CENTRAL BANK OF NIGERIA

FINANCIAL STABILITY REPORT

JUNE 2012

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List of Abbreviations and Acronyms

AACBs	-	Association of African Central Banks
AADFIs	-	Association of African Development Finance Institutions
ACGSF	-	Agricultural Credit Guarantee Scheme Fund
ACSS	-	Agricultural Credit Support Scheme
AFC	-	African Finance Corporation
AGRA	-	Alliance for a Green Revolution in Africa
AIPs	-	Approvals-in-Principle
AMCON	-	Asset Management Corporation of Nigeria
AML/CFT	-	Anti-Money Laundering and Combating the Financing of Terrorism
ASCE	-	Abuja Securities and Commodity Exchange
ASI	-	All Share Index (Nigerian Stock Exchange Index)
ATMs	-	Automated Teller Machines
AU	-	The African Union
BCEAO	-	Banque Centrale des Etats de l'Afrique de l'Ouest (Central Bank of West African States)
BDCs	-	Bureaux de Change
BOA	-	Bank of Agriculture
BOFIA	-	Banks and Other Financial Institutions Act 1991 (as amended)
BOI	-	Bank of Industry
BRICS	-	Brazil, Russia, India, China, and South Africa
BSE Sensex	-	Bombay Stock Exchange Index (Indian Stock Index)
CAC 40	-	Cotation Assistée en Continu (French Stock Index)
CACS	-	Commercial Agricultural Credit Scheme
CAR	-	Capital Adequacy Ratio
CBN	-	Central Bank of Nigeria
CIBN	-	Chartered Institute of Bankers of Nigeria
CIFTS	-	CBN Interbank Fund Transfer System
CR6	-	Concentration Ratio (of the six largest banks)
CRMS	-	Credit Risk Management System
CSWAMZ	-	College of Supervisors of the West African Monetary Zone
D-8	-	Group of Eight Developing Countries
DAX	-	DeutscherAktien Index (German Stock Index)
DFIs	-	Development Finance Institutions
DMBs	-	Deposit Money Banks
DMO	-	Debt Management Office
EGX CASE 30	-	Egyptian Stock Index (Cairo and Alexandria Stock Exchange)
EBAs	-	Eligible Bank Assets
EMV	-	Euro MasterCard Visa
FATF	-	Financial Action Task Force
FCs	-	Finance Companies
FCT	-	Federal Capital Territory
FGN	-	Federal Government of Nigeria

FMBN	-	Federal Mortgage Bank of Nigeria
FMF	-	Federal Ministry of Finance
FSIs	-	Financial Soundness Indicators
FSRCC	-	Financial Services Regulation Coordinating Committee
FTSE 100	-	Financial Times Stock Exchange Index (UK Stock Index)
GDP	-	Gross Domestic Product
GIZ	-	German Agency for International Cooperation (Die Deutsche Gesellschaft für Internationale Zusammenarbeit)
GSE	-	Ghanaian Stock Exchange Index
HHI	-	Herfindahl-Hirschman Index
IFC	-	Islamic Finance Council
IFRS	-	International Financial Reporting Standards
IFSB	-	Islamic Financial Services Board
IGBC	-	Indice de la Bolsa de Valores de Columbia (Columbian Stock Index)
IILMC	-	International Islamic Liquidity Management Corporation
IMF	-	International Monetary Fund
JSE	-	Johannesburg Stock Exchange (South African Stock Index)
KYC	-	Know Your Customer
L/C	-	Letter of Credit
LTROs	-	Longer-term Refinancing Operations
M1	-	Narrow Money Supply
M2	-	Broad Money Supply
MCP	-	Microfinance Certification Programme
MDAs	-	Ministries, Departments and Agencies
MENA	-	Middle East and North African countries
MFBs	-	Microfinance Banks
MFIs	-	Microfinance Institutions
MICEX	-	Moscow Inter-Bank Currency Exchange (Russian Stock Index)
ML/FT	-	Money Laundering and Financing of Terrorism
MoUs	-	Memoranda of Understanding
MPR	-	Monetary Policy Rate
NACRDB	-	Nigerian Agricultural Co-operative and Rural Development Bank
NAICOM	-	National Insurance Commission
NASB	-	Nigerian Accounting Standards Board
NCC	-	Nigerian Communications Commission
NDIC	-	Nigeria Deposit Insurance Corporation
NEXIM	-	Nigerian Export-Import Bank
NFIU	-	Nigerian Financial Intelligence Unit
NGAAP+	-	Nigerian Generally Accepted Accounting Principles
Nikkei 225	-	Japanese Stock Index
NIBSS	-	Nigerian Interbank Settlement System
NIRSAL	-	Nigerian Incentive-based Risk Sharing System for Agricultural Lending
NPLs	-	Non-Performing Loans
NSE	-	Nigerian Stock Exchange

NSE 20	-	Nairobi Stock Exchange (Kenyan Stock Index)
OBB	-	Open Buy Back
OFIs	-	Other Financial Institutions
PAIF	-	Power and Aviation Infrastructure Fund
PCBs	-	Private Credit Bureaux
PENCOM	-	National Pension Commission of Nigeria
PFAs	-	Pension Fund Administrators
PFCs	-	Pension Fund Custodians
PMIs	-	Primary Mortgage Institutions
PoS	-	Point of Sale
PSV 2020	-	Payments System Vision 2020
ROSCAs	-	Rotating Savings and Credit Associations
RTGS	-	Real-Time Gross Settlement System
S&P	-	Standard and Poor's
SEC	-	Securities and Exchange Commission
SMEs	-	Small and Medium Enterprises
SMECGS	-	Small and Medium Enterprises Credit Guarantee Scheme
SROs	-	Self Regulatory Organisations
TSX	-	Toronto Stock Exchange
WAMZ	-	West African Monetary Zone
WDAS	-	Wholesale Dutch Auction System
WEO	-	World Economic Outlook

Definition And Function Of Financial Stability

Financial stability' is the resilience of the financial system to unanticipated adverse shocks, while enabling the continuing smooth functioning of the financial system's intermediation process. A stable financial system contributes to broader economic growth and rising living standards. The financial system performs one of the most important functions in the welfare of its citizens by supporting the ability of households and firms to hold or transfer financial assets with confidence.

Governor's Statement

In the first half of 2012, global economic performance showed improvements. However, prospects for output growth remained weak in the face of the sovereign debt crisis in the Euro-zone, the attendant financial market problems in Europe and the effects of slow growth in the US on the emerging economies.

Despite inflationary pressures and mild exchange rate volatility, the domestic economy recorded appreciable GDP growth, although at a lower rate than was achieved in the second half of 2011. The banking system was generally stronger, as the ratio of NPLs to total loans declined and weak banks were recapitalized.

We remain resolute in the pursuit of our mandate to ensure price and monetary stability. The Bank is determined to ensure that the banking system is able, at all times, to respond promptly and appropriately, to challenges as they emerge.

The Financial Stability Report continues to provide unique insights on developments in the Nigerian financial system and their implications for financial system stability. This edition, the fifth in the series, highlights measures taken by the Bank to strengthen financial stability and is, therefore, recommended to stakeholders as a major source of information on developments and opportunities in the Nigerian Financial System..

Sanusi Lamido Sanusi, CON
Governor, Central Bank of Nigeria

Keynote Remarks

The global economic recovery continued to be weak in the first half of 2012, owing to the Euro debt crisis, increased downside risks to output and the slow pace of economic and financial policy implementation. The Bank continued to take proactive measures aimed at improving the resilience of the Nigerian economy to potential risks from internal and external shocks. This underscores the importance of the Bank's commitment to its reforms aimed at reinforcing the stability and soundness of the banking system.

The implementation of the new banking model continued in the period under review. Meanwhile, the Bank's efforts at promoting financial inclusion gained momentum with the commencement of operations by the institutions earlier licensed for non-interest banking.

During the review period, the Bank upgraded the Consumer Protection Division of the Financial Policy and Regulation Department to a full-fledged Department to carry out advocacy, enlightenment, education and promotion of awareness among consumers of financial services.

Significant progress was made in the implementation of the pilot scheme of the cash-less policy in Lagos. The policy has deepened the use of alternative payment channels, such as Point of Sale (PoS) terminals, ATM cards, internet banking and mobile money transfers, among others. The upgrade of the electronic Financial Analysis and Surveillance System (e-FASS) commenced in the first half of 2012 with the aim of improving data integrity, disclosure and transparency in financial reporting by reporting institutions.

AMCON has continued to stabilize the banking system, through the provision of liquidity by the acquisition of Eligible Bank Assets (EBAs). Also, the Corporation made appreciable progress in recapitalizing the three bridge banks.

This edition of the *Financial Stability Report* reviews ed key risks in the financial system and the efforts made by the CBN to strengthen its soundness and stability. As with previous editions, it is expected that the *Report* would continue to assist stakeholders to appreciate the risks inherent in the system and facilitate informed discussion on the development and stability of the Nigerian financial system.

Your feedback on this Report will be appreciated. Please send your feedback to: FSR@cbn.gov.ng

Dr. Kingsley C. Moghalu
Deputy Governor, Financial System Stability

Executive Summary

Global GDP growth in the first half of 2012 was mixed. While, output increased to 3.6 per cent in the first quarter, second quarter growth was expected to slow down as unemployment in some advanced countries worsened, exacerbating the deepening sovereign debt crisis in the Euro-zone and weak exports by major emerging economies. Consequently, global growth was projected at 3.5 per cent for 2012, from as against the earlier projection of 4.0 per cent.

The slow growth helped to ease inflationary pressure globally in the review period, as commodity prices generally stabilised. Global inflation was estimated to average 2.8 per cent in June 2012, compared with 3.6 per cent at the end of 2011 (IMF WEO, April 2012). Monetary policy remained largely accommodating in most economies, as many central banks either reduced or retained their policy rates in the review period. In some countries, the need to improve liquidity and engender confidence in the markets was the main reason for monetary policy easing.

Most global equity market indices rose in the first half of the year 2012. This was partly attributed to improved confidence in stocks, largely driven by the easing of financial conditions in response to the ECB's refinancing operations for distressed banks in the Euro-zone, and improvements in global trade.

On the domestic front, macroeconomic performance was modest in the first half of 2012, as GDP growth rate stood at 6.4 per cent, compared with 7.6 per cent recorded in the second half of 2011. The non-oil sector continued to drive growth in GDP, as it grew by 12.8 per cent in the review period. In the review period, interest rates were generally stable, though average yields on government securities were higher in the first half of 2012 than in the second half of 2011.

Headline inflation, year-on-year, rose to 12.9 per cent at end-June 2012, from 10.3 per cent at end-December 2011. The development was attributed to the partial removal of the subsidy on petroleum products in January 2012, coupled with increases in the prices of some staple foods and electricity tariffs.

In the foreign exchange market, the average Naira exchange rate depreciated by 1.88 per cent to ₦157.44/US$ at the WDAS-SPT window at end-June 2012, from ₦154.54/US$ at end-December 2011. Also, at the inter-bank segment of the market, the rate depreciated by 3.20 per cent to ₦162.33/US$, while at the BDC segment it depreciated by 1.00 per cent to ₦163.43/US$.

The Bank's interventions in various sectors of the economy continued to yield positive results, with improved job creation and business expansion in the relevant sectors in the review period. Some of the intervention schemes highlighted in this edition of the *Report* include the Micro, Small and Medium Enterprises Development Fund, the Refinancing and Restructuring Facility, the Small and Medium Enterprises Credit Guarantee Scheme, the Power and

Airline Intervention Fund and the Commercial Agriculture Credit Scheme.

The results of a stress test conducted at end-June 2012 showed increasing resilience to shocks by the Nigerian banking industry. The exercise evaluated the solvency risks in the banking industry's balance sheet and the imbalance in the financial system. It is expected that the on-going banking industry reforms and the current short- to medium-term monetary and financial policy stance of the Bank would address liquidity and exchange rate volatility concerns emerging from the result of the test.

In its efforts to further strengthen the payments system, the Bank continued to pursue the achievement of the Payment System Vision 2020. It also commenced the implementation of the cash-less policy in Lagos, which was expected to increase the use of other modes of payment. During the review period, the Bank granted a licence to one mobile payment operator, following the conduct of a pre-licensing examination of 15 mobile payment operators earlier granted AIP status to ascertain compliance with the Mobile Payments Regulatory Framework.

In the first half of 2012, a self-assessment of Nigeria's level of implementation of the Core Principles for Effective Banking Supervision was conducted, in preparation for the an IMF/World Bank Financial Sector Assessment Programme update visit. The exercise showed a significant improvement in the country's compliance with the Core Principles, since the last assessment by the IMF/World Bank in May 2002.

1.0 OVERVIEW

Global economic recovery remained weak in the first half of 2012, accentuated by increased downside risks to output in the short- to- medium term amidst concerns about the sovereign debt crisis in the Euro-zone, weakness in the European financial markets, and the impact of sluggish recovery in the US on emerging economies. In Nigeria, the modest GDP growth recorded was accompanied by a slight recovery of the capital market. However, inflation remained relatively high, owing mainly to increases in the prices of some staple food products and electricity tariffs.

This edition of the *Financial Stability Report (FSR)* reviews developments in the global and domestic economies and is structured into eight (8) sections. Section 1 provides an overview, and section 2 presents the structure of the Nigerian financial system. Section 3 reviews the developments and key risks in the macroeconomic and financial environment. Measures taken to promote financial system stability are reviewed in section 4, while current regulatory and supervisory activities are highlighted in section 5. Section 6 covers developments in the payments system, and section 7 examines efforts made to promote and preserve the integrity of the Nigerian financial system. Section 8 concludes the Report.

2.0 STRUCTURE OF THE NIGERIAN FINANCIAL SYSTEM

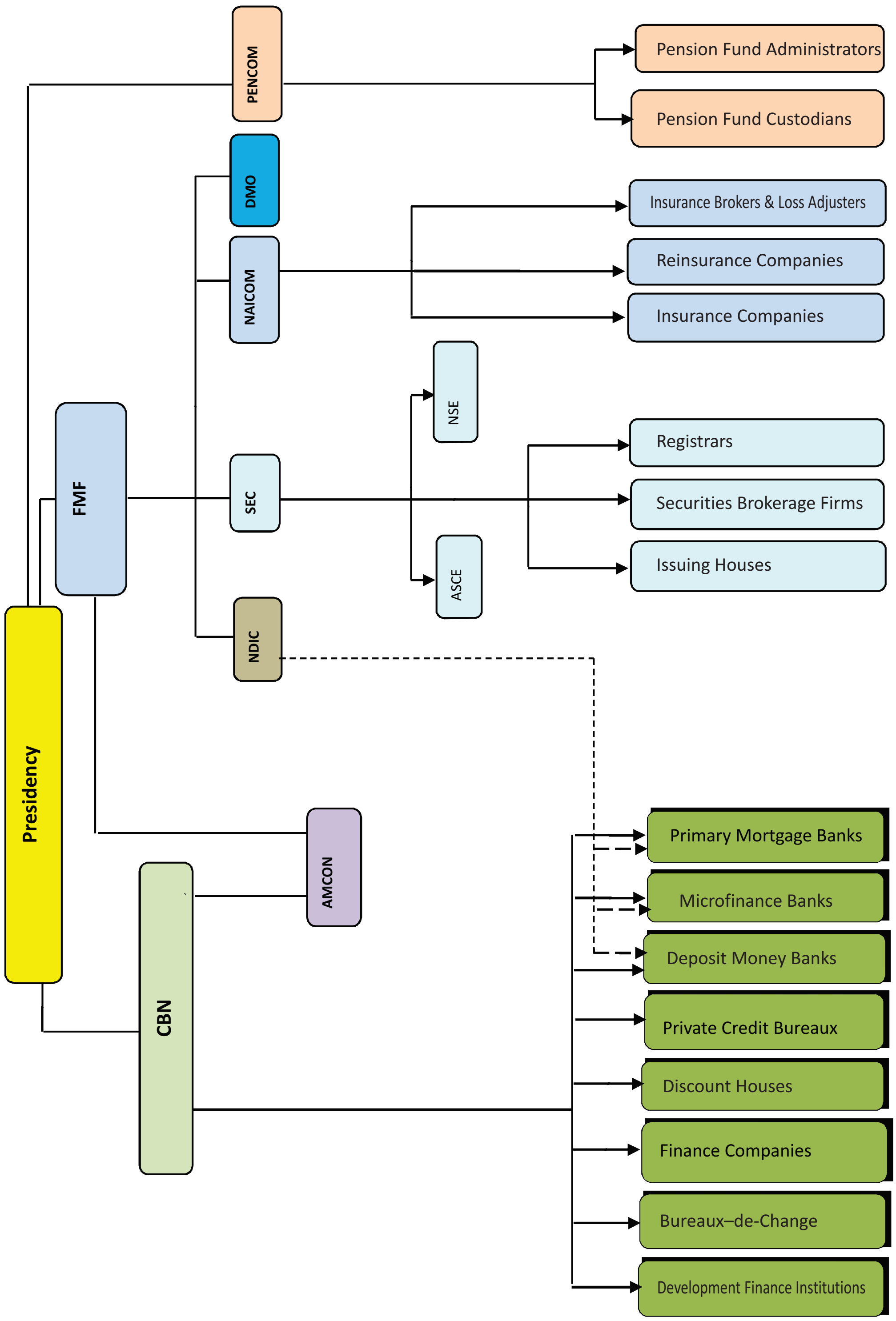
At end-June 2012, the structure of the Nigerian financial system was as presented in Figure 1. The regulatory and supervisory institutions in the system remained the Federal Ministry of Finance (FMF), the Central Bank of Nigeria (CBN), the Securities and Exchange Commission (SEC), the National Insurance Commission (NAICOM), the National Pension Commission (PENCOM), and the Nigeria Deposit Insurance Corporation (NDIC).

Table 1: Financial Institutions as at end-June 2012

Institutions	Number
Deposit Money Banks (DMBs)	21
Discount Houses (DHs)	5
Private Credit Bureaux (PCBs)	3
Development Finance Institutions (DFIs)	5
Primary Mortgage Banks (PMBs)	84
Microfinance Banks (MFBs)	870
Finance Companies (FCs)	108
Bureaux de Change (BDCs)	2,052
Pension Fund Custodians (PFCs)	5
Pension Fund Administrators (PFAs)[1]	30
Stock Exchange	1
Securities and Commodity Exchange	1
Securities Brokerage Firms	690
Registrars	34
Insurance Companies	59
Reinsurance Companies	2
Insurance Brokers	542
Loss Adjusters	48
Asset Management Corporation of Nigeria	1

[1] Including 7 closed-PFAs.

Figure 1: Structure of the Nigerian Financial System at end-June 2012



2.1 Other Stakeholders in the Financial System

Other stakeholders in the financial system remained the Financial Services Regulation Coordinating Committee (FSRCC), self-regulatory organisations (SROs), advisory bodies and the informal sector.

2.1.1 The Financial Services Regulation Coordinating Committee (FSRCC)

The FSRCC coordinates and harmonises regulatory activities in the financial system. Its membership comprises CBN, FMF, NDIC, SEC, NAICOM, and Corporate Affairs Commission (CAC).

2.1.2 Advisory Bodies

In addition to the FSRCC, the following bodies continued to provide platforms for regulators and/or operators in the financial system to discuss issues of common interest: the Bankers' Committee, the Committee of Microfinance Banks of Nigeria, the Committee of Mortgage Banks of Nigeria, the Clearing House Committee, the National Payments System Committee, and the Forum of CBN/NDIC with External Auditors of Banks.

2.1.3 Self-Regulatory Organisations (SROs)

The SROs provide training and, advocacy and enforce codes of ethics and standards for members. They include: the Chartered Institute of Bankers of Nigeria (CIBN), the Institute of Chartered Accountants of Nigeria, the Association of National Accountants of Nigeria, the Chartered Institute of Stockbrokers, the Association of Stock-broking Houses of Nigeria, the Association of Issuing Houses of Nigeria, the Institute of Capital Market Registrars, the Association of Corporate Trustees, the Financial Markets Dealers Association, the Nigeria Discount Market Association, the Capital Market Solicitors Association, the Finance Houses Association of Nigeria, the National Association of Microfinance Banks, the Association of Bureaux-de-Change Operators of Nigeria, Risk Managers Association of Nigeria, the Mortgage Banking Association of Nigeria, and the (Association of) Pension Operators (PENOP).

2.1.4 The Informal Sector

The informal sector continued to play a vital role in the financial system. It includes financial cooperatives, rotating savings and credit associations (ROSCAS), non-governmental organisations' microfinance institutions (NGO-MFIs), self-help groups, and other shadow banking entities.

3.0 MACROECONOMIC AND FINANCIAL DEVELOPMENTS

3.1 Global Economic and Financial Developments

Global economic recovery strengthened early in the first half of 2012 after slowing down significantly in 2011. In the second quarter, however, some indicators pointed towards a relapse into weakness. Key underlying risks, including the sovereign debt crisis in the Euro-zone, the associated financial market weaknesses in Europe, and the effects of sluggish recovery in the US on emerging economies' exports, remained largely unresolved. Factoring these risks into the outlook for output, the IMF in its July 2012 World Economic Outlook (WEO) update, downgraded the prospects for a much faster recovery in 2012.

3.1.1 Output

The rate of growth in global output increased from 3.2 per cent in the fourth quarter of 2011 to 3.6 per cent in the first quarter of 2012, driven by temporary upside factors, such as the easing of financial conditions, increased confidence in response to the European Central Bank's longer-term refinancing operations (LTROs), and improvements in global trade. However, developments in the second quarter were not as impressive, as unemployment worsened in some advanced economies, with growth falling short of initial expectations. In addition, financial uncertainties were heightened by the unresolved debt crisis and capital flight in the Euro-zone, especially , Greece and Spain. In view of these developments, the IMF reviewed downwards the global growth prospects to 3.5 per cent for 2012, from the earlier projection of 4.0 and the 3.9 per cent recorded in 2011 (Table 2).

In the advanced economies, growth was projected to soften to 1.4 per cent in 2012, from 1.6 per cent in 2011, mainly on account of their close economic and commercial linkages with the euroEuro-zone. However, the US and Japan are expected to post better growth rates, with the IMF estimating 2.0 and 2.4 per cent, as compared with 1.7 and -0.7 in 2011, respectively. These estimates are in line with those released by some countries. For example, the US Bureau of Economic Analysis estimated second quarter growth at 1.5 per cent, down from 2.0 per cent in the first quarter, of 2012.

In emerging economies, the growth momentum declined. In China, Brazil, and India, the deteriorating external environment and falling domestic demand were responsible for the slower growth. Growth was expected to moderate to 5.6 per cent, from 6.2 per cent in 2011. In the second quarter of 2012, China recorded its lowest growth of 7.6 per cent in three years, compared with 8.1 per cent in the first quarter, owing to reduced demand in the US and Europe. Brazil grew by 0.2 per cent at the end of the first quarter of 2012, while India grew by 5.3 per cent in the first quarter, down from 6.1 per cent in 2011. The IMF reviewed India's 2012 growth projection downwards, from 7.9 to 6.1 per cent, in view of the first quarter slack in growth.

The continued weak global recovery portends financial stability challenges for Nigeria. For instance, the uncertainties in the financial sector could, among other things, weaken DMBs' foreign asset holdings and further constrain their access to foreign credit lines. Also, foreign subsidiaries of Nigerian institutions could experience greater pressure from their operations, necessitating increased support from their parent institutions.

Table 2 : World Output Growth and Projections (2010-2013)

Country			Projections	
	2010	2011	2012	2013
World Output	**5.3**	**3.9**	**3.5**	**3.9**
Adv. Economies	**3.2**	**1.6**	**1.4**	**1.9**
United States	3	1.7	2	2.3
Euro-zone	1.9	1.5	-0.3	0.7
Germany	3.6	3.1	1	1.4
France	1.7	1.7	0.3	0.8
Italy	1.8	0.4	-1.9	-0.3
Spain	-0.1	0.7	-1.5	-0.6
Japan	4.4	-0.7	2.4	1.5
United Kingdom	2.1	0.7	0.2	1.4
Emerging and Dev. Economies	**7.5**	**6.2**	**5.6**	**5.9**
Sub-Saharan Africa	**5.3**	**5.2**	**5.4**	**5.3**
China	10.4	9.2	8	8.5
India	10.8	7.1	6.1	6.5
Brazil	7.5	2.7	2.5	4.6
Mexico	5.6	3.9	3.9	3.6
MENA	**5**	**3.5**	**5.5**	**3.7**

Source: IMF's WEO, April 2012 (updated July 2012)

3.1.2 Inflation

Inflationary pressure eased globally in the review period on the heels of slower economic activity and moderation of global commodity prices. The estimated average world inflation was 2.8 per cent in June 2012, compared with 3.6 per cent at the end of 2011. In the advanced economies, consumer price inflation was projected to fall from 2.7 per cent in 2011 to 2.0 per cent in 2012, while in the emerging and developing countries, inflation was projected to fall to 6.3 per cent in 2012, from 7.2 per cent in 2011 (Table 3).

Table 3 : Global Consumer Price Inflation

			Projections	
Regions	**2010**	**2011**	**2012**	**2013**
Advanced Economies	1.5	2.7	2.0	1.6
Emerging and Developing Economies	6.1	7.2	6.3	5.6

Source: IMF's WEO, April 2012 (updated July 2012)

In June 2012, consumer price inflation in the U.S stood at 1.9 per cent, compared with 3.3 per cent at end-December 2011 (Table 4). The United Kingdom and Germany also posted lower inflation rates of 2.7 and 2.1 per cent in June 2012, compared with 4.7 and 2.7 per cent at end-December 2011, respectively. The moderation in inflation reflected declining energy and food prices.

Table 4: Global Inflation Developments

Country	Dec. 2011	Jun. 2012	2012 projections
World	3.6	2.8	N/A
Euro-zone	2.9	2.5	N/A
BRICS	5.8	4.3	N/A
US	3.3	1.9	2.2
Canada	2.9	1.5	2.1
UK	4.7	2.7	2.8
France	2.6	2.3	2.2
Germany	2.7	2.1	2.1
Japan	-0.3	0.13	0.2
China	4.6	2.9	3.7
India	8.4	10.1	7.4
Brazil	6.7	5	5.5
Russia	6.7	3.8	4.6
Mexico	N/A	4.4	3.6
South Africa	6	5.7	5.5
Egypt	N/A	7.3	9.2
Ghana	N/A	9.4	8.8
Nigeria	10.0	12.9	13.5

Sources: NBS, Bloomberg and the www.eiu.com

In the emerging markets, the annual inflation rate also declined in the first half of 2012. Brazil, Russia, India, China and South Africa (the BRICS countries), in particular, posted an average inflation rate of 4.3 per cent, down from 5.8 per cent in 2011. In China, inflation rate declined to 2.9 per cent in June 2012, from 4.6 per cent in 2011. Brazil, Russia and South Africa posted 5.0, 3.8 and 5.7 per cent, respectively, in June, compared with 6.7, 6.7 and 6.0 at end-2011. India was, however, an exception with a higher overall inflation rate of 10.1 per cent in June 2012, compared with 8.4 per cent at end-December 2011.

In the Middle East and North Africa (MENA) region, inflation was projected to fall marginally from 9.6 per cent in 2011 to 9.5 per cent in 2012, given the relatively subdued growth outlook and declining non-oil commodity prices.

3.1.3 Monetary Policy Rates

Monetary policy remained largely accommodating in many economies in the first half of 2012, as their policy rates were either reduced or retained from 2011 (Table 5). The moderation in inflationary pressures provided a convenient environment and served as an impetus for rate cuts in many countries. For example, the People's Bank of China reduced its policy rate from 6.56 in April to 6.00 per cent in May. It also reviewed downwards its reserve requirement ratio against declining inflation and increasing downside risks to growth. In addition to lower inflationary pressures, the need to improve liquidity and shore-up confidence in the financial markets provided further justification for monetary policy easing in a number of countries. The CBN retained its policy rate in the review period at 12.0 per cent, in order to sustain stability and confidence in the financial markets.

Table 5 : Policy Rates of Selected Central Banks

Country	2011							2012					
	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.
Ghana	13	12.5	12.5	12.5	12.5	12.5	12.5	12.5	13.5	13.5	14.5	14.5	15
S. Africa	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5
Kenya	6.25	6.25	6.25	6.25	11	16.5	18	18	18	18	18	18	18
Nigeria	8	8.75	8.75	8.75	12	12	12	12	12	12	12	12	12
Brazil	12.25	12.5	12	12	11.5	11.5	11	10.75	10.75	9.75	9	8.5	8.5
Chile	5.25	5.25	5.25	5.25	5.25	5.25	5	5	5	5	5	5	5
USA	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Japan	0	0	0	0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Euro-zone	1.25	1.5	1.5	1.5	1.25	1.25	1	1	1	1	1	1	1
India	7.5	8	8	8	8.5	8.5	8.5	8.5	8.5	8.5	8	8	8
Russia	8.25	8.25	8.25	8.25	8.25	8.25	8	8	8	8	8	8	8
China	6.31	6.56	6.56	6.56	6.56	6.56	6.56	6.56	6.56	6.56	6.56	6	6
UK	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Indonesia	6.75	6.75	6.75	6.75	6	6	6	6	5.75	5.75	5.75	5.75	5.75

Sources: Bloomberg and Reuters

3.1.4 Global Equity Markets

Most global equity market indices rose in the first half of 2012, following renewed investor confidence in stocks, the easing of financial conditions owing to the European Central Bank's LTRO for distressed banks in the Euro-zone and improvements in global trade.

In Africa, the Nigerian ASI, the South African JSE ASI, the Kenyan NSE 20, the Egyptian EGX CSE 30 and the Ghanaian GSE all rose by 4.2, 5.4, 15.6, 30.0 and 7.9 per cent, respectively, in the first half of 2012 (Table 6). Similarly, Asian stock markets followed the global trend as the Japanese Nikkei 225, the Chinese Shanghai SE A, and the Indian BSE Sensex rose by 6.5, 1.2 and 12.8 per cent, respectively.

North American indices showed a mixed performance. The S&P 500 and the Mexico Bolsa rose by 8.3 and 8.4 per cent, respectively, while the S&P/TSX Composite declined by 3.0 per cent. In

South America, the Brazilian Bovespa and the Argentine Merval declined by 4.2 and 4.7 per cent, respectively, while the Columbian IGBC General index rose by 5.9 per cent. In Europe, the FTSE 100 and MICEX fell during the review period by 0.02 and 1.1 per cent, respectively. However, the CAC 40 and the DAX rose by 1.2 and 8.8 per cent, respectively.

3.2 Domestic Macroeconomic and Financial Developments

Nigeria's macroeconomic performance was modest in the first half of 2012, in spite of a slowdown in GDP growth. Inflation rose but interest rates were generally stable during the review period. However, average yields on government securities were higher in the first half of 2012 than in the second half of 2011.

3.2.1 The Real Sector

Gross Domestic Product growth rate was modest in the first half of 2012. At 6.4 per cent, the growth in GDP was 1.15 percentage points lower than the level in the second half of 2011. The non-oil sector continued to drive growth in GDP as it grew by 12.8 per cent in the review period. A breakdown of the non-oil sub-sectors' contributions to the GDP showed that agriculture, manufacturing, building and construction, wholesale and retail trade, and services accounted for 37.7, 17.8, 2.6, 20.1 and 21.9 per cent, respectively, in the first half of 2012, compared with 44.2, 3.5, 3.0, 23.6 and 25.6 in the second half of 2011. Oil GDP declined by 1.3 per cent, in contrast to the growth of 0.4 per cent in the second half of 2011.

Figure 2 : Percentage Growth Rate in Non-Oil GDP

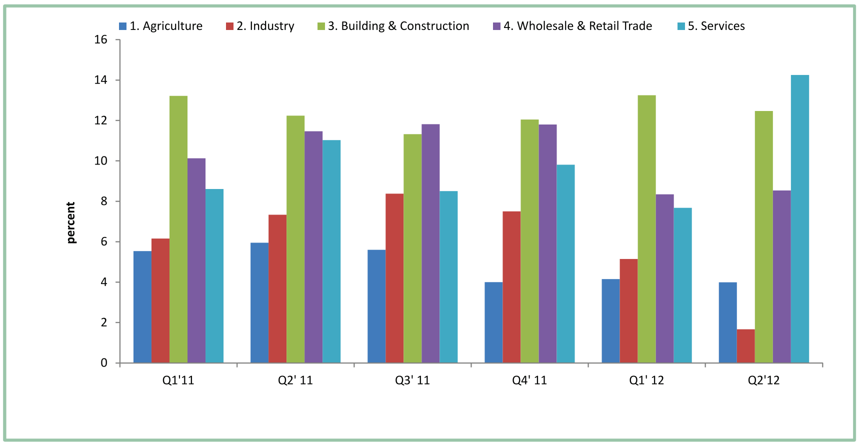
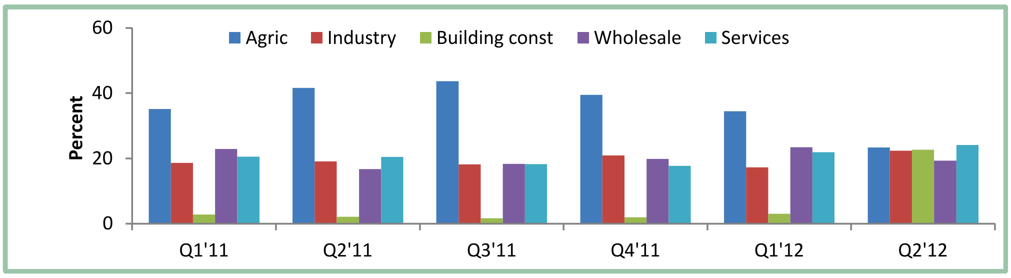


Figure 3 : Relative Contributions of the Non-Oil Sub-sectors to GDP growth



3.2.2 Inflation

Headline inflation rose to 12.9 per cent at the end of the review period, from 10.3 per cent at end-December 2011. The rise in inflation was attributed to the partial removal of the subsidy on petroleum products in January 2012, increases in the prices of some staple food products, and the increase in electricity tariffs, among others. Food inflation rose to 12.0 per cent at end-June 2012, from 11.0 per cent at end-December 2011 (Figure 4).

3.2.3 The Fiscal Sector

3.2.3.1 Fiscal Operations

Gross federally-collected revenue was estimated at ₦5,577.22 billion in the first half of 2012. This was higher than the proportionate budget estimate by 15.1 per cent, but lower than the actual revenue in the preceding half of 2011 by 12.2 per cent. The increase in federally-collected revenue, relative to the budget estimate, was due to the rise in oil revenue as a result of favourable crude oil prices in the international commodities market. Oil revenue accounted for 78.1 per cent, while non-oil revenue accounted for the balance of 21.9 per cent. The Federal Government-retained revenue, at ₦1,819.23 billion, exceeded the level in the preceding half year period by 2.7 per cent.

Aggregate expenditure of the Federal Government was ₦2,017.71 billion in the first half of 2012. This was 21.1 and 12.2 per cent lower than the proportionate budget estimate and the level in the preceding period, respectively. The low level of expenditure relative to the proportionate budget estimate reflected largely the delayed disbursement for capital projects.

Consequently, the fiscal operations of the Federal Government in the first half of 2012 resulted in a much lower overall deficit of ₦126.48 billion than the proportionate budget deficit of ₦568.10 billion for the first half of 2012 and the deficit of ₦527.3 billion recorded in the second half of 2011. The deficit was financed largely by proceeds from sales of FGN Bonds.

Figure 4 : Inflationary Trends (year-on-year), 2009 - 2012

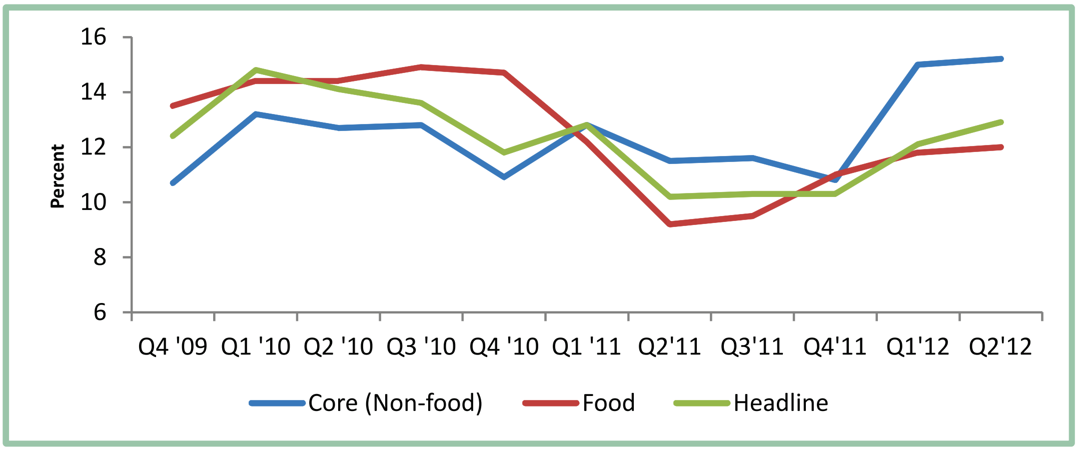
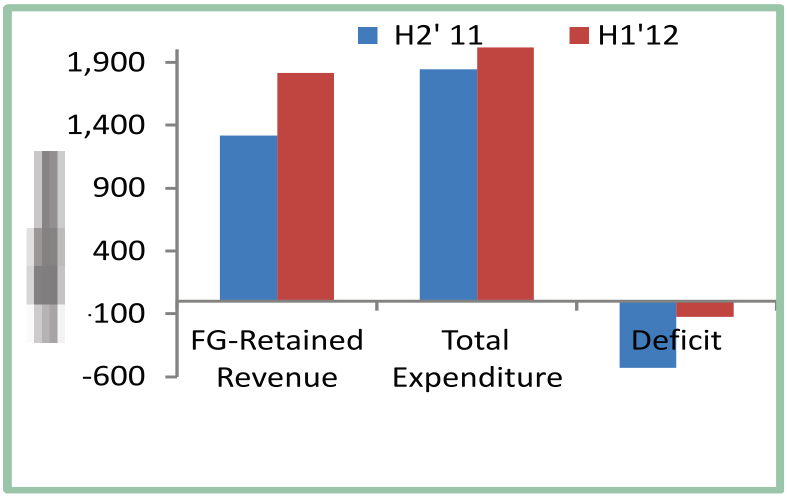


Figure 5: Federal Government's Fiscal Operations



3.2.4 The Financial Sector

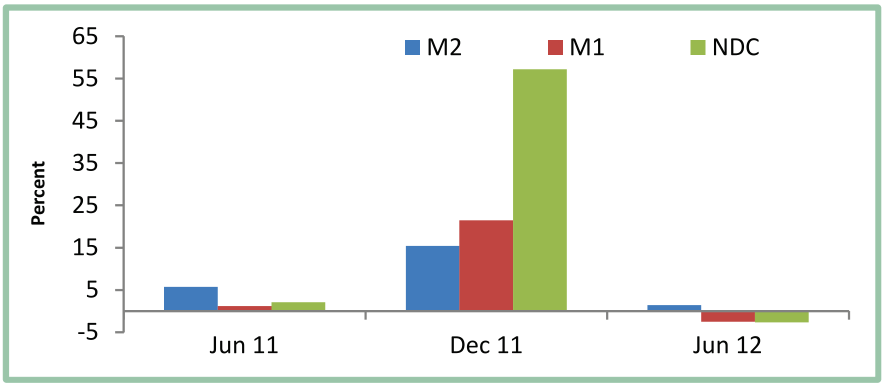
3.2.4.1 Monetary and Credit Developments

The growth in money supply was sluggish in the first half of 2012. Broad money supply (M2) grew by 1.4 per cent at end-June 2012, compared with the annualized growth rate of 2.7 per cent. Narrow money supply (M1) fell by 2.5 per cent, reflecting the fall in its demand deposit and currency components. The development was attributed to the improvement in the electronic mode of payment.

Aggregate bank credit (net) to the domestic economy fell by 2.7 per cent in the first six months of 2012, in contrast to the growth of 54.0 per cent at the end of the second half of 2011. The decline in net domestic credit reflected the substantial decline of 177.8 per cent in net claims on the Federal Government.

Reserve money, the CBN's operational target of monetary policy, declined by 9.8 per cent to ₦2,512.5 billion at end-June 2012, in contrast to the growth of 34.8 per cent at end-December 2011. The level of reserve money reflected the decline of 12.9 and 5.6 per cent in its currency and DMBs' deposit components, respectively. At that level, reserve money was 7.8 per cent below its indicative benchmark for fiscal 2012.

Figure 6 : Trends in Major Monetary Aggregates



3.2.4.2 Maturity Structure of DMBs' Deposits and Loans & Advances

The structure of DMBs' credit at end-June 2012 showed that short-term maturities remained dominant. Outstanding loans and advances maturing one year and below accounted for 59.1 per cent, compared with 60.0 per cent at the end of the second half of 2011. The medium-term (≥ 1yr and < 3yrs) and long-term maturities (3yrs and above) stood at 14.8 and 26.1 per cent, compared with 15.2 and 24.8 per cent, respectively, at the end of the second half of 2011 (Figure 7). Similarly, deposits below one year constituted 97.6 per cent of the total. Further analysis showed that 77.3 per cent of the deposits had a maturity of less than 30 days, while long-term deposits of more than three years constituted 0.01 per cent at end-June 2012, compared with 0.08 per cent at the end of the second half of 2011 (Figure 8).

In addition to the consequences of a maturity mismatch, the near-absence of long-term deposits continued to constrain the ability of banks to create long-tenored risk assets crucial for economic development.

Figure 7 : Distribution of DMBs' Loans and Advances by Maturity, March 2010 - June 2012

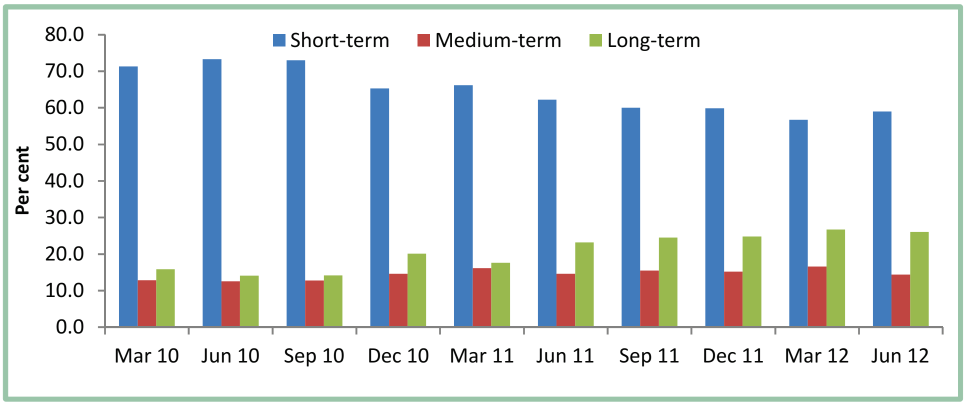


Figure 8 : Distribution of DMBs' Deposit Structure, March 2010 - June 2012

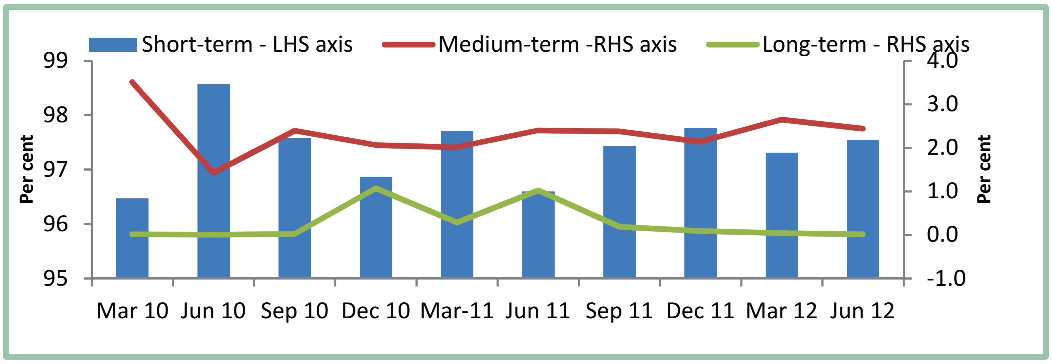
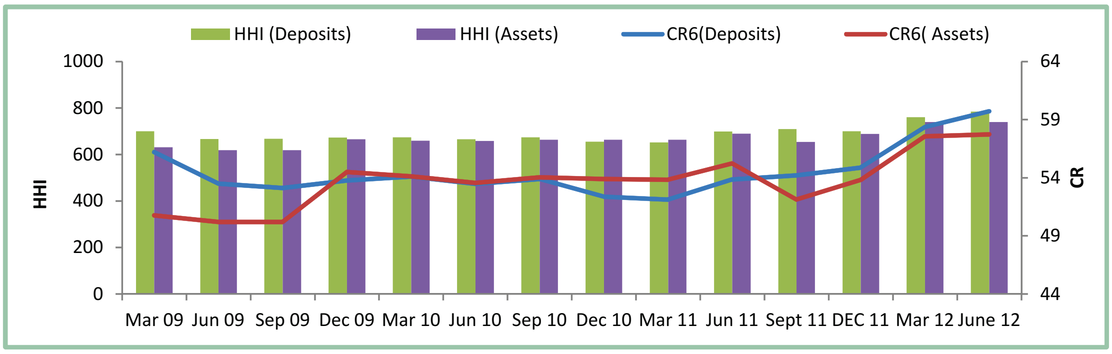


Figure 9 : Market Concentration Ratios of DMBs' Assets March 2010 - June 2012



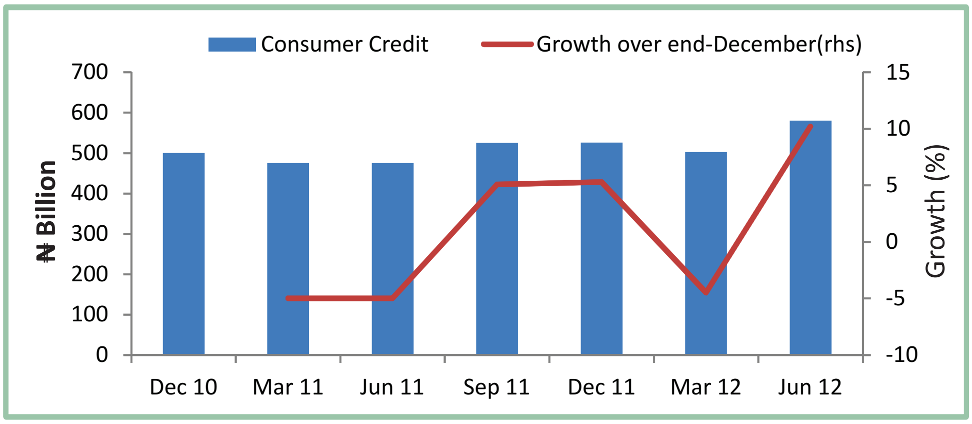
3.2.4.3 Market Structure of the Banking Industry

The structure of the banking industry continued, in the first half of 2012, to reflect the dominance of a few major players. The average market share of assets and deposits of the five largest banks (concentration ratio – CR5) stood at 51.64 and 53.14 per cent, respectively, compared with 53.01 and 52.06 per cent at the end of the second half of 2011. The market share of the largest bank, with respect to assets and deposits, stood at 14.05 and 15.60 per cent, respectively, at end-June 2012, compared with 13.84 and 15.15 per cent at end-December 2011. This showed that competition remained limited in the banking system as confirmed by the Herfindahl-Hirschman Index (HHI) (on a scale of 1,000) of 699.1 and 690.1 for total deposits and total assets, compared with 700.2 and 688.6, respectively, at end-December 2011.

With respect to microfinance banks (MFBs), total assets/liabilities increased by 3.0 per cent to ₦196.5 billion at end-June 2012, from ₦190.7 billion at end-December 2011. The paid-up share capital and shareholders' funds also increased to ₦49.1 billion and ₦47.6 billion, respectively, at end-June 2012, compared with ₦45.4 billion and ₦47.3 billion at end-December 2011. As a reflection of improved customer confidence, the total deposit liabilities increased by 21.2 per cent to ₦104.2 billion at end-June 2012, from ₦86.0 billion at end-December 2011. Net loans and advances rose by 28.1 per cent to ₦86.6 billion at end-June 2012, from ₦67.6 billion at end-December 2011. In general, there was evidence of improved understanding of microfinance business by MFBs.

Total assets of Primary Mortgage Banks (PMBs) increased by 1.2 per cent to ₦361.4 billion at end-June 2012, from ₦357.1 billion at end-December 2011. Paid-up capital and shareholders' funds of the institutions increased to ₦67.2 billion and ₦77.7 billion at end-June 2012, from ₦63.6 billion and ₦77.6 billion respectively at end-December 2011. Loans and advances also increased by 9.6 per cent to ₦138.7 billion at end-June 2012. However, deposit liabilities decreased by 2.8 per cent to ₦177.8 billion at end-June 2012. Fixed and other assets also declined by 23.4 and 17.9 per cent, to ₦18.0 billion and ₦50.3 billion at end-June 2012, respectively.

Figure 10: Consumer Credit, December 2010 – June 2012



3.2.4.4 Consumer Credit

Outstanding consumer credit increased in the first half of 2012 to ₦580.25 billion. This represented a 10.2 per cent growth, compared with 5.3 per cent at end-December 2011. As a ratio of credit to the core private sector, it constituted 4.1 per cent and was higher than the 3.9 per cent at end-December 2011. The increase in consumer credit reflected a rise in demand for consumer products, which is necessary for economic growth.

3.2.4.5 Interest Rates

Movements in rates reflected the tight monetary policy stance of the Bank in the first half of 2012. Inter-bank rates were higher, compared with their levels in the second half of 2011. The weighted average inter-bank rate in the first half of 2012 stood at 14.28 per cent, compared with 12.18 per cent in the second half of 2011, while the open-buy-back (OBB) average rate increased to 13.86 per cent, from 11.25 per cent in the second half of 2011. The weighted average of the Nigeria Inter-bank Offered Rate (NIBOR) for 7- and 30-day tenors averaged 14.77 and 15.27 per cent, respectively, compared with 15.83 and 16.30 per cent in the second half of 2011.

Average term deposit rates rose to 6.81 per cent, from 5.94 per cent in the second half of 2011. Prime and maximum lending rates moved to 17.02 and 23.27 per cent from 16.82 and 23.35 per cent, respectively, in the second half of 2011. The spread between average term deposit rates and maximum lending rates narrowed to 16.46 percentage points in the first half of 2012, from 18.06 in the second half of 2011. Deposit rates were negative in real terms given the year-on-year inflation rate of 12.9 per cent in June 2012.

A rising interest rate has the potential for impairing borrowers' ability to service loans, leading to increased NPLs and higher loan loss provisions. Also, the negative real deposit rates could serve as a disincentive to savings and investment.

Figure 11: Money Market Rates between June 2009 and June 2012

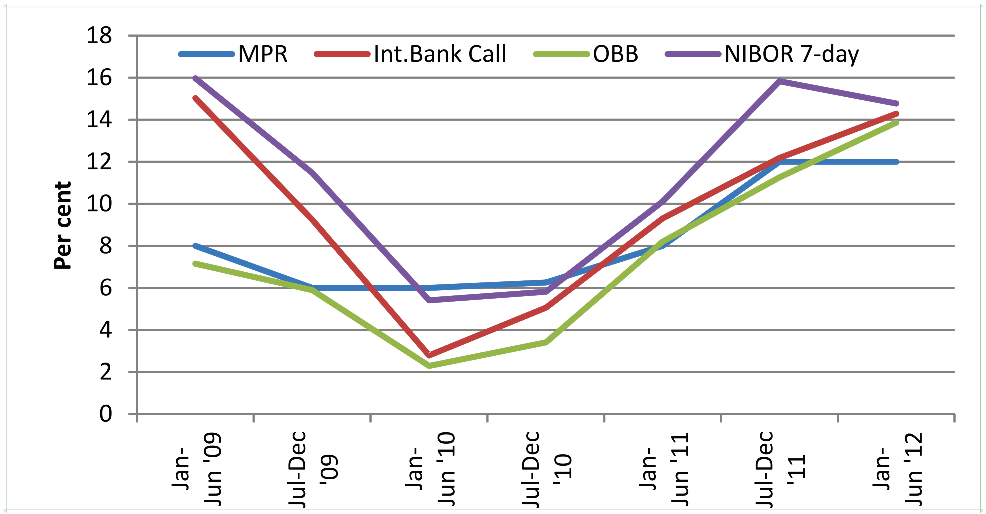
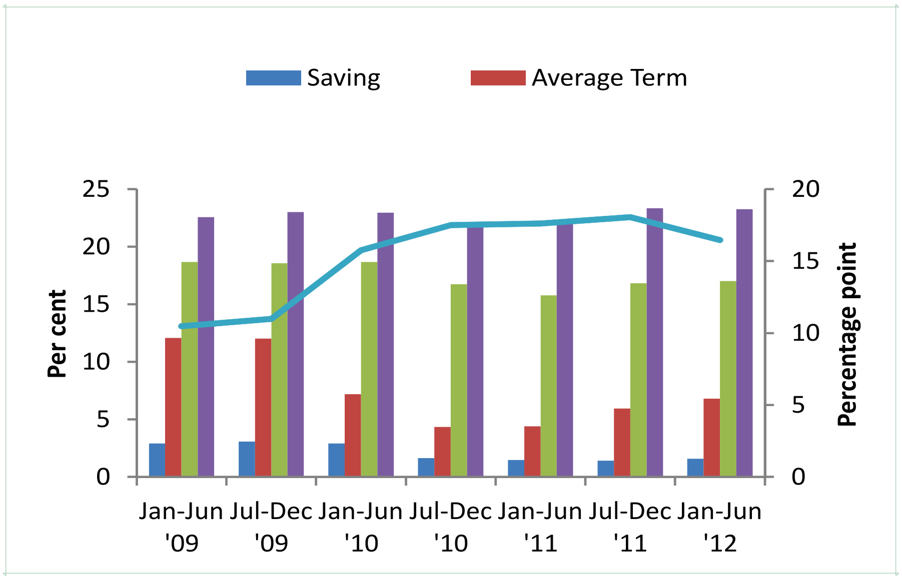


Figure 12 : Lending and Deposit Rates between June 2009 and June 2012

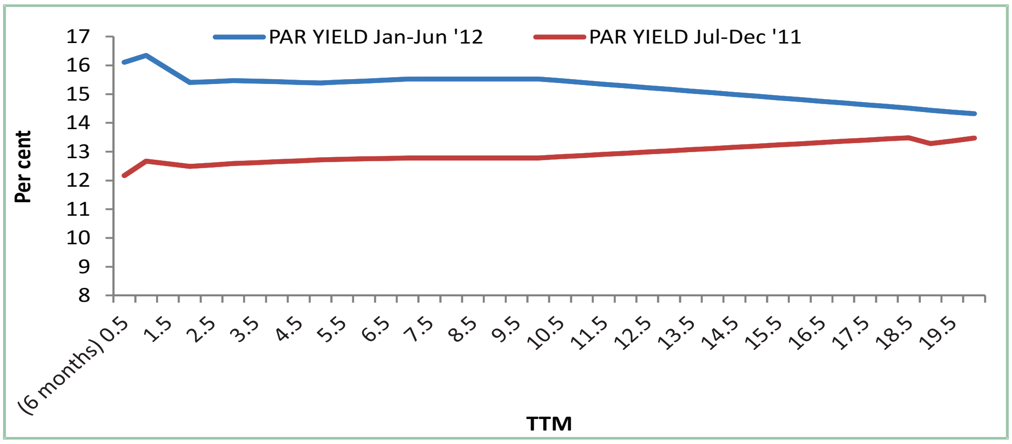


3.2.4.6 Yields on Government Securities

Yields on government securities were, on average, higher in the first half of 2012 than in the second half of 2011. Yields on shorter maturities were more volatile, but remained higher than on medium- and long-term maturities. Consequently, the yield curve was inverted with the spread at negative 1.77 percentage points in the first half of 2012, down from 1.44 percentage points in the second half of 2011. The inverted yield curve during the review period reflected investors' expectations of inflation risk.

Given the high exposure of DMBs to long-tenored government securities, the inverted yield curve portends losses. Government securities issued in recent months were more attractive, owing to

Figure 13 : The Yield Curve in Second Half of 2011 and First Half of 2012



higher yields, compared with equivalent maturities issued earlier at lower rates when the MPR and inflation were lower. The high yields on new government securities undermined corporate issues as investors could only subscribe to them at much higher yields, being riskier.

3.2.4.7 Capital Market

3.2.4.7.1 Nigerian Stock Market

The stock market performed better in the first half of 2012 than in the second half of 2011. The Nigerian Stock Exchange (NSE) All Share Index (ASI) rose by 868.94 points, or 4.19 per cent, to close at 21,599.57 at end-June 2012, from a level of 20,730.63 at end-December 2011. The volume of transactions rose by 15.19 per cent to 46.04 billion at end-June 2012, from 39.97 billion at end-December 2011, and the corresponding values increased by 21.32 per cent to ₦317.27 billion at end-June 2012, from ₦261.52 billion at end-December 2011. The positive movements were attributed to renewed interest by foreign investors who took advantage of low stock prices and improved operating results of companies, especially the banks. In addition, the CBN banking reform which led to the recapitalization, as well as the acquisition of some of the intervened banks, coupled with reforms by the NSE, significantly restored investor confidence. However, the number of deals declined by 10.0 per cent to 444,940 at end-June 2012 from the level of 494,391 at end-December 2011.

Table 6: Transactions on the Nigerian Stock Exchange

Period	Vol. (Bn)	Val. (₦' Bn)	Market Cap. (₦' Tn)	No. of Deals	Index
January – June 2012	46.04	317.27	6.90	444,940	21,599.57
July – December 2011	39.97	261.52	6.53	494,391	20,730.63
Percentage Change	15.19	21.32	5.67	-10.00	4.02

Source: NSE

3.2.4.7.2 Bond Market

3.2.4.7.2.1 Primary Market Auctions

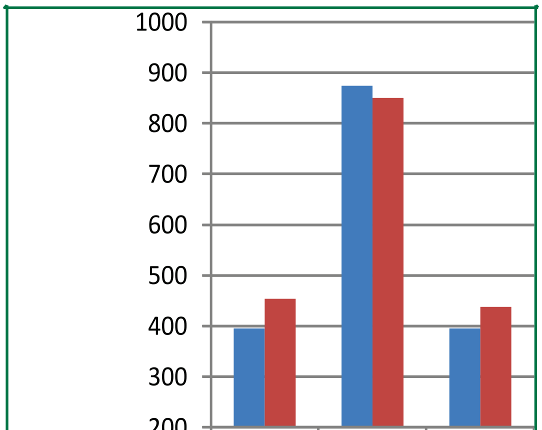
In January 2012, the Federal Government gazetted (effective July 2011) approvals of tax waivers for all categories of bonds (Federal, sub-national, corporate and supra-national bonds, mortgage-backed securities and asset-backed securities) and short-term FGN securities, such as Nigerian Treasury Bills. The approvals also included a reduction in stamp duties for re-issues of previously executed debentures to 20 per cent of the stamp duty payable on a new debenture of the same value, compared to 100 per cent prior to the approval, for a period of 10 years from the date of approval, after which only bonds issued by the FGN would remain tax exempt. This development was expected to lower the cost of raising funds and boost activities in the bonds market.

3.2.4.7.2.2 Federal Government of Nigeria Bonds

In collaboration with the Debt Management Office (DMO), the CBN continued to act as the registrar and issuing house for all FGN securities. The stock of the Federal Government domestic debt at end-June 2012 stood at ₦6,152.87 billion, an increase of ₦951.44 billion, or 18.29 per cent, over the level of ₦5,201.43 billion at end-December 2011. The increase was attributed to the issuance of new debt instruments to finance the fiscal deficit. The stock of domestic debt comprised FGN Bonds worth ₦3,714.55 billion, or 60.37 per cent, NTBs worth ₦2,084.59 billion, or 33.88 per cent, and FRN Treasury Bonds worth ₦353.73 billion or 5.75 per cent.

In the first half of the year, new issues and re-openings of 3-, 5-, 7- and 10-year FGN Bonds were auctioned. The total FGN Bonds offered was ₦453.67 billion, while public subscription and sales stood at ₦849.62 billion and ₦437.57 billion, respectively. The high level of subscription was attributed mainly to the attractive yields. Total value of bonds outstanding at end-June 2012 stood at ₦3,714.55 billion, an increase of ₦173.35 billion, or 4.89 per cent, over the level of ₦3,541.20 billion at end-December 2011. The structure of holdings of the bonds showed that 53.75 per cent was held by DMBs and DHs, while brokers and the non-bank public held 46.25 per cent.

Figure 14 : FGN Bond Auctions, July - December 2011 and January - June 2012



	Offer	Subcrip-tion	Sales
Jul -Dec 2011	394.77	874.47	394.77
Jan - Jun 2012	453.67	849.62	437.57

Table 7 : FGN Bond Auctions, January - June 2012

Bond Tranches	Tenor (Years)	Issue (₦' Billion)	Subscription (₦' Billion)	Allotment (₦' Billion)	Range of Bids (%)	Cut-off Rate	Maturity Date
			January				
10.70%FGN2018	10	19.76	22.40	19.76	14.5000-17.9989	16.9870	May 30, 2018
7.00%FGN2018	10	35.00	27.03	18.90	13.0000-18.0100	16.0000	Oct. 23, 2019
16.39%FGN2018	10	35.00	59.92	35.00	12.0000-22.0000	16.3900	Jan. 25, 2022
Sub-Total		**89.76**	**109.35**	**73.66**			
			February				
7.00%FGN2018	10	35.00	59.36	35.00	12.0000-17.7849	16.1600	Oct. 23, 2019
16.39%FGN2018	10	35.00	82.29	35.00	12.0000-18.1499	15.8930	Jan. 27, 2022
Sub-Total		**70.00**	**141.65**	**70.00**			
			March				
7.00%FGN2018	10	20.00	63.30	20.00	12.0000-16.9989	15.3000	Oct. 23, 2019
16.39%FGN2018	10	30.00	68.10	30.00	12.0000-17.4400	15.4100	Jan. 27, 2022
Sub-Total		**50.00**	**131.40**	**50.00**			
			April				
10.50% FGN MAR 2014	3	20.00	62.38	20.00	13.0000-16.6800	14.9480	Mar. 18, 2014
15.10% FGN APR 2017	5	35.00	78.12	35.00	12.0000-17.6900	15.1000	Apr 27, 2017
16.39% FGN JAN 2022	10	35.00	65.33	35.00	12.0000-17.2200	15.4718	Jan 27, 2022
Sub-Total		**90.00**	**205.83**	**90.00**			
			May				
15.10% FGN APR 2017	5	35.00	62.80	35.00	13.5000-16.5000	15.2492	Apr 27, 2017
16.39%FGN2018	10	35.00	68.90	35.00	13.5000-16.9400	15.4500	Apr 27, 2017
Sub-Total		**70.00**	**131.70**	**70.00**			
			June				
15.10% FGN APR 2017	5	30.00	55.84	30.00	12.5000-17.0386	15.8590	Apr 27, 2017
16.00% FGB JUN 2019	7	30.00	40.17	30.00	14.0000-17.0400	16.0000	Jun 29, 2019
16.39%FGN2018	9	23.91	33.68	23.91	14.0000-17.1499	16.2149	Jan 27, 2022
Sub-Total		**83.91**	**129.69**	**83.91**			
Total		**453.67**	**849.62**	**437.57**			

3.2.4.7.2.3 Sub-National Bonds

In the first half of 2012, Ondo State issued ₦27.0 billion bonds, bringing the total outstanding sub-national bonds to ₦368.00 billion. This issue brought to 12 the number of states that had approached the capital market since the first debt issuance programme by Lagos State in February 2009. In the period under review, Lagos State Bonds Tranches 1 and 2 were granted liquid asset status, having met the prescribed eligibility criteria (Appendix 4).

3.2.4.7.2.4 Corporate Bonds

The total value of new issues of corporate bonds during the review period was ₦2.26 billion, compared with ₦61.78 billion in the second half of 2011. The low amount of issues was attributed to the prevailing high cost of borrowing. Total outstanding corporate bonds stood at ₦160.79 billion. The number of listed corporate bonds, however, remained at 17 as the new issue was yet to be listed.

3.2.4.7.2.5 Secondary Market Activities

In the review period, FGN Bonds worth ₦3,103.49 billion were traded in 20,397 deals at the secondary market, compared with ₦4,231.03 billion in 29,945 deals in the second half of 2011. This represented a decline of 26.6 and 31.9 per cent in the value and number of deals, respectively. The development was attributed to the reluctance of existing holders to dispose of their holdings to avoid incurring losses, owing to the prevailing interest rate structure.

3.2.5 External Reserve Management

In the review period, the CBN evaluated its external asset managers, excluding

Table 8: Sub-National Bonds Issued, January - June 2012

Issuer	Issue Date	Maturity Date	Offer (₦' Bn)	Allotment (₦' Bn)	Tenor (Years)	Rate
Ondo State	14-Feb-2012	14 Feb 2019	27.00	27.00	7	15.5

Source: Securities and Exchange Commission

Table 9: Corporate Bonds Issued, January - June 2012

Issuer	Issue Date	Mat. Date	Tenor	Offer (₦' Bn)	Allotment (₦' Bn)	Rate MPR
Crusader Nig. Plc	Feb. 17, 2012	Feb. 17, 2019	7 years	2.26	2.26	+ 5%

Source: Securities and Exchange Commission the World Bank Treasury, against the objectives of its external asset management programme and reduced the number from 11 to 6. The assets under the management of the 5 terminated managers were transferred to some of the retained managers. In addition, the requirement for a partnership arrangement between the external asset managers and local banks as a condition precedent for the management of a portion of the external reserves was dropped.

3.2.6 External Reserve Movements

Gross external reserves rose to US$35.41 billion at end-June 2012, from US$32.64 billion at end-December 2011, reflecting an increase of US$2.77 billion or 8.49 per cent. The composition of the total reserves showed that US$6.56 billion belonged to the Federation, US$2.99 billion to the Federal Government, and US$25.86 billion to the CBN. The currency composition of the external reserves indicated that 82.15 per cent was held in US Dollars, 2.23 per cent in Pounds Sterling, 6.87 per cent in Euro, 1.42 per cent in Chinese Renmimbi, 7.18 per cent as the IMF Special Drawing Rights (SDR) allocation and 0.15 per cent in other currencies.

3.2.7 Foreign Exchange Flows

Total inflow during the period under review amounted to US$22.14 billion, compared with US$27.63 billion recorded in the second half of 2011, representing a decrease of US$5.49 billion or 19.87 per cent. Major sources of inflow included petroleum profit tax, royalties and penalties on gas flared (US$14.12 billion or 63.8 per cent), and crude oil and gas revenue (US$6.79 billion or 30.7 per cent).

Total outflow for the period under review declined to US$19.37 billion, from the US$28.24 billion recorded in the second half of 2011, representing a decrease of US$8.87 billion or 31.41 per cent. Major sources of the outflow included payments for WDAS-SPT, WDAS-FWD and interbank transactions of US$13.23 billion or 68.3 per cent; and the release of sales of foreign exchange to BDCs totalling US$3.46 billion or 17.8 per cent. The net inflow of US$2.77 billion during the period under review compared favourably with a net outflow of US$0.61 billion recorded in the second half of 2011.

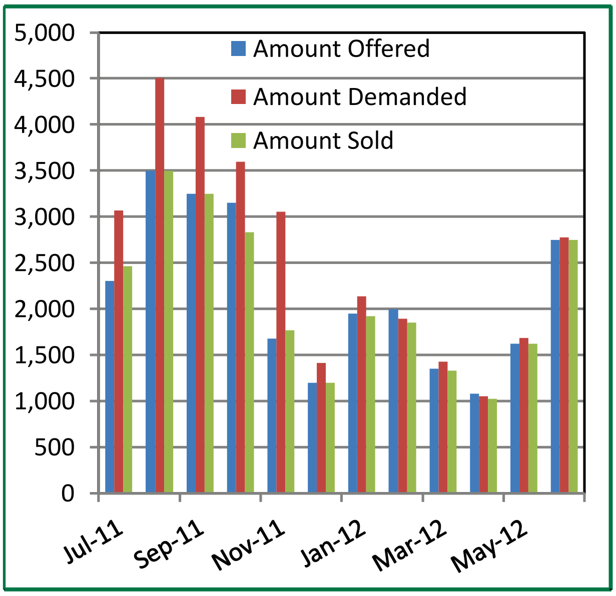
Bond yields are expected to remain low in the G7 Countries, owing to debt concerns in the Euro-zone, a slow-down in the Chinese economy, and poor US economic performance. Thus, investment returns are projected to remain low.

3.3 The External Sector

3.3.1 Demand and Supply of Foreign Exchange

In the first half of 2012, there were 49 auctions at the Wholesale Dutch Auction System Spot (WDAS-SPT) segment, compared with 47 in the second half of 2011. Total foreign exchange offered for sale was US$10.75 billion, while the amount demanded and sold stood at US$10.96 billion and US$10.49 billion, respectively. At the Wholesale Dutch Auction System Forward (WDAS-FWD) segment, the value of deals consummated stood at US$0.32 billion, while the sum of US$0.68 billion matured during the period. At the inter-bank segment, the CBN sold US$1.55 billion and bought US$0.12 billion. Thus, net sales of foreign exchange by the CBN amounted to US$12.60 billion, compared

Figure 15: WDAS-SPT Demand and Supply in US$ Million, July 2011 - May 2012



with US$15.53 billion in the second half of 2011. The decline in net sales was attributed to policies that encouraged foreign capital inflow, thereby reducing demand pressures.

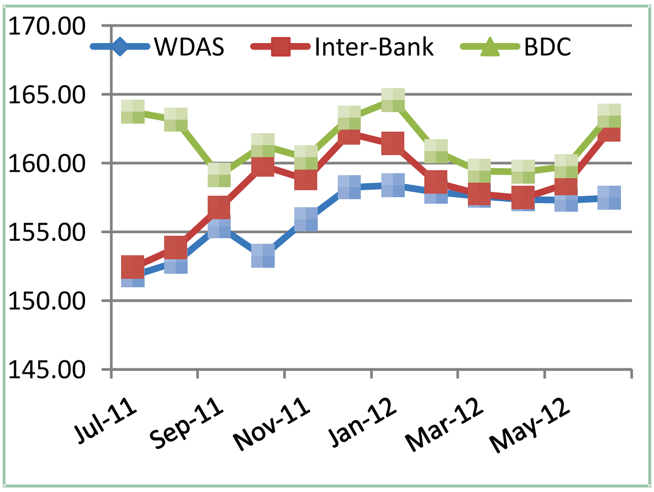
During the review period, the CBN reduced the amount sold to each BDC to US$75,000.00, from US$100,000.00 per week, effective January 2012. The total amount sold to BDCs during the review period was US$3.49 billion.

3.3.2 Exchange Rate Movements

The average Naira exchange rate at the WDAS-SPT window depreciated by 1.88 per cent to ₦157.44/US$ at end-June 2012, from ₦154.54/US$ at end-December 2011. Although the CBN intervened at the inter-bank segment of the foreign exchange market to stabilize the inter-bank rate, the rate depreciated by 3.20 per cent to ₦162.33/US$ from ₦157.30/US$. Similarly, the exchange rate at the BDC segment depreciated by 1.00 per cent to ₦163.43/US$ at end-June 2012, from ₦161.81/US$ at end-December 2011.

To narrow the premium between BDC and WDAS rates, the Bank continued direct sale of foreign exchange to BDCs. Consequently, the premium between the WDAS-SPT (₦157.44/US$) and the average BDC exchange rate of ₦163.43/US$ narrowed to ₦5.99 or 3.8 per cent at end-June 2012, from ₦7.27 or 4.7 per cent at end-December 2011. However, the premium between WDAS-SPT and inter-bank exchange rate of ₦162.33/US$ widened to ₦4.89 or 3.1 per cent at end-June 2012, from ₦2.76 or 1.8 per cent at end-December 2011.

Figure 16: WDAS, Inter-bank and BDC Rates for July 2011 - June 2012



3.3.3 Outlook for the Second Half of 2012

The Euro-zone crisis, the current security challenges and projected slower growth in OECD countries may reduce foreign investors' participation in the Nigerian financial markets and lead to a decline in capital market activities and increase pressure on foreign exchange to finance divestments. However, the planned privatization of 6 power generation, 11 power distribution, and 2 telecommunication, companies could increase the number of listed shares on the stock exchange and encourage participation by a wider group of investors. Also, the potential deregulation of the Nigerian oil & gas industry, the deployment of the Sovereign Wealth Fund, and the current efforts at tackling security challenges are expected to have a salutary effect on the financial markets.

3.4 Key Risks in the Banking System

3.4.1 Credit Risk

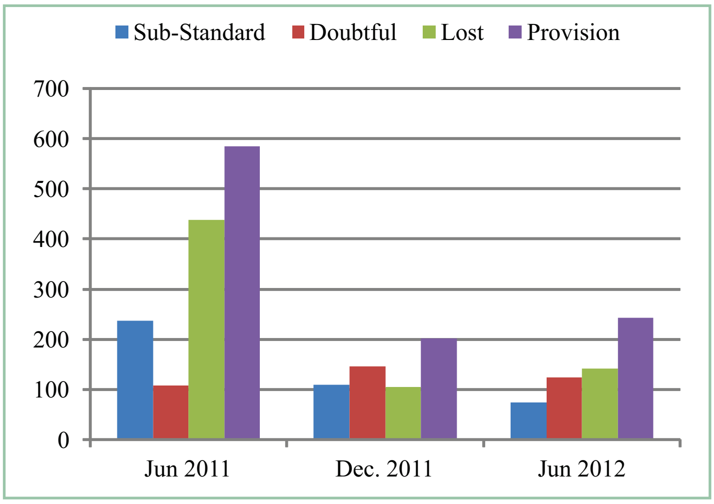
The banking industry's total credit increased to ₦7,870.92 billion at end-June 2012, from ₦7,273.73 billion at end-December 2011. The top 50 and 100 obligors accounted for 30.6 and 39.1 per cent, respectively, of the gross credit at end-June 2012, indicating a high level of concentration. This compared favourably with 31.5 and 40.0 per cent respectively of the gross credit of ₦7,273.73 billion at end-December 2011.

The ratio of non-performing loans (NPLs) to gross loans declined by 0.6 percentage point to 4.3 per cent at end-June 2012, from 4.9 per cent at end-December 2011, which was within the regulatory threshold of 5.0 per cent. The decline in the ratio was partly attributable to the sale of ₦52.85 billion Eligible Bank Assets (EBAs) to AMCON by six banks.

At end-June 2012, the NPLs declined by 5.6 per cent to ₦339.88 billion, from ₦360.09 billion at end-December 2011. The NPLs comprised facilities classified as 'sub-standard' amounting to ₦74.81

[1] WDAS exchange rates include a 1% commission

Figure 17: Composition of Banking Industry NPLs



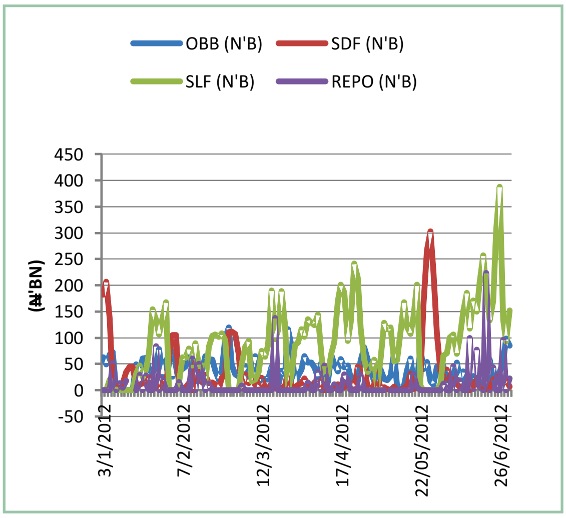
billion (22.3%), 'doubtful' of ₦123.44 billion (36.0%) and 'lost loans' of ₦141.63 billion (41.7%) at end-June 2012. Further deterioration of earlier classified loans resulted in an increase in loan loss provisions from ₦202.27 billion at end-December 2011 to ₦242.13 billion at end-June 2012.

3.4.2 Liquidity Risk

All the DMBs met the 30 per cent regulatory liquidity ratio requirement in the period under review. However, the frequent recourse to CBN's Standing Lending Facility (SLF) by some banks suggests an underlying liquidity challenge.

Significant influences on the system's liquidity in the first half of 2012 were identified to include pre-Federation Accounts Allocation Committee (FAAC) withdrawals by the Nigeria National Petroleum Corporation (NNPC), FAAC disbursements, auctions of government securities, OMO bills maturities and discount window operations.

Figure 18 : SDF/SLF/OBB/Repo Operations by Banks in Nigeria (January - June 2012)



3.4.3 Market Risk

The average savings, prime and maximum lending rates were 1.70, 16.93 and 23.44 per cent at end-June 2012, up from 1.41, 16.75 and 23.21 per cent at end-December 2011, respectively. The wide spread of 21.74 per cent between the average savings and maximum lending rates at end-June 2012 was attributed to the high cost of operations. In view of the negative effects of the wide gap on financial intermediation, the CBN had earlier initiated the shared services project to drive down costs and required banks to adopt a more transparent framework in fixing their rates. The CBN maintained a steady MPR of 12 per cent in the first half of 2012.

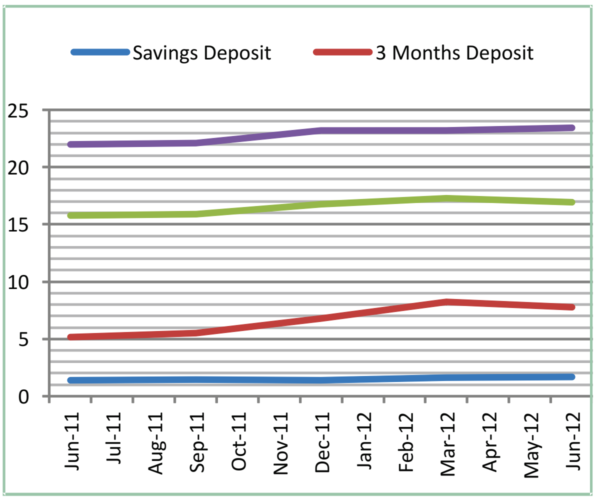
In the first quarter of 2012, rates in all segments of the foreign exchange market were stable as a result of high crude oil sales and inflows from foreign portfolio investments (FPIs). This trend was slightly reversed in the interbank and BDC segments at end-June 2012, mainly owing to divestments by FPIs. However, the intervention by the CBN in the market and substantial injection of autonomous funds moderated the exchange risk.

3.4.4 Operational Risk

The reported cases of fraud and forgery increased by 100.35 per cent to 2,300 in the first half of 2012 from 1,148 cases in the second half of 2011, but the amount involved declined to ₦7.04 billion at end-June 2012, from ₦23.02 billion at end-December 2011. Moreover, actual loss declined by 36.36 per cent to ₦2.45 billion from ₦3.85 billion at end-December 2011. To further mitigate this risk, the CBN continued to partner with banks and relevant stakeholders to strengthen operational risk management.

There was an increase in ATM-related complaints to the CBN as 51 cases, amounting to ₦2.52 million, were reported in the first half of 2012 as against 13, amounting to ₦10.54 million, in the second half of 2011. The mechanism put in place by the Bank facilitated the resolution of 41 out of the 51 cases reported at end-June 2012.

Figure 19: Trends of Deposit and Lending Rates between June 2011 and June 2012



The cash-less policy of the CBN increased the use of electronic payment channels, such as point of sale (PoS) terminals and internet banking, with the potential for exposing the system to more operational risks. Consequently, the CBN intensified its engagement with stakeholders with a view to addressing the associated risks.

3.4.5 Reputational Risk

The CBN continued to face litigation in relation to its intervention in some distressed banks, including those acquired by AMCON. The affected banks have, however, been stabilized.

During the period, the CBN received 444 petitions, amounting to ₦1.41billion, from bank customers relating to alleged excess charges and other unethical practices. The intervention of the Bank resulted in the refund of a total of ₦5.76 billion by banks to their customers from outstanding claims of ₦10.49 billion at end-June 2012.

3.4.6 Strategic Risk

The banking industry continues to face strategic risk, which has been defined as "the current or prospective risk to earnings and capital arising from changes in the business environment and from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment." As the business environment changes due to the changing economic environment and regulatory framework, it is critical that financial institutions identify and manage the risk faced by them from their business strategy.

3.4.7 Risks Arising from e-payment Channels

The expansion of electronic means of payment in the economy portends risks to banks, OFIs, merchants and the general public. Especially critical is the risk of identity theft and electronic fraud, and their impact on the payments system. The various initiatives of the CBN in this regard are expected to curb the risk of electronic payment channels to the system itself.

3.4.8 ML/FT Risks

Financial institutions constantly face the risk that their products may be used by criminals and terrorists for the laundering of proceeds of crime and the funding of terrorism. Attempts are ongoing to ensure that financial institutions implement counter measures that will ensure they identify suspicious transactions and report them to the appropriate authorities.

4.0 DEVELOPMENTS IN THE FINANCIAL SECTOR

4.1 Promoting Financial System Stability

4.1.1 Update on the New Banking Model

In line with the "Regulation on the Scope of Banking Activities and Ancillary Matters, No. 3", guiding the implementation of the new banking model, two banks had been issued with final licences with national authorization; seven had obtained approval for an extension of the deadline; four applications for an extension of the deadline were still being processed; and seven had neither concluded divestment from non-banking subsidiaries nor applied for an extension and were, therefore, penalised.

4.2 Reforms in the Mortgage/ Housing Finance Sector

The reforms in the mortgage/housing finance sector gained momentum during the review period as Primary Mortgage Banks (PMBs) submitted compliance plans in respect of the new capital regime. The plans would form the basis for regulatory engagement in the period leading to the May 1, 2013 deadline for compliance with the new minimum capital requirements, with a view to attaining a purposeful and vibrant sub-sector. However, some institutions unable to meet the minimum capital requirements (₦2.5 billion - for state authorization and ₦5 billion - for national authorization) had indicated their intention to convert to finance companies or microfinance banks.

4.3 Institutional Capacity Building

During the first half of 2012, the Bank's supervisory capacity was further strengthened through targeted training of staff in the following areas:

- Risk management and Basel II and III;
- Implementation of International Financial Reporting Standards (IFRS);
- Regulation of non-interest banks/Islamic financial market instruments;
- Regulation and supervision of bank/financial holding companies; and
- Supervision of foreign exchange operations.

Also, the CBN and the Bankers Committee collaborated with the Financial Reporting Council of Nigeria to establish an IFRS Academy for Nigeria. The academy would offer a 3-month IFRS professional certification programme towards building the capacity needed for effective IFRS implementation.

Capacity Building for Operators of Microfinance Banks

The Certification Programme aimed at bridging the skills gap among the operators of microfinance banks continued in the first half of 2012. Two hundred and seventy-seven (277) operators, earlier trained for the final level of the programme, were successful at the April examination and later inducted as Certified Microfinance Bankers. In total, 1,058 candidates have so far qualified and have been inducted. The programme was also extended to non-executive directors of MFBs, with the training of the first set of 875 participants.

4.4 Financial Inclusion

During the period under review, the CBN, in collaboration with a number of technical partners, namely Roland Berger, Enhancing Financial Innovation and Access (EFInA) and the Alliance for Financial Inclusion (AFI), reviewed the Financial Inclusion Strategy document in readiness for its adoption by stakeholders. The Bank also drafted the Framework for the Implementation of Financial Literacy, as required by the strategy document, outlining different financial literacy programmes for different population groups.

4.4.1 Microfinance Banks

Following the adoption of the new Microfinance Policy Framework in 2011, the Regulatory and Supervisory Guidelines for MFBs were reviewed during the reporting period. The revised Guidelines were aimed at fostering sound and stable MFBs, geared towards achieving the goals of the financial inclusion strategy.

4.4.2 Primary Mortgage Banks

During the review period, efforts were sustained on the implementation of the reform initiatives for the mortgage/ housing finance sector. The efforts included monitoring compliance with the new minimum capital requirement and conclusion of the feasibility study for the establishment of a Mortgage Refinance/Liquidity Company. The study set the stage for the take-off of the company. Work had also reached an advanced stage on producing uniform underwriting standards for mortgage loan origination, in collaboration with industry stakeholders.

4.4.3 Entrepreneurship Development Initiatives

4.4.3.1 The Micro, Small and Medium Enterprises Development Fund (MSEDF)

During the review period, a proposal for a Micro, Small and Medium Enterprises Development Fund was developed. The Fund, when approved, would benefit women entrepreneurs and the under-served, and would be financed by the CBN, the FGN and other investors.

4.4.3.2 Entrepreneurship Development Centres (EDCs)

The Entrepreneurship Development Centres initiated by the Bank to stimulate the entrepreneurial spirit of the youths to own/set up their own businesses, create employment and reduce poverty had recorded considerable progress during the review period. A total of 1,251 new jobs were created and 1,148 businesses were expanded. Also, a total of 2,948 youths were trained, out of which 53 were linked to sources of credit. Since the inception of the initiative, 37,198 young school leavers had been trained, out of which 959 were linked to sources of credit. The EDCs also created 9,120 direct jobs and facilitated 3,012 business expansions.

4.4.4 CBN Intervention Schemes

4.4.4.1 The Refinancing and Restructuring Facility (RRF)

During the review period, 30 projects valued ₦8.30 billion from ten (10) participating banks were approved.

Cumulatively, ₦235.00 billion had been disbursed to 522 projects under the scheme from its inception to end-June 2012. The distribution of facilities disbursed showed 12 sectors, with the chemicals and plastic sector having the highest allocation of 30.0 per cent, while transportation had the least with 0.5 per cent. At end-June 2012, a total sum of ₦14.60 billion of the RRF had been repaid by participating banks.

The Fund provides long-term, low-interest financing to the real sector which had been lacking. It is instructive to note that 64.6 per cent of the Fund is for term loans, with an average tenor of 96 months.

The scheme improved the capacity utilization of beneficiaries from a pre-disbursement level of 25 per cent to 48.6 per cent after the intervention, showing an increase of 23.6 percentage points. Correspondingly, the turnover and employment levels of the companies increased from ₦86.5 billion to ₦107.8 billion and 2,972 to 6,458, respectively, from end-December 2011 to end-June 2012.

Figure 20: Sectoral Distribution of the RRF

Table 10: Distribution of the RRF by Type

S/N	Description	Amount (₦ ' Million)	(%)
1	Long-term Loans (longer than 5 years)	142,765.83	64.57
2	Medium-term Loan (36 months)	58,779.33	26.58
3	Working Capital	19,551.62	8.84
4	Lease Finance	8.45	0.01
	Total	**221,105.23**	**100.00**

Table 11: RRF's Impact

Indicator	Pre-Intervention	Post–Intervention		Increment (%)
		Dec 31, 2011	Mar 31, 2012	
Employment	86,513	104,700	107,841	3.0
Turnover (₦ 'Billion)	2,972	6,151	6,458	5.0
Average cap. Utilisation (%)	25	34	48.6	2.9

4.4.4.2 The ₦200 Billion Small and Medium Enterprises Credit Guarantee Scheme (SMECGS)

The Small and Medium Enterprises Credit Guarantee Scheme (SMECGS) is a credit enhancement mechanism aimed at closing the SME financing gap in Nigeria. Under the Scheme, ₦200 billion was earmarked for the provision of guarantees to DMBs that extend credit to SMEs and manufacturers. At end-June 2012, the number and value of guarantees under the Scheme stood at 20 and ₦1.03 billion, respectively, while loans for three (3) projects worth ₦290 million had been repaid.

4.4.4.3 The Power and Airline Intervention Fund (PAIF)

The Fund has a concessionary interest rate of 7 per cent, with a maximum tenor of 15 years, for the development of power projects and improving the terms of credit to domestic airlines.

During the review period, the sum of ₦19.76 billion was approved for disbursement to participating banks for 6 power and 3 airline projects. Total amount released from the Scheme's inception to June 2012, stood at ₦178.6 billion in favour of 19 power and 15 airline projects.

Figure 12: WDAS-SPT Demand and Supply in US$ Million, July 2011 - May 2012

S/N	Project	January – June		Cumulative from inception to date	
		No. of projects	Amount (₦) Billion	No. of projects	Amount (₦) Billion
1	Airline	3	6.288	15	92.7
2	Power	6	13.474	19	85.92
	Total	9	19.762	34	178.62

4.4.4.4 The Commercial Agriculture Credit Scheme (CACS)

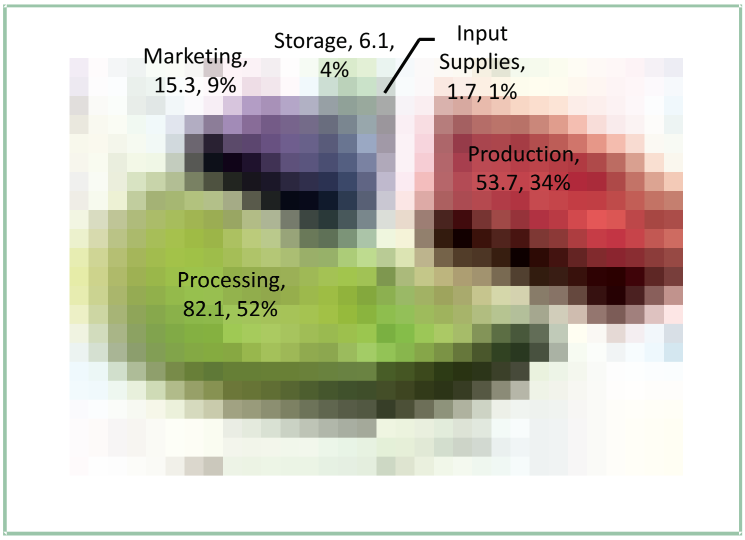
The sum of ₦45.09 billion was disbursed to 75 projects through the participating banks in the review period. Since its inception, ₦197.045 billion had been disbursed under the Scheme to 252 beneficiaries, made up of 222 private promoters and 30 state governments. Sixteen project loans worth ₦7.53 billion had so far been repaid. The analysis of projects financed under CACS, by value chain, showed that out of the 222 private sector projects, production accounted for 48.6 per cent, while processing accounted for 38.64 per cent, followed by marketing, storage and input supplies which recorded 7.3, 5.0 and 0.5 per cent, respectively.

The projects generated 5,910 jobs in the review period, bringing the number of jobs created to 38,711 since Scheme's inception. This intervention has helped to provide long-term, low-interest funding for agriculture, a traditionally neglected sector by the financial market.

Table 13: Analysis of CACS-financed Projects by Value Chain

Category	Number (%) of Projects		Value (₦ billions and %)	
Input Supplies	1	0.45	1.7	1.1
Production	109	48.64	53.7	33.8
Processing	85	38.64	82.1	51.7
Marketing	16	7.27	15.3	9.6
Storage	11	5.0	6.1	3.83
Total	**222**		**158.9**	

Figure 21 : CACS: Cumulative Agricultural Value Chain Financing, at end June, 2012



4.4.4.5 Nigeria Incentive-based Risk-Sharing System for Agricultural Lending (NIRSAL)

In the review period, the System provided a 50 per cent guarantee for the sum of ₦325.50 million credit facility for sorghum supply to a local company and the supply of cassava chips to China. Also, two insurance companies were approved by NAICOM to offer

insurance products to agri-businesses, including production, following the liberalization of agricultural insurance, while stakeholder engagements involving 26 State Governments were undertaken on agricultural projects along the value chain.

4.5 Non-Interest (Islamic) Banking (NIB)

In January 2012, Jaiz Bank Plc commenced operations as a regional non-interest bank, while Stanbic IBTC Bank Plc opened a non-interest banking window. In order to accommodate the non-interest banks in its liquidity management, the CBN, in June 2012, introduced three new instruments, namely, the CBN Safe-Custody Account, the CBN Non-Interest Note and the CBN Non-Interest Asset-backed Securities.

4.6 Anti-Money Laundering/ Combating the Financing of Terrorism (AML/CFT)

As part of the Bank's effort at combating money laundering and financing of terrorism, the following initiatives were implemented in the review period:

I. Issued an exposure draft on three-tier 'Know-Your-Customer (KYC)' requirements, to cover low-value and low-risk accounts, thereby promoting and deepening financial inclusion, while ensuring compliance with basic AML/CFT requirements.

ii. Developed an AML/CFT RBS template for statutory returns by financial institutions (FIs), under the regulatory purview of the

CBN and the NFIU to ensure uniform rendition of reports; and

iii. Developed, in conjunction with the Committee of Chief Compliance Officers of Banks in Nigeria (CCCOBIN), standard account opening forms for reporting institutions to improve KYC compliance.

4.7 International Economic Relations and Cooperation

4.7.1 The AACB 2012 Continental Seminar

The 2012 Association of African Central Banks (AACB) Continental Seminar was held in Douala, Cameroun in May 2012. The objective of the seminar was to prepare the grounds for implementing macro-prudential policies and reinforcing financial stability in the Continent.

At the end of the seminar, member countries agreed to:

- Establish a financial stability board in each country;
- Set up an efficient high-frequency data-collection mechanism to facilitate supervision and broaden the scope of data coverage beyond the financial sector, in order to include businesses and households;
- Build staff capacity in analytical and supervisory fields and in conducting resilience tests as an early warning tool; and
- Develop macro-prudential policy instruments and strengthen the interface between monetary and macro-prudential policies to minimise conflict of objectives.

5.0 REGULATORY AND SUPERVISORY ACTIVITIES

5.1 Macro-Prudential Supervision

5.1.1 Financial Soundness Indicators

Financial Soundness Indicators (FSIs) are statistical measures and one of the macro-prudential supervision tools used by regulators to monitor the stability of the financial system. The appraisal of the FSIs is as discussed below:

Assets-based Indicators

Asset quality in the banking system improved marginally in the review period. At 4.3 per cent, the ratio of non-performing loans to total loans declined by 0.6 percentage points below the level at end-December 2011 (Figure 22). The ratio of core liquid assets to total assets decreased by 1.4 percentage points to 24.3 per cent at end-June 2012, from 25.7 per cent at end-December 2011. Similarly, the ratio of liquid assets to short-term liabilities declined by 3.1 percentage points to 28.1 per cent at end-June 2012 (Figure 23).

Figure 22: Ratio of Banking Industry NPLs to Total Loans

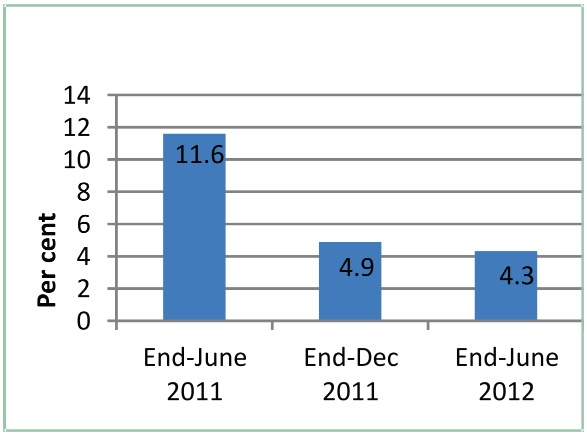
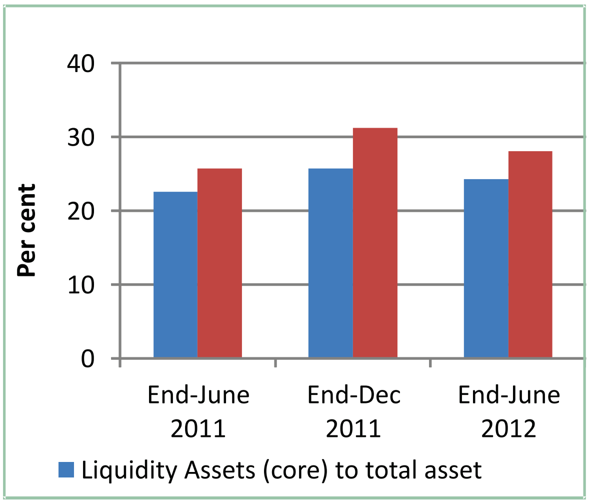


Figure 23: Banking Industry Liquidity Indicators



Capital-based Indicators

The industry ratio of regulatory capital to risk weighted assets stood at 17.7 per cent at end-June 2012, showing a marginal decline of 0.1 percentage point below its level of 17.8 per cent at end-December 2011. Similarly, the ratio of tier 1 capital to risk weighted assets of 17.8 per cent at end-June 2012 was 0.3 percentage point lower than the level of 18.1 per cent achieved at end-December 2011 (Figure 24). The relative stability of the ratios is a reflection of the achievement of the banking reforms that resulted in the recapitalisation of the banks and the cleaning up of their balance sheets.

The industry ratio of non-performing loans (net of provisions) to capital fell to 6.8 per cent at end-June 2012, from 10.1 per cent at end-December 2011. The steady decline in the ratio since 2010 was attributed largely to the directive by the CBN for banks to write-off fully provisioned facilities.

Income and Expense-based Indicators

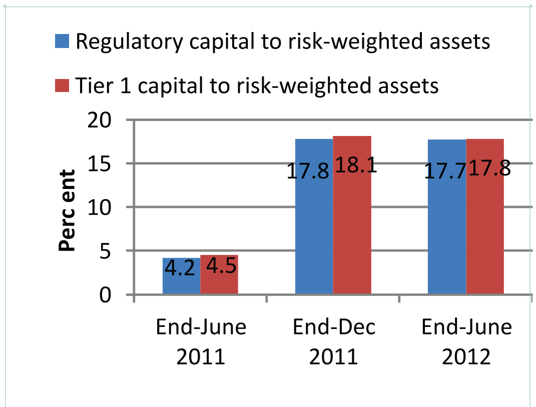
The ratio of interest margin to gross income increased to 64.6 per cent in the review period, from 45.2 per cent in December 2011. The ratio of personnel expense to non-interest expense also rose by 7.6 percentage points to 43.6 percent, from 36.1 per cent in June 2011, while the ratio of non-interest expenses to gross income decreased by 10.6 percentage points to 64.8 per cent at end-June 2012, from 75.4 percent at end December 2011. The significant increase in the ratio of interest margin to gross income reflected the high lending rates in the industry which may have negative implications for credit expansion. It also indicated the relatively low level of deposit rates which may discourage savings and deposit mobilisation.

5.1.2 Banking Industry Stress Test

The stress test conducted at end-June 2012 evaluated the solvency risks in banking industry balance sheet and the imbalance in the financial system. The results reaffirmed the increasing resilience of the industry to shocks. Comparatively, the results showed a slight improvement over the December 2011 position in the areas of credit, foreign exchange trading and exchange and interest rate risks, while liquidity risk increased marginally.

It is expected that the ongoing banking industry reforms and the current short- to-medium-term monetary and financial policy stance of the CBN would address liquidity and exchange rate volatility concerns in the near to medium term.

Figure 24 : Banking Industry Capital Adequacy Indicators



Box 1: Summary of Stress Test Results

Credit Risk

The banking industry's vulnerability to credit risk lessened as the impact of the most severe shock (200% rise in NPLs) on capital was adequately absorbed with a CAR of 11.4 per cent. However, it remains the key risk in the banking system.

Liquidity Risk

Liquidity risk was adjudged significant as the impact of a 10 per cent general run on the banking industry's liquidity resulted in an 815 basis points reduction in liquidity ratio. The results further showed that small and medium banks were less vulnerable to liquidity risk than the big ones.

Interest Rate Risk

The result of the test on the net position of interest-sensitive instruments, in terms of "return on assets" and "return on equity" revealed that the entire banking industry, "categorized banks" and individual banks, maintained a less vulnerable position to interest rate risk as pre-shock positions (in terms of capital impairment, ROA and ROE) declined marginally after the most strained shocks were applied.

Exchange Rate Risk

The result of the stress test in the period under review was consistent with that of December 2011. The banking industry's vulnerability to foreign exchange rate risk, especially strained exchange rate appreciation shocks, was unchanged. This was largely due to a high foreign exchange asset position relative to total risk-weighted assets, and a total qualifying capital, which stood at 16.01 per cent and 85.52 per cent, respectively.

Foreign Exchange Trading Risk

The banking industry was found to be less vulnerable to foreign exchange trading risk as pre-shock positions, in terms of impact on ROA and ROE, declined marginally at extreme shock (100%) on foreign exchange trading income, due mainly to the high net profit positions of the banks, relative to the size of the foreign exchange trading income.

5.1.3 Framework for Enhancing Financial Stability

The Bank commenced the process of developing a framework for enhancing financial system stability in the areas of crisis handling and resolution, macro-prudential policy, micro-prudential supervision and the legal and regulatory framework. The objectives of the project include the following:

- Enhancing the existing framework for crisis handling and resolution in the financial system;
- Developing a framework that aligns financial system stability goals with price stability and broader macroeconomic policies in order to minimize vulnerabilities in the system;
- Reviewing and validating existing banking and supervision tools and their framework;
- Evaluating the effectiveness or otherwise of CBN's mandate and powers, governance and risk appetite; and
- Reviewing the existing risk-based supervisory (RBS) approach and the operation of holding companies under the new banking model.

5.2 Licensing and Approvals

5.2.1 Non-Interest Banks

One institution that was granted a final, non-interest (Islamic) banking licence in the second half of 2011 and a bank that was granted approval for a non-interest (Islamic) banking window commenced operation during the review period.

5.2.2 Micro Finance Banks (MFBs)

A total of 148 applications were received, 66 of which were granted licences. Eighty two (82) applications were still being processed. At end-June 2012, there were 870 licensed microfinance banks.

5.2.3 Finance Companies

At end-June 2012, there were 108 licensed finance companies. One AIP was granted, while another fresh application was being processed at end-June 2012.

5.2.4 Primary Mortgage Banks (PMBs)

At end-June 2012, there were 84 licensed Primary Mortgage Banks in the country.

5.2.5 Merchant Banks

Of the four applications processed in the review period, two were granted AIPs, while the other two were still being processed for the grant of AIPs. The two granted AIPs were:

1) FirstRand Bank of South Africa; and
2) First Securities Discount House Limited.

5.3 Supervision of Banks and Other Financial Institutions

5.3.1 Deposit Money Banks

During the review period, the maiden examination of the three bridge banks licensed in the second half of 2011 was conducted. The reports, in general, identified improved earnings, a reduction in NPLs, and enhanced capitalization. However, weak corporate governance, lapses in foreign exchange management and poor credit administration remained a supervisory concern.

In order to address increased demand pressure on foreign exchange, the CBN embarked on a quarterly examination of all banks during the review period. The major lapses identified in most of the institutions included failure to comply with the prescribed net open position (NOP) limits; documentation lapses in respect of purchases and sales of foreign exchange; and non-adherence to eligibility criteria for foreign exchange utilization. Appropriate sanctions were imposed on the erring banks.

5.3.2 Discount Houses

During the review period, a risk-based examination of the five discount houses was conducted. The examination revealed that:

- One discount house had a "low" composite risk rating, supported by a strong capital base and an acceptable earnings level;
- One other discount house with a strong capital base but needing improvement in earnings was rated "moderate";
- Two were rated "above average" as there was need to improve on their earnings and capital management; and
- One was rated "high risk" owing to reported losses, following a huge deterioration in its interest earning assets, resulting in capital erosion below the regulatory requirements.

The declining earnings of discount houses was attributed to stiff competition by banks in the areas previously reserved for them.

5.3.3 Credit Bureaux

The three (3) private credit bureaux continued to render returns to the CBN on their activities, which showed increased patronage. However, no examination was conducted on them in the review period.

5.3.4 Specialized Banks

5.3.4.1 Non-Interest/Islamic Banks

Jaiz Bank Plc commenced operations in January 2012 and has been rendering statutory returns. The returns indicated that the bank met the various prudential ratios.

5.3.4.2 Microfinance Banks (MFBs)

On-site examination was conducted on 401 MFBs during the review period. The exercise covered 35 institutions under the regulatory watch-list for non-compliance with prescribed supervisory actions. Sixteen (16) of the MFBs were examined under the risk-based supervision (RBS) approach, preparatory to the full-scale adoption of the RBS methodology for the supervision of OFIs. The examination reports revealed that most of the institutions had weak management control functions as most of their boards, senior management, financial and internal control systems were ineffective. Only a few of the institutions had compliance and risk management control functions in place. Consequently, the CBN plans to conduct risk management appreciation programmes for operators of OFIs in the second half of 2012.

5.3.4.3 Primary Mortgage Banks (PMBs)

Following the verification of "existence claims" by some of the 16 PMBs, whose names were published under the licence revocation exercise of 2011, the representations of only two institutions were adjudged satisfactory. The licences of the remaining 14 were, therefore, revoked. Furthermore, the CBN revoked the licences of 11 institutions whose names had been published in 2003 as having closed shop or ceased to exist. Consequently, the number of PMBs in operation at end-June 2012 stood at 84.

5.3.4.4 Development Finance Institutions (DFIs)

During the review period, a number of initiatives designed to facilitate lending to preferred sectors of the economy were introduced by some of the regulated DFIs, namely, the Bank of Industry (BOI), the Federal Mortgage Bank of Nigeria (FMBN), the Nigerian Export-Import Bank (NEXIM), the Bank of Agriculture (BOA) and the Infrastructure Bank (IB). One of the initiatives was the Dangote Foundation/BOI scheme for Micro Small and Medium Enterprises (MSMEs) and other small growing businesses. The two parties, Dangote Foundation and BOI, are expected to contribute the sum of ₦2.5 billion each, with the former attracting zero interest rate, geared towards increasing employment opportunities in the country.

BOI also launched a programme, in collaboration with the United Nations Development Programme and the Partnership on Access to Renewable Energy (AtRE) Project. The project, which targets MSMEs, would facilitate access to affordable and renewable energy. The Infrastructure Bank, on its part, obtained the mandate to manage the Federal Government of Nigeria-assisted Public Mass Transit Revolving Fund Scheme, as well as the Lagos Metro Red Transit (Red Line) Project. A Creative Arts and Entertainment Facility was also introduced by NEXIM. However, the overall performance of the DFIs was constrained by corporate governance issues, including the non-reconstitution of their Boards of Directors.

Bureaux de Change (BDCs)

Following the pilot examinations conducted on 54 BDCs in the second half of 2011, 37 of the companies were suspended, early in 2012, from purchasing foreign exchange from the CBN window. The suspension of 24 of the 37 BDCs was lifted after they had displayed a commitment to adhering to the existing regulatory framework. In continuation of the regulatory effort to ensure appropriate utilization of foreign exchange by BDC operators, spot-checks were carried out on 60 BDCs in April, 2012. The outcome of the exercise, which focused on the operating and corporate governance structures of these institutions as well as their assets and liabilities, will form the basis for further regulatory action.

5.4 Cross-Border Supervision

5.4.1 Representative Offices and Subsidiaries

At end-June 2012, twelve Nigerian banks had 68 operating units made up of 60 full-fledged banks, six representative offices, a branch and a regulated investment banking outfit spread across 27 other jurisdictions. Also, four foreign banks operated subsidiaries in Nigeria.

5.4.2 Investments in Subsidiaries

Three (3) banks were granted approval to increase investments in their subsidiaries in Sierra Leone and the United Kingdom. However, an upsurge in such requests informed CBN's decision to restrict additional investment in foreign subsidiaries with the directive to banks to meet their subsidiaries' capital requirement under the following options:

a. Merger/acquisition with host partners; or
b. Source fresh capital in host country; or
c. Exit from the foreign subsidiary.

5.4.3 Joint Examination with Host Countries

The Bank continued the joint examination of foreign subsidiaries of six Nigerian banks in the WAMZ with their host supervisors during the review period. The exercise improved collaboration with host regulators, while the challenges faced by the foreign subsidiaries and the risks which they posed to their parent institutions, were noted.

5.4.4 College of Supervisors for WAMZ

Bank supervisors, under the aegis of the College of Supervisors for the West African Monetary Zone (CSWAMZ), continued collaboration during the period. The 8th meeting of the College was held in April 2012 in Ghana, with the following outcomes:

- Noted the level of compliance with the Basel Core Principles for Effective Banking Supervision (BCP) by Nigeria, Ghana and Guinea, and encouraged The Gambia, Liberia, and Sierra Leone to undertake internal and external assessments of compliance with the BCP;

- Assessed the level of implementation of RBS, IFRS and Basel II by member countries and urged those which had not submitted their action plans to do so in order to provide a basis for monitoring; and

- Approved a syllabus for the three-level regional banking supervision course presented by WAIFEM, aimed at addressing the capacity-building needs of the region. WAIFEM was also mandated to introduce a certification programme by 2013.

5.5 Supervisory and Regulatory Challenges

The regulatory and supervisory authorities continued to contend with key challenges during the period, notably the legal framework, data integrity, corporate governance practices and the activities of illegal finance operators. The details are summarised in the following paragraphs:

5.5.1 The Legal Framework

The inadequacy of the legal framework continued to undermine the effectiveness of the supervisory activities of the Bank. Efforts to address this constraint continued in the period under review with the recall of the draft BOFI Bill, earlier submitted to the Legislature, for revision. Other Bills pending at the National Assembly for amendment/enactment included the following:

- Terrorism Prohibition Act (Amendment),
- International Financial Centre Establishment Bill,
- Office of the Financial Ombudsman Establishment Bill, and
- Alternative Dispute Resolution Bill.

5.5.2 Data Integrity

The adoption of the IFRS by end-December 2012 is expected to enhance the integrity of data received from financial institutions. Also, the electronic

Financial Analysis and Surveillance System (eFASS), which was the main platform used by institutions for the rendition of returns to the supervisory authorities, was being upgraded.

5.5.3 Corporate Governance

There has been improved adherence to good corporate governance practices by the reporting institutions, arising from reforms in the financial system. However, some infractions were identified and appropriate sanctions imposed.

5.5.4 Activities of Illegal Finance Operators

The Inter-Agency Committee on Illegal Fund Managers ("wonder banks") made considerable progress in the first half of 2012 as it settled part of the claims of depositors on one of the illegal fund managers. The Committee also intensified its public enlightenment campaign against the operations of "wonder banks". Furthermore, it closed down six unlicensed operators, while their promoters were arrested by the Economic and Financial Crimes Commission (EFCC) for prosecution.

5.6 Consumer Protection

As part of the ongoing efforts to improve public confidence in the Nigerian financial system, the responsibility for consumer protection was upgraded from a division to a full-fledged department of the Bank in April 2012, with a mandate to manage complaints, carry out advocacy, enlightenment, education and promotion of awareness campaigns among consumers of financial services in the industry.

In the first half of 2012, the Bank received a total of 444 complaints, compared with 564 in the second half of 2011. The value of claims by the new petitioners was ₦1.41 billion. The total number of complaints received at end-June 2012 increased to 3,750, from 3,306 at end-December 2011. The value of claims by petitioners was ₦10.49 billion at end-June 2012 of which ₦5.76 billion, $201,375.40 and €10,000 were recovered and refunded.

The complaints were mostly on excess charges, fraudulent withdrawals, failure to credit customers' accounts, cheque conversion, among others. Also, various initiatives were introduced to strengthen the complaints' management process, some of which were:

- Periodic compliance examination of complaints' management systems of financial institutions;
- Release of exposure drafts of the Revised Guide to Bank Charges and the Framework for Financial Literacy in Nigeria; and
- Enforcement of the requirements mandating banks to render monthly returns on complaints received.

6.0 THE PAYMENTS SYSTEM

The efficient functioning of the payments system is critical to the stability of any financial system. Consequently, the initiatives pursued during the review period were aimed at improving the efficiency, resilience, reliability and effectiveness of the system.

6.1 The Payments System Vision 2020 (PSV 2020)

During the review period, the CBN continued the implementation of the various initiatives under the *PSV 2020*. A sensitization programme on cash-less Lagos and e-payment as it applies to supplies, salaries, pensions and taxes, was undertaken in Lagos State to enhance the adoption of e-payment channels. Other initiatives pursued included the approval of the *Guidelines on Cheque Truncation in Nigeria* and the revision of *Guidelines on Transaction Switching Services and Stored Value & Prepaid Card Issuance*. The Bank also enforced full compliance with Nigeria Uniform Bank Account Number (NUBAN) Code.

In addition, the Bank conducted the examination of fifteen (15) mobile payment operators with Approval-in-Principle (AIP) status to ascertain their compliance with the *Mobile Payments Regulatory Framework*. The examination identified the following shortcomings:

- Insufficient capital for the level of operations;
- Failure of mobile payment agents to meet on-board requirements;
- Delays in the issuance of sort codes to the operators by telecommunication companies;
- Lack of interoperability between the mobile payment operators; and
- Exorbitant charges.

One of the 15 mobile payment operators with AIP status was granted a licence, bringing to 15 the total number of mobile payment operators licensed by the Bank. The remaining 14 operators were given an extension of time to meet the prescribed requirements.

6.2 Developments in the Payments System

Following three months of the pilot run in Lagos State from January to March 2012, the cash-less policy was reviewed, based on the feedback obtained. Consequently:

I. The daily cumulative penal-free cash withdrawal and lodgement limits were increased from ₦150,000 and ₦1,000,000 to ₦500,000 and ₦3 million by individual and corporate customers, respectively;

ii. The processing fees for withdrawals above the limit for individual and corporate customers have been reviewed downwards, from 10 per cent to 3 per cent and 20 per cent to 5 per cent, respectively;

iii. The processing fees for lodgements above the limit for individual and corporate customers have been reviewed downwards, from 10 per cent to 2 per cent and 20 per cent to 3 per cent, respectively;

iv. An exemption was granted on lodgements for accounts operated by ministries, departments and agencies (MDAs) of the federal and state governments for the purpose of revenue collection only;

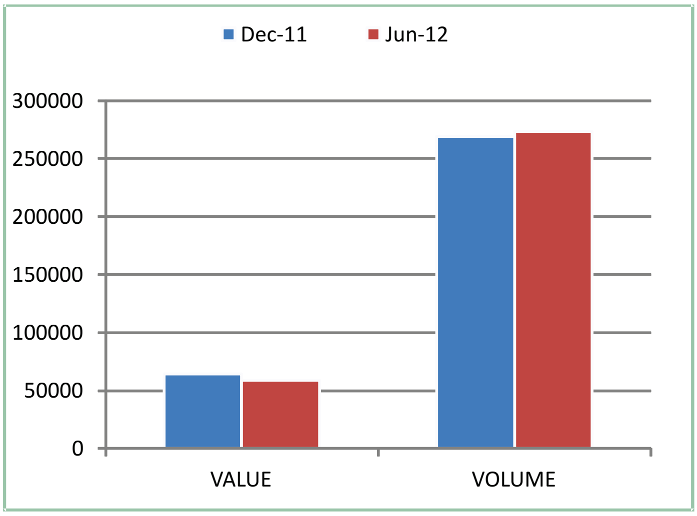
v. Third party cheques above ₦150,000 are not eligible for encashment over the counter, but can be received through the clearing house; and

vi. The pilot run in Lagos State has been extended to December 31, 2012, while the roll-out in other locations has been deferred to January 1, 2013.

6.2.1 The Real-Time Gross Settlement (RTGS) System

The volume of inter-bank transfers through the CBN RTGS System (CBN Inter-bank Funds Transfer System - CIFTS) increased by 1.5 per cent to 273,105 at end-June 2012, from 268,994 at end-December 2011, while the value decreased by 8.6 per cent to ₦58,576.85 billion, from ₦64,099.7 billion (Figure 25). The decline in value was attributed to the processing of some high value payments through other e-payment channels, such as the NIBBS Instant Payment and the Nigeria Electronic Funds Transfer (NEFT) by banks. The slight increase in volume could be attributed to an increase in the number of third party transfers during the review period.

Figure 25: CBN RTGS Transactions– Value (₦' Billion) and Volume



6.2.2 Cheque Clearing

At end-June 2012, the volume and value of cleared cheques decreased by 12.1 and 13.5 per cent to 18,154,880 and ₦10,081.39 billion, from 20,663,260 and ₦11,657.93 billion, respectively, at end-December 2011. The decrease in the usage of cheques could be attributed to the improved use of other alternative means of payment, particularly e-payment.

6.2.3 Electronic Card Payments

The value of electronic card (e-card) transactions rose to ₦1,032.38 billion in the first half of 2012, from ₦907.28 billion in the second half of 2011, representing an increase of 13.8 per cent. However, the volume decreased to 185,044,221, from 187,289,736 in the second half of 2011.

Analysis of the data, by volume, on various e-payment channels for the period under review indicated that Automated Teller Machines (ATMs) remained the most patronized, accounting for 96.4 per cent, followed by mobile payments with 1.3 per cent, and Point-of-Sale (PoS) terminals, 1.2 per cent. The web (internet) was the least patronized, accounting for only 1.1 per cent of total e-payment transactions (Figure 28).

Similarly, in value terms, ATMs accounted for 90.8 per cent, PoS, 2.5 per cent, the web (internet), 4.9 per cent, while mobile payments accounted for 1.8 per cent.

Figure 26: Volume ('000) and Value (₦ billion) of Cheques Cleared

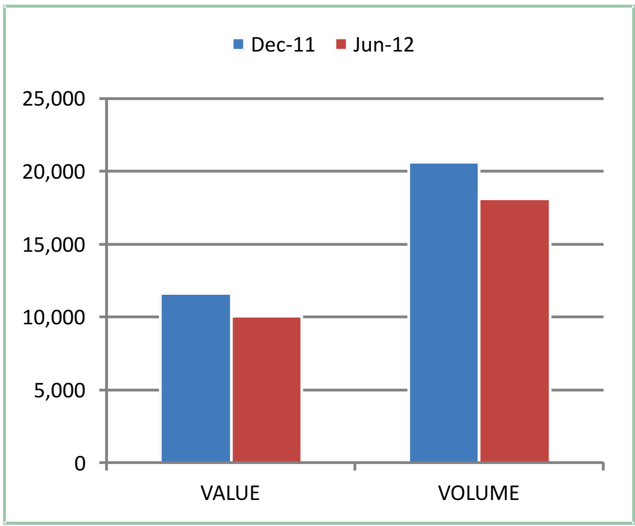


Figure 27: Value of Electronic Card Transactions: January - June 2012

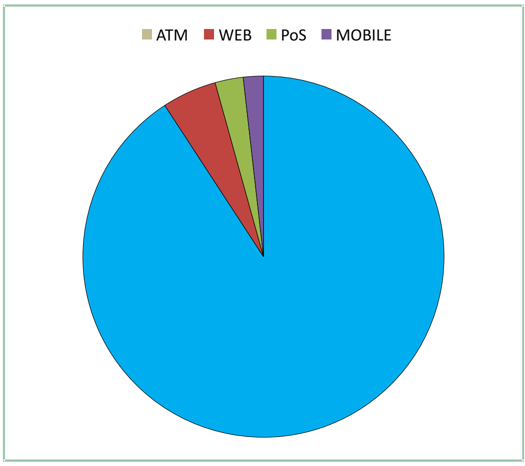
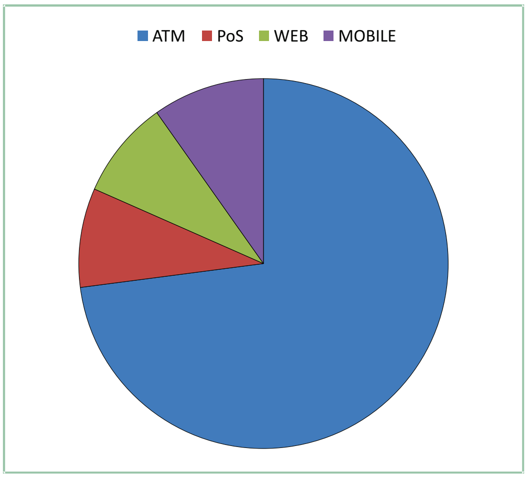


Figure 28 : Volume of Electronic Card Transactions: January - June 2012



6.2.4 ATM Transactions

The number of ATMs increased to 10,221 as at end-June 2012, from 9,640 at end-December 2011. The volume of transactions decreased by 2.4 per cent to 178,421,736 in the first half of 2012, from 182,814,944 in the second half of 2011. However, the value of ATM transactions increased by 8.5 per cent to ₦937.39 billion from ₦863.56 billion. The increase in the value of ATM transactions during the review period was attributed to the increase in the amount that could be withdrawn through the ATMs.

6.2.5 Mobile Banking

The volume of mobile payments decreased by 2.3 per cent to 2,397,062 in the first half of 2012, from 2,453,915 in the second half of 2011. Conversely, the value increased by 55.0 per cent to ₦18.51 billion, from ₦11.94 billion in the second half of 2011. The significant increase in the value of mobile payments during the review period was attributed to the commercial roll-out of mobile banking by the newly licensed operators.

6.2.6 Point-of-Sale (PoS) Transactions

The value of PoS transactions increased by 42.3 per cent to ₦26.04 billion in the first half of 2012, from ₦18.3 billion in the second half of 2011. In the same vein, the volume increased by 64.3 per cent to 2,121,963 in the first half of 2012, from 1,291,558 in the second half of 2011. The increase was attributed to aggressive marketing, the awareness campaign, and the rollout of PoS terminals by DMBs under the cash-less Lagos programme.

6.2.7 Web-based (Internet) Transactions

The value of web transactions increased by 274.3 per cent to ₦50.4 billion in the first half of 2012, from ₦13.4 billion in the second half of 2011. Similarly, the volume increased by 188.4 per cent to 2,103,438 in the first half of 2012, from 729,319 in the second half of 2011. This reflected growing awareness of the convenience of web payments, especially for instant funds transfers and merchant payments.

6.3 Implications for Financial Stability

The appreciable success recorded in the development of the payments system has not been without challenges which include: a low level of awareness among the public, fear of e-fraud, infrastructural deficiencies and other risks associated with the payments system, such as settlement risk, operational risk, etc. Since these challenges negatively impact confidence in the payments system and affect financial stability, the Bank has been making increased efforts towards resolving the challenges in the following ways:

1. Sensitization campaign on payments system initiatives for targeted stakeholders;

2. Collaboration with relevant stakeholders, such as the Nigerian Communications Commission (NCC), to address epileptic communication network;

3. Issuance of Guidelines and Rules on various payment segments to address operational issues and boost confidence in the system;

4. Replacement of the Real-Time Gross Settlement System with a view to eliminating credit and liquidity risks in the interbank settlement system; and

5. Development of strategies for prevention of card fraud and the issuance of fraud prevention modalities in form of circulars covering the following:

- Second-level authentication for card-not-present payments is mandatory;
- Banks to have real-time online monitoring tools for PIN entry attempts;
- Automatic blocking of a card after three unsuccessful PIN attempts; Set limit for card-to-card transfers, PoS and web payments;
- Banks to segregate the process of PIN handling and card activation;
- Proper due diligence to be done on all merchants before the PoS device is made available to them;
- Enlightenment campaign on the protection of PIN/card details by cardholders; and
- Biometric authentication for PoS and ATM transactions to safeguard the customers.

The CBN established a Nigeria Fraud Forum comprising all stakeholders to collaboratively and proactively tackle fraud risks consistently. The Forum has so far achieved the following:

- Designed and circulated a fraud reporting template to all Deposit Money Banks;
- Organized a workshop with all key stakeholders in attendance on the topic: "Electronic Payments: Current and Emerging Fraud Trends". This led to quite revealing lapses which all stakeholders made commitments to prevent; and
- Engaged a Technical Assistant to help analyze fraud reports and determine areas of exposure.

7.0 PRESERVING THE INTEGRITY OF THE FINANCIAL SYSTEM

The need to preserve the integrity and stability of the financial system informed the continued implementation of a number of initiatives in the review period.

7.1 Compliance with the Basel Core Principles for Effective Banking Supervision

The CBN commissioned a self-assessment of Nigeria's level of implementation of the Core Principles for Effective Banking Supervision in the first half of 2012, preparatory to a Financial Sector Assessment Programme (FSAP) update to be conducted by the IMF/World Bank in the second half of 2012. The exercise showed a significant improvement in the country's compliance with the Core Principles since the previous assessment by the IMF and the World Bank in May 2002 (Appendix 2). The current assessment revealed a significantly improved level of compliance with the Core Principles as indicated in Table 14.

The improvement in compliance rating was attributed to the enhancement of the country's supervisory capacity through the amendment and enactment of laws; the issuance and enforcement of regulations; and other reforms embarked upon by the regulatory authorities.

7.2 Implementation of the International Financial Reporting Standards (IFRS) and Basel II & III

In order to ensure a seamless implementation of IFRS by the banking industry by end-December 2012, and in line with the national roadmap on the adoption of IFRS, the CBN and the NDIC engaged consultants during the review period. The consultants, whose mandate is to guide the industry in the adoption of the new reporting standards, carried out a baseline survey to:

- Assess, verify and document claims by banks on their progress towards the implementation of IFRS;
- Ascertain the significant impact of the expected adoption of IFRS; and
- Identify infrastructure and other resources needed to support industry-wide conversion to IFRS.

The survey indicated a strong commitment by DMBs to meet the implementation timeline although three institutions, which started conversion late

Table 14: Nigeria's Compliance with the Basel Core Principles

Degree of Compliance	No. of Core Principles	
	2012	2002
Compliant	7	3
Largely compliant	16	11
Materially non-compliant	2	9
Non compliant	0	2

owing to a change of ownership, intended to achieve full compliance within the first quarter of 2013. Some of the challenges revealed by the survey were the enormous cost of conversion, the dearth of requisite skills, and the choice of appropriate banking software. On the whole, the CBN and the NDIC found the feedback from the survey to be very useful in deciding on the level of support required to ensure that banks meet their reporting obligations by end-December 2012.

Similarly, another consultant was engaged to guide the industry in the implementation of Basel II & III. In order to articulate a realistic action plan for the implementation of Basel II & III in the Nigerian banking sector, the consultants, working with the CBN and the NDIC, issued a comprehensive questionnaire to ascertain the status of Basel II & III of each bank. The CBN would use the Baseline Survey Report to define how banks would be encouraged to implement Basel II & III. Also, the Bank commenced capacity building on risk management and the Basel Accords.

7.3 Credit Information Bureaux

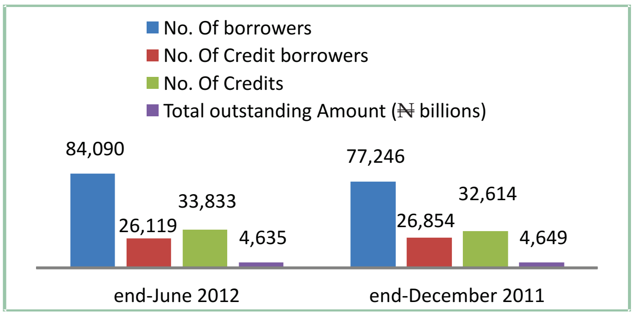
7.3.1 The CBN Credit Risk Management System (CRMS)

In order to promote the soundness and stability of the financial system, the CBN CRMS continued to strengthen credit administration, entrench a good credit culture and improve the quality of risk assets, through an effective and efficient management of credit information on bank customers.

The CRMS recorded an increase of 8.86 per cent as the number of registered borrowers rose to 84,090 at end-June 2012, from 77,246 at end-December 2011.The development was due to the increased awareness among banks and their customers on the important role of the CRMS database. The value of credit outstanding declined marginally by 0.3 per cent to ₦4,635 billion, from ₦4,649 billion at end-December 2011. The number of borrowers with outstanding credit facilities of ₦1 million and above also declined by 2.7 per cent to 26,119 at end-June 2012, from 26,854 at end-December 2011, while the number of credits increased by 3.7 per cent to 33,833 at end-June 2012, from 32,614 at end-December 2011 (Figure 29).

During the period under review, banks' access to the CRMS was expanded to allow them view the original inputters of credit information on the database. This helped to reduce the number of complaints by 41.10 per cent to 43 at end-June 2012, from 73 at end-December 2011.

Figure 29: Selected CRMS Statistics for end-June 2012 and end-December 2011



7.3.2 Private Credit Bureaux (PCBs)

The PCBs continued to complement the CBN CRMS in providing credit information on borrowers. Their products include provision of customer credit reports, scoring/rating, referencing/risk assessment and identity verification. The total number of borrowers in their database increased to 18.64 million at end-June 2012, from 15.54 million at end-December 2011. As was the case with the CBN CRMS, the enhanced patronage of the PCBs was attributed to increased awareness of their important role by credit stakeholders.

7.4 The Asset Management Corporation of Nigeria (AMCON)

AMCON continued to play its stabilizing role through the acquisition of eligible bank assets (EBAs) and management of the acquired banks. The Corporation acquired fresh EBAs of ₦52.85 billion from 6 banks during the period under review. Also, EBAs amounting to ₦253.60 billion and involving 383 accounts were restructured, while recoveries from debtors amounted to ₦67.20 billion at end-June 2012. The outstanding balance of acquired EBAs was ₦3.28 trillion at end-June 2012, compared with ₦3.36 trillion at end-December 2011.

Sequel to the full acquisition and recapitalization of the three bridge banks at the cost of ₦736.95 billion (bonds' face value of ₦1.002 trillion), AMCON has made some progress in the process of divesting from the affected banks by finalising arrangements to appoint financial advisers to determine the strategic exit option for the Corporation.

Also, the Memorandum of Understanding between the CBN and participating DMBs of January 2011, in relation to the Establishment and Funding of the Banking Sector Resolution Cost Sinking Fund, was given effect as a total of ₦124.09 billion was contributed by the parties at end-June 2012. AMCON had thus far issued 3-year bonds with a face value of ₦5,397 billion, as at end-June 2012, to support the purchase of EBAs, financial accommodation to the recapitalized banks, and to acquire the bridge banks.

7.5 Financial System Strategy (FSS 2020)

The FSS 2020 Secretariat, during the review period, continued to play a co-ordinating role in the implementation of strategies aimed at making Nigeria one of the top 20 economies in the world by 2020.

8.0 CONCLUSION

Economic performance in the first half of 2012 suggested that the global economy had tilted towards weakness. Key among the indicators of a downturn were the continuing debt crisis in the Euro-zone, the slow pace of economic recovery in the United States, and the declining rate of growth of the emerging economies, particularly China and India. These developments have implications for Nigeria, given their potential impact on the price of crude oil, which is the nation's main foreign exchange earner and dominant source of government revenue.

Nigeria's GDP growth declined to 6.4 per cent, in contrast to the 7.6 per cent recorded in the second half of 2011. Headline inflation rose on account of the partial removal of petroleum subsidy and the increase in electricity tariffs, among others. Deposit rates were relatively low, providing a disincentive for savings as they yielded negative returns in real terms. These developments notwithstanding, the banking industry appeared stronger as evidenced by the results of the industry stress test conducted at the end of June 2012 showing improving quality of bank credits. The Nigeria Uniform Bank Account Number (NUBAN) Code, designed to support e-payment platforms, has been fully implemented. Furthermore, compliance with the Basel Core Principles for Effective Banking Supervision had significantly improved. Also, the fiscal operations of the Federal Government resulted in a lower deficit than was projected.

One of the significant developments in the financial markets during the review period was the commencement of operations by both the first full-fledged non-interest bank and the first non-interest banking window. Meanwhile, the CBN started the pilot run of its cash-less policy, aimed at reducing the value and volume of cash transactions in the economy, in Lagos State.

In the second half of 2012, the CBN will sustain its policy measures, aimed at ensuring the stability of the financial system and improving the payments system. Measures to be embarked upon include the conduct of an impact assessment programme to gauge the effectiveness of policies, and implementation of the Nigerian Cheque Truncation Model. The implementation of the IFRS and Basel II & III as well as the modification of the eFASS and the Framework for Enhancing Financial Stability is expected to continue for the rest of the year. Also, the Bank, in conjunction with the Bankers Committee, will sustain the development of the Banking Industry Competency Framework.

It is envisaged that the Federal Government would inaugurate the Board of the Sovereign Wealth Fund to operationalise the Fund during the second half of 2012, while the planned privatisation of government entities, particularly in the power sector, is expected to gain impetus.

A few challenges still remain, including the security situation in the country, the

Economic performance in the first half of 2012 suggested that the global economy had tilted towards weakness. Key among the indicators of a downturn were the continuing debt crisis in the Euro-zone, the slow pace of economic recovery in the United States, and the declining rate of growth of the emerging

Appendix 1: Selected Financial Soundness Indicators of the Nigerian Banking Industry

(All figures in percentages, except otherwise indicated)

	2008		2009		2010		2011		2012
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)*	(9)**
	End-June	End-Dec	End-June	End-Dec	End-June	End-Dec	End-June	End-Dec	End-June
1. Asset-based Indicators									
NPL to total gross loans	4.0	6.3	8.5	27.6	28.8	15.7	11.6	4.9	4.3
Liquid assets (core) to total assets	24.4	17.6	15.6	16.5	17.2	17.2	22.6	25.7	24.3
Liquid assets (core) to short- term liabilities	33.9	24.2	21.5	22.3	19.4	19.8	25.7	31.2	28.1
Return on assets (ROA)	2.1	3.7	1.7	-8.9	1.0	3.9	0.9	0.0	1.5
2.Capital-based Indicators									
Regulatory capital to risk-weighted assets	23.7	21.9	22.4	4.1	1.5	1.8	4.2	17.8	17.7
Tier 1 capital to risk-weighted assets	23.2	21.5	21.9	4.9	2.4	2.2	4.5	18.1	17.8
NPLs net of provision to capital	3.5	9.1	12.5	106.8	289.8	192.7	74.3	12.1	6.8
Return on equity (ROE)	11.5	20.7	8.9	-222.8	50.2	265.0	29.4	0.5	13.1
3. Income and Expense-based Indicators									
Interest margin to gross income	54.6	58.3	60.1	57.8	54.0	53.7	50.8	45.2	64.6
Non-interest expenses to gross income	57.8	59.6	64.5	81.2	80.5	66.9	72.9	75.4	64.8
Personnel expenses to non-interest expenses	45.5	44.8	46.7	47.6	45.5	42.8	44.6	36.0	43.6

FSIs are computed based on IMF guidelines, * Revised, **Provisional,

Appendix 2: Summary of Assessment of Compliance with the Basel Core Principles for Effective Banking Supervision

Core Principle	C[1/]	LC[2/]	MNC[3/]	NC[4/]
1. Objectives, independence, powers, transparency and cooperation		X		
1.1Responsibilities and Objectives	x			
1.2 Independence, accountability and Transparency		x		
1.3 Legal Framework		x		
1.4 Legal Powers	x			
1.5 Legal Protection	x			
1.6 Cooperation		x		
2. Permissible Activities	X			
3. Licensing Criteria	X			
4. Transfer of Significant Ownership			X	
5. Major Acquisition	X			
6. Capital Adequacy	X			
7. Risk Management Process		X		
8. Credit Risk		X		
9. Problem Assets, Provisions & Reserves		X		
10. Large Exposure Limits		X		
11. Exposures to related parties			X	
12. Country and transfer risks		X		
13. Market risk		X		
14. Liquidity Risk		X		
15. Operational Risk		X		
16. Interest rate risk in the banking book		X		
17. Internal Control and Audit	X			
18. Abuse of financial services		X		
19. Supervisory Approach		X		
20. Supervisory Techniques		X		
21. Supervisory Reporting	X			
22. Accounting and disclosure		X		
23. Corrective and remedial powers of supervisors	X			
24. Consolidated Supervision		X		
25. Home-host relationships		X		

[1/] C: Compliant. [2/] LC: Largely compliant. [3/] MNC: Materially non -compliant.[4/] NC: Non-compliant.

Appendix 3: Details of Stress Test Results

Minimum Regulatory CAR :10%	Banking Industry	Large Banks	Medium Banks	Small Banks
Shocks/Impact on CAR:				
Pre-Shock CAR	**18.31**	**18.32**	**19.16**	**16.27**
	Solvency Ratio After Shocks			
Impact of Asset Quality Shocks on CAR				
General Non-performing Loan				
Shock 1ai - 10%NPLs increase	17.99	18.06	18.84	15.60
Shock 1aii-15% NPLs increase	17.83	17.93	18.68	15.26
Shock 1aiii-20% NPLs increase	17.66	17.80	18.51	14.92
Shock 1aiv-30% NPLs increase	17.34	17.54	18.18	14.22
Shock 1av-50% NPLs increase	16.68	17.02	17.52	12.81
Shock 1avi-100% NPLs increase	15.09	15.77	15.91	9.28
Shock 1avii-200% NPLs increase	11.37	12.87	12.15	0.46
Category shift" from "substandard" to "doubtful and to loss"				
Shock 1bi- NPLs "20% category shift" (from "substandard" to "doubtful and loss")	18.00	18.12	18.71	15.73
Shock 1bii -NPLs "50% category shift" (from "substandard" to "doubtful and loss")	17.68	17.86	18.38	15.06
Shock 1biii - NPLs "100% category shift" (from "substandard" to "doubtful and loss")	17.05	17.43	17.51	13.88
Concentration				
2ai - Single biggest corporate obligor credit facilities shifted from pass-due to sub-standard (10%)	18.05	18.07	18.85	16.06
2aii - Single biggest corporate obligor credit facilities shifted from sub-standard to Doubtful (50%)	16.98	17.05	17.57	15.19
2aiii- Single biggest corporate obligor credit facilities shifted from Doubtful to Lost (100%)	15.60	15.75	15.92	14.09
2bi - Five biggest corporate obligor credit facilities shifted from pass- due to sub-standard (10%)	17.35	17.35	18.12	15.49
2bii- Five biggest corporate obligor credit facilities shifted from sub-standard to Doubtful (50%)	13.25	13.26	13.68	12.21
2biii - Five biggest corporate obligor credit facilities shifted from Doubtful to Lost (100%)	7.52	7.54	7.39	7.74
	Banking Industry	Large Banks	Medium Banks	Small Banks
Shock 3ai (Oil & Gas) 20% default	18.14	18.13	18.98	16.18
Shock 3aii (Oil & Gas) 50% default	17.87	17.85	18.71	16.05
Shock 3aiii (Oil & Gas) 100% default	17.43	17.37	18.25	15.83
Shock 3bi (Public Utilities 10% default)	18.31	18.32	19.16	16.27
Shock 3bii (Public Utilities 20% default)	18.31	18.32	19.16	16.27

Shock 3bii (Public Utilities 20% default)	18.31	18.32	19.16	16.27
Shock 3biii (Public Utilities 50% default)	18.31	18.31	19.16	16.26
Shock 3biv (Public Utilities 100% default)	18.31	18.31	19.16	16.26
Shock 3ci (General sector 20% default)	18.13	18.16	18.97	15.99
Shock 3cii (General sector 50% default)	17.86	17.92	18.69	15.58
Shock 3ciii (General sector 100% default)	17.41	17.53	18.21	14.87
Shock 3di (20% Gen com becomes NPLs)	17.86	17.95	18.55	15.79
Shock 3dii (50% Gen com becomes NPLs)	17.41	17.59	17.92	15.30
Shock 3diii (100% Gen com becomesNPLs)	16.04	18.32	15.99	13.81
Shock 3ei (Fin services 20%)	17.47	17.46	18.00	15.30
Shock 3eii (Fin services 50%)	16.18	16.13	16.79	15.05
Shock 3eiii (Fin services 100%)	13.94	13.83	14.28	13.79
Shock (3fi) 10% default in exposure to RealEstate	17.98	17.93	18.55	15.79
Shock (3fii) 20% default in exposure to Real Estate	17.64	17.54	18.53	16.06
Shock (3fiii) 30% default in exposure to Real Estate	16.61	16.36	17.56	15.74
Shock (3fiv) 50% default in exposure to Real Estate	16.61	16.36	17.56	15.74
Shock (3fv) 100% default in exposure to Real Estate	16.61	16.36	17.56	15.74
Shock (3gi) 10% default in exposure to Aviation	18.23	18.22	19.11	16.17
Shock (3gii) 20% default in exposure to Aviation	18.14	18.13	19.05	16.08
Shock (3giii) 50% default in exposure to Aviation	17.89	17.85	18.89	15.79
Shock (3giv) 100% default in exposure to Aviation	17.47	17.37	18.62	15.30
	Banking Industry	Large Banks	Medium Banks	Small Banks
Shock (3hi) 20% default in exposure to Information and Communication	17.47	17.41	18.34	15.77
Shock (3hii) 50% default in exposure to Information and Communication	16.19	16.02	17.08	15.01
Shock (3hiii) 100% default in exposure to Information and Communication	13.96	13.58	14.89	13.72
Shock (3ki) 10% default in exposure to power and Energy	18.28	18.31	19.06	16.26
Shock (3kii) 20% default in exposure to power and Energy	18.24	18.30	18.95	16.26
Shock (3kii) 20% default in exposure to power and Energy	18.14	18.28	18.63	16.24
Shock (3kiii) 50% default in exposure to power and Energy	17.97	18.24	18.10	16.21

Shock (3kiv) 100% default in exposure to power and Energy	17.97	18.24	18.10	16.21
Shock (3li) 10% default in exposure to Capital Market	18.21	18.26	19.15	16.24
Shock (3lii) 20% default in exposure to Capital Market	18.10	18.09	18.98	16.14
Shock (3liii) 50% default in exposure to Capital Market	17.79	17.74	18.69	15.96
Shock (3liv) 100% default in exposure to Capital Market	17.27	17.16	18.22	15.64
Shock (3mi) 20% default in exposureto Government	18.03	18.01	18.89	16.14
Shock (3mii) 50% default in exposure to Government	17.76	17.70	18.62	16.02
Shock (3miii) 100% default in exposure to Government	16.92	16.77	17.79	15.64
Exchange Rate Volatility				
Shock 4ai (10% depreciation against Naira)	19.87	20.05	20.32	17.92
Shock 4aii (20% depreciation against Naira)	21.44	21.78	21.47	19.57
Shock 4aiii (50% depreciation against Naira)	26.14	26.98	24.93	24.52
Shock 4aiv (100% depreciation against Naira	33.97	35.64	30.70	32.76
Shock 4bi (10% appreciation in favour of the Naira)	16.74	16.58	18.01	14.62
Shock 4bii (20% appreciation in favour of the Naira)	15.18	14.85	16.85	12.97
	Banking Industry	Large Banks	Medium Banks	Small Banks
Shock 4biii (50% appreciation in favour of theNaira)	10.48	9.66	13.39	8.02
Shock 4biv (100% appreciation in favour of the Naira)	2.65	1.00	7.62	-0.23
Interest Rate Volatility				
Shock 5ai (200bps upward parallel shift in yield curve)	18.44	18.41	19.43	16.21
Shock 5aii (400bps upward parallelshift in yield curve)	18.56	18.51	19.71	16.14
Shock 5aiii (500bps upward parallel shift in yield curve)	18.63	18.56	19.84	16.11
Shock 5aiv (1000bps upward parallel shift in yield curve)	18.94	18.81	20.52	15.96
Shock 5bi (200bps downward parallel shiftin yield curve)	18.18	18.22	18.89	16.33
Shock 5bii (400bps downward parallel shift in yield curve)	18.06	18.12	18.62	16.39
Shock 5biii (500bps downward parallel shift in yield curve)	17.99	18.07	18.48	16.42
Shock 5biv (1000bps downward parallel shift inyield curve)	17.68	17.82	17.81	16.58
Impact of Parallel Shift in Yield Curve Shocks on ROA				
Interest Rate Volatility				
Shock 5ai (200bps upward parallel shift in yield curve)	1.84	2.26	1.48	0.84
Shock 5aii (400bps upward parallel shift inyield curve)	1.94	2.34	2.38	1.24
Shock 5aiii (500bps upward parallel shift in yield curve)	1.98	2.38	1.78	0.78
Shock 5aiv (1000bps upward parallel shift in yield curve)	2.23	2.59	2.27	0.69
Shock 5bi (200bps downward parallel shift in yield curve)	1.64	2.10	1.08	0.92

Shock 5bii (400bps downward parallel shift in yield curve)	1.55	2.02	0.88	0.96
Shock 5biii (500bps downward parallel shift in yield curve)	1.50	1.98	0.78	0.98
Shock 5biv (1000bps downward parallel shift in yield curve)	1.26	1.78	0.29	1.08
	Banking Industry	**Large Banks**	**Medium Banks**	**Small Banks**
Impact of Parallel Shift in Yield Curve Shocks on ROE				
INTEREST RATE VOLATILITY				
Shock 5ai (200bps upward parallel shift in yield curve)	12.91	14.16	11.26	8.96
Shock 5aii (400bps upward parallel shift in yield curve)	13.60	14.66	12.77	8.55
Shock 5aiii (500bps upward parallel shift in yield curve)	13.94	14.91	13.53	8.35
Shock 5aiv (1000bps upward parallel shift in yield curve)	15.64	16.17	17.31	7.32
Shock 5bi (200bps downward parallel shift in yield curve)	11.55	13.15	8.24	9.79
Shock 5bii (400bps downward parallel shift in yield curve)	10.87	12.65	6.72	10.20
Shock 5biii (500bps downward parallel shift in yield curve)	10.53	12.40	5.97	10.40
Shock 5biv (1000bps downward parallel shift in yield curve)	8.82	11.14	2.19	11.43
IMPACT OF RUNS AND CONCENTRATION SHOCKS ON LIQUIDITY				
INITIAL LR	**38.78%**	**33.64%**	**42.46%**	**57.36%**
Shock 6ai (Gen run 10 %)	30.63%	24.65%	35.15%	51.60%
Shock 6aii (Gen run 15 %)	25.69%	19.18%	30.75%	48.10%
Shock 6aiii (Gen run 20%)	19.98%	12.86%	25.71%	44.06%
Shock 6aiv (Gen run 25%)	13.33%	5.46%	19.87%	39.32%
Shock 6av (Gen run 50%)	-48.30%	-64.31%	-31.92%	-5.13%
Shock 6bi (Run on ST Dep 20%)	31.70%	25.71%	36.26%	52.49%
Shock 6bii (Run on ST Dep 30%)	27.50%	20.99%	32.63%	49.61%
Shock 6biii (Run on ST Dep 50%)	17.36%	9.49%	23.96%	42.67%
Shock 6biv (Run on ST Dep 100%)	-27.12%	0.00%	-42.27%	0.00%
Shock 6ci (Run on LT Dep 20%)	29.53%	23.57%	23.57%	50.68%
Shock 6cii (Run on LT Dep 30%)	23.78%	17.29%	17.29%	46.50%
Shock 6ciii (Run on LT Dep 50%)	8.90%	1.05%	1.05%	35.56%
Shock 6civ (Run on LT Dep 100%)	-77.97%	-94.44%	-94.44%	-31.77%
Shock 6di (10% Run on LT and 20% on ST Dep)	26.30%	19.79%	31.39%	48.61%
Shock 6dii (15% Run on LT and 30% on ST Dep)	17.94%	10.46%	24.08%	42.75%
Shock 6diii (20% Run on LT and 50% on ST Dep)	-0.43%	-10.33%	8.45%	29.93%
	Banking Industry	**Large Banks**	**Medium Banks**	**Small Banks**
Shock 6ei (20% Run on largest Deposit)	37.97%	32.77%	41.94%	56.41%

Shock 6eii (50% Run on largest Deposit)	36.73%	31.42%	41.12%	54.90%
Shock 6eiii (100% Run on largest Deposit)	34.55%	29.05%	39.72%	52.14%
Shock 6fi (5% Run on 5 largest Deposits)	38.32%	33.17%	42.10%	56.82%
Shock 6fii (10% Run on 5 largest Deposits)	37.86%	32.70%	41.73%	56.28%
Shock 6fiii (15% Run on largest Deposits)	37.38%	32.22%	41.36%	55.71%
Shock 6fiv (20% Run on 5 largest Deposits)	36.91%	31.73%	40.99%	55.14%
Shock 6gi (5% Run on 10 largest Deposits)	38.15%	32.99%	41.96%	56.66%
Shock 6gii (10% Run on 10 largest Deposits)	37.51%	32.33%	41.44%	55.94%
Shock 6giii (15% Run on 10 largest Deposits)	36.85%	31.66%	40.92%	55.19%
Shock 6hi (5% Run on 20 largest Deposits)	37.95%	32.78%	41.78%	56.48%
Shock 6hii (10% Run on 20 largest Deposits)	37.09%	31.90%	41.08%	55.56%
Shock 6hiii (15% Run on 20 largest Deposits)	36.22%	30.99%	40.36%	54.60%
IMPACT OF FX TRADING SHOCKS ON ROA				
INITIAL ROA	1.74	2.18	1.28	0.88
FX Trading Income Volatility				
Shock 7ai (10% decline in FX trading Income)	1.71	2.15	1.25	0.84
Shock 7aii (20% decline in FX trading Income)	1.68	2.13	1.22	0.81
Shock 7aiii (50% decline in FX trading Income)	1.59	2.04	1.13	0.69
Shock 7aiv (100% decline in FX trading Income)	1.44	1.90	0.98	0.50
	1.61	2.06	1.14	0.71
IMPACT OF FX TRADING SHOCKS ON ROE				
INITIAL ROE	12.23	13.66	9.75	9.37
FX Trading Income Volatility				
Shock 7ai (10% decline in FX trading Income)	12.02	13.48	9.52	8.97
Shock 7aii (20% decline in FX tradingIncome)	11.81	13.30	9.29	8.57
Shock 7aiii (50% decline in FX trading Income)	11.17	12.77	8.59	7.36
Shock 7aiv (100% decline in FX trading Income)	10.10	11.88	7.44	5.35

Appendix 4: Guidelines for Granting Liquid Asset Status to State Government Bonds

1.0 INTRODUCTION

State governments as agents of development are saddled with responsibilities that are sometimes beyond their current resources, given the level of economic development in the country. The recourse to the capital market to fund projects, especially of long gestation periods, should, therefore, be encouraged as this will not only improve the socio-economic well-being of the people but also deepen the capital market.

It is believed that conferring liquidity status on state government bonds would promote investments in these securities, encourage the regular issuance of the bonds by state governments, stimulate primary and secondary market activities, and facilitate the development of the Nigerian capital market.

It is in light of the foregoing that the Central Bank of Nigeria (CBN), on March 2, 2010, decided to confer liquid asset status on eligible state government bonds in accordance with the CBN Act (2007). The CBN hereby issues the following Guidelines to operationalise the decision.

2.0 ELIGIBILITY CRITERIA

2.1 Enabling Legislation

The issuance of bonds shall be backed by a law enacted by the State House of Assembly, specifying that Sinking Funds fully funded from the consolidated revenue fund account of the State be established.

2.2 Fiscal Responsibility Law

The State government shall have in place a fiscal responsibility law, with provisions for public debt management, in order to enhance investors' confidence in the issuer.

2.3 State Debt Management Departments

The State Government shall establish a debt management department in order to enhance transparency and the professional management of debt issues.

2.4 Credit Rating

The bond shall, at its inception and throughout its tenor, be of investment grade, as determined by a rating agency accredited by the Securities and Exchange Commission (SEC).

2.5 Utilisation of Proceeds

A SEC confirmation that the proceeds have been disbursed in line with the provisions of the prospectus shall be submitted to the CBN at the anniversary of the bond issuance. Subsequent SEC confirmations shall be required on amounts that have not been disbursed by the first anniversary.

2.6 Repayment Structure – Sinking Funds

Repayment structure should be from funded sinking funds (i.e., a legislated irrevocable standing payment order (ISPO) and/or other legislated sources of repayments disclosed in the offer documents).

The Trustee(s) to the bond should submit, every six (6) months: (a) a statement of accounts of the sinking funds' investments and (b) a statement of declaration on the sufficiency of the sinking funds' investments and investment income in meeting the debt service and redemption obligations to the Financial Policy & Regulation Department at CBN.

The Trustees shall advise the CBN on the action taken in the event that the Trustees are of the opinion that the sinking fund may be inefficient, or there is the likelihood of default in line with Sections 255 and 256 of the Investment and Securities Act 2007 or any amendment thereto.

2.7 Irrevocable Letter of Authority (ILoA)

Evidence of an irrevocable letter of authority issued by the Accountant-General of the State to deduct, at source, from the statutory allocation due to the State in the event of default by or failure of the State to meet its payment obligations or a SEC waiver of the ILoA.

2.8 Tenor of Bonds

The State government bonds shall be limited to a maximum maturity of seven (7) years in order to be considered for liquid asset status.

3.0 BENEFITS OF LIQUID ASSET STATUS

3.1 Risk-Weights for Capital Adequacy Ratio

3.1.1 For the purpose of computing the capital adequacy ratios of banks and discount houses, state government bonds with liquid asset status shall be assigned a weight of 20 percent, or as may be prescribed by the CBN from time to time.

3.2 Repurchase Transactions

3.2.1 State government bonds which meet the criteria for liquid asset status shall be eligible for repurchase or "repo" transactions and the CBN shall open an account with the Central Securities Clearing System (CSCS) Limited to warehouse the securities.

3.2.2 The collateral provided by counterparties towards the repo shall have a "haircut" applied as may be prescribed by the CBN from time to time.

4.0 INVESTMENT LIMITS

The maximum investment a bank shall make in any bond issue of a State government or its agencies is limited to 10% of the total amount outstanding of that bond issue. This is an investment limit per issue and not per issuer.

The portfolio of a bank in bonds of State governments and their agencies shall not exceed 30% of the bank's total portfolio in debt securities. Debt securities for this purpose are: Treasury bills, FGN bonds, FGN-guaranteed notes, Sovereign debt notes, any other Nigerian sovereign debt securities, CBN Bills, Bonds Collateralised with FGN bonds, State government bonds, State government agencies' bonds, Corporate bonds, and Dated preference shares.

The underwritten positions of State bonds shall not be regarded as investments and, therefore, will not be counted in determining these limits. However, a monthly return on the underwritten positions and the sell-off strategy shall be rendered to the Banking Supervision Department of CBN.

Until such time that the Nigerian State

bond market presents banks and discount houses with the opportunity of having trading books in State bonds, all State bond holdings shall be classified as investments i.e., Available-For-Sale (AFS) and/or Held-To-Maturity (HTM) for the purpose of CBN reporting.

5.0 CEILING ON LENDING TO SUB-NATIONAL GOVERNMENTS

5.1 State government bonds shall not be included in the computation of the 10 percent ceiling on lending to all tiers of government as specified in the CBN's Circular reference BSD/DIR/GEN/CIR/03/011, dated June 26, 2009.

6.0 RISK-WEIGHTS FOR BONDS THAT DO NOT QUALIFY AS LIQUID ASSETS

6.1 Capital Adequacy Ratio

For the purpose of computing the capital adequacy ratios of banks and discount houses, State government bonds that do not qualify as liquid assets shall be assigned a risk-weight of 50 percent, or as may be prescribed by the CBN from time to time.

6.2 General Issues

State government bonds shall comply with all the relevant provisions of the Investment and Securities Act (ISA 2007), including amendments thereto, as well as SEC's rules as may be prescribed from time to time.

7.0 APPLICATION PROCEDURE AND OTHER MATTERS

7.1 These Guidelines shall apply to both previously issued state government bonds and new issues of state government bonds.

7.2 State governments seeking liquid asset status for their bonds shall apply to the Director, Financial Policy and Regulation Department, Central Bank of Nigeria, Abuja, through their financial advisers.

7.3 The CBN shall regularly publish, on its website, state government bonds that qualify for liquid asset status.

8.0 REVIEW OF THE GUIDELINES

These Guidelines shall be reviewed from time to time.

September, 2010

Appendix 5 : Number of Clients Trained and Counselled by the Three Implementing Agencies of the EDCs April 2008-June 2012

Implementing Agencies	Future Entrepreneurs Counselled/Trained		Males		Females		No. of University Graduates. Trained	No. of Sec. School Graduates Trained	Total Trained and Counselled	%Target Met (Target = 1,250 Trainees) at 1,250/ Qtr/Centre
	Counselled	Trained	Counselled	Trained	Counselled	Trained				
Opportunities Industrialisation Centres Int. (Kano Centre)	22,960	11,013	15,611	6,131	7,349	4,882	4,405	6,608	33,973	51.83%
Centre for Entrepreneurship and Development Research (Onitsha Centre)	50,156	10,144	34,650	5,036	15,506	5,108	2,046	8,098	60,300	47.74%
Africa Leadership Forum (Lagos Centre)	17,294	16,041	5,597	4,791	11,697	11,250	4,338	11,703	33,335	75.49%
Total	90,410	37,198	55,858	15,958	34,552	21,240	10,789	26,409	127,608	58.35%
Grand Total	127,608		71,816		55,792		37,198		127,608	(Average for the 3 Centres)

GLOSSARY

a. Technical Terms

Concentration Ratio (CR)
This is the percentage market share attributable to a given number of firms in an industry, e.g., CR6 means the market share of the largest six firms.

Credit Risk
Credit risk is an investor's risk of loss arising from a borrower who does not make payments as promised. Another name for credit risk is 'default risk'.

Financial Stability
Financial stability describes the condition where the financial intermediation process functions smoothly and there is confidence in the operation of key financial institutions and markets within the economy.
It can also be defined as a process where there is sound, stable and healthy financial system to support the efficient allocation of resources and distribution of risks across the economy.

Herfindahl-Hirschman Index (HHI)
This is a measure of market concentration. It is calculated by squaring the market share of each firm competing in the market and then summing up the resulting numbers.

Liquidity Risk
Liquidity risk is the risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss (or make the desired profit).

Market Capitalization
This is the total market value of a company's issued shares. Market capitalization is calculated by multiplying the number of a company's shares outstanding by the current market price of the shares.

Market Risk
Market risk is the risk that the value of an investment portfolio, or a trading portfolio, will decrease as a result of changes in either rates or prices or a combination of rates and prices.

Money Supply
This is the total money in circulation in an economy of a given country at a given time. For policy purposes, there are two variants of money supply in Nigeria, M1 and M2.

M1
This is the narrow measure of money supply which includes currency in circulation with the non-bank public and demand deposits (current accounts) at the deposit money banks.

M2
This is the broad measure of money supply and includes M1, savings and time deposits at the deposit money banks.

Operational Risk
Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Reputational Risk
Reputational risk is any risk to an organization's reputation that is likely to destroy shareholder value.

Takaful
Insurance that is based on Islamic religious law. It is a type of Islamic insurance, where members contribute money into a pool of funds in order to guarantee each other against loss or damage.

Sukuk
Bonds that comply with Islamic Religious Law (Islamic Bond)

Financial inclusion
This is the delivery of financial services at affordable costs in a convenient manner to all people that need and can use the service. The process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups, such as weaker sections and low income groups at an affordable cost.

Eligible Bank Assets (EBA)
Deposit Money banks' bad loans (Toxic Assets) that qualify to be sold to AMCON

b. Organizations in Nigeria's Financial Sector

The Asset Management Corporation of Nigeria (AMCON)
AMCON was established through the AMCON Act of 2010, with responsibility for the acquisition, management and disposal of the non-performing assets of Nigerian banks.

[4] As defined by the Committee on Financial Inclusion (Chairman: C. Rangarajan, 2008)

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b. Organizations in Nigeria's Financial Sector

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The Central Bank of Nigeria