FINANCIAL STABILITY REPORT

June 2017

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LIST OF ACRONYMS

AMCON	Asset Management Corporation of Nigeria
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
BDCs	Bureaux de Change
BOI	Bank of Industry
BRICS	Brazil, Russia, India, China, and South Africa
BVN	Bank Verification Number
CACS	Commercial Agriculture Credit Scheme
CAR	Capital Adequacy Ratio
CBN	Central Bank of Nigeria
COB	Currency Outside Banks
CR_5	Concentration Ratio (of the five largest banks)
CRMS	Credit Risk Management System
DAX	Deutscher Aktienindex (German stock index of 30 major German companies)
DFIs	Development Finance Institutions
DMBs	Deposit Money Banks
EBAs	Eligible Bank Assets
ECB	European Central Bank
EDC	Entrepreneurship Development Centre
EGX CASE 30	Egypt Stock Exchange (Cairo and Alexandria Stock Exchange) 30 Stock Index
FAO	Food and Agriculture Organisation
FATF	Financial Action Task Force
FCs	Finance Companies
FGN	Federal Government of Nigeria
FMBN	Federal Mortgage Bank of Nigeria
FRACE	Financial Regulation Advisory Council of Experts
FSIs	Financial Soundness Indicators
FSR	Financial Stability Report
FSRCC	Financial Services Regulation Co-ordinating Committee
GDP	Gross Domestic Product
GSE	Ghanaian Stock Exchange
HHI	Herfindahl-Hirschman Index
ICE	Intercontinental Exchange
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
KYC	Know Your Customer
M_1	Narrow Money Supply
M_2	Broad Money Supply
MENA	Middle East and North African Countries
MFBs	Microfinance Banks
MICEX	Moscow Interbank Currency Exchange
MoUs	Memoranda of Understanding
MPR	Monetary Policy Rate
NBS	National Bureau of Statistics
NDC	Net Domestic Credit
NDIC	Nigeria Deposit Insurance Corporation
NIBSS	Nigerian Inter-bank Settlement System
NMRC	Nigeria Mortgage Re-finance Company Plc

NPLs	Non-Performing Loans
NSE ASI	Nigerian Stock Exchange All Share Index
NSE 20	Nairobi Stock Exchange 20-Share Index
NYMEX	New York Mercantile Exchange
OBB	Open Buy Back
OFIs	Other Financial Institutions
OPEC	Organisation of Petroleum Exporting Countries
ORB	OPEC Reference Basket
PAIF	Power and Aviation Infrastructure Fund
PENCOM	National Pension Commission of Nigeria
PFAs	Pension Fund Administrators
PFCs	Pension Fund Custodians
PMBs	Primary Mortgage Banks
PoS	Point of Sale
PSV 2020	Payments System Vision 2020
ROA	Return on Assets
ROE	Return on Equity
RTGS	Real-Time Gross Settlement System
S&P/TSX	Standards and Poor's Composite Index of the Toronto Stock Exchange
SEC	Securities and Exchange Commission
SMEs	Small and Medium Enterprises
WAMZ	West African Monetary Zone
WEO	World Economic Outlook
WTI	West Texas Intermediate

GOVERNOR'S STATEMENT

This issue of the *Financial Stability Report* highlights developments in the financial system in the first half of 2017. In the review period, there was general optimism for recovery in global growth as evidenced by increased global trade and manufacturing as well as rise in the prices of key commodities. Fairly stable financial markets also helped to engender confidence in the recovery. With global GDP inching up, policy makers are beginning to unwind the various unconventional policy initiatives earlier adopted. However, concerns still remain about the potential impact of US monetary policy normalization, which is anticipated to strengthen the dollar, with implications for countries, especially emerging nations with dollar denominated credit and trade obligations.

On the domestic front, the impact of various policies aimed at engendering growth has resulted in our exit from the recession, which subsisted until the second quarter of 2017. Though fragile, the recovery provides the needed confidence that the right measures were adopted, and highlighted the need for focussed implementation of the Federal Government *Economic Recovery and Growth Plan*. Whereas the low growth environment may persist for a while, it is expected that the economy is on the path to full recovery, and as forecasted, will return to normal growth space bar in 2018.This is premised on the expected stability in oil prices, responsive monetary policy and expansionary fiscal policy in the near term.

The subsisting tight monetary policy stance has resulted in moderating the inflationary growth downward. However, with inflation still at double-digit level, the Bank will continue to apply monetary and other complementary policy tools to contain inflationary pressure, maintain exchange rate stability and encourage banks to lend to the real sector of the economy. The Bank will continue to play its developmental role by providing key interventions to bridge the financing gap in some segments of the real sector.

Reflecting the recession in the first half of 2017, there was noticeable deterioration in banks' loan portfolios, especially exposures to the oil and gas sector and foreign currency denominated credit. To maintain financial system stability, efforts have been intensified to proactively engage operators to effectively manage the associated risks. Also, a framework for the establishment of private asset restructuring companies to acquire non-performing loans from banks and other financial institutions will be released in due course.

In continuation of efforts to achieve a safe, stable and sound payments system, the Bank will implement measures to further encourage the adoption of electronic mode of payments, strengthen payment security, and enhance consumer education.

Finally, let me assure you that the CBN will not relent in its efforts to sustain the stability of the financial system as well as strengthen collaboration with the fiscal authorities in order to achieve sustained job creation and broad-based recovery of the Nigerian economy.

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

FOREWORD

In the first half of 2017, the forecasts for greater recovery in global output growth was buoyed by enhanced growth expectations among emerging markets and developing economies, especially in the face of recovering commodity prices. While growth forecasts were revised downward for the UK and US for 2017, the outcomes from the emerging markets and developing economies are expected to moderate the global output. With the unwinding of the various unconventional measures adopted by central banks to address the concerns of low growth, policy rates are generally picking up among the advanced economies.

In Nigeria, the economy returned to a path of positive growth. Though fragile, the current recovery from the recession is expected to be strengthened by the implementation of the National Economic Recovery and Growth Plan. With the improving macroeconomic condition, it is expected that inflationary pressure will ease and the economy will return to a regime of single-digit inflation. Sustaining stability in the foreign exchange market will further enhance the productive capacity of local manufacturers and businesses as they have greater access to imported raw materials and foreign direct investments.

Regulatory attention is currently focused on ensuring an improvement in the quality of banks' assets as well as ensuring that the banks contribute effectively to the real sector. The disruptions experienced in the economy with declining oil prices and Government revenue resulted in an increase in the non-performing loans in the banking industry. The CBN will continue to monitor developments and initiate measures to limit contagion and ensure that financial institutions remain safe and sound. The CBN will continue to ensure that appropriate structures and policies for the combating of money laundering and the financing of terrorism are put in place in financial institutions.

This edition of the Financial Stability Report, which covers the period January to June 2017, is divided into five sections. Section One reviews the global and domestic economic and financial developments. Section Two discusses developments in the financial system, while Section Three covers regulatory and supervisory activities and highlights key stability issues. Key developments in the payments system are highlighted in Section Four and Section Five provides the outlook for financial stability.

We welcome your feedback on the Report.

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

EXECUTIVE SUMMARY

Global output growth was projected at 3.5 per cent in 2017, compared with 3.2 per cent recorded in 2016. The key drivers of the increase in growth included the strengthening of financial markets and expected recovery in manufacturing and trade. Inflationary pressures were sustained across the globe due to rise in the prices of raw materials and a recovering commodities market. Global consumer price inflation rose due to increases in energy and consumer prices in advanced economies. Stock markets recorded mixed performance across countries, while major currencies showed mixed trends against the US dollar. Most of the central banks surveyed in the report kept their monetary policy rates fairly stable during the first half of 2017.

On the domestic front, the economy gradually recovered from the recession that had persisted since the second quarter of 2016, as gross domestic product grew by 0.55 per cent in the second quarter of 2017. The improvement was attributed to the rebound of activities in the services and agricultural sectors, as well as increased patronage of locally manufactured goods. Furthermore, inflationary pressures started easing during the first half of 2017 as the headline inflation (year-on-year) declined to 16.10 per cent in June 2017 from 18.55 per cent at end-December 2016.

External reserves increased by US$3.35 billion in the first half of 2017 to US$30.34 billion, while the naira maintained a fairly stable exchange rate in the foreign exchange market.

The tight monetary policy stance maintained in the review period resulted in a contraction of most of the major monetary aggregates. Relative to the level at end-December 2016, broad money supply, M_2, fell by 7.33 per cent at end-June 2017. Net aggregate credit to the economy rose marginally to ₦26,921.03 billion at end-June 2017, reflecting the increase in net claims on the Federal Government, which grew by 5.91 per cent.

The banking system's credit to the private sector fell marginally by1.47 per cent to ₦15,907.47 billion from the position at end-December 2016. The oil and gas sector remained the sector with the highest share of credit at 29.29 per cent. The contribution of manufacturing, construction, and power and energy sub-sectors to total credit increased. Reserve money declined by 6.76 per cent in the review period, though it was higher than the second quarter indicative benchmark by 0.6 per cent. The decline in reserve money reflected the decline observed in net domestic assets and net foreign assets.

Interest rates varied in line with liquidity conditions. The average short-term money market rates traded mostly above the MPR of 14.00 per cent. Most of the key rates in the first half of 2017 were higher than their levels in the second half of 2016.

Short-term maturities maintained dominance in the credit market, though their share of total credit declined. Similarly, banks' short-term deposits (below one year) constituted a very significant portion of the total. The low concentration ratios observed in the banking industry showed a trend towards more competition across the banks.

In the OFI segment of the banking industry, 167 institutions were licensed in the first half of 2017. This was to further enhance financial inclusion among the populace. Key financial indicators for OFIs showed an increase in total assets, net loans and advances, deposits and shareholders' funds.

The Bank maintained its contractionary monetary policy stance in the first half of 2017 as it retained its monetary policy rate at 14.00 per cent. Money market rates closed high at the inter-bank market with the overnight call and open buy back (OBB) rates trading significantly above the upper bound of the MPR corridor for most of the first half of 2017.

In the capital market, the Nigerian Stock Exchange All Share Index (NSEASI) and market capitalization both increased due to improved confidence in the market and gradual economic recovery. Total bonds outstanding increased in the first half of 2017 by 2.96 per cent. The Bank continued to play a developmental role by providing key interventions to bridge the financing gap in some segments of the real sector.

In the banking industry, the asset quality of commercial banks deteriorated in the first half of 2017 as the ratio of non-performing loans to gross loans increased, compared with the level at end-December 2016. This led to a slight capital deterioration and a decline in earnings indicators. To test the resilience of the industry, a stress test was conducted on the banks. The test showed that the capital adequacy ratio of the banks deteriorated when the most severe shocks were applied. It also showed that liquidity shortfalls will only occur when the most severe shocks of a cumulative 30-day run were applied.

Supervisory activities of the Bank in the review period included the examination of banks and OFIs in conjunction with the NDIC, ongoing implementation of enhanced supervisory standards for the domestic systemically important banks (D-SIBs) and preparation for the implementation of IFRS 9 starting January 2018. The Bank, under the auspices of the FSRCC, commenced consolidated examinations of the three financial holding companies in the review period.

The Bank continued to collaborate with both domestic and international institutions to strengthen the AML/CFT regulatory framework.

The Banking Sector Resolution Cost Trust Fund (BSRCTF) realized a total collection of ₦190.89 billion in the review period. The fund is to be applied to the redemption of the outstanding bonds of the Asset Management Corporation of Nigeria, (AMCON).

To ensure that consumers of financial services are treated fairly by the banks, the CBN conducted compliance checks on banks' compliance with the various consumer protection regulations, especially the *Guide to Bank Charges*. The report of the examination showed reasonably high compliance levels. Non-compliant banks were directed to implement specific remedial actions, including making refunds where applicable. The Bank continued its consumer education engagements to enhance financial literacy among the populace.

Following the approval of the roadmap for the Nigerian Sustainable Finance Principles (NSFP) by the Financial Services Regulation Coordinating Committee (FSRCC) in 2016, each member agency established a steering committee to coordinate the development of sector-specific sustainability principles and guidelines.

The FSRCC conducted an investigation of the activities of 'Mavrodi Mondial Moneybox' (MMM) and other Ponzi schemes and recommended the immediate shutdown of the websites of the illegal fund managers.

The moderate recovery of the domestic output growth, sustained decline in inflation rate, stability in the exchange rate and the gradual accretion to external reserves are expected to improve economic performance. In the medium to long-term, the implementation of the National Economic Recovery and Growth Plan and the Executive Orders are further expected to spur economic activities.

1.0 MACROECONOMIC DEVELOPMENTS AND FINANCIAL SYSTEM STABILITY

1.1 Global Economic and Financial Developments

1.1.1 Output

The cyclical recovery in global output experienced for most part of 2016 improved during the first half of 2017. Global output was projected to grow by 3.5 per cent in 2017, which was 0.3 per cent slightly higher than the estimated 3.2 per cent for 2016.The expected positive outturn for 2017 reflects the effects of the revisions in the national economies of Iran and India, both evidenced by the much higher growth in Iran and the stronger economic activities in India, the globally strengthened financial markets as well as sustained strength in world manufacturing and trade.

Output growth in both the advanced and emerging and developing economies was projected to increase to 2.0 per cent in 2017 from 1.7 per cent in 2016 due to increased global trade and industrial production (WEO Update, July 2017). In the United States, output growth for 2017 was projected at 2.1 per cent, which was 0.5 per cent higher than the 1.6 per cent estimated for 2016. The projected output growth for 2017 was hinged on the impact of fiscal stimulus on growth in the short to medium-term. Output growth in the United Kingdom was projected at 1.7 per cent for 2017, which was 0.1 per cent lower than the 1.8 per cent in estimated for 2016, reflecting a weaker-than-expected economic activity in early 2017.

In Japan, output growth rose from 1.0 per cent in 2016 to 1.3 per cent in 2017, and In the Euro Area, output growth was projected to rise from an estimated 1.7 per cent in 2016 to 1.9 per cent for 2017. The output growth in both Japan and Euro Area reflected solid momentum occasioned by positive surprises in economic activities in these economies in late 2016 and early 2017.

Output growth in emerging markets and developing economies was projected at 4.6 per cent in 2017, which was higher than the 4.1 per cent in 2016, largely due to the significant improvements in commodity prices. In China, output was expected to grow by 6.7 per cent in 2017, the same as was in 2016.

In the Middle East and North Africa (MENA) region, output growth which was estimated at 3.8 per cent for 2016 was projected to decline to 2.6 per cent in 2017 due to the slowdown in economic activities in several oil exporting countries.

In Sub-Saharan Africa (SSA), output growth was projected to increase to 2.6 per cent in 2017 compared with 1.4 per cent in 2016, reflecting a modest growth for South Africa, which experienced a bumper crop harvest and increased mining activities. Output growth in Nigeria improved from the estimated negative 1.5 per cent for 2016 to a projected 0.5 per cent for 2017. The improvements were associated with stable oil price, proactive monetary policy and expansionary fiscal policy during the review period.

Table 1.1: Global Output Growth

Region/Country	Year-on-Year (%)				
	2013	**2014**	**2015**	**2016**	**2017***
World	3.4	3.5	3.4	3.2	3.5
Advanced Economies	1.3	2.0	2.1	1.7	2.0
United States	1.7	2.4	2.6	1.6	2.1
Euro Area	-0.3	1.2	2.0	1.7	1.9
Japan	2.0	0.3	1.2	1.0	1.3
United Kingdom	1.9	3.1	2.2	1.8	1.7
Canada	2.5	2.6	0.9	1.4	2.5
Emerging Market and Developing Economies	5.1	4.7	4.2	4.3	4.6
China	7.8	7.3	6.9	6.7	6.7
MENA	2.1	2.7	2.6	3.8	2.6
Sub-Saharan Africa	5.3	5.1	3.4	1.4	2.7
Nigeria	5.4	6.3	2.7	-1.5	0.8

Source: IMF's World Economic Outlook, July 2017
* Projections

1.1.2 Inflation Developments

Generally, the momentum in global inflationary pressures experienced in 2016 were sustained during the first half of 2017, with global producer prices rising because of increases in the cost of raw materials and the impact of a recovering real estate sector in China, whose economy was emerging from a deflation. Similarly, global consumer prices rose due to increases in energy and consumer price indices in several advanced economies, with the average annual inflation rate rising from an estimated 0.8 per cent in 2016 to 2.0 per cent in 2017 (Table 1.2).

In the United States, inflation rose from 1.3 per cent in 2016 to about 2.7 per cent in the first half of 2017, which was higher than what was targeted by the Federal Reserve Bank. Inflation in the Euro Area, Japan, United Kingdom, Emerging Markets and Developing Economies and the MENA Region were projected to increase from 0.2, -0.1, 0.6, 4.4 and 5.4 per cent in 2016 to 1.7, 1.0, 2.5, 4.7 and 8.1 per cent in 2017, respectively, (Table 1.2). Although inflation in Sub-Sahara Africa was projected to have moderated from annual average of 11.4 per cent in 2016 to 10.7 per cent in the first half of 2017, the inflationary pressures experienced in Nigeria for most of 2016 were sustained during the first half of 2017, as the inflation rate rose from 15.7 per cent at end 2016 to 17.4 per cent during the end of the first half of 2017.

Table 1.2: Global Inflation

Region/Country	2013	2014	2015	2016	2017*

Advanced Economies	1.4	1.4	0.3	0.8	2.0
United States	1.5	1.6	0.1	1.3	2.7
Euro Area	1.3	0.4	0.0	0.2	1.7
Japan	0.3	2.8	0.8	-0.1	1.0
United Kingdom	2.6	1.5	0.1	0.6	2.5
Emerging Markets and Developing Economies	5.5	4.7	4.7	4.4	4.7
MENA	9.3	6.6	5.9	5.4	8.1
Sub-Saharan Africa	6.6	6.3	7.0	11.4	10.7
Nigeria	8.5	8.0	9.0	15.7	17.4

Source: *WEO Update July 2017*

1.1.3 Global Commodity Prices

1.1.3.1 Oil Prices

The downward movement in crude oil prices experienced for most of 2016 continued during the first half of 2017, reflecting the prevailing excess supply and high inventories. Subsequently, the OPEC Reference Basket (ORB) decreased by 14.39 per cent to US$45.63 per barrel at end-June 2017 from US$53.30 per barrel at end-December 2016. The ICE Brent also decreased by 15.97 per cent to US$47.13 per barrel at end-June 2017 from US$54.66 per barrel at end-December 2016. Similarly, West Texas Intermediate (WTI) closed at US$45.10 per barrel at end-June 2017, representing a decrease of 17.63 per cent from US$54.75 per barrel at end-December 2016 (Table 1.3).

Table 1.3: Oil Prices (US$ per barrel)

	End-Dec. 2013	**End-Dec 2014**	**End-Dec. 2015**	**End-Dec. 2016**	**End-June 2017**
OPEC Reference Basket (ORB)	107.94	54.44	31.27	53.30	45.63
Brent	110.5	55.47	37.59	54.66	47.13
West Texas Intermediate (WTI)	96.78	50.27	37.28	54.75	45.10

Source*: Bloomberg*

1.1.3.2 Food Prices

Global oil supply rose to 96.59 mbd at end-June 2017, compared with 96.92 mbd at end-December 2016, while demand was projected to increase to 96.4 mbd in 2017, due to expected increase in demand in India, following improvements in the manufacturing and road construction activities as well as rise in demand for transportation and industrial sectors in China.

The Food and Agriculture Organization (FAO) Food Price Index averaged 175.2 points at end-June 2017, compared with 163.4 points in December 2016. The increase was largely driven by the rise in prices of dairy and meat.

The FAO Dairy Price Index averaged 209 points at end-June 2017 compared with 137.9 points at end-December 2016. Prices of all dairy products in the index rose, although it was more pronounced in the prices of butter, cheese and skimmed milk due to declines in consumer demand.

The FAO Meat Price Index rose by 10.96 per cent to 175.2 points in June 2017 from the 157.9 points recorded in December 2016. The increase was driven largely by declines in supply from Oceania, as well as strong global demand. However, the demand for poultry products decreased due to concerns over the spread of avian influenza in Africa, Asia and Europe.

The FAO Cereal Price Index averaged 154.3 points in June 2017, reflecting a decrease of 1.7 per cent from 156.9 points in December 2016. The decrease in the index was due largely to a downward trend in the price of maize, resulting from bountiful harvests in South America.

FAO Sugar Price Index averaged 197.3 points in June 2017, lower by 78.7 points from the 276.0 points in December 2016. The Index decreased to its lowest value in 16 months and reflected significant export, especially from Brazil. The fall in sugar prices also reflected lower demand from China, following the imposition of higher import tariffs.

Table 1.4: World Food Price Index

	December 2014	**June 2015**	**June 2016**	**December 2016**	**June 2017**
Food Price Index	201.8	165.1	153.4	163.4	175.2
Meat	198.3	169.8	150.0	157.9	175.2*
Dairy	224.1	160.5	149.5	137.9	209.0
Cereals	191.9	163.5	151.6	156.9	154.3
Vegetable Oils	181.1	156.2	141.5	161.9	162.1
Sugar	241.2	176.8	207.8	276.0	197.3

Source: FAO July 2017
** Projections*

1.1.4 International Stock Markets

The international stock markets recorded mixed performance during the first half of 2017. In North America, the Mexican Bolsa and United States S&P 500 indices increased by 9.2 and 8.2 per cent, respectively between end-December 2016 and end-June 2017, while the Canadian S&P/TSX decreased by 0.7 per cent during the same period. In South America, the Argentine Merval, Brazilian Bovespa and Colombian IGBC General indices increased by 29.5, 4.4 and 8.2 per cent, respectively. The increases were due to strong domestic demand and rebound in investments.

In Europe, the FTSE 100, DAX and CAC 40 indices increased by 2.4, 7.4 and 5.3 per cent respectively, while the MICEX index decreased by 15.8 per cent at end-June 2017. The decrease in the MICEX was due to the slowdown in Russia.

In Asia, Japan’s Nikkei 225, China’s Shanghai Stock Exchange-A and India’s BSE Sensex indices increased by 4.8, 2.9 and 16.1 per cent, respectively.

In Africa, the Nigerian NSE, South African JSE All-Share and Egyptian EGX CASE 30 indices increased by 15.6, 1.8 and 92.5 per cent, respectively. The increase in Egyptian EGX CASE 30 index was due to the implementation of new reforms, including the introduction of a floating exchange rate. The Ghanaian GSE ASI and Kenyan Nairobi NSE 20 indices decreased by 1.5 and 10.7 per cent, respectively. Most of these markets responded to developments in global economic activities and the anticipated normalization of the US monetary policy (Table 1.5).

Table 1.5: Indices of Selected International Stock Markets: December 2016 and June 2017

Country/Region	Index	June 30, 2016	December 31, 2016	June 30, 2017	Y-on-Y % Change	Dec 31, 2016-June 30, 2017 % Change (YTD)
AFRICA						
Nigeria	NSE All-Share Index	29,597.79	28,642.25	33,117.48	11.9	15.6
South Africa	JSE All-Share Index	52,217.72	50,693.76	51,611.01	-1.2	1.8
Kenya	Nairobi NSE 20 Share Index	3,640.61	4,040.75	3,607.18	-1.0	-10.7
Egypt	EGX CASE 30	6,942.52	7,006.01	13487.36	94.3	92.5
Ghana	GSE All-Share Index	1,787.50	1,994.91	1,964.55	9.9	-1.5
NORTH AMERICA						
US	S&P 500	2,098.86	2,238.83	2,423.41	15.4	8.2
Canada	S&P/TSX Composite	14,064.54	15,287.59	15,182.19	8.0	-0.7
Mexico	Bolsa	45,966.49	45,642.90	49,857.49	8.5	9.2
SOUTH AMERICA						
Brazil	Bovespa Stock	51,526.93	60,227.29	62,899.97	22.1	4.4
Argentina	Merval	14,683.49	16,917.86	21,912.63	49.2	29.5
Columbia	COLCAP	1,313.18	1,351.68	1,462.9	11.4	8.2
EUROPE						
UK	FTSE 100	6,504.33	7,142.83	7,312.72	12.4	2.4
France	CAC 40	4,237.48	4,862.31	5,120.68	20.8	5.3
Germany	DAX	9,680.09	11,481.06	12,325.12	27.3	7.4
Russia	MICEX	1,891.09	2,232.72	1,879.5	-0.6	-15.8
ASIA						
Japan	NIKKEI 225	15,575.92	19,114.37	20,033.43	28.6	4.8
China	Shanghai SE A	3,066.50	3,249.59	33,43.391	9.0	2.9
India	BSE Sensex	26,999.72	26,626.46	30,921.61	14.5	16.1

Source: *Bloomberg*

1.1.5 Foreign Exchange Markets

During the first half of 2017, most of the currencies under review experienced mixed behaviour against the U.S. dollar.

Foreign exchange rates movements in North America indicated that the Canadian dollar and Mexican peso appreciated against the U.S. dollar by 3.08 and 14.40 per cent, respectively. In

South America, the Brazilian real, Argentine peso and Colombian peso depreciated against the U.S. dollar by 1.51, 4.51 and 1.35 per cent, respectively.

In Europe, the British pound, euro and the Russian ruble appreciated against the U.S. dollar by 5.19, 7.95 and 4.41 per cent, respectively. In Asia, the Japanese yen, Chinese yuan and Indian rupee also appreciated against the U.S. dollar by 4.07, 2.51 and 5.17 per cent, respectively.

In Africa, the South African rand and Egyptian pound appreciated against the U.S. dollar by 5.13 and 0.06 per cent, respectively, while the Nigerian naira, Kenyan shilling, and Ghanaian cedi depreciated against the U.S. dollar by 0.29, 1.20 and 3.85 per cent, respectively, compared with end-December 2016 (Table 1.6).

Table 1.6: Exchange Rates of Selected Countries (Value in currency units to US$)

	Currency	End-Jun. '16	End-Dec. '16	End-Jun. '17	YTD App/Dep (%)	Y-o-Y App/Dep (%)
AFRICA						
Nigeria	Naira	283.00	305.00	305.90	-0.29	-7.49
South Africa	Rand	14.56	13.74	13.07	5.13	11.40
Kenya	Shilling	101.10	102.51	103.75	-1.20	-2.55
Egypt	Pound	8.89	18.14	18.13	0.06	-50.97
Ghana	Cedi	3.95	4.24	4.41	-3.85	-10.45
NORTH AMERICA						
Canada	Dollar	1.30	1.34	1.30	3.08	0.00
Mexico	Peso	18.47	20.73	18.12	14.40	1.93
SOUTH AMERICA						
Brazil	Real	3.21	3.26	3.31	-1.51	-3.02
Argentina	Peso	15.05	15.88	16.63	-4.51	-9.50
Colombia	Peso	2,920.35	3,002.00	3,043.11	-1.35	-4.03
EUROPE						
UK	Pound	0.75	0.81	0.77	5.19	-2.60
Euro Area	Euro	0.90	0.95	0.88	7.95	2.27
Russia	Ruble	63.94	61.54	58.94	4.41	8.48
ASIA						
Japan	Yen	103.19	116.96	112.39	4.07	-8.19
China	Yuan	6.65	6.95	6.78	2.51	-1.92
India	Rupee	67.53	67.92	64.58	5.17	4.57

Source: Bloomberg
Y-o-Y: Year on Year
YTD: Year to Date

1.1.6 International Monetary Policy Rates

Monetary policy rates in most central banks were fairly stable during the first half of 2017. Amongst the developed economies, only the US Federal Reserve increased its rate between January and June 2017 from the range of 0.50-0.75 to 1.00-1.25 per cent. The Bank of Japan, European Central Bank, Bank of England, Bank of Canada, Bank of Korea, Reserve Bank of

New Zealand and Reserve Bank of Australia maintained rates at 0-0.1, 0.00, 0.25, 0.50, 1.25, 1.75 and 1.5 per cent respectively, during the same period. In the ASEAN Region, policy rates in both Bank Indonesia and Bank Negara Malaysia remained at 4.75 and 3.00 per cent.

Among the BRICS countries, the Reserve Bank of India, Peoples Bank of China, and South African Reserve Bank kept rates unchanged at 6.25, 4.35 and 7.00 per cent, respectively, while the Central Bank of Brazil reduced its rate from 11.25 per cent in April to 10.25 per cent in May and Bank of Russia from 9.25 to 9.00 per cent in June 2017.

In the emerging economies of Mexico and Colombia, monetary policy rates were reduced from 6.25 to 5.75 per cent, in June, while the Central Bank of Chile reduced its rate from 2.75 to 2.50 per cent in May 2017.

In Africa, the Central Bank of Nigeria maintained its rate at 14.00 per cent throughout the first half of 2017. Central Bank of Egypt increased its rate from 15.75 to 17.52 per cent in May, while Bank of Ghana reduced its rate from 23.50 to 22.50 per cent in May 2017 (Table 1.7).

Table 1.7: Policy Rates of Selected Countries

	2016						**2017**					
	Jul-16	**Aug-16**	**Sept-16**	**Oct-16**	**Nov-16**	**Dec-16**	**Jan-17**	**Feb-17**	**Mar-17**	**Apr-17**	**May-17**	**June-17**
Developed Economies												
Japan	0-0.10	0-0.10	0-0.10	0-0.10	0-0.10	0-0.10	0-0.10	0-0.10	0-0.10	0-0.10	0-0.10	0-0.10
Europe	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
UK	0.50	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
US	0.25-0.5	0.25-0.5	0.25-0.5	0.25-0.5	0.25-0.5	0.5-0.75	0.5-0.75	0.5-0.75	0.75-1.00	0.75-1.00	0.75-1.00	1.00-1.25
Canada	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
South Korea	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
New Zealand	2.25	2	2	2	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Australia	1.75	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
ASEAN												
Indonesia	6.50	6.50	5.00	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
BRICS												
Brazil	14.25	14.25	14.25	14.00	13.75	13.75	13.75	12.25	12.25	11.25	10.25	10.25
Russia	10.50	10.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	9.25	9.25	9.00
India	6.50	6.50	6.50	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25
China	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
South Africa	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Other Emerging Economies & South America												
Mexico	4.25	4.25	4.75	4.75	5.25	5.75	5.75	6.25	6.5	6.5	6.25	5.75
Chile	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.25	3.25	2.75	2.5	2.5
Colombia	7.75	7.75	7.75	7.75	7.75	7.5	7.5	7.25	7	6.5	6.25	5.75

Africa												
Egypt	12.75	12.75	12.75	12.75	15.75	15.75	15.75	15.75	15.75	15.75	17.52	17.52
Ghana	26.00	26.00	26.00	26.00	25.50	25.50	25.50	25.50	25.50	23.50	22.50	22.50
Nigeria	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00

Source: Bloomberg

1.2 Domestic Developments

1.2.1 Output

Provisional data from the National Bureau of Statistics (NBS) indicated that the Gross Domestic Product (GDP), at 2010 constant basic prices, grew by 0.55 per cent in the second quarter of 2017, as against the decline of 0.91 per cent in the first quarter of 2017. However, GDP for the first half of the year moderated to negative 0.18 per cent compared with the negative 2.03 per cent in the second half of 2016 (Figure 1.1).The improvement witnessed in the first half of 2017 could be attributed to the rebound of activities in the manufacturing sector following CBN's interventions in the foreign exchange market and increased patronage of locally manufactured goods. It is expected that the full implementation of the Economic Recovery and Growth Plan (ERGP) which commenced in the first half of 2017, will further engender growth.

Table 1.8: Percentage share in total Gross Domestic Product by Sectors (%)

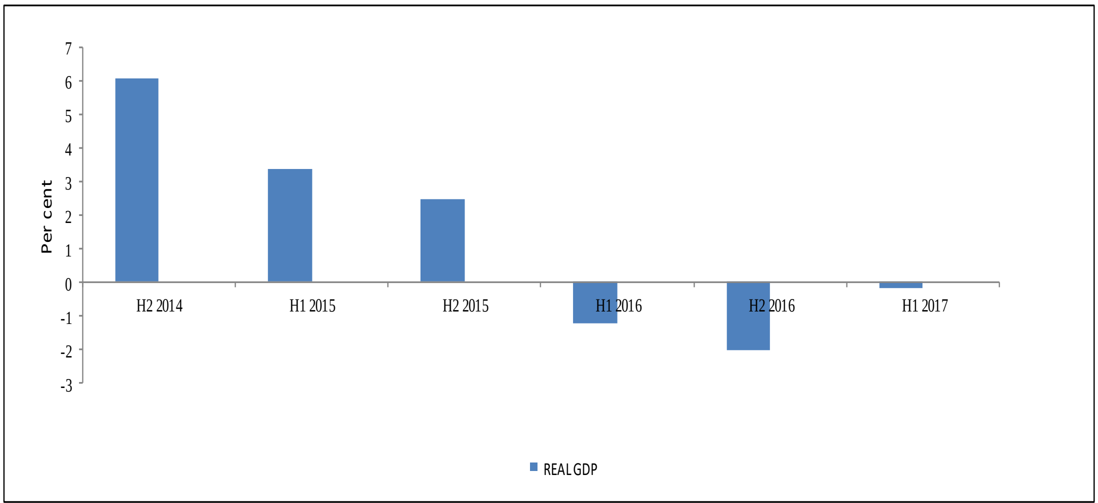
Sector	H1 2016	H2 2016	H1 2017
Agriculture	21.49	27.11	22.21
Manufacturing	9.46	9.11	9.57
Construction	4.21	3.26	4.22
Trade	17.86	16.57	17.47
Services	37.49	36.38	37.71
Industry	18.95	16.68	18.39
Crude Petroleum & Natural Gas	9.40	7.41	8.71
Solid Minerals	0.10	0.16	0.11

Source: NBS

The non-oil GDP rose to 0.58 per cent in the first half of 2017, compared with the decline of 0.16 per cent in the second half of 2016. The contribution of the non-oil sector GDP stood at 91.29 per cent compared with 92.59 and 90.60 per cent recorded in the preceding half year and the corresponding period of 2016, respectively. With respect to sectoral contribution in real terms, the services sector accounted for the largest share (37.71%), followed by the agricultural sector (22.21%), industry (18.39%), trade (17.47%) and manufacturing (9.57%) (Table 1.8).

Provisional data further showed that manufacturing sub-sector grew by 1.00 per cent in the first half of 2017, recording a positive change over the second half of 2016. The increased demand for locally produced goods encouraged manufacturers to increase production, thus increasing its contribution to the GDP in the first half of 2017. Similarly, the services sub-sector recorded a positive change of 0.41 per cent in the first half of 2017, relative to its value in the second half of 2016.

Figure 1.1: Real GDP Growth rate (%)



During the first half of 2017, the daily average crude oil production rose to 1.62 mbd, which was 4.52 per cent above the 1.55 mbd in the second half of 2016 but below the OPEC production quota of 2.2 mbd. This was due to the relative stability in the oil producing regions of the country. Consequently, the contribution of the oil sector to the real GDP increased by 1.31 percentage points to 8.71 per cent from 7.41 per cent in the second half of 2016.

Figure 1.2: Share of Oil and Non-Oil Sectors in Real GDP (%)

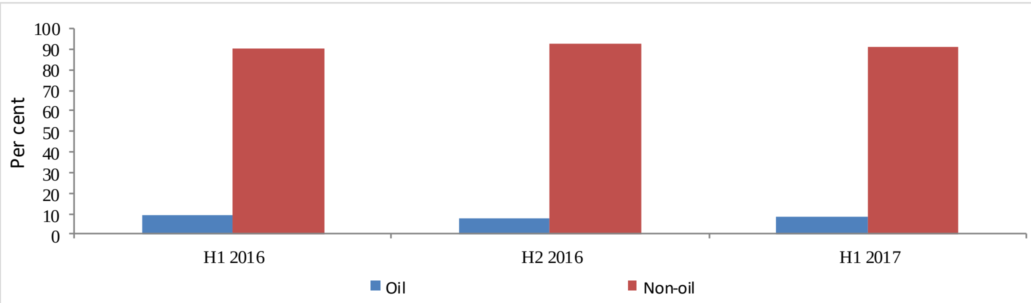


Table 1.9: Changes (per cent) in Real GDP by Sector

Sector	H1 2016	H2 2016	H1 2017
Agriculture	3.84	4.29	3.19
Manufacturing	-5.22	-3.46	1.00
Construction	-5.83	-6.07	0.14
Services	-1.04	-1.34	0.41
Trade	0.99	-1.41	-2.36
Industry	-6.93	-11.87	-3.16

Crude Petroleum & Natural Gas	-8.15	-20.65	-7.47
Solid Minerals	-36.91	5.32	8.61

1.2.2 Inflation

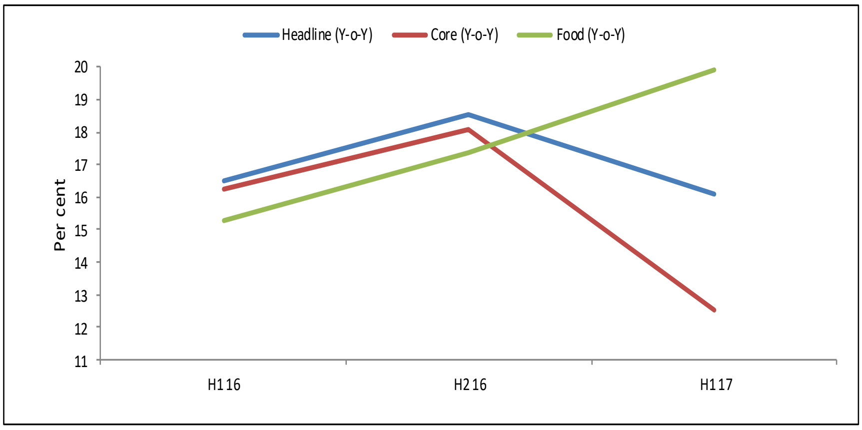
National Bureau of Statistics (NBS) data showed that the all-items composite Consumer Price Index (CPI) stood at234.2 at end-June 2017 (November 2009 = 100), compared with 213.6 and 201.7 at end-December 2016 and end-June 2016, respectively. The index for the first half of 2017 was higher than the levels in the second half of 2016 and the corresponding half of 2016 by 9.6 and 16.1 per cent, respectively. The headline inflation (year-on-year), at 16.10 per cent in June 2017, fell from 18.55 per cent at end-December 2016 and 16.41 per cent at end-June 2016, representing the fifth consecutive decline since January 2017.

The twelve-month moving average inflation rate in June 2017stood at 17.58 per cent, compared with 15.7 and 11.4 per cent in December and June 2016, respectively. In June 2017, the core inflation(which excludes agricultural produce because of volatility in their prices), fell by 5.6 and 3.7 percentage points to 12.5 per cent below its respective levels of 18.1 and 16.2 per cent in December and June 2016 (Figure 1.3). According to the NBS, the highest increases were recorded in prices of solid fuels, clothing materials/accessories, liquid fuels, books and stationery, airfare, footwear and motorcycles.

However, food inflation which comprises farm produce and processed food, rose to 19.91 per cent (year-on-year) in June 2017, compared with 17.39 and 15.3 per cent in December and June 2016, respectively. The rise when compared to that of the preceding half-year was attributed to the continued pressure on food prices. The relative contribution of imported food components to food inflation was 3.66 per cent at end-June 2017 compared to 5.25 per cent at end-December 2016.

The imported food inflation at end-June 2017 fell by 6.87 and 5.82 percentage points to 14.19 per cent from its respective levels at end-December and end-June 2016. Rice accounted for the highest contribution of 14.80 per cent to imported food inflation, followed by frozen fish with 3.01 per cent. The decline in the imported food inflation was attributed to substitution effect of some of the imported products.

Figure 1.3: Inflationary Trend (Year-on-Year)



1.2.3 External Sector

1.2.3.1 Foreign Exchange Flows

Provisional data indicated that cumulative foreign exchange inflow into the economy amounted to US$33.77 billion in the first half of 2017, indicating an increase of 0.6 and 16.4 per cent above the levels in the second half of 2016 and the corresponding period of 2016, respectively. The increase was largely due to the 29.2 per cent rise in inflow through the CBN, compared with the level in the second half of 2016. Receipts through the CBN and autonomous sources accounted for 47.2 per cent and 52.8 per cent of total inflow into the economy, respectively.

Total foreign exchange outflow from the economy in the first half of 2017 was US$13.75 billion, indicating 0.5 per cent increase above the level in the second half of 2016.The rise in outflow was mainly attributed to increased interbank sales. Consequently, a net foreign exchange inflow of US$20.01 billion was recorded into the economy during the review period, compared with a net inflow of US$19.9 billion and US$17.12 billion in the second half of 2016 and the corresponding period of 2016, respectively.

Table 1.10: Foreign Exchange Flows (US$ million)

Period	Inflow	Outflow	Net Flow
H1 2017	33,770.63	13,752.07	20,018.56
H2 2016	33,578.14	13,676.86	19,901.28
H1 2016	29,006.89	11,889.43	17,117.46

The total autonomous inflow fell by16.0 per cent to US$17.83 billion, compared to the level in the second half of 2016 due to decline in invisibles purchases by 17.4per cent, of which 56.6 per cent was accounted for by domiciliary account balances.

Foreign exchange inflows through the CBN amounted to US$15.93 billion in the first half of 2017, an increase of 29.2 and 87.6 per cent above the levels in the preceding and the corresponding periods of 2016, respectively. This improvement was due to the growth in non-oil related receipts which rose by 72.11 per cent to US$11.65 billion. Oil related receipts was US$4.28 billion, representing a decrease of 23.11 per cent relative to the level in the second half of 2016.

Foreign exchange outflow through the CBN rose by 2.7 per cent to US$12.76billion, above the level in the second half of 2016. Interbank utilization accounted for US$9.84 billion, of which interbank forwards, interbank sales and others represented 45.0, 40.8and 14.2 per cent, respectively.

Total foreign exchange transactions through the CBN resulted in a net inflow of US$3.18 billion in the first half of 2017, compared with the net outflow of US$0.88 billion and US$2.26 billion in December and June 2016.

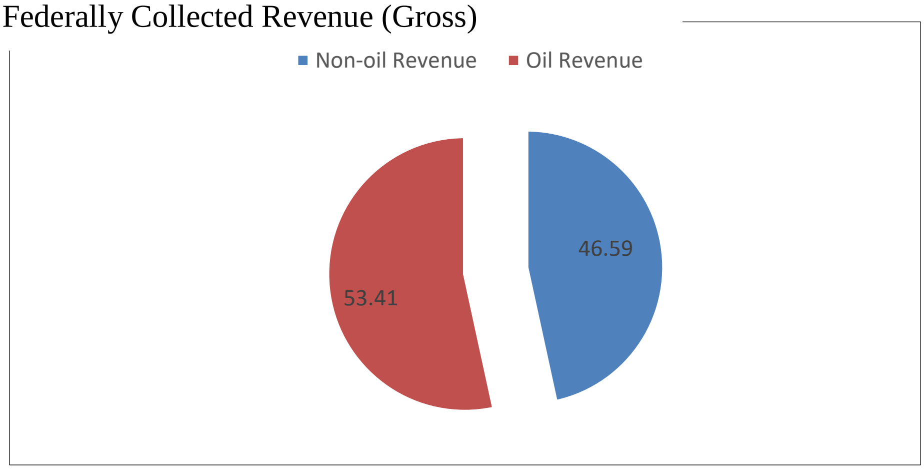
Table 1.11: Foreign Exchange Flows through the CBN (US$ million)

Period	Inflow	Outflow	Net flow
H1 - 2017	15,933.32	12,755.58	3,177.74
H2 - 2016	12,337.20	12,425.19	-87.99
H1 - 2016	8,493.57	10,751.70	-2,258.12

1.2.4 Fiscal Operations

The Federally-collected revenue (gross) for the first half of 2017 was estimated at ₦3,020.00 billion. This was below the half year budget estimate of ₦5,368.55 billion and the preceding half-year of ₦3,220.58 billion by 43.75 and 6.23 per cent, respectively. The decline in revenue (gross) relative to the preceding half-year was attributed to the shortfall in receipts from non-oil revenue. At ₦1,613.02 billion or 53.41 per cent of total revenue, oil receipts (gross) in the first half of 2017, was higher than the receipts in the preceding half by 5.21 per cent. The rise in oil revenue relative to the preceding half was attributed, mainly, to the increase in receipts from crude oil and gas exports. The non-oil receipts (gross), at ₦1,406.97 billion or 46.59 per cent of total revenue was below the level in the preceding half by 18.67 per cent. The decline in non-oil revenue relative to the preceding half was due to the reduction in receipts from corporate tax, education tax and customs & excise duties during the review period.

Figure 1.4: Federally Collected Revenue (Gross)



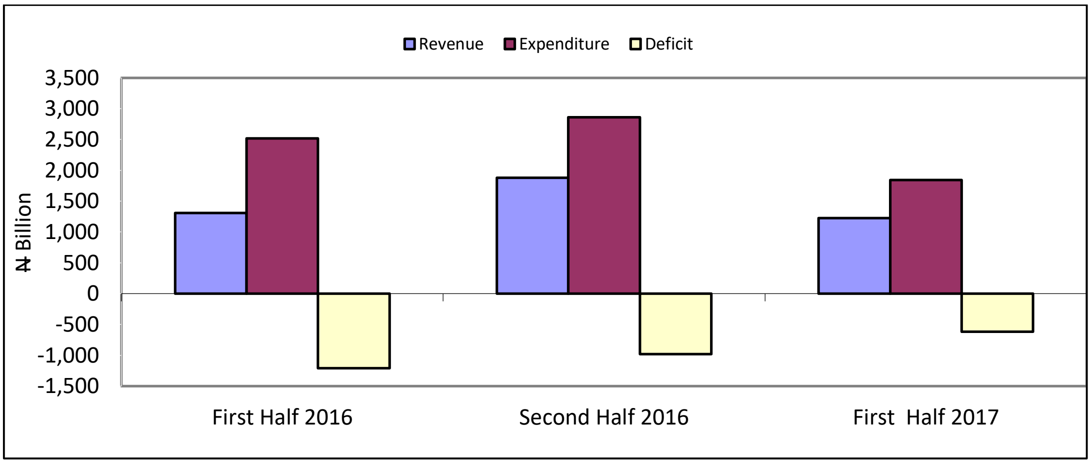
The estimated Federal Government retained revenue for the first half of 2017, at ₦1,226.37 billion, was lower than the half-year budget estimate and the receipts in the preceding half in 2016 by 54.54 and 34.73 per cent, respectively. The breakdown of the retained revenue showed that the Federal Government's share of the Federation Account was ₦765.17 billion (62.39%); VAT Pool Account, ₦67.01 billion (5.46%); Federal Government Independent Revenue, ₦146.55 billion (11.95%); Excess Crude Account, ₦76.35 billion (6.23%); Exchange Gain, ₦145.98 billion (11.90%) while NNPC Refund (including additional NNPC share) accounted for the balance of ₦25.32 billion (2.06%). The decrease in retained revenue relative to the preceding half was mainly attributed to the decline in non-oil receipts.

The Federal Government expenditure was ₦1,842.11 billion at end-June 2017, representing a decline of 35.61 per cent,and52.47 per cent relative to the 2017 half-year budget of ₦3,875.96 billion and the preceding period's receipt of ₦2,860.83 billion, respectively. The decreased spending was attributed to decline in revenue during the review period.

The expenditure profile of the Federal Government for the first half of 2017 comprised: recurrent expenditure (88.16%), capital expenditure (2.88%) and statutory transfers (8.95%). A breakdown of the recurrent expenditure indicated that the non-debt obligations accounted for 69.07 per cent of the total recurrent expenditure, while debt service payments accounted for 30.93 per cent in the review period.

The fiscal operations of the Federal Government for the first half of 2017 resulted in an overall deficit of ₦615.74 billion compared to the budgeted deficit of ₦1,178.39 billion and ₦981.81billion in the preceding period. The deficit was financed largely from domestic borrowing.

Figure 1.5: Federal Government Fiscal Operations (₦ billion)



Source: *Office of the Accountant General of the Federation (OAGF) & Federal Ministry of Finance*

The Debt Management Office data indicated that consolidated domestic debt stock of the Federal Government at end-June 2017 was ₦11,860.77 billion. This represented an increase of 7.28 per cent over the ₦11,058.20 billion at end-December 2016. The breakdown indicated that FGN Bonds contributed 66.90 per cent, Treasury Bills contributed 31.22 per cent while FGN Special Bonds and Nigeria Treasury Bonds accounted for 1.88 per cent. The newly introduced FGN Savings Bonds accounted for 0.04 per cent of the FGN Bonds.

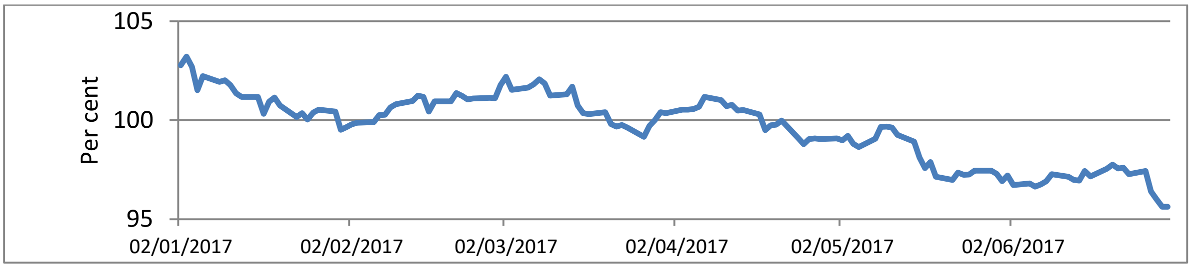
1.2.5 External Reserves

External reserves increased to US$30.34 billion at end-June 2017, from US$26.99 billion at end-December 2016, an accretion of US$3.35 billion (12.41%). The breakdown of the reserves showed that 8.64, 23.32 and 68.04 per cent belonged to the Federation, Federal Government and CBN, respectively. The currency composition indicated that 85.49, 6.87, 6.36, 0.71, 0.52 and 0.05 per cent was held in US dollars, IMF SDRs, Chinese renminbi, pound sterling, euro and other currencies.

Total inflow to reserves was US$15.93 billion in the first half of 2017 compared with US$11.37 billion in the second half of 2016, representing an increase of 40.11 per cent. Total outflow in the review period was US$12.76 billion compared with US$11.38 billion recorded in the second half of 2016, representing an increase of US$1.38 billion (12.13%). Consequently, the external reserves recorded a net inflow of US$3.18 billion during the review period.

The sum of US$172.64 million was recorded as gain on currency translation. This was mainly due to the decline in the value of the US dollar against major currencies (Figure 1.6). The currency translation gain, coupled with the net inflow of US$3.18 billion accounted for the increase in the level of the external reserves during the review period.

Figure 1.6: US Dollar Index Spot Rate



Source: *Bloomberg*

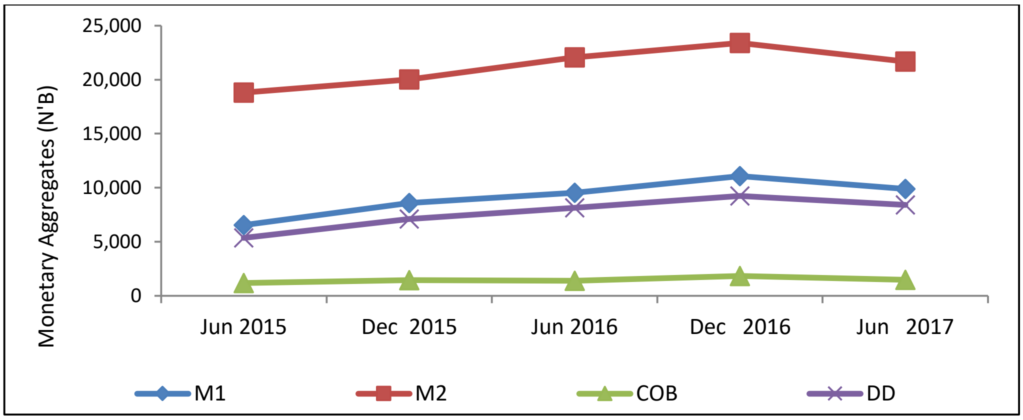
2.0 DEVELOPMENTS IN THE FINANCIAL SYSTEM

2.1 Monetary and Credit Developments[1]

The low crude oil prices in the international market as well as the slow recovery of the economy persisted during the first half of 2017. Consequently, monetary policy remained tight, and thus all the major monetary aggregates contracted in the review period. Relative to the level at end-December 2016, broad money supply, M_2, fell by 7.33 per cent at end-June 2017, compared with the growth of 16.77 and 10.23 per cent at end-December 2016 and the corresponding period of 2016, respectively. The fall in M_2 at end-June 2017 was, due largely, to the 7.45 and 10.51 per cent decline in net foreign assets and other assets (net) of the banking system, respectively. The decreases more than offset the effect of the 1.02 per cent rise in domestic credit (net) of the banking system.

The decline in total monetary liabilities, M_2, was driven by the significant decrease in narrow money (M_1). Provisional data indicated that M_1 fell by10.70 per cent to ₦9,883.82 billion at end-June 2017, compared to the growth of 29.12 and 11.05 per cent at end-December and end-June 2016, respectively. The development was due to the 18.86 and 9.09 per cent decline in currency outside banks (COB) and demand deposits (DD) components, respectively.

Figure 2.1: Trend in Monetary Aggregates



There was a slight improvement in the intermediation efficiency of the banking industry at end-June 2017. The ratio of intermediation efficiency measured by the proportion of COB to total monetary liabilities, stood at 6.8 per cent, representing a decrease of 0.97 percentage point below the level at end-December2016 but an increase of 0.57 percentage point above the corresponding period of 2016.

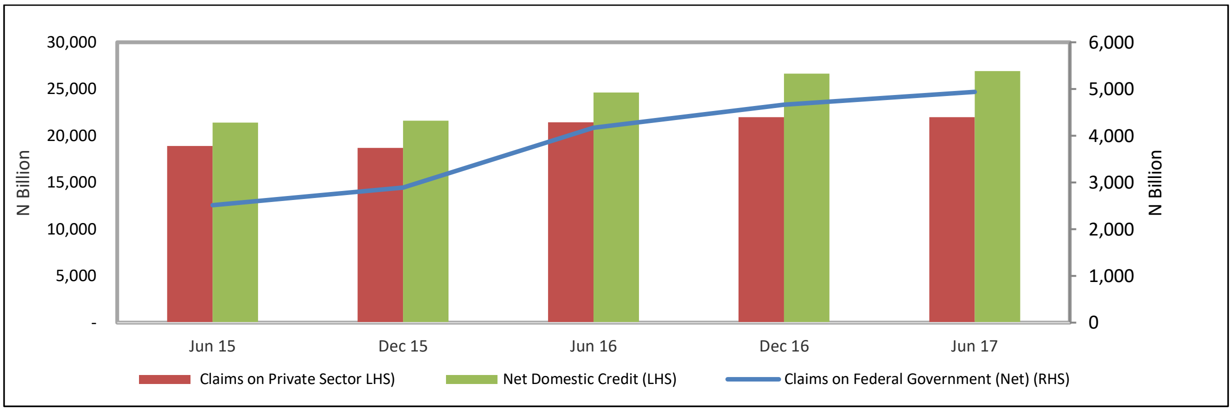
Aggregate savings at end-June 2017 increased with the ratio of quasi-money to total monetary assets at 54.4 per cent from 52.7 per cent at end-December 2016. The outcome was driven largely by the rise in savings and time deposits of commercial and merchant banks, of which its proportion of M_2 rose by 1.72 percentage points above the level at end-December 2016.

[1]June 2017 figures are provisional.

2.1.1 Aggregate Credit to the Economy

Net aggregate credit to the domestic economy rose marginally by 1.02 per cent from ₦26,649.02 billion at end-December 2016 to ₦26,921.03 billion at end-June 2017. The development reflected increase in net claims on the Federal Government. In terms of contribution to movement in M_2, the net domestic credit of the banking system contributed 1.16 percentage points compared with 25.15 percentage points at end-December 2016.

Figure 2.2: Credit to the Economy



2.1.1.1 Claims on the Federal Government

Net claims on the Federal Government increased to ₦4,942.46 billion at end-June 2017, compared with ₦4,666.87 billion at end-December 2016, representing an increase of 5.91 per cent. The development reflected significant growth in holding of government securities, especially Treasury Bills by commercial banks which grew by 8.8 per cent.

2.1.1.2 Aggregate Claims on the Private Sector

The banking system's credit to the private sector fell by 0.02 per cent to ₦21,978.56 billion, at end-June 2017 compared with the growth of 17.42 and 14.59 per cent recorded at end-December 2016 and the corresponding period of 2016, respectively. The development was due mainly to the 0.93 per cent decrease in claims on the core private sector[2], which more than offset the impact of 19.28 per cent growth in claims on state and local governments. In terms of contribution to the movement of total monetary assets, claims on the private sector contributed negative 0.02 percentage point compared with 16.28 percentage points at end-December 2016. Similarly, the contribution of credit to the core private sector to the movement in M_2 fell from 14.26 percentage points at end-December 2016 to negative 0.83 percentage point at end-June 2017.

[2]Excludes the state and local governments.

Table 2.1: Growth Rate of Monetary Aggregates

% Change (Over preceding December)	Dec 14*	Jun 15*	Dec 15 *	Jun 16*	Dec 16*	Jun 17**
Domestic Credit (Net)	32.6	11.08	12.13	13.93	23.30	1.02
Claims on Federal Government (Net)	169.44	118.45	151.56	9.66	61.37	5.91
Claims on Private Sector	11.93	4.27	3.29	14.59	17.42	-0.02
Foreign Assets (Net)	(19.68)	(14.42)	(18.71)	25.69	61.85	-7.45
Other Assets (Net)	2.53	(16.88)	1.08	-33.38	-71.51	-10.51
Total Monetary Assets (M_2)	20.55	(0.54)	5.90	10.23	16.77	-7.33
Quasi-Money	38.73	2.17	(4.58)	9.61	7.52	-4.30
Money Supply (M_1)	-1.82	(5.25)	24.14	11.05	29.12	-10.70
Currency Outside Banks	(0.64)	(17.63)	1.30	-5.29	25.02	-18.86
Demand Deposits	(2.13)	(1.99)	30.15	14.40	29.96	-9.09
Total Monetary Liabilities (M_2)	20.55	(0.54)	5.90	10.23	16.77	-7.33

*Revised
**Provisional (June 2017 Monetary Survey)

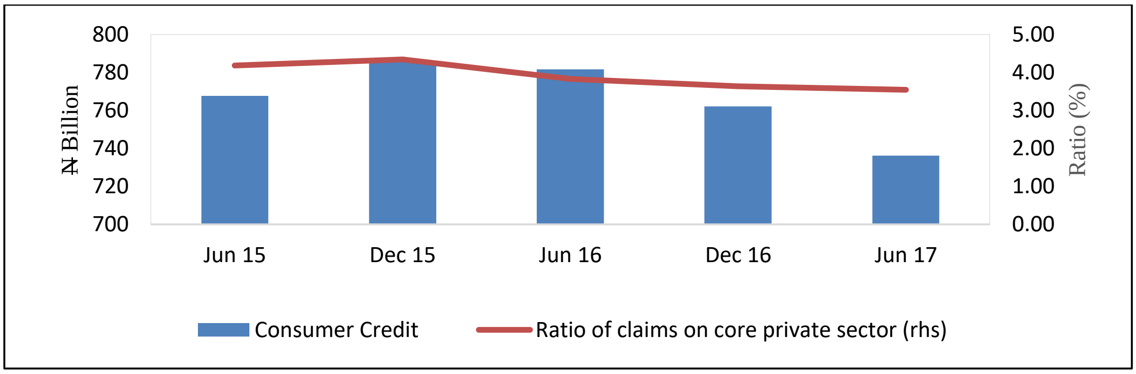
2.1.1.3 Foreign Assets (net) of the Banking System

The net foreign assets of the banking system fell by 7.45 per cent to ₦8,468.08 billion at end-June 2017, as against 61.85 and 25.69 per cent growth at end-December 2016 and the corresponding period of 2016, respectively. The development reflected decline in foreign assets of the CBN which fell by 4.68 per cent relative to its level at end-December 2016.

2.1.1.4 Consumer Credit

Consumer credit reduced by 3.4 per cent to ₦736.19 billion at end-June 2017, compared with ₦762.07 billion at end-December 2016, due to prevailing economic uncertainties which made banks more risk averse to consumer lending. Consumer credit constituted 3.54 per cent of the total credit to the core private sector, and was 0.09 percentage point lower than the proportion in the second half of 2016 (Figure 2.3).

Figure 2.3: Consumer Credit



2.1.2 Sectoral Classification of Private Sector Credit

The banks' credit to the various sectors trended downward during the review period. Credit to the private sector fell by 1.47 per cent to ₦15,907.47 billion from ₦16,293.48 billion at end-December 2016. The oil and gas sector accounted for the highest share of total credit at 29.29 per cent at end-June 2017 similar to 30.02 per cent in the second half of 2016. The contribution of manufacturing, construction, and power and energy sub-sectors to total credit rose to 13.97, 3.98 and 4.83 per cent from 13.59, 3.89 and 4.46 per cent in the preceding half year, respectively. However, agriculture, forestry and fishery sub-sector, declined to 3.18 per cent from 3.25 per cent in the preceding half year (Figure 2.4 and Table 2.2).

Figure 2.4: Sectoral Distribution of Credit

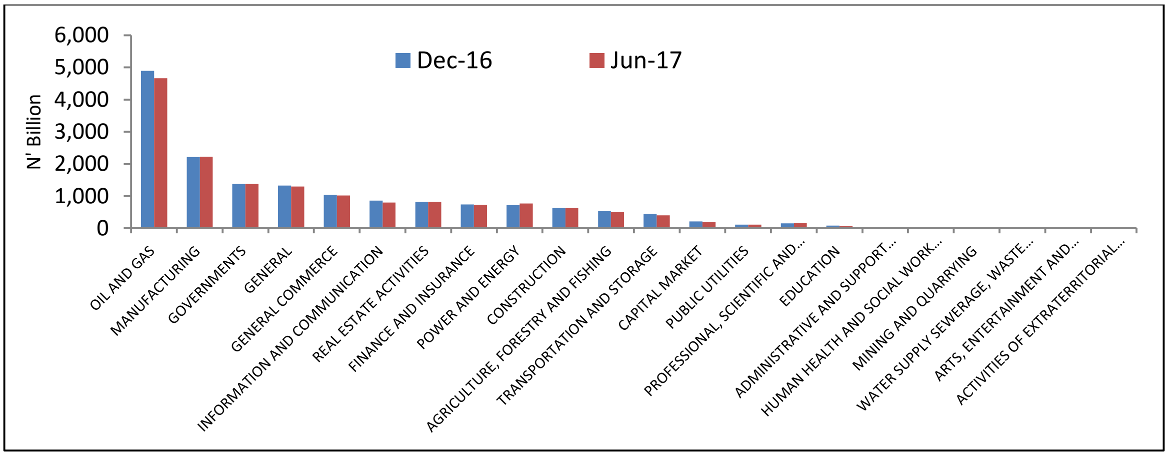


Table 2.2: Sectoral Distribution of Credit

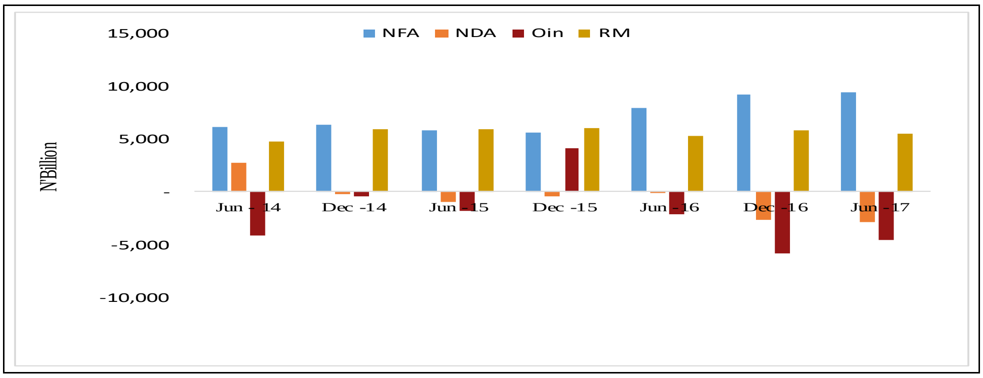
Sector	December 2016		June 2017	
	₦' Billion	Share of Total (%)	₦ 'Billion	Share of Total (%)
Oil and gas	4,890.91	30.02	4,660.00	29.29
Manufacturing	2,214.98	13.59	2,222.32	13.97
Governments	1,376.89	8.45	1,378.01	8.66
General	1,324.10	8.13	1,298.29	8.16
General commerce	1,038.92	6.38	1,021.00	6.42
Information and communication	859.16	5.27	797.69	5.01
Real estate activities	820.32	5.03	821.32	5.16
Finance and insurance	737.65	4.53	728.94	4.58
Power and energy	726.29	4.46	768.27	4.83
Construction	633.62	3.89	633.29	3.98

Agriculture, forestry and fishing	529.06	3.25	506.12	3.18
Transportation and storage	452.19	2.78	403.66	2.54
Capital market	212.28	1.30	195.40	1.23
Public utilities	111.96	0.69	110.60	0.70
Professional, scientific and technical activities	151.23	0.93	167.70	1.05
Education	88.40	0.54	76.20	0.48
Human health and social work activities	42.16	0.26	40.14	0.25
Administrative and support service activities	30.61	0.19	35.64	0.22
Mining and quarrying	21.28	0.13	11.70	0.07
Water supply sewerage, waste management and remediation activities	17.03	0.10	17.19	0.11
Arts, entertainment and recreation	14.44	0.09	13.76	0.09
Activities of extraterritorial organization and bodies	0.01	0.00	0.21	0.001
Total	**16,293.48**	100.00	**15,907.45**	100.00

2.1.3 Reserve Money

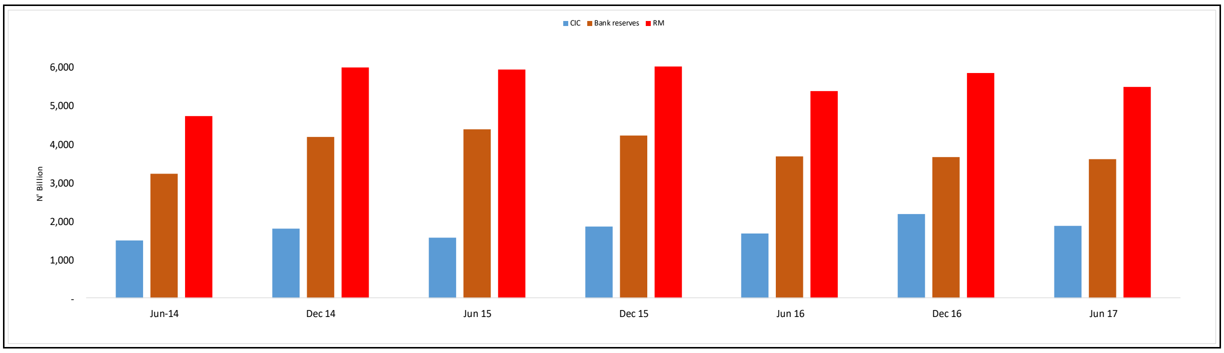
Reserve money declined by 6.76 per cent to ₦5,489.64 billion at end-June 2017 from ₦5,888.20 at end-December 2016. This was higher than the second quarter indicative benchmark of ₦5,458.23 by 0.6 per cent. The downward movement in reserve money reflected the 5.55 and 2.90 per cent decline in net domestic assets and net foreign assets, respectively.

Figure 2.5: Reserve Money and its Components (Assets)



The corresponding downward movement in the liabilities of reserve money reflected the decline in currency-in- circulation and banks' deposits with the CBN.

Figure 2.6: Reserve Money and its Components (Liabilities)



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

Currency-in-circulation, which constituted 34.13 per cent of reserve money, fell by 14.03 per cent to ₦1,873.54 billion at end-June 2017 compared with the level at end-December 2016. Similarly, bank deposits with the CBN fell by 2.51 per cent to ₦3,616.09 billion at end-June 2017, compared with ₦3,709.03 billion at end-December 2016.

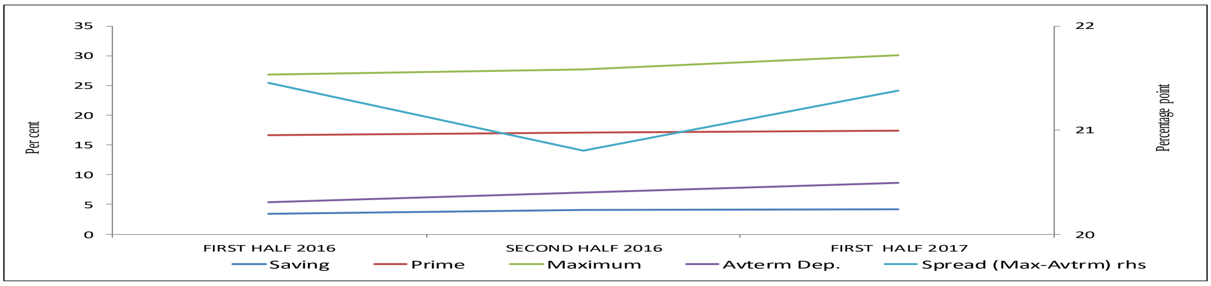
2.1.4 Interest Rate

The tight monetary policy stance of the Bank coupled with the new flexible foreign exchange policy during the first half of 2017 affected liquidity in the money market. Consequently, rates varied in line with liquidity conditions with significant spikes due to high demand for foreign exchange and special sales of CBN bills. The average short-term money market rates traded mostly above the MPR of 14.00 per cent.

On the average, all the rates in the first half of 2017 were higher than their levels in the second half of 2016. Savings deposit rate increased marginally by 0.11 percentage point from 4.07per cent in the second half of 2016 to 4.18 per cent in the first half of 2017. Similarly, average deposit rates for 7-day, 3-month and 1-year tenors rose from 3.65, 8.13 and 7.20 per cent in the second half of 2016 to 4.31, 9.17 and 11.21 per cent in the first half of 2017, respectively.

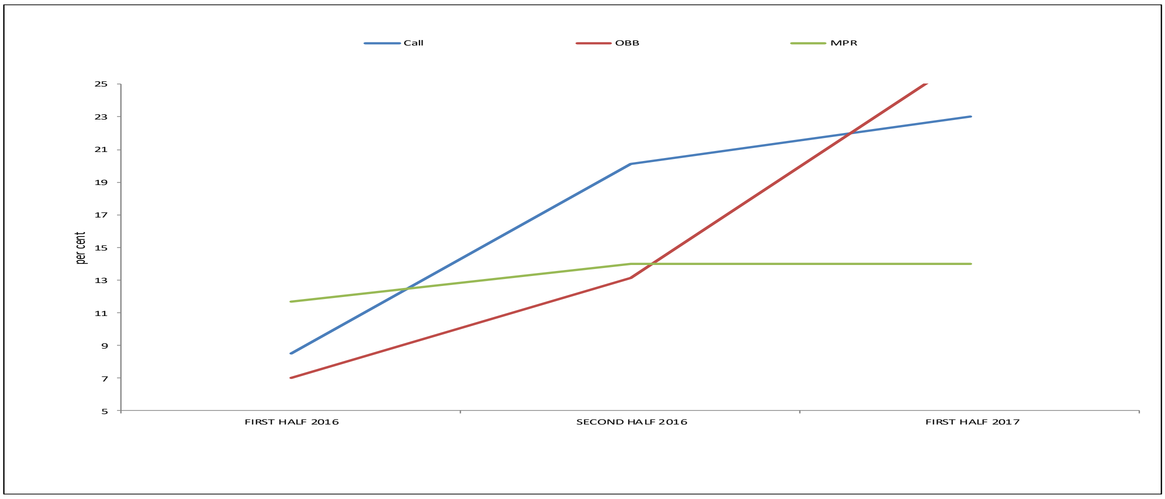
The 6-month average prime and maximum lending rates rose in the first half of 2017 by 0.24 and 2.3 percentage points to 17.35 and 30.05 per cent compared with their levels in the second half of 2016, respectively. Relative to the second half of 2016, the average term deposit rate, increased by 1.71 percentage points to 8.67 per cent in the first half of 2017. Consequently, the spread between the average term deposit and the average maximum lending rates widened by 0.58 percentage point to 21.38 per cent at the end of the first half of 2017. Real deposit rates were negative, while real prime and maximum lending rates were positive.

Figure 2.7: Lending and Deposit Rates



The 6-month average open-buy-back (OBB) rate in the first half of 2017 stood at 26.84 per cent while inter-bank call rate averaged 23.01 per cent, representing 2.89 and 13.69 percentage points above their levels in the second half of 2016. The NIBOR averaged 32.22 and 27.83 per cent for the call and 30-day segments in the first half of 2017, compared with 19.24 and 17.36 per cent in the second half of 2016. The corridor around the MPR for standing lending and deposit facilities was retained at +200 and -500 basis points, respectively, in the first half of 2017. Similarly, the cash reserve ratio (CRR) and liquidity ratio (LR) were also retained at 22.50 and 30.00 per cent for commercial banks, respectively, during the first half of 2017.

Figure 2.8: Money Market Interest Rates and Monetary Policy Rates



2.1.5 Maturity Structure of Bank Deposits and Credit

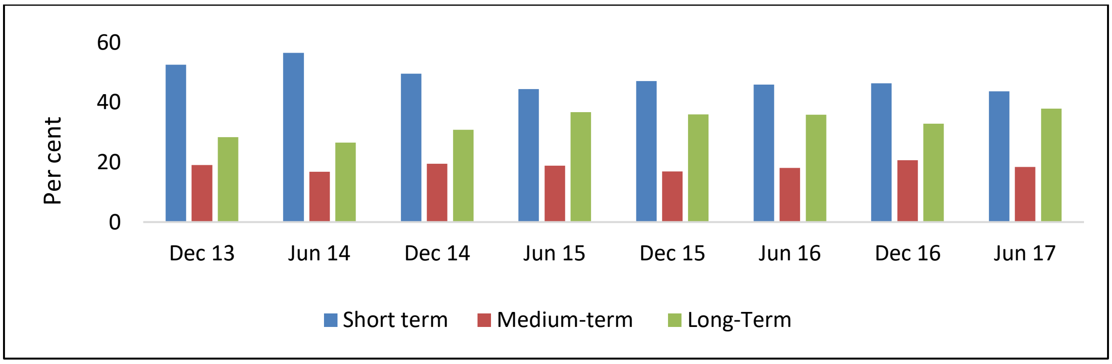
Short-term maturities maintained dominance in the credit market, though their share of total credit declined. Commercial and merchant banks' outstanding credit at the end of the first half of 2017 showed that maturities below one year accounted for 43.7 per cent, compared with 46.4 per cent of the total at the end of the second half of 2016. The medium-term[3] credit fell to 18.4 per cent at end-June 2017 from 20.7 per cent, at end-December 2016. However, the long-term[4] credit rose by 5.0 percentage points to 37.9 per cent, compared with 32.9 per cent at the

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

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

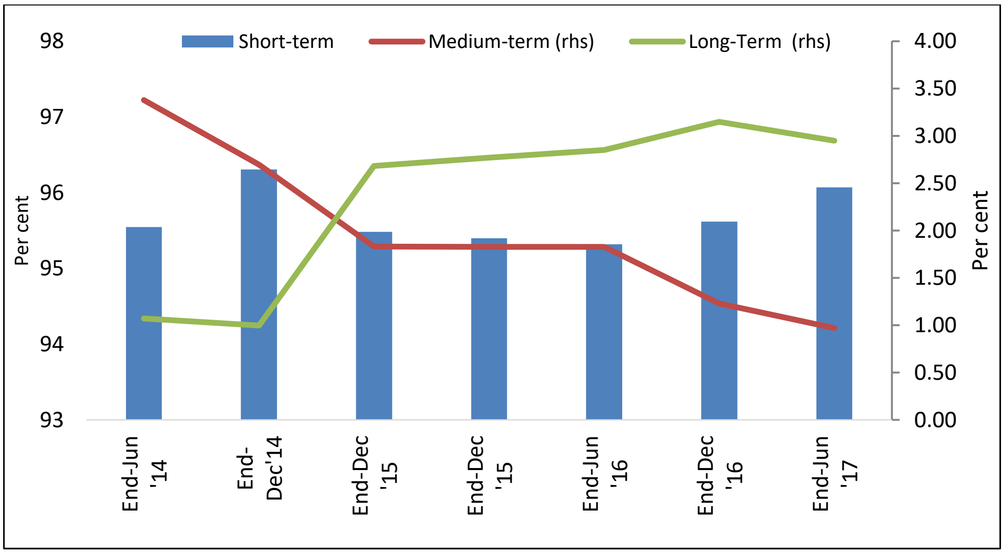
end of the second half of 2016 (Figure 2.9). The CBN through its developmental programmes provided long term funds for on-lending to the real sector of the economy.

Figure 2.9: Distribution of Banks Loans and Advances by Maturity



The banks' deposit liabilities showed that the short-term deposits (below one year) constituted 96.07 per cent of the total, (of which 74.87 per cent had a maturity of less than 30 days) compared with 95.62 per cent at end-December 2016. Medium and long term deposits constituted 0.97 and 2.95 per cent of total deposits, at the end of the first half of 2017, compared with 1.23 and 3.15 per cent at end-December 2016, respectively (Figure 2.10). The loans to deposit ratio fell to 79.0 per cent at end June 2017 from 80.5 per cent at end December 2016.

Figure 2.10: Maturity Structure of Banks' Deposits

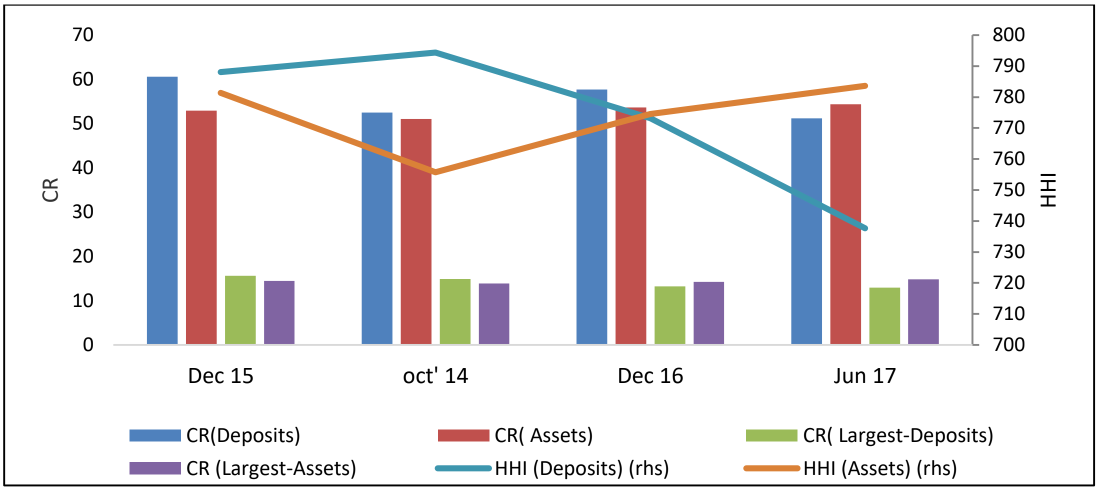


2.1.6 Market Structure of the Banking Industry

The low concentration ratios in the industry showed a trend towards more competition across the banks. The market share of the largest bank with respect to deposits and assets stood at 12.93 and 14.79 per cent, respectively, while that of the second largest bank stood at 12.88 and 11.72 per cent. Twenty-three other banks had market shares ranging from 0.02 to 9.01 per cent in deposits and 0.08 to 9.96 per cent in assets. The increased competition in the banking industry was supported by the Herfindahl-Hirschman Index (HHI)[5] for the industry, which stood at 737.66 and 783.65 for deposits and assets, respectively, at end-June 2017 compared with 773.21 and 774.50 for deposits and assets at end-December 2016.

The Concentration Ratio (CR_6) of the six largest banks with respect to deposits and assets stood at 57.05 and 60.11 per cent at end-June 2017, compared with 53.70 and 53.68 per cent at end-December 2016, respectively. This highlighted the oligopolistic market structure of the banking industry, with few banks controlling more than 50 per cent of the industry deposits and assets (Figure 2.11).

Figure 2.11: Concentration Ratios of the Banking Industry Assets and Deposits



2.2 Licensed Financial Institutions

The following financial institutions were licensed in the review period:

S/N	Institution Type	Licensed in 2017	Total at end-June 2017
1	Microfinance Banks	19	999
2	Bureaux de change	145	3,292
3	Finance Companies	3	77
4	Commercial Banks	Nil	22
5	Merchant Banks	Nil	4
6	Development Finance Institutions (DFIs)	1	6
7	Primary Mortgage Banks	Nil	34
8	Mortgage Refinancing Company	Nil	1

Of the 999 MFBs, one licensed in June 2016 has been included in the database and forms part of the total MFBs at end-June 2017.

The authorizations issued to commercial banks as at end-June 2017 were as follows:

- 10 commercial banking licences with international authorization;

[5]HHI is based on a scale of 0 to 10,000.

- Nine commercial banking licences with national authorization;
- Two commercial banking licences with regional authorization; and
- One non-interest banking licence with national authorization.

2.3 Other Financial Institutions

The total number of Other Financial Institutions (OFIs) stood at 4,409 at end-June 2017, compared with the 4,242 institutions at end-December 2016, reflecting an increase of 167 OFIs or 3.94 per cent. The new OFIs include 145 Bureaux de Change (BDCs), 19 Microfinance Banks (MFBs) and 3 Finance Companies (FCs). The total number of OFIs comprised 6 Development Finance Institutions (DFIs), 34 Primary Mortgage Banks (PMBs), 999 (MFBs), 77 FCs, 3,292 BDCs and 1 Mortgage Refinancing Company.

The provisional total assets increased by 2.04 per cent to ₦1,861.03 billion at end-June 2017, from ₦1,823.79 billion at end-December 2016, and total net loans and advances increased by 12.90 per cent to ₦1,080.66 billion at end-June 2017, from ₦957.19 billion at end-December 2016. Total deposits also increased by 15.01 per cent to ₦623.02 billion at end-June 2017 from ₦541.73 billion at end-December 2016. Similarly, the shareholders' funds increased by 0.47 per cent to ₦440.99 billion at end-June 2017, from ₦438.93 billion at end-December 2016. The improved financial performances were largely due to the ongoing regulatory reforms in the sub-sector.

2.3.1 Development Finance Institutions

Provisional data showed that the total assets of the five Development Finance Institutions (DFIs) - excluding the newly established Development Bank of Nigeria (DBN) - increased marginally by 2.08 per cent to ₦984.32 billion at end-June 2017, compared with ₦964.24 billion at end-December 2016. Bank of Industry (BOI), Federal Mortgage Bank of Nigeria (FMBN), Nigerian Export-Import Bank (NEXIM), Bank of Agriculture (BOA) and The Infrastructure Bank (TIB) accounted for 67.72, 21.26, 6.94, 3.35, and 0.73 per cent of the total asset base, respectively. These institutions also accounted for 74.51, 19.22, 6.12, 0.11 and 0.55 per cent of the net loans and advances, respectively.

Similarly, the paid-up capital of the DFIs increased by 0.73 per cent from ₦230.73 billion, at end-December 2016, to ₦232.42 billion, at end-June 2017. The net loans and advances of the institutions also increased by 18.32 per cent to ₦676.64 billion at end-June 2017 from ₦571.85 billion at end-December 2016. The shareholders' funds, however, decreased by 3.28 per cent to ₦198.61 billion at end-June 2017, from ₦205.35 billion at end-December 2016 due mainly to increased loan provisioning arising from loan defaults.

Development Bank of Nigeria

The DBN was granted licence to operate as a wholesale DFI in the first half of 2017. The bank's mandate is to provide funding to Participating Financial Institutions (PFIs) for on-lending to the Micro, Small and Medium Enterprises (MSME) sub-sector. The Federal

Government appointed a Managing Director for the bank and constituted its Board of Directors. The bank was, however, yet to commence operations.

2.3.2 Microfinance Banks

The provisional data indicated that the total assets of microfinance banks (MFBs) increased to ₦375.17 billion at end-June 2017, from ₦354.09 billion at end-December 2016, reflecting an increase of 5.95 per cent. The paid-up capital and shareholders' funds of MFBs also increased by 0.97 per cent and 14.36 per cent to ₦63.50 billion from ₦62.89 billion at end-December 2016, and ₦79.78 billion to ₦91.24 billion at end-June 2017. The increases in paid-up capital and shareholders' funds were largely attributed to additional capital injection and increase in retained earnings, respectively.

Similarly, total deposit liabilities and net loans and advances increased by 7.34 and 1.52 per cent to ₦185.11 billion and ₦193.20 billion at end-June 2017, compared with ₦172.45 billion and ₦190.31 billion at end-December 2016, respectively. Reserves increased by 64.12 per cent, to ₦27.72 billion at end-June 2017 from ₦16.89 billion at end-December 2016.

2.3.2.1 Microfinance Certification Programme (MCP)

The certification examinations administered by the Chartered Institute of Bankers of Nigeria (CIBN) were held in the review period and the results released revealed that an additional 172 candidates completed the Level II of the certification examinations, resulting in a total of 4,071candidates duly certified by the CIBN.

The Bank continued its collaboration with the CIBN and the Federal Cooperative Colleges on the review of the MCP. The Syllabus Review Sub-Committee incorporated inputs from the CBN and relevant international partners during the review period.

2.3.3 Primary Mortgage Banks

The number of licensed Primary Mortgage Banks (PMBs) as at June 30, 2017 remained 34 made up of 11 national PMBs and 23 State PMBs. However, the number of State PMBs declined from 24, with the conversion of Safetrust Mortgage Bank Limited to a national PMB during the review period.

Total loans and advances, short-term investments, non-current assets held for sale and placement with banks increased by 10.0, 7.0, 3.0 and 4.0 per cent to ₦169.83 billion, ₦9.48 billion, ₦68.03 billion and ₦37.20 billion from ₦154.46 billion, ₦8.84 billion, ₦66.36 billion and ₦35.94 billion at end-December 2016, respectively. Total assets decreased marginally by 0.82 per cent to ₦380.51 billion at end-June 2017 from ₦383.67 billion at end-December 2016. Shareholders' funds decreased to ₦127.30 billion from ₦132.18 billion at end-December 2016 reflecting a decrease of 3.69 per cent mainly due to operating losses.

Table 2.3: Selected Performance Indicators of PMBs as at June 30, 2017

	June 2017 (₦' billion)	December 2016 (₦' billion)	% Change
Total Assets	380.51	383.67	(0.82)
Loans and Advances	169.83	154.46	10
Placements with Banks	37.20	35.94	4
Deposit Liabilities	114.98	115.77	(0.67)
Other Liabilities	80.58	68.06	18
Shareholders' funds	127.30	132.18	(3.69)

2.3.4 Finance Companies

The number of finance companies (FCs) stood at 77, including two newly licensed institutions that were yet to commence operations and a company that had its license reinstated. Five institutions had earlier been delisted pending their liquidation.

The total assets of the sub-sector decreased marginally by 0.63 per cent to ₦121.02 billion at end-June 2017, compared with ₦121.79 billion at end-December 2016. The decrease in total assets was attributed to operational losses due to economic downturn. Loans and advances increased by 1.2 per cent to ₦52.99 billion at end-June 2017, from ₦52.36 billion at end-December 2016, while investments, balances with banks and fixed assets decreased by 7.2, 18.77 and 3.16 per cent to ₦14.29 billion, ₦2.12 billion and ₦13.47 billion at end-June 2017 from ₦15.40 billion, ₦2.61 billion and ₦13.91 billion at end-December 2016, respectively. The sub-sector continued to reap the benefits of the regulatory induced recapitalization exercise, as shareholders' funds increased by ₦0.27 billion to ₦21.87 billion at end-June 2017, from ₦21.60 billion at end-December 2016.

Table 2.4 Selected Performance Indicators of FCs as at June 30, 2017

	End-Jun. 2017 (₦' billion)	End-Dec. 2016 (₦' billion)	% Change
Total Assets	121.02	121.79	(0.41)
Cash in Vault	1.69	1.69	0
Balances with Banks	2.12	2.61	(18.77)
Loans and Advances	52.99	52.36	1.2
Investments	14.29	15.40	(7.2)
Fixed Assets	13.47	13.91	(3.16)
Borrowings	71.47	71.53	0
Paid up capital	19.11	19.18	(0.3)
Reserves	2.75	2.43	13.16

2.3.5 Bureaux de Change

The number of licensed BDCs increased to 3,292 at end-June 2017, from 3,147 at end-December 2016. The increase of 4.61 per cent was as a result of the licensing of 145 new BDCs during the review period.

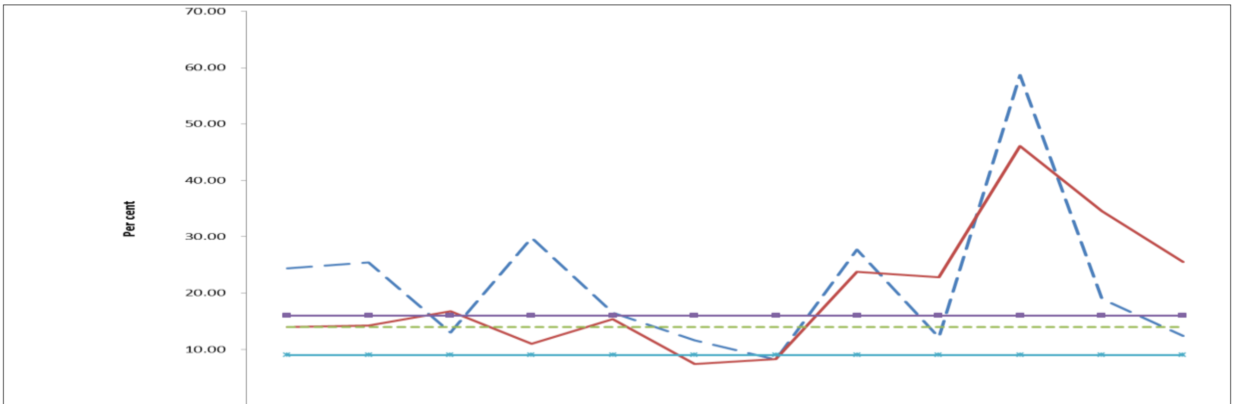
2.4 Financial Markets

2.4.1 The Money Market

The Bank maintained its contractionary monetary policy stance in the first half of 2017 in the bid to moderate inflationary pressures, attract capital inflows and strengthen the value of the domestic currency. Monetary policy measures during the first half included the retention of the MPR at 14.00 per cent and an asymmetric corridor of +200 basis points and -500 basis points around the MPR for standing lending and deposit facilities, respectively. The CRR and the liquidity ratio were also retained at 22.50 and 30.00 per cent, respectively.

To achieve the monetary policy objectives, open market operations (OMO) were conducted extensively during the period. Consequently, money market rates closed high at the end of the first half of 2017. The overnight call and open buy back (OBB) rates which opened on January 3, 2017 at 9.05 and 8.27 per cent, respectively, traded significantly above the upper bound of the MPR corridor for most of the first half of 2017. The monthly weighted average OBB and inter-bank call rates closed at 25.53 and 12.37 per cent in June 2017, compared with 7.45 and 11.62 per cent recorded in December 2016, respectively. The monthly average OBB rate ranged from 4.18 to 104.22 per cent, while the inter-bank call rate ranged from 4.43 to 20.00 per cent.

Figure 2.12: Money Market Rates (July 2016 – June 2017)



	July	August	September	October	November	December	January	February	March	April	May	June
Inter-bank Call Rates	24.38	25.40	13.00	29.81	16.55	11.62	8.22	27.68	12.14	58.73	18.94	12.37
OBB Rate	14.00	14.25	16.79	11.00	15.41	7.45	8.26	23.81	22.85	46.07	34.50	25.53
MPR	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00
SLF	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00
SDF	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00

2.4.1.1 Nigerian Treasury Bills

Nigerian Treasury Bills (NTBs) for 91-, 182- and 364-day tenors totalling ₦2,929.25 billion were issued and allotted in the first half of 2017. This represented an increase of ₦831.02 billion or 39.61 per cent compared with ₦2,098.23 billion recorded during the preceding period. The increase was attributed to the issuance of new NTBs to finance fiscal deficit. Similarly, total subscription at ₦3,966.92 billion at end-June 2017 indicated an increase of 9.57 per cent compared with ₦3,620.30 billion at end-December 2016.

The holding structure of investments in NTBs in the review period indicated that commercial and merchant banks took up ₦1,553.27 billion and ₦72.66 billion, representing 53.03 per cent and 2.43 per cent of total NTBs allotted, respectively. Mandate and Internal customers (parastatals) and CBN take-up accounted for ₦1,176.14 billion and ₦127.18 billion representing 40.20 per cent and 4.34 per cent, respectively, of total allotment.

The stock of NTBs outstanding at end-June 2017 showed that commercial banks accounted for 41.83 per cent, Mandate and Internal customers accounted for 57.52 per cent, merchant banks 0.54 per cent, while the CBN take-up accounted for 0.11 per cent. Average marginal rates ranged from 13.4000-14.0000 for the 91-day, 17.1390-17.5000 for the 182-day and 18.4495-18.9800 for the 364-day tenors.

2.4.2 The Foreign Exchange Market

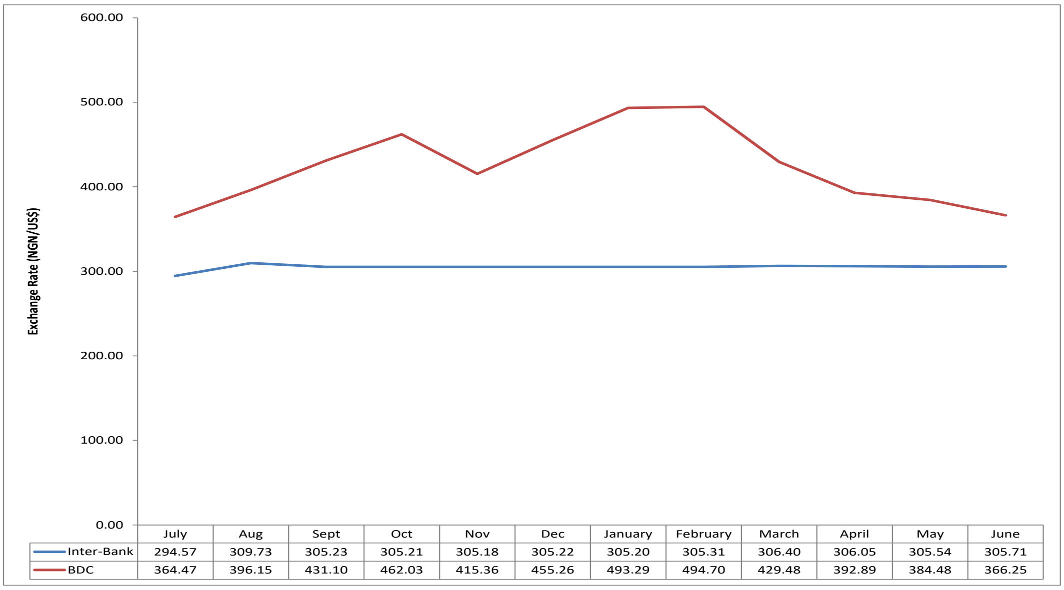
The Bank continued in its efforts to maintain a stable, liquid and transparent foreign exchange market in the first half of 2017. In this regard, it opened a special window to fund eligible small and medium scale imports of not more than US$20,000 and introduced an Investors and Exporters window for timely settlement of eligible transactions. In addition, the Bank continued to participate at the OTC Naira Settled Futures market and resumed the sale of foreign exchange to the BDC segment.

2.4.2.1 Foreign Exchange Rates

The exchange rate of the naira at the inter-bank segment opened at ₦305.00/US$ on January 3, 2017 and closed at ₦305.90/US$ on June 30, 2017, representing a depreciation of 0.29 per cent. At the BDC segment, the rate opened at ₦490.00/US$ on January 3, 2017 and closed at ₦366.00/US$ at end-June 2017, representing an appreciation of 25.31 per cent.

The average exchange rates at the inter-bank market depreciated marginally by 0.16 per cent, compared to its level at end-December 2016, while it appreciated by 19.55 per cent at the BDC segment from ₦305.22/US$ and ₦455.26/US$ as at end-December 2016, to close at ₦305.71/US$ and ₦366.25/US$ at end-June 2017, respectively (Figure 2.13).

Figure 2.13: Inter-bank and BDC Rates (July 2016 - June 2017)



2.4.2.2 Foreign Exchange Spot, Forwards and OTC FX Futures Transactions

In the first half of 2017, the Bank intervened in the inter-bank segment of the market with the sum of US$7,642.61 million, comprisingUS$1,893.75 million at the spot market and US$5,748.86 million forwards.

The notional amount of naira-settled OTC FX Futures contracts amounted to US$1,830.45 million, while the sum of US$2,771.24 million matured and US$2,714.41 million remained outstanding.

2.4.3 Capital Market

The Nigerian Stock Exchange All Share Index (NSEASI) and Market Capitalization (MC) increased due to improved confidence in the market and gradual economic recovery.

2.4.3.1 Bond Market

Total bonds outstanding at end-June 2017 was ₦7,792.13 billion, of which FGN, sub-national, and corporate bonds were ₦7,037.51 billion (90.32 per cent), ₦379.09 billion (4.87 per cent) and ₦375.54 billion (4.81 per cent), respectively. This reflected a 2.96 per cent increase over the end-December 2016 figure of ₦7,567.84 billion.

Table 2.5: Bonds Outstanding (₦ Billion)

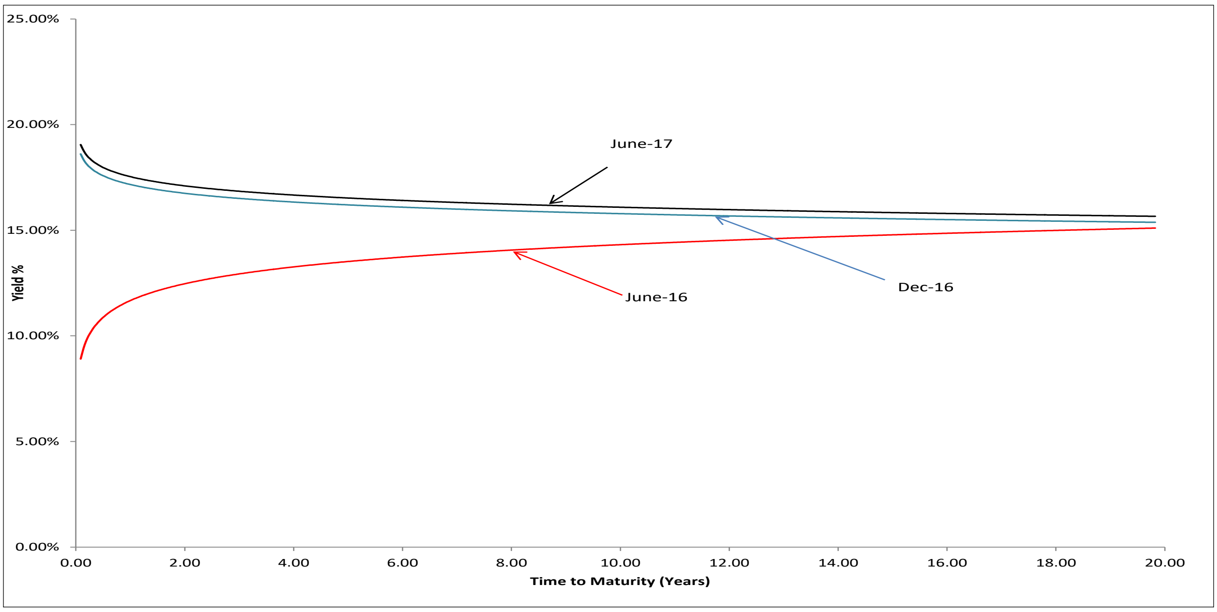
Issuer	Dec-16	Jun-17	% Change	% of Total
FGN	6,663.36	7,037.51	5.62	90.32
Sub-National	433.24	379.09	(12.50)	4.87
Agency	0.30	-	-	-
Corporate	470.94	375.54	(20.26)	4.81
Total	**7,567.84**	**7,792.14**	**2.96**	**100.00**

Source: FMDQ OTC

FGN Bonds

In the first half of 2017, new issues of ₦186.04 billion and re-openings of ₦785 billion were auctioned. The re-openings represented an increase of 21.70 per cent over the ₦645 billion re-opened in the second half of 2016. The increase was to bridge the infrastructure financing gap in the economy. Public subscriptions and sales increased to ₦1,237.94 billion and ₦849.53 billion in the first half of 2017, compared with ₦941.90 billion and ₦499.20 billion in the second half of 2016, respectively. The over-subscription was traceable to investors' preference for fixed income assets buoyed by the higher yields on FGN bonds in the review period (Figure 2.14).

Figure 2.14: FGN Bond Yield Curves



Source: *FMDQ-OTC Plc*

Agency Bonds

There was no new issue of agency bonds during the review period. However, the Federal Mortgage Bank of Nigeria (FMBN) bonds with an issuance value of ₦6.00 billion matured during the first half of 2017.

Sub-National Bonds

There was no new issue of sub-national bonds in the first half of 2017, same as in the second half of 2016. However, a total of ₦68.33 billion was redeemed by 2 states, while the value of bonds outstanding issued by 15 state governments stood at ₦379.09 billion.

Corporate Bonds

One corporate bond with an outstanding value of ₦4.50 billion was issued in the review period, compared with one bond with an outstanding value of ₦7.97 billion issued in the second half of 2016. The outstanding value of corporate bonds issued by 23 corporate entities at end-June 2017 stood at ₦375.54 billion.

2.4.3.2 The Equities Market

At end-June 2017, the NSE ASI closed at 33,117.48, reflecting an increase of 23.23 per cent above the 26,874.62 recorded at end-December 2016. Market capitalization also closed higher at ₦11,452.12 billion, reflecting an increase of 23.84 per cent above the ₦9,246.92 billion recorded at the end of the preceding period.

Foreign portfolio investment (FPI) on the NSE showed investments (inflows) of ₦215.97 billion, and divestments (outflows)of ₦214.26 billion, reflecting a net investment of ₦1.71 billion in the first half of 2017, compared with a net FPI inflow of ₦22.12 billion in the second half of 2016.

Overall, FPI transactions (inflow and outflow) accounted for 46.00 per cent of total equity transactions in the period, compared with 47.13 per cent at end-December 2016. Domestic transactions accounted for the balance of 52.87 per cent.

Table 2.6: Participation in Equity Trading

Period	Total Transactions (₦ billion)	Foreign Transactions (₦ billion)	% Foreign Transactions	Domestic Transactions (₦ billion)	% Domestic Transactions	Foreign Inflow (₦ billion)	Foreign Outflow (₦ billion)	NSE ASI	Market Capitalization (₦ billion)
Jun-17	935.26	430.23	46.00	505.03	54.00	215.97	214.26	33,117.48	11,452.12
Jun-16	624.41	269.21	43.11	355.19	56.89	121.29	147.92	29,597.79	10,165.34
Dec-16	526.97	248.34	47.13	278.63	52.87	135.23	113.11	28,642.25	9,850.61

2.5 Financial Inclusion

2.5.1 EFInA 2016 Access to Financial Services Survey

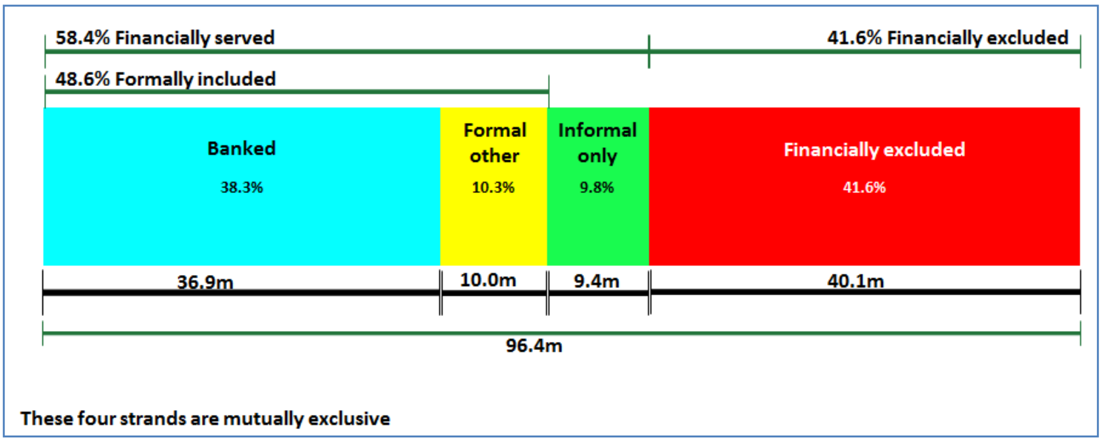
The EFInA 2016 Access to Financial Services Survey report, released in the first half of 2017, showed an increase in the national exclusion rate from 39.5 per cent in 2014 to 41.6 per cent in 2016. The exclusion rate increased in the North West from 56 per cent in 2014 to 70 per cent in 2016 and in the North Central from 33 per cent in 2014 to 39 per cent in 2016. These regions accounted for the high exclusion rate followed by the South-South and South-East zones respectively.

The major factors that contributed to the increase in the exclusion rate included:

- Declining oil revenues, that led to a reduction in the Federal Government income which culminated in a recession in the first half of 2016;
- Fall in household consumption year-on-year index by 1.05 per cent in the first quarter of 2016 and by 6.00 per cent in the second quarter of 2016; and
- Rise in unemployment rate to 13.3 per cent in the second half of 2016 from 8.2 per cent in the same period of 2015.

Other reasons include loss of income and sustained inflationary pressure which made it impossible for them to operate their various bank accounts.

Table 2.7: Access to Financial Services



Source: EFInA Access to Finance Survey 2016

2.5.2 Pre-disbursement Training for Persons with Disabilities

The Financial Inclusion Secretariat, during the period under review, held the first batch Pre-disbursement training for Persons with Disabilities (PWDs) in 12 states of the Federation. This was in preparation for the disbursement of the 2.0 per cent Micro, Small and Medium Enterprises Development Fund (MSMEDF) set aside for PWDs. The training was in line with the goal of empowering at least 150 PWDs per state, with a total of 1,929 PWDs trained at the end of the review period.

2.6 Real Sector Intervention Programmes

2.6.1 Risk Mitigation and Insurance Schemes

2.6.1.1 The Agricultural Credit Guarantee Scheme Fund

A total of 21,073 loans valued at ₦3.03 billion were guaranteed in the first half of 2017 for two commercial and 36 microfinance banks as against 34,774 loans valued ₦4.47 billion for three commercial and 37 microfinance banks in the second half of 2016. This indicated a decrease of 39.40 and 32.21 per cent in the number and value of loans guaranteed. The sum of ₦2.94 billion involving 18,600 projects was repaid compared with ₦5.55 billion for 34,083 projects in the corresponding period of 2016. This performance reflected a decrease of 47.03 and 45.43 per cent in the value and number of loans repaid, respectively. Cumulatively, 1.08 million loans valued ₦107.04 billion had been guaranteed from inception to end-June 2017.

2.6.1.2 National Collateral Registry

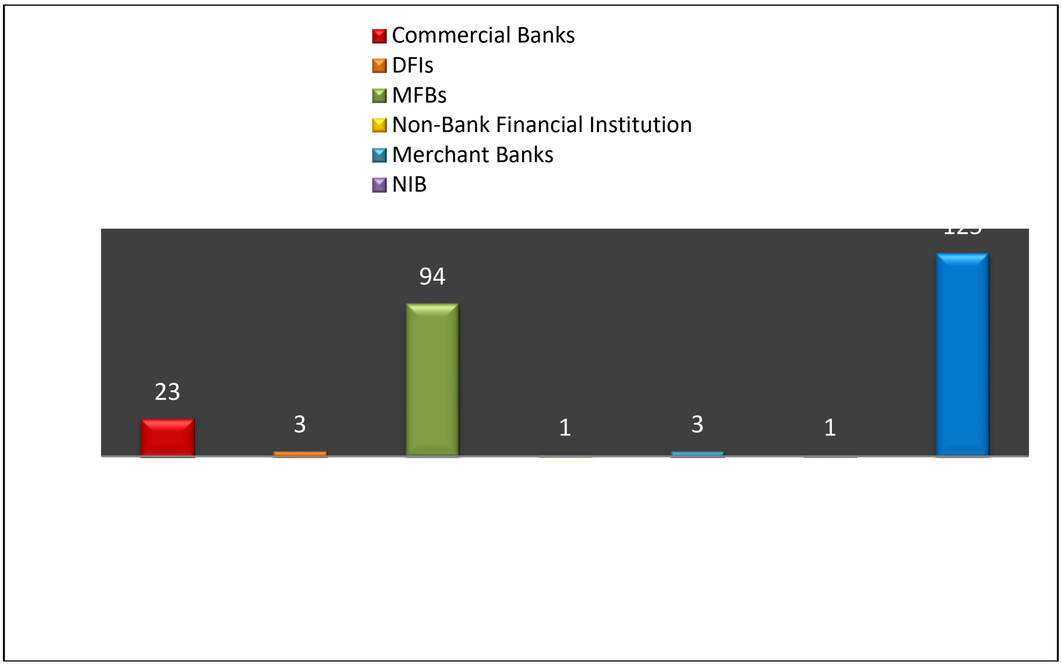
The legal framework for the National Collateral Registry (NCR) was completed with the enactment of the Secured Transactions in Movable Assets Act 2017 on May 30, 2017. The Act provides for secured transactions, registration and regulation of security interest in movable assets. It also allows banks, other financial institutions and the public to participate actively by the registration of their financing statements and conducting searches on the registry portal.

The NCR carried out the following activities during the review period:

i. Registry Operations

A total of 125 financial institutions comprising 23 commercial banks, 94 MFBs, three merchant banks, three DFIs, one NIB and one non-bank financial institution were registered on the NCR portal in the period under review.

Figure 2.15: Distribution of Financial Institutions Registered on the National Collateral Registry at end-June 2017



ii. Registration of Financing Statements

During the review period, 13,900 financing statements detailing priority interest in movable assets valued at ₦363.99billion and US$5.69 billion were registered by five financial institutions. This indicated an increase of 12,438 in number and ₦339.85 billion in value respectively when compared to the 1,462 financing statements detailing priority interest in movable assets valued at ₦24.14 billion, that were registered by five financial institutions in the second half of 2016.

2.6.2 Credit Support Schemes

2.6.2.1 Commercial Agriculture Credit Scheme

The sum of ₦79.56 billion was disbursed to 11 banks for 23 projects in the first half of 2017 compared with₦35.99 billion disbursed to 13banks for 39 projects in the preceding period. This reflected an increase of ₦43.57 billion and a decrease of 16 projects. The total repayments during the first half of 2017 stood at ₦19.78 billion through 17 banks for 185 projects, bringing the repayments to ₦244.79 billion from inception. The amount disbursed under the scheme from inception to end-June 2017 totalled ₦472.98 billion for 513 projects.

2.6.2.2 Small and Medium Enterprises Restructuring and Refinancing Facility

The total disbursements to the participating banks at end-June 2017 remained at ₦381.99 billion for 604 projects. The total repayment under the Facility in the review period was ₦6.73 billion, while the total repayment from Bank of Industry (BoI) from inception was ₦186.54 billion.

2.6.2.3 Small and Medium Enterprises Credit Guarantee Scheme

In the first half of 2017, no application was received under the Small and Medium Enterprises Credit Guarantee Scheme (SMECGS). Cumulatively, 88 projects valued at ₦4.25 billion guaranteed under the scheme were fully repaid.

2.6.2.4 Real Sector Support Facility

During the period under review, the sum of ₦22.73 billion was released to seven projects. Cumulatively, 10 projects valued at ₦30.58 billion had been financed under the initiative from inception to end-June 2017.

2.6.2.5 Textile Sector Intervention Fund

The Bank earmarked the sum of ₦50 billion for restructuring of existing loans and provision of new facilities under the Textiles Industry Intervention Fund. During the period under review, 17 projects valued ₦10.29 billion were disbursed, bringing the number of projects to 31 valued ₦26.39 billion from inception in February 2016.

2.6.2.6 Agri-Business Small and Medium Enterprises Investment Scheme

In an effort to support the Federal Government policy measures for the promotion of agri-business and SMEs as vehicles for sustainable economic development and employment generation, the Bankers' Committee established the Agri-Business Small and Medium Enterprises Investment Scheme (AGSMEIS) in February 2017.The scheme would be funded from an annual payment of 5.0 per cent of profit after tax by banks. The total contribution to the fund stood at ₦26.87 billion at end-June 2017.

2.6.2.7 Micro, Small and Medium Enterprises Development Fund

During the review period, the following activities were carried out by the CBN under the Micro, Small and Medium Enterprises Development Fund (MSMEDF):

i. MSMEDF Disbursements to SME and Micro Enterprises

The sum of ₦1.59 billion was disbursed in the first half of 2017, compared with ₦15.15 billion in the second half of 2016. The disbursement from inception stood at ₦77.06 billion. A total of 113,077 female and 78,411 male micro-enterprise owners as well as 410 SMEs (Commercial Bank Projects) had benefited from the Fund since inception in 2013.

ii. Anchor Borrowers' Programme

The sum of ₦12.58 billion was disbursed to 56,430 farmers in 17 states in the first half of 2017 compared to N12.09 billion to 49,658 farmers in 16 states in the preceding half of 2016. The cumulative disbursement at end-June 2017 stood at ₦31.52 billion.

2.6.2.8 Power and Aviation Intervention Fund

The sum of ₦4.79 billion was disbursed to two power projects in the first half of 2017. Cumulative disbursement from inception stood at ₦277.40 billion for 59 projects, comprising 43 power and 16 airline projects. The sum of ₦13.01 billion was repaid by 27 obligors bringing the cumulative repayment to₦106.13 billion at end-June 2017.The construction of 120-kilometre natural gas pipeline and the generation of over 2,000 mega-watts of electricity were achieved under the scheme at end-June 2017.

Table 2.8: Disbursement and Repayments under PAIF Scheme at end-June 2017

S/N	Type	No. of Obligors	No. of projects	Amount Disbursed(₦' Billion)	Percentage of Amount Disbursed (%)	Repayments (₦' Billion)
1	Airline	10	16	120.76	43.53	55.84
2	Power	29	43	156.64	56.47	50.29
	Total	**39**	**59**	**277.40**	**100.0**	**106.13**

2.6.2.9 Nigeria Electricity Market Stabilization Facility

The sum of ₦4.48 billion was repaid by eight distribution companies (Discos), bringing the cumulative repayments to ₦10.73 billion, while total disbursement of funds from inception stood at ₦114.74 billion to 29 eligible electricity market participants.

Table 2.9: NEMSF Repayments at end-June 2017

Obligor (Discos)	**Repayment Obligation (₦' Billion)**	**Repayment to Date (₦' Billion)**	**Amount Outstanding (₦' Billion)**
Benin	17.31	1.39	15.92
Eko	5.85	0.61	5.24
Enugu	26.64	2.60	24.04
Ibadan	21.32	2.12	19.20
Ikeja	5.99	0.48	5.51
Jos	11.69	0.95	10.74
Kano	9.67	0.99	8.68
Port Harcourt	16.27	1.59	14.68
Total	**114.74**	**10.73**	**104.01**

Note: *Only Discos are required to make repayments for the legacy debts settled under NEMSF*

2.6.2.8 Entrepreneurship Development Centres

The number of participants trained by the Entrepreneurship Development Centres (EDCs) during the review period was 6,806, surpassing the target of 6,600. A total of 3,691 (54.23%) of the participants were female and 3,115 (45.77%) were male. Cumulatively, the sum of ₦2.5 billion had been accessed through banks and other financial institutions by the graduates since inception, while a total of 43,350 participants have been trained.

2.6.2.9 Youth Entrepreneurship Development Programme

The sum of ₦85.75 million was disbursed to 32 entrepreneurs under the Youth Entrepreneurship Development Programme (YEDP) during the period under review. A total sum of ₦691.02 million was refunded to the CBN due to operational issues relating to disbursements.

2.6.2.10 National Food Security Programme

The sum of ₦101.20 billion was approved for four major companies to enable them to increase local production of grains and enhance the nation's strategic reserves. The sum of ₦24.91 billion was released for nine projects under the Programme. The commodities financed included rice, maize, sorghum, cassava, soya bean, sugar and millet.

3.0 REGULATORY AND SUPERVISORY ACTIVITIES

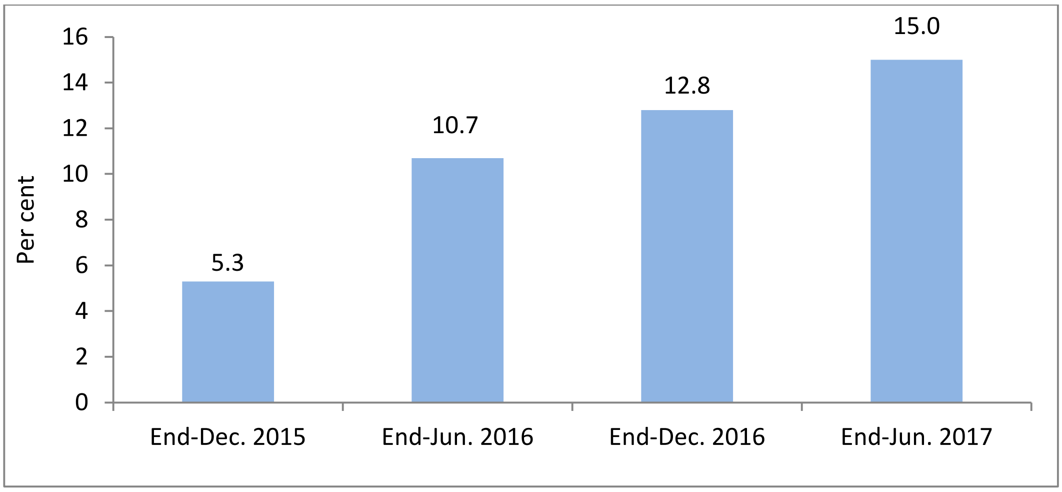
3.1 Financial Soundness Indicators

The soundness of the banking industry was appraised using assets, capital, and income/expense-based indicators.

3.1.1 Assets-Based Indicators

The asset quality of commercial banks declined in the first half of 2017. The ratio of non-performing loans (NPLs) to gross loans increased by 2.2 and 4.3 percentage points to 15.0 per cent at end-June 2017 compared with the levels at end-December 2016 and end-June 2016, respectively.

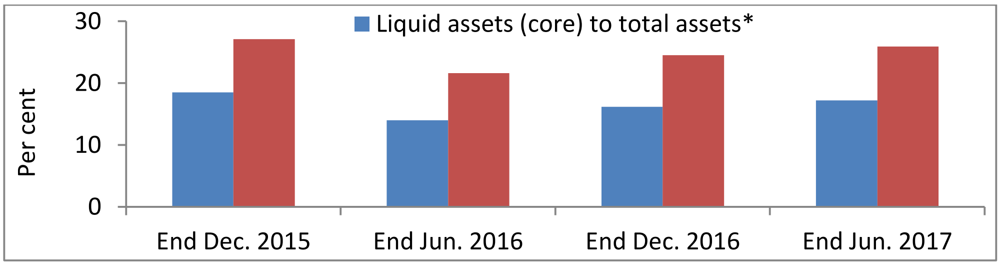
Figure 3.1: Banking Industry NPLs to Gross Loans



3.1.1.1 Core Liquid Assets to Total Assets

The ratio of core liquid assets to total assets increased by 1.0 percentage point to 17.2 per cent at end-June 2017, from 16.2 per cent recorded at end-December 2016. Similarly, the ratio of core liquid assets to short-term liabilities increased by 1.4 percentage points to 25.9 per cent at end-June 2017, compared with 24.5 per cent at end-December 2016. The increase reflected improved liquidity buffers to meet short-term obligations.

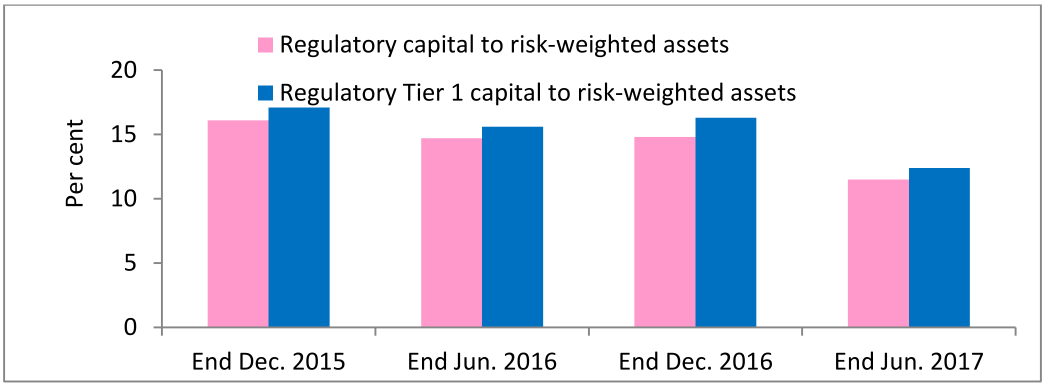
Figure 3.2: Banking Industry Liquidity Indicators



3.1.2 Capital-Based Indicators

The ratio of regulatory capital to risk weighted assets decreased by 3.3 percentage points to 11.5 per cent at end-June 2017, compared with14.8 per cent at end-December 2016. The ratio of tier 1 capital to risk-weighted assets declined by 3.9 percentage points to 12.4 per cent at end-June 2017 from 16.3 per cent at end-December 2016.

Figure 3.3: Banking Industry Capital Adequacy Indicators



The ratio of non-performing loans net of provision to capital for the industry increased to 31.8 per cent at end-June 2017 from 29.0 per cent at end-December 2016.

3.1.3 Income and Expense Based Indicators

Return on assets (ROA) increased by 1.3 percentage points to 2.6 per cent at end-June 2017 from 1.3 per cent recorded at end-December 2016, while the ratio of non-interest expenses to gross income declined to 52 per cent at end-June 2017 from 62.8 per cent recorded in the second half of 2016. The ratio of interest margin to gross income deteriorated to 57.8 per cent during the review period from 67.6 per cent at end-December 2016. Furthermore, the ratio of staff costs to non-interest expenses declined to 34.5 per cent at end-June 2017 from 36.1 per cent recorded at end-December 2016.

Table 3.1: Selected Financial Soundness Indicators*

Indicator	2013		2014		2015		2016		2017
	End-Jun	End-Dec	End-Jun	End-Dec	End-Jun	End-Dec	End-Jun	End-Dec	End-Jun
1. Asset Based Indicators									
Nonperforming loans to total gross loan	3.9	3.4	3.5	2.9	5.0	5.3	10.7	12.8	15.0
Liquid assets (core) to total assets	13.7	16.8	11.7	11.4	16.3	18.5	14.0	16.2	17.2
Liquid assets (core) to short term liabilities	19.0	23.1	16.6	16.7	25.0	27.1	21.6	24.5	25.9
2. Capital Based Indicators									
Regulatory capital to risk-weighted assets	18.9	17.1	16.4	17.2	17.6	16.1	14.7	14.8	11.5
Regulatory Tier 1 capital to risk-weighted assets	18.5	17.1	16.1	15.5	17.4	17.1	15.6	16.3	12.4
Nonperforming loans net of provisions to capital	5.9	5.8	5.6	4.1	7.4	5.9	23.6	29.0	31.8
3. Income and Expense Based Indicators									
Return on asset	2.9	2.3	2.5	2.5	2.8	2.5	2.3	1.3	2.6
Interest income to gross income	65.2	63.9	62.7	51.2	65	62.2	61.4	67.6	57.8
Noninterest expenses to gross income	62.7	68.1	65.5	56.9	64.7	63.1	54.6	62.8	52.0
Staff costs to noninterest expenses	39.5	36.9	38.5	36.6	40.1	35.0	41.2	36.1	34.5

Note: FSIs are computed based on IMF guidelines.

3.2 The Banking Industry Stress Test

3.2.1 Solvency Stress Test

The end-June 2017 banking industry stress test which covered 20 commercial and four merchant banks was conducted to evaluate the resilience of the banks to credit, liquidity, interest rate and contagion risks (shocks). The industry was categorized into large (assets ≥₦1 trillion), medium (assets >₦500 billion but <₦1 trillion) and small banks (assets ≤₦500 billion).

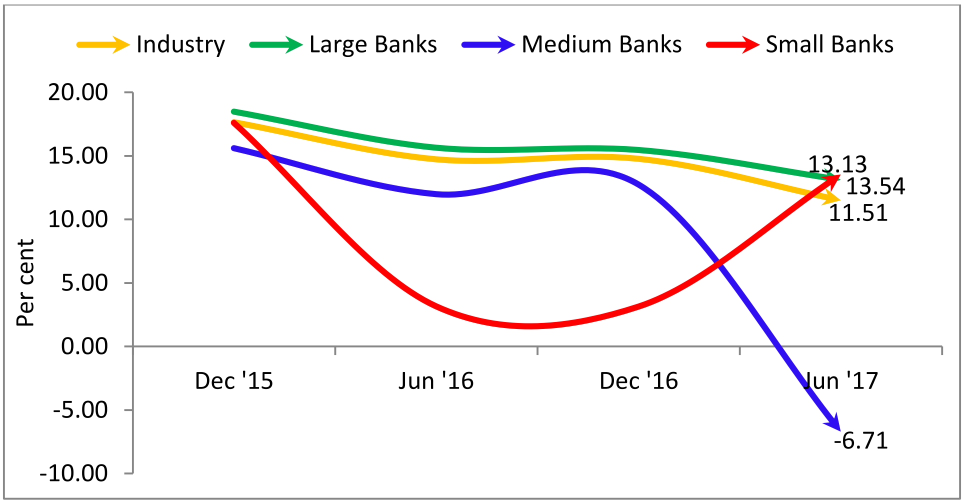
3.2.1.1 Baseline Position

The average baseline capital adequacy ratios (CARs) for the banking industry, large, medium and small banks at end-June 2017 stood at 11.51, 13.13, -6.71 and 13.54 per cent, respectively. These represented a decline of 3.27, 2.34 and 19.46percentage points for the industry, large and medium banks, respectively from the position at end-December 2016. However, the small banks group grew by 10.40 percentage points from 3.14 to 13.54 per cent (Table 3.2, Figure 3.4).

Table 3.2: Baseline CAR

	Banks			
	Industry	Large	Medium	Small
June 2017	11.51	13.13	-6.71	13.54
December 2016	14.78	15.47	12.75	3.14
Percentage Point Change	-3.27	-2.34	-19.46	10.40

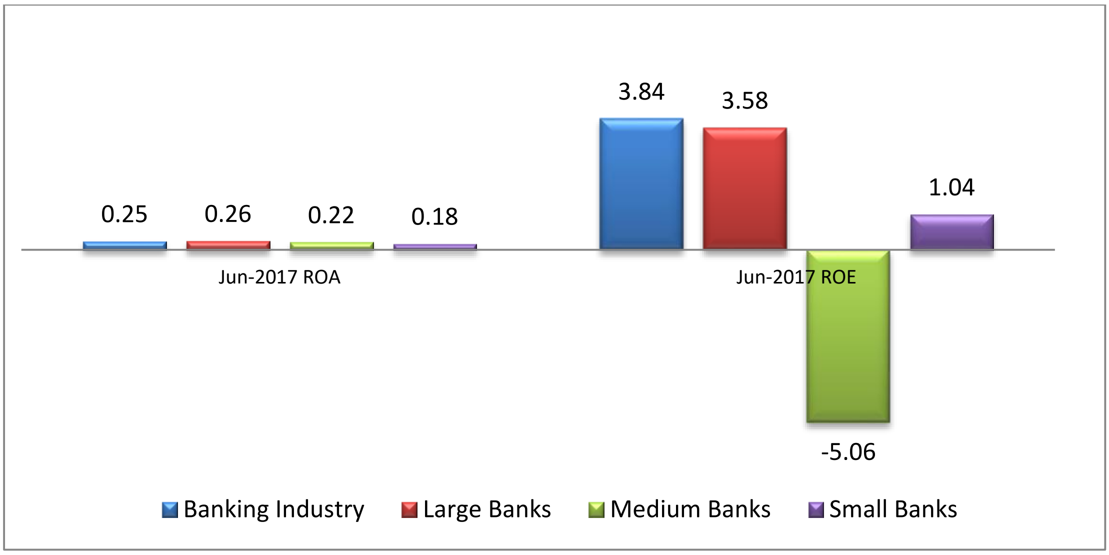
Figure 3. 4: Capital Adequacy Ratio



The decline in CARs was attributable to the challenges in the oil and gas sector coupled with the slow recovery in the domestic economy which resulted to a rise in NPLs and capital deterioration.

The pre-shock ROA of the banking industry, large, medium and small banks were0.25, 0.26, 0.22 and 0.18 per cent, respectively, while the ROE of the banking industry, large, medium and small banks were 3.84, 3.53, -5.06 and 1.04 per cent in June 2017 (Figure 3.5).

Figure 3.5: Baseline (Pre-shock) ROA and ROE (%)



3.2.1.2 Credit Risk

The stress test showed that only large banks could withstand a further deterioration of their NPLs by up to 50 per cent. However, none of the groups withstood the impact of the most severe shock of a 200 per cent increase in NPLs as their post-shock CARs fell below the 10 per cent minimum prudential requirement. The impact of the severe shocks on the banking industry, large, medium and small banks will result in significant solvency shortfall of 15.21, 9.78, 93.42 and 17.53 percentage points from the regulatory minimum of 10 per cent CAR, amounting to ₦2.77 trillion, ₦1.54 trillion, ₦0.98 trillion and ₦0.25 trillion, respectively.

Table 3.3: Credit Default Shocks

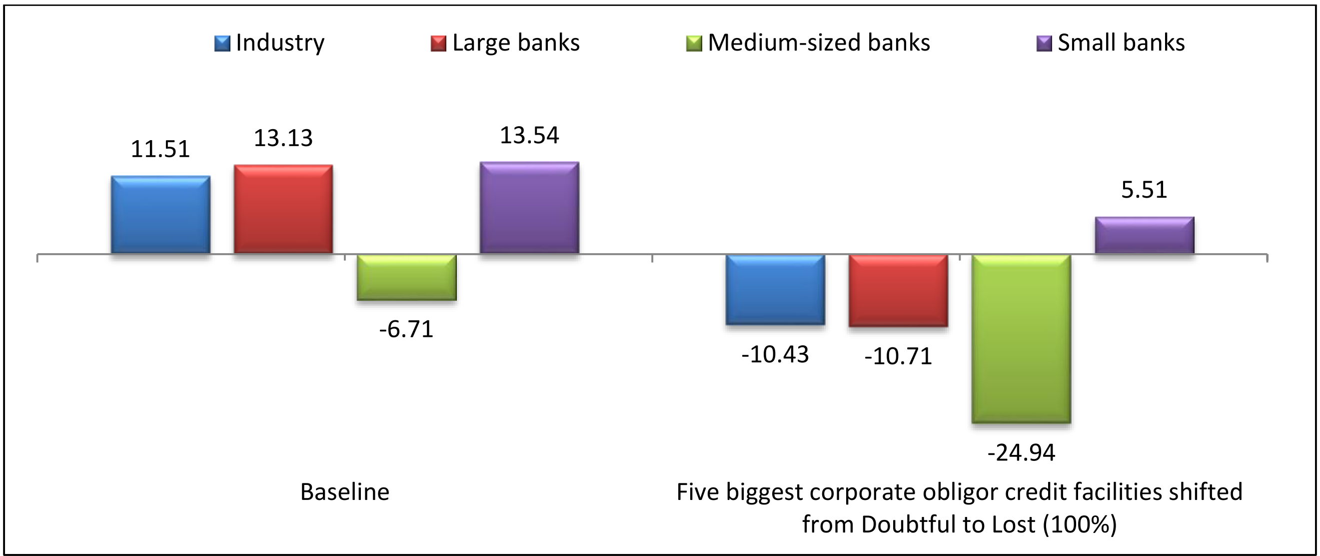
Single Factor Shocks	Solvency Ratio After Shocks			
	Banks			
	Industry	Large	Medium	Small
Baseline CAR	11.51	13.13	-6.71	13.54
50% NPLs increase	7.85	10.22	-19.17	9.09
100% NPLs increase	3.87	7.12	-34.92	4.15
200% NPLs increase	-5.21	0.22	-83.42	-7.53

The credit concentration stress test showed that the banking industry and the three other categories exhibited high levels of credit concentration as their respective CARs fell below 10 per cent regulatory threshold under scenarios 2 and 3 in Table 3.4. Under scenario 3, the CARs of the banking industry, large, medium and small banks deteriorated to -10.43, -10.71, -24.94 and 5.51 per cent, from the pre-shock positions, respectively.

Table 3.4: Credit Concentration Risk

	Banks			
	Industry	**Large**	**Medium**	**Small**
Baseline CAR	11.51	13.13	-6.71	13.54
Single Factor Credit Concentration Shocks	**Solvency Ratio Post-Shocks**			
Scenario 1 Five biggest corporate obligors' credit facilities shifted from pass-through to sub-standard (10%)	7.85	9.22	-9.92	12.05
Scenario 2 Five biggest corporate obligor credit facilities shifted from sub-standard to doubtful (50%)	1.75	2.65	-15.11	9.70
Scenario 3 Five biggest corporate obligor credit facilities shifted from doubtful to lost (100%)	-10.43	-10.71	-24.94	5.51

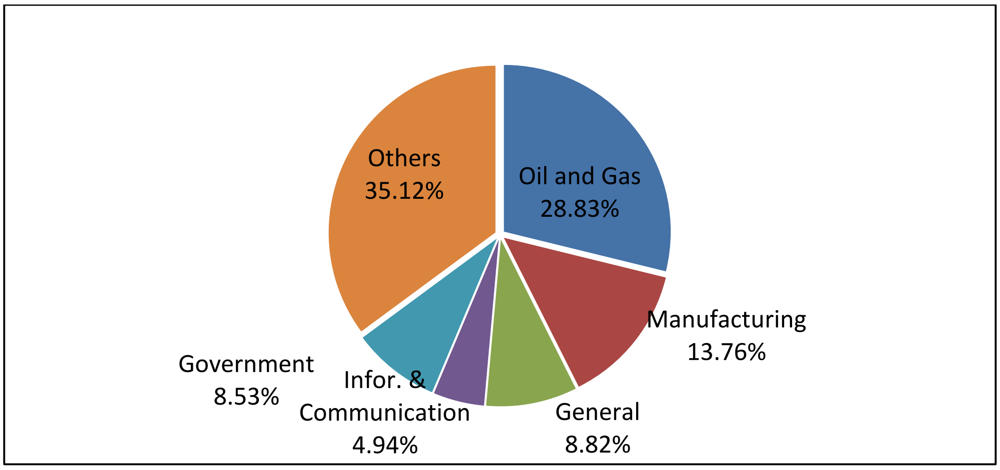
Figure 3.6: Credit Concentration Risk



3.2.1.3 Sectoral Credit Concentration Risk

The breakdown of banking industry total credit by sector showed that, oil and gas sector accounted for 28.83 per cent of industry credit while manufacturing, general, information and communications, government and others accounted for 13.76, 8.82, 4.94, 8.53 and 35.12 per cent, respectively, at end-December 2016.

Figure 3.7: Sectoral Concentration of Credit



The results of the stress test of default in exposure to oil and gas sector showed that the banking industry and peered groups, with the exception of medium banks, withstood up to 20.00 per cent default as their post-shock CARs remained above 10.00 per cent –industry (10.74%), large banks (12.30%) and small banks (13.34%). Under a more severe shock of 50 per cent default, only small banks had CARs above 10.00 per cent (12.30%). This showed that banking industry, large and medium banks were more exposed to the credit risk in the oil and gas sector than the small banks (Table 3.5).

Table 3.5: Oil & Gas Sector Default Stress Test

	Banks			
	Industry (%)	**Large (%)**	**Medium (%)**	**Small (%)**
Baseline CARs	11.51	13.13	-6.71	13.54
20% Default on total exposure to Oil & Gas	10.74	12.30	-7.43	13.34
50% Default on total exposure to Oil and Gas	6.49	7.70	-11.41	12.30

3.2.1.4 Interest Rate Risk

The results of the stress tests on the net position of interest sensitive instruments showed that the banking industry and other categories (except medium banks) maintained a stable solvency position to interest rate shock (at 10% downward shift in yield curve) as their post-shock positions (in terms of capital impairment) only deteriorated marginally. However, the interest rate shocks had significant adverse impact on the ROA and ROE of all categories (Figure 3.10).

Figure 3.8: Impact of Interest Rate Shocks on CAR

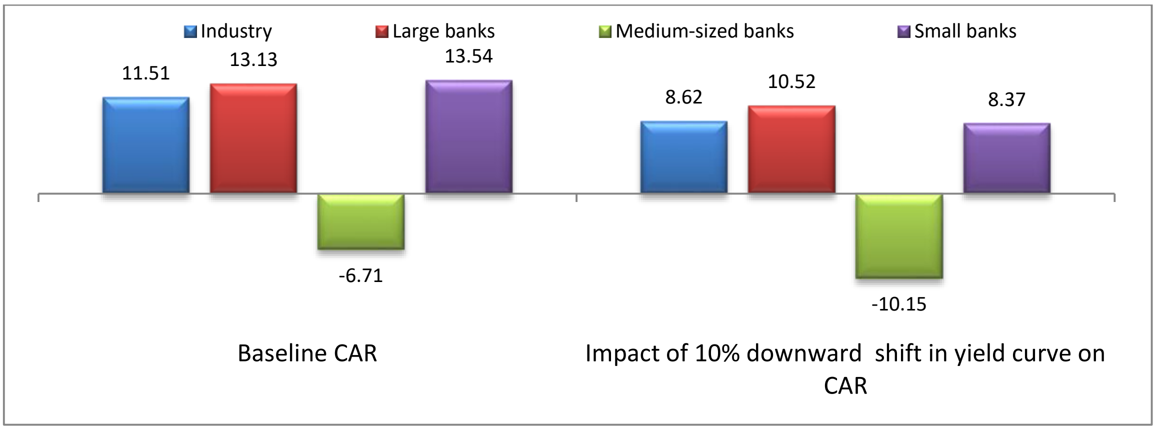


Figure 3.9: Impact of Interest Rate Shocks on ROE and ROA

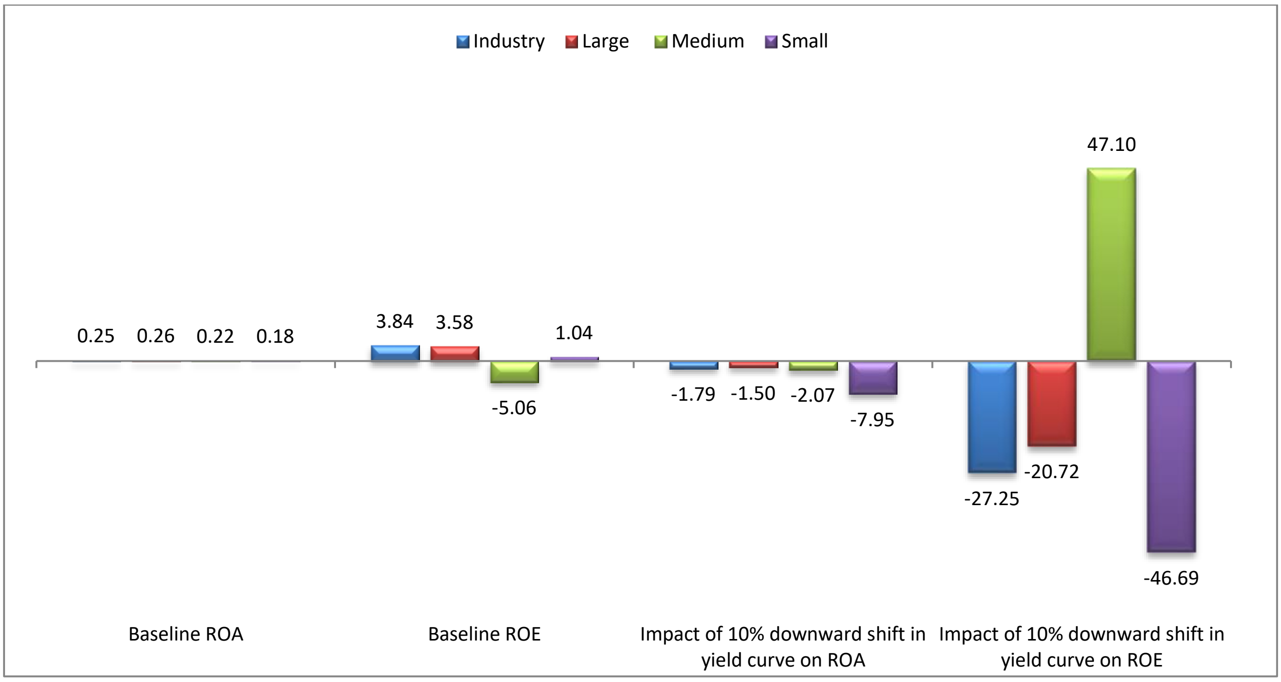


Table 3.6: Impact of Selected Shocks on CAR, ROA and ROE

	Banks			
	Industry (%)	Large (%)	Medium (%)	Small (%)
Baseline ROA	0.25	0.26	0.22	0.18
Baseline ROE	3.84	3.58	-5.06	1.04
Impact of Downward Shift in Yield Curve Shocks on CAR				
5% downward shift in yield curve	10.06	11.82	-8.43	10.96
10% downward shift in yield curve	8.62	10.52	-10.15	8.37
Impact of Downward Shift in Yield Curve Shocks on ROA				
5% downward shift in yield curve	-0.77	-0.62	-0.92	-3.88
10% downward shift in yield curve	-1.79	-1.50	-2.07	-7.95
Impact of Downward Shift in Yield Curve Shocks on ROE				
5% downward shift in yield curve	-11.70	-8.57	21.02	-22.83
10% downward shift in yield curve	-27.25	-20.72	47.10	-46.69

3.2.2 Liquidity Stress Test

Liquidity stress test was conducted at end-June 2017, using the Implied Cash Flow Analysis (ICFA) and Maturity Mismatch/Rollover Risk approaches to assess the resilience of the banking industry to liquidity shocks.

The result showed that after a one-day run, the liquidity ratio of the industry declined to 31.5 per cent from the 48.1 per cent pre-shock position, and to 11.8 and 7.9 per cent after a 5-day and cumulative 30-day run, respectively. A 5-day and cumulative 30-day run on the banking industry resulted in a liquidity shortfall of ₦2.01 trillion and ₦2.38 trillion, respectively. The result indicated that the industry was significantly vulnerable to liquidity especially risk after a cumulative 30-day run.

Figure 3.10: Impact of Runs on Banking Sector Liquidity Ratio

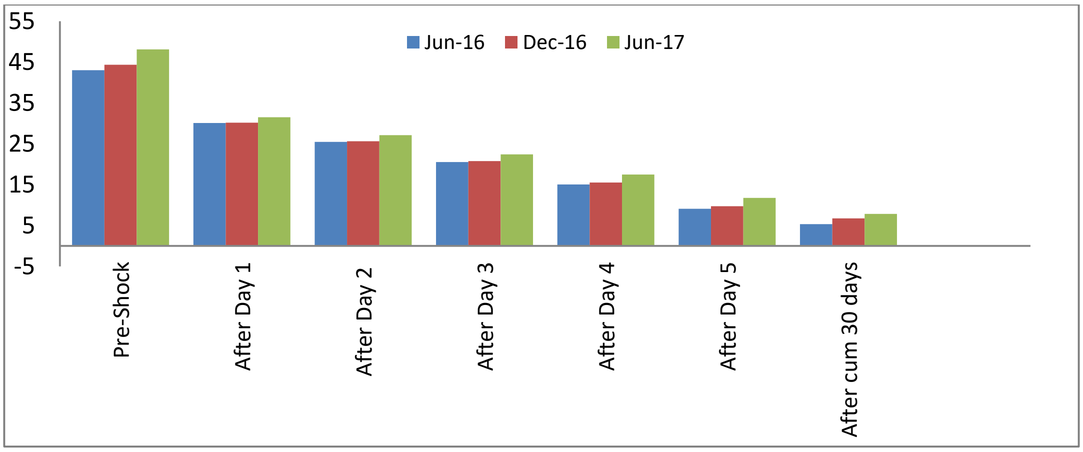


Table 3.7: Liquidity Stress Test Results

Scenarios	Number of Banks with Liquidity Ratios (LR) < 30% (Post –Shock)		June 2017	
	December 2016	June 2017	Post–Shock System LR (%)	Shortfall to 30% LR threshold (₦' billion)
Day 1	12	12	31.5	29.62
Day 2	16	14	27.1	570.71
Day 3	16	16	22.4	1,071.85
Day 4	17	17	17.5	1,535.66
Day 5	19	17	11.8	2,009.93
Implied Cash Flow Test (30 Days)	18	17	7.9	2,388.00

3.2.3 Maturity Mismatch

At end-June 2017, the industry pre-shock assets and liabilities maturity position indicated that the shorter end of the market (≤30 day and 31-90 day buckets) was adequately funded. The cumulative position for the industry showed an excess of ₦6.2 trillion assets over liabilities (Table 3.8).

Table 3.8: Maturity Profile of Assets and Liabilities at end-June2017

	Liabilities	Assets	Mismatch	Cumulative
	₦' billion			
≤30 days	14,095.99	9,536.65	4,559.34	4,559.33
31-90 days	2,458.79	1,629.18	829.61	5,388.95
91-180 days	924.27	1,715.87	(791.6-)	4,597.35
181-365 days	854.77	1,899.52	(1,044.75)	3,552.60
1-3 years	515.03	3,194.26	(2,679.23)	873.37
Above 3 years	728.33	7,845.40	(7,117.07)	(6,243.70)
Total	**19,577.18**	**25,820.88**	**(6,243.70)**	

Table 3.9: Test Results for System-wide Maturity Mismatch

	Test 2A Descriptive Maturity Mismatch		**Test 2B Static Rollover Risk Analysis**		**Test 2C Dynamic Rollover Risk Test**	
	₦' billion	**No of banks with mismatch**	**₦' billion**	**No of banks with mismatch**	**₦' billion**	**No of banks with mismatch**
≤30 days	7,050.43	4	4,231.23	6	(113.93)	6
31-90 days	3,311.04	6	141.15	18		6
91-180days	1,688.68	9	(976.45)	21	(298.73)	8
181-365days	1,436.68	10	(1,301.18)	23	(554.46)	9
1-3 years	-202.46	18	(2,833.74)	23	(1,514.09)	14
Above 3 years	-4,630.64	23	(7,117.07)	24	(5,490.48)	21
Total	**8,653.73**		**(7,856.06)**		**(7,971.69))**	

The Test 2A bucket was adequately funded, but Test 2B and 2C buckets had mismatch of ₦7.8 trillion and ₦7.9 trillion, respectively (Table 3.9).

Box 1: Liquidity Stress Test Assumptions

Implied Cash Flow Analysis (ICFA)
The ICFA assessed the ability of the banking system to withstand unanticipated substantial withdrawals of deposits, short-term wholesale and long-term funding over 5 days and cumulative 30 days, with specific assumptions on fire sale of assets. The test assumed gradual average outflows of 3.8, 5.0 and 1.5 per cent of total deposits, short-term funding and long-term funding, respectively, over a 5-day period and a cumulative average outflow of 22.0, 11.0 and 1.5 per cent of total deposits, short-term funding and long-term funding, respectively, on a 30-day balance. It also assumed that the assets in Table 3.10 would remain unencumbered after a fire sale.

The Maturity Mismatch/Rollover Risk
This approach assessed funding maturity mismatch and rollover risk for assets and liabilities in the 1-30 and 31-90 day buckets, with assumptions of availability of funding from the CBN and intra-group as described below:

*i. **Test 2a: Descriptive Maturity Mismatch** assumed that the baseline mismatch remained but 5 per cent of total deposits would be made available from the CBN and the intra-group;*

*ii. **Test 2b: Static Rollover Risk** assumed that 80.0 and 72.0 per cent of the funding in the 1-30and 31-90 day buckets would be rolled over, with no possibility to close the funding gap from other buckets. However, 5 per cent of the total deposits would still be available from the CBN and the intra-group; and*

*iii. **Test 2c: Dynamic Rollover Risk** made the same assumption as in 2b above, but with the option of closing the liquidity gap from other buckets.*

Table 3.10: Percentage of Assets Unencumbered after Fire Sales

Item No	***Assets***	***% Unencumbered***
1.	*Cash and cash equivalent*	*100*
2.	*Current account with CBN*	*100*
3.	*Government bonds, treasury bills and other assets with 0% risk-weighting*	*66.5*
4.	*Certificates of deposit held*	*66.5*
5.	*Other short-term investments*	*49*
6.	*Collateralized placement and money at call*	*49*
7.	*CRR*	*100*

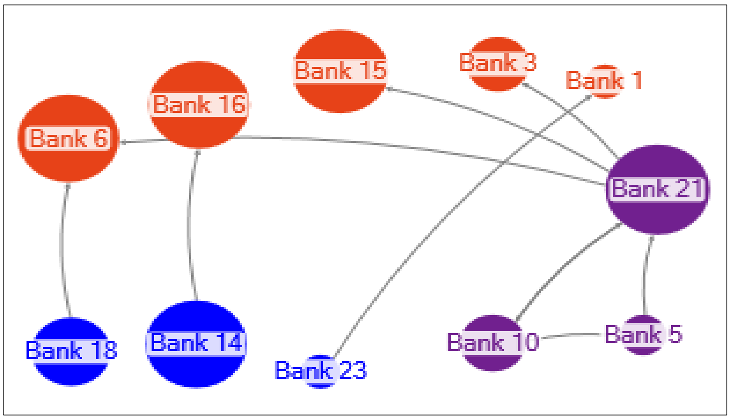
3.2.4 Contagion Risk Analysis through Interbank Exposures

During the review period, analysis of banks based on unsecured interbank exposures showed that one bank was central in the network, as it was exposed to more than two counterparties in the system. The result indicated that one bank failed capital adequacy ratio (CAR) after a 100 per cent assumed default of its interbank exposures (Table 3.11).

Table 3.11: Impact of Net Interbank Unsecured Exposures on Capital Adequacy Ratio

Lending Banks	**Bank 5**	**Bank 10**	**Bank 14**	**Bank 18**	**Bank 21**	**Bank 23**	**Industry**
Pre-Test CAR(%)	16.77	21.09	43.36	11.84	13.38	12.71	11.51
Post-Test CAR(%)	16.46	8.83	30.46	11.14	10.59	12.05	11.29
Placement (₦' Billion)	4.89	10.40	7.66	4.68	20.16	1.17	48.96

Figure 3.11: Tiered Structure of Unsecured Placements at end-June 2017



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

3.3 Supervision of Banks

3.3.1 Routine/Target Examinations

A joint (CBN/NDIC) target examination of banks' risk assets was carried out in the review period to ascertain the quality of banks' assets and the adequacy of loan loss provisions.

The monitoring of banks' implementation of examiners' recommendations from the risk-based examination reports was carried out within the first half of the year. The examinations of some specialized financial institutions, the three private credit bureaux and the Asset Management Corporation of Nigeria (AMCON) were also conducted in the first half of the year. Similarly, examinations of some banks' off-shore subsidiaries were conducted in collaboration with host supervisors.

During the review period, the CBN conducted spot-checks on the top obligors in the banking system with a view to determining the status of their exposures as well as the utilization of foreign exchange purchased from the interbank window.

3.3.1.1 Foreign Exchange Examinations

The review of foreign exchange activities of all the banks for the period of October 2016 to March 2017 was conducted in the first half of 2017. Major infractions observed were failure to comply with regulations on the utilization of foreign currency purchased from the CBN, non-issuance of certificates of capital importation to beneficiaries within allowable time frame, non-repatriation of export proceeds, incorrect rendition of returns to the CBN, non-compliance with approved Net Foreign Currency Trading Positions, and foreign trade documentation lapses.

3.3.1.2 Bank Examiners Training

Bank examination courses were organized for participants from the CBN, Securities and Exchange Commission (SEC), Nigerian Pension Commission (PENCOM), Nigeria Stock Exchange and the Central Bank of The Gambia. A total of 87 examiners were trained at the Level 1 module. The programme is part of the Bank's effort to ensure that bank examiners remain equipped for the task of overseeing the institutions under their purview.

3.3.2 Enhanced Supervision of Domestic Systemically Important Banks

Using the indicator-based measurement approach of the Basel Committee on Banking Supervision (BCBS), seven banks were designated as Domestic Systemically Important Banks (D-SIBs) during the period under review. The banks were subjected to enhanced supervision in view of the significant impact the failure of any one of them may portend for the stability of the financial system.

At end-June 2017, the D-SIBs accounted for ₦20.07 trillion (65.02%) of the industry total asset of ₦30.78 trillion. They also accounted for ₦11.63 trillion (64.53%) of total industry deposit of ₦18.03 trillion and ₦10.19 trillion (64.04%) of the aggregate industry loans of ₦15.91 trillion. The D-SIBs were largely compliant with enhanced prudential requirements on capital adequacy and liquidity ratios during the period under review.

3.3.2.1 Recovery and Resolution Plans

The D-SIBs submitted their Recovery and Resolution Plans (RRPs) in compliance with the D-SIB Supervisory Framework, which were in line with the "Minimum Content for Recovery Plans and Requirements for Resolution Planning" guideline.

The following deficiencies were noted from the review of the RRPs:

i. Improper identification of critical functions and services, with the DSIBs focusing mainly on their market share and the impact of the discontinuation of these functions on their operations rather than the financial system;
ii. Non-integration of the RRP with existing risk management frameworks;
iii. Designed scenarios/assumptions in the RRPs did not adequately reflect the baseline conditions and the likely risk factors; and
iv. Inadequate recovery options capable of restoring the viability of the D-SIBs in a severe stress situation.

During the review period, four of the D-SIBs were engaged to address the above concerns and resubmit to the CBN, with engagements planned with the remaining three D-SIBs in the second half of 2017.

3.3.3 Cross Border Supervision

3.3.3.1 Foreign Subsidiaries/Offices of Nigerian Banks

The total number of cross border institutions increased from 68 at end-December 2016 to 70 at end-June 2017, following the opening of one subsidiary each in Mali and Mozambique. Also, a representative office was opened and another closed. The 70 entities comprised 61 subsidiaries, a branch and eight representative offices located in 28 countries.

3.3.3.2 Regulatory Collaborations

The CBN, in collaboration with the Association of African Central Banks (AACB), the Community of African Bank Supervisors (CABS) and Making Finance Work for Africa (MFW4A) organized a Seminar on Crisis Management and Bank Resolution in January2017 in Abuja, Nigeria. The seminar provided opportunity for participants to examine issues in managing systemic crisis. It also presented different approaches to facilitate the effective resolution of banks without disrupting the broader financial system. In attendance were participants from 22 African countries.

The 12thBCBS-FSI High Level meeting for Africa was held in South Africa in January 2017. Participants, including the CBN, focused on strengthening financial sector supervision and current regulatory priorities. The 24thand 25th meetings of the College of Supervisors for the West African Monetary Zone (CSWAMZ) were held in Liberia and Ghana, respectively in the review period. The College, in line with its mandate, deliberated on issues requiring supervisory cooperation in the zone and decided as follows:

i. The WAMI is to coordinate a study on zonal correspondent banking relationships and the external assessment of member countries on the Basel Core Principles (BCPs);

ii. The Society for Worldwide Interbank Financial Telecommunication (SWIFT) to be invited to the 26th meeting of the College in Monrovia, Liberia, to make a presentation on its products and activities;

iii. A seminar for the College on Islamic Banking and e-banking is to be organized by WAIFEM in October2017; and

iv. WAMI to prepare a paper which analyses the CSWAMZ Charter vis-a-vis its current responsibilities and make a proposal to the Committee of Governors on the appropriateness of its Charter.

3.3.3.3 Onsite Examination of Offshore Subsidiaries of Banks

Two solo onsite examinations of the foreign subsidiaries of Nigerian banks were conducted in the period under review.

3.4 Supervision of Other Financial Institutions

3.4.1 Routine Examination of Development Finance Institutions

The routine examinations of five DFIs were conducted during the period under review. The composite risk rating of four of the institutions was "High", while one was "Moderate". The earnings of one of the institutions was rated "Acceptable", another "Needs Improvement" and three others "Weak". The "Needs Improvement" and "Weak" ratings were as a result of significant deterioration in asset quality which led to high provisions for loan losses.

The capital ratings for the DFIs were "Strong" for one, "Acceptable" for another and "Weak" for the remaining three. The prudential and soundness analysis of the DFIs revealed that only two of the institutions met the minimum capital requirement.

3.4.1.1 Third Bi-annual Forum for Development Finance Institutions in Nigeria

The 3rd Bi-annual Consultative Forum for the stakeholders of DFIs in Nigeria was held in June 2017 in Abuja. The Forum identified the challenges confronting the sub-sector to include weak corporate governance, poor risk management and inadequate capital. Recommendations and policy options identified to address the challenges included:

i. Merger of DFIs with similar mandates to save costs and improve efficiency and service delivery, while adopting a public private partnership framework;
ii. Strict implementation of the CBN Regulatory and Supervisory Guidelines for Development Finance Institutions in Nigeria;
iii. Review of the mechanism for the disbursement of CBN real sector intervention funds by channelling funds through the relevant DFIs; and
iv. Recapitalizing and restructuring of the DFIs to operate on more efficient terms.

3.4.2 Examination of Microfinance Banks

A total of 226 MFBs were examined using the RBS methodology during the period under review with the reports being finalized at end-June 2017.

3.4.2.1 Uniform Application Platform for Microfinance Banks

The CBN, during the period under review, commenced the on-boarding of MFBs on the National Association of Microfinance Banks Unified Information Technology (NAMBUIT) platform. The platform comprises core banking and agent banking solutions that will promote economies of scale, connect the sub-sector to the payments system and drive financial inclusion. The project commenced in May 2017 and is expected to end in April 2018.

3.4.2.2 Committee of Microfinance Banks in Nigeria

The 17thMeeting of the Committee of Microfinance Banks in Nigeria (COMBIN) held in May 2017 in Abuja. The meeting recommended the creation of Regional MFBs category on the basis of geo-political zones.

3.4.2.3 Utilization of Credit Bureaux Services by OFIs

During the period under review, a training programme for compliance officers of OFIs was organized to facilitate the exchange of credit information with private credit bureaux. This was with a view to simplifying reporting and monitoring of borrower's exposures. Similar trainings are being planned for the managing directors and chairmen of board credit committees of OFIs. The Bank paid the fees for each of the MFBs to sign up with any two of the three licensed private credit bureaux of its choice in order to facilitate the integration of OFIs into the credit reporting system.

In view of the need to obtain customers' consent before disclosing their information to credit bureaux, all OFIs were advised to insert a disclosure clause in the Terms and Conditions section of their account opening documentation detailing OFIs obligation to continuously share credit information without further recourse to customers. OFIs were further directed to ensure compliance with the provisions of the CBN *Guidelines for the Licensing, Operations and Regulation of Credit Bureau and Credit Bureau Related Transactions in Nigeria*. Appropriate penalties were also introduced for contravention of the Guidelines.

3.4.3 Examination of Finance Companies

In the first half of 2017, the examination of 51 finance companies was conducted using the risk-based methodology.

3.4.4 Financial Institutions Applications Processing System

During the period under review, the CBN deployed the Financial Institutions Applications Processing System (FIAPS) to ease the processing of audited financial statements and other off-site requests of OFIs.

3.5 IFRS 9 Implementation

In line with the Guidance Notes issued by the CBN on December 20, 2016,all the banks submitted their detailed IFRS 9 implementation plans. The review of the implementation plans showed that significant progress had been made in the development of the necessary processes, policies, database and other capabilities for the implementation of the new standard.

Banks were required to conclude the development of their IFRS 9 policies and Expected Credit Loss (ECL) models latest by September 30, 2017 to enable them to undertake parallel runs of IAS 39 and IFRS 9 impairment systems commencing October 1, 2017.

3.6 Implementation of Basel II/III

The Internal Capital Adequacy Assessment Process (ICAAP) reports for 2016 submitted by banks during the first half of 2017 were reviewed. The supervisory review and evaluation process revealed overall improvement in the quality of the ICAAP reports. However, inadequacies were observed with respect to the risk governance processes, quantification of Pillar 2 risks and capital, linkages between ICAAP and strategic decision making, and internal audit review and incorporation of the quantitative impact of IFRS 9 implementation in capital planning. The CBN engaged the affected banks to address the exceptions.

3.7 Anti-money Laundering/Combating the Financing of Terrorism

3.7.1 Appointment of Executive Compliance Officers

The CBN continued to ensure strict compliance with extant regulations on AML/CFT. The Bank issued a circular directing banks to appoint Executive Compliance Officers (ECOs) not below the rank of an Executive Director, who were to report to the Board. The ECOs were to be appointed in addition to the Chief Compliance Officers (CCOs) and were to be held accountable for any breach of extant regulations.

In line with the recommendations of the Financial Action Task Force (FATF), the CBN carried out AML/CFT compliance examination of banks for the period May 2016 to March 2017. The examination reviewed foreign and local currency deposits beyond prescribed statutory thresholds and investigated suspicious transactions.

3.7.2 Virtual Currencies

During the review period, a circular was issued to banks and OFIs, drawing their attention to the risks associated with Virtual Currencies (VCs) and advising them not to use, hold, trade and/or transact in virtual currencies, pending substantive regulation or decision by the CBN.

3.7.3 GIABA Plenary Meeting

The Bank participated at the 27th GIABA Technical Commission/Plenary Meeting held in Monrovia, Liberia in May 2017. Following the plenary meeting, an administrative letter was issued to all banks and OFIs advising on the need to strengthen their governance systems and enhance identification, monitoring and reporting of suspicious transactions on terrorism financing and money laundering in accordance with extant laws.

Banks and OFIs were also required to take proactive measures that would enhance customers' identification, verification, transactions monitoring and filing of suspicious transactions reports (STRs) with the Nigerian Financial Intelligence Unit (NFIU).

3.7.4 Compliance with AML/CFT International Standards

In compliance with international standards, particularly FATF Recommendation 35, the Bank developed an Administrative Sanctions Regime which was forwarded to the Attorney-General of the Federation and Minister of Justice for gazetting.

In line with the FATF Recommendations 2 and 40 on national cooperation and coordination and other forms of international cooperation, the Bank:

i. Reviewed the draft report of the maiden Money Laundering/Financing of Terrorism National Risk Assessment exercise coordinated by the NFIU.

ii. Participated in the FATF Plenary meetings held in Valencia, Spain in February 2017.

3.7.5 OFI Compliance with AML/CFT Requirements

Forms designed to capture OFI compliance with AML/CFT requirements were forwarded to MFBs and also uploaded on the CBN website during the review period. OFIs were expected to complete and submit the forms and forward to the CBN on a quarterly basis.

The Bank issued a directive to all OFIs limiting the use of cash for the purchase of equity shares of OFIs to a cumulative maximum of ₦100,000 for individuals, while cash payment by corporate bodies was prohibited.

3.7.6 2017 FHAN AML/CFT Training Programme

The Bank, in collaboration with the Finance Houses Association of Nigeria (FHAN), organised the AML/CFT Compliance Workshop for Compliance Officers, Heads of Internal Audit and Risk Management of various finance companies.

The workshop was organized to among others:

i. Sensitize FCs on AML/CFT and draw participants' attention to extant AML/CFT laws and regulations and their compliance obligations thereon;
ii. Equip participants with the required competencies to identify money laundering and terrorist financing threats and vulnerabilities in the FC sub-sector;
iii. Equip participants to conduct KYC and customer due diligence procedures as well as recognize and report suspicious transactions; and
iv. Expose participants to the AML/CFT returns templates and provide guidance on rendition of statutory returns.

3.8 The Asset Management Corporation of Nigeria

The net carrying value of the Asset Management Corporation of Nigeria (AMCON) outstanding liabilities stood at ₦4.5 trillion as at June 30, 2017. The carrying value of its assets net of impairment increased from ₦624.00 billion at end-December 2016 to ₦808.48 billion at end-June 2017. The liabilities of AMCON were projected to be recovered through the Banking Sector Resolution Cost Trust Fund (BSRCTF), credit recoveries and assets sales by AMCON.

The BSRCTF had realized total collections of ₦190.89 billion in the first half of 2017 towards the redemption of AMCON bonds.

3.9 Key Risks to the Financial System

3.9.1 Credit Risk

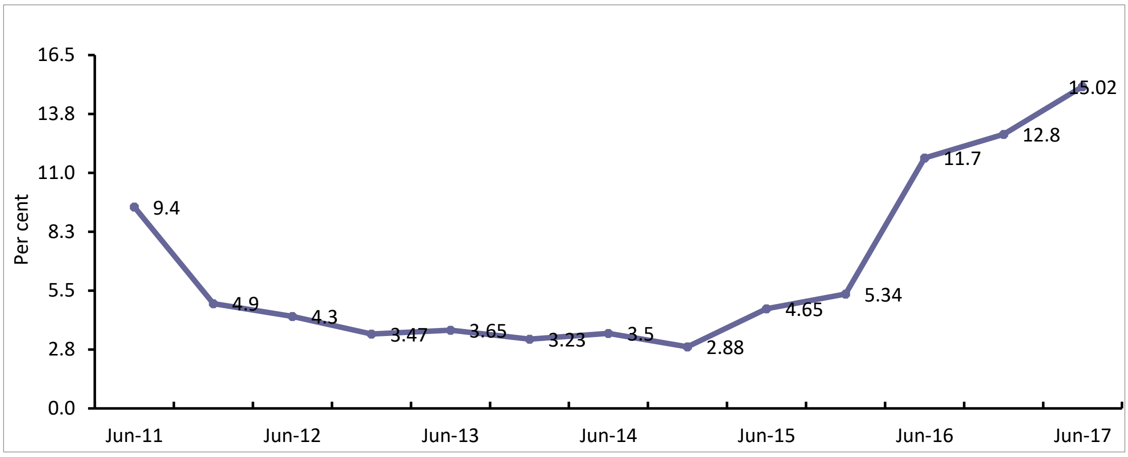
Risk Rating (High Risk, Trending Up)	

Total non-performing loans (NPLs) grew by 14.59 per cent from ₦2,084.92 billion at end-December 2016 to ₦2,389.11 billion at end-June 2017. Also, the exposure of the top 50 and 100 obligors stood at ₦5,461.51 billion (34.33%) and ₦7,111.53 billion (44.7%)of the total industry exposure of ₦15,908.08 billion, respectively, reflecting high concentration risk. Consequently, credit risk increased as the industry-wide NPLs ratio rose from 12.8 per cent to 15.02 per cent at end-June 2017, reflecting a 2.22 percentage points increase compared with 1.1 percentage points in the preceding period. The increase was occasioned by the continued low level of oil prices and government revenue. It is expected that NPL growth would moderate as aggressive debt recovery strategies are employed by banks.

Sectoral credit distribution during the review period showed that loans to the oil and gas sector constituted 29.29 per cent of the gross loan portfolio of the banking system as credit to the sector fell by 4.71 per cent from ₦4,890.91 billion to ₦4,660.50 billion. On the other hand, loans to State Governments rose marginally from ₦1,376.89 billion to ₦1,378.01 billion at end-June 2017.

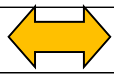
Composite credit risk remained elevated in the first half of the year with several obligors unable to service outstanding obligations.

Figure 3.12: Non-Performing Loans Ratio



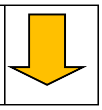
To address these concerns, in addition to engaging the banks, the CBN is in the process of developing a framework that will permit private asset management companies to participate in the resolution of non-performing facilities.

3.8.2 Liquidity Risk

Risk Rating(Medium Risk, Stable)	

The liquidity ratio for the banking industry decreased by 3.01 percentage points to 45.62 per cent at end-June 2017 from 48.63 per cent at end-December 2016. This ratio was above the prudential minimum limit by 15.62 percentage points. The liquidity position was as a result of the preferred holdings in government securities by banks as against lending to the private sector. However, some banks continued to face intermittent liquidity challenges during the review period.

3.8.3 Market Risk

Risk Rating (Medium Risk, Trending Down)	

Average interest on savings fell by 0.10 percentage points from 4.18 per cent at end-December 2016 to 4.08 per cent at end-June 2017, while the prime and maximum lending rates grew by 6.47 and 3.96 per cent to 17.58 and 30.75 per cent, respectively in the same period. The increasing spread in rates continued to discourage potential savers due to low returns on deposits. The CBN, in an effort to encourage savings, continued to enforce the provisions of the 2017 *Guide to Bank Charges* that require banks to pay a minimum of 30 per cent of MPR on savings accounts deposits.

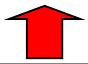
The Federal Government, during the review period introduced the FGN Savings Bonds with an interest rate of 13.01 per cent and a minimum tenure of two years. The bonds were aimed at deepening national savings culture and encouraging greater participation by the general public. The minimum subscription for FGN securities was set as follows:

- FGN Savings Bonds - ₦5,000.00
- Nigerian Treasury Bills - ₦50,001,000.00
- FGN Bonds - ₦50,001,000.00.

In the money market, the 91-day NTB rates fell to 13.50 per cent at end-June 2017 from 13.96 per cent at end-December 2016, while inter-bank and OBB rates rose to 13.46 and 29.57 per cent, respectively from 10.39 and 7.35 per cent at end-December 2016. Monthly average spikes of as high as 64.58 and 51.04 per cent in April 2017 were recorded, signifying periods of liquidity squeeze in the market due to intensified Open Market Operations by the CBN. The sustained demand in the inter-bank market combined with liquidity shortages culminated in increased rates.

The foreign exchange market experienced improved liquidity as a result of the Bank's introduction of special foreign exchange windows for investors and exporters, small and medium enterprises and BDCs. Consequently, the exchange rate in the inter-bank market was relatively stable during the period recording a range of ₦305.00/US$ to ₦305.90/US$. Conversely, rates in the BDC segment were less stable in the period, opening at ₦493.29/US$ in January 2017, peaking at ₦515.00/US$ in February 2017 and closing at ₦366.25/US$ at end-June 2017. The relative stability in the foreign exchange market in the second quarter of 2017 along with the Nigeria's retention of its B rating with a stable outlook is expected to attract increased portfolio inflows and foreign direct investment.

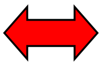
3.8.4 Operational Risk

Risk Rating(High risk, trending up)	

Operational risk events reported during the period included incidences of fraud, forgeries, rising insecurity in parts of the country as well as global rise in cyber-attacks. Reported cases of fraud and forgeries increased to 16,762 at end-June 2017 from 9,929 at end-December 2016. Similarly, the total amount involved increased from ₦4.12 billion at end-December 2016 to ₦5.52 billion at end-June 2017. However, actual losses reduced from ₦1.003 billion to ₦0.78 billion at end-June 2017, reflecting stringent internal control measures and enhanced risk management processes. The reported cases involved robbery attacks, suppression and conversion of customer deposits, illegal fund transfers and fraudulent ATM withdrawals.

Mobile banking fraud continued to increase as a result of sim swap manipulation, identity theft via mobile devices and compromised customer details. Cybercrime also remained a key operational risk during the period due to increased use of technological platforms. In May 2017, a global ransomware outbreak occurred, attacking over 150 countries and infecting more than 250,000 computers simultaneously. In order to mitigate this class of operational risks, bank customers were sensitized on safe banking practices, while banks were encouraged to train their employees to identify suspicious emails and protect their web presence. In addition, banks were directed to operate 24-hour fraud desks manned by competent staff with the necessary investigative tools to promptly resolve fraud complaints.

3.8.5 Macroeconomic Risk

Risk Rating (High Risk, Stable)	

During the review period, macroeconomic risks remained unchanged, largely due to slow economic recovery, high inflation, slow recovery in oil prices and low government revenue. Economic activities are expected to improve in the oil and gas sector, following the passage of the Petroleum Industry Governance Bill 2017 and improved security in the Niger Delta.

Efforts by the government to stimulate domestic demand through investment in infrastructure, Conditional Cash Transfer Programme, implementation of the Executive Orders and Economic Recovery and Growth Plan are expected to have positive impact on the overall economic conditions.

3.9 Credit Risk Management System

In the review period, the Bank deployed a redesigned Credit Risk Management System (CRMS).The new system addressed the challenges associated with lack of unique identifier by adopting the use of Bank Verification Number (BVN) and Taxpayer Identification Number (TIN) as unique identifiers for individual and corporate borrowers, respectively. Also, the redesign was to capture all loans and borrowers of lending institutions irrespective of amount. The Bank issued regulatory guidelines to participating institutions for the operation of the redesigned CRMS.

Highlights of activities on the CRMS include:

a) The number of registered borrowers in the CRMS rose from 147,828 at end-December 2016 to 824,387 at end-June 2017, representing an increase of 457.67 per cent.

b) The total number of credit facilities reported on the database stood at 1,905,997 showing a 268.77 per cent increase over the December 2016 position of 516,848.

c) Total number of facilities with outstanding balances on the database stood at 1,105,671 at end-June 2017 as against the December 2016 figure of 127,374.

The significant increase in the number of borrowers, credit facilities and compliance levels recorded in the review period was largely due to the implementation of the new regulatory guidelines on CRMS, update of the database using the redesigned rendition template and enhanced monitoring.

Table 3.12: Borrowers Registered on the CRMS

Description	December 2016	June 2017	Absolute Change	% Change
Total No. of Borrowers reported on the CRMS:	**147,828**	**824,387**	676,559	457.67
Individuals	106,074	755,076		
Corporates	41,754	69,311		
*** Total No. of Credit/facilities reported on the CRMS:**	**516,848**	**1,905,997**	1,389,149	268.77
Individuals	215,990	1,513,452		
Corporates	300,858	392,545		
*** Total No. of Outstanding Credit facilities on the CRMS:**	**127,374**	**1,105,671**	978,297	768.05
Individuals	81,605	1,018,819		
Corporates	45,769	86,852		

Note: These figures are based on submissions by Commercial and Merchant Banks only and for all amounts of credits.

** The figures include borrower(s) with multiple loans and/or credit lines.*

National Credit Reporting Act

The Credit Reporting Act, 2017 was enacted in the review period. The Act provides the legal framework for the operation of private credit bureaux in Nigeria and provides guidance for regulation, licensing and credit reporting.

3.10 The Financial Services Regulation Coordinating Committee

3.10.1 National Road Map on Sustainable Finance

Following the approval of the roadmap for the Nigerian Sustainable Finance Principle (NSFP) by Financial Services Regulation Coordinating Committee (FSRCC) in 2016, each member agency was required to set up a steering committee to coordinate the development of sector-specific Sustainability Principles and Guidelines. Consequently, implementation steering committees were established by member agencies within the review period to ensure full implementation by 2018.

As part of efforts to further build capacity in sustainable finance in the Nigerian financial services industry, the FSRCC, in collaboration with the International Finance Corporation (IFC), organized a two-day workshop for the staff of member agencies in January 2017.

3.10.2 Consolidated Examination of the Financial Holding Companies

The FSRCC commenced the consolidated examinations of FBN, FCMB and Stanbic IBTC Holdings within the review period. The reports of the examinations are due to be issued in December 2017.

3.10.3 Executive Order on the Ease of Doing Business in Nigeria

An ad-hoc Committee was set up by FSRCC to review the Executive Order on the Ease of Doing business in Nigeria as it affects the financial system, charged with the responsibility of accomplishing the task before the end of 2017.

3.10.4 Fight Against Illegal Fund Managers

An ad hoc committee set up to investigate the activities of 'MMM' and other ponzi schemes had concluded its work and presented its recommendations on ways to prevent the reoccurrence of such fraudulent activities to the FSRCC in May, 2017. The FSRCC approved the recommendations of the ad-hoc committee, including the immediate shutdown of the websites of the illegal fund managers.

3.11 Consumer Protection

The CBN received 1,141 complaints from consumers of financial services in the period under review, compared with 1,183 received in the second half of 2016. The breakdown showed that 1,112 complaints or 97.46 per cent were against commercial banks, while 29 complaints or 2.54 per cent were against other financial institutions. The complaints covered excess/unauthorized charges, frauds, guarantees, account management, ATM dispense errors, funds transfers amongst others.

A total of 1,270 complaints were resolved and/or closed in the period under review compared with 928 in the second half of 2016, representing an increase of 342 or 36.85 per cent. Total claims amounted to ₦14.72 billion, US$2.42million and €6,940, while the sums of ₦7.21 billion, US$2.40 million and €6,940, respectively were refunded by financial institutions to customers.

3.11.1 April 2017 Compliance Examination

The Bank conducted an examination of 19 banks in April 2017 to ascertain their level of compliance with consumer protection policies and guidelines, particularly the provisions of the *Revised Guide to Bank Charges*. The result of the examination is shown in Table 3.13.

Table 3.13: Compliance Level

S/N	Issues	Compliance Level (%)
1	Maximum fees applied on facilities	50.00
2	Insurance charges applied on facilities	66.67
3	Alignment of internal policies with the consumer protection framework	0.00
4	Management of dormant accounts	55.60
5	Outstanding complaints	26.20
6	Compliance with directives issued after the last examination and other directives	52.63

Consequently, non-compliant banks were directed to implement specific remedial actions, including making refunds where applicable.

3.11.2 Implementation of the Consumer Protection Framework

Subsequent to the issuance of the Consumer Protection Framework (CPF) to the industry, the Bank developed draft guidelines on the following:

a. Disclosure and Transparency;
b. Fair Treatment of Consumers; and
c. Consumer Protection Regulation and Supervision.

The draft guidelines have been exposed to stakeholders for comments.

3.11.3 Financial Literacy Activities

3.11.3.1 Targeted Financial Education Programme for MSMEs and Farmers

In pursuit of its financial literacy programme, the Bank conducted the second phase of the Targeted Financial Literacy programme For Micro, Small and Medium Enterprises (MSMEs) and farmers in Awka, Anambra State. Participants were drawn from Small and Medium Enterprises Development Agency of Nigeria (SMEDAN),NGOs, women organizations, and farmer groups.

3.11.3.2 Targeted Train-the-Trainer Peer Educator Initiative

The Bank conducted a train-the-trainer programme for participants drawn from the Federal Ministry of Youth and Sports Development, NDIC, Association of Non-Bank Micro Finance Institutions of Nigeria, and the National Pension Commission (PENCOM).

The Bank in collaboration with the Federal Ministry of Youth and Sports Development organised a similar programme for the National Youth Service Corps (NYSC). The objective of the programme was to acquaint NYSC members with financial literacy concepts and equip them with the skills to transfer the knowledge to the public at the grassroots.

3.11.3.3 Global Money Week Activities

The Bank, in collaboration with stakeholders, celebrated the 2017 Global Money Week in the first half of 2017. Activities carried out included Global Money Walk, Financial Literacy Fair/Exhibition and School Mentoring and Reach-out Programme. A total of 1,696 students from 11 schools benefitted from the various activities.

The Bank also, in collaboration with the Bankers' Committee Sub-committee on Financial Literacy and Enlightenment, implemented the school mentoring programme in 36 states. A total of 85,233 students in 626 schools nationwide benefited from the initiative.

3.11.3.4 Development of Teachers' Guide for Financial Education

Further to the revision of the school curriculum to integrate financial literacy topics into various subjects, the Bank, in conjunction with the Nigeria Educational Research and Development Council (NERDC), developed a draft Teachers' Guide to be used for teaching financial education in basic and senior secondary schools.

4.0 DEVELOPMENTS IN THE PAYMENTS SYSTEM

The Bank, in its effort to enhance the safety and efficiency of the payments system in Nigeria, continued the implementation of the following initiatives:

4.1 Implementation of the Bank Verification Number Scheme

The Bank undertook the following during the review period:

i. Assessed banks' compliance with the under-listed directives that:
   - All banks' customers should have their BVN. Any bank customer without BVN would be placed on "Post No Debit";
   - Invalid BVNs linked to customers' accounts should either be corrected or delinked; and
   - Mismatched names on BVN and core banking application of banks should be corrected.

   The Report of the compliance monitoring exercise showed that 17 banks had some invalid BVNs and 20 banks had some mismatched names on BVN and core banking applications while the banks largely complied with "Post No Debit" for accounts without BVN. Major causes of invalid BVNs were deletion of BVNs after linkage, linking of BVN to accounts without validation and typographical errors while linking BVN to accounts manually. The causes of mismatched names were identified to include minors' accounts that are linked to the parents' BVN, correction of name at enrolment bank after other banks had linked the BVN with the old name and typographical errors at the enrolment bank.

ii. Feedback had been received from stakeholders on the exposure draft Regulatory Framework for BVN Operations and Watch-list for the Nigerian Financial System.

iii. The Bank extended the BVN initiative to OFIs to enhance KYC procedures in the sub-sector. The deadline for compliance was set atJuly31, 2017.

iv. The BVN database was being integrated into the National Identity Management Commission (NIMC) identity database under the Federal Government Committee on Identity Management and Harmonization of Data. The Committee agreed on minimum data standards, data fields and resolved issues on the NIN[6]-BVN harmonisation process.

At end-June 2017, the implementation of the BVN Scheme had recorded 29,565,684 registered BVNs and 40,676,362 accounts linked with BVN out of 62,615,344 active customer accounts.

[6] National Identity Number

4.2 Nigeria electronic Fraud Forum

The Nigeria electronic Fraud Forum (NeFF) organized a workshop in May 2017 on Cybercrime with the theme: "Tackling Enforcement Challenges under the Cybercrime Act". The workshop provided the opportunity for stakeholders[7] to brainstorm on the implementation of the Act.

4.3 Migration from Merchant Service Charge to Interchange Fee Regime

The plan to migrate the Nigerian payment card industry from Merchant Service Charge to Interchange Fee Regime with effect from May 2017 was suspended to enable stakeholders to resolve outstanding issues relating to the migration.

4.4 Cheque Standards and Cheque Printers Accreditation Scheme

The revised Nigeria Cheque Standards was exposed to key stakeholders for comments. Notable changes in the revised Standards included introduction of Quick Response code for faster verification of cheque details, expiry date of cheque booklet and clear zone at the back of the cheque. The objective of the revised Standards was to improve the efficiency and safety of the cheque clearing system.

4.5 Licensing of Payments System Participants

During the review period, one card scheme, one mobile money operator and two Payment Solution Service Providers (PSSPs) were licensed, bringing the total of card schemes, mobile money operators and PSSPs to 4, 23 and 8, respectively. In addition, there were a total of 18 Payment Terminal Service Providers (PTSPs), six transaction switching companies and three third party processors in Nigeria.

Table 4.1: Licensed Payment System Participants

License Type	**Number**	
	End-Dec 2016	**End-Jun 2017**
Card Scheme	3	4
Mobile Money Operator	22	23
Payment Solution Service Provider	6	8
Payment Terminal Service Provider	18	18
Transaction Switching Company	6	6
Third Party Processor	3	3
Total	**58**	**62**

4.6 Payments System Vision 2020

In continuation of the implementation of Payments System Vision 2020 (PSV 2020), the Bank delivered on the following:

i. Exposure of the following draft guidelines for comments from stakeholders:

[7]CBN, financial institutions, Federal Ministry of Justice, law enforcement agencies, the military and other regulators.

- Revised Guidelines for Nigeria Clearing System Rules
- Revised Guidelines for Direct Debit Schemes in Nigeria
- Revised Guidelines on Bills Payment in Nigeria
- Guidelines on Instant (Inter-bank) Electronic Funds Transfer Services in Nigeria

ii. Definition of the point at which settlement is final and irrevocable for four major payments schemes in Nigeria - RTGS, Card, Mobile and Automated Clearing House (ACH)/Cheque/Instant Payment Schemes, in compliance with the Principle 8 of the BIS Principles for Financial Market Infrastructures (PFMI).

iii. Review of the current collateral management framework for the operations of deferred net settlement systems and recommendation for a phased approach for migration from fixed collateral requirement to a risk-based collateral requirement, amongst others.

4.7 Large Value Payments

The volume and value of inter-bank fund transfers through the RTGS system increased to 625,788 and ₦202,664 billion at end-June 2017 from 612,843 and ₦188,273 billion at end-December 2016, representing an increase of 2.11 and 7.64 per cent, respectively. The increase was largely attributed to bulk upload of government payments through the System.

4.8 Retail Payments

4.8.1 Electronic Transactions

The volume of electronic transactions rose to 646,258,116 at end-June 2017 from 538,080,841 at end-December 2016, while the value increased to ₦44,117.63 billion at end-June 2017 from ₦40,457.79 billion at end-December 2016. The rise in volume and value by 20.10 and 9.05 per cent, respectively, reflected the increased adoption and use of electronic channels by the public.

Table 4.2: Electronic Transactions

Payment Channel	Number of Terminals		Number of Transactions		% Change (Volume)	Value ₦' Billion		% Change (Value)
	Dec-16	Jun-17	Dec-16	Jun-17		Dec-16	Jun-17	
ATMs	17,398	17,712	329,058,061	366,770,141	11.46	2,783.65	3,046.29	9.44
PoS	112,847	125,608	38,377,598	59,421,710	54.83	450.52	610.11	35.42
Mobile	-	-	24,317,729	24,168,814	(0.61)	453.37	555.83	22.60
Internet (Web)	-	-	8,701,816	11,485,164	31.99	74.39	83.67	12.47
NEFT			16,744,399	12,879,172	(23.08)	8,785.41	7,050.32	(19.75)
NIP			97,298,109	150,480,692	54.66	21,743.80	24,491.19	12.64
e-Bills Pay			518,717	524,988	1.21	190.37	292.43	53.61
REMITA			20,074,436	18,753,773	(6.58)	5,323.65	6,918.89	29.97
NAPS			2,989,976	1,773,662	(40.68)	652.63	1,068.9	63.78
Total			**538,080,841**	**646,258,116**	**20.10**	**40,457.79**	**44,117.63**	**9.05**

4.8.1.1 Instant Payment

The volume and value of instant payment transactions grew to 150,480,692 and ₦24,491.19 billion in the first half of 2017 from 97,298,109 and ₦21,743.80 billion, in the second half of 2016, respectively. The growth was due to the improved efficiency of the instant payment platform and increased public confidence.

4.8.1.2 Point of Sale Transactions

The volume and value of Point of Sale (PoS) transactions increased to59,421,710 and ₦610.11 billion at end-June 2017 from38,377,598and ₦450.52billion at end-December 2016, representing increases of 54.83 and 35.42 per cent, respectively. The increases were attributed to the greater acceptance by merchants, incentive programmes and improved network availability.

4.8.1.3 Mobile Payment

The volume of mobile payments decreased to 24,168,814 at end-June 2017 from 24,317,729 at end-December 2016, while the value increased to ₦555.83billion at end-June 2017 from ₦453.37 billion at end-December 2016, representing a decrease of 0.61 per cent and an increase of 22.60 per cent, respectively.

4.8.2 Cheque Clearing

The volume and value of cheque transactions decreased to 5,298,031 and ₦2,781.48 billion at end-June 2017 from 24,168,814 and ₦2,934.76 billion at end-December 2016, representing a decrease of 78.08 and 5.22 per cent, respectively. The decrease was attributable to the preference for e-payment channels.

5.0 OUTLOOK

The outlook for the global economy remains optimistic as financial markets are expected to be buoyant alongside a cyclical recovery in manufacturing and increased global trade. Although there are uncertainties on the impact of fiscal stimulus on growth in the United States, it is expected that improvements in other regions and individual economies would keep the momentum of global recovery on track.

The moderate recovery of the domestic output growth, sustained decline in inflation rate, stability in the foreign exchange market and the gradual accretion to external reserves are expected to improve economic performance. In addition, implementation of the National Economic Recovery and Growth Plan and the Executive Orders is expected to further expected to spur economic activities. As a result, Nigeria's output growth is forecasted to rebound to 0.8 per cent in 2017 and 1.9 per cent in 2018 (*WEO Update July 2017).*

The enhanced supervision and strict monitoring of the industry risks by the Bank are expected to mitigate the effect of shocks to the financial system. The implementation of the *Framework for the Regulation and Supervision of Domestic Systemically Important Banks (SIBs) in Nigeria* and the *Supervisory Intervention Framework* are also expected to curtail systemic risks and vulnerabilities.

In its effort to sustain the safety and efficiency of the Nigerian payments system, the Bank would continue to monitor developments in virtual currency operations, intensify consumer education and ensure compliance by banks with existing guidelines on fraud and forgeries.

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