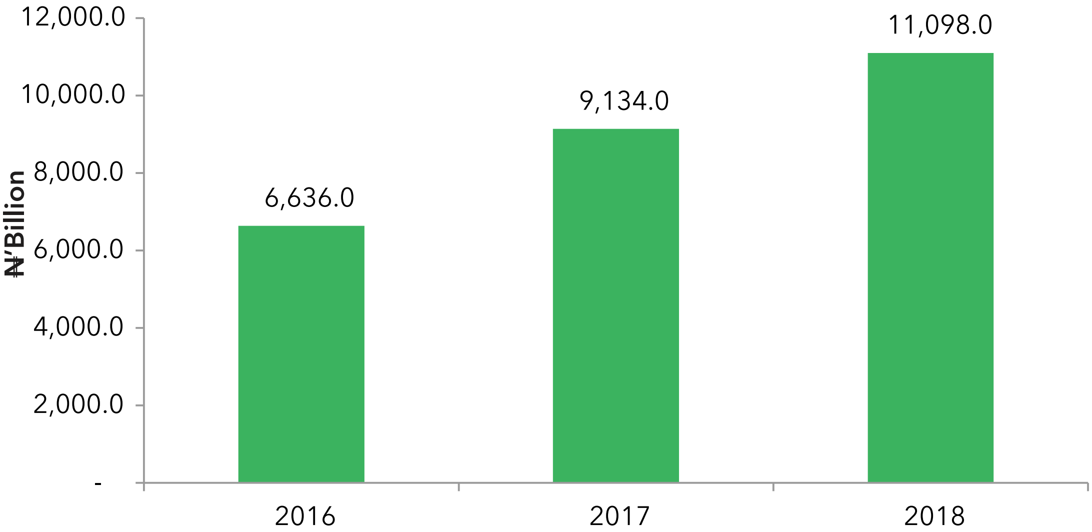


Figure 7: Value of Electronic Payments (₦'Billion)



E-Payment Transactions

The volume and value of electronic payments rose by 37.4 per cent and 27.1 per cent to 2,046.4 million and ₦133,042.2 billion in 2018 from 1,489.2 million and ₦104,673.8 billion in 2017 as shown in table 7.

Table 7: E-payment Transactions in 2018

Channels	Volume	Value (₦)	Volume (Per cent)	Value (Per cent)
NEFT	26,760,852.0	11,030,961,545,925.4	1.3	8.3
ATM	875,519,307.0	6,480,085,899,670.4	42.8	4.9
POS	295,890,167.0	2,383,108,901,148.1	14.5	1.8
INTERNET(WEB)	50,815,901.0	404,600,990,712.5	2.5	0.3
MMO	59,858,632.0	1,236,053,815,632.7	2.9	0.9
NIP	663,124,139.0	80,423,025,698,377.3	32.4	60.5
m-CASH	229,328.0	1,198,731,322.1	0.0	0.0
EBILLSPAY	1,053,342.0	500,214,507,607.6	0.1	0.4
REMITA	44,461,846.0	18,495,987,427,570.8	2.2	13.9
NAPS	27,384,756.0	12,078,905,639,559.8	1.3	9.1
CENTRAL PAY	1,260,380.0	8,101,555,613.4	0.1	0.0
TOTAL	**2,046,358,650.0**	**133,042,244,713,140.0**	**100.0**	**100.0**

Nigeria Inter-Bank Settlement System Instant Payment
The volume and value of NIBSS Instant Payment transactions increased by 79.0 per cent to 663.1 million and by 43.0 per cent to ₦80,423.0 billion in 2018 from 370.9 million and ₦56,165.7 billion in 2017 as shown in figures 8 and 9.

Figure 8: Volume of NIP Transactions (Million)

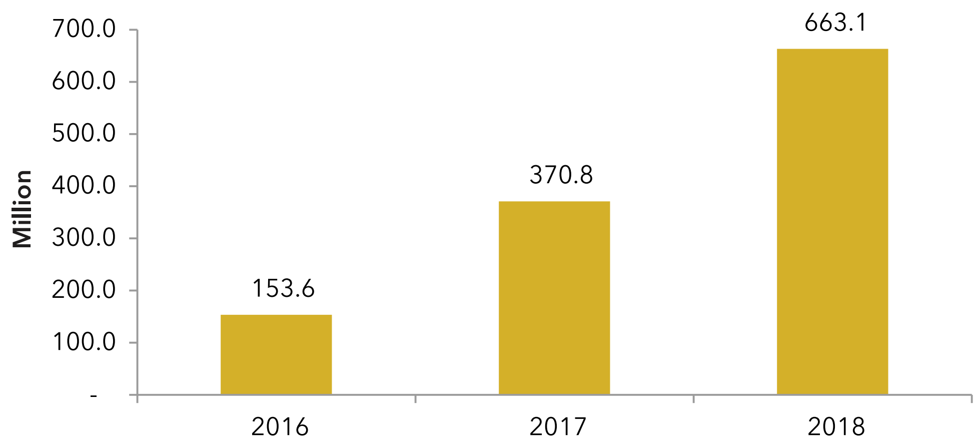
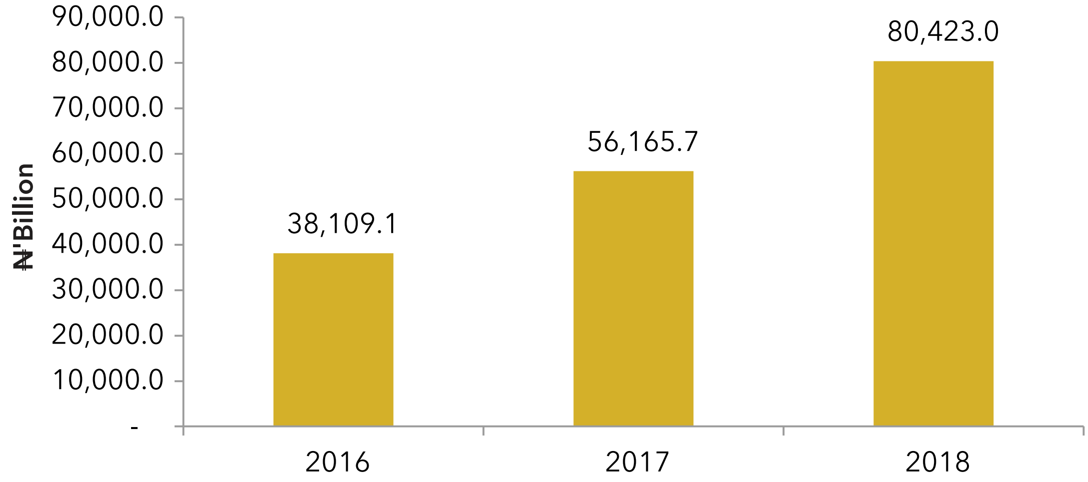


Figure 9: Value of NIP Transactions (₦'Billion)



Nigeria Inter-Bank Settlement System Electronic Funds Transfer

The volume and value of NIBSS Electronic Funds Transfer decreased by 14 per cent to 26.8 million and by 26.0 per cent to ₦11,031.0 billion in 2018, compared with 31.0 million and ₦14,946.5 billion in 2017 as shown in figures 10 and 11 below. This development was attributed to the preference of consumers for the instant payment platform over the deferred payment option used for retail purchase transactions.

Figure 10: Volume of NEFT Transactions (Million)

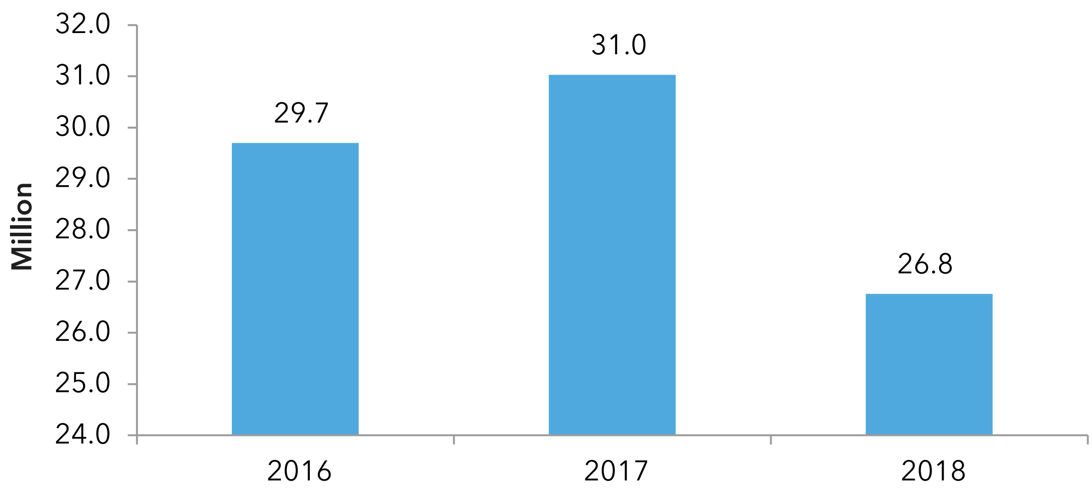
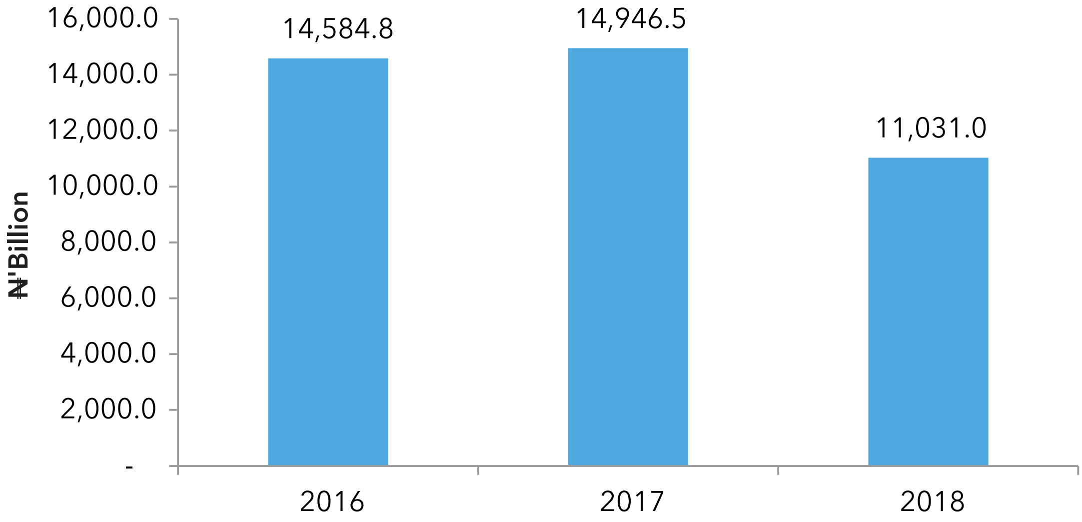


Figure 11: Value of NEFT Transactions (₦'Billion)



ATM Channels

The number of ATM terminals was 18,615 at end-December 2018, indicating an increase of 6.7 per cent over the 17,449 recorded at end-December 2017. In terms of volume and value, ATM transactions increased by 9 per cent and 1 per cent, respectively, to 876 million and ₦6,480.0 billion at end-December, 2018, from 801 million and ₦6,438.0 billion at end-December, 2017, as shown in figures 12 and 13 below:

Figure 12: Volume of ATM Transactions (Million)

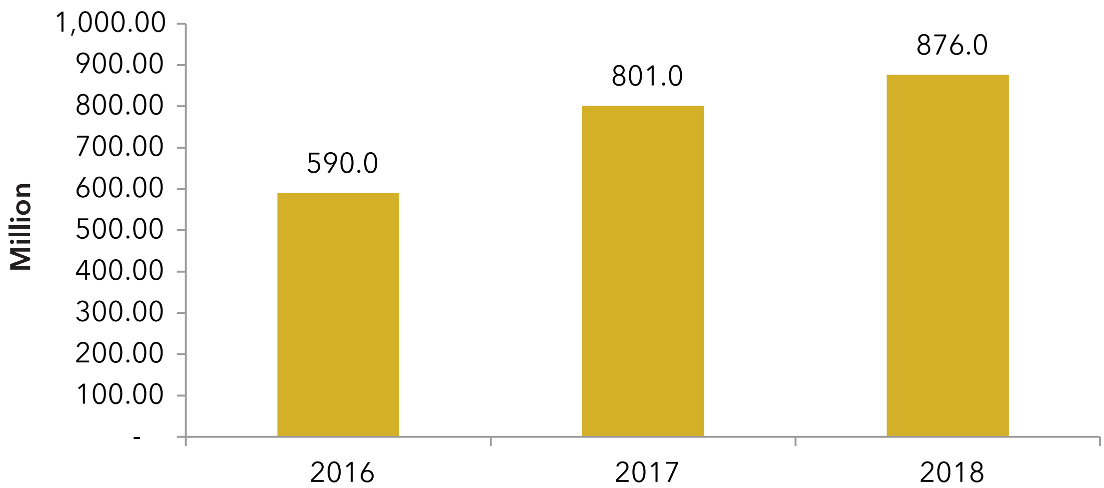
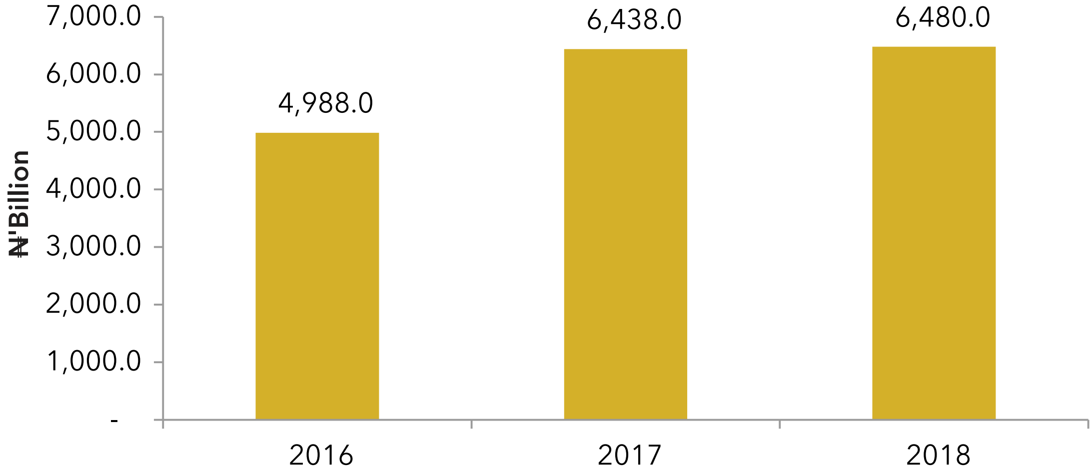


Figure 13: Value of ATM Transactions (₦'Billion)



Web Channels

Transactions on the web increased in volume and value by 75.2 per cent and 119.2 per cent to 50.8 million and ₦404.6 billion in 2018 from 29 million and ₦184.6 billion in 2017, respectively as shown in figures 14 and 15 below:

Figure 14: Volume of Web Transactions (Million)

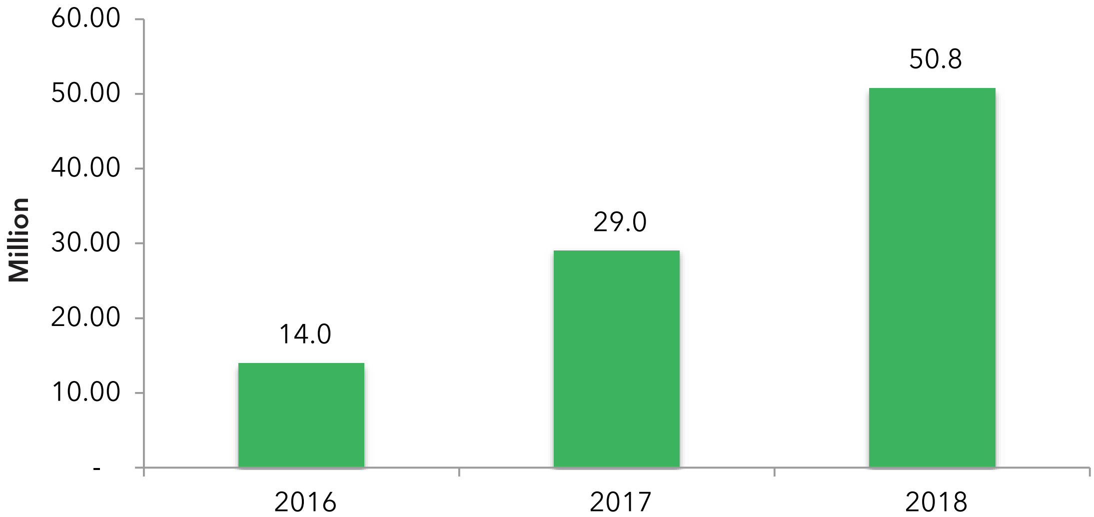
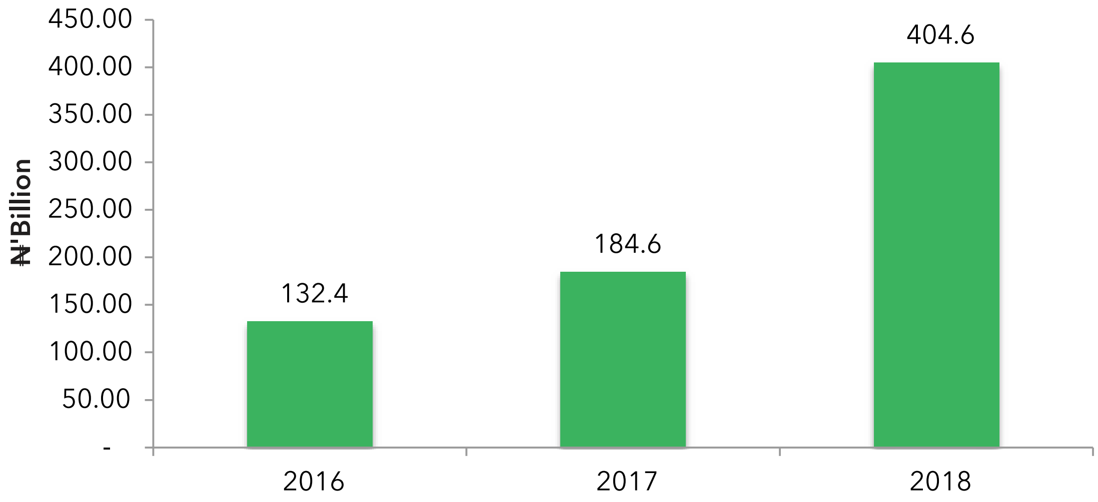


Figure 15: Value of Web Transactions (₦'Billion)



Point of Sale Channels

The volume and value of PoS transactions increased by 102.0 per cent and 69.0 per cent to 295.9 million and ₦2,383.1 billion in 2018 from 146.3 million and ₦1,409.8 billion in 2017, respectively, as shown in figures 16 and 17 below:

Figure 16: Volume of PoS Transactions (Million)

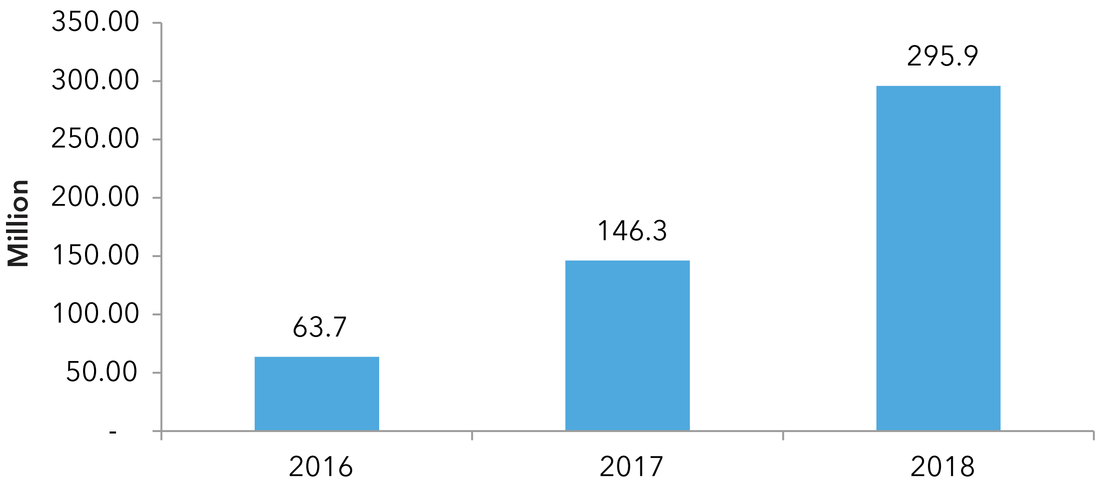
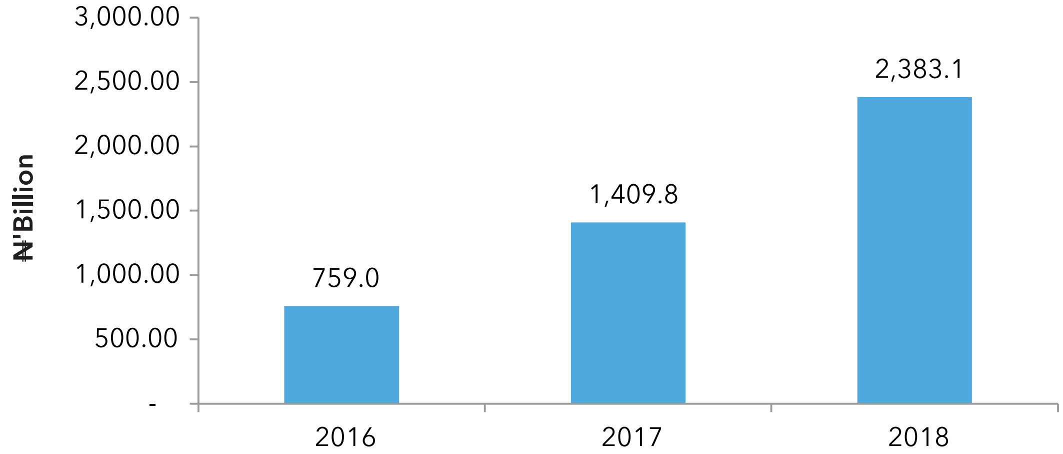


Figure 17: Value of PoS Transactions (₦'Billion)



Mobile Payments Channels

The volume and value of mobile payments increased by 82.2 per cent and 66.0 per cent to 87.1 million and ₦1,830.7 billion in 2018 from 47.8 million and ₦1,102.0 billion in 2017, respectively, as shown in figures 18 and 19 below:

Figure 18: Volume of Mobile Transactions (Million)

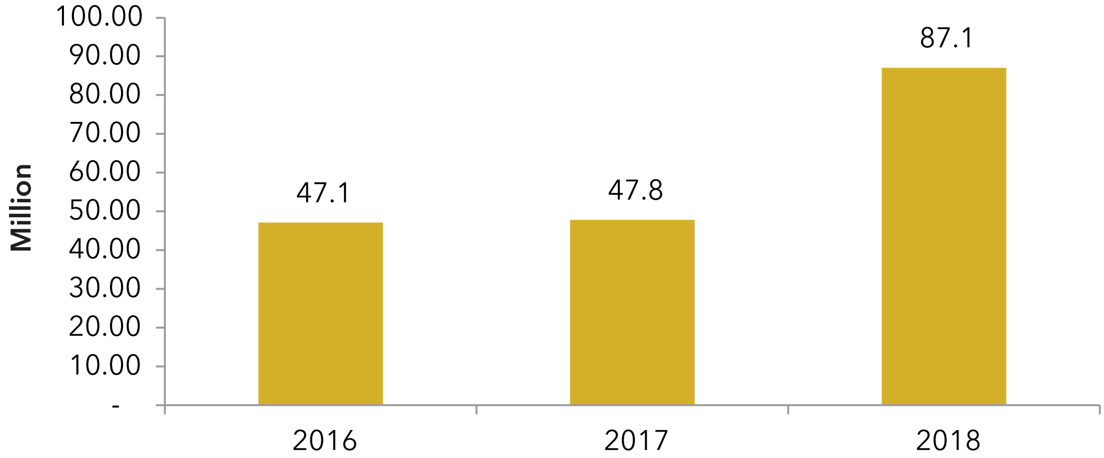
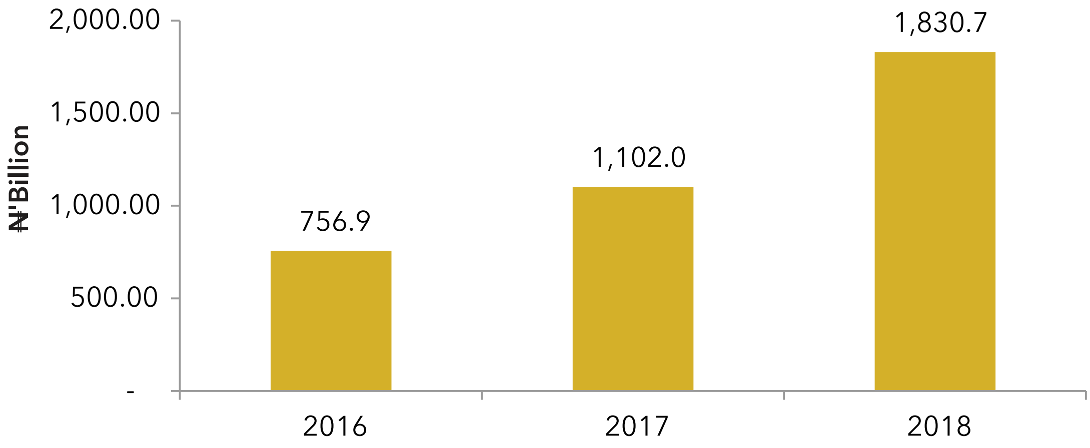


Figure 19: Value of Mobile Transactions (₦'Billion)



The improved performance in the different segments of the payments system was attributed to increased consumer awareness and confidence in e-payment channels.

Payments System Policy and Oversight

As part of its oversight on the payments system, the CBN engaged in the following activities, during the period under review:

i. Licensing and Approval of Payment Services/Products

Operating licences were issued/renewed for operators in various categories of the payments system as detailed in table 8 below:

Table 8: Number of Licences Issued and Renewed in 2018

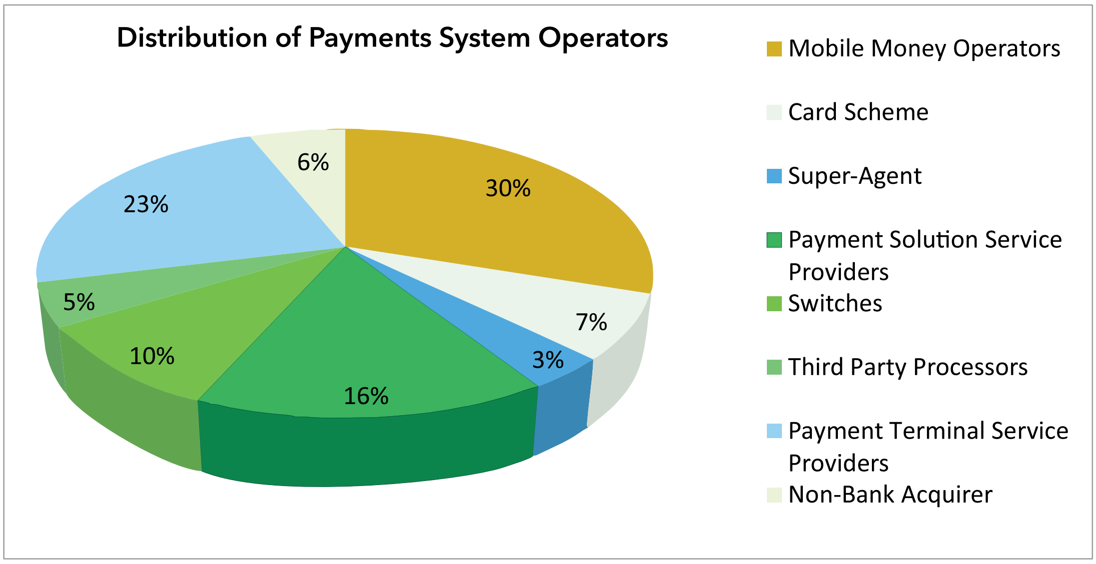
S/N	Payment Service Providers	New	Renewal
1	Payment Terminal Service Providers	1	0
2	Payment Solution Service Providers	2	1
3	Mobile Money Operators	2	2

Details of categories of licences of operators in the payments ecosystem at end-December 2018 are shown in table 9.

Table 9: Categories of Licences of Operators

S/N	Payment Service Providers	Number of Operators
1	Mobile Money Operators	25
2	Card Scheme	6
3	Super -agent	3
4	Payment Solution Service Providers	13
5	Switches	8
6	Third Party Processors	4
7	Payment Terminal Service Providers	19
8	Non -bank Acquirers	5

Figure 20: Percentage Distribution of Operators



Electronic Payments Incentive Scheme

Activities under the Electronic Payments Incentive Scheme continued during the period with the redesign of the Point-based Loyalty scheme. Consequently, several banks made cashback payments as rewards to customers who used their cards to carry out electronic transactions. Details of the banks whose customers redeemed accrued points under the scheme with the amounts are as follows:

Table 10: Point-based Loyalty Scheme

S/N	Banks	Value Redeemed (₦)
1	First Bank	33,647,658.0
2	Diamond Bank	30,684,736.0
3	UBA	24,929,020.0
4	Access Bank	22,900,020.0
5	Ecobank	12,618,632.0
6	Fidelity Bank	10,007,074.0
7	Skye Bank/Polaris Bank	10,493,820.0
8	Union Bank	5,724,416.0
9	FCMB	4,844,044.0
10	Standard Chartered	3,672,074.0
11	Keystone Bank	2,890,250.0
12	Unity Bank	2,829,026.0
13	Wema Bank	1,537,176.0
14	Heritage Bank	1,419,572.0
15	Jaiz Bank	613,944.0
16	Citi Bank	139,022.0
17	Providus Bank	46,198.0
18	SunTrust Bank	25,808.0
	Total value redeemed	**169,022,490.0**

Assessment of Payment Scheme Boards

The assessment of the payment scheme boards was carried out in August 2018 using the Basel Committee on Banking Supervision Principles for Financial Market Infrastructure. The assessment showed an improvement in the overall resilience of the payments system infrastructure.

In the years ahead, the CBN will sustain efforts at engendering the rapid adoption of e-payment channels to minimise cash-based transactions in the economy. The key to achieving this goal is ensuring that the payments system remains safe and secure.

CHAPTER 4

PERFORMANCE TREND IN THE BANKING SYSTEM

4.01 PERFORMANCE TREND OF BANKS

The total assets of the 27 DMBs increased by ₦2,583.7 billion (7.9 per cent) to ₦35,215.7 billion at end-December 2018 from ₦32,633.2 billion at end-December 2017. The major components of the assets of the DMBs were cash; balances with banks and CBN; loans and advances to banks and customers; financial assets; investments; other assets; and property, plant and equipment. Net loans and advances to customers constituted the largest item on the industry statement of financial position, followed by balances with banks and the CBN and Fair Valued through Other Comprehensive Income (FVOCI).

The year-on-year growth rate of the total assets between end-December 2014 and end-December 2018 ranged from 3.0 per cent to 13.1 per cent, with the lowest growth rate recorded in 2015 due largely to the transfer of government deposits to the CBN under the Treasury Single Account scheme. The increase of 7.9 per cent in the year under review was mainly due to increase in financial assets FVOCI.

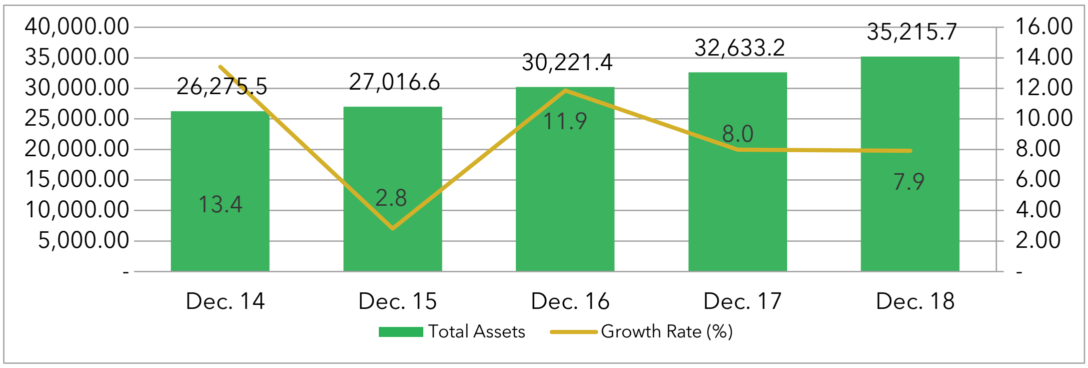
Deposits from customers constituted the largest liability item (62.0 per cent) of the industry and increased by ₦2,370.2 billion (12.2 percent) to ₦21,815.3 billion at end-December 2018, from ₦19,445.1 billion at end-December 2017.

The aggregate statement of financial position of DMBs at end-December 2018 and 2017 is shown in table 11 overleaf:

Table 11: Aggregate Statement of Financial Position of the DMBs

	2018		2017		Variance	Growth Rate
Assets	N'billion	%	N'billion	%	N'billion	%
Cash balances	790.5	2.2	554.5	1.7	236.0	42.6
Balances with banks and CBN	8,141.7	23.1	7,332.1	22.5	809.6	11.0
Loan and Advances to Banks	418.2	1.2	344.5	1.1	73.7	21.4
Loans and Advances to Customers	12,918.6	36.7	14,082.3	43.2	(1,163.7)	(8.3)
Financial Assets Held for Trading	1,718.3	4.9	1,679.3	5.1	39.1	2.3
Fair Value through Other Comprehensive Income	4,055.0	11.5	2,915.1	8.9	1,139.9	39.1
Amortised Cost	2,558.2	7.3	1,750.1	5.4	808.1	46.2
Assets Pledged as collateral	1,343.8	3.8	1,179.4	3.6	164.4	13.9
Investment in subsidiaries	436.0	1.2	378.5	1.2	57.5	15.2
Other Assets	1,807.4	5.1	1,461.9	4.5	345.5	23.6
Assets classified as Held for Sale	24.2	0.1	20.5	0.1	3.6	17.8
Property Plant & Equipment	1,003.7	2.9	935.0	2.9	68.7	7.4
Total Assets	**35,215.7**	**100.0**	**32,633.2**	**100.0**	**2,582.5**	**7.9**
Liabilities						
Deposit from banks	1,756.5	5.0	1,144.1	3.5	612.4	53.5
Deposit from customers	21,815.3	61.9	19,445.1	59.6	2,370.2	12.2
Financial liabilities held for trading	46.6	0.1	21.9	0.1	24.7	112.7
Borrowings	3,051.1	8.7	2,889.5	8.9	161.6	5.6
Debts instruments in issue	1,273.9	3.6	1,338.7	4.1	(64.8)	(4.8)
Other liabilities	4,101.6	11.6	4,332.2	13.3	(230.6)	(5.3)
Share Capital	301.6	0.9	281.6	0.9	20.1	7.1
Reserves	2,869.0	8.1	3,180.1	9.7	(311.1)	(9.8)
Total Liabilities	**35,215.7**	**100.0**	**32,633.2**	**100.0**	**2,582.5**	**7.9**
Contingent Liabilities	6,976.6		6,025.3		951.3	15.8

Figure 21: Year-on-Year Growth in Total Assets, 2014-2018



Deposit Liabilities and Liquidity
Analysis of customer deposits by type revealed that demand deposit was the major category, accounting for ₦6,752.2 billion (31.0 per cent) of total deposits at end-December 2018 compared with ₦6,492.1 billion (33.4 per cent) at end-December 2017. Domiciliary, term, and savings deposits accounted for 25.5 per cent, 21.9 per cent and 21.6 per cent, respectively, at end-December 2018 compared with 22.4 per cent, 23.7 per cent and 20.5 per cent at end-December 2017.

The industry liquidity ratio (specified liquid assets to specified short term liabilities) was 51.9 per cent at end-December 2018, compared with 45.4 per cent at end-December 2017. The liquidity ratio was higher than the regulatory minimum of 30 per cent.

Figure 22: Deposit Composition (per cent) in December 2018

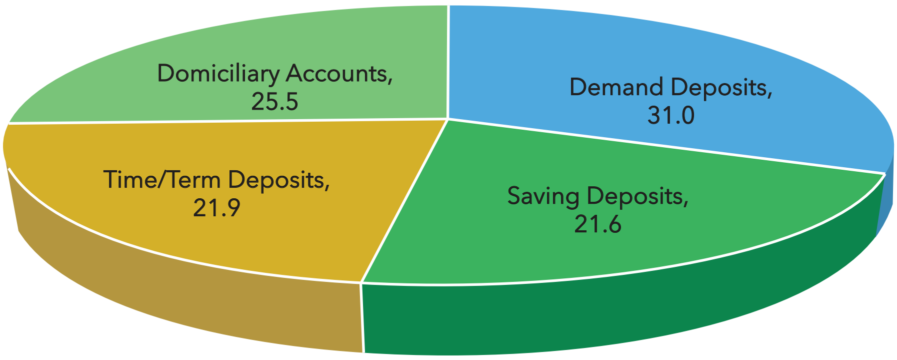


Figure 23: Deposit Composition (per cent) in December 2017

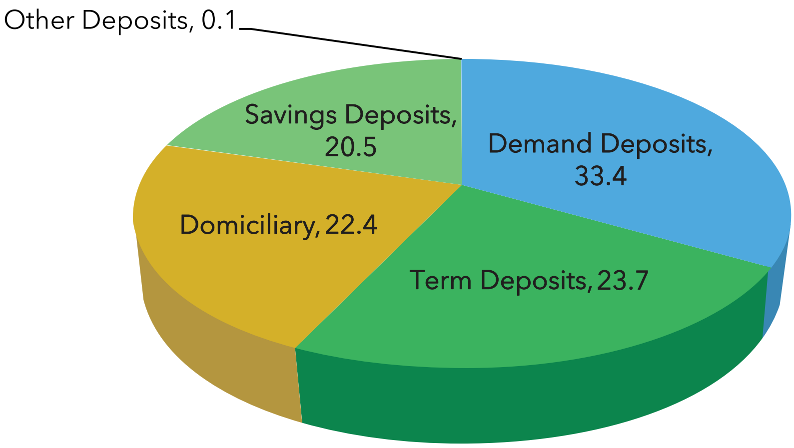
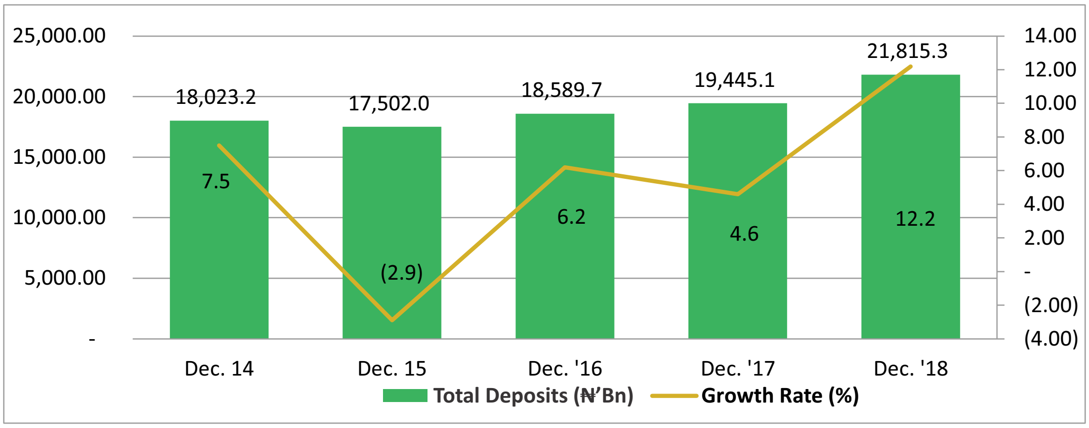


Figure 24: Trends in Total Deposits of DMBs, 2014-2018

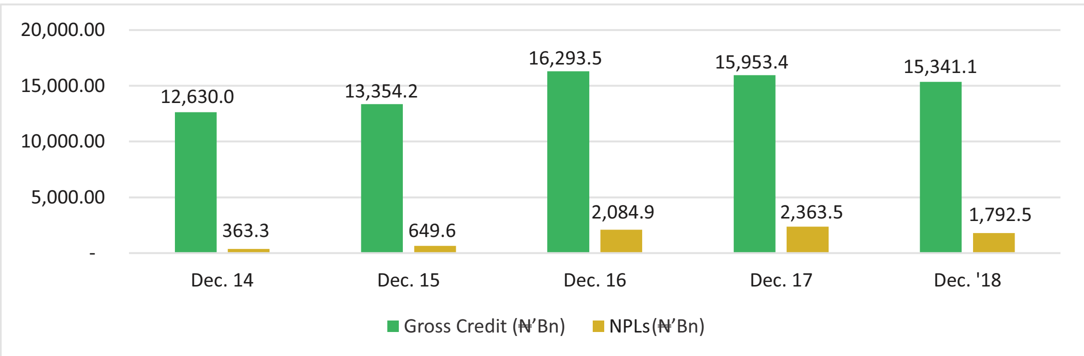


Asset Quality

Gross loans and advances decreased by 3.8 per cent or ₦612.3 billion to ₦15,341.1 billion at end-December 2018, from ₦15,953.4 billion at end-December 2017. The quality of the loans and advances, however, improved as evidenced by the decrease in the ratio and value of NPLs, which decreased to 11.7 per cent and ₦1,792.5 billion at end-December 2018 from 14.8 per cent and ₦2,363.5 billion at end-December 2017, respectively. The improvement was due largely to recoveries, repayments, disposals and write-offs of NPLs.

The level of provision for NPLs represented by impairment charges as well as Regulatory Risk Reserve created to warehouse the shortfall between prudential provision and impairment charges based on IFRS 9, increased to ₦1,793.8 billion at end-December 2018, from ₦1,728.7 billion at end-December 2017. The NPL provision coverage ratio increased to 100.1 per cent at end-December 2018 from 73.1 per cent at end-December 2017.

Figure 25: Trend in Gross Loans and NPLs, 2014-2018



Market Share of Largest Banks

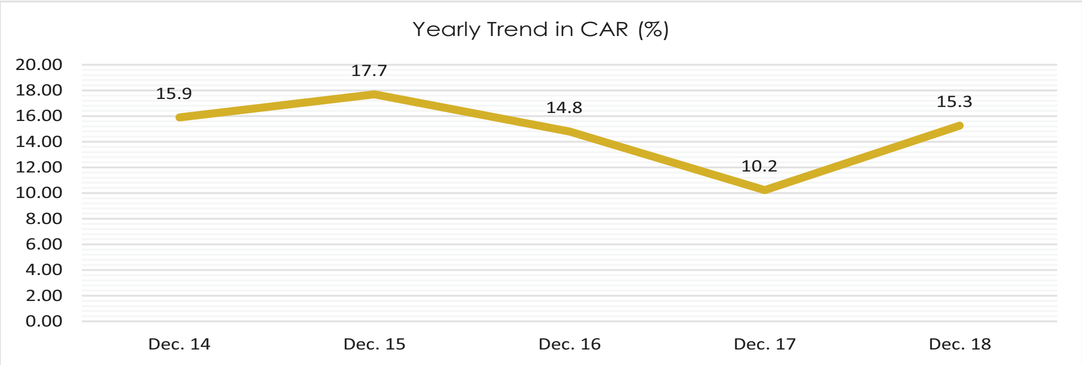
The market share of the industry total assets of the top 5 and top 10 DMBs were 54.1 per cent and 76.7 per cent at end-December 2018, compared with 54.3 per cent and 77.5 per cent respectively, at end-December 2017. The market share of total deposit liabilities of the top 5 and top 10 banks were 54.2 per cent and 77.2 per cent compared with 53.4 per cent and 77.5 per cent at end-December 2018 and 2017, respectively.

Similarly, the analysis of the market share of the industry gross loans and advances revealed that the top 5 and top 10 DMBs controlled 54.3 per cent and 80.2 per cent at end-December 2018, compared with 52.8 per cent and 79.0 per cent respectively, at end-December 2017.

Capital Adequacy Ratio of Banks

The minimum CAR requirement at end-December 2018 remained 10 per cent and 15 per cent for DMBs with national and international authorisations, respectively. At end-December 2018, the industry CAR was 15.3 per cent compared with 10.2 per cent at end-December 2017. The increase was mainly due to the recapitalisation of a bank and decrease in the risk-weighted assets due to disposals and write-off of loans.

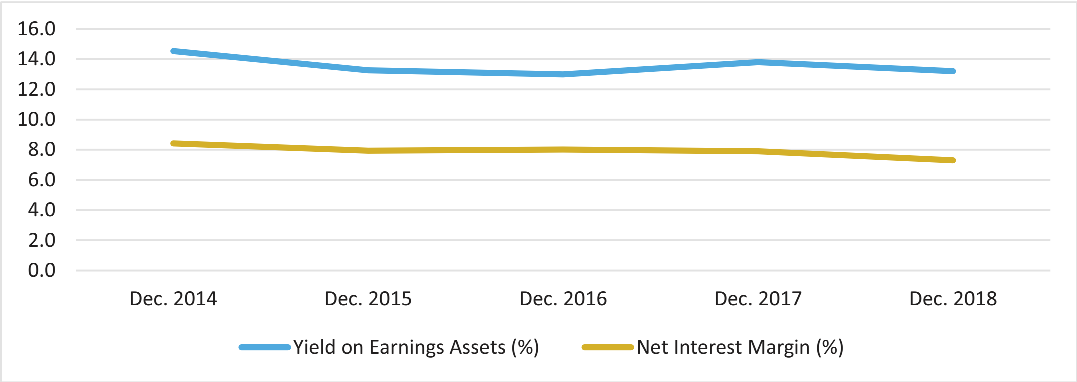
Figure 26: Trend in Industry Capital Adequacy Ratio of DMBs, 2014-2018



Efficiency of Operations

The yield on earning assets decreased to 13.2 per cent in 2018 from 13.8 per cent in 2017. The decrease was largely attributed to increase in interest expense, which impacted negatively on net interest income. Operational efficiency, measured by cost to income ratio, however, improved to 69.9 per cent in 2018 from 71.8 per cent in 2017. Although interest margin and yield on earning assets declined, the relative increase in efficiency through reduction in overheads (evidenced by the decrease in the cost to income ratio) resulted in an increase in profitability. This led to increases in the industry return on assets and return on equity to 2.2 per cent and 22.3 per cent in 2018 from 2.0 per cent and 17.8 per cent in 2017, respectively.

Figure 27: Trend in Net Interest Margin and Earnings Yield, 2014-2018



The industry recorded improvements in 2018 relative to 2017 as total assets and deposits increased, with performance indicators relating to capital, asset quality, efficiency and liquidity also improving, indicating that the industry remained healthy.

4.02 PERFORMANCE TREND OF OTHER FINANCIAL INSTITUTIONS

The aggregate statement of financial position of development finance institutions, primary mortgage banks, microfinance banks and finance companies showed that total assets increased by 35.7 per cent to ₦2,987.9 billion at end-December 2018 from ₦2,201.6 billion at end-December 2017. The total net loans and advances, also increased by 15.0 per cent to ₦1,422.2 billion at end-December 2018, from ₦1,237.1 at end-December 2017. Similarly, total deposits increased by 28.7 per cent to ₦684.0 billion at end-December 2018 from ₦531.4 billion at end-December 2017. Furthermore, the shareholders' funds increased by 2.8 per cent to ₦458.7 billion at end-December 2018, from ₦446.2 billion at end-December 2017.

Details of the statement of financial position of the OFIs are presented below:

Microfinance Banks

The total assets of MFBs increased by ₦69.6 billion (19.8 per cent) to ₦422.0 billion at end-December 2018, from ₦352.4 billion at end-December 2017. The main components of the total assets at end-December 2018 were net loans and advances, 52.4 per cent (2017: 54.8 per cent); placements with banks, 19.4 per cent (2017: 14.5 per cent); and cash and due from other banks, 10.7 per cent (2017: 10.5 per cent). Net loans and advances, which constituted the largest asset item, increased by ₦27.8 billion (14.4 per cent) to ₦221.0 billion at end-December 2018, from ₦193.2 billion the previous year.

[1]Revised due to inclusion of Union Home Savings and Loans Plc.

The paid-up capital and shareholders' funds also increased by 9.0 per cent and 17.7 per cent at end-December 2018 to ₦68.8 billion from ₦63.1 billion and to ₦97.6 billion from ₦83.0 billion at end-December 2017, respectively. The increases in paid-up capital and shareholders' funds were largely attributed to capital injection and increase in operating surplus. Deposits, which constituted the largest liability item, also increased by ₦50.8 billion (31.3 per cent) to ₦213.2 billion at end-December 2018, from ₦162.5 billion at end-December 2017. The aggregate statement of financial position of the MFBs at end-December 2018 and 2017 is shown below:

Table 12: Aggregate Statement of Financial Position of the MFBs

	Dec-18		Dec-17		Variance	Growth Rate
Assets	**₦'000**	**%**	**₦'000**	**%**	**₦'000**	**%**
Cash and Due from Other Banks	45,273,933	10.7	37,159,830	10.5	8,114,103	21.8
Placement with Banks	82,036,568	19.4	51,167,805	14.5	30,868,763	60.3
Short Term Investments	25,169,729	6.0	26,024,949	7.4	-855,220	-3.3
Long Term Investments	5,664,500	1.3	4,155,992	1.2	1,508,508	36.3
Net Loans and Advances	220,954,400	52.4	193,157,842	54.8	27,796,558	14.4
Other Assets	24,655,087	5.8	23,579,649	6.7	1,075,438	4.6
Fixed Assets	18,196,898	4.3	17,111,027	4.9	1,085,871	6.3
Total Assets	**421,951,115**	**100.0**	**352,357,094**	**100.0**	**69,594,021**	**19.8**
Financed By:						
Paid-up Capital	68,815,999	16.3	63,112,524	17.9	5,703,475	9.0
Reserves	28,809,573	6.8	19,859,855	5.6	8,949,718	45.1
Shareholders' Funds	**97,625,572**	**23.1**	**82,972,379**	**23.5**	**14,653,193**	**17.7**
Deposits	213,246,471	50.5	162,470,575	46.1	50,775,896	31.3
Takings from Other Banks	9,255,739	2.2	7,885,731	2.2	1,370,008	17.4
Long-term Liabilities	31,579,324	7.5	29,537,368	8.4	2,041,956	6.9
Other Liabilities	70,244,009	16.6	69,491,041	19.7	752,968	1.1
Total Liabilities	**421,951,115**	**100.0**	**352,357,094**	**100.0**	**69,594,021**	**19.8**

Figure 28: Total Assets of Microfinance Banks

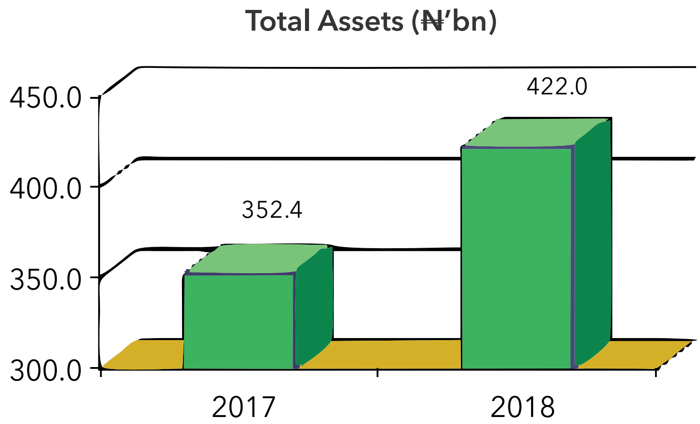


Figure 29: Composition of Assets of Microfinance Banks

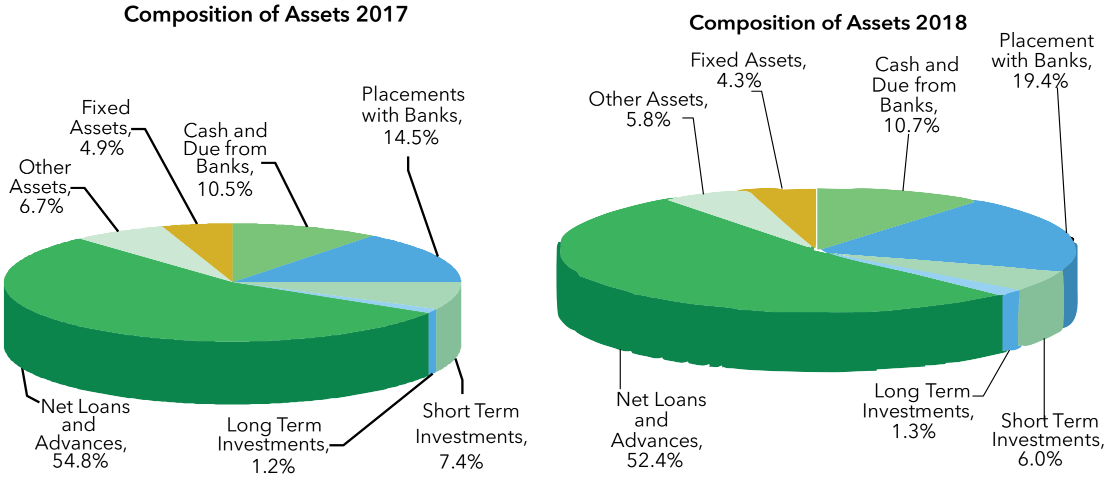
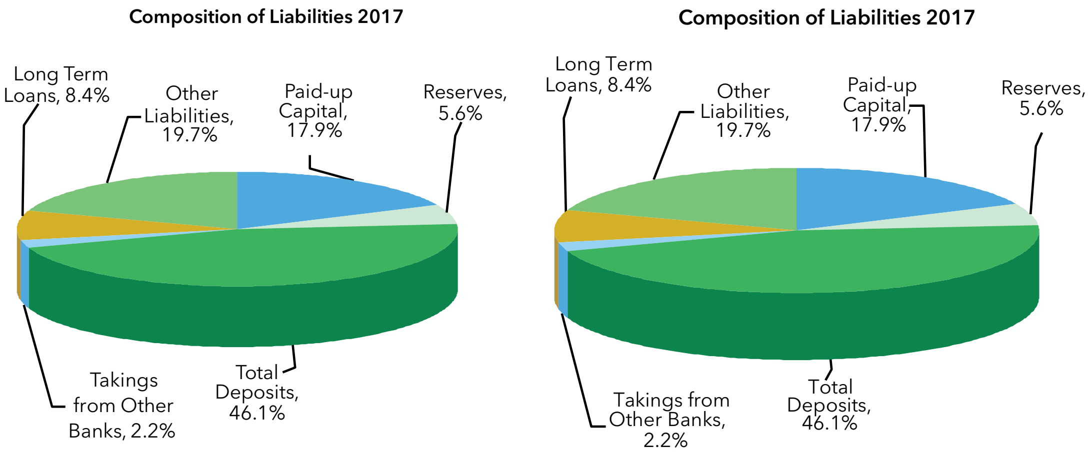


Figure 30: Composition of Liabilities of Microfinance Banks



Primary Mortgage Banks

The total assets of PMBs increased by ₦6.2 billion (1.4 per cent) to ₦452.0 billion at end-December 2018 from ₦445.7 billion at end-December 2017. The major components of total assets were loans and advances, 50.8 per cent (2017: 50.0 per cent); investments, 19.6 per cent (2017: 23.8 per cent); other assets, 13.9 per cent (2017: 11.9 per cent); and cash and due from other banks, 12.1 per cent (2017: 10.6 per cent).

Total liquid assets of PMBs increased by ₦7.4 billion (15.8 per cent) to ₦54.6 billion at end-December 2018, from ₦47.2 billion at end-December 2017. Investments

[2]Revised due to inclusion of Union Home Savings and Loans Plc.

decreased by ₦17.8 billion (16.7 per cent) to ₦88.4 billion at end-December 2018, from ₦106.1 billion at end-December 2017, while loans and advances, which constituted the largest asset item, increased by ₦6.6 billion (3.0 per cent) to ₦229.6 billion at end-December 2018, from ₦223.0 billion at end-December 2017.

Total deposits increased by ₦0.7 billion (0.5 per cent) to ₦140.4 billion at end-December 2018, from ₦139.8 billion at end-December 2017. However, the shareholders' funds decreased by ₦18.4 billion (18.2 per cent) to ₦83.0 billion at end-December 2018, from ₦101.4 billion the previous year, due to losses recorded in the period. The aggregate statement of financial position of the PMBs at end-December 2018 and 2017 is shown below:

Table 13: Aggregate Statement of Financial Position of the PMBs

	Dec-18		Dec-17		Variance	Growth Rate
Assets	**₦'000**	**%**	**₦'000**	**%**	**₦'000**	**%**
Cash and Due from Banks	54,628,852	12.1	47,188,089	10.6	7,440,763	15.8
Investments	88,378,255	19.6	106,138,489	23.8	-17,760,234	-16.7
Loans and Advances	229,603,910	50.8	222,959,554	50.0	6,644,356	3.0
Other Assets	62,717,687	13.9	52,879,844	11.9	9,837,843	18.6
Fixed Assets	16,617,200	3.7	16,530,704	3.7	86,496	0.5
Total Assets	**451,945,904**	**100.0**	**445,696,680**	**100.0**	**6,249,224**	**1.4**
Financed By:						
Paid-up Capital	110,409,749	24.4	109,886,214	24.7	523,535	0.5
Reserves	(27,422,696)	-6.1	(8,452,416)	-1.9	-18,970,280	224.4
Shareholders' Funds	**82,987,053**	**18.4**	**101,433,798**	**22.8**	**-18,446,745**	**-18.2**
Deposits	140,426,574	31.1	139,770,269	31.4	656,305	0.5
Placements from Banks	7,281,023	1.6	5,690,737	1.3	1,590,286	27.9
Long Term Loans/NHF	66,333,942	14.7	53,093,634	11.9	13,240,308	24.9
Other Liabilities	154,917,312	34.3	145,708,242	32.7	9,209,070	6.3
Total Liabilities	**451,945,904**	**118.4**	**445,696,680**	**100.0**	**6,249,224**	**1.4**

Figure 31: Total Assets of Primary Mortgage Banks

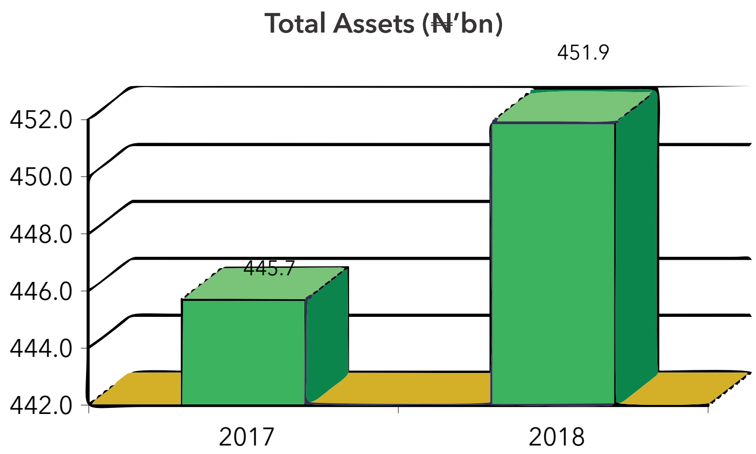


Figure 32: Composition of Assets of Primary Mortgage Banks

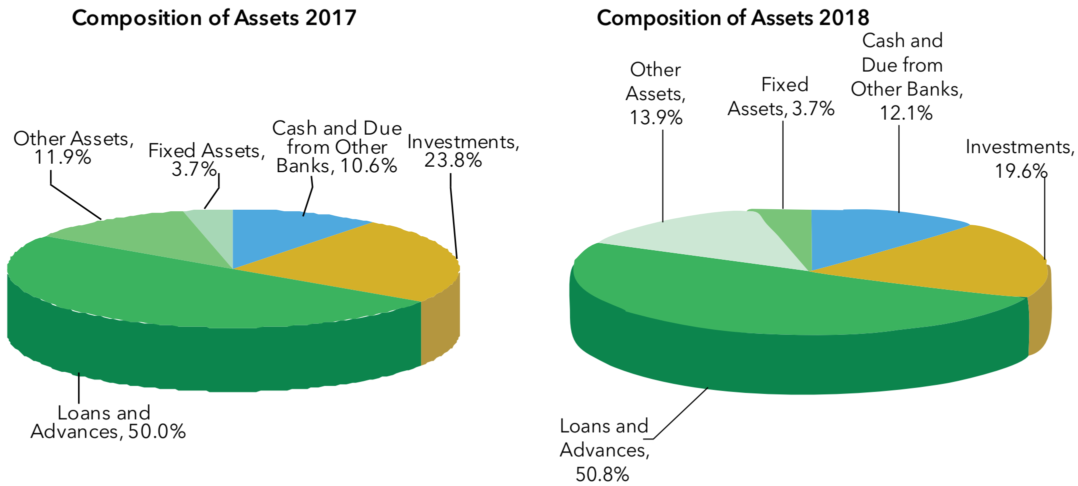
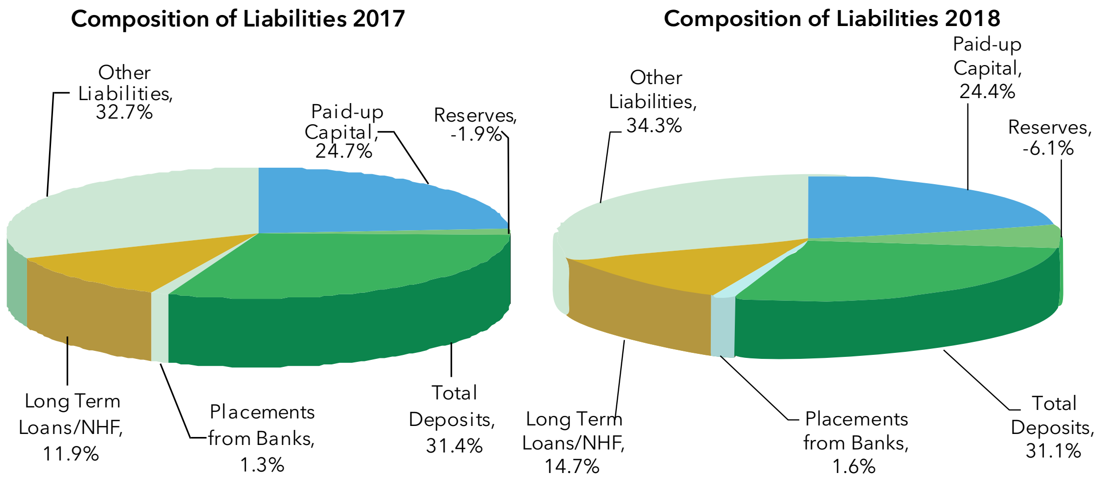


Figure 33: Composition of Liabilities of Primary Mortgage Banks



Finance Companies

The total assets of FCs increased by ₦35.3 billion (25.3 per cent) to ₦174.7 billion at end-December 2018, from ₦139.4 billion at end-December 2017. The key components of total assets were net loans and advances, 30.4 per cent (2017: 29.4 per cent); fixed assets, 28.1 per cent (2017: 27.3 per cent); and other assets, 22.8 per cent (2017: 26.9 per cent).

Total liquid assets increased by ₦9.1 billion (84.1 per cent) to ₦19.7 billion at end-December 2018, from ₦10.7 billion at end-December 2017. Investments and loans and advances also increased by ₦0.8 billion (6.8 per cent) and ₦12.3 billion (30.0 per cent) to ₦13.0 billion and ₦53.2 billion at end-December 2018, from ₦12.2 billion and ₦40.9 billion at end-December 2017, respectively.

Similarly, total borrowings of the FCs increased by ₦23.3 billion (29.0 per cent) to ₦103.8 billion in 2018, from ₦80.5 billion the previous year. Shareholders' funds also increased by ₦2.6 billion (9.6 per cent) to ₦29.2 billion at end-December 2018, from ₦26.7 billion at end-December, 2017. The increase was due to increased profitability in the industry. The aggregate statement of financial position of the FCs at end-December 2018 and 2017 is shown below:

Table 14: Aggregate Statement of Financial Position of the FCs

	Dec-18		Dec-17		Variance	Growth Rate
Assets	**₦'000**	**%**	**₦'000**	**%**	**₦'000**	**%**
Cash and Due from Banks	11,302,824	6.5	3,947,271	2.8	7,355,553	186.3
Placements	8,427,818	4.8	6,704,050	4.8	1,723,768	25.7
Investments	12,999,652	7.4	12,173,853	8.7	825,799	6.8
Net Loans and Advances	53,163,106	30.4	40,904,998	29.4	12,258,108	30.0
Other Assets	39,782,717	22.8	37,553,571	26.9	2,229,146	5.9
Fixed Assets	49,009,667	28.1	38,078,107	27.3	10,931,560	28.7
Total Assets	**174,685,784**	**100.0**	**139,361,850**	**100.0**	**35,323,934**	**25.3**
Financed By:						
Paid-up Capital	16,431,963	9.4	19,062,240	13.5	-2,630,277	-13.8
Reserves	12,815,741	7.3	7,633,433	2.0	5,182,308	67.9
Shareholders' Funds	**29,247,704**	**16.7**	**26,695,673**	**15.4**	**2,552,031**	**9.6**
Long-term Loans Liabilities	3,044,802	1.7	3,234,534	3.0	-189,732	-5.9
Total Borrowings	103,815,252	59.4	80,468,466	57.2	23,346,786	29.0
Other Liabilities	38,578,026	22.1	28,963,177	24.3	9,614,849	33.2
Total Liabilities	**174,685,784**	**100.0**	**139,361,850**	**100.0**	**35,323,934**	**25.3**

Figure 34: Total Assets of Finance Companies

Total Assets (₦'bn)

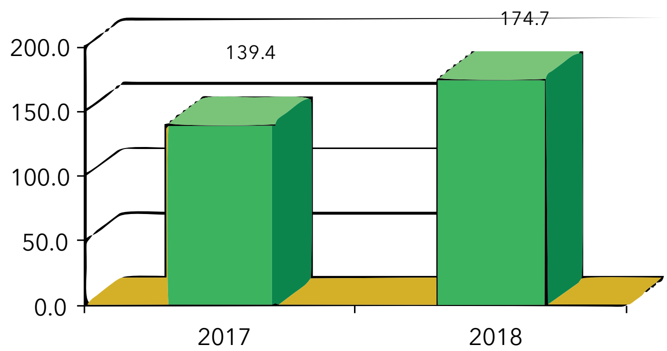


Figure 35: Composition of Assets of Finance Companies

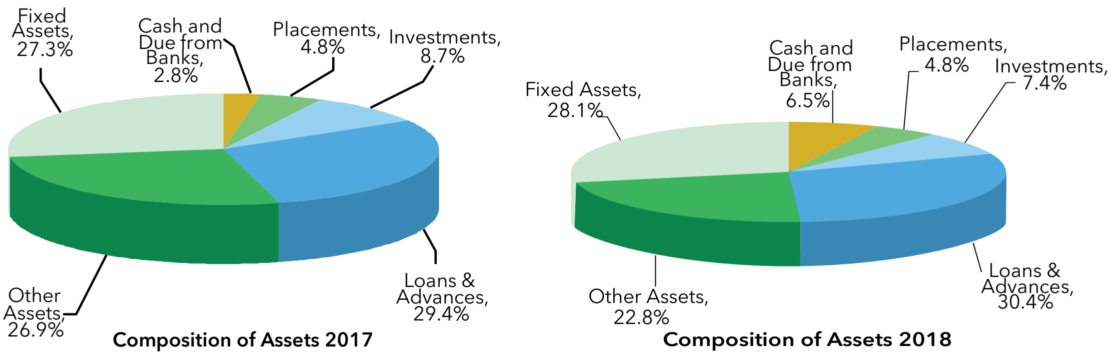
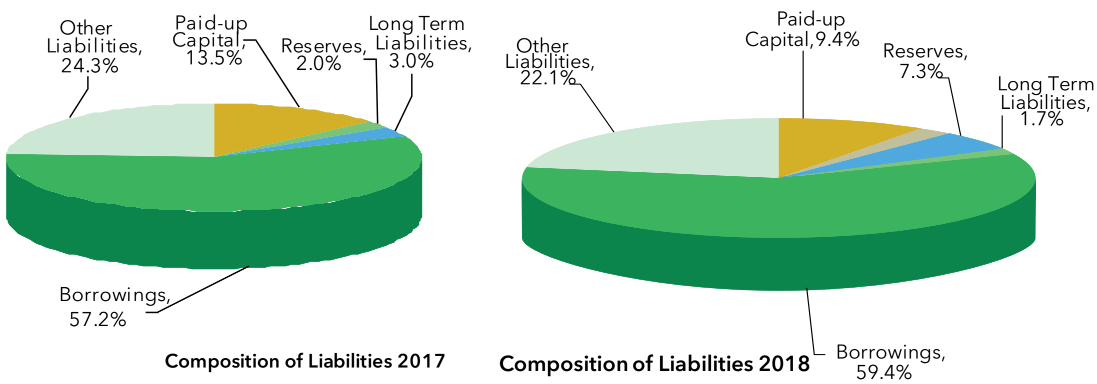


Figure 36: Composition of Liabilities of Finance Companies



Development Finance Institutions

The total assets of the seven DFIs increased by ₦629.2 billion (48.0 per cent) to ₦1,939.3 billion at end-December 2018, from ₦1,310.1 billion at end-December 2017. The increase was attributed to the $750 million long-term loan raised by the Bank of Industry, increase in the share capital of Development Bank of Nigeria from ₦20 billion to ₦100 billion and the disbursement of ₦50 billion Export Stimulation Facility to the Nigeria Export-Import Bank by the Ministry of Finance Incorporated during the year. Other components that contributed to the increase in total assets were loans and advances, investment, placements, investment properties and other assets. The aggregate statement of financial position of the DFIs at end-December 2018 and 2017 is shown below:

Table 15: Aggregate Statement of Financial Position of the DFIs

Assets	Dec-18		Dec-17		Variance	Growth Rate
	₦'000	%	₦'000	%	₦'000	%
Cash and Bank Balances	12,770,391	0.7	36,231,479	2.8	(23,461,088)	(64.8)
Placement	358,556,614	18.5	265,891,964	20.3	92,664,650	34.9
Investment	560,944,947	28.9	195,259,060	14.9	365,685,887	187.3
Loans and Advances	918,472,809	47.4	767,803,392	58.6	150,669,417	19.6
Other Assets	34,509,885	1.8	31,970,575	2.4	2,539,310	7.9
Fixed Assets	54,031,435	2.8	12,922,780	1.0	41,108,655	318.1
Total Assets	**1,939,286,081**	**100.0**	**1,310,079,251**	**100.0**	**629,206,830**	**48.0**
Financed By:						
Share Capital	238,780,740	12.3	236,988,196	18.1	1,792,544	0.8
Reserves	10,095,335	0.5	(1,908,652)	-0.1	12,003,987	628.9
Shareholders' Funds	**248,876,075**	**12.8**	**235,079,544**	**17.9**	**13,796,531**	**(8.5)**
Deposits	330,307,773	17.0	268,298,114	20.5	62,009,659	23.1
Borrowings	495,235,168	25.5	91,810,813	7.0	403,424,355	439.4
Due to Other Banks	3,265,502	0.2	1,903,265	0.1	1,362,237	71.6
Other Liabilities	398,859,437	20.6	117,062,093	8.9	281,797,345	240.7
Long-term Liabilities	462,742,126	23.9	595,925,422	45.5	(133,183,296)	(22.3)
Total Liabilities	**1,939,286,081**	**100.0**	**1,310,079,251**	**100.0**	**629,206,831**	**48.0**

Figure 37: Total Assets of Development Finance Institutions

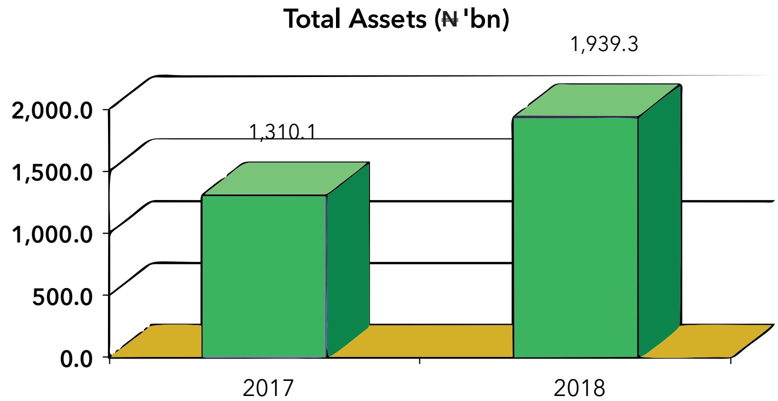


Figure 38: Composition of Assets of Development Finance Institutions

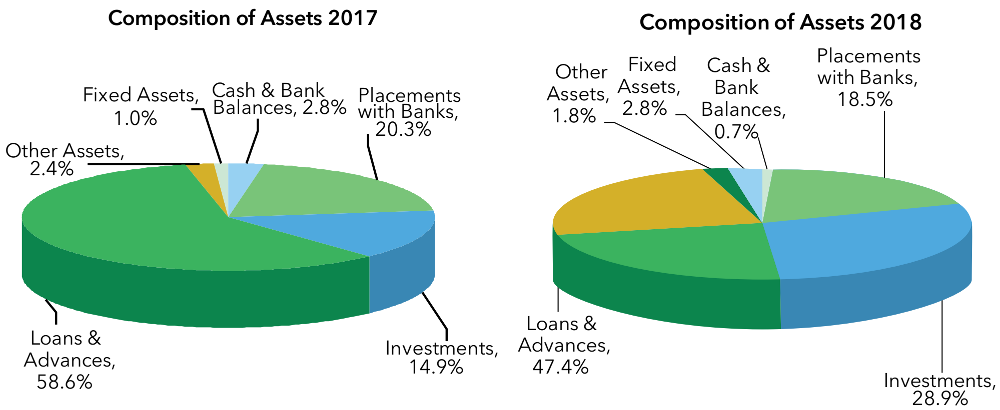
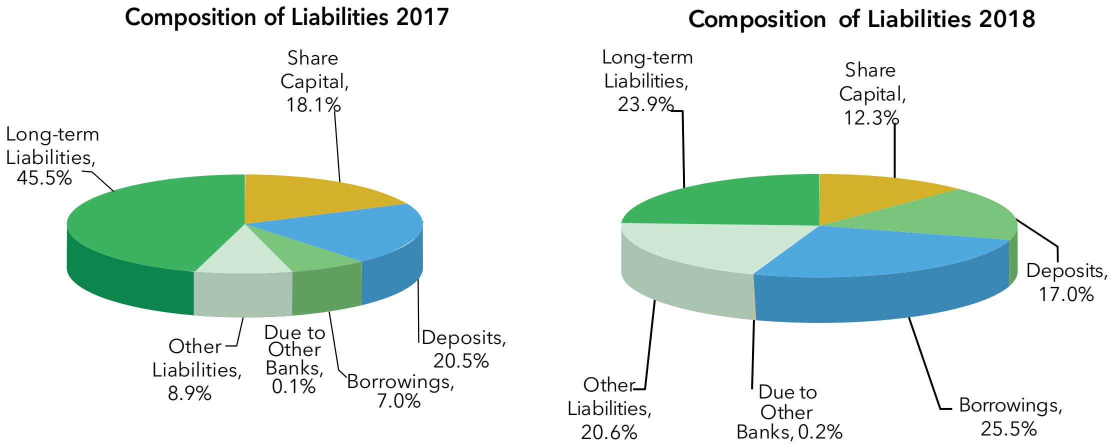


Figure 39: Composition of Liabilities of Development Finance Institutions



The OFIs sub-sector experienced improvements during the period under review as evidenced by increases in the total assets and shareholders' funds as well as accretion of profits by the MFBs, FCs and DFIs.

CHAPTER 5

CAPACITY BUILDING

5.01 BANKING SUPERVISION DEPARTMENT RETREAT

The 2018 Banking Supervision Department Retreat with the theme, "Emerging Industry Risks and Challenges to Banking Supervision" was held in Lagos, from October 11 – 13, 2018.

The Director of Banking Supervision (DBS), Alhaji Ahmad Abdullahi, in his opening remarks, acknowledged the role of Fintechs in the transformation of the financial service delivery landscape. He noted the risks and challenges that the evolving financial ecosystem present to effective regulation and supervision and urged participants to focus on these issues at the Retreat.

The Deputy Governor, Financial System Stability (FSS), Mrs. Aishah Ahmad, in her opening address, advised participants to use the opportunity of the Retreat to review the performance of the department vis-à-vis its mandates. She posited that the theme of the Retreat was apt given that technological evolution in the financial system has stretched the boundaries of supervision and placing greater demands on the regulator. She implored participants to dialogue on contemporary issues affecting the mandates of both the department and the CBN.

Four papers by eminent resource persons were presented and discussed during the 2-day event.

In his paper titled, "Emerging Industry Risk and Challenges to Banking Supervision", Mr. Tope Aladenusi, a partner in the Risk Advisory Practice of Deloitte & Touche, identified the emerging trends in the global financial industry to include:

a. Shift to technology-centric products and solutions, with true customer orientation;

b. Use of Fintechs to embrace the changing ecosystem of financial services;
c. Adoption of block chain technology to drive digital currency, smart contracts and identity management; and

d. Deployment of robotics and artificial intelligence to drive back-office operations and customer loyalty.

He stated that the emerging trends had exacerbated strategic, cyber and reputational risks in the industry requiring regulators to properly understand the nature of these risks in order to formulate appropriate policies to address them.

Thereafter, discussions by a panel of discussants, comprising the DBS and the Chief Executive Officers (CEOs) of Access Bank, Mr. Herbert Wigwe and Guaranty Trust Bank

Plc, Mr. Segun Agbaje focused on the need to strengthen the cyber security apparatus of the industry through information sharing, establishment of an information security operating centre by banks, engagement of ethical hackers and capacity building for supervisors on cyber security issues.

In his paper titled, "Digital Technology and the Changing Landscape of Banking Services", Dr. Segun Aina, the Chairman, Fintech Associates Limited, averred that fintechs facilitate the provision of financial services through the use of modern technology, mobile phones and the internet. He stated that regulatory technology and supervisory technology enhance supervision in several ways, including: transforming reporting requirements of banks to electronic form to facilitate the use of technology for effective supervision; development of surveillance tools with in-built detection capabilities used to conduct continuous monitoring; and the use of analytical tools to flag and analyse fraudulent transactions and detect malpractices and abuses.

He emphasised the need for fintechs to be brought under the regulatory umbrella of the CBN and encouraged it to become better acquainted with the fintech ecosystem by collaborating with local and international fintech advocacy groups.

Thereafter, discussions by a panel of discussants, comprising Mr. Dipo Fatokun, Director, Banking Services Department and the CEOs of Zenith Bank Plc, Mr. Peter Amangbo and Diamond Bank Plc, Mr. Uzoma Dozie centred on crowd funding as a source of funds for fintechs and advocated for a self-regulatory framework. It was also proposed that fintechs be required to meet extant prudential ratios.

In his paper titled "The adoption of IFRS 9 in Nigeria, the Implication and Challenges for the Industry and the Regulators", Mr. Yemi Badejo, a Senior Manager in the IFRS Technical Team, KPMG Advisory Services, listed the challenges that accompanied the adoption of IFRS 9 in the industry to include:

a. Non-availability of licensed external credit assessment institutions and the non-recognition of ratings in capital charges;

b. Lack of detailed prescriptive guidelines for Pillar II capital charge and stress testing in ICAAP, amongst others;

c. Lack of a regulator-computed loss given default that takes into consideration the local environment; and

d. Non-alignment of policies with Basel Core Principles on the treatment of insider facilities that exceed the prudential limit.

The ensuing discussions led by the panel of discussants, Mr. Leonard Chumo, the Special Adviser to the Governor on Banking Supervision, Mr. Patrick Iyamabo, Chief Finance Officer of First Bank of Nigeria Ltd and Mr. Victor Osadolor, Deputy Managing Director of United Bank for Africa Plc, deliberated on the challenges and other IFRS 9 implementation issues requiring immediate regulatory attention, including the:

a. Treatment of sovereign debts under IFRS 9;

b. Comparison between general and specific provision under the prudential regulation and the stages of impairment under IFRS 9; and

c. Election of a transitional arrangement by banks for IFRS 9 and the continued use of regulatory reserve.

In his presentation on “Enhancing Workplace Productivity”, Mr. Ernest Joy, emphasised the importance of learning, unlearning and re-learning in the workplace. He highlighted four personality types, namely: analysers, directors, supporters and creators in the workplace and affirmed that the balance of these personality types is required to create productive teams.

The Retreat attended by representatives of the Nigeria Deposit Insurance Corporation, departmental directors and branch controllers came to a close with the presentation of a communique, which recommended action plans for regulators and operators.

5.02 OTHER FINANCIAL INSTITUTIONS SUPERVISION DEPARTMENT RETREAT

The Other Financial Institutions Supervision Department (OFISD) held its 7th Retreat with the theme, “From Financial Inclusion to Wealth Creation: The Role of OFIs”, in Ijebu-Ode, Ogun State, from November 8-9, 2018. The Retreat presented an opportunity for members of staff to reflect on their processes and recommend areas for improvement towards delivering on the department's mandates.

The Director, OFISD, Mrs. Tokunbo Martins, in her welcome address, averred that the Retreat was timeous, especially taking into cognisance on-going efforts to reform and reinvigorate the OFIs sub-sector. She stated that the maintenance of the sub-sector's soundness and stability was complementary to the pursuit of financial inclusion and achievement of the Sustainable Development Goals.

In her keynote address, the Deputy Governor, FSS, Mrs. Aishah Ahmad, stated that OFISD activities impact directly and positively on financial inclusion and the achievement of sustainable economic growth. She, therefore, charged the examiners to properly supervise the sub-sector in order to support the growth and enhance the stability of the financial system. She stated that from available data, total credit granted by the MFBs was 1.1 per cent of the credit granted by DMBs, while their combined assets was 1.0 per cent of those of the DMBs. Also, the contribution of mortgage to GDP was 0.6 per cent in Nigeria compared with other African countries like South Africa, 34 per cent and Ghana, 3 per cent. She therefore challenged the examiners to ensure that the OFIs make good use of opportunities that were yet to be tapped in the sub-sector for creating wealth and enhancing the contribution of the sub-sector to GDP. She commended the various transformational initiatives by OFISD in reshaping the OFIs to perform at their optimum and reiterated her continued support in this regard.

Goodwill messages were delivered by Mr. S. K. Osidele, Branch Controller, CBN Abeokuta Branch, and Mr. J. J. Etopidok, Director, Specially Insured Institutions Department, Nigeria Deposit Insurance Corporation.

In his paper titled, "The Role of Micro, Small and Medium-scale Enterprises in Wealth Creation", Mr. Olukayode Pitan, Managing Director, Bank of Industry, made a case for investment in MSMEs as a way of growing wealth for the nation. He highlighted the dimensions of financial exclusion in Nigeria and the need to provide regulatory support to broaden the narrow access to finance for MSMEs.

In his paper titled, "Wealth Management for the Economically Active Poor", Mr. David Adelana posited that wealth management was not only for the rich but also for the active poor who need financial guidance to make and grow their wealth. He advocated for a structure that would aid the economically active poor to grow, retain and sustain wealth.

The President of the National Association of Microfinance Banks, Mr. Rogers A. Nwoke, in his paper, "Access to Financial Service: A Means to Wealth Creation", posited that there is a link between access to financial services delivered in a responsible and sustainable way and wealth creation. He stressed that access to finance goes beyond opening of bank accounts to include the provision of needed services to clients in a sustainable manner.

In his paper, "The Role of Regulators in Financial Inclusion and Economic Empowerment", Mr. E. E. Ihua examined regulatory efforts towards promoting financial inclusion. Identifying key challenges to financial inclusion and economic empowerment, he pointed out that financial exclusion posed a risk to political, social and financial stability. He therefore urged policy makers to pay increasing attention to implementing policies that drive financial inclusion.

Mrs. Folasade Agbejule of EFInA (Enhancing Financial Innovation and Access) in her paper "Measuring the Impact of Financial Inclusion", explained that EFInA had carried out an assessment of Nigeria's performance against set targets in the areas of savings, credit, payments system, insurance and pension. The result of the survey indicated that Nigeria still lagged in achieving its exclusion rate of 20 per cent by 2020. She concluded that financial inclusion can increase access to financial services, reduce poverty and lower income inequality.

Mr. Steve Nwadiuko, in his paper, "AML/CFT Compliance and the Quest for Financial Inclusion", stated that the promotion of a well-regulated financial system is central to an effective and comprehensive AML/CFT regime. However, applying an overly strict approach to AML/CFT safeguards can have unintended consequence of excluding legitimate businesses and consumers from the financial system. He added that the country needs to institute an AML/CFT regime that meets the goal of financial inclusion without compromising the measures that exist for the purpose of combating crime.

In her presentation on Professional Etiquette, Mrs. Adetutu Ogunnaike, emphasised the need for examiners to be professional in their conduct in view of the risk and cost associated with unethical behaviour both in monetary and non-monetary terms. A special presentation was made by Mrs. Chika Okey-Nwangwu on lessons learnt from the recent incident of a failed systemically important microfinance bank. On a lighter mood, Mr. Michael Adigun in his presentation titled 'The life of a Bush Examiner', highlighted the challenges faced by examiners in the conduct of their assignments, especially in rural areas.

Other dignitaries in attendance at the Retreat included other departmental directors of the CBN, some managing directors of microfinance banks, the President of Mortgage Bankers Association of Nigeria and retired staff of the CBN.

At the end of the Retreat, a communique with major action plans and timelines was issued with the staff agreeing to:

a. Encourage continuous education and awareness to promote financial and wealth management literacy;

b. Include the social performance of MFBs as a measure in evaluating the achievement of the financial inclusion objectives of the CBN;

c. Ensure the periodic publication of interest rates charged by OFIs to promote transparency;

d. Use professional fund managers in the management of intervention funds;

e. Encourage innovation in unique products and services by OFIs to enhance financial inclusion;

f. Encourage OFIs to include policies for financial inclusion in their strategic plans;

g. Encourage OFIs to use digital financial technology to deepen access to financial services in rural communities; and

h. Engage with relevant ministries, departments and agencies of government to streamline regulatory policies and guidelines relating to the financial inclusion target of the CBN.

The Retreat provided participants with the opportunity to discuss and explore ways of improving their processes towards achieving the departmental objectives. It is expected that the implementation of the action plans will not only chart the way forward but serve as a bedrock for the formulation of policies to drive financial inclusion in the years ahead.

5.03 CONSUMER PROTECTION DEPARTMENT RETREAT

The Consumer Protection Department (CPD) held its Retreat in Abuja from November 23-24, 2018 with the theme "Repositioning Consumer Protection Department for Financial System Stability".

The Retreat provided an opportunity for engagement with stakeholders on consumer protection and financial literacy issues. It also provided an avenue for feedback on stakeholders' assessment of the CBN consumer protection initiatives.

The Retreat commenced with welcome remarks by the Director, CPD, Mr. S. K. Salam-Alada. He highlighted the importance of financial services and financial system stability to economic growth and advocated for greater collaboration between financial and telecommunication service providers especially with the launch of the Payments System Vision 2020 strategy and the issuance of the Guidelines on Licensing and Regulation of Payment Service Banks in Nigeria.

The Deputy Governor, FSS, Mrs. Aishah Ahmad in her keynote address, reiterated the importance of consumer protection in achieving the 2020 financial inclusion targets and ultimately financial system stability. She lauded the department for the development of a Consumer Protection Framework and the National Financial Literacy Framework and emphasised the need for an impact assessment of the initiatives. Highlighting data privacy and cyber-security issues as emerging consumer risks in the digital environment, she advised stakeholders to collaborate in taking proactive steps to address the risks.

The 2-day event also focused on paper presentation by select resource persons, supported by panellist and participation by the audience.

The first paper titled, "Adoption of Digital Financial Services: New Frontiers of Consumer Risks", presented by Mr. Niyi Ajao, Acting Managing Director, NIBSS, reviewed the Nigerian financial services landscape in relation to digital financial services (DFS) and the role of the NIBSS in the payments system. He highlighted emerging consumer risks associated with DFS such as increase in frauds, especially in the face of disruptive technologies due to the emergence of fintechs; excessive charges; and poor customer care by financial institutions.

Concluding his presentation, he advised on the need to ensure effective implementation of the Consumer Protection Framework to mitigate the emerging risks associated with DFS.

Thereafter, a panel comprising Mr. Dipo Fatokun, Director, Banking Services Department (Chairman); Mrs. Temitope Akin-Fadeyi, Head, Financial Inclusion Secretariat; Mr. J. O. Akinkunmi, Director, Legal Services Department; Mrs. Felicia Onwuegbuchulam, Head, Consumer Affairs Bureau, Nigeria Communications Commission and the Director, CPD, led discussions on the paper.

The second paper titled, "The Imperative for a Comprehensive Supervisory Framework for the Mitigation of Consumer Risks" was presented by Mr. Ahmad Abdullahi, Director, Banking Supervision Department, CBN. He highlighted the need for convergence between prudential and conduct regulation since both exist to ensure that financial service providers bring the greatest benefit to consumers. He averred that banks and bank supervisors need to recognise data protection as a critical element of financial system stability. Concluding his presentation, he advised on the need for the adoption of a risk-based supervision approach in the supervision of the payments system in view of the enormity of the risks posed by fintechs.

Following the presentation, a panel of discussants comprising Mr. Kevin Amugo, Director, FPRD (Chairman); Mr. C. M. Sokari, Branch Controller, CBN, Awka; Mr. H. B. Mustafa (representing the Director, Other Financial Institutions Department); Mr. F. G. Wasa (representing the Director, Payments System Management Department); Mr. Chris Chukwu, Managing Director, Banksys; and Ms. Shola Philips of the Committee of Chief Compliance Officers of Banks, further discussed the paper.

The Retreat also featured a session on "Review and Re-Alignment of Internal Business Processes for Effective Consumer Protection" with a view to engendering discussion on the proper alignment of the department's functions vis-à-vis other strategic business units. Presentations were made by the heads of Complaints Management, Consumer Education and Market Conduct and Development divisions of the CPD. At the end of the presentations, recommendations were made on ways to address the identified challenges.

The 2-day Retreat, which also had in attendance representatives of sister departments, the Nigeria Deposit Insurance Corporation, the Nigerian Communications Commission, the Securities and Exchange Commission, the National Pension Commission and telecommunication operators, issued a communique, the highlights of which are to:

a. Strengthen collaboration with the other stakeholders;

b. Create awareness on major areas of consumer risks in financial services;

c. Develop a risk-based supervision framework for effective consumer protection;

d. Review the legal framework to include conduct regulation; and

e. Harmonise the numerous frameworks and multiple databases to address personal identification challenges.

The Retreat provided a platform for the CBN to receive feedback on its services from stakeholders. It is hoped that the implementation of the recommendations proffered at the forum will improve consumer protection and financial literacy.

5.04 CAPACITY BUILDING FOR SUPERVISORS

In furtherance of the CBN's core value of "Learning", supervisors were exposed to several training programmes aimed at enhancing their supervisory capabilities. The programmes included local and international courses, conferences and workshops as highlighted below:

Local Programmes

Nine runs of the Bank Examiners' Course, a capacity building programme designed for members of staff of the FSS directorate, sister regulatory agencies and other central banks in the West Africa sub-region were conducted during the period.

Other in-house programmes organised for supervisors were in the areas of Advanced Risk Management; Basel II and III; International Financial Reporting Standards; Oil and Gas Lending; and Anti-money Laundering, among others. Also, supervisors participated in various open capacity building programmes including those organised by the West African Institute for Financial and Economic Management.

International Programmes

Supervisors participated in capacity building programmes organised by the Federal Deposit Insurance Corporation (FDIC), Federal Reserve System (FED) and the International Monetary Fund, among others. The programmes included the Examination Management School; Loan Analysis School; Introduction to Examination School; Asset-Liability Management School; Financial Institutions Analysis School; Anti-Money Laundering Examination Seminar; Risk Focused Supervision and Risk Assessment Seminar; Advanced Credit Risk Management and Management Seminar; and Market Risk Analysis Seminar.

Details of the programmes attended by supervisors are presented in table 16 below:

Table 16: Details of the Programmes

S/N	Course Title	Number of staff trained
1	Bank Examiners' Course Foundation	45
2	Bank Examiners' Course Level 1	103
3	Bank Examiners' Course Level 2	64
4	Bank Examiners' Course Level 3	119
5	Principles of Asset/Liability and Liquidity Risk Management Programme	10
6	Financial Soundness Indicator Course	5
7	Stress Testing Course	10
8	Macroeconomics Diagnostics	4
9	Export Management Programme	5
10	Anti-Money Laundering Examination Seminar	5
11	Bond Markets and Determination of Interest Rates	4
12	E-Learning Programme on Factoring	20
13	Consolidated Supervision for Conglomerates	5
14	Basel II and III	6
15	Internation al Financial Reporting Standard 9	287
16	Oil and Gas Lending Workshop	4
17	Anti-money Laundering	126
18	Examination Management School	3
19	Information Technology Examination Course	2
20	Introduction to Examination School	4

21	Loan Analysis School	4
22	Asset Liability Management School	4
23	Financial Institutions Analysis School	3
24	Consolidated Supervision and Risk Integration Seminar	3
25	Risk Focused Supervision and Risk Assessment Seminar	4
26	Advanced Credit Risk Management and Management Seminar	1
27	Financial Crimes Seminar	1
28	Market Risk Analysis Seminar	1
29	Sustainable Financing of our Future in Africa- the Green Bond Course	1
30	High Level Forum on Supervisory Needs	2
31	Cryptocurrency Course	1
32	IT Specialist Training on Core Banking Applications	1
33	Workshop on IFSB Standards for Regulatory and Supervisory Authorities	1
34	Finacle Training Core and Credit Risk Management	4
35	Digital Coin, Blockchain Technologies, Cryptocurrencies and the Ecowas Economy	1
36	2018 Continuous Education Programme for Directors FITC International Workshop for Directors of Financial Institutions	1
37	Advanced Risk Management	4
38	2018 CFA Institute Annual Conference for CFA Charter Holders	1
39	Cyber security	76
40	Non-financial Risk Management and Risk Culture Building	2
41	Trade -based Money Laundering Compliance	2
42	Basic Risk-based Supervision	103
43	Fundamentals of Risk Management	3
44	Microfinance Regulation and Supervision	5
45	Panacea to Collateralised Non-performing Assets: Banker and Valuer Perspectives	5
46	Introduction to Swaps, Options, Forwards and Futures in FX Market	10
47	Business Forum on Contemporary and Strategic Financing Options for the SME Sector	3
48	Seminar on Risk -based Supervision for the Committee of Banking Supervisors of West and Central Africa	3
49	Seminar on Basel II/III for the Committee of Banking Supervisors of West and Central Africa	3
50	Anti-money Laundering Examination Seminar	4
51	Bank Analysis Examination School	4
52	Measurement o f Risk in Mortgage Financing	4
53	Internal Control Examination and Income Audit	100

The various courses attended by supervisors is an attestation to the CBN's commitment to building the capacity of its members of staff through continuous learning and improvement. In this regard, the CBN will sustain efforts toward equipping supervisors with necessary skills and knowledge required to effectively carry out their responsibilities.

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 members of staff of the departments in the Financial System Stability Directorate of the CBN:

1.	Thompson O. Sunday	Chairman	Banking Supervision
2.	Nwabueze V. Orjiakor	Member	Banking Supervision
3.	Michael C. Akuka	Member	Financial Policy and Regulation
4.	Andrew A. Apeh	Member	Other Financial Institutions Supervision
5.	Michael D. Dalyop	Member	Other Financial Institutions Supervision
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7.	Ejime H. Aniemeke	Member	Payments System Management
8.	Gloria U. Igwe	Secretary	Banking Supervision

GLOSSARY

AACB	-	Association of African Central Banks
AD	-	Authorised Dealer
AGSMEIS	-	Agribusiness/Small and Medium Enterprises Investment Scheme
AMCON	-	Asset Management Corporation of Nigeria
AML/CFT	-	Anti-Money Laundering and Combating the Financing of Terrorism
ATM	-	Automated Teller Machine
BCBS	-	Basel Committee on Banking Supervision
BDC	-	Bureaux de Change
BOFIA	-	Banks and Other Financial Institutions Act
BTA	-	Business Travel Allowance
BVN	-	Bank Verification Number
CAR	-	Capital Adequacy Ratio
CBN	-	Central Bank of Nigeria
CCIRS	-	Cross Currency Interest Rate Swap
CIBN	-	Chartered Institute of Bankers of Nigeria
CPD	-	Consumer Protection Department
CRMS	-	Credit Risk Management System
CRR	-	Composite Risk Rating
CSWAMZ	-	College of Supervisors of the West African Monetary Zone
DBN	-	Development Bank of Nigeria
DFI	-	Development Finance Institution
DFS	-	Digital Financial Services
DMB	-	Deposit Money Bank
ECL	-	Expected Credit Loss
ECOWAS	-	Economic Community of West African States
ESG	-	Environmental, Social and Governance
ETI	-	Ecobank Transnational Incorporated
FATF	-	Financial Action Task Force
FC	-	Finance Companies
FCT	-	Federal Capital Territory
FCTP	-	Foreign Currency Trading Position
FDIC	-	Federal Deposit Insurance Corporation
FDI	-	Foreign Direct Investment
FED	-	Federal Reserve System
FGN	-	Federal Government of Nigeria
FHC	-	Financial Holding Company
FSRCC	-	Financial Services Regulation Coordinating Committee
FX	-	Foreign Exchange

GDP	-	Gross Domestic Product
GIABA	-	Inter-Governmental Action Group against Money Laundering in West Africa
GIZ	-	German Development Corporation
IAS	-	International Accounting Standards
IFRS	-	International Financial Reporting Standards
ILM	-	Incurred Loss Model
IMF	-	International Monetary Fund
KYC	-	Know Your Customer
MBC	-	Mortgage Bankers' Committee
MCP	-	Microfinance Certificate Programme
MFB	-	Microfinance Bank
MGC	-	Mortgage Guarantee Company
ML/FT	-	Money Laundering/Financing of Terrorism
MMFL	-	Model Mortgage and Foreclosure Law
MoU	-	Memorandum of Understanding
MSME	-	Micro, Small and Medium Enterprises
NAMBS	-	National Association of Microfinance Banks
NAMBUIT	-	National Association of Microfinance Banks Unified Information Technology
NDIC	-	Nigeria Deposit Insurance Corporation
NEFT	-	NIBSS Electronic Fund Transfer
NERFUND	-	National Economic Reconstruction Fund
NFIU	-	Nigerian Financial Intelligence Unit
NHFP	-	Nigeria Housing Finance Programme
NIBSS	-	Nigeria Interbank Settlement System
NIP	-	NIBSS Instant Payment
NMGC	-	Nigeria Mortgage Guarantee Company
NMRC	-	Nigeria Mortgage Refinance Company
NSBP	-	Nigerian Sustainable Banking Principles
NSFP	-	Nigerian Sustainable Finance Principles
NPL	-	Non-Performing Loan
NYSC	-	National Youth Service Corps
OECD	-	Organisation of Economic Cooperation and Development
OFI	-	Other Financial Institution
OTC	-	Over-the-Counter
PMB	-	Primary Mortgage Bank
PoS	-	Point of Sale
PSB	-	Payment Service Bank
PSP	-	Payment Service Provider
PSMD	-	Payments System Management Department
PTA	-	Personal Travel Allowance

RBS	-	Risk Based Supervision
RRR	-	Regulatory Risk Reserve
RTGS	-	Real Time Gross Settlement
SARB	-	South Africa Reserve Bank
SME	-	Small and Medium Enterprises
SMS	-	Short Message Service
STR	-	Suspicious Transaction Report
SWIFT	-	Society for Worldwide Interbank Financial Telecommunication
UBA	-	United Bank of Africa
UNODC	-	United Nations Office on Drugs and Crime
USSD	-	Unstructured Supplementary Service Data
WG-CMBR	-	Working Group on Crisis Management and Bank Resolution
WUMT	-	Western Union Money Transfer