CENTRAL BANK OF NIGERIA

BANKING SUPERVISION ANNUAL REPORT, 2017

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.

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TABLE OF CONTENTS

LIST OF TABLES AND FIGURES

FOREWORD

Following the economic recession that affected the economy in 2016, the Fiscal and Monetary authorities embarked on programmes designed to restore the economy to the path of growth. These together with developments in the international oil market aided the exit of the Nigerian economy from recession and resulted in a positive Gross Domestic Product in the second quarter of 2017. The regulatory and supervisory processes of the Bank were enhanced as part of efforts to sustain the recovery and ensure the safety and soundness of the banking system.

In this regard, guidelines and circulars were issued on various areas of operations of banks and other financial institutions to promote responsible business conduct and stability in the financial markets. In the foreign exchange market, the introduction of the Investors and Exporters window effective April 24, 2017 boosted liquidity, eased access to funds and reduced opportunities for arbitrage in the market, and overall, ensured that stability was achieved.

Towards the efforts at sustaining the fight against money laundering and the financing of terrorism, guidance was provided to banks and other financial institutions on the risks inherent in virtual currencies. The general public was cautioned on the dangers of transacting in such currencies. Also, the Central Bank of Nigeria (CBN) contributed to the development of the draft Nigerian Financial Intelligence Unit Bill, which was key to the facilitation of the re-admission of the country into the Egmont Group.

To further improve credit reporting by banks and other financial institutions, the Credit Reporting Act, 2017 was enacted by the National Assembly. Following the enactment of the Act, the CBN carried out various activities to facilitate the implementation of the Act by banks and other financial institutions. In addition, guidance was issued to financial institutions on the modalities for the rendition of returns on the re-designed Credit Risk Management System.

Guidelines on charges by banks and the regulation of non-interest microfinance banks were issued to enhance regulation in the system. The implementation of the Bank Verification Number in the other financial institutions sub-sector and the National Financial Literacy Framework commenced during the period.

In continuation of the capacity building programme of the Bank, members of staff of the Financial System Stability Directorate attended training programmes in Nigeria and overseas to equip them with the requisite skills for the effective regulation and supervision of institutions under the Bank's purview.

This edition of the Banking Supervision Annual Report chronicles the salient regulatory and supervisory developments in the Nigerian banking industry and represents a veritable knowledge source for researchers, policy makers and other stakeholders. The CBN will continue to enhance its regulatory and supervisory processes to ensure that the financial system remains sound and stable.

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DEPUTY GOVERNOR, FINANCIAL SYSTEM STABILITY

PREFACE

The 2017 edition of the Banking Supervision Annual Report highlights the activities of the Central Bank of Nigeria in the regulation and supervision of financial institutions under its purview.

The Report is structured into five chapters. The first chapter focuses on developments in the banking industry. Developments in the foreign exchange market, anti-money laundering and combating the financing of terrorism, cross-border supervision and credit bureaux, among others, were duly covered.

Chapter two discusses the framework for supervision, covering the implementation of the Credit Reporting Act and the implementation of the frameworks for financial stability and the National Financial Literacy Framework. The chapter also discusses the implementation of the Bank Verification Number by other financial institutions; macro-prudential supervision; guide to charges by banks and other financial institutions; the Guidelines for the Re-designed Credit Risk Management System; and the Regulation and Supervision of Non-interest Microfinance Banks.

The supervisory activities of the Central Bank of Nigeria are discussed in chapter three with focus on the off-site and on-site supervision of banks and other financial institutions. Activities relating to the protection of consumers of financial products and services and the role of the Bankers' Committee conclude the chapter.

Chapter four details the performance trend of banks and other financial institutions while chapter five outlines the capacity building programmes embarked upon by members of staff of the Bank in the Financial System Stability Directorate during the period.

The Departmental Directors in the Financial System Stability Directorate appreciate the contributors to this report and members of the Banking Supervision Annual Report Committee for their diligence and commitment.

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CHAPTER 1: DEVELOPMENTS IN THE BANKING INDUSTRY

1.01 DEVELOPMENTS IN THE FOREIGN EXCHANGE MARKET

In the effort to sustain the gains achieved with the introduction of the flexible exchange rate regime in 2016, the CBN adopted measures aimed at boosting liquidity, ensuring transparency, easing access to funds by Small and Medium Enterprises (SMEs) and reducing arbitrage in the foreign exchange market, among others.

Key developments in the Nigerian Foreign Exchange Market in 2017 are highlighted below:

Issuance of Guidelines and Circulars

a. To address the impact of the depreciation in the value of the Naira on banks that had foreign currency borrowings, the maximum limits of foreign borrowing and the net open position of banks were reviewed to 125 per cent and 10 per cent of shareholders' funds unimpaired by losses, respectively.

b. To increase availability of foreign exchange to end-users and ensure transparency in pricing, banks were directed to open teller points for retail FX transactions, as well as provide electronic display boards in all their branches. Furthermore, banks were required to process and meet the demand for PTA/BTA within 24 hours of application and 48 hours for school fees and medical bills.

c. A special SME FX Window was established to enable SMEs access a maximum of US$20,000.00 per customer per quarter for eligible imports using Form Q.

d. Electronic processing of Certificate of Capital Importation (eCCI) was implemented with effect from September, 2017.

e. An Investors and Exporters (I & E) FX Window was established on April 24, 2017 to deepen and boost liquidity in the foreign exchange market as well as reduce arbitrage opportunities. The modalities for the operation of the Window include:

i. Excess above approved Foreign Currency Trading Position (FCTP) from purchases in the Window, can be sold to other authorised dealers without the prior approval of the CBN;
ii. All interbank transactions shall be subject to a maximum spread of ₦1.00;
iii. Banks shall not exceed their approved FCTP without the approval of the CBN;
iv. All interbank trades (spot, forwards, futures, options and swaps) that have impact on FCTP must comply with rate reasonability standards; and
v. Authorised dealers shall encourage their corporate clients to on-board the FMDQ-advised FX Trading System to avoid sanctions.

Volume of FX Acquired and Utilised by Banks

Foreign exchange acquired by Authorized Dealers (excluding interbank transactions), increased by 19.6 per cent to US$55.7 billion in 2017 from US$46.6 billion in 2016. Similarly, foreign exchange utilised rose by 0.7 per cent to US$53.2 billion from US$52.8 billion in the same period.

The CBN remained the major supplier of foreign exchange in the market with intervention (inclusive of Non-deliverable OTC Futures) at US$21.8 billion (2016: US$16.5 billion) constituting 39.1 per cent of total supply. Other spot purchases comprising cross currency and swap transactions constituted 28.1 per cent of aggregate foreign exchange supply to the market and increased by 5.1 per cent to US$15.7 billion in 2017 from US$14.9 billion in 2016.

Foreign exchange utilisation for invisibles increased to US$36.0 billion in 2017 from US$32.0 billion in 2016 while utilisation for letters of credit decreased to US$13.6 billion from US$17.7 billion during the period.

Table 1: Aggregate Volume of FX Acquired and Utilised (Excluding Interbank) by Authorised Dealers in 2016 and 2017

Source (excluding interbank purchases)	**Aggregate Vol. 2017**	**Contribution to Aggregate Inflow**	**Aggregate Vol. 2016**	**Contribution to Aggregate Inflow**	**Year-on-Year Growth**
	US$'m	%	US$'m	%	%
CBN Intervention	21,770.0	39.1	16,531.0	35.5	31.7

Domiciliary Accounts	2,099.0	3.8	1,899.0	4.1	10.6
Export Proceeds	664.0	1.2	532.0	1.1	24.8
Capital Importation/FDI	11,460.0	20.6	6,176.0	13.3	85.6
Retail Remittances (e.g. WUMT)	1,219.0	2.2	503.0	1.1	142.5
Oil Companies	1,757.0	3.2	5,359.0	11.5	-67.2
Government Agencies	143.0	0.3	167.0	0.4	-14.1
Repurchase of un-utilised Balances	548.0	1	424.0	0.9	29.1
Other spot Purchases	15,668.0	28.1	14,912.0	32.0	5.1
Foreign Loan	403.0	0.7	99.0	0.2	306.8
Total Inflow	**55,731.0**	**100.0**	**46,602.0**	**100.0**	**19.6**
Application (excluding interbank sales)	**Aggregate Vol. 2017**	**Contribution to Aggregate Utilisation**	**Aggregate Vol. 2016**	**Contribution to Aggregate Utilisation**	**Year-on-Year Growth**
	US$'m	%	US$'m	%	%
Letters of Credit	13,581.0	25.6	17,696.0	33.5	-23.3
Bills for Collection	3,226.0	6.1	3,110.00	5.9	3.7
Telegraphic Transfer (Small Imports)	327.0	0.6	10.0	0.0	3108.3
Invisibles	36,023.0	67.8	31,999.0	60.6	12.6
Total Outflow	**53,157.0**	**100**	**52,815.0**	**100.0**	**0.7**

Source: Monthly summary of FX position rendered by DMBs

Foreign Exchange Rates

The premium of about 49 per cent between the official and the BDC rates, which prevailed in 2016, was reduced to 18 per cent in 2017 due to the measures taken by the CBN. Furthermore, a convergence of the Investors and Exporters Window and the Bureaux de Change rates was achieved at about N361/US$.

Figure 1: Trend of BDC & I & E Closing rates in 2017

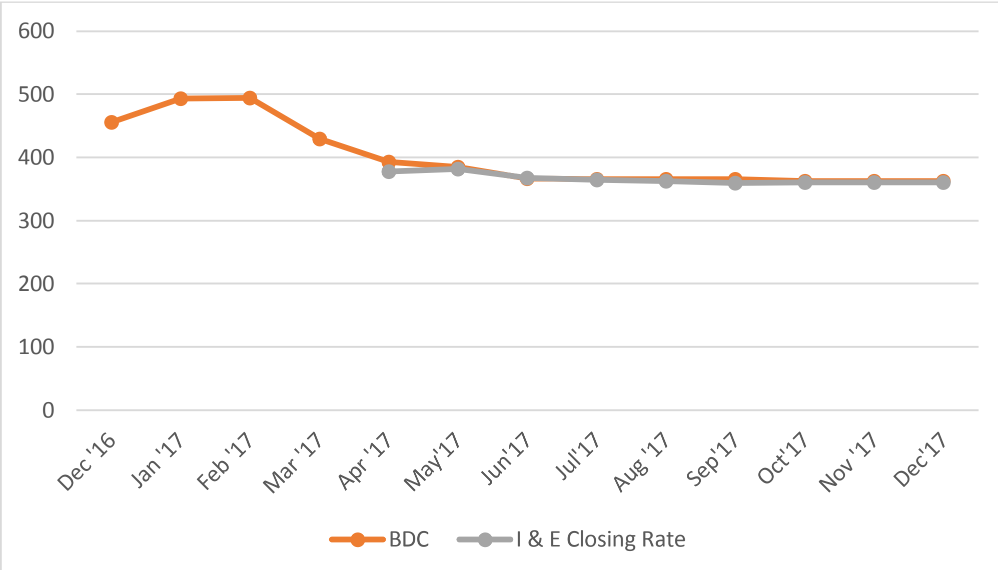


Table 2: Monthly Naira Average BDC and I & E Closing Rates (Dec '16 to Dec '17)

Month	BDC	I & E Closing Rate
Dec '16	455.2	N/A
Jan '17	493.3	N/A
Feb '17	494.7	N/A
Mar '17	429.5	N/A
Apr '17	392.9	378.1
May '17	384.5	381.9
Jun '17	366.3	367.5
Jul '17	365.4	365.0
Aug '17	365.6	362.7
Sep '17	365.6	359.9
Oct '17	362.2	360.4
Nov '17	362.4	360.3
Dec '17	362.8	360.7

Source: I & E Closing rates were obtained from the CBN and FMDQ, while BDC rates were obtained from market survey conducted by CBN

The various measures implemented by the CBN during the year further stabilized the foreign exchange market and impacted positively on the exchange rate. The

CBN will continue to monitor developments in the market and implement policies to ensure the effective and efficient management of foreign exchange in Nigeria.

1.02 DEVELOPMENTS IN CROSS-BORDER SUPERVISION

The focus of cross-border supervision during the period was to limit the pass-through effects of risk from other jurisdictions to the domestic banking system. This was carried out through off-site review/on-site examination of the offshore subsidiaries of Nigerian banks, participation in the meetings of supervisory colleges and other regional co-operation arrangements. The specific activities carried out during the period are detailed hereunder:

i. Cross-border Expansion and Divestments

The total number of cross-border institutions decreased from 68 at end-December 2016 to 65 at end-December 2017. This comprised 55 subsidiaries, seven representative offices, two branches and one affiliate located in 29 countries. The reduction was due to divestments from four cross-border subsidiaries and the establishment of a new subsidiary. Also, the foreign representative offices of Nigerian banks reduced from eight to seven, following the conversion of the Representative Office of a bank into a branch of its United Kingdom subsidiary.

During the year, two banks were issued with letters of 'no objection' to establish subsidiaries in Mozambique and Mali with initial capital of US$30 million and US$20 million, respectively. The subsidiaries were yet to commence operations at end-December 2017.

To strengthen their capital positions and meet regulatory capital requirements in host jurisdictions, 13 subsidiaries received additional capital of US$277.6 million from their parent banks in 2017.

ii. On-site Examination of Offshore Subsidiaries of Nigerian Banks

The Memoranda of Understanding (MoU), executed with regulators of host jurisdictions, facilitated information sharing and continued to serve as the basis for on-site examination. In this regard, the on-site examination of nine subsidiaries was carried out; five of which were jointly conducted with the host supervisors. Two of the on-site examination were maiden.

The examination indicated improvements in the Composite Risk Rating (CRR) of some subsidiaries, while others remained unchanged from the previous year's ratings. Specifically, the CRR of five subsidiaries was 'Above Average' and four 'Moderate'.

The cross-border AML/CFT examination of four foreign subsidiaries was conducted on consolidated basis, in line with Principle 12 of the Basel Core Principles on Banking Supervision and the Financial Action Task Force (FATF) Regulation 18. This provided assurance that risks in the subsidiaries were kept at tolerable limits.

iii. Supervisory Colleges

a. College of Supervisors of the West African Monetary Zone

Four meetings of the College of Supervisors for the West African Monetary Zone (CSWAMZ) were hosted by the Bank of Sierra Leone, Bank of Ghana (twice) and the Central Bank of Liberia. Deliberations at the meetings focused on the joint examination of Nigerian banks' subsidiaries; the implementation of Risk-based Supervision; Basel II and International Financial Reporting Standards in the West African Monetary Zone; challenges in correspondent banking relationships; framework for the supervision and regulation of Islamic banking; and oversight of payments system. The College agreed to continue to share experiences on the implementation of international regulatory standards, which are critical to the harmonisation of banking supervision and regulation across the Zone.

b. College of Supervisors of Ecobank Transnational Incorporated

The third meeting of the College of Supervisors of Ecobank Transnational Incorporated (ETI) was held in Abidjan, Cote d'Ivoire from October 26-27, 2017. Recommendations from the meeting centered on ETI amending its structure to improve governance, audit and risk management. The implementation of the recommendations was to be monitored by the Banking Commission of the West African Monetary Union (BCEAO), the home supervisor of ETI.

c. College of Supervisors of United Bank for Africa Group

The fourth meeting of the College of Supervisors of the United Bank for Africa Group (UBA) took place in Abuja, Nigeria in August 2017 with supervisors from 11 African countries in attendance. The College recommended that the Group puts in place adequate AML/CFT measures in its subsidiaries; re-assesses its risk management practices, especially in subsidiaries with high incidences of fraud; takes measures to address the issue of concentration risk observed in many jurisdictions; and improves its procedures to ensure that only people with appropriate qualifications and professional experience are recruited, especially in the areas of risk and internal audit.

d. Other Colleges of Supervisors

The CBN attended the meetings of the supervisory colleges of Standard Chartered Bank, UK and Standard Bank, South Africa during the year. The meetings provided it an opportunity to participate in the assessment of the risk profile of the groups and the likely impact on their subsidiaries in Nigeria.

iv. Regional Cooperation Arrangements

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

The CBN hosted the seminar on Crisis Management and Bank Resolution, organized for members of the Association of African Central Banks, from January 16-20, 2017. The meeting was co-sponsored with Making Finance Work for Africa. The goal of the seminar was to equip senior bank supervisors and resolution officials from across the African continent with the knowledge and skills to manage systemic banking crises in their jurisdictions. The seminar emphasised the importance of implementing early warning systems and macro-prudential supervision to complement micro-prudential supervision, in minimizing systemic banking crises, in individual jurisdictions and across borders.

The Community of African Bank Supervisors Working Group on Crisis Management and Bank Resolution (WG-CMBR) chaired by the CBN, held two meetings in 2017. The WG-CMBR developed the terms of reference for its work and administered questionnaires on AACB members on the status of their banking resolution regimes. One of the objectives of the questionnaire was to ascertain country specific gaps in the adoption of international best practice in crisis management and banking resolution. The responses will be used to develop minimum resolution toolkits for adoption by members.

b. **Community of African Bank Supervisors Working Group on Banking Supervision and Cooperation**

The CBN participated in two meetings of the Working Group on Banking Supervision and Cooperation, held in May and November 2017, in Cape Town, South Africa. The Working Group, chaired by the South African Reserve Bank (SARB), agreed on the terms of reference for its activities and commenced half-yearly submission on selected banking industry data of member-countries by the end of August 2017. It also developed a template to facilitate the uniformity of the data to be submitted. The SARB volunteered to provide the IT infrastructure, while the AACB Secretariat at Dakar would host the database. Representatives of 22 jurisdictions were in attendance.

c. **Financial Stability Board Regional Consultative Group for Sub-Saharan Africa**

The 12th BCBS-FSI High Level Meeting for Africa on "Strengthening Financial Sector Supervision and Current Regulatory Priorities" was held in Cape Town, South Africa from January 26-27, 2017. Discussions focused on key supervisory priorities, emerging practices in supervision and how best to perform forward-looking supervision in non-BCBS jurisdictions. The meeting noted the increased digitisation in finance, the threats to the viability of traditional banking business models and the need for proper implementation of a forward-looking approach to supervision.

d. **The Experts Committee on the Scheme on Quoting and Trading in West African Monetary Zone National Currencies**

The Committee established to develop technical details for quoting and trading of currencies of member countries of the WAMZ held its second meeting in Accra, Ghana, from November 27 to December 1, 2017. The meeting reviewed the draft MoU between member central banks, the draft Operational Rules and Procedures, the draft Oversight Framework and the Project Document for presentation to the Convergence Council at its meeting scheduled for January, 2018.

The collaboration and co-operation, which have constituted the hallmarks of ensuring the safety and soundness of the Nigerian banking institutions, across borders, will be sustained in the coming years.

1.03 DERIVATIVES MARKET

Following the implementation of the Guidelines for the Operation of the Nigerian Inter-bank Foreign Exchange Market, the derivatives market witnessed significant growth in 2017, as the notional value of transactions increased by 66.2 per cent to ₦17,025.4 billion in 2017 from ₦10,241.4 billion in 2016. A breakdown of the transactions revealed that FX Swaps constituted 45.5 per cent; followed by FX Forwards, 33.3 per cent; FX Futures, 20.8 per cent; and others, 0.4 per cent. In terms of counterparties, transactions with clients accounted for 61.5 per cent; the Central Bank of Nigeria, 34.3 per cent; and inter-bank transactions, 4.2 per cent.

The observed growth was underscored by FX Forwards which increased from ₦1,536.8 billion to ₦5,675.8 billion; FX Swaps from ₦6,184.6 billion to ₦7,749.0 billion; FX Futures from ₦2,469.8 billion to ₦3,536.7 billion; and Cross Currency Interest Rate Swap (CCIRS) from ₦18.4 billion to ₦59.9 billion. However, FX Options decreased from ₦31.8 billion to ₦4.0 billion. The market turnover is presented in table 3:

Table 3: Derivatives Market Turnover by Product Type in 2017

S/N	**Product**	**Bank to Bank**	**Bank to CBN**	**Bank to Client**	**Total**	
		₦'Billions				**Per cent**
1	FX Swaps	646.5	789.6	6,312.9	7,749.0	45.5
2	FX Futures	20.9	2,123.4	1,392.4	3,536.7	20.8
3	Forwards	26.9	2,889.4	2,759.5	5,675.8	33.3
4	FX Options	0.0	0.0	4.0	4.0	0.0
5	CCIRS	28.5	31.4	0.0	59.9	0.4
6	**Total**	**722.8**	**5833.8**	**10,468.8**	**17,025.4**	100.0
	Per cent	**4.2**	**34.3**	**61.5**	**100**	

The average monthly derivative transaction for 2017 was ₦1,418.8 billion, with values ranging from ₦884.7 billion in May to ₦2,111.8 billion in December. In terms of distribution, the monthly figures for eight months were below the monthly average while those for four months were above. The monthly average was thus skewed upwards by data from the four months, which had huge transaction values. The monthly transaction trend is presented in Table 4:

Table 4: Monthly Transaction Trend

Month	CCIR*	FX Forwards	FX Futures	FX Options	FX Swaps	Total
₦'Billions						
January	2.8	50.9	249.5	0.0	891.3	**1,194.4**
February	4.0	377.7	207.0	0.0	648.8	**1,237.5**
March	0.0	686.2	230.4	0.0	1162.4	**2,079.0**
April	34.6	569.2	349.2	0.0	379.1	**1,332.1**
May	0.0	421.8	72.4	0.0	390.4	**884.7**
June	1.1	525.3	78.2	0.0	501.4	**1,105.9**
July	4.4	308.9	291.7	0.1	456.2	**1,061.3**
August	0.0	444.3	281.0	0.0	630.1	**1,355.4**
September	0.0	469.9	354.3	0.0	698.3	**1,522.5**
October	0.3	638.6	523.8	0.3	662.1	**1,825.2**
November	4.7	505.6	234.1	3.6	567.6	**1,315.5**
December	8.1	677.4	665.1	0.0	761.3	**2,111.8**

Given its huge potentials, driven by increased awareness, improved product offering and enhanced participation by counterparties, the growth in the derivatives market is expected to be sustained in the coming years.

1.04 DEVELOPMENTS IN OTHER FINANCIAL INSTITUTIONS

In 2017, the Other Financial Institutions (OFIs) sub-sector recorded developments in the following areas:

i. Microfinance Banks

The number of licensed Microfinance Banks (MFBs) was 1,008 at end- December 2017, comprising 8 National, 132 State, and 868 Unit MFBs. This represented an increase of 30 from 978 at end-December 2016 comprising 8 National, 121 State, and 849 Unit MFBs.

The CBN, in collaboration with the National Association of Microfinance Banks, developed a platform called the National Association of Microfinance Banks Unified Information Technology (NAMBUIT). The platform, which comprises core and agent banking solutions, has value-adding features including client verification, credit bureau support and access to SWIFT, RTGS and ATM. The platform is expected to lead to economies of scale, connect the MFBs to the national payments system and enhance financial inclusion. A total of 111 MFBs were slated for the pilot phase in January 2018.

Furthermore, the CBN directed OFIs to commence Bank Verification Number (BVN) enrollment of their customers with an initial deadline of July 31, 2017. This deadline was later extended to December 31, 2017, due to challenges encountered in the process. The CBN also granted a subsidy of ₦250 million to the MFBs through the National Association of Microfinance Banks to support the acquisition of BVN Data Capturing Machines. Effective January 1, 2018, customers without BVNs linked to their bank accounts will not be able to make withdrawals from such accounts.

In continuation of the Microfinance Certification Programme (MCP), the Chartered Institute of Bankers of Nigeria (CIBN) administered two examinations in April and October 2017. The results showed that 413 operators passed the final level of the examination. In all, additional 669 operators were inducted in 2017, bringing the total operators certified by the CIBN to 4,568 at end-December 2017 from 3,899 at end-December 2016.

The CIBN also revised the scope and syllabus of the MCP to accommodate non-bank microfinance institutions and include new courses on emerging microfinance products such as micro-housing finance, micro-leasing, micro-insurance, agricultural finance, fintech, mobile and agency banking services. The new syllabus will become effective from April 2019.

The 18th and 19th meetings of the Committee of Microfinance Banks in Nigeria were held in Lagos, Abuja, and Owerri during the period. Deliberations at the meetings covered developments in the sub-sector; status of rendition of monthly returns; submission of audited accounts; 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.

ii. Primary Mortgage Banks

The number of Primary Mortgage Banks (PMBs) in operation remained 34 at end-December 2017, with one State PMB upgrading to National PMB. Consequently, the number of National PMBs increased to 11 at end-December 2017 from 10 at end-December 2016, while the number of State PMBs reduced to 23 from 24 in 2016.

The Mortgage Bankers' Committee (MBC) held its 16^{th} and 17^{th} meetings on June 1 and November 29, 2017. Discussions at the meetings focused on how to address the challenges facing the sub-sector given the housing gap and low-level contribution of mortgage to the country's Gross Domestic Product. The Committee also ratified the Code of Conduct for Mortgage operators developed by its Ethics and Professionalism Sub-committee.

The Mortgage Warehouse Funding Limited (MWFL), incorporated in December 2014 as a special purpose vehicle to provide short-term funding to its owner-mortgage banks through the establishment of a multi-seller asset-backed commercial paper programme, commenced operations during the year. With a capital base of ₦97 million, it successfully registered a ₦20 billion Commercial Paper Programme on FMDQ OTC Exchange in November 2017. The complementary roles of the MWFL and the Nigeria Mortgage Refinance Company (NMRC) will assist PMBs to manage their tenor mismatches by ensuring that liquidity is available for pre-financing of mortgage loans originated by MWFL-member mortgage banks.

To ensure that mortgage lending is consistent among all lenders, the Uniform Underwriting Standards (UUS) for mortgage lending adopted for the formal sector, was extended to the informal sector and non-interest mortgages during the period. To this end, only loans that meet the requirements of the UUS are to be pre-financed and refinanced by MWFL and NMRC.

iii. Development Finance Institutions

The number of Development Finance Institutions (DFIs) increased to eight in 2017 from six in 2016, with the licensing of the Development Bank of Nigeria (DBN) and reclassification of the NMRC. The DBN was licensed to operate as a wholesale development finance institution on March 29, 2017 and commenced operation during the period. The bank's mandate is to provide funding to participating financial institutions for micro, small and medium enterprises. Although NMRC was licensed in 2015 as a secondary mortgage institution, it was reclassified and admitted into the DFI Forum in 2017.

The 3rd and 4th bi-annual meetings of the DFI Forum were held in Abuja during the period. The meetings deliberated on the challenges confronting the sub-sector, which included weak corporate governance, poor risk management and inadequate capitalisation. The management of the DFIs were required to address the challenges and guard against mission/mandate drift.

The CBN developed performance measures to monitor the contribution of DFIs to the growth of critical sectors of the economy. These measures, called the Development Performance Indicators, would capture information on the performance of the DFIs in line with their respective mandates and strategic plans, as well as contribution to Gross Domestic Product. The template is expected to be completed on a quarterly basis with effect from March 31, 2018, and submitted to the CBN not later than one week after the end of each quarter.

iv. Finance Companies

The number of Finance Companies (FCs) increased to 80 at end-December 2017 from 70 at end-December 2016 with the licensing of 10 new FCs. Of the 80 FCs, 22 were inactive.

The Bi-annual Consultative Meeting of the CBN with the Managing Directors of FCs was held on September 28, 2017, in Lagos, to address concerns in the sub-sector, which included poor corporate governance, skill gap and high cost of funding.

To facilitate the rendition of statutory returns, a stop-gap template was deployed for FCs to render their monthly returns with effect from September 2017. To this end, a user training programme was organized for the operators in the fourth quarter of 2017 in Lagos. Also, the CBN organised training on Anti-Money Laundering and Risk-based Supervision to build capacity in the sub-sector.

v. Bureaux De Change

The total number of licensed BDCs increased to 3,740 at end-December 2017 from 3,147 at end-December 2016. The increase was as a result of the licensing of 511 new BDCs and the reinstatement of 82 that recapitalized during the period.

The CBN continued to strengthen the OFIs sub-sector in 2017 through initiatives and collaborations aimed at positioning 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 implementation of the Nigeria Housing Finance Programme (NHFP) continued under the four major components: Nigeria Mortgage Refinance Company; Mortgage Guarantee and Insurance; Housing Microfinance; and Technical Assistance/Capacity Building.

During the period under review, the following developments were recorded:

Nigeria Mortgage Refinance Company

Prior to 2017, the Nigeria Mortgage Refinance Company (NMRC) received US$120 million (₦22.7 billion), being the first and second tranches of the US$250 million loan commitment from the World Bank. The US$250 million is to be disbursed in six tranches. To qualify for the third tranche, NMRC was required to show that it had refinanced mortgages to the tune of the Naira equivalent of the US$120 million received. Due to the depreciation in the value of the Naira, the Project Administration Team and the World Bank adjusted the disbursement-linked indicator to use the historical exchange rate at the point of disbursement to compute the amount of mortgages refinanced.

The company was, however, unable to achieve the level of refinanced mortgages required for the third tranche. To address this, it commenced arrangement to issue bond in the capital market (to refinance 801 housing units) as the second series of its Medium Term Note Programme. The ₦11 billion bond is expected to be issued in the first quarter of 2018. Upon successful refinancing, the company would qualify for the 3rd tranche of US$50 million.

Mortgage Guarantee and Insurance

The consultants engaged to complete the feasibility study on a model mortgage guarantee institution and/or product suitable for the Nigerian market failed to deliver on schedule. This led to the appointment of new consultants with a deadline of December 2018. In addition to conducting a feasibility study, the new consultants were to design a framework for the regulation of the mortgage guarantee scheme and the implementation of a pilot run of the scheme.

Housing Microfinance

Following the disqualification of the consultants pre-selected for the Northern part of the country, another firm of consultants was selected as a replacement, bringing the number to two, one for the Southern part and the other for the Northern part of the country. The consultants provided technical assistance to eight of the nine MFBs (pre-selected for the pilot run) in the areas of product development, credit underwriting, marketing, development of operational manuals and capacity building. The eight MFBs were grouped into two, with each consulting firm providing technical assistance to four MFBs. The ninth MFB was not involved because it had benefitted from technical assistance for the pilot delivery of housing microfinance sponsored by the French Development Agency (AFD).

The eight MFBs signed technical cooperation agreements that provided the framework for the operation of the scheme and secured the commitment of their boards and management teams to deploy staff and resources to ensure the success of the scheme.

The World Bank released the first tranche of the Housing Microfinance component amounting to US$7.5 million in October 2017. The loans to the MFBs were, however, to be disbursed and repaid in local currency with interest on the loan benchmarked against the 5-year FGN savings bond plus a 1.5 per cent spread for a maximum tenor of 5 years. Prior to loan disbursement, the MFBs will be required to enter into loan agreements with the CBN.

Technical Assistance

Several activities were undertaken to facilitate the implementation of the other components of the NHFP. A media consulting firm was engaged in January 2017 to develop a publicity campaign for the programme and design financial literacy and consumer education materials. Also, in September 2017, the NHFP in collaboration with the National Judicial Council organised a 3-day workshop for the Chief Judges of the 36 states and the Federal Capital Territory with the theme, 'Mortgage Disputes in Nigeria: The Need for Expeditious Resolution of Cases'. The workshop provided the opportunity to solicit for the support of judges for prompt adjudication of disputes arising from mortgage contracts.

To ensure the realisation of the potentials of the mortgage industry as a catalyst for economic growth and development, the CBN remains committed to the implementation of the NHFP.

1.06 NON-INTEREST BANKING IN NIGERIA

During the year, efforts to ensure the growth and sustainability of the Non-Interest Financial Institutions (NIFIs) were pursued through policy and supervisory activities, as well as engagement with international development partners. In this regard, the Bank carried out the following activities:

Implementation of IFSB 4, 15 and 16

To align with the Islamic Financial Services Board (IFSB) standards 4, 15 and 16, the Guidance Notes on market risk, credit risk, operational risk, income smoothing, disclosure requirements, regulatory capital, supervisory review process and management of investment account holders that were developed by the CBN/NDIC Inter-agency Committee in 2016, were approved by the Financial Regulation Advisory Council of Experts (FRACE). The Guidance Notes and CAR reporting template are to be exposed to the industry in 2018.

On-site and Off-site Examination of Non-interest Financial Institutions

The risk-based examination of the full-fledged non-interest bank and compliance examination of the two non-interest banking windows conducted in 2017 revealed the following:

i. The total assets of the non-interest banking sub-sector increased to ₦125.7 billion at end-December 2017 from ₦77.4 billion at end-December 2016, representing an increase of ₦48.3 billion or 62.4 per cent.

ii. The total assets of the full-fledged non-interest bank increased to ₦89.2 billion at end-December 2017 from ₦67.3 billion at end-December 2016, representing an increase of ₦21.9 billion or 32.5 per cent. The quality of the risk assets, however, deteriorated as the Non-Performing Loans (NPL) ratio increased to 10.9 per cent in 2017 from 5.3 per cent in 2016. The ratio was above the regulatory limit of 5.0 per cent. Other issues included high staff turnover and concentration of investment (loan).

iii. The total assets of one of the non-interest windows increased to ₦30.4 billion at end-December 2017 from ₦4.1 billion at end-December 2016, representing an increase of ₦26.3 billion or 642 per cent. The increase was attributed to a US$30 million facility obtained from the Islamic Development

Bank. The window's NPL of 0.4 per cent was below the regulatory limit of 5.0 per cent.

iv. The total assets of the second non-interest window increased marginally to ₦6.1 billion at end-December 2017 from ₦6.0 billion at end-December 2016, representing an increase of ₦0.1 billion or 1.7 percent. The proportion of risk assets to total deposit liabilities was 10 per cent, indicating a low level of financial intermediation. Also, accumulated losses since the inception of the window in 2013 were ₦2.9 billion. An application for the closure of the window was being processed as at December 31, 2017.

Liquidity Management

In addition to the CBN Safe Custody Account, CBN Non-Interest Note and CBN Asset-backed Securities, two liquidity management instruments, Funding for Liquidity Facility and Intraday Facility were approved during the year. These instruments, along with the ₦100 billion Sovereign Sukūk issued by the Debt Management Office, were designed to address the problems associated with liquidity management and deepen the market for investment securities for NIFIs.

Multinational and Cross-border Cooperation

The Islamic Corporation for the Development of the Private Sector (ICD), a multinational agency and the investment arm of the Islamic Development Bank, provided funds for on-lending to SMEs in Nigeria through select banks. A total of US$70 million was availed to two banks. A meeting was held in August 2017 with the ICD to discuss areas of further support to the Nigerian economy, including information sharing and technical assistance to enhance the capacity of both operators and regulators of the non-interest banking sector.

Activities of the Financial Regulation Advisory Council of Experts

The FRACE held four meetings during the year. Other activities of the Council included:

i. Review of the draft Uniform Underwriting Standards for Non-Interest Housing Finance;

ii. Provision of advisory services to the Debt Management Office for the ₦100 billion Sovereign Sukuk;

iii. Review of a proposal by the National Pension Commission to set up a Shari'ah compliant component of the Pension Fund and other related matters;

iv. Compilation of a compendium of FRACE resolutions;

v. Screening of Advisory Council of Experts nominees from NIFIs; and

vi. Approval of products for the NIFIs.

The non-interest sub-sector has continued to develop with the CBN poised to support efforts at deepening financial services and providing options for alternative finance in the Nigerian economy.

1.07 ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM

The CBN sustained its commitment to ensuring that financial institutions under its regulatory purview did not serve as gateways for money laundering and financing of terrorism. To this end, it issued guidance to the industry on emerging AML/CFT risks, co-operated with other AML/CFT stakeholders and contributed to the development of legislation.

In a bid to protect consumers from the risks inherent in virtual currencies, the CBN issued a circular in January 2017, directing banks and other financial institutions not to use, hold, trade or transact in virtual currencies. It also issued a notice, informing the public that virtual currencies are not legal tender in Nigeria and cautioned on its risks, including the absence of avenues for redress.

A circular, dated May 2, 2017, was issued to other financial institutions on the rendition of AML/CFT returns in line with the provisions of the Money Laundering Prohibition Act, 2011 and the CBN Regulation on AML/CFT, 2013. Also, in June 2017, the CBN issued a circular to all banks and other financial institutions on the need to improve their processes for the rendition of Suspicious Transaction Reports (STR) to the Nigerian Financial Intelligence Unit (NFIU).

In July 2017, the Egmont Group suspended Nigeria from the Group, citing the absence of a legal framework for the establishment of the NFIU as reason for its action. Necessary measures had been put in place by relevant stakeholders to address the concerns of the Group.

The CBN on September 14, 2017 and December 7, 2017, hosted meetings of the AML/CFT Stakeholders Consultative Forum with 26 member agencies in attendance. The forum provided a platform for the exchange of information and ideas on current trends and typologies in AML/CFT. Members provided updates on AML/CFT activities undertaken by their agencies and deliberated on ways to address their operational challenges.

In compliance with Recommendation 40 of the FATF, the Bank participated in the 28th GIABA Technical Commission/Plenary hosted by Nigeria in November 2017. Delegates from GIABA member states, central banks and international development partners attended the meeting. The deliberations at the plenary focused on the Mutual Evaluation and National Risk Assessment exercise of member states; emerging money laundering and terrorist financing risks; and the FATF decision on the Mutual Evaluation Report of Ghana.

The CBN also contributed to the review of the Money Laundering (Prohibition) Act, 2011 and the Terrorism Prevention Act, 2011, which were being amended by the National Assembly.

The CBN is committed to ensuring that effective measures are implemented in the financial sector to combat money laundering and financing of terrorism. The Bank will continue to strengthen its collaboration and cooperation with other relevant AML/CFT stakeholders as well as closely monitor and supervise banks and other financial institutions using a risk-based approach.

1.08 DEVELOPMENTS IN THE CREDIT BUREAUX INDUSTRY IN NIGERIA

Some major developments in the credit bureaux industry during the period included:

Credit Reporting Act, 2017

The Credit Reporting Act was enacted in May 2017. The Act expanded the coverage of credit bureau activities to all credit providers in the economy with the CBN responsible for its implementation.

The Act sets out to achieve the following objectives among others:

i. Facilitate and promote access to credit and enhance risk management in credit transactions;

ii. Promote access to accurate, fair and reliable credit information and protect the privacy of such information;

iii. Set standards and conditions for the establishment, regulation and operation of credit bureaux; and

iv. Facilitate credit information sharing.

The Credit Reporting Act provides that a credit bureau shall perform the following functions:

i. Create and maintain a database of credit and credit-related information;

ii. Receive, collate and compile credit and credit-related information from credit information providers, users and such other persons as the Bank may prescribe;

iii. Issue credit reports and provide other services related to permissible purposes;

iv. Investigate, at the request of a credit information user, an application for credit on behalf of any person to whom an application for a credit-based transaction has been made; and

v. Carry out such other functions and services that are compatible with the above, provided that the confidentiality of any information obtained in the course of carrying out such functions or rendering such services, is maintained as prescribed in the Act.

The Act empowers the CBN to regulate the credit reporting system in Nigeria. It also specifies the permissible purposes for which a credit information user may seek information from a credit bureau. It also provides for the right of data subjects to privacy, confidentiality and protection of their credit information.

Other Developments

With the grant of approval to one credit bureau to implement the credit scoring system, the credit bureaux industry is well-positioned to provide credit scores for individuals and corporate entities.

The credit reporting industry continued to record remarkable acceptance and growth in Nigeria. At end-December 2017, the average number of credit records in the database of the three credit bureaux stood at 47.2 million, an increase of 0.4 million records over 46.8 million recorded in 2016.

The cumulative number of credit bureaux subscribers at end-December 2017 stood at 1,752, an increase of 404 compared to 1,348 recorded at end-December 2016. The value of outstanding credit facilities slightly decreased to ₦23.9 trillion in 2017 from ₦24.1 trillion in 2016. Similarly, the number of borrowers with outstanding facilities, reduced to 15.3 million from 16.0 million reported in 2016.

The licensed credit bureaux continued to play a crucial role in the management of credit risk in the banking system, thus facilitating access to finance by providing relevant information to assist lending institutions.

CHAPTER 2: FRAMEWORK FOR SUPERVISION

2.01 IMPLEMENTATION OF THE FRAMEWORK FOR FINANCIAL STABILITY

The implementation of the framework for the enhancement of specific tools for managing the stability of the Nigerian financial system continued in 2017.

Following the development of the various frameworks, sub-frameworks and supporting documents under the three policy areas (macro-prudential, micro-prudential and crisis management continuum), the frameworks were presented to the Programme Steering Committee for consideration. The Committee approved the underlisted frameworks, sub-frameworks and supporting documents:

i. Financial System Stability Framework;

ii. Macro-prudential Analytical Framework and Capabilities;

iii. Micro-prudential Framework (Functions and Enhancement);

iv. Crisis Management and Resolution Framework;

v. Crisis Management Handbook;

vi. Data Gathering and Storage Capabilities (IT Infrastructure);

vii. Memorandum of Understanding to Operationalise the New Frameworks pending the passage of the Nigeria Financial System Stability Council (NFSSC) Bill;

viii. Draft NFSSC Bill;

ix. Communication/Stakeholder Engagement Framework;

x. Transaction-based Funding Option for Financial System Stability Crisis Fund;

xi. Implementation Roadmap; and

xii. Job Description and Delegation of Authority Framework.

These frameworks will be presented to the Financial Services Regulation Coordinating Committee for approval in 2018.

2.02 MACRO-PRUDENTIAL SUPERVISION

In 2017, the Nigerian economy exited the recession that began in 2016 with real GDP growing by 2.4 percentage points to 0.8 per cent in 2017 from –1.6 per cent, the year before. The effects of the recession lingered in the banking industry as industry Capital Adequacy Ratio (CAR) declined to 10.2 per cent at end-December 2017 from 14.8 per cent recorded at end-December 2016. Similarly, industry asset quality, as measured by the level of NPL, declined to 14.7 per cent at end-December 2017 from 12.8 per cent at end-December 2016.

The following macro-prudential supervisory activities were conducted in the period under review:

Stress Tests

The Bank deployed a range of macro-prudential tools, in particular stress tests, to identify, monitor and assess the risks to, and vulnerabilities of the banking industry. The end-December 2017 quarterly stress test, which covered 24 banks, evaluated the resilience of the industry to shocks arising from credit, interest rate, exchange rate and contagion risks. The industry was categorised into Large (assets ≥₦1 trillion), Medium (assets >₦500 billion but <₦1 trillion) and Small banks (assets ≤₦500 billion) based on asset size.

The following shocks were applied and their impacts measured on industry CAR:

i. 100 per cent increase in NPL (general credit default);
ii. 100 per cent default by the five biggest obligors (obligor concentration); and
iii. 50 per cent default in oil and gas exposures (sector concentration).

The result of the stress test showed that the worst impact will arise from 100 per cent default of the five biggest corporate obligors.

Overall, industry resilience deteriorated, driven by the performance of the medium and small banks. While the large banks were generally resilient to the shocks, the medium and small banks revealed significant deterioration.

In 2017, macroeconomic conditions showed signs of improvement from the recession experienced in 2016. However, recovery was weak with banking industry performance, driven mainly by the medium and small banks, not reflective of the positive reversals. General credit default risk and credit concentration risks in the oil and gas industry and for the top corporate obligors continued to be the dominant risks faced by the industry. These risks were being closely monitored by the Bank with a view to taking corrective actions as needed.

Development of Draft Macro-prudential Policy Framework

The CBN, in conjunction with member agencies of the Financial Services Regulation Coordinating Committee (FSRCC), continued the implementation of the programme for the enhancement of the frameworks for managing financial system stability. In this regard, a draft macro-prudential policy framework for maintaining the resilience of the banking industry to systemic risks was produced.

The objectives of the draft framework include:

i. Ensuring liquidity and solvency;

ii. Identifying and mitigating vulnerabilities and systemic risks;

iii. Preventing excessive maturity mismatch in the assets and liabilities of banks, including currency mismatch in amortisation;

iv. Identifying, preventing, and mitigating excessive credit growth and leverages; and

v. Identifying and mitigating the adverse impact of disorderly exit of domestic-systemically important banks.

The framework will be submitted to the FSRCC for approval in 2018 prior to implementation.

The macro-prudential activities of the Bank were complemented by micro-prudential tools, including liquidity ratio, cash reserve and net open position requirements. Together, these contributed to the effective supervision of the industry towards maintaining its resilience against domestic and external headwinds.

2.03 IMPLEMENTATION OF THE NATIONAL FINANCIAL LITERACY FRAMEWORK

In line with the goal of the National Financial Literacy Framework (NFLF) of empowering citizens with knowledge through access to quality financial education to enable them to make informed decisions for their financial well-being, the CBN continued with the implementation of the financial literacy programmes in 2017. The Bank utilised the multi-stakeholder strategy laid out in the NFLF to conduct financial programmes in collaboration with other stakeholders. Some of the programmes included:

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

The programme was developed in collaboration with the German Development Corporation (GIZ) and the European Union (EU), specifically to serve the Adult Emerging Market comprising Micro, Small and Medium Enterprises (MSMEs) and Farmers. The financial education of the Adult Emerging Market, being the largest and most economically active market segment is critical for the attainment of the year 2020 financial inclusion target.

The programme comprised 13 financial education modules covering Needs and Wants; Record Keeping and Cash flow Management; Savings and Group Saving; Loans (Borrowing); Financial Planning and Budgeting; and Risk Management. Others are Financial Environment; Fraud and Scams; Consumer Rights and Responsibilities; Household Financial Management; Coordinating with my Community; Me and my Business; and Paying Tax. The train the trainer model where representatives of various groups were trained to train members of the groups they support was adopted in the delivery of the programme, which was conducted in Awka, Dutse, Makurdi, Jalingo, Calabar, Enugu, Ibadan, Osogbo, Abakaliki, Asaba and Minna, during the period.

ii. National Youth Service Corps Peer Educator Programme

The Financial Inclusion Technical Committee, based on the recommendation of the Federal Ministry of Youth and Sports Development in 2016, resolved to use the National Youth Service Corps (NYSC) scheme as a platform for the implementation of the targeted financial education programme. The NYSC Peer Educator Programme was accordingly adopted as a vehicle to reach out to the Adult Emerging Market comprising MSMEs and Farmers market segment as part of its Community Development Service. Under the scheme, a total of 1,988 volunteer corp members were trained to teach the financial education modules to the groups they support and work with their host communities in identifying the beneficiaries. The programme took place during the NYSC orientation programme in 14 camps in Abia, Anambra, Edo, Gombe, Kwara, Kano, Lagos, Oyo, Plateau, Rivers, Sokoto, Taraba, Jigawa and Delta States.

iii. Participation at Trade Fairs

The Bank participated at the 38th Kaduna International Trade Fair from February 24 to March 5, 2017 and the 32nd Lagos International Trade Fair from November 6 to 12, 2017. The trade fairs provided opportunities to enlighten consumers on their rights and responsibilities, procedures for lodging complaints, the Bank's development finance initiatives and to promote financial literacy among the general public.

iv. Mainstreaming Financial Education into the School Curricular

One of the segments identified by the NFLF for financial education is the youth population with 60 per cent of this segment made up of in-school youth and children. The introduction of financial literacy into the Nigerian educational system was, therefore, identified as one of the most effective channels to drive financial literacy within this segment.

Sequel to the conclusion of the Curriculum Development project (that is, development and infusion of curriculum) in December 2016, a Teachers' Guide for teaching the Financial Education Curriculum (FEC) was developed and approval granted to commence the pilot testing phase in selected schools. Plans were also underway to commence the National Rollout of the FEC at the beginning of the 2018/2019 academic session.

v. Development of a National Financial Education Strategy

Following observations that a large portion of the NFLF document was high level and required additional work to implement, a Financial Education Strategy (FES) was developed. The strategy provides a coherent, institutionally coordinated and collaborative approach to financial education delivery designed to enhance financial literacy levels and ultimately the financial capability of Nigerians. The FES aims to equip relevant stakeholders and policymakers with identified priority actions, technical guidance and detailed implementation plans within an initial

18-month timeframe. The FES contains a monitoring and evaluation framework, which was not in the NFLF. The development of the FES has been completed in collaboration with the World Bank's Financial Sector Mission and was awaiting Management approval at end-December 2017.

The NFLF emphasises financial literacy as a crucial deliverable in the effort to enhance the financial inclusion drive of the Federal Government and engender economic growth. The implementation of the NFLF and the FES will undoubtedly be of immense benefit to the nation.

2.04 GUIDELINES FOR THE RE-DESIGNED CREDIT RISK MANAGEMENT SYSTEM FOR COMMERCIAL, MERCHANT AND NON-INTEREST BANKS IN NIGERIA

Further to the re-design of the Credit Risk Management System (CRMS), the CBN issued the "Regulatory Guidelines for the Operation of the Re-designed CRMS for Commercial, Merchant and Non-Interest Banks in Nigeria" in February 2017.

The Guidelines is structured into seven sections covering the definition of terms; background; underlying basis and objectives; roles and responsibilities of stakeholders; scope of reporting; sanctions for non-compliance; and complaints and dispute resolution.

The objectives of the Guidelines include to:

i. Ensure that all borrowers of regulated financial institutions in Nigeria are uniquely identified;

ii. Provide minimum standards and requirements for the operation of the CRMS database; and

iii. Specify the roles and responsibilities of stakeholders.

Other salient features of the Guidelines include requirements for:

a. Financial institutions to render returns on the details of:

  - Loans and advances prior to disbursement regardless of value;

- o Investment securities captured as part of loans and advances; and
- o Dishonoured/dud cheques issued by customers.

b. The use of BVN for individuals and TIN for non-individuals as unique identifiers in the rendition of returns.

c. Utilisation by financial institutions of the templates detailed in the CRMS user manual and code book for the submission of returns.

d. Financial institutions to ensure that credit records of customers are up to date.

The Guidelines also stipulates sanctions for failure to submit details of loans and borrowers before disbursement as well as for the submission of misleading, incorrect, invalid and incomplete information. Furthermore, redress mechanism for borrowers who dispute any credit record or status report on the CRMS was provided.

The re-design of the CRMS is intended to improve credit risk management practices and reduce incidences of predatory borrowing in the banking industry.

2.05 GUIDE TO CHARGES BY BANKS AND OTHER FINANCIAL INSTITUTIONS

In April 2017, the CBN issued the Guide to Charges by Banks and Other Financial Institutions in Nigeria (the Guide), to replace the Revised Guide to Bank Charges issued in March 2013. The new regulation provides a tariff regime to standardise charges in the other financial institutions sub-sector. Consequently, the title of the regulation was changed to "Guide to Charges by Banks and Other Financial Institutions in Nigeria, 2017".

The key objectives of the new regime were to:

i. Fill the vacuum created by the absence of a tariff regime for microfinance banks, primary mortgage banks, finance companies and mobile payment operators;

ii. Align the tariff regime in the banking industry with economic realities;

iii. Standardise the application of charges for banking products;

iv. Enhance disclosure requirements for product/service offerings; and

v. Reduce ambiguities and misrepresentations by providing a clear and simple definition of terms used in the Guide.

Structure of the Guide

The Guide is structured into five Parts. Part one prescribes charges for products and services offered by Deposit Money Banks (DMBs); Part two covers charges for three categories of OFIs - microfinance banks, primary mortgage banks and finance companies; Part three deals with charges for mobile money operators; Part five provides the Glossary of Terms; while Part five stipulates minimum disclosure requirements in offer letters for credit facilities.

Highlights of the Guide are as follows:

i. Part one comprises 11 sections detailing rates, charges and information on interest payable on account maintenance fee; commission on bonds, guarantees and indemnities; foreign exchange commission/charges; bills for collection; deposits; interest rates and lending fees; current straightforward handling of documents; inward and outward letters of credit; internal transactions within Nigeria; electronic banking; and miscellaneous banking services.

ii. Parts two and three cover charges for other financial institutions and mobile money operators.

iii. Part four, the glossary of terms, defines key banking terminologies used in the Guide.

iv. Part five prescribes minimum disclosure requirements in offer letters for credit facilities such as consumer loans, mortgage loans and overdrafts. It also prescribes the minimum disclosure requirements for contingent liabilities.

Key Changes in the Guide

A major change introduced in the 2017 Guide is the benchmarking of interest rates on local currency deposits and credit to the Monetary Policy Rate (MPR). This was designed to enhance the transmission of the policy rate to the economy. The table below shows other salient differences between the 2017 and 2013 editions:

Table 5: Requirements of the 2017 and 2013 Guide to Charges by Banks and OFIs

Description	**Requirements of the 2017 Guide**	**Requirements of the 2013 Guide**
Local currency loans	Negotiable (the rate should anchor MPR, reflecting the risk-based pricing model). Also, when there is a change in the agreed rate, the customer must be notified within 10 business days in advance of the application of the new rate	Negotiable (the rate should reflect the risk-based pricing model). When there is a change in the agreed rate, the customer must be notified within 5 business days in advance of the application of the new rate
Interest rate on foreign currency loans	Negotiable	Negotiable (referenced to LIBOR)
Penal rate for foreign currency loans	Maximum of 0.25% flat per month of unpaid amount in addition to charging current rate of interest on outstanding debt	1% flat per month on unpaid installments
Advisory/Consultancy fee	Negotiable (only applies where there is a written advisory/consultancy agreement between the bank and the customer)	Negotiable
Lending fees	Total lending fees shall not exceed 2 per cent	Not applicable

Commission on turnover	Not applicable	Negotiable subject to a maximum of ₦3/mille in 2013; ₦2/mille in 2014; ₦1/mille in 2015; and zero from 2016
Current account maintenance fee	Negotiable subject to a maximum of ₦1/mille	Not applicable
Performance bond, advance payment guarantee, bank guarantee, and other bonds, guarantees and indemnities	Negotiable, subject to a maximum of 1 per cent	Negotiable, subject to a maximum of 2 per cent
Commission on withdrawals from Domiciliary Accounts	0.05 per cent of transaction value or $10, whichever is lower (whether savings or current account)	For current accounts: 0.5 per cent of transaction value For savings accounts: No charge
Cost of hardware token	Cost recovery subject to a maximum charge of ₦3,500	Maximum of ₦1,500 (one-off charge)
Card maintenance fee	₦50/month	₦100/annum, i.e. ₦8.3/month
Electronic funds transfer	₦50 per transaction	Ranged between ₦70 and ₦500 depending on the amount
Card issuance, replacement or renewal fees	₦1,000 (one-off charge). The same charge applies irrespective of card type (i.e. regular or premium card)	₦1,000 (one-off charge)
Returned cheque - Due to the account being unfunded	1 per cent of amount or ₦5,000, whichever is higher (to be borne by drawer only). This is without prejudice to the Dud Cheque Act	0.5 per cent, maximum of ₦5,000 (to be borne by drawer only). This is without prejudice to the Dud Cheque Act

Status enquiry	₦500 (only applies to enquiries issued at the request of the customer)	Maximum of ₦5,000
Offshore (international) withdrawal from ATM	Exact cost by international acquirer (Cost Recovery)	₦240
Merchant service commission (in 2013 Guide called Point of sale)	Negotiable	Various, depending on the merchant. • General merchant: 1.25 per cent of transaction value, subject to a maximum of ₦2,000 • Wholesale, Hotels, Food, Churches, NGOs, Fuel Stations, Airline Operators, and Travel Agents: Negotiable subject to a maximum of ₦2,000 • Card charges (international travel): 2.5 per cent of transaction value.

The Guide was issued to address the weaknesses in the previous edition, particularly the absence of a tariff regime to regulate the fees charged by other financial institutions for their products and services. The implementation of the Guide will enhance disclosure by banks and other financial institutions, promote competition in the financial system and support the consumer protection objectives of the CBN.

2.06 IMPLEMENTATION OF THE BANK VERIFICATION NUMBER BY OTHER FINANCIAL INSTITUTIONS

In continuation of the implementation of the BVN, a unique identifier for customers in the banking system, enrolment was extended to customers of other financial institutions in 2017. This was designed to deepen the KYC drive and improve credit risk management practices in the sub-sector.

To give effect to the new policy, a circular dated April 21, 2017, was issued, with an initial implementation timeline of not later than July 31, 2017. Following an appeal by the National Association of Microfinance Banks, which also sought the support of the CBN in the implementation of the policy, the timeline was extended to December 31, 2017. Consequently, the CBN approved the:

1. Release of the Data Capturing Machines (DCMs) in the CBN branches to the CBN/Nigeria Inter-Bank Settlement System (NIBSS) pool for a period of six months to support the enrolment exercise in MFBs;

2. Request for commercial banks to release their idle DCMs to the NIBSS for the enrolment;

3. Continuation of the enrolment support project to drive volume, collate relevant performance data and monitor compliance with the circular through on-site inspection of OFIs; and

4. Release of funds to cover logistics for the project implementation committee.

In line with the approval, the project implementation committee carried out a monitoring exercise to assess progress. The exercise revealed several challenges including new DCMs without operating systems; MFBs that had no authorisers as NIBSS only created inputters for them; inability to utilise the DCMs released by the CBN due to access issues; and poor coordination among MFBs in some States, which hindered the distribution of the DCMs. Taking into cognizance these challenges, the CBN provided financial support to the MFBs in the form of subsidy from the technical grant component of the Micro, Small and Medium Enterprises Development Fund to enable them to acquire DCMs.

Data submitted by 197 MFBs, on BVN enrolment to the CBN at end-December 2017 showed that out of 3,501,132 active customers, only 1,130,464 had been enrolled, indicating an enrolment rate of 32.3 per cent. The enrolment rate was attributed to the low turnout of MFBs’ customers and failure to upgrade some institutions’ banking software to enforce the use of BVN.

The implementation of the BVN enrolment in OFIs will ensure that all customers in the banking system are uniquely identified.

2.07 IMPLEMENTATION OF THE CREDIT REPORTING ACT BY OTHER FINANCIAL INSTITUTIONS

To further enhance credit reporting in Nigeria, the CBN commenced the implementation of the Credit Reporting Act, 2017 in the OFI sub-sector.

Prior to the enactment of the Act, the CBN issued a circular on "Data Exchange Agreements with at Least Two Credit Bureaux in Nigeria". The circular dated May 10, 2017, required OFIs to obtain credit reports from at least two credit bureaux prior to granting credits. It also prohibited OFIs from granting credits to unqualified customers and encouraged the sharing of credit information. In addition, the circular provides sanctions for the victimization of Compliance Officers who disclose insider related facilities. Given the requirement to obtain a customer's consent before disclosing information to the credit bureaux, the circular directed OFIs to insert a disclosure clause in the terms and conditions section of account opening packs to permit information sharing without recourse to customers.

To implement the provisions of the Act as they relate to OFIs, the CBN, among other measures:

i. Made registration with credit bureaux a pre-condition for the licensing of all OFIs that will be involved in lending activities.

ii. Conducted workshops from May 22 to June 7, 2017, for Managing Directors and Chairmen of Board Credit Committees on credit data reporting, obligations of the compliance function and the implications of concealing insider related facilities. A total of 623 OFIs were represented by 989 participants.

iii. Organised a credit reporting workshop for bank examiners, from July 31 to August 4, 2017.

iv. Established a Credit Reporting Team in August 2017 to monitor compliance with the requirements of the Act and recommend timely supervisory actions. This led to the development of a Credit Reporting Compliance Questionnaire, which was used in the conduct of on-site credit reporting checks between September and December 2017.
v. Required credit bureaux to render monthly returns in the specified format by the 19th day of every month in respect of the preceding month.

At end-December 2017, 734 out of 1,131 eligible OFIs registered with at least two credit bureaux. The OFIs commenced the submission of credit data with challenges experienced in the areas of integration of Common Data Format into the banking application system and submission of credit data with incorrect BVNs and telephone numbers. Appropriate measures were being designed to address these challenges.

The implementation of the Credit Reporting Act is expected to improve credit risk management practices in the OFIs sub-sector in Nigeria.

2.08 IMPLEMENTATION OF THE CORPORATE GOVERNANCE SCORECARD

In 2017, an assessment of banks' corporate governance practices was carried out using the Corporate Governance (CG) Scorecard. The exercise, covered all banks and involved the administration of a CG questionnaire to selected officers of the banks (including the MD/CEOs and Executive Directors), to elicit information on corporate governance practices, with a view to determining the level of compliance with the CBN Code.

Objectives of the Scorecard

The objectives of the CG Scorecard are to:

i. Provide a standardized assessment framework for the CBN to assess banks' corporate governance practices, rather than relying solely on their self-assessment;

ii. Assist the CBN in the identification of weaknesses in the implementation of CG regulations and practices with a view to enhancing corporate governance in the banking industry;

iii. Enable banks to improve their corporate governance practices based on feedback from the assessment;

iv. Provide a basis for comparison of corporate governance practices across banks; and

v. Provide a basis for continuously creating awareness of the essence of sound corporate governance practices in the banking industry.

Structure of the Questionnaire

The questionnaire is divided into five sections covering areas specified in the CBN Code. The sections with the number of questions and weight assigned are shown in Table 6:

Table 6: Questionnaire Topic Area and Score Allocation

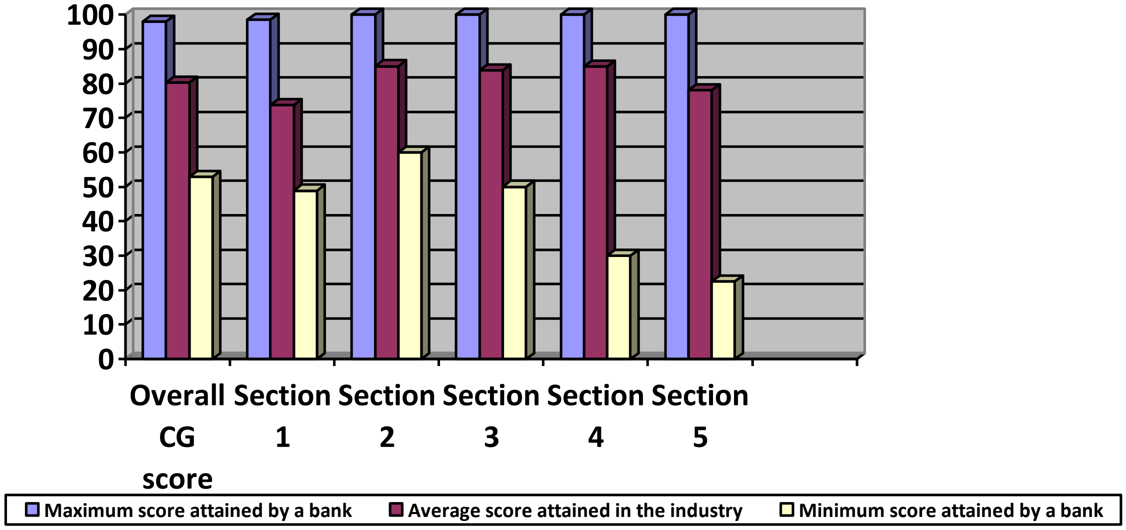
Section	Number of Questions	Weighting- Per cent of Total Score
Section 1: Board and Management/Ethics and Professionalism	70	40
Section 2: Equitable treatment of shareholders	42	15
Section 3: Rights of other stakeholders	8	10
Section 4: Risk Management	14	20
Section 5: Disclosure and Transparency	20	15
Total	**154**	**100**

Result of the Assessment

Banks with total score of 80 per cent and above were rated "Strong"; those with 60 per cent to 79 per cent were rated "Acceptable"; while banks with scores between 50 per cent and 59 per cent were rated "Needs Improvement"; and below 50 per cent, "Weak". The result of the assessment revealed that 16 banks were rated "Strong", 9 banks "Acceptable" and 1 "Needs Improvement".

The result of the assessment based on the sections covered is presented in the chart below:

Figure 2: Overall Results in the Corporate Governance Sections



The average score attained by banks in sections 2, 3, and 4 was above 80 per cent, while the scores in Sections 1 and 5 were 73.8 per cent and 78.1 per cent, respectively. This indicated that corporate governance practices in Board/Management, Ethics/Professionalism and Disclosure/Transparency were "Acceptable", but needed more management attention to become "Strong".

Based on the analysis of the responses to the questionnaires under Section 1 (Board/Management and Ethics/Professionalism) and Section 5 (Disclosure and Transparency), the areas that required additional attention by the banks were:

i. Disconnect between strategy and implementation;

ii. Non-compliance with the requirement on number of Independent Non-executive Directors;

iii. Failure to utilise the attendance of Board/Board Committee members at meetings as a basis for re-election;

iv. Existence of cross-directorship in holding companies and subsidiaries;

v. Lack of succession planning; and

vi. Non-adherence to the provisions of Board/Board Committee Charters.

The findings of the exercise were communicated to the banks along with recommendations on remedial action to be taken. The CBN will continue to assess governance practices with a view to improving corporate governance in the banking industry.

2.09 GUIDELINES ON THE REGULATION AND SUPERVISION OF NON-INTEREST (ISLAMIC) MICROFINANCE BANKS IN NIGERIA

In furtherance of efforts to enhance financial inclusion and promote savings culture, the CBN issued the "Guidelines for the Regulation and Supervision of Non-interest (Islamic) Microfinance Banks in Nigeria", in 2017. The objectives are to ensure the effective regulation and supervision of Non-Interest (Islamic) Microfinance Banks (NIMFBs) and provide a level playing field between conventional and non-interest MFBs.

The Guidelines defines a NIMFB as a microfinance bank licensed by the CBN to carry on the business of providing financial services, engage in trading, investment and commercial activities, in accordance with the principles of Islamic Commercial Jurisprudence. It specifies minimum operating standards for promoters and operators and stipulates the prudential ratios and other regulatory requirements.

Highlights of the guidelines are provided below:

Advisory Committee of Experts

The Guidelines provides for the appointment of a body, the Advisory Committee of Experts (ACE), as part of the governance structure of NIMFBs, to advise the institutions on compliance with the principles underpinning their operations. The ACE shall operate as an independent body, comprising a minimum of three persons appointed by the NIMFB.

Permissible and Non-permissible Activities

The Guidelines permits NIMFBs to engage in all the permissible activities of conventional MFBs as contained in the "Revised Regulatory and Supervisory Guidelines for Microfinance Banks (MFBs) in Nigeria", provided they comply with the principles of Islamic Commercial Jurisprudence. In view of this, the NIMFBs are prohibited from offering products/services that involve riba (interest), uncertainty or ambiguity, gambling, speculation, dealing in pork, alcohol, intoxicants, arms and ammunition and pornography.

Licensing and Financial Requirements

There are three categories of license for the NIMFB namely: Unit, State or National, with minimum share capital requirement of ₦20 million for Unit; ₦100 million for State; and ₦2 billion for National NIMFB.

Promoters of NIMFB are required to provide the following in support of their application for a licence:

i. A non-refundable application fee of ₦50,000, ₦100,000 and ₦250,000 for Unit, State and National NIMFB, respectively;

ii. Deposit of the minimum capital requirement for the relevant category of NIMFB in an escrow account with the CBN;

iii. Detailed feasibility report, which provides relevant information in line with extant CBN regulations; and

iv. A draft Memorandum and Articles of Association.

The CBN, upon consideration of the application, may grant an Approval-in-Principle (AIP) to the promoters specifying the conditions to be met before the grant of a final licence.

Corporate Governance Requirements

The Guidelines requires NIMFBs to comply with the relevant provisions of the Banks and Other Financial Institutions Act (BOFIA), Cap B3, LFN, 2004; the Companies and Allied Matters Act, 1990 (as amended); and the provisions of other relevant corporate governance codes.

The Board of directors of an NIMFB shall comprise a minimum of five and maximum of seven members for Unit NIMFB and a minimum of five members for State and National NIMFB with maximum unspecified but subject to the approval of the CBN.

Head Internal Shariah Compliance Unit
The Guidelines requires NIMFBs to have internal Shariah compliance units headed by individuals with proven knowledge of Islamic Commercial Jurisprudence. Such individuals shall be responsible for reviewing and validating contract documents, conducting Shariah audits and ensuring that management implements the decisions of its ACE and the CBN Financial Regulation Advisory Council of Experts.

Branding
The Guidelines prohibits the use of the word "Islamic" as part of the registered or licensed names of an NIMFB. The CBN shall however, design a uniform symbol to be used by all NIMFBs in their signage and promotional materials to facilitate recognition by customers and the general public.

Approval of Contracts, Products and Services
The Guidelines provides that all contracts, products and services offered by NIMFBs shall be reviewed and approved by the ACE. The introduction of new products/services shall require the endorsement of the ACE and the approval of the CBN's FRACE.

A NIMFB is expected to explain in detail and in simple language, the terms and conditions of each contract and shall obtain signed agreement from a customer that the details of the contract are fully understood.

Profit Sharing Investment Accounts
The Guidelines requires NIMFBs to properly execute investment contracts with their Profit Sharing Investment Account (PSIA) holders. In this regard, prospective PSIA clients are to be informed in writing that the burden of loss rests with them and that the NIMFB would not share in the loss unless there is proven negligence, breach of contract or misconduct for which it is responsible.

To hedge against volatility in its income and returns to investment account holders, a NIMFB may maintain a Profit Equalization Reserve (PER). It may also maintain an Investment Risk Reserve (IRR) for PSIA holders to provide a cushion against future losses. The basis for computing the amounts to be appropriated to the PER and IRR shall be pre-determined and disclosed.

The issuance of the NIMFB Guidelines is designed to promote financial inclusion, offer an alternative system of microfinance banking, based on the concept of profit and loss sharing, and engender competition among MFBs. The CBN will ensure the effective implementation of the Guidelines towards achieving these objectives.

CHAPTER 3: SUPERVISORY ACTIVITIES

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

Some of the off-site supervisory activities carried out during the review period are highlighted below:

Licensing

Nova Merchant Bank Limited was licensed in December 2017, bringing the total number of licensed banks to 27 (21 commercial, five merchant and one non-interest) at end-December 2017. In terms of authorization, there were 10 international, 15 national and two regional banks. There were also three non-operating financial holding companies (FHCs).

Regulations

The CBN issued guidelines and circulars on regulatory and supervisory requirements; some of which included:

a. Guide to Charges by Banks and Other Financial Institutions in Nigeria 2017, aimed at standardising charges on various products and services offered by banks, other financial institutions and mobile payment operators.

b. Guidelines for the Regulation and Supervision of Non-interest (Islamic) Microfinance Banks in Nigeria, which provides regulatory requirements for the operation of non-interest microfinance banks.

c. Guidelines on Bancassurance Referral Model was reviewed to align its provisions with extant regulations.

d. Regulatory Guidelines for the Re-designed Credit Risk Management System for Commercial, Merchant and Non-interest Banks in Nigeria, which provides guidance on the reporting of credit facilities.

e. Review of the Limit on Foreign Borrowing by Banks, which increased the limit of banks' foreign currency borrowing in relation to their shareholders' funds. The revision was in response to the depreciation in the domestic currency relative to the US dollar that led to an increase in the Naira equivalent of the foreign currency denominated borrowings of banks.

Rendition of Statutory Returns

Banks and credit bureaux rendered returns in compliance with Section 25 of the BOFIA with the returns used to assess their financial condition and performance. This formed the basis for regulatory actions including on-site visits and remedial measures to address identified weaknesses.

Grant of Regulatory Approvals

In line with laws and regulations, applications for the grant of approvals were reviewed during the period. Specifically, applications were reviewed and approvals granted for appointments of 44 and 106 persons to board and top management positions, respectively in banks.

Also, approvals were granted to banks, credit bureaux and FHCs to publish their financial statements for the year ended December 31, 2016.

Furthermore, approvals to establish and rationalise branches were granted to banks during the year. Consequently, the branch network of banks at end-December 2017 declined to 5,450 from 5,571 at end-December 2016. The reduction was due to the closure or downgrade of some branches to other banking outlets.

Credit Risk Management System and Credit Bureaux Database

Following the re-design of the CRMS to capture all credit facilities regardless of amount, the rendition of returns on borrowers improved significantly. The number of borrowers reported in the database increased to 824,387 at end-December 2017 from 221,822 at end-December 2016.

The average number of credit records in the database of the three credit bureaux increased to 47.2 million at end-December 2017 from 46.8 million at end-December 2016. The cumulative number of institutional subscribers also increased to 1,752 at end-December 2017 from 1,348 at end-December 2016.

Monitoring and Enforcement

The CBN sustained its efforts at enhancing compliance with regulatory recommendations through monitoring and enforcement to ensure that recommended remedial actions were implemented promptly.

Fraud and Forgeries

At end-December 2017, the number of attempted fraud and forgery cases in banks, increased to 32,578 with a total Naira value of ₦12.7 billion as against 19,093 cases involving ₦8.5 billion at end-December 2016. Similarly, actual losses increased to ₦2.5 billion at end-December 2017 from ₦2.4 billion at end-December 2016. However, the US Dollar component of the fraud and forgery cases reduced with amount involved and actual losses of US$3.9 million and US$0.5 million at end-December 2017 compared with US$18.5 million and US$0.6 million at end-December 2016.

Blacklisting of Errant Persons

The CBN maintains a 'BlackBook', where names of persons dismissed from the banking industry for frauds and acts of dishonesty are recorded, to ensure that such persons are not re-engaged in the industry. In 2017, 513 persons were blacklisted for fraud and dishonesty and 91 persons for miscellaneous offences bringing the total number of persons blacklisted in the banking industry to 21,922 as against 21,318 at end-December 2016.

The off-site surveillance of banks and other financial institutions is a viable tool for effective regulation and supervision of the banking industry, which the CBN will continue to enhance to ensure the system remains safe and sound.

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

In furtherance of its mandate of promoting the safety and soundness of the financial system, the CBN conducted on-site examination of institutions under its purview in 2017.

The examinations included:

i. Maiden Examination

A maiden examination is conducted six months after an institution commences operations. During the period under review, a regional bank (formerly a mortgage bank) was examined. The examination revealed that the bank complied with the conditions of its licence, except for divestment from non-permissible real estate properties for which it was directed to comply within a specified timeline. Although the bank was adequately capitalised, the level of its NPL was above the regulatory limit of 5.0 per cent. Consequently, the bank was required to bring its NPL ratio within the regulatory limit.

ii. Routine Examination

Routine examination of 24 banks, three FHCs, the Asset Management Corporation of Nigeria (AMCON) and three credit bureaux were conducted during the year. The banks and FHCs were examined using the Risk-based Supervisory Methodology while Compliance Methodology was used for AMCON and the three credit bureaux.

Out of the 24 deposit money banks examined, 22 maintained their previous Composite Risk Ratings. Of the remaining two, one bank improved from "Above Average" to "Moderate", while the other deteriorated from "Moderate" to "Above Average". The examination revealed deterioration in the asset quality of the industry due to lagging effects of the economic recession of 2016. The deterioration in asset quality was exacerbated by the decline in oil prices in previous years and the impact of the depreciation of the Naira, which increased the Naira value of foreign currency denominated loans. These worsened the level of concentration of credits in the oil and gas sector. It is expected that the improvement in crude oil prices and the exit of the economy from recession will help in the recovery process. Other issues observed included weak board and senior management oversight, non-performing insider related loans and failure to fully implement previous examination recommendations by some banks.

In respect of the credit bureaux, the examination revealed that independent board performance evaluation was not carried out in two of the bureaux in compliance with the Code of Corporate Governance; two failed to meet the minimum capital requirement and one failed to comply with the capital structure specified in the Credit Bureau Guidelines. The bureaux were directed to regularise the anomalies within specified timelines.

The three FHCs were examined using the "Risk Based Solo-Plus" approach in line with the FSRCC Principles for the Implementation of Consolidated Supervision of Financial Holding Companies in Nigeria. Of the three examinations, one was a 'Maiden Examination' as it was the first time the FSRCC Principles was applied while the other two were routine examinations. The result of the routine examination revealed that the two FHCs maintained their previous Composite Risk Ratings.

Observations from the three examinations revealed an increase in NPL ratio, breach of the limits on total (group) insider related loans and interlocking directorship. Other issues observed were substantial intra-group lending in one of the FHCs and inadequate oversight on the subsidiaries by the FHC.

The examination of AMCON revealed that the Corporation remained in a loss-making position, utilised varying interest rates in the pricing of restructured eligible bank assets, over-valued some forfeited assets and failed to comply fully with previous examination recommendations.

iii. Target Examination and Ad Hoc/Spot Checks

a. Risk Assets Examination

Risk Assets Examination was conducted on 25 banks in the review period, to determine the adequacy of their provision on risk assets and the reasonableness of their profits for the financial year. The examination revealed a general increase in NPL ratios and a decline in CARs.

b. Anti-Money Laundering/Combating the Financing of Terrorism

In continuation of the drive to ensure that Nigerian banks are not used for money laundering and the financing of terrorism, the CBN conducted on-site examination of 19 banks, covering 72 branches across five geo-political zones, in the period under review. The examination focused on compliance with board approved AML/CFT policy, foreign transaction reporting, politically exposed persons, Suspicious Transaction Report (STR), Know Your Customer (KYC), audit of the AML/CFT process and other provisions of the CBN AML/CFT Regulation, 2013.

The examination highlighted some lapses, including:

i. Inadequate risk profiling of customers before on-boarding;

ii. Rendition of nil STR when there were reportable transactions;

iii. Non-identification and under-reporting of politically exposed persons;

iv. Non-compliance with the approved cluster structure for compliance officers in some branches; and

v. Absence of independent review of the AML/CFT activities by internal audit.

c. Foreign Exchange Examination

The CBN conducted routine and target/ad hoc examinations on the foreign exchange operations of banks. In this regard, routine examination was conducted on 25 banks at end-March 2017. The areas of focus included determining banks' compliance with laws, rules and regulations; review of the integrity of trade documentation; internal controls; analysis of the eligibility, acquisition and utilisation of FX. The key observations from the examination reports were:

i. Rendition of inaccurate returns on FX transactions;

ii. Operating above CBN approved Foreign Currency Trading Position limit;

iii. Non-compliance with the regulatory net open position limit;

iv. Non-utilisation of autonomous funds within the mandatory 72 hours;

v. Non-compliance with the condition of the CBN Secondary Market Intervention Sales regarding Interbank foreign exchange forwards;

vi. Re-allocation of acquired foreign exchange without the CBN approval;

vii. Non-repatriation of balance of export proceeds in excess of the regulatory allowable limit of 5.0 per cent of the declared value of the export;

viii. Utilisation of foreign exchange from the Nigerian Foreign Exchange market for importation of items classified as "Not valid for foreign exchange"; and

ix. Settlement of expired bills for collection without the approval of the CBN.

The erring banks were sanctioned accordingly and required to put in place measures to avoid reoccurrence.

In addition to the routine examination, six spot checks and four investigations on various FX related issues were conducted during the period. Spot check on invisible transactions was conducted on all banks except the non-interest bank while that on new letters of credit opened as at December 31, 2016 was conducted on 23 banks, Bank of Industry and Nigeria Export-Import Bank. Results of the exercises showed that some institutions did not comply fully with extant foreign exchange regulations.

To address the challenges that arose from the 2016 recession, the CBN enhanced its supervisory practices to proactively identify and manage emerging risks. These, along with other monetary and fiscal policy measures, significantly contributed to the exit of the Nigerian economy from the recession. The Bank will continue to improve its supervisory processes with a view to entrenching sound corporate governance, good risk management and compliance practices in the industry.

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

The commitment to ensure the effective supervision of internationally active banks was sustained in line with the Framework for Cross-Border Supervision. Consequently, regular off-site reviews, monitoring and surveillance of foreign subsidiaries/branches were carried out. The outcome of the reviews, along with other factors were used to determine the frequency of on-site visitation. Such factors included the risk profile of the entities, the existence of issues of supervisory concern and the supervisory programmes of host supervisors in the West African sub-region.

The objectives of the on-site examination were to:

i. Assess the adequacy and robustness of the governance structure;

ii. Review the adequacy of parent companies' control and oversight of the policies, procedures and processes of the subsidiaries;

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

iv. Evaluate the adequacy of the subsidiary's capital; and

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

On-site Risk-based Examination of Offshore Entities

During the year, nine on-site examinations of foreign subsidiaries of Nigerian banks were carried out using the risk-based supervision approach. Of these, five were jointly conducted with host supervisory authorities while four were on a solo basis.

The five joint examinations were carried out in Ghana (3), Benin (1) and Cote d'Ivoire (1), in line with the Memorandum of Understanding of the West African Monetary Zone. Under the arrangement, joint examination teams from the CBN and the host country conduct the examination while the host country finalises and issues the examination report. The joint examinations in Benin and Cote d'Ivoire were maiden examinations and they enabled the CBN and BCEAO develop the joint risk assessment of the subsidiaries. The reports of the examinations were yet to be issued at end-December 2017.

Four solo examinations were conducted on two subsidiaries in the United Kingdom, one in Rwanda and a branch in the United States of America. The results of the solo examinations revealed that two subsidiaries with 'Moderate' risk rating maintained their previous ratings. The rating of one subsidiary deteriorated from 'Moderate' to 'Above Average' while another subsidiary with 'Above Average' risk rating was being visited for the first time. The 'Above Average' composite risk ratings were attributable to weak board and senior management oversight; deterioration in assets quality; and poor risk management practices. The subsidiaries were consequently subjected to intensive surveillance in line with the cross-border supervisory framework.

Anti-Money Laundering/Combating the Financing of Terrorism Examination

Four on-site AML/CFT examinations of subsidiaries of Nigerian banks were conducted in Ghana (2), Cote d'Ivoire (1) and Benin Republic (1), to assess the level of compliance with the FATF 40 Recommendations; Basel Committee's guidance on sound management of risks related to money laundering and financing of terrorism; and country-specific AML/CFT legislations.

Generally, the issues of concern identified from the examinations included:

i. Absence of independent audit review of AML/CFT compliance programmes;

ii. Inadequate AML/CFT training programmes and AML policy plans;

iii. Inadequate documentation of politically exposed persons;

iv. Inadequate customer due diligence and lapses in record management and retrieval systems; and

v. Lack of robust AML/CFT software.

To address the weaknesses identified during the examination, affected entities were required to implement specific remedial actions in line with the cross-border supervisory framework of the CBN.

The CBN sustained its efforts at supervising offshore entities of Nigerian banks on both solo and joint basis in line with Principles 12 and 13 of the Basel Core Principles on Effective Banking Supervision. The Bank will continue in this direction to ensure that subsidiaries of Nigerian banks are effectively regulated and supervised.

3.04 SUPERVISION OF OTHER FINANCIAL INSTITUTIONS

At end-December 2017, there were 4,871 OFIs comprising 8 DFIs (including the Nigeria Mortgage Refinance Company), 34 PMBs; 1,008 MFBs; 81 FCs; and 3,740 BDCs. This represented an increase of 631 institutions compared with 4,240 OFIs at end-December 2016.

The Bank conducted on-site examination of 968 OFIs in 2017, compared with 944 in 2016. A summary of the examination findings is presented below:

Microfinance Banks

A total of 793 MFBs were examined, comprising the routine examination of 526 MFBs using the RBS methodology and target examination of 267 MFBs identified as unsound or insolvent. The examination revealed that other than 24 MFBs, the other examined institutions had Portfolio-at-Risk (PAR) higher than the regulatory limit of 5.0 per cent. The high level of PAR is attributable to poor credit administration, weak credit risk management and adverse economic conditions. The average Liquidity Ratio of 103.2 per cent was above the prescribed minimum of 20 per cent with 660 MFBs recording liquidity ratios above the prescribed minimum. The average CAR of the institutions examined was 10.3 per cent, with 532 MFBs recording CAR above the regulatory minimum of 10 per cent. Of the 526 MFBs examined using the RBS methodology, 303 had CRR of "High"; 160 "Above Average"; 60 "Moderate"; and 3 "Low".

Development Finance Institutions

The examination of seven out of the eight DFIs conducted in 2017 revealed that asset quality remained a major challenge. Other issues of regulatory concern included inadequate capital; high operating costs; paucity of stable long-term funds; poor corporate governance practices; weak internal controls; and poor risk management.

The prudential analysis of the DFIs using their examination reports revealed that three of the institutions met the minimum regulatory capital and CAR of 10 per cent. Of the remaining four, two had positive adjusted capital but failed to meet the CAR while the other two had negative adjusted capital. All the credit facilities of one DFI were performing while the other DFIs maintained NPL ratios above the stipulated regulatory maximum of 5.0 per cent. Four of the DFIs had CRR of 'High'; one had 'Above Average'; one, 'Moderate'; and one, 'Low'.

Primary Mortgage Banks

The 34 PMBs in operation were examined using the RBS methodology. Of this number, 21 had "High" CRR; 9 "Above Average"; and 4 "Moderate". Following the examination, 10 PMBs were placed on Watch-list due to their failure to meet the prescribed prudential ratios. Other issues of regulatory concern included liquidity challenges, weak corporate governance, poor risk management practices and direct involvement in investment properties.

Finance Companies

During the period under review, 51 FCs were examined. The examination revealed that products offered by FCs were limited in promoting financial inclusion. Their main products were leasing and consumer loans, while products such as debt factoring, export financing, and funds management did not receive the desired attention.The prudential and soundness analysis of the FCs based on the examination reports showed that 31 met the minimum paid-up capital of ₦100 million while 21 met the minimum regulatory CAR of 12.5 per cent. Eight FCs had positive adjusted capital, but fell short of the minimum regulatory capital, while 12 had negative adjusted capital. Thirty-seven FCs maintained NPL ratios below the stipulated regulatory maximum of 10 per cent with the remaining FCs recording NPL ratios above the limit. Forty one of the FCs were examined using the RBS approach; out of which 29 had CRR of 'High'; 5, 'Above Average' and 7, 'Moderate'.

Bureaux De Change

Spot checks were conducted on 84 BDCs to determine their sources and utilization of foreign exchange. Among the BDCs examined were those that sourced large volumes of foreign exchange from the CBN and those with various regulatory concerns. The BDCs with infractions were sanctioned appropriately.

The examination of the OFIs sub-sector indicated that the OFIs fairly complied with prudential and other supervisory requirements in 2017. The CBN will continue to adopt appropriate methodologies in the supervision of OFIs to ensure that they achieve their mandate.

3.05 ACTIVITIES OF THE BANKERS' COMMITTEE

The Bankers' Committee continued to take steps to sustain financial system stability and enhance financial inclusion in 2017. Its activities during the period are summarised below:

Meetings

The Committee held five bi-monthly meetings during the year. Discussions focused on the role of banks in contributing to the exit of the economy from recession; banks' Liquidity Contingency Funding Plans; foreign exchange market; and home remittances. The Committee also deliberated on employment opportunities in the industry; minimum pay for contract staff; withdrawal of CBN's concession on power and oil & gas facilities; compliance with stamp duty requirements; gridlock in Real-Time Gross Settlement and glitches in Scripless Securities Settlement System; super-agent licence for telecommunication companies; implementation of Agribusiness/Small and Medium Enterprises Investment Scheme (AGSMEIS); banks' participation in CBN intervention funds and the introduction of an export intervention fund.

Retreat

The Committee held a retreat on December 9, 2017, with the theme "Improving Financial Access, Enabling Job Creation and Driving Inclusive Growth in Nigeria". It resolved to extend agent banking to under-served areas; grant concessions to micro, small and medium enterprises to improve their access to credits; and take necessary steps, including the promotion of the Anchor Borrowers' Programme as well as deployment of the services of the Collateral Registry, to enhance financial inclusion. The CBN also used the opportunity of the retreat to reiterate its readiness to support measures that would deepen the penetration of financial services in the country.

Financial Literacy Day

The Bankers' Committee participated in the 2017 Financial Literacy Day, held on March 30, 2017. Each commercial bank selected 30 schools nationwide (five from each of the six geopolitical zones of the country), while the merchant banks visited schools in Lagos, Rivers, Abuja, and Akure. The students were taught in line with the theme of the Global Money Week, "Learn, Save, Earn" and encouraged to cultivate a savings culture. A total of 85,233 students, spread across 626 schools nationwide, were reached.

World Savings Day

The 2017 World Savings Day was held on October 31, 2017. All banks celebrated the day by teaching a savings module developed by Junior Achievement of Nigeria to students across the six geopolitical zones. Each bank returned to the schools visited during the Financial Literacy Day and implemented mentoring sessions and created opportunities for interested students and parents/guardians to open savings accounts.

Fraud Awareness Campaign

The campaign, which ran from May to October 2017, focused on sensitising the public to the dangers posed by 'wonder banks'/Ponzi schemes. The key objective of the campaign was to sensitise the public on the activities of illegal fund managers. The print, radio and digital media were the awareness platforms used for the campaign.

Agri-business/Small and Medium Enterprises Investment Scheme Fund

In February 2017, the Bankers' Committee established the AGSMEIS to support government's efforts to promote agricultural business and micro, small and medium enterprises as vehicles for sustainable economic development and employment generation. The objectives of the scheme are to improve access to affordable and sustainable finance by agri-businesses and micro, small and medium enterprises; create employment opportunities; and boost the managerial capacity of agri-businesses and MSMEs to grow their enterprises.

The Bankers' Committee inaugurated the Board of the Scheme to facilitate the disbursement of the fund. The board consists of the Managing Directors of Guaranty Trust Bank, Access Bank, First Bank, Zenith Bank and United Bank for Africa, along with CBN Directors of Banking Supervision and Development Finance.

Ethics and Professionalism

The Sub-committee on Ethics and Professionalism received 104 petitions during the year. Eighty nine cases were resolved while 15 were awaiting resolution. A total of ₦11.7 billion and US$1,905,613.84 were claims in respect of 104 cases while the amounts refunded in respect of the resolved cases were ₦2.6 billion and US$696,389.25.

The CBN will continue to support the Bankers' Committee in its bid to enhance financial inclusion, provide affordable financing to the real sector and improve financial literacy.

3.06 CONSUMER PROTECTION ACTIVITIES

Consistent with its consumer protection role of enhancing confidence in the financial system, the Bank carried out the following activities:

Complaints Management and Resolution

i. Complaints Received and Resolved

In the year under review, 2,349 complaints were received from consumers of financial products against 2,656 received in 2016. Of the 2,349 complaints received, 2,284 or 97.2 per cent were against banks, while 63 or 2.7 per cent were against OFIs and two or 0.1 per cent were miscellaneous complaints. The number of complaints resolved rose by 20.4 per cent, from 2,085 in 2016 to 2,510 in 2017.

ii. Total Refunds

Total Naira and US Dollar refunds made to customers in 2017 were ₦13.8 billion and US$2.6 million, compared with ₦21.3 billion and US$3.1 million in 2016, representing a decrease of 53.7 per cent and 18.5 per cent, respectively. In addition, refunds of €6,940 and £196 were made during the year.

Of the Naira refunds, the sum of ₦7.9 billion or 57.0 per cent arose from the conduct of consumer protection compliance examination, while ₦6.0 billion or 43.0 per cent was based on consumer complaints. The foreign currency components of the refunds arose from consumer complaints.

Cumulative refunds made to consumers at end-December 2017 were ₦58.6 billion, US$18.3 million, €26,286.6 and £6,196.0.

iii. Mediation Meetings

Thirty two mediation meetings, involving banks, their customers and/or their representatives, were held during the period compared with 22 in 2016.

iv. Regulatory Sanctions on Banks

Sanctions were imposed on 17 banks, pursuant to the provisions of Section 64 of the BOFIA, for breaches of consumer protection regulations/directives.

Consumer Protection Compliance Examination

Consumer Protection Compliance examination was conducted on 19 and 21 deposit money banks in April and November 2017. The main objective of the examination was to ascertain the banks' level of compliance with consumer protection policies, regulatory directives and guidelines.

The findings from the examination, using a 3-band categorisation of 'High', 'Average' and 'Low', revealed an average level of compliance by the financial institutions. Compliance with the regulation on charges was considered 'High' while resolution of outstanding complaints was adjudged 'Low'.

Financial Literacy Activities

i. **Consolidated Sensitisation Programme**

The CBN Fair, an avenue for creating awareness on the Bank's activities, was held during the year in 11 States: Anambra, Abia, Lagos, Ogun, Zamfara, Kano, Niger, Rivers, Gombe, Jigawa and Cross-River. Participants were drawn from targeted consumer segment groups including farmers, MSMEs, public servants and organised labour groups. A total of 13,516 participants attended the Fair.

ii. **Financial Literacy Publication**

The CBN developed a financial literacy publication, 'What You Need to Know', which covered savings, loans, access to credit facilities, investing in the capital market and planning for retirement. The publication was distributed to participants at different financial literacy engagement fora.

iii. **Global Money Week**

The Bank participated in the annual Global Money Week held from March 27 to April 2, 2017, with the theme 'Learn, Save, Earn'. The events at the programme were aimed at creating awareness on issues relating to money, savings and investments with the following activities:

a. Global Money Walk;

b. A school reach out and mentoring programme, organised in Lokoja, Awka, Port-Harcourt, Osogbo, Dutse, Uyo, Abakaliki, Makurdi and Maiduguri where a total of 1,696 students from 11 schools participated; and

c. Financial Literacy Day featuring quiz, drawings, fair/exhibition.

iv. **World Savings Day**

The CBN and other financial regulators, financial education practitioners, other financial institutions and the Bankers' Committee, commemorated the 2017 World Savings Day in public secondary schools in rural areas. During the event, 65,701 students were sensitized with 2,700 accounts opened for school children.

During the year, consumer protection activities aimed at engendering confidence in the banking system, enhancing financial literacy and providing redress mechanism, were sustained. The Bank will intensify its surveillance activities to ensure that incidences of abuse of consumer rights are minimised.

CHAPTER 4: PERFORMANCE TREND IN THE BANKING SYSTEM

4.01 PERFORMANCE TREND OF BANKS

The total assets of the 26 DMBs increased to ₦32,633.2 billion at end-December 2017 from ₦30,221.4 billion at end-December 2016, representing an increase of ₦2,411.8 billion or 8.0 per cent. These comprised cash; balances with banks and CBN; loans and advances to banks and customers; financial assets; investments; other assets; and fixed assets. Net loans and advances to customers, which constituted the largest item (43.2 per cent) of the total assets, decreased by ₦495.2 billion or 3.4 percent to ₦14,082.3 billion at end-December 2017 from ₦14,577.5 billion at end-December 2016.

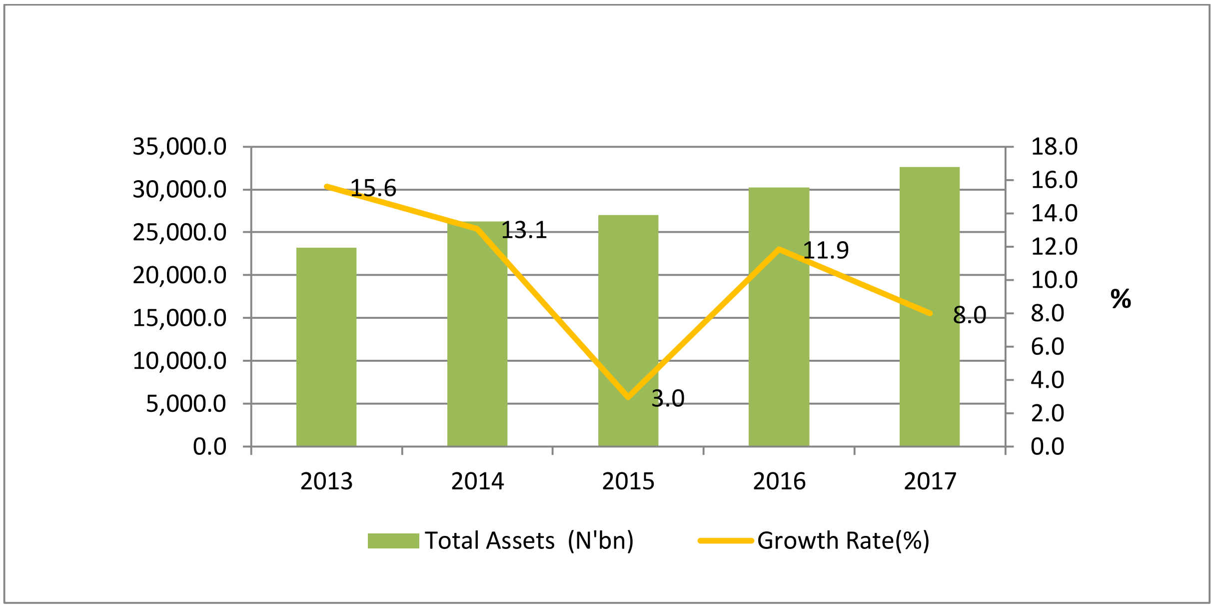
Deposits from customers constituted the largest item (59.6 per cent) of the total liabilities. It increased to ₦19,445.1 billion at end-December 2017 from ₦18,589.8 billion at end-December 2016, an increase of ₦855.3 billion or 4.6 percent.

The year-on-year growth rate of the total assets from 2013 to 2017 ranged between 3.0 per cent and 15.6 per cent with the lowest growth rate recorded in 2015 and the highest in 2013. In 2017, total assets increased by 8.0 per cent. The aggregate statement of financial position of DMBs at end-December 2016 and 2017 is shown in Table 7:

Table 7: Aggregate Statement of Financial Position of the DMBs

	Dec-17		Dec-16		
	₦'billion	**%**	**₦'billion**	**%**	**Growth Rate (%)**
Cash balances	554.5	1.7	536.7	1.8	3.3
Balances with banks and CBN	7,332.1	22.5	5,828.9	19.3	25.8
Loan and Advances to Banks	344.5	1.1	345.9	1.1	(0.4)
Loans and Advances to Customers	14,082.3	43.2	14,577.5	48.2	(3.4)
Financial Assets Held for Trading	1,679.3	5.1	936.0	3.1	79.4
Financial Assets Available for Sale	2,915.1	8.9	2,715.7	9.0	7.3
Financial Assets Held to Maturity	1,750.1	5.4	2,353.6	7.8	(25.6)
Assets Pledged as collateral	1,179.4	3.6	560.8	1.9	110.3
Investment in subsidiaries	378.5	1.2	326.9	1.1	15.8
Other Assets	1,461.9	4.5	1,185.1	3.9	23.4
Assets classified as Held for Sale	20.5	0.1	4.1	0.0	396.4
Property Plant & Equipment	935.0	2.9	850.1	2.8	10.0
Total	**32,633.2**	100.0	**30,221.4**	100.0	8.0
Deposit from banks	1,144.1	3.5	724.1	2.4	58.0
Deposit from customers	19,445.1	59.6	18,589.7	61.5	4.6
Financial liabilities held for trading	21.9	0.1	42.1	0.1	(47.9)
Borrowings	2,889.5	8.9	2,732.8	9.0	5.7
Debts instruments in issue	1,338.7	4.1	1,009.3	3.3	32.6
Other liabilities	4,332.2	13.3	3,368.5	11.1	28.6
Share Capital	281.6	0.9	263.6	0.9	6.8
Reserves	3,180.1	9.7	3,491.2	11.6	(8.9)
Total	**32,633.2**	100.0	**30,221.4**	100.0	8.0
Contingent Liabilities	6,025.3		5,185.7		16.2

Figure 3: Year-on-Year Growth in Total Assets for DMBs



Deposit Liabilities and Liquidity

Analysis of deposits by type revealed that demand deposit constituted the largest, accounting for ₦6,492.1 billion or 33.4 percent of total deposits at end-December 2017, compared with ₦6,267.0 billion or 33.7 per cent at end-December 2016. Term, domiciliary, savings and other deposits accounted for 23.7 per cent, 22.4 per cent, 20.5 per cent and 0.1 per cent at end-December 2017, compared with 21.6 per cent, 24.6 per cent, 19.9 per cent and 0.1 per cent respectively, at end-December 2016.

The average industry liquidity ratio (specified liquid assets to specified short-term liabilities) was 45.4 percent at end-December 2017, compared with 44.0 per cent at end-December 2016.

Figure 4: Deposit Composition (per cent) in December 2016 and 2017 of DMBs

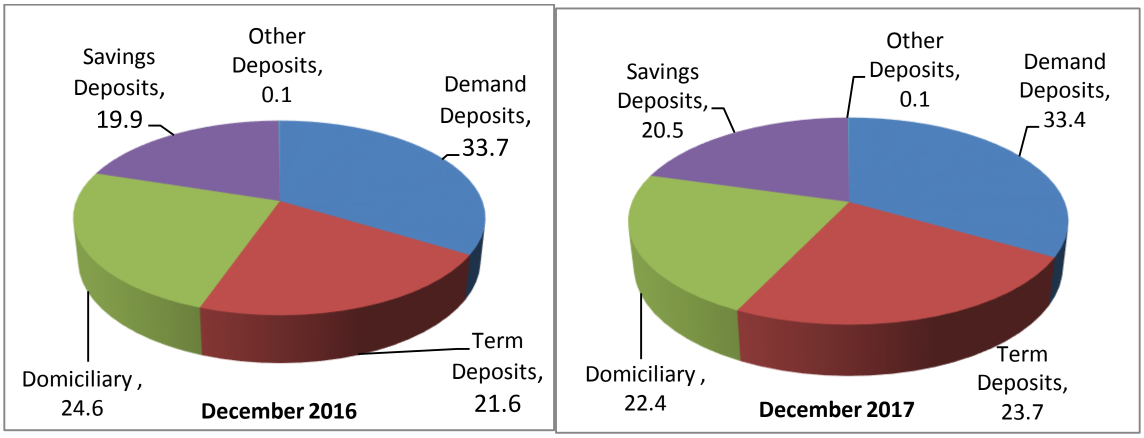
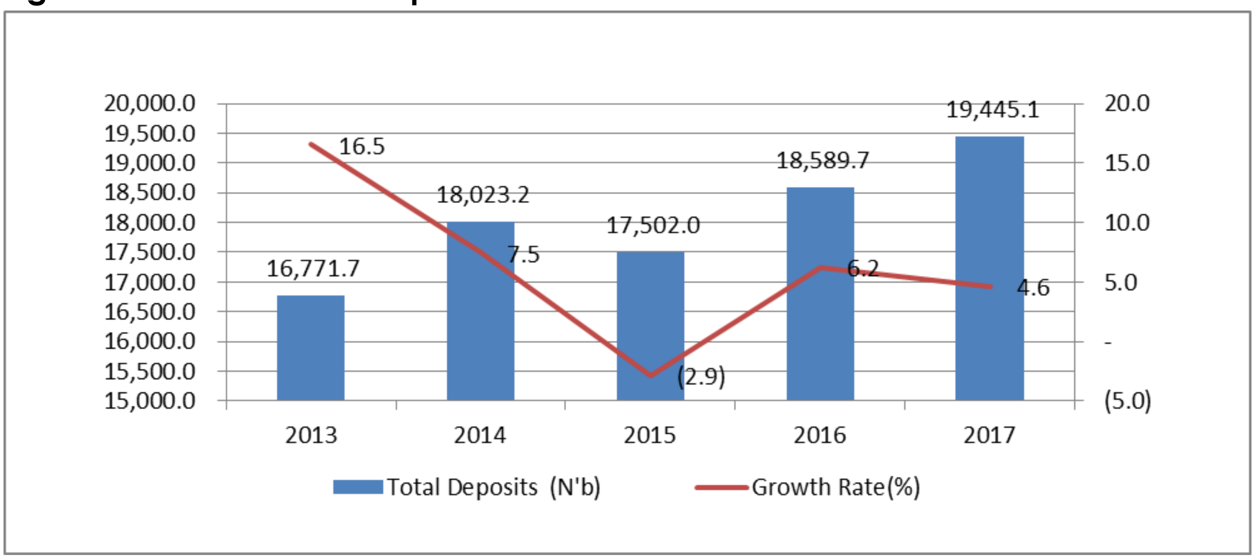


Figure 5: Trends in Total Deposits of DMBs

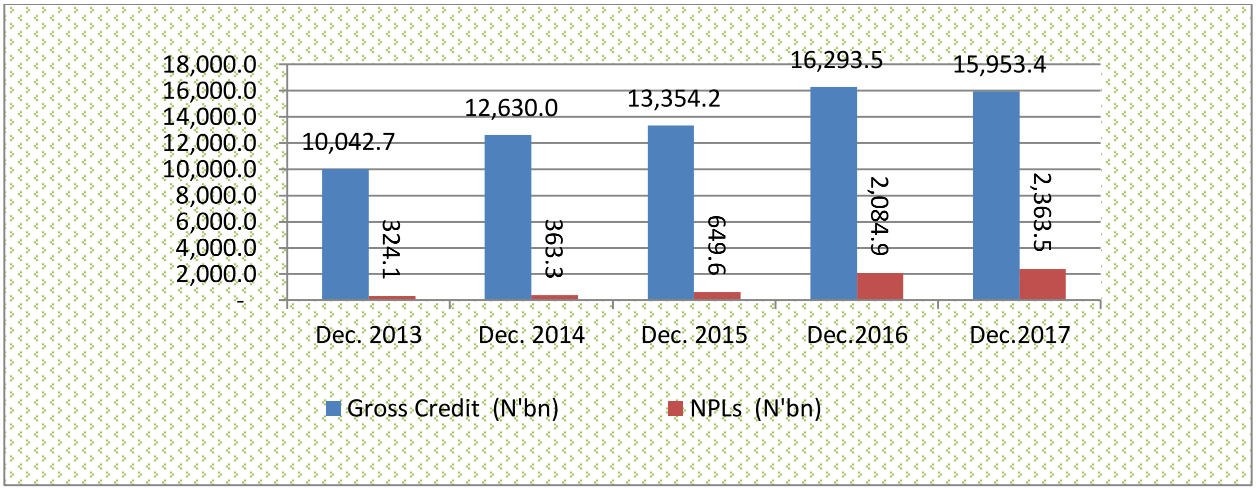


Asset Quality

Gross credit decreased to ₦15,953.4 billion at end-December 2017, from ₦16,293.5 billion at end-December 2016, a decrease of ₦340.1 billion or 2.0 percent. The deterioration in the quality of credit is evidenced by the increase in NPL ratio to 14.8 per cent at end-December 2017 from 12.8 per cent at end-December 2016. This was largely due to the reduction in obligors' cash flow in the oil and gas sector amid macro-economic challenges.

Provisions for NPL increased to ₦1,728.7 billion at end-December 2017 from ₦1,298.7 billion at end-December 2016. The NPL coverage ratio increased to 73.1 per cent at end-December 2017 from 62.3 per cent at end-December 2016.

Figure 6: Trend in Gross Loans and NPLs of DMBs



Market Share of the Ten Largest Banks

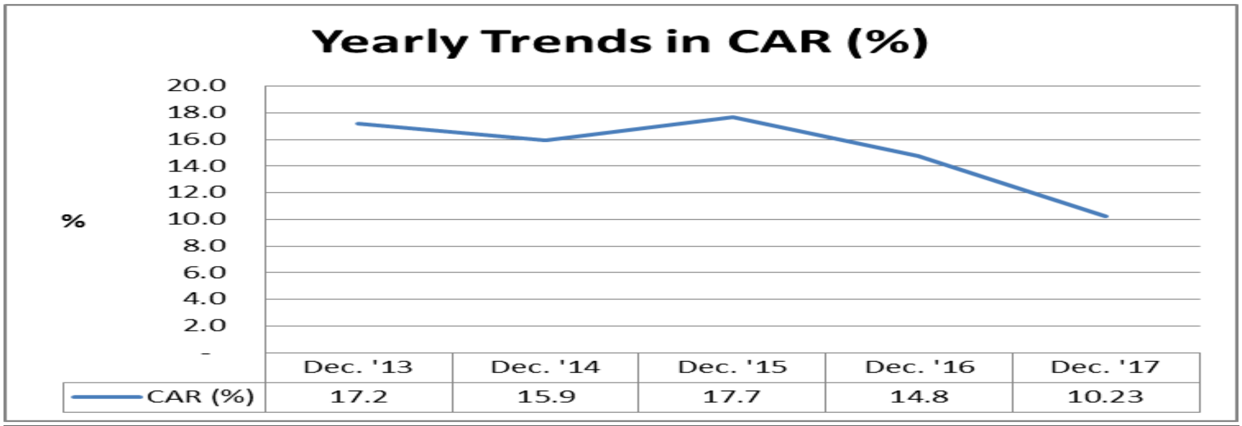
The share of the industry total assets held by the top five and top 10 DMBs was 54.3 percent and 77.5 percent at end-December 2017, compared with 53.6 per cent and 77.2 per cent at end-December 2016, respectively. Similarly, the share of total deposit liabilities held by the top five and top 10 DMBs was 53.4 per cent and 77.5 per cent at end-December 2017 compared with 54.6 per cent and 78.2 per cent at end-December 2016, respectively.

The share of industry credit held by the top five and top 10 DMBs was 52.8 per cent and 79.0 at end-December 2017, compared with 54.0 per cent and 80.8 per cent at end-December 2016, respectively.

Capital Adequacy Ratio of Banks

The minimum CAR requirement at end-December 2017 remained 10.0 per cent and 15.0 per cent for DMBs with national and international authorisation, respectively. At end-December 2017, the industry CAR was 10.2 per cent compared with 14.8 per cent at end-December 2016. The decline was largely due to capital impairment as a result of increased deterioration in the quality of assets.

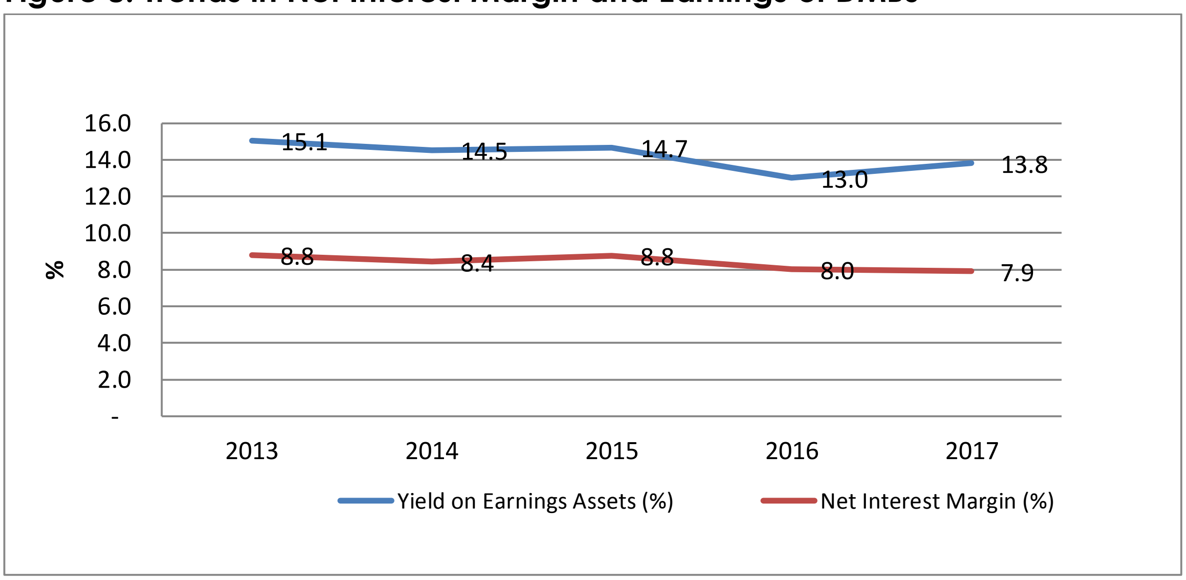
Figure 7: Trends in Industry Capital Adequacy Ratio of DMBs



Efficiency of Operations

The industry performance generally improved in 2017 relative to 2016. The yield on earning assets increased to 13.8 per cent at end-December 2017 from 13.0 per cent at end-December 2016. Operational efficiency, measured by cost to income ratio, improved to 71.8 per cent at end-December 2017 from 77.9 per cent at end-December 2016. Similarly, Return on Assets and Return on Equity of the industry increased to 2.0 per cent and 17.8 per cent at end-December 2017 from 1.5 per cent and 11.8 per cent at end-December 2016, respectively.

Figure 8: Trends in Net Interest Margin and Earnings of DMBs



The outlook for the banking system is positive in the near to medium term, given the improvement in macroeconomic conditions. Improvements in oil prices, enhanced liquidity in the foreign exchange market and accretion to the foreign reserves will continue to impact positively on the performance of banks.

4.02 PERFORMANCE TREND OF OTHER FINANCIAL INSTITUTIONS

The consolidated statement of financial position of the OFI sub-sectors comprising DFIs, PMBs, MFBs and FCs at end-December 2017 showed that total assets increased by 5.0 per cent to ₦2,170.6 billion, from ₦2,067.9 billion at end-December 2016. Total loans and advances decreased by 3.1 per cent to ₦1,177.9 billion at end-December 2017, from ₦1,216.0 billion at end-December 2016. However, total deposits/borrowings increased marginally to ₦605.8 billion at end-December 2017 from ₦602.2 billion at end-December 2016.

Details of the statement of financial position of the OFI sub-sector are discussed below:

Microfinance Banks

The total assets of MFBs decreased to ₦352.4 billion at end-December 2017 from ₦354.1 billion at end-December 2016, representing a decrease of ₦1.7 billion or 0.5 per cent. The main components of the total assets at end-December 2017 were net loans and advances, 54.8 per cent (2016: 53.7 per cent), placements with banks, 14.5 per cent (2016: 16.6 per cent); and cash and due from other banks, 10.6 per cent (2016: 10.4 per cent). Net loans and advances, which constituted the largest asset item, increased by ₦2.8 billion or 1.5 per cent to ₦193.2 billion at end-December 2017 from ₦190.3 billion in the previous year.

The paid-up capital and shareholders' funds also increased by 0.4 per cent and 4.0 per cent to ₦63.1 billion and ₦83.0 billion at end-December 2017 from ₦62.9 billion and ₦79.8 billion at end-December 2016, respectively. The increases were largely attributed to capital injection and retention of earnings. However, deposits, which constituted the largest liability item, decreased in the period by ₦10.0 billion or 5.8 per cent to ₦162.5 billion from ₦172.5 billion.

The consolidated statement of financial position of the MFBs at end-December 2017 and end-December 2016 is shown in Table 8:

Table 8: Comparative Aggregate Statement of Financial Position of MFBs

	Dec-17		Dec-16		Variance	Growth Rate
Assets	**=N='000**	**%**	**=N='000**	**%**	**=N='000**	**%**
Cash and Due from Other Bank	37,159,830	10.5	36,891,270	10.4	268,560	0.7
Placement with Banks	51,167,805	14.5	58,927,094	16.6	-7,759,289	-13.2
Short Term Investments	26,024,949	7.4	19,879,832	5.6	6,145,117	30.9
Long Term Investments	4,155,992	1.2	3,762,727	1.1	393,265	10.5
Net Loans and Advances	193,157,842	54.8	190,309,397	53.7	2,848,445	1.5
Other Assets	23,579,649	6.7	28,986,610	8.2	-5,406,961	-18.7
Fixed Assets	17,111,027	4.9	15,330,522	4.3	1,780,505	11.6
Total Assets	**352,357,094**	**100.0**	**354,087,452**	**100.0**	**-1,730,358**	**-0.5**
Financed By:						
Paid up Capital	63,112,524	17.9	62,892,336	17.8	220,188	0.4
Reserves	19,859,855	5.6	16,891,518	4.8	2,968,337	17.6
Shareholders' Funds	**82,972,379**	**23.5**	**79,783,854**	**22.5**	**3,188,525**	**4.0**
Long Term Loans	29,537,368	8.4	36,933,521	10.4	-7,396,153	-20.0
Deposits	162,470,575	46.1	172,451,239	48.7	-9,980,664	-5.8
Takings from Other Banks	7,885,731	2.2	3,408,819	1.0	4,476,912	131.3
Other Liabilities	69,491,041	19.7	61,510,019	17.4	7,981,022	13.0
Total Liabilities	**352,357,094**	**100.0**	**354,087,452**	**100.0**	**-1,730,358**	**-0.5**

Figure 9: Total Assets of Microfinance Banks

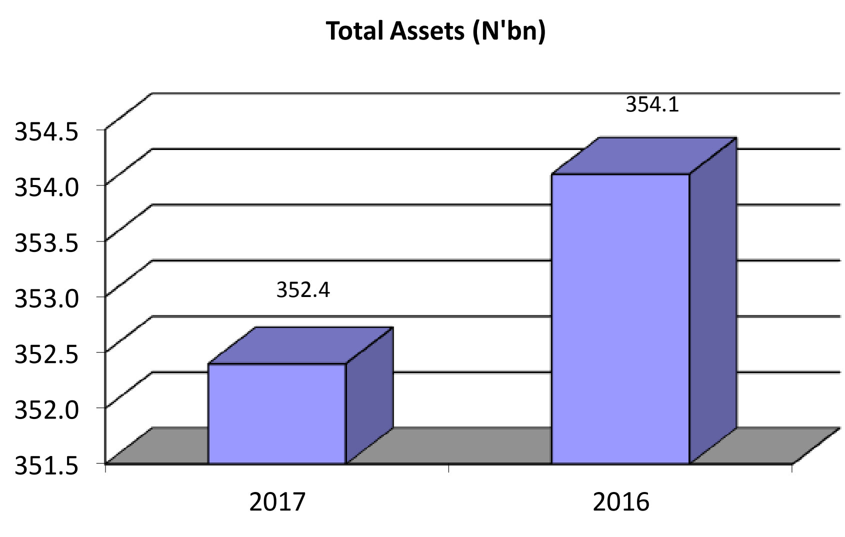


Figure 10: Composition of Assets of the Microfinance Banks

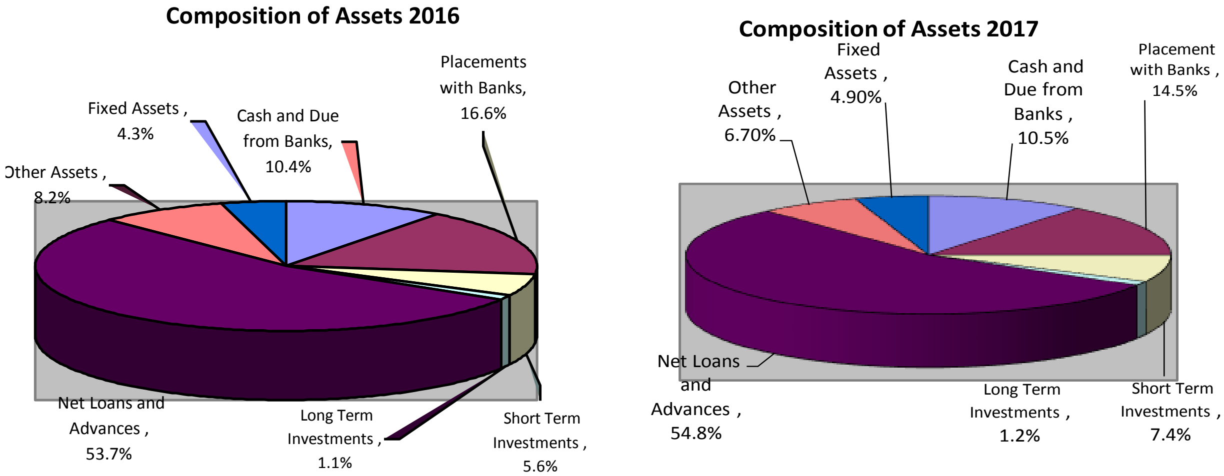
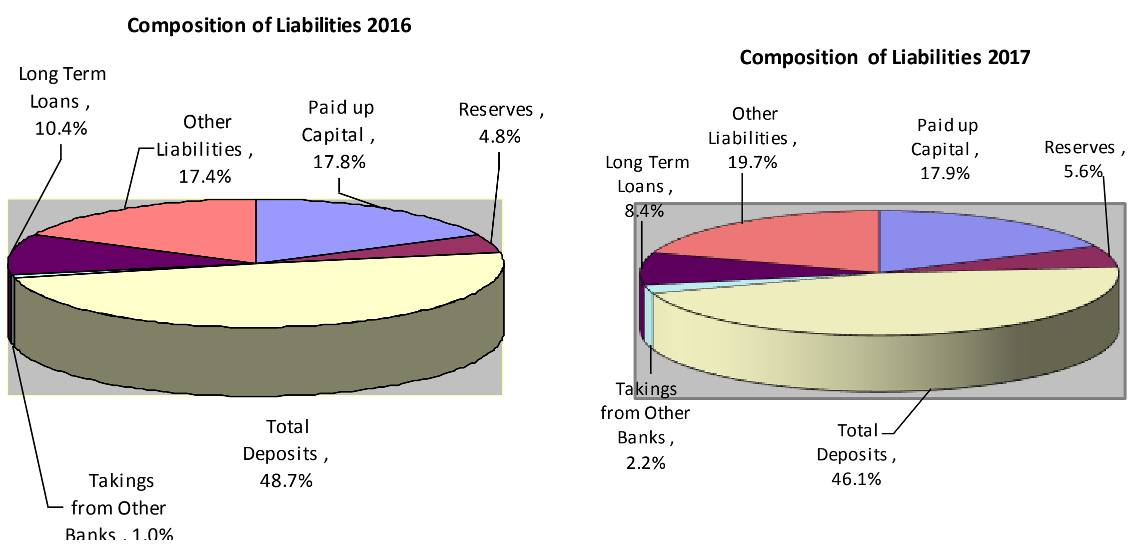


Figure 11: Composition of Liabilities of the Microfinance Banks



Primary Mortgage Banks

The total assets of the 34 PMBs increased by ₦4.7 billion or 1.2 per cent to ₦388.4 billion at end-December 2017 from ₦383.7 billion at end-December 2016. The major components of total assets were loans and advances, 45.8 per cent (2016: 40.3 per cent); investments, 25.1 per cent (2016: 24.1 per cent); other assets, 13.0 per cent (2015: 14.0 per cent); and cash and due from other banks, 12.1 per cent (2016: 17.2 per cent). Loans and advances, which constituted the largest asset, increased by ₦23.4 billion or 15.1 percent to ₦177.8 billion at end-December 2017 from ₦154.5 billion at end-December 2016.

Total deposits decreased by ₦6.0 billion or 5.2 per cent to ₦109.7 billion at end-December 2017 from ₦115.8 billion at end-December 2016. The shareholders' funds increased marginally to ₦132.4 billion at end-December 2017 from ₦132.1 billion at end-December 2016.

The aggregate statement of financial position of the PMBs at end-December 2017 and end-December 2016 is shown below:

Table 9: Comparative Aggregate Statement of Financial Position of PMBs

	Dec-17		Dec-16		Variance	Growth Rate
Assets	**=N='000**	**%**	**=N='000**	**%**	**=N='000**	**%**
Cash and Due from Banks	46,906,405	12.1	66,117,226	17.2	-19,210,821	-29.1
Investments	97,285,026	25.1	92,279,417	24.1	5,005,609	5.4
Loans and Advances	177,814,749	45.8	154,460,257	40.3	23,354,492	15.1
Other Assets	50,303,609	13.0	53,783,353	14.0	-3,479,744	-6.5
Fixed Assets	16,048,563	4.1	17,031,429	4.4	-982,866	-5.8
Total Assets	**388,358,352**	**100.0**	**383,671,682**	**100.0**	**4,686,670**	**1.2**
Financed By:						
Paid-up Capital	105,979,964	27.3	103,346,459	26.9	2,633,505	2.5
Reserves	26,370,958	6.8	28,833,848	7.5	-2,462,890	-8.5
Shareholders' Funds	**132,350,922**	**34.1**	**132,180,307**	**34.5**	**170,615**	**0.1**
Deposits	109,733,564	28.3	115,769,127	30.2	-6,035,563	-5.2
Placements from Banks	4,448,091	1.1	22,630,603	5.9	-18,182,512	-80.3
Long Term Loans/NHF	53,093,634	13.7	45,034,812	11.7	8,058,822	17.9
Other Liabilities	88,732,141	22.8	68,056,833	17.7	20,675,308	30.4
Total Liabilities	**388,358,352**	**100.0**	**383,671,682**	**100.0**	**4,686,670**	**1.2**

Figure 12: Total Assets of Primary Mortgage Banks

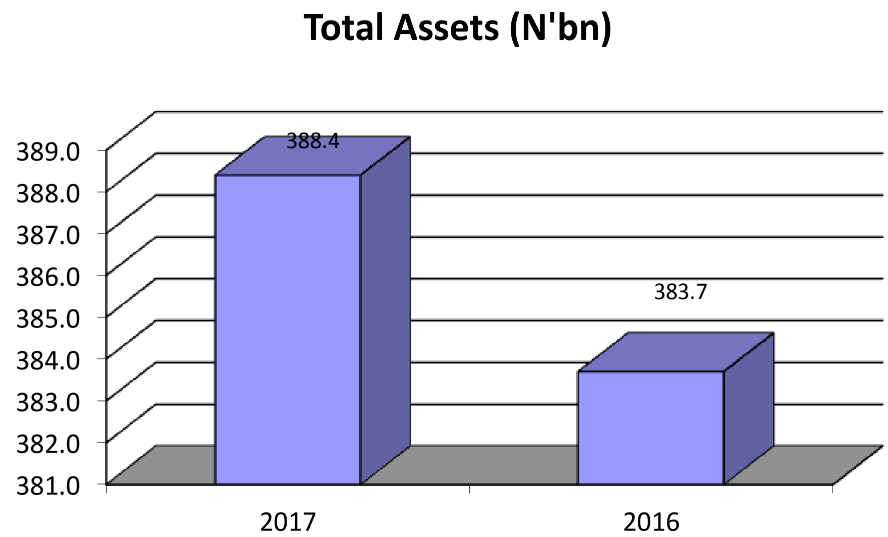
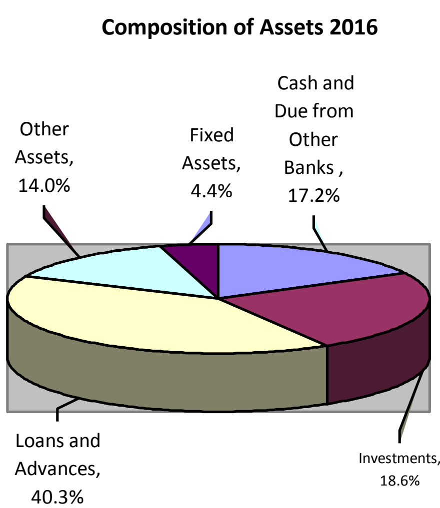


Figure 13: Composition of Assets of Primary Mortgage Banks



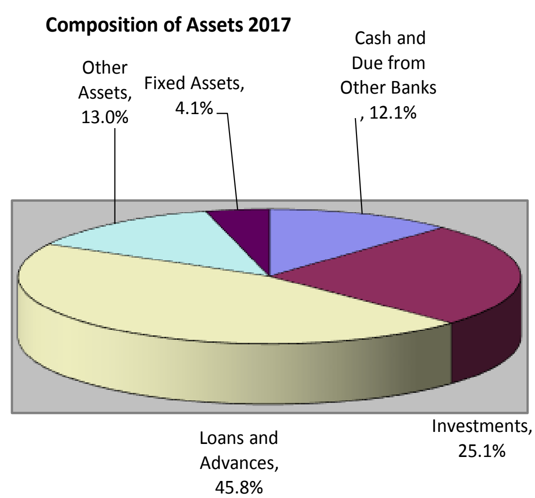
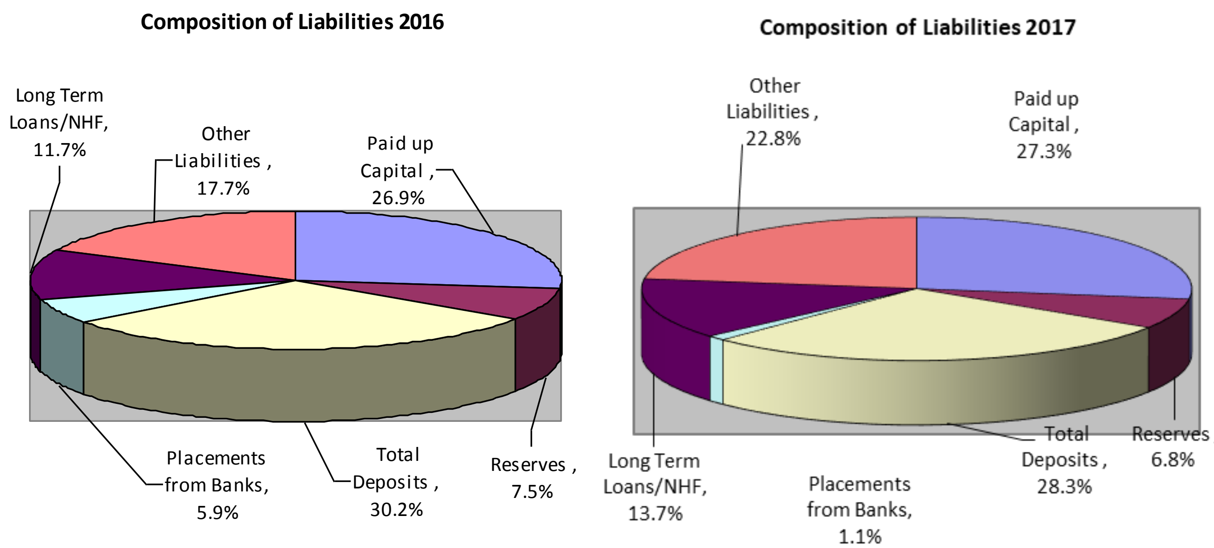


Figure 14: Composition of Liabilities of Primary Mortgage Banks



Finance Companies

The total assets of FCs decreased by ₦2.0 billion or 1.7 per cent to ₦119.8 billion at end-December 2017 from ₦121.8 billion at end-December 2016. The key components of total assets were other assets, 36.5 per cent (2016: 34.4 per cent); loans and advances, 32.7 per cent (2016: 33.3 per cent); fixed assets, 12.0 per cent (2016: 11.4 per cent); and investments, 11.0 per cent (2016: 12.6 per cent). Loans and advances decreased by ₦1.5 billion or 3.6 per cent to ₦39.1 billion at end-December 2017 from ₦40.6 billion at end-December 2016.

Similarly, total borrowings decreased by ₦6.2 billion or 8.7 per cent to ₦65.3 billion at end-December 2017 from ₦71.5 billion the previous year. Shareholders' funds, however, increased by ₦3.7 billion or 17.2 per cent to ₦25.3 billion at end-December 2017 from ₦21.6 billion at end-December, 2016.

The aggregate statement of financial position of the FCs at end-December 2017 and end-December 2016 is shown below:

Table 10: Comparative Aggregate Statement of Financial Position of FCs

	Dec-17		Dec-16		Variance	Growth Rate
Assets	**=N='000**	**%**	**=N='000**	**%**	**=N='000**	**%**
Cash and Due from Banks	2,963,069	2.5	4,298,533	3.5	-1,335,464	-31.1
Placements	6,442,032	5.4	5,772,557	4.7	669,475	11.6
Investments	13,222,296	11.0	15,396,361	12.6	-2,174,065	-14.1
Net Loans and Advances	39,108,018	32.7	40,578,516	33.3	-1,470,498	-3.6
Other Assets	43,691,134	36.5	41,840,696	34.4	1,850,438	4.4
Fixed Assets	14,342,575	12.0	13,909,042	11.4	433,533	3.1
Total Assets	**119,769,124**	**100.0**	**121,795,705**	**100.0**	**-2,026,581**	**-1.7**
Financed By:						
Paid-up Capital	18,852,171	15.7	19,180,431	13.5	-328,260	-1.7
Reserves	6,463,278	5.4	2,426,142	2.0	4,037,136	166.4
Shareholders' Funds	**25,315,449**	**21.1**	**21,606,573**	**15.4**	**3,708,876**	17.2
Long-term Loans Liabilities	3,169,183	2.6	1,603,509	3.0	1,565,674	97.6
Total Borrowings	65,291,530	54.5	71,529,988	57.2	-6,238,458	-8.7
Other Liabilities	25,992,962	21.7	27,055,635	24.3	-1,062,673	-3.9
Total Liabilities	**119,769,124**	**100.0**	**121,795,705**	**100.0**	**-2,026,581**	-1.7

Figure 15: Total Assets of Finance Companies

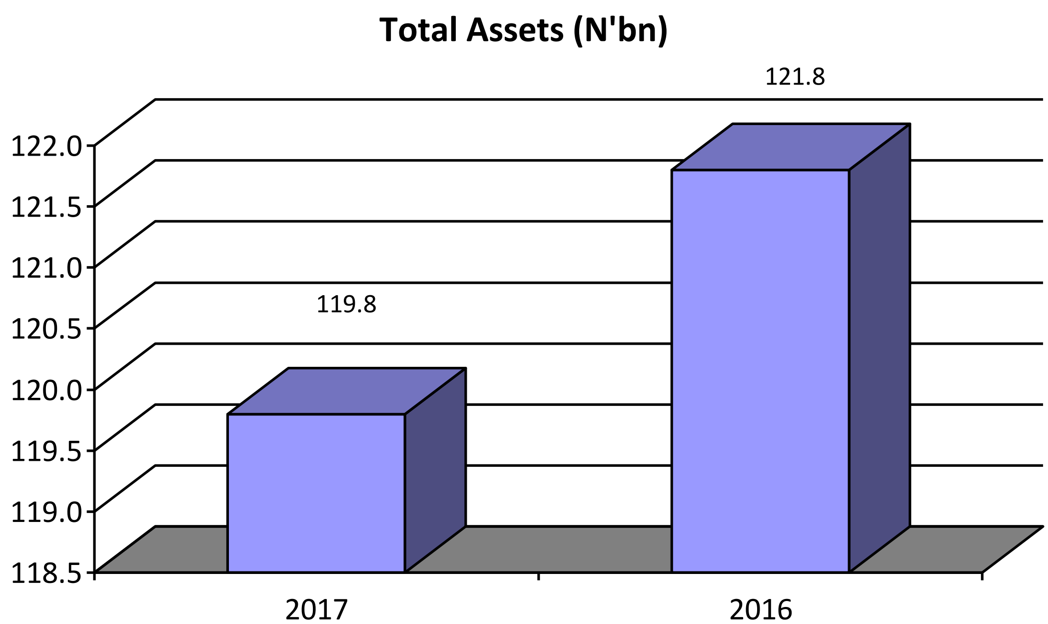


Figure 16: Composition of Assets of Finance Companies

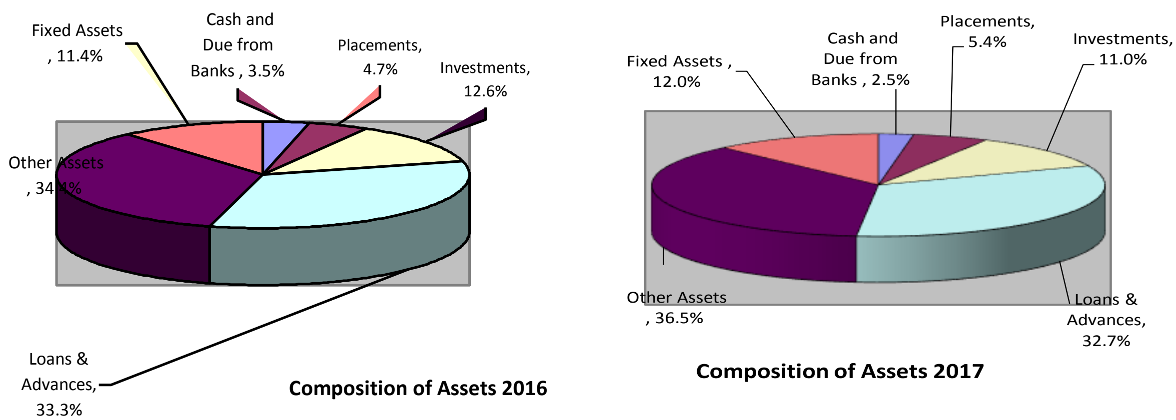
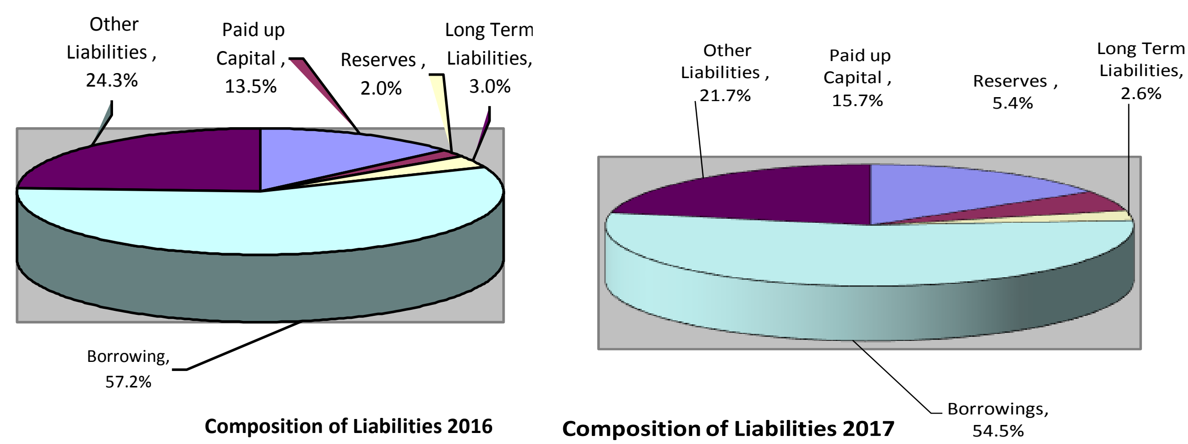


Figure 17: Composition of Liabilities of Finance Companies



Development Finance Institutions

The total assets of the eight DFIs increased by ₦83.8 billion or 6.8 per cent to ₦1,310.1 billion at end-December 2017 from ₦1,226.3 billion[1] at end-December

[1] NMRC was included as a DFI

2016. The increase was due to the licensing of a DFI (Development Bank of Nigeria) in the year and increases in placements and investments. However, loans and advances decreased by ₦62.9 billion or 7.6 per cent to ₦767.8 billion at end-December 2017 from ₦830.7 billion at end-December 2016. The increase in net assets was financed by the growth in long term liabilities, which increased by 1,033.6 per cent to ₦595.9 billion at end-December 2017 from ₦52.6 billion at end-December 2016.

The aggregate statement of financial position of the DFIs at end-December 2017 and 2016 is shown below:

Table 11: Comparative Aggregate Statement of Financial Position of DFIs

Assets	**Dec-17**		**Dec-16**		**Variance**	**Growth Rate**
	=N='000	**%**	**=N='000**	**%**	**=N='000**	**%**
Cash and Bank Balanc	34,416,949	2.6	155,704,740	12.7	(121,287,791)	(77.90)
Placement	267,706,494	20.4	96,246,187	7.8	171,460,307	178.15
Investment	161,072,576	12.3	45,652,718	3.7	115,419,858	252.82
Investment Property	34,186,485	2.6	22,917,631	1.9	11,268,854	49.17
Loans and Advances	767,803,392	58.6	830,695,873	67.7	(62,892,481)	(7.57)
Other Assets	31,970,575	2.4	28,271,672	2.3	3,698,903	13.08
Fixed Assets	12,922,780	1.0	46,829,343	3.8	(33,906,563)	(72.40)
Total Assets	**1,310,079,251**	**100.0**	**1,226,318,164**	**100.0**	**83,761,088**	6.83
Financed By:						
Share Capital	236,988,196	18.1	233,850,704	19.1	3,137,492	1.34
Reserves	(1,908,652)	-0.1	(17,709,969)	-1.4	15,801,317	(89.22)
Shareholders' Funds	**235,079,544**	**17.9**	**216,140,735**	**17.6**	**18,938,809**	8.76
Deposits	268,298,114	20.5	242,489,463	19.8	25,808,651	10.64
Borrowings	91,810,813	7.0	445,654,317	36.3	(353,843,504)	(79.40)
Due to Other Banks	1,903,265	0.1	68,837,824	5.6	(66,934,559)	(97.24)
Other Liabilities	117,062,093	8.9	200,625,889	16.4	(83,563,795)	(41.65)
Long-term Liabilities	595,925,422	45.5	52,569,936	4.3	543,355,486	1,033.59
Total Liabilities	**1,310,079,251**	**100.0**	**1,226,318,164**	**100.0**	**83,761,088**	**6.83**

Figure 18: Total Assets of Development Finance Institutions

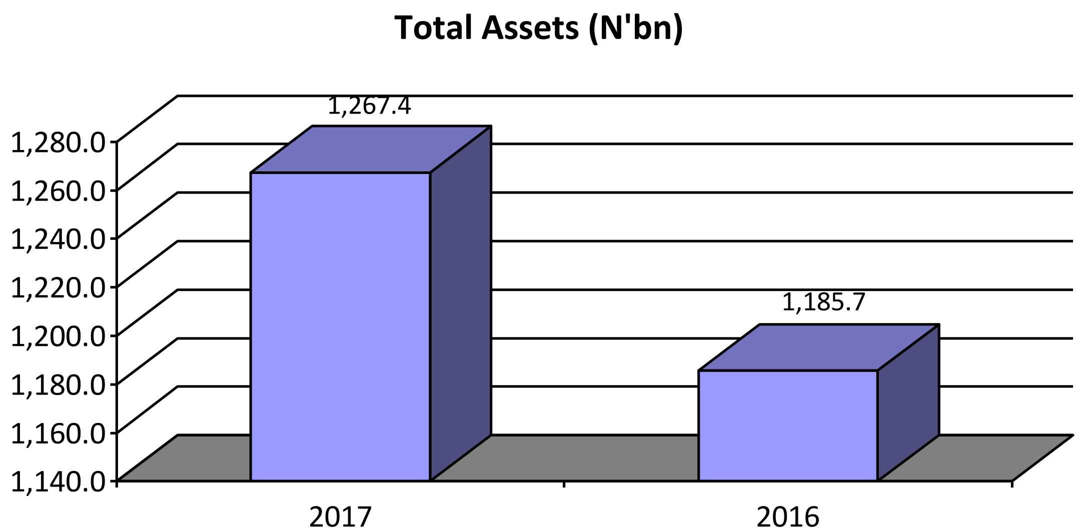
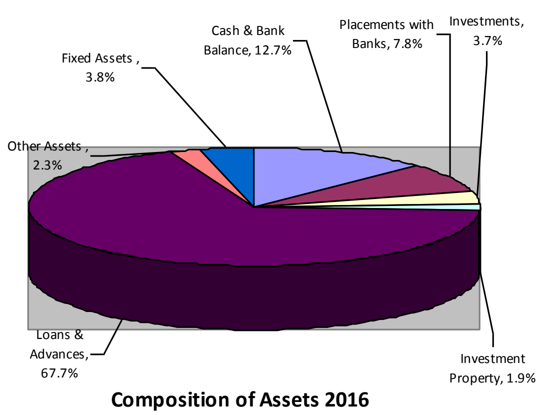


Figure 19: Composition of Assets of Development Finance Institutions



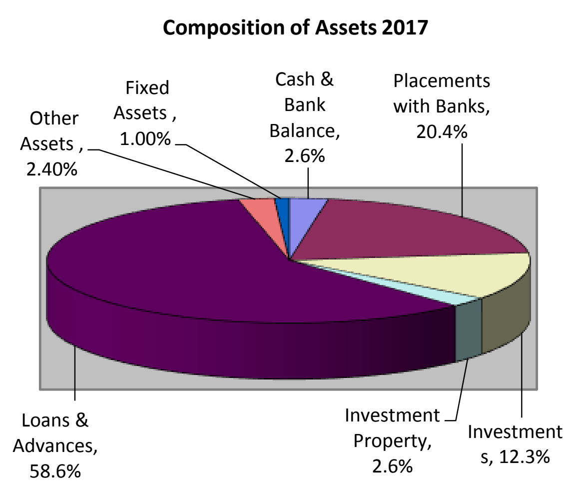
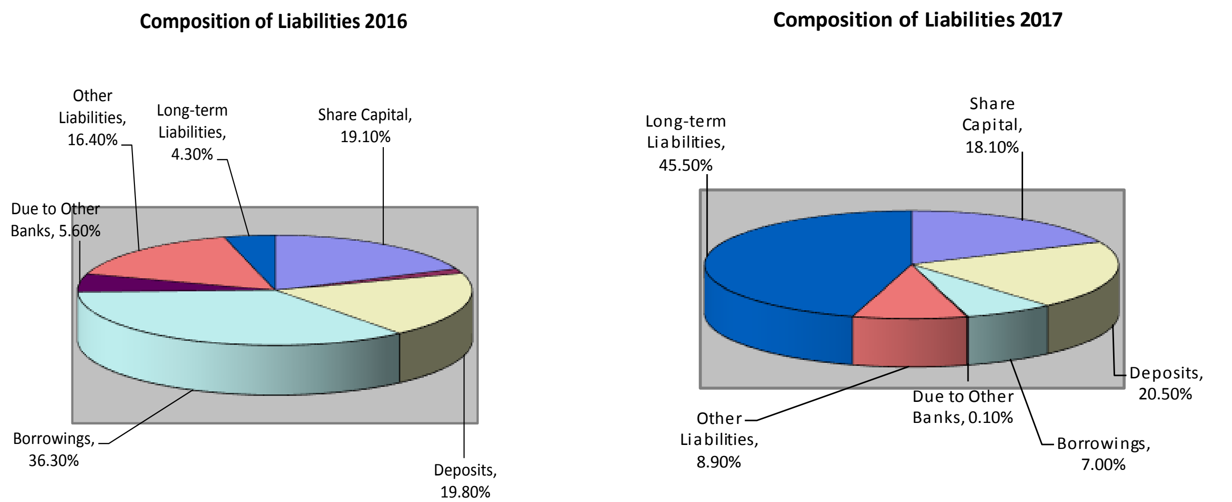


Figure 20: Composition of Liabilities of Development Finance Institutions



The OFI sub-sector sustained its contribution to the growth and development of the economy through the extension of credit to both the formal and informal sectors and the enhancement of financial inclusion. The CBN will continue to support the institutions in the sub-sector in the coming years in a bid to achieve its developmental objectives.

CHAPTER 5: CAPACITY BUILDING

5.01 CAPACITY BUILDING FOR SUPERVISORS

In the year 2017, several programmes were organised to build the capacity of examiners. The highlights of the programmes are presented below:

Local Programmes

Bank Examiners' courses were conducted for members of staff of the Bank, with representatives of other regulatory/supervisory agencies in Nigeria and central banks in the West African sub-region, in attendance. Other in-house programmes were organised on topical areas such as risk management; report writing; consolidated supervision; Basel II and III; International Financial Reporting Standards; credit analysis; OTC markets; supervision of holding companies; agent banking; and anti-money laundering/combating the financing of terrorism.

Also, members of staff participated in various open capacity building programmes organised by institutions such as the West African Institute of Financial and Economic Management and the Financial Institutions Training Centre.

International Programmes

Members of staff attended programmes organised by the Federal Deposit Insurance Corporation, the Federal Reserve System, the International Monetary Fund (IMF) and AFRITAC West 2/IMF, among others. The programmes included Examination Management School; Loan Analysis; Introduction to Examination School; Asset-Liability Management School and Financial Sector Surveillance.

Details of the local and international programmes and number of staff that attended are shown in the table below:

Table 12: Details of the Programme

S/N	Course Title	Number of staff trained
1	Bank Examiners' Foundation Course	131
2	Bank Examiners' Level 1 Course	87
3	Bank Examiners' Level 2 Course	77
4	Risk Management in Banks and the Capital Implications	4

5	Effective Report Writing Skills	20
6	Consolidated Supervision for Conglomerates	5
7	Basel II and III Capital Adequacy	6
8	International Financial Reporting Standards	4
9	Over the Counter (OTC) Market	40
10	OTC Markets Executive Scholars Programme	12
11	Oil and Gas Lending Workshop	4
12	Holding Company Supervision Symposium	2
13	Agent Banking Database Training	2
14	Anti-money Laundering	15
15	Oil and Gas Lending	2
16	Train the Trainer for Bank Examiners	20
17	Examination Management School	4
18	Information Technology Examination Course	2
19	Introduction to Examination School	4
20	Loan Analysis School	3
21	Bank Analysis Examination School	10
22	Asset-Liability Management School	5
23	Financial Institutions Analysis School	4
24	Consolidated Supervision and Risk Integration Seminar	5
25	Risk Focused Supervision and Risk Assessment Seminar	2
26	Advanced Credit Risk Management Seminar	1
27	Financial Crimes Seminar	2
28	Market Risk Analysis Seminar	1
29	WAIFEM Regional Course On Foundation Banking Supervision	4
30	Pan-African Bancassurance Colloquium	1
31	BCBS/FSI Meeting on the Implementation of Basel Committee Standards	1
32	Regional Course on Advanced Banking Supervision and Financial Stability	1
33	Bitcoin, Cryptocurrency and Data Security High-Level Workshop	2
34	Financial Sector Surveillance	1
35	Workshop on Macro-prudential Framework for Regulation and Supervision	2

36	Risk Management and Internal Control	1
37	Policy Formulation and Development	1
38	Achieving Peak Performance-Drivers	4
39	Knowledge Sharing Session on FPRD Policies, Processes and Internal Procedures	29
40	World Conference of Banking Institutes	8
41	In-house Induction Programme for New OFISD Staff	66
42	Resort Risk Management Retreat	5
43	Junior Staff Self-leadership Programme	2
44	Bank Analysis Seminar	1
45	Leadership and Workplace Ethics	1
46	African Digital Workshop	1
47	Asset/Liability Management Seminar	1
48	CBN Executive Seminar	2
49	Fundamentals of Risk Management	35
50	Developing Self-leadership	31
51	Specialised Report Writing	97
52	Interpersonal Skills Improvement Workshop for Secretaries and Personal Assistants	5
53	Seminar on National Collateral Registry Act: Pros and Cons for the Nigerian Banking Industry and Other Stakeholders	5
54	Regional Course on Computer Applications in Accounting, Auditing and Financial Management	1
55	Building and Leading Effective Teams	34
56	Records Management Workshop	6
57	Workshop on Bank Products and Relationship Management	4
58	Basel II and III Implementations	10
59	Lending to Agricultural Sector: The New Economic Direction	3
60	Sensitisation Workshop on Cryptocurrency: Evolution, Regulatory Challenges, its Impact on the Future of Payments System and the Way Forward	1
61	Data Analysis and Interpretation	5
62	Training on CBN e-portal Learning Platform	7

The number of staff trained under the different programmes underscores the commitment of the Management of the Bank to building the capacity of staff. This commitment is founded on one of the core values of the Bank, Learning, which emphasises continuous improvement, self-development and team work. The CBN will continue to build the capacity of its examiners and those of sister regulatory agencies in order to develop their competences to cope with the challenges emanating from both the local and international financial landscapes.

EDITORIAL COMMITTEE

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

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GLOSSARY

AACB	-	Association of African Central Banks
ACE	-	Advisory Committee of Experts
AFD	-	French Development Agency
AGSMEIS	-	Agribusiness/Small and Medium Enterprises Investment Scheme
AIP	-	Approval-in-Principle
AMCON	-	Asset Management Corporation of Nigeria
AML/CFT	-	Anti-Money Laundering and Combating of the Financing of Terrorism
ATM	-	Automated Teller Machine
BCBS	-	Basel Committee on Banking Supervision
BCEAO	-	Banque Centrale des Etats de l'Afrique de l'Ouest
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
CG	-	Corporate Governance
CIBN	-	Chartered Institute of Bankers of Nigeria
CRMS	-	Credit Risk Management System
CRR	-	Composite Risk Rating
CSWAMZ	-	College of Supervisors of the West African Monetary Zone
DBN	-	Development Bank of Nigeria
DCM	-	Data Capturing Machines
DFI	-	Development Finance Institution
DMB	-	Deposit Money Bank
eCCI	-	Electronic Certificate of Importation
ECO	-	Executive Compliance Officer
ETI	-	Ecobank Transnational Incorporated
FATF	-	Financial Action Task Force
FC	-	Finance Companies
FCTP	-	Foreign Currency Trading Position
FDI	-	Foreign Direct Investment

FEC	-	Financial Education Curriculum
FES	-	Financial Education Strategy
FGN	-	Federal Government of Nigeria
FHC	-	Financial Holding Company
FMDQ	-	Financial Market Dealer Quotation
FRACE	-	Financial Regulation Advisory Council of Experts
FSI	-	Financial Stability Institute
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
ICD	-	Islamic Corporation for the Development of the Private Sector
IFSB	-	Islamic Financial Stability Board
IMF	-	International Monetary Fund
IRR	-	Investment Risk Reserve
KYC	-	Know Your Customer
LIBOR	-	London Interbank Offered Rate
MBC	-	Mortgage Bankers' Committee
MCP	-	Microfinance Certification Programme
MFB	-	Microfinance Bank
MoU	-	Memorandum of Understanding
MPR	-	Monetary Policy Rate
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
NFIU	-	Nigerian Financial Intelligence Unit
NFLF	-	National Financial Literacy Framework
NFSSC	-	Nigeria Financial System Stability Council
NGO	-	Non-governmental Organisation
NHFP	-	Nigeria Housing Finance Programme
NIBSS	-	Nigeria Interbank Settlement System
NIFI	-	Non-interest Financial Institutions
NIMFB	-	Non-interest Microfinance Banks

NMRC	-	Nigeria Mortgage Refinance Company
NPL	-	Non-Performing Loan
NYSC	-	National Youth Service Corps
OFI	-	Other Financial Institutions
OTC	-	Over-the-Counter
PER	-	Profit Equalisation Reserve
PMB	-	Primary Mortgage Bank
PSIA	-	Profit Sharing Investment Account
PTA	-	Personal Travel Allowance
RBS	-	Risk Based Supervision
RTGS	-	Real Time Gross Settlement
SARB	-	South Africa Reserve Bank
SME	-	Small and Medium Enterprises
STR	-	Suspicious Transaction Report
SWIFT	-	Society for Worldwide Interbank Financial Telecommunication
TIN	-	Taxpayer Identification Number
UBA	-	United Bank of Africa
WG-CMBR	-	Working Group on Crisis Management and Bank Resolution
WUMT	-	Western Union Money Transfer