CENTRAL BANK OF NIGERIA

BANKING SUPERVISION ANNUAL REPORT

2019

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

Enquiries and comments on this publication should be directed to:

Director, Banking Supervision Department,
Central Bank of Nigeria,
33, Tafawa Balewa Way,
Central Business District,
P.M.B. 0187,
Garki, Abuja.
Phone: +234 9 462 36403
Website: www.cbn.gov.ng
E-mail: bsd@cbn.gov.ng

ISSN: 1595-0387

TABLE OF CONTENTS

LIST OF TABLES AND FIGURES

FOREWARD

The Banking Supervision Annual Report provides information on the regulatory and supervisory activities of the departments in the Financial System Stability (FSS) Directorate of the Central Bank of Nigeria (CBN), during the year under review.

In 2019, the CBN put in place, a number of measures aimed at ensuring that the banking sector remained safe, sound and stable in the performance of its financial intermediation functions thereby contributing to the economic growth and development of the nation. To achieve this objective, a policy was introduced requiring banks to attain a minimum loan to deposit ratio of 60 per cent by end-September 2019. Subsequently, the required ratio was reviewed upwards to 65 per cent by end-December 2019. This measure substantially increased lending to different sectors of the economy particularly retail, consumer, agriculture and manufacturing. To improve credit repayment culture, enhance risk management and check the rising level of non-performing loans, the CBN also introduced the Global Standing Instruction, which mandates banks to insert a clause in their loan agreements that authorises lenders to have recourse to the borrowers' funds in other banks in the event of default.

Furthermore, the CBN revised the Guide to Charges by Banks, Other Financial Institutions and Non-bank Financial Institutions in order to standardise the charges on financial products and services offered to customers; promote the use of electronic payment services; and enhance financial inclusion. Guidelines were issued to strengthen the management of Pillar 2 risks and ensure the institution of robust stress testing mechanism in banks. Also, guidance was issued to other financial institutions on the implementation of IFRS 9 in the sub-sector. As part of efforts to align the operations of non-interest financial institutions with the Islamic Financial Services Board Standards, guidance notes were issued on regulatory capital; calculation of capital requirement for credit, operational and market risks, and management of profit-sharing investment accounts, among others. Another significant development was the issuance of the Consumer Protection Regulations in December 2019 to promote and sustain confidence in the use of financial services in Nigeria.

The off-site and on-site supervision of banks, other financial institutions and cross-border entities were sustained through the regulatory and other supervisory efforts highlighted in this Report.

It is my pleasure to welcome readers, researchers and other stakeholders to this edition of the Banking Supervision Annual Report. I have no doubt that the information provided herein, will be of immense benefit to all.

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

PREFACE

The edition of the Banking Supervision Annual Report presents key activities carried out by the Financial System Stability Directorate of the Central Bank of Nigeria (CBN) in 2019. It is structured into five chapters. Chapter one focuses on the developments in the foreign exchange market, cross-border supervision, derivatives market, other financial institutions and anti-money laundering and combating the financing of terrorism, among others. It also covers regulatory measures instituted by the CBN to enhance lending to the real sector and improve credit repayment culture in the economy.

Chapter two provides insight into the guidelines issued during the period including; the Guide to Charges by Banks, Other Financial Institutions and Non-bank Financial Institutions; Guidelines on Pillar 2 Risks and Stress Testing for Banks; IFRS 9 Implementation and Transitional Arrangements for Other Financial Institutions; and the Consumer Protection Regulations. Payments system regulations on the operation of mobile money wallets, authorisation of cards and merchant collections on electronic payment are also covered in the chapter.

The off-site and on-site supervisory activities on banks, other financial institutions, credit bureaux and cross-border entities of Nigerian banks, are discussed in Chapter three. Other issues covered in this Chapter include consumer protection, payments system and Bankers' Committee activities.

Chapter four presents the performance trends of banks and other financial institutions as well as trends of electronic transactions in the payments system.

Finally, the retreats and capacity building programmes undertaken by the departments in the Financial System Stability Directorate of the Bank are covered in Chapter five.

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

AHMAD ABDULLAHI
Director, Banking Supervision Department

BELLO HASSAN
Director, Other Financial Institutions Supervision Department

KEVIN N. AMUGO
Director, Financial Policy and Regulation Department

KOFO S. SALAM-ALADA
Director, Consumer Protection Department

MUSA I. JIMOH
Director, Payments System Management Department

CHAPTER 1

DEVELOPMENTS IN THE BANKING INDUSTRY

1.01 DEVELOPMENTS IN THE FOREIGN EXCHANGE MARKET

The CBN sustained the implementation of the policies put in place to conserve foreign exchange, ensure transparency, boost liquidity, ease access to foreign exchange by eligible users and reduce arbitrage in the foreign exchange market. The major policies included the:

I. Integration of NAFDAC e-Permit with e-Form 'M' on the Nigerian Trade Portal for processing of import transactions in respect of regulated products.

ii. Commencement of the Export Facilitation Initiative (EFI) of the Bankers' Committee to complement government efforts at engendering growth in the non-oil sector of the economy, enhancing foreign exchange earnings and generating employment. The export commodities to be funded in line with the approved limits in the EFI Funding Framework are cocoa, cashew, palm oil and sesame seeds.

iii. Automation of NXP form for commercial export of oil and gas and non-oil commodities and processing by authorised dealers on the Trade Monitoring System.

iv. Intervention of the CBN in the inter-bank foreign exchange market.

Volume of Foreign Exchange Acquired and Utilised by Banks

The total number of authorised dealers increased to 29 at end-December 2019 from 27 at end-December 2018. The acquisition of Diamond Bank Plc by Access Bank Plc reduced the number to 26; while the grant of approval for authorised dealership to the three banks licensed during the period increased the total to 29.

Foreign exchange acquired by authorised dealers increased by $84.9 billion or 99.1 per cent to $170.5 billion in 2019 from $85.6 billion in 2018. The acquisitions comprised $75.0 billion, Spot; $14.4 billion, Forwards; and $81.0 billion, OTC FX Futures. Similarly, foreign exchange utilised increased by $84.9 billion or 97.9 per cent to $171.6 billion in 2019 from $86.7 billion in 2018, comprising $77.8 billion, Spot; $11.1 billion, Forwards; and $82.6 billion, OTC FX Futures. The growth was driven by CBN intervention and activities in the Investors and Exporters' (I & E) window.

The CBN remained the major supplier of foreign exchange in the market with intervention of $103.4 billion (2018: $34.2 billion) constituting 60.7 per cent (2018: 40 per cent) of the total foreign exchange acquired. Purchases from the I & E window contributed 15.7 per cent of the total foreign exchange acquired. Others included purchases from interbank, retail remittances, oil companies, government agencies, unutilised LC balances, customers' own funds/not valid for FX, third currency transactions and intra-company purchases, which amounted to 23.6 per cent.

Table 1: Consolidated Summary of Foreign Exchange Position

SOURCES (INFLOW)	Spot ($million)	Forward ($million)	Futures ($million)	TOTAL ($million)	%	APPLICATION (OUTFLOW)	Spot ($million)	Forward ($million)	Futures ($million)	TOTAL ($million)	%
Open Position B/F (Positive Position)	227.7	-	-	227.7	0.1	Open Position B/F (Negative Position)	1,004.2	-	-	1,004.2	0.6
				-						-	
AUTONOMOUS FUNDS:				-		**VISIBLE:**				-	
CBN Intervention	12,792.4	11,645.7	78,959.7	103,397.8	60.7	Letters of Credit	7,219.9	6,152.2	74,035.1	87,407.2	51.0
Domiciliary Accounts	2,722.6	1.1	-	2,723.7	1.6	Bills for Collection	2,411.6	918.7	35.7	3,365.9	2.0
Other Banks (INTERBANK PURCHASES)	8,102.2	562.3	2.0	8,666.4	5.1	Telegraphic Transfer (Small Imports)	835.5	-	-	835.5	0.5
Export Proceeds	1,079.6	10.0	-	1,089.6	0.64	**INVISIBLE:**				-	
Capital Importation/FDI	22,240.3	482.8	237.2	22,960.3	13.5	Foreign Securities	25.5	-	-	25.5	0.0
Retail Remittances (e.g. WUMT)	2,011.8	-	-	2,011.8	1.2	Credit / Debit Cards	687.5	1.4	-	688.9	0.4
Oil Companies	1,140.9	-	-	1,140.9	0.7	BTA / PTA	221.6	1.31	-	222.9	0.1
Government Agencies	280.5	-	-	280.5	0.2	Education	163.5	0.3	-	163.8	0.1
Repurchase of Un-utilized Balances	268.0	44.5	-	312.5	0.2	PHR	178.1	3.7	-	181.8	0.1
Other Spot Purchases	20,618.4	1,677.6	1,792.4	24,088.3	14.1	Medical	2.0	-	-	2.03	0.0
Others	1.1	-	-	1.07	0.0	Airlines Remittances	758.9	133.2	-	892.0	0.5
Foreign Loan	792.3	-	-	792.3	0.5	Dividend & Capital Repatriation	15,147.9	1,249.8	2,879.0	19,276.7	11.2
Syndicated Loans	0.1	-	-	0.1	0.0	Repayment of Foreign Loans	1,521.6	235.5	344.4	2,101.5	1.2
				-		Others	2,890.9	104.3	333.0	3,328.1	2.0
				-		Other Banks (INTERBANK SALES)	10,578.9	676.4	2.0	11,257.3	6.6
				-		Other spot Sales	17,731.6	1,263.4	4,126.8	23,121.7	13.5
				-		Bureaux-de-Change	-	-	-	-	-
Not valid for Foreign Exchange (sourced from own domiciliary account)	2,748.7	21.1	-	2,769.9	1.6	Not valid for Forex (sourced from own domiciliary Account)	2,759.4	21.1	-	2,780.6	1.6
				-		Sale to CBN - (Unutilized Allocations)	3,117.5	310.4	116.2	3,544.1	2.1
				-		Other Sales to CBN	10,581.49	73.05	695.87	11,350.4	6.6
TOTAL	**75,026.5**	**14,444.9**	**80,991.3**	**170,462.8**	**100**	**TOTAL**	**77,837.4**	**11,144.7**	**82,567.9**	**171,550.0**	**100**

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

Foreign Exchange Rates

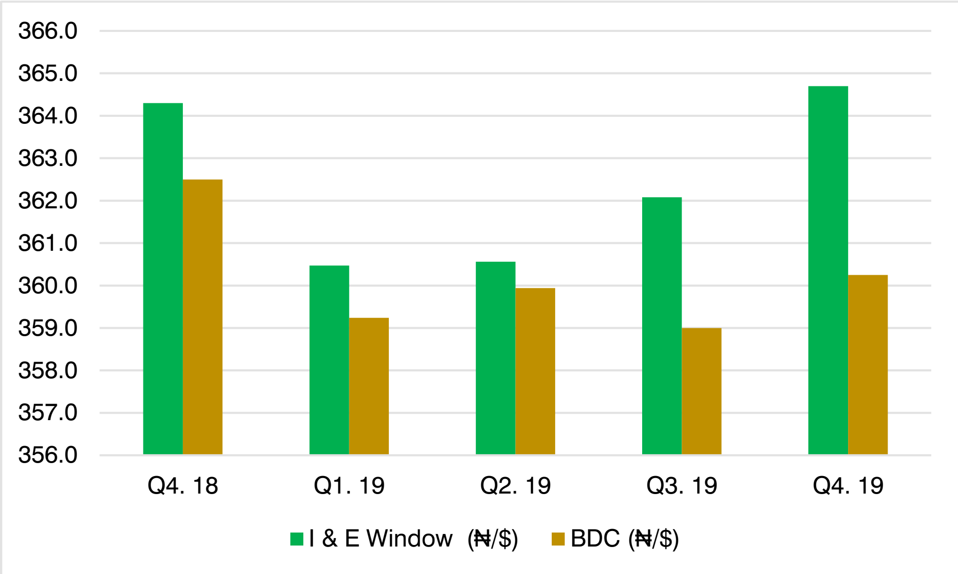
The exchange rate in the I & E window and BDC segment were relatively stable around ₦360.00 and ₦362.00 to the US dollar. The various measures taken by the Bank in previous and current year positively impacted the exchange rate, as depicted in the table and chart below:

Table 2: Movement in Foreign Exchange Rate between Fourth Quarter of 2018 and 2019

FX Rate	Q4. 17	Q1. 18	Q2. 18	Q3. 18	Q4. 18
I & E Window (₦/$)	364.3	360.5	360.6	362.1	364.7
BDC (₦/$)	362.5	359.2	359.9	359.0	360.3

Source: CBN and FMDQ

Figure 1: Trend of I & E Window and BDC Foreign Exchange Rates in 2018 and 2019



The CBN will continue to implement policies to preserve the value of the domestic currency, maintain favourable external reserves position and ensure stable foreign exchange rate in Nigeria.

1.02 DEVELOPMENTS IN CROSS-BORDER SUPERVISION

Cross-border supervision of off-shore entities of Nigerian banks was carried out through off-site review and on-site examination. The Bank also participated in the meetings of supervisory colleges and other regional co-operation arrangements. The activities in these areas included:

I. Cross-border Expansion and Divestment

The number of offshore entities decreased from 67 to 66 in 2019, comprising 58 subsidiaries, five representative offices, two branches and one affiliate located in 30 countries. During the year, Polaris Bank divested from two subsidiaries in The Gambia and Sierra Leone. Also, Access Bank divested from the defunct Diamond Bank's subsidiary in the United Kingdom. Conversely, Access Bank was issued a letter of 'no objection' to establish subsidiaries in Kenya and Guinea with initial capital of $30.0 million and $15.0 million, respectively.

To strengthen the capital positions of its subsidiaries, Access Bank injected additional capital of $49.7 million in three subsidiaries in the United Kingdom, Rwanda and Mozambique.

ii. Supervisory Colleges

a. College of Supervisors of the West African Monetary Zone

The College of Supervisors of West African Monetary Zone (CSWAMZ) held four meetings in the Central Bank of the Republic of Guinea (August 16-23, 2019) and the Bank of Ghana (January 31-February 8, 2019, April 16-18, 2019 and October 19-25, 2019). Deliberations at the meetings focused on the modalities for the joint examination of Nigerian banks' subsidiaries and the implementation of Risk-Based Supervision (RBS), Basel II and International Financial Reporting Standards as well as Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) in the Zone. The College also reviewed developments in the region to identify and monitor emerging risks that may threaten the stability of the Zone's financial system.

An Expert Committee was set up to harmonise the RBS frameworks in the Zone. Also, three other committees were proposed to harmonise the frameworks for Basel Implementation, Cybersecurity and Banking Resolution.

The College agreed to continue to share experiences on the implementation of international regulatory standards, which are critical to the harmonisation of banking regulation and supervision across the Zone.

The CBN contributed to capacity building on RBS, AML/CFT and Basel II/III capital standards by hosting the members of staff of other central banks on study tours.

The development of the West Africa Monetary Zone (WAMZ) framework on Crisis Management and Banking Resolution continued in 2019. The framework is expected to guide members on the effective resolution of cross-border banking crisis. The College also put in place strategies for the introduction of a unique identifier comparable to the Bank Verification Number (BVN) in the WAMZ.

b. College of Supervisors of Ecobank Transnational Incorporated

The fifth meeting of the College of Supervisors of Ecobank Transnational Incorporated (ETI) was held in Abidjan, Côte d'Ivoire from October 28-29, 2019 with a view to facilitating the effective and efficient consolidated supervision of the ETI Group. The meeting provided supervisors with the opportunity to discuss the harmonisation of supervisory methodologies; convergence of regulatory frameworks; and to exchange views on supervisory best practices. A Memorandum of Understanding (MoU) of the College was signed at the meeting.

c. College of Supervisors of United Bank for Africa Group and First Bank of Nigeria Group

The fifth meeting of the College of Supervisors of the United Bank for Africa Group took place in Abuja, Nigeria from July 1-3, 2019. Supervisors from 12 African countries were in attendance.

The inaugural meeting of the College of Supervisors for the First Bank of Nigeria Group was held from July 4-5, 2019. Representatives from seven jurisdictions participated in the meeting.

The Colleges identified common regulatory issues in the Groups and recommended measures to resolve them. Specifically, they recommended that risk management practices in subsidiaries with high incidences of fraud be reviewed and the recruitment procedures improved to ensure that only people with requisite qualifications and experience are employed. Furthermore, the Colleges highlighted the need for close collaboration and information sharing among supervisors to ensure the safety and soundness of the banking groups.

d. Other Colleges of Supervisors

The CBN attended the meetings of the supervisory colleges of First Rand Limited and Standard Bank in South Africa held from June 4-6 and October 7-10, 2019, respectively. The meetings provided a platform for our representatives to participate in the assessment of the risk profiles of the groups and the likely impact on their subsidiaries in Nigeria.

iii. Regional Cooperation Arrangements

a. Annual Conference of the Community of African Bank Supervisors

The CBN participated in the annual conference of the Community of African Bank Supervisors (CABS) in Egypt from June 10-11, 2019. The meeting provided a platform for knowledge and experience sharing among members. The CBN presented the report of the CABS Working Group on Crisis Management and Banking Resolution and was appointed to lead the work stream on Financial Technology (fintech).

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

The Community of African Bank Supervisors Working Group on Crisis Management and Bank Resolution, chaired by the CBN, redesigned and re-administered a questionnaire on banking resolution regimes to the Association of African Central Banks members following the gaps identified in the responses to the initial questionnaire. The responses indicated that members had resolution authorities with clear mandates but limited scope. It was also revealed that some key attributes for effective resolution regimes such as resolution funds, crisis management groups and resolvability assessments were not available in some jurisdictions. Furthermore, inadequacies were noted in set-off and contractual netting procedures, frameworks for the implementation of recovery and resolution plans and information sharing and information management systems. The Working Group submitted a report to the CABS, which formed the basis for defining advocacy work in the areas of early intervention in weak banks, resolution framework and financial safety nets in Africa.

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

The CBN participated in the meeting of the Working Group on Banking Supervision and Cooperation held in Pretoria, South Africa, from December 2-3, 2019. The Working Group, chaired by the South African Reserve Bank, agreed on the 2020-2022 workplan. Also, sub-committees were constituted to work on Cybersecurity and De-Risking assigned to the Working Group at the CABS meeting of June 2019, in Cairo, Egypt.

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

The CBN attended the 16th meeting of the Financial Stability Board (FSB) Regional Consultative Group (RCG) for Sub-Saharan Africa in Cape Town, South Africa from December 12-13, 2019. Discussions at the meeting focused on the strategies for the implementation of the recommendations of the FSB Working Group on enhancing the effectiveness of RCGs for Sub-Saharan Africa. In addition, there were exchange of views on the preliminary set of effective practices identified by the FSB for responding to and recovering from cyber incidents, including a summary of the survey responses by RCG members. Furthermore, global and regional macroeconomic and financial market developments, their implications for financial stability and potential impact on RCG Sub-Saharan Africa economies and possible policy responses were discussed.

e. Other Collaborative Efforts

i. A workshop on Basel Core Principles Self-Assessment Methodology was organised by the CBN in conjunction with IMF/AFRITAC West 2 from September 16-20, 2019 in Abuja. The workshop afforded participants an opportunity to deliberate on the Basel Core Principles (BCPs), the structure of the BCP self-assessment, common issues related to the core principles, gaps in laws/prudential standards and requirements for compliance with the BCPs. It also exposed participants to the approaches, methods and challenges in self-assessment in other participating jurisdictions.

ii. A regional workshop on cross-border supervision was organised by IMF/AFRITAC West 2. The workshop which took place in Abuja from November 18-22, 2019 was for bank supervisors in the WAMZ. Discussions centered on the nature of cross-border banking activities in specific jurisdictions and the need to strengthen the capacity of bank examiners to effectively supervise cross-border banks. Methodologies for developing effective supervisory strategies for cross-border supervision were also discussed.

The importance of collaboration between home/host regulators in the effective supervision of offshore entities of Nigerian banks cannot be over-emphasised. The CBN will continue to enhance its cross-border supervisory practices to ensure that the activities of the entities do not pose any threat to their parents.

1.03 DERIVATIVES MARKET

The derivatives market maintained a positive trajectory as the notional value of transactions increased by 46.9 per cent to ₦31.3 trillion at end-December 2019 from ₦21.3 trillion at end-December 2018. A breakdown of the transactions by products revealed that FX Swaps constituted 40.2 per cent, followed by FX Futures with 28.8 per cent and FX Forwards with 23.6 per cent. In terms of counterparties, transactions with clients accounted for 52.5 per cent; the CBN 33.1 per cent and among members, 14.4 per cent.

The growth was buoyed by FX Futures, which increased from ₦4.6 trillion to ₦9.0 trillion, FX Swaps from ₦9.9 trillion to ₦12.5 trillion, FX Forwards from ₦ 6.8 trillion to ₦7.4 trillion, Cross Currency Interest Rate Swap (CCIRS) from N3.4 billion to N658.5 billion and other derivatives from zero to ₦1.7 trillion. However, transaction value of FX options declined from ₦2.7 billion to zero. The market turnover is presented in the table below:

Table 3: Derivative Market Turnover by Product Type

S/N	Products	Inter-member Trades - Bank	Member – CBN	Member – Client	Total	
		₦'Billion				Per cent
1	FX Swaps	2,490.7	305.8	9,751.7	12,548.2	40.2
2	FX Futures	15.5	5,210.3	3,759.9	8,985.6	28.8
3	FX Forwards	346.3	4,174.0	2,849.9	7,370.2	23.6
4	FX Options	0	0	0	0	0
5	CCIRS	0.03	646.4	12.1	658.5	2.1
6	Other Derivatives	1,647.6	0	40.7	1,688.3	5.4
7	Total	4,500.1	10,336.5	16,414.3	31,250.8	
8	Per cent	14.4	33.1	52.5	100.0	

The average monthly derivative transactions for 2019 was ₦2.6 trillion (2018: ₦1.8 trillion), with values ranging from ₦1.6 trillion in October to ₦3.8 trillion in August 2019. In terms of distribution, the monthly figures for six months (March, May, June, August, November and December) were below the monthly average figure while those of six months (January, February, April, July, September and October) were above. The monthly transaction trend is presented overleaf:

Table 4: Monthly Transaction Trend

Month	CCIR*	FX Forwards	FX Futures	FX Options	FX Swaps	Other FX Derivatives	Total
	₦'Billion						
January	18.7	447.8	365.8	0.0	887.8	119.9	**1,840.0**
February	19.3	441.4	848.7	0.0	834.7	73.4	**2,217.5**
March	0.0	783.6	1,386.9	0.0	1,528.2	213.8	**3,912.5**
April	0.0	472.9	861.0	0.0	757.7	127.1	**2,218.7**
May	0.0	574.1	826.4	0.0	1,062.4	144.1	**2,607.0**
June	72.1	462.8	789.0	0.0	1,467.9	124.0	**2,915.8**
July	4.3	510.8	581.3	0.0	958.6	114.6	**2,169.6**
August	0.0	843.6	1,013.9	0.0	1,731.4	168.8	**3,757.7**
September	0.0	724.5	284.0	0.0	1,081.8	129.3	**2,219.6**
October	0.0	563.2	248.7	0.0	670.7	133.7	**1,616.3**
November	72.5	812.6	1,151.2	0.0	730.5	170.1	**2,936.9**
December	471.5	733.0	628.9	0.0	836.7	169.6	**2,839.7**
Total	**658.4**	**7,370.3**	**8,985.8**	**0.0**	**12,548.4**	**1,688.4**	**31,250.9**

The derivatives market witnessed appreciable growth during the year, thus maintaining the positive trajectory observed since 2016. The trend is expected to continue in the near to medium term given the increasing awareness, diverse product offering and deepening of the market.

1.04 DEVELOPMENTS IN OTHER FINANCIAL INSTITUTIONS

Developments in the Other Financial Institutions (OFIs) sub-sector in 2019 were as follows:

i. Microfinance Banks

The number of licensed microfinance banks (MFBs) was 912 at end-December 2019, comprising 10 National, 135 State, and 767 Unit MFBs. This represented an increase of 27 from 885 (8 National, 135 State, and 742 Unit MFBs) at end-December 2018. The increase was as a result of the licensing of 8 new MFBs and reinstatement of 19 MFBs from the list initially slated for revocation.

The CBN in collaboration with the National Association of Microfinance Banks, commenced the deployment of the National Association of Microfinance Banks Unified Information Technology (NAMBUIT) software to provide a uniform core banking application on a shared-cost basis. The application is designed to connect the MFBs directly to the Nigeria Interbank Settlement System (NIBSS).

To promote financial inclusion, the CBN in collaboration with the Bankers' Committee and the Nigerian Postal Service established a national microfinance bank, Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL) MFB, with branches planned for all the 774 local government areas in Nigeria. NIRSAL MFB commenced operations with 53 branches.

The CBN revised the authorisation categories of MFBs with a view to enhancing their operations in the rural, unbanked and under-banked areas of the economy. Accordingly, Unit MFBs were categorised into two tiers: Tier 1 Unit MFBs to operate in the urban and high density banked areas with a capital base of ₦200 million while Tier 2 Unit MFBs are to operate in the rural, unbanked or under-banked areas with a capital base of ₦50 million. The capital requirement for State and National MFBs remained at ₦1billion and ₦5 billion, respectively.

Pursuant to the Microfinance Certification Programme, the Chartered Institute of Bankers of Nigeria administered two examinations in April and October 2019. The results showed that 902 operators passed the final level of the certification programme, thereby increasing the total number of certified operators to 6,692 at end-December 2019 from 5,790 at end-December 2018.

The 22nd and 23rd meetings of the Committee of Microfinance Banks in Nigeria were held in Lagos, Abuja, and Owerri. Deliberations at the meetings centered on the review of the minimum capital requirement, cyber security, financial inclusion, deposit insurance, monitoring and enforcement, rendition of monthly returns and submission of audited financial statements. Other issues included the BVN scheme, credit bureaux, National Collateral Registry, AML/CFT, corporate governance and the NAMBUIT. The meetings also provided an opportunity to highlight the achievements of the Nigeria Microfinance Platform/Microfinance Learning and Development Centre.

In furtherance of its objective of ensuring the effective supervision of MFBs, the CBN reviewed and released the following exposure drafts for comments by the industry:

a. Regulatory and Supervisory Guidelines for Microfinance Banks in Nigeria;
b. Microfinance Banking Framework; and
c. Prudential Guidelines for Microfinance Banks.

The comments from stakeholders were being reviewed at end-December 2019.

ii. Primary Mortgage Banks

Following the merger of two primary mortgage banks (PMBs), the number of PMBs in operation decreased to 34 (12 National and 22 State) at end-December 2019, from 35 (12 National and 23 State) at end-December 2018.

The Mortgage Bankers' Committee held its 20th and 21st meetings during the period with deliberations focused on addressing the challenges facing the sub-sector, especially the housing gap and low-level contribution of the mortgage sub-sector to GDP. Other issues discussed included the submission of audited financial statements, performance of the sub-sector, credit reporting, submission of monthly returns, and uniform mortgage underwriting standards. Presentations were made on the state of the mortgage sub-sector by the Nigeria Deposit Insurance Corporation, the Mortgage Warehouse Funding Limited, the Federal Mortgage Bank of Nigeria, the Nigeria Mortgage Refinance Company and the Mortgage Banking Association of Nigeria.

To strengthen the sub-sector and ensure effective supervision, the PMB Guidelines was reviewed and a draft exposed to the industry for comments.

iii. Development Finance Institutions

The number of development finance institutions (DFIs) remained seven at end-December 2019.

The 7th and 8th sessions of the bi-annual DFI forum were held in Abuja and Lagos during the year. The meetings deliberated on the state of the industry, recapitalisation of undercapitalised DFIs and licensing of new ones, timely rendition of returns, submission of audited financial statements, utilisation of intervention funds and review of the Development Performance Indicators, with a view to enhancing the performance and proffering solutions to the challenges facing the sub-sector.

In a bid to de-risk small and medium enterprise (SME) lending, the Development Bank of Nigeria set up a subsidiary, Impact Credit Guarantee Limited to guarantee SME loans. The subsidiary company commenced operations during the year.

iv. Finance Companies

Following the issuance of 11 new licences during the year, the number of finance companies (FC) increased to 80 at end-December 2019 from 69 at end-December 2018.

The template for the rendition of returns was redesigned and a training conducted in October 2019 by the CBN for operators prior to its adoption.

The CBN hosted the meeting of the Finance Houses Association of Nigeria in Lagos on December 3, 2019. Deliberations centered on issues affecting the performance of the sub-sector including corporate governance, returns rendition, AML/CFT, high cost of fund, preparation of audited financial statements and IFRS 9 implementation.

v. Bureaux De Change

The total number of licensed bureaux de change (BDCs) increased to 5,164 at end-December 2019 from 4,492 at end-December 2018. The increase was as a result of the licensing of 672 new BDCs.

A sensitisation workshop was organised for the BDCs in Abuja and Lagos as part of efforts to build capacity and prepare the sector for the second Mutual Evaluation Exercise (MEE) by GIABA in October 2019.

The CBN also hosted the meeting of the Association of Bureaux de Change Operators of Nigeria (ABCON) in Lagos on December 11, 2019. The meeting deliberated on issues affecting the operations of the sub-sector including data integrity, self-regulation, non-adoption of the IFRS by the BDCs in the preparation of audited financial statements and the code of ethics developed for members.

vi. Other Developments

a. Credit Portfolio Transparency Index

The CBN commenced the development of a Credit Portfolio Transparency Index (CPTI) as part of its Credit Reporting System Strengthening Project for OFIs. The CPTI as a supervisory tool is intended to measure the data quality of credit portfolios on a monthly basis and rank each portfolio according to its level of transparency. It would enable supervisors to monitor changes in the credit portfolios of each OFI. The CPTI would utilise data from multiple sources such as credit bureaux, examination reports, FinA application, Credit Risk Management System (CRMS) and the Collateral Registry to enhance on-site credit reviews and improve off-site monitoring of loan portfolios.

b. Workshops

Three workshops were held to sensitise operators on the use of the Common Data Template (CDT) for credit reporting, the redesigned CRMS and CPTI. The workshops were held in Lagos from April 15-17, 2019 and Owerri from April 29-30, 2019. Resource persons from the CBN, the International Finance Corporation and the three private credit bureaux facilitated at the workshops, with a total of 456 participants in attendance. Participants completed evaluation forms on the data structure of their core banking application systems while data quality reports were issued to OFIs on areas of improvement ahead of CRMS enrollment.

The CBN continued to strengthen the OFIs sub-sector in 2019 through regulations and initiatives aimed at repositioning the sub-sector to effectively contribute to the growth of the economy.

1.05 REGULATORY MEASURES TO IMPROVE LENDING TO THE REAL SECTOR IN THE NIGERIAN ECONOMY

In recognition of the importance of the real sector as a key driver of economic growth and development, the CBN introduced measures to improve lending to the sector, address the financing challenges and complement the efforts of the fiscal authority. Specifically, the measures were designed to strengthen the credit reporting infrastructure to improve availability, timeliness and credibility of credit information; eliminate information asymmetry in credit reporting; and strengthen the debt recovery process. The policies introduced were:

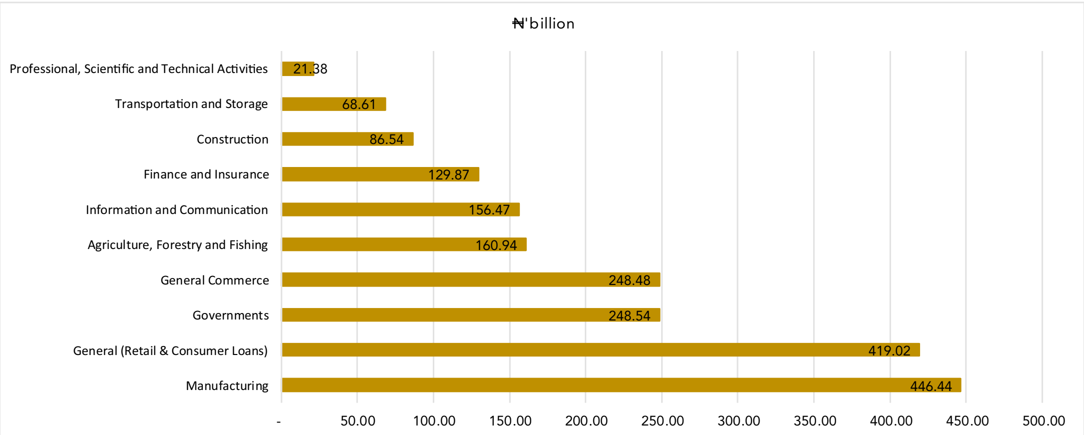
Loan to Deposit Ratio

The CBN, on July 3, 2019, issued a circular titled "Regulatory Measures to Improve Lending to the Real Sector of the Nigerian Economy". The circular directed banks to attain a minimum loan to deposit ratio (LDR) of 60.0 per cent by September 30, 2019. In realisation of the criticality of lending to SMEs, retail, mortgage and consumer to the growth of the economy, the regulation also assigned higher weights to the sectors in the computation of the LDR. Furthermore, banks were required to strengthen their risk management practices, particularly with respect to their lending operations.

Following the successes recorded at end-September 2019, to sustain the momentum, the CBN reviewed the LDR requirement upwards to 65.0 per cent with compliance measurable on a quarterly basis.

Overall, the total credit of the industry increased by ₦1,997.7 billion or 12.8 per cent to ₦17,565.4 at end-December 2019 from ₦15,567.7 billion at end-May 2019. Sectors that recorded the highest increase in credit in the period were manufacturing, general (retail & consumer), government, general commerce, agriculture, information and communication, construction and transportation, as shown in the chart below:

Figure 2: Increase in Credit between End-May and December 2019



The increase in credit to the manufacturing sector was reflected in the Purchasing Managers' Index (PMI) with the various components of the PMI recording increase between May and December 2019. For instance, the "Production Level" and "New Orders" increased to 61.8 and 61.5 at end-December 2019 from 59.1 and 56.9 at end-May 2019, respectively. Also, the Composite PMI increased to 60.8 at end-December 2019 from 57.8 at end-May 2019.

Credit Score/Report in Private Credit Bureaux

The generation of credit scores by licensed private credit bureaux has over time been hampered by limited source and quality of data as well as the absence of credit information on a large section of the population without credit history. To address these shortcomings, the CBN embarked on the following to improve the credit scoring and reporting processes:

a. Expanding the sources of data used in the generation of credit score with additional non-credit data sources from institutions under the supervision of other regulatory agencies;

b. Streamlining the rendition of credit information to private credit bureaux from regulated lenders towards resolving the challenges with timeliness, accuracy and completeness of submissions; and

c. Identifying and eliminating multiple profiles for data subjects in the databases of the private credit bureaux by uniquely identifying each data subject with BVN (individuals) or Tax Identification Number (non-individuals).

The intent of these measures is to enable lenders to make informed credit decisions based on the credit scores and reports generated for borrowers without credit history.

The implementation of the above policy measures is expected to have a salutary effect on the economy by enhancing lending to the real sector. The CBN will continue to monitor the implementation of the policies to ensure that banks perform their financial intermediation function effectively.

1.06 MEASURES TO IMPROVE CREDIT CULTURE

The CBN has over the years taken measures to improve credit culture in the banking system. One of such measures was the creation of the CRMS in 1990 for credit reporting by banks. Initially designed for reporting credits of N1 million and above, the CRMS was redesigned in 2017 to accommodate credits from all banks and other financial institutions irrespective of the amount.

To improve credit reporting coverage, the CBN issued the Guidelines for the Licensing, Operations and Regulation of Credit Bureaux in Nigeria in 2008. Consequently, three private credit bureaux, First Central Credit Bureau Ltd (formerly XDS Credit Bureau Ltd); CRC Credit Bureau Ltd; and CR Services Credit Bureau Plc were licensed. The guidelines was revised in 2013. Also, the Credit Reporting Act was enacted in 2017, requiring all credit providers in the country to submit credit information to the credit bureaux and obtain credit reports on their customers before extending credit to them.

In furtherance of efforts to improve credit repayment culture, reduce incidences of non-performing loans and enhance credit risk management in the system, the Bankers Committee adopted the Global Standing Instruction (GSI) to facilitate the seamless recovery of loans in the event of a default. The GSI, which leverages the BVN database, is principally a collaboration between banks and the NIBSS and is designed to provide additional comfort to creditors. Prospective borrowers are required to execute the GSI mandate, authorising creditors to access funds from any account maintained by the borrower in the banking system in the event of a default.

To guide the implementation of the policy, the CBN issued a circular titled "New Offer Letter Clause for Credit Facilities" on August 16, 2019. Highlights of the circular include:

a. The requirement for the insertion of a new clause in offer letters and loan agreements, which grants banks and other financial institutions the right to set-off the indebtedness of a borrower from any fund standing to his/her credit in any bank account and from any other financial assets held for his/her benefit. Also, the clause precludes the borrower from exercising his/her right of confidentiality arising under common law or statute and irrevocably accepting not to argue to the contrary before any court of law, tribunal, administrative authority or any other body acting in any judicial or quasi-judicial capacity;

b. In addition to the clause, all loan documentation should contain the BVN of the obligor for individual loans; and the Tax Identification Number and BVN of the directors for corporate loans;

c. Where personal guarantees are provided, the BVN of the guarantor in respect of individual or corporate loan should be provided; and

d. In the event of default, the bank that originated the credit shall initiate the process for the utilisation of the defaulting borrowers' deposits in other banks in repayment of the obligation.

The implementation of the GSI is expected to further improve credit culture and discipline in the industry. The CBN will continue to strengthen credit risk management, encourage credit reporting and prevent the build-up of non-performing loans in the banking system.

1.07 NIGERIA HOUSING FINANCE PROGRAMME POST-CLOSURE ACTIVITIES

The Nigeria Housing Finance Programme (NHFP), a collaborative initiative of the CBN and the World Bank, which commenced on March 5, 2014 ended on December 31, 2018. At closure, the components of the programme were at various levels of completion. The Project Administration Team of the initiative metamorphosed into a Housing Finance Team in the CBN and continued with the implementation of the outstanding tasks. The Housing Finance Team carried out the following activities during the period:

Mortgage Guarantee Scheme

In line with the regulatory guidelines for the operations of mortgage guarantee companies in Nigeria issued in November 2018, the Housing Finance Team embarked on the following:

a. Held meetings with members of the Mortgage Banking Association of Nigeria, commercial banks and international development institutions to get their buy-in and commitment to invest in the guarantee company.

b. Consulted with the World Bank on the possibility of extending the provision for tier 2 financing in the NHFP since the fund was not fully drawn down before the project closure.

c. Engaged the National Pension Commission on the desirability of adopting the Nigeria Mortgage Guarantee Company as a vehicle for the implementation of the provision of Section 89(2) of its Act, which permits Pension Fund Administrators to apply a percentage of the assets in the Retirement Savings Account of contributors as equity contribution for residential mortgages.

Model Mortgage and Foreclosure Law

In recognition of the importance of the enactment of appropriate mortgage and foreclosure laws by States of the Federation to the conduct of mortgage business in Nigeria, the Director General of the Nigeria Governors' Forum (NGF) Secretariat was engaged to solicit the support of the NGF towards ensuring the speedy enactment of the law.

Committee of Mortgage Lenders

To enhance collaboration between primary mortgage banks and commercial banks involved in mortgage lending, the CBN set up the Committee of Mortgage Lenders with the Deputy Governor, Financial System Stability as the Chairman. The Committee was also charged with the responsibility of reducing opportunities for arbitrage in the mortgage sector.

Housing Microfinance

Under the housing microfinance component of the NHFP, some microfinance banks that were used as pilot institutions submitted requests for additional funds to meet the demand for mortgage loans, having fully disbursed the funds that were made available for on-lending.

Mortgage Interest Drawback Programme

A mortgage interest drawback programme was introduced to deal with challenges associated with high interest rate and provide long-tenored liquidity refinancing to mortgage lenders. The Mortgage Interest Drawback Programme is intended to provide 40.0 per cent interest rebate on performing residential mortgages for the low-income group.

The implementation of the NHFP has contributed to changing the housing finance landscape in Nigeria by providing access to mortgages at reduced interest rates. The CBN will continue to ensure that all the components of the NHFP are completed as envisaged in the programme towards delivering affordable housing to Nigerians.

1.08 ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM

In furtherance of its efforts to ensure that Nigerian banks are not used as gateways for money laundering and financing of terrorism, the CBN:

i. Participated in the second Mutual Evaluation Exercise (MEE) of Nigeria conducted by the Inter-governmental Action Group against Money Laundering in West Africa (GIABA) from September 23 to October 14, 2019. The exercise evaluated the level of technical compliance and effectiveness of Nigeria's AML/CFT regime with international standards, particularly the Financial Action Task Force (FATF) 40 Recommendations. It also involved a peer review by member countries and included the assessment of the effectiveness of measures to combat money laundering and terrorist financing (ML/TF).

   Unlike the first MEE in 2008 that evaluated Nigeria based on Technical Compliance only, the second exercise assessed the country on Technical Compliance and Effectiveness components. Under the Technical Compliance assessment, laws, regulations, institutional arrangements and other legal instruments in place to combat ML/TF and proliferation financing were reviewed. The Effectiveness assessment focused on the implementation of the FATF Recommendations to determine whether they were producing the expected outcomes.

ii. Amended and published in the gazette, the CBN AML/CFT Regulations for Banks and Other Financial Institutions in Nigeria issued in 2013 to align the regulation with the reviews/updates in the FATF Recommendations, domestic laws on AML/CFT and emerging issues on ML/TF.

iii. Issued a circular to all banks dated January 30, 2019 and referenced BSD/DIR/GEN/LAB/12/002, reiterating the need for BVN details of account signatories, directors and beneficial owners to be linked to their respective non-individual accounts. The circular also required that BVN details of non-resident non-Nigerian directors of companies be linked to the corporate accounts.

    The Bank also issued a circular dated September 20, 2019 and referenced FPR/DIR/CIR/GEN/03/07/037, directing banks and other financial institutions to enhance their surveillance systems and report all transactions involving persons and entities designated under the United Nations Security Council Resolution 1718 and all other resolutions relating to the Democratic People's Republic of Korea.

iv. Commissioned a study on virtual currencies and distributed ledger technology to better understand the developments and their implications for the Nigerian financial system. The study will enable the Bank to gain insight with a view to developing an appropriate policy response.

v. Conducted AML/CFT risk-based examination of all banks, five foreign subsidiaries of Nigerian banks and 100 BDCs to ascertain their levels of compliance with AML/CFT requirements.

vi. Conducted sensitisation workshops for banks and other financial institutions as well as for members of staff of the CBN.

To ensure that operators have good compliance programmes to mitigate the adverse effects of criminal economic activities and promote integrity and stability in the financial system, the Bank will continue to monitor and support banks and other financial institutions with a view to strengthening their AML/CFT programmes.

1.09 DEVELOPMENT IN THE REGULATION OF NON-INTEREST FINANCIAL INSTITUTIONS

Towards realising the full potential of non-interest financial institutions, the Bank continued to ensure the development of the sub-sector with the objective of complementing the conventional banking system, expanding the scope and diversity of banking services and enhancing financial inclusion. Key developments in the non-interest financial sub-sector during the year included:

i. The reconstitution and inauguration of the fourth Financial Regulation Advisory Council of Experts (FRACE) on September 16, 2019 for a term of two years. The membership of the FRACE included five Nigerians and two foreigners. The FRACE held two meetings in 2019 and approved a total of 19 products, which comprised nine deposit products, nine financing products and one harmonised terms and conditions for four non-interest financial institutions.

ii. An increase in the number of non-interest financial institutions (NIFIs) to seven from four with a full-fledged non-interest bank with regional authorisation, Taj Bank Limited; a unit non-interest microfinance bank, Halal Credit Microfinance Bank; and a non-interest banking window in Suntrust Bank that commenced operations during the year.

iii. The sub-sector's total assets increased by 37.6 per cent to ₦218.9 billion at end-December 2019 from ₦159.0 billion at end-December 2018. Similarly, total deposits mobilised by the non-financial institutions using qard contract (current account) and mudarabah (profit-sharing investment accounts) increased by 37.5 per cent to ₦149.3 billion at end-December 2019 from ₦108.6 billion at end-December 2018. Financing (equivalent to loan and advances in conventional banking) increased by 13.8 per cent to ₦85.2 billion at end-December 2019 from ₦74.8 billion at end-December 2018.

The non-interest financial institutions sub-sector has the potential to enhance financial inclusion considering the growth in the number of institutions, total assets and deposits. The CBN will continue to support the sub-sector to ensure the deepening of financial services and providing options for alternative finance in the Nigerian economy.

CHAPTER 2

FRAMEWORK FOR SUPERVISION

2.01 MACROPRUDENTIAL SUPERVISION

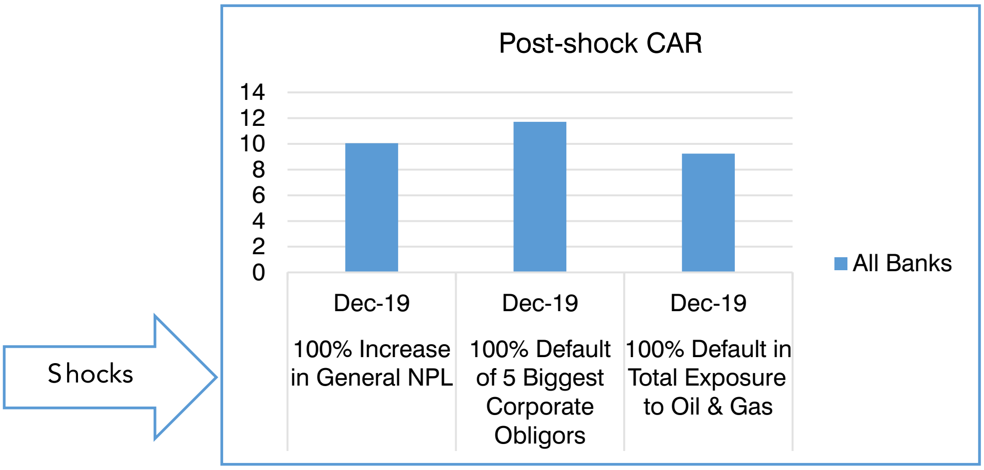
The CBN continued its macro-prudential supervisory activities to mitigate risks in the Nigerian financial system and reduce the macroeconomic costs of financial instability. In this regard, quarterly stress tests were conducted to evaluate the resilience of the banking industry to shocks arising from credit, interest rate, exchange rate and contagion risks.

The quarterly stress test of December 2019 covered 26 banks and measured the impact of the following shocks, among others, on industry capital adequacy ratio (CAR):

a. 100 per cent increase in non-performing loans (general credit default);
b. 100 per cent default by the five biggest obligors (obligor concentration); and
c. 100 per cent default in oil and gas exposures (sector concentration).

The pre-test industry CAR at end-December 2019 was 14.5 per cent. The result of the stress test, depicted in Figure 3 below, indicated that the shock to non-performing loans (NPLs) would cause the industry CAR to deteriorate to 10.1 per cent, default by five biggest obligors would deteriorate CAR to 11.7 per cent and default in oil and gas exposures would deteriorate CAR below the regulatory minimum.

Figure 3: Stress Test Results – Post-shock CAR



The stress test result showed that the banking industry was resilient to the shocks. General credit default risk, credit concentration risk in the oil and gas sector and default of the top obligors continued to be the dominant risks faced by the industry. These risks were being closely monitored by the Bank with a view to taking proactive actions.

The CBN remains committed to complementing its macroprudential supervision with other regulatory tools to ensure that risks are identified, monitored and mitigated in the financial system.

2.02 GUIDE TO CHARGES BY BANKS, OTHER FINANCIAL AND NON-BANK FINANCIAL INSTITUTIONS

In order to harmonise charges in the banking industry, encourage the use of e-payment services and enhance financial inclusion, the Guide to Charges by Banks and Other Financial Institutions in Nigeria was reviewed in 2019. The review was to introduce charges for products and services not previously covered by the Guide and eliminate observed ambiguities.

Highlights of the changes introduced in the Revised Guide include:

a. Providing for governance and accountability to enable the CBN hold Executive Compliance Officers accountable for breaches of the provisions of the Guide;

b. Detailing the sanctions on financial institutions and their officers found culpable for breaches of the provisions of the Guide;

c. Introducing a negotiable rate for foreign currency deposits held as collateral, to address various consumer-related complaints;

d. Introducing measures to prevent banks and other financial institutions from indiscriminately charging advisory/consultancy fees;

e. Amending the fees on bonds, guarantees and indemnities in line with the AMCON (amendment) Act, which requires the inclusion of off-balance sheet items as part of total assets for the computation of a bank's contribution to the Banking Sector Resolution Trust Fund;

f. Eliminating the charges for standing orders (in-branch) and reducing the inter-bank standing order charges; and

g. Revising the charges for e-banking services to promote increased adoption of e-payment services.

Table 5: Key Changes in the 2017 and Revised Guide

S/N	Section	Description	Rate per 2017 Guide	Rate per Revised Guide
1	1.5-Deposits held as collateral	Foreign Currency Deposit	Nil	Negotiable
2	4-Commission on Bonds, Guarantees and Indemnities	Bid Bond, Performance Bond, Advance Payment Guarantee, Third Party Indemnity, Bank Guarantee	Negotiable, subject to a maximum of 1 per cent of the value (one-off charge)	Negotiable subject to a maximum of 1 per cent of the value for the first year and 0.5 per cent on subsequent years on contingent liabilities
3	8.1	Processing and Registration of Nigerian Export Proceeds Form (NXP)	₦3,000 in addition to cost of Form NXP as advised by the CBN	₦3,000 in addition to maintenance fee on Form NXP as advised by the CBN
4	8.5	Purchase of Form A	₦1,500 per form	₦3,000 in addition to maintenance fee on Form A as advised by the CBN
5	8.6.1	Processing of Form 'M'	₦3,000 in addition to maintenance fee on e-Form platform in line with CBN Directive	₦3,000 in addition to maintenance fee on Form NXP as advised by the CBN
6	8.13	Processing of Non-commercial Export Form (NCX)	Nil	₦3,000 in addition to maintenance fee on Form NCX as advised by the CBN
7	9.6	Standing Order Charge (in-branch) at the Instance of the Customer	Intra-bank ₦300 (One-off) Inter-bank ₦300 (one-off) plus applicable in-Branch Electronic Funds Transfer charge	Intra-bank – No charge Inter-bank - Maximum of ₦50 per transaction
8	9.7	Direct Debit	As may be advised by CBN	Direct Debit Charge: Same as the cost of platform used Failed Direct Debit due to reasons other than the account being unfunded - No charge Failed Direct Debit due to the account being unfunded – 1 per cent of amount or ₦5,000 whichever is higher (to be borne by drawer only)
9	10.2	Electronic funds transfer of any amount	₦50	Below N5,000 - Maximum of ₦10 ₦5001 - ₦50,000 - ₦25 Above ₦50,000 - ₦50
10	10.4-Card Maintenance Fees	Foreign Currency Denominated Debit/Credit Cards	$20/Annum per card	$10/Annum per card

S/N	Section	Description	Rate per 2017 Guide	Rate per Revised Guide
11		Naira Debit/Credit Card	₦50 monthly	Card linked to current account - No charge Cards linked to savings account - Maximum of ₦50 per quarter
12	10.6-Debit Card Charges	Remote-On-Us (from another bank's ATM) in Nigeria	₦65 after the third withdrawal within the same month	Maximum of ₦35 after the third withdrawal within the same month
13	10.8	Merchant Service Commission	Negotiable	0.50 per cent of transaction value but not more than ₦1,000
14	10.9	Bulk Payments (e.g. salaries, dividends etc.)	Negotiable subject to a maximum of ₦50 per beneficiary payable by the sender	Negotiable subject to a maximum of ₦15 per beneficiary payable by the sender
15	10.10	SMS Alert (mandatory)	Not more than ₦4/SMS. (Fees on alerts are restricted to only customer-induced transactions). All associated notifications relating to a particular transaction should be consolidated into a single SMS alert	Cost recovery (on customer-induced transactions). No charge (for bank-induced transactions)
16	10.13	Use of Unstructured Supplementary Service Data (USSD)	Cost recovery	Current NIP charges apply
17	10.14	Purchase with cash-back	Nil	₦100 per ₦20,000 subject to cumulative ₦60,000 daily withdrawal

The implementation of the revised Guide, effective January 1, 2020, is expected to enhance flexibility, transparency and increase consumer confidence in the banking industry. The CBN will continue to ensure that the Guide reflects changes in market dynamics and business environment.

2.03 GUIDELINES ON PILLAR 2 RISKS AND STRESS TESTING FOR BANKS

To sustain the gains achieved in the implementation of Basel II/III and further strengthen the supervisory review and evaluation process, the CBN issued guidelines on Pillar 2 risks, assessment of banks' business models and stress testing, in March 2019. The guidelines detail the processes and methodologies to be adopted by banks in the management and quantification of pillar 2 risks. The highlights of the guidelines are provided below:

i. Guidelines on Management of Credit Concentration Risk: This provides specific guidance to banks on identification; assessment; quantification; management and oversight, reporting; and control of credit concentration risk arising from single and groups of connected counterparties, sectoral, geographical, asset classes, products and collateral or concentration in currencies. This is expected to assist banks in establishing sound risk management practices to mitigate credit concentration risk.

ii. Supervisory Assessment of Banks' Business Model: This provides guidance on the approach and criteria for assessing business and strategic risks in banks. The assessment is used to determine the viability and sustainability of their business models and how they generate income and profit.

iii. Guidelines for the Management of Reputational Risk: This provides guidance to banks on the adoption and implementation of appropriate policies and procedures to effectively manage their reputational risks and events to minimise the potential consequences of reputational damage on capital and liquidity.

iv. Guidelines on Management of Interest Rate Risk in the Banking Book: This sets out expectations on how to manage risks due to adverse movements in interest rate sensitive instruments in the banking book. Banks are required to have comprehensive risk management processes in place to effectively identify, measure, monitor and control interest rate risk in their banking books.

v. Guidelines on Stress Testing for Nigerian Banks: This requires banks to identify vulnerabilities in their business models and implement robust forward-looking capital adequacy assessment processes based on key risk drivers and macroeconomic factors. The Guidelines provides comprehensive standards on sound governance and the design and implementation of stress testing frameworks that reflect their risk profiles consistent with the requirements of Pillar 2 of the Basel capital framework.

With the issuance of the guidelines, the CBN has ensured compliance with the requirements of Basel II in the areas of pillar 2 risks and stress testing. The implementation of the guidelines has resulted in marked improvements in the quality of banks' processes for the assessment of pillar 2 risks and internal capital levels.

2.04 IFRS 9 IMPLEMENTATION AND TRANSITIONAL ARRANGEMENTS FOR OTHER FINANCIAL INSTITUTIONS

In continuation of the implementation of IFRS 9 in the banking industry, the CBN issued guidelines titled "Guidance Note to Other Financial Institutions on the Implementation of IFRS 9 (Financial Instruments) in Nigeria" to the sub-sector in March 2019.

The Guidance Note details supervisory expectations for the implementation of the new Standard, especially in areas where the OFIs were expected to exercise judgment, and/or elect to use simplifications and other practical expedients permitted under the Standard. It provides regulatory expectations on the measurement of financial instruments by the OFIs in the following areas:

Assessment of Significant Increase in Credit Risk

In assessing significant increase in credit risk (SICR), OFIs are expected to consider quantitative, qualitative and 'backstop' (30 days past due presumption) indicators. However, OFIs with loans with tenor of not more than 180 days are required to use seven days past due presumption while 90 days past due presumption should be used for long term financial instruments such as mortgage loans with tenor longer than 10 years. Also, OFIs are expected to consider the change in lifetime probability of default (PD) by comparing the lifetime PD at the reporting date with the lifetime PD at initial recognition. Furthermore, OFIs are to consider qualitative factors such as classification of exposures in the private credit bureaux or the CRMS; deterioration of relevant credit risk drivers for obligors; and expectation of forbearance or restructuring due to financial difficulties; among others, in assessing SICR.

Staging and Transfer Criteria

OFIs are expected to place financial instruments without SICR in the 12-month expected credit loss (ECL) bucket at transition regardless of the obligor's credit risk rating at origination. However, where SICR has been observed, such credits are to be moved to lifetime ECL. For transfers, OFIs are required to observe a probationary period of 90 days (30 days for loan facilities with less than 180 days tenor) to confirm if the risk of default has decreased sufficiently before upgrading from Stage 2 to Stage 1. In addition to the 90 or 30 days probationary period above, OFIs are required to observe a further probationary period of 90 or 30 days to upgrade from Stage 3 to 2. A further probationary period of 180 or 60 days is required prior to the upgrading of a financial asset from Stage 3 to Stage 1. OFIs are also required to adopt a definition of "default" consistent with the provision of Paragraph 12.1(b)(2) of the Prudential Guidelines for Banks and Discount Houses in Nigeria, 2010.

Impairment of Financial Instruments

OFIs are required to put in place appropriate policies, systems and tools to ensure sound credit risk assessment and measurement as well as the computation of ECLs. Also, their ECL methodologies should be commensurate with their size, complexity, structure and risk profile. In determining the level of sophistication required in developing the ECL model, they are expected to consider factors such as the extent of systemic risk posed by the level and volatility of historical credit losses, complexity of products and other related modelling methodologies. A review of the methodologies and assumptions underlying the ECL methodology should be conducted at least annually.

Probability of Default

In developing models to produce PDs, OFIs are required to ensure that key risk drivers are identified and calibrated based on historical data for at least three years. In the absence of the three years historical data, external sources may be utilised. OFIs are not permitted to assume a constant marginal rate of default over the remaining lifetime of a financial instrument without appropriate supporting analysis.

Loss Given Default

OFIs are required to analyse relevant macroeconomic indicators that influence loss given default (LGD) or its components to aid estimation of collateral values when modelling the term/structure of LGD. The modelling methodology for LGD, where appropriate, should be designed at a component level with the calculation of LGD broken down into drivers.

Exposure at Default

OFIs are to ensure that the period of exposure in their models is not shorter or longer than the maximum contractual period over which the entity is exposed to credit risk. To determine the period of exposure that equals the historical average life of loans, OFIs are required to evaluate whether it is consistent with forward-looking expectations based on reasonable and supportable information. Guidance is also provided on exposure at default (EAD) for revolving credit facilities and financial guarantee contracts. The use of 12-month EAD as a proxy for lifetime EAD without appropriate justification is not permissible.

Discount Rate

OFIs are required to make appropriate adjustments to the discount rate employed for regulatory purposes when computing ECL/LGD, reflect the effect of time value of money in ECL and ensure that the discount rate used approximates the effective interest rate.

Model Validation

OFIs should have policies and procedures for the validation of the models used in the assessment and measurement of ECL. The validation process should allow for systematic evaluation of robustness, consistency and accuracy of the model as well as its relevance to the underlying portfolio. The scope for validation should include review of assumptions, inputs, design, outputs and establish thresholds for model performance. Model validation should be conducted upon development of the model and in the event of significant changes. Validation should be performed independent of the model development process and subjected to review by the internal and external auditors.

Credit Risk Simplification

IFRS 9 permits the use of "low credit risk simplification" for financial instruments considered to have low credit risk with no SICR. In this regard, OFIs are required to exercise this simplification in limited circumstances and use it for only risk free and gilt-edged securities.

Reasonable and Supportable Information without Undue Cost and Effort

OFIs are expected to track market data required for the measurement and assessment of SICR by conducting detailed analysis of their risk assets on a regular basis using all available and reliable data, incorporating expert credit judgment and other relevant factors. OFIs are required to consider forward-looking information in their ECL models and apply sound judgment in forecasting macroeconomic parameters. In this regard, they are to avoid the application of a single future economic scenario for a portfolio and use of only internally developed forecasts or reference to a single external source. Also, the development of ECL methodologies that are not commensurate with their complexity, structure, economic significance and risk profile; and the use of inconsistent macroeconomic parameters across risk management and capital planning processes are to be avoided. Furthermore, OFIs are required to monitor their approaches to analysing forward-looking information and the appropriateness thereof in the light of changing circumstances.

Write-off of Non-performing Facilities

IFRS 9 requires an entity to write-off the portion of the gross carrying amount of a financial asset for which no reasonable expectations of recovery exist, with such write-off considered a de-recognition event. In this regard, however, OFIs are required to abide by relevant prudential regulations guiding write-off of non-performing financial assets.

Modified Financial Assets

Modifications or renegotiations can mask increases in credit risk, thereby resulting in ECL being underestimated or delaying the transfer to lifetime ECL for an obligor whose credit risk has significantly deteriorated. OFIs are therefore expected to treat the modification of a distressed asset as an originated credit-impaired financial asset requiring recognition of lifetime ECL. OFIs are required to fully disclose all modified financial assets that result in de-recognition in their financial statements and submit quarterly returns thereon to the CBN.

Transition Requirements and Other Arrangements

IFRS 9 requires reporting entities to apply the Standard retrospectively and permits the restatement of prior periods without benefit of hindsight. OFIs are encouraged to adopt the exception to retrospective application contained in the Standard. Also, OFIs that were yet to adopt IFRS 9 were required to do so and engage external auditors to validate/certify their IFRS 9 accounting policies/systems and models by the second quarter of 2019.

Furthermore, OFIs were required to submit the following information on their IFRS 9 implementation projects to the CBN not later than June 30, 2019:

a. Project governance structure;
b. IFRS gap analysis and impact assessment;
c. ECL model;
d. Classification of financial assets and liabilities; and
e. Project status report.

Monthly status updates were also to be submitted effective July 31, 2019. To ensure a seamless implementation, the Bank established a Project Team to assist the OFIs.

In addition to the issuance of the Guidance Notes, the CBN conducted a training for Examiners on IFRS 9 to equip them with the requisite skills and knowledge on the Standard. Also, the Bank engaged stakeholders in the sub-sector, including Association of Bureau de Change Operators in Nigeria; Association of Development Finance Institutions in Nigeria; Finance House Association of Nigeria; Committee of Microfinance Banks in Nigeria; and the Mortgage Banking Association of Nigeria on the implementation of IFRS 9. The engagement afforded the OFIs the opportunity to provide feedback on their implementation strategies and challenges encountered in the process.

The Guidance Notes on IFRS 9 was issued to OFIs to provide clarification on regulatory expectations regarding the measurement and classification of financial instruments. The CBN remains committed to the implementation of the Standard to ensure prompt recognition of credit losses in OFIs.

2.05 PAYMENTS SYSTEM REGULATION

The CBN issued regulations to enhance the efficiency and safety of the payments system in the following areas:

Cash-less Policy: To promote the use of electronic payments and reduce cash transactions, a circular titled "Implementation of the Cash-less Policy" was issued in 2011.

However, a phased approach was adopted in the implementation of the circular with Abuja, Lagos and Port Harcourt being the first locations affected. Following the decision to implement the policy nationwide, another circular on the same, reinforcing the requirements that cash lodgements and withdrawals above ₦500,000 and ₦3,000,000 respectively, by individuals and corporate entities be subject to charges was issued on September 17, 2019. The effective date for compliance was set at March 31, 2020.

Regulation on Electronic Payments and Collections for Public and Private sectors in Nigeria: The Guidelines on Electronic Payment of Salaries, Pensions, Suppliers and Taxes in Nigeria, 2014 was revised and renamed "Regulation on Electronic Payments and Collections for Public and Private sectors in Nigeria", in September 2019. The revised regulation re-emphasised the need to promote the adoption of end-to-end electronic payments and collections, minimise leakages in revenue receipts as well as provide reliable audit trails. In addition, the regulation specified the licensing requirements for payments service providers.

Review of Process for Merchant's Collections on Electronic Transactions: To provide guidance for the unbundling of applicable taxes/duties in individual PoS transactions from merchant settlement amounts, a circular titled "Review of Process for Merchant's Collections on Electronic Transactions" was issued in September 2019. The circular also reviewed merchant service charge on transactions from 0.75 per cent to 0.5 per cent, subject to a maximum of N1000.

Regulation for the Operation of Indirect Participants in the Payments System: In October 2019, a regulation was issued to outline the procedures for the effective integration of indirect participants in the payments system, standardise the operation of the indirect participants taking into cognisance their operational risks and provide a framework for the clearing and settlement of their payment instruments by direct participating banks. Furthermore, it sought to strengthen indirect participants to enhance their contributions to the provision of digital financial services.

Circular on Pre-Authorisation of Cards in Nigeria: To address the challenges associated with the predominant use of single messaging format, which constrained merchants from using pre-authorisation of cards for processing payments, the CBN issued a circular on "Pre-authorisation of Cards", in December 2019. The circular directed the NIBSS to ensure that only certified PoS with pre-authorisation and sales completion capabilities are registered on the Central Terminal Management System. The deadline for compliance was set at July 31, 2020.

Operation of Mobile Money Wallets by Deposit Money Banks

In furtherance of efforts to deepen financial inclusion, a circular titled, "Operation of Mobile Money Wallets by Deposit Money Banks", was issued on July 4, 2019. The circular

eliminated the need for banks to obtain the prior approval of the CBN to offer mobile money wallet services with only pre-commencement notification required.
The CBN will continue to monitor developments in the payments system with a view to formulating appropriate regulations to enhance its efficiency towards ensuring financial system stability.

2.06 GUIDELINES FOR THE OPERATION OF MORTGAGE GUARANTEE COMPANIES IN NIGERIA

In November 2019, the CBN issued the guidelines for the operation of mortgage guarantee companies in Nigeria. Mortgage guarantee companies (MGCs), as a new class of OFI, were introduced to enhance access to mortgage finance by mortgagors. The MGCs are expected to share credit risk with mortgage lending institutions by reducing or eliminating the requirement for equity contribution that would otherwise have disqualified some mortgagors from accessing mortgage finance. MGCs are required to provide guarantee to mortgage originators against losses arising from defaults on residential mortgages. Highlights of the Guidelines are presented below:

Permissible and Non-permissible Activities.
In order to focus the operations of MGCs, the Guidelines detailed their permissible and non-permissible activities as follows:

i. Permissible Activities

a. Guaranteeing of residential mortgage loans either fully or partially;
b. Investing in government securities and other investments as defined in Section 8.8 of the Guidelines;
c. Assuming ownership of foreclosed residential mortgages, subject to a limit of 20.0 per cent of shareholders' funds unimpaired by losses with any excess thereon requiring the prior written approval of the CBN;
d. Issuing bonds and notes to fund their operations;
e. Providing technical assistance to lenders on credit and business development-related activities to enhance industry expertise; and
f. Carrying out any other activity as may be prescribed by the CBN from time to time.

ii. Non-permissible Activities

a. Accepting deposits of any kind;
b. Granting loans, including mortgage loans;
c. Originating primary mortgages;
d. Financing real estate construction;
e. Engaging in agency or facility management and project management relating to real estate;
f. Managing pension funds;

g. Engaging in foreign exchange, commodity and equity trading; and
h. Engaging in any other activity prohibited by the CBN from time to time.

Corporate Governance Requirements
The Board of Directors of MGCs are required to consist of a minimum of seven and a maximum of eleven members with the number of non-executive directors exceeding executive directors and at least one member as an independent director.

Members of the Board are also required to possess relevant qualifications and cognate experience with at least a member experienced in actuarial or insurance practice. Furthermore, the Board is required to appoint an actuary to review the risk profile of the company on an annual basis and provide an actuarial assessment thereon.

Licensing Requirements
MGCs are expected to comply with the minimum paid-up capital requirement of ₦10 billion and non-refundable application and licensing fees of ₦100,000.00 and ₦1 million, respectively.

Capital Adequacy Ratio
MGCs are required to maintain a minimum capital adequacy ratio of 100.0 per cent, which is computed as the ratio of the Available Solvency Margin (Tier I and Tier II capital) to the Required Solvency Margin (contingency reserve).

Risk Sharing
An MGC is required to retain at least 50.0 per cent of its risk in force at all times. The balance may be ceded to one or more mortgage reinsurers licensed to operate in Nigeria. The reinsurance, however, shall be in line with its reinsurance strategy as approved by the CBN.

Management of Mortgage Guarantee Risk
The portfolio of investments held by an MGC is expected to adequately hedge the stream of liabilities identified by an actuary in the annual actuarial report. MGCs are permitted to use financial derivatives as hedging instruments.

Reserves
MGCs are required to maintain three separate reserves as follows:

a. Contingency reserve (akin to statutory reserve) consisting of appropriations from profit-after-tax (PAT) or guarantee fees. Specifically, MGCs shall appropriate to the contingency reserve, not less than 40.0 per cent of the guarantee fees earned during the year or 25.0 per cent of PAT, whichever is higher.

b. Loss reserve reflecting loss frequency and severity, which shall include claims reported and claims incurred but not reported such as estimated losses on guaranteed loans that have resulted in the conveyance of property that remains unsold; guaranteed loans in the process of foreclosure; and guaranteed loans in default for not less than 120 days.

c. Unearned guarantee fees reserve, which shall be calculated in accordance with the accounting procedures in the Operations Manual of MGCs with current guarantee fees recognised as income.

The issuance of the guidelines on the operation of MGCs is borne out of the commitment of the CBN to ensure that MGCs empower mortgagors to access housing finance and incentivize mortgage lending to mortgagees through credit risk sharing. The CBN will continue to monitor the operations of MGCs in order to ensure that they effectively perform their role of reducing housing deficit in Nigeria.

2.07 GUIDELINES ON THE IMPLEMENTATION OF ISLAMIC FINANCIAL SERVICES BOARD STANDARDS BY NON-INTEREST FINANCIAL INSTITUTIONS

The CBN, in March 2019, issued guidelines to align the operations of the non-interest financial institutions (NIFIs) in Nigeria to the Islamic Financial Services Board (IFSB) Standards 4, 15 and 16 on Disclosure Requirements, Capital Adequacy and Supervisory Review Process. Highlights of the guidelines are presented below:

i. Guidance Notes on Regulatory Capital: An adaptation of Pillar 1 of Basel II, this Guidance provides for the determination of regulatory capital and computation of CAR with the distinguishing features being the treatment of the parameters, namely: profit-sharing investment accounts (PSIA), profit equalization reserves and investment risk reserves. In the computation of CAR, the parameters are to be adjusted by an alpha factor of 0.5 and excluded from the total risk-weighted assets. Also, interest bearing financial instruments are to be excluded and replaced with Musharakah Sukuk in additional Tier 1 and Wakala and Mudarabah Sukuk in Tier 2 capital.

ii. Guidance Notes on the Calculation of Capital Requirement for Credit Risk: This provides guidance on the calculation of credit risk for NIFIs, taking into account the risk transformation characteristics of non-interest banking products, using the Standardised Approach. The Notes takes cognisance of the requirement that, for sale-based products, constructive possession of the underlying assets is required; therefore, a NIFI cannot sell what it does not possess. Also, the categorisation of risk is based on the stage of a transaction.

iii. Guidance Notes on the Calculation of Capital Requirement for Operational Risk: This provides guidance on the calculation of capital charge for operational risk for NIFIs using the Standardised (TSA) and Basic Indicator (BIA) approaches. Under TSA, the capital requirement for operational risk shall be equal to the average of the observations of TSA amount for last three years, while, the capital requirement using the BIA shall be equal to 15.0 per cent of the average of the positive observations of the relevant indicator (i.e. gross income) for the last three years. NIFIs are required to assess the correlations among the various types of risks and identify their possible impact in terms of operational risk, broadly divided into four categories, namely, general, Shari'ah non-compliance, legal and fiduciary risks. The Advisory Committee of Experts (ACE) is required to provide assurance regarding policies, products and processes.

iv. Guidance Notes on Calculation of Capital Requirement for Market Risk: This prescribes the treatment of positions and settlement risk for estimating capital requirement for market risk arising from benchmark risk in trading positions in Sukuk; equities in the trading book; foreign exchange risk as well as commodities and inventories held for the purpose of trading by a NIFI, using TSA. It can also include the exposures of a NIFI that are held to hedge trading positions on the basis of Shari'ah compliant contracts. Only those instruments which are free of any restrictions on their tradability will be eligible for trading book capital treatment. NIFIs are allowed to use either mark-to-market or mark-to-model valuation methodology, subject to regulatory approval as applicable.

v. Guidelines on the Practice of Smoothing the Profit Pay-out to Investment Account Holders: This provides guidance on income smoothing, which is the practice of levelling out the profit pay-out to investment account holders by NIFIs. The Guidelines permits NIFIs to pay a certain level of competitive returns to PSIA holders to discourage withdrawal of funds, a phenomenon peculiar to NIFIs known as displaced commercial risk. The Guidelines also specifies the techniques of income smoothing permitted for NIFIs in Nigeria and details the roles/responsibilities of the ACE, Board of Directors, Governance Committee and Internal Audit/Shari'ah Review in income smoothing.

vi. Guidance Notes on Supervisory Review Process: The Guidance adopts a risk-based approach to the supervisory review process in line with Pillar 2 of Basel II and IFSB Standard 16. It also specifies the role of NIFIs in the computation of internal capital and capital management as well as the CBN's role in ensuring the maintenance of adequate capital for the level of risks the NIFIs are exposed to. The supervisory review process involves a review of the NIFIs' own assessment of risk profile, risk management practices, corporate governance and the internal control system. The process also involves the verification of overall compliance with prudential rules in the calculation of internal capital by NIFIs.

vii. Guidelines on the Management of Investment Account Holders for NIFIs in Nigeria: This specifies the minimum standard to be met by NIFIs prior to the recognition of PSIA deposits as risk absorbent, thus making them eligible for deduction in the computation of risk weighted assets for the calculation of capital adequacy ratio as specified in the Guidance Notes on Regulatory Capital for Non-interest Financial Institutions. The Guidelines also complements the Guidelines on Income Smoothing for Non-interest Financial Institutions and Guidance Notes on Disclosure Requirements to Promote Market Discipline for Non-interest Financial Institutions.

viii. Guidance Notes on Disclosure Requirements to Promote Transparency and Market Discipline for NIFIs in Nigeria: An adaptation of Pillar III of Basel II, this Guidance sets out the minimum disclosure requirements with respect to procedure, frequency and content of information to be disclosed to stakeholders. It also specifies the role of the ACE in providing assurance on compliance with policies, products and processes. This provides market participants, particularly the investment account holders, with relevant, reliable and timely information on the risk exposures, risk management policies and governance practices of NIFIs.

In addition to the guidance notes, a reporting template for the submission of returns on capital adequacy computation was issued to NIFIs and a parallel run using the template conducted between July 1 and September 30, 2019.

The issuance of the guidance notes on IFSB Standards 4, 15 and 16 by the CBN is intended to strengthen the operations of the NIFIs and promote the stability of the financial system. The CBN will continue to partner with the NIFIs to provide guidance and direction in the implementation of the Standards.

CHAPTER 3

SUPERVISORY ACTIVITIES

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

Off-site supervisory activities carried out on banks, credit bureaux and financial holding companies (FHCs) during the year included:

Licensing

Three banks were licensed during the period: Titan Trust Bank Limited, as a commercial bank with national authorisation in April 2019; Globus Bank Limited, as a commercial bank with regional authorisation in July 2019; and TAJ Bank Limited, as a non-interest bank with regional authorisation in July 2019. Also, FSDH Group was granted approval to establish a non-operating financial holding company in April 2019. Consequently, the total number of licensed banks increased to 29, comprising 22 commercial, five merchant and two non-interest banks, while financial holding companies increased to four. Further categorisation of the banks in terms of authorisation showed that there were 10 international, 15 national and four regional banks.

Regulations

Regulations were issued to enhance the supervision of financial institutions, key among which were:

a. **Guide to Charges by Banks and Other Financial Institutions in Nigeria:** In response to market developments, the Guide was reviewed in December 2019 and re-titled, "Guide to Charges by Banks, Other Financial and Non-bank Financial Institutions". The key changes included a downward review of electronic banking charges and the assignment of responsibilities to the Executive Compliance Officer (ECO) and Head, Information Technology Division (HITD) of institutions. In this regard, the ECO is charged with the responsibility of ensuring compliance with the requirements of the Guide, while the HITD is to render monthly returns on failed transactions on e-channels. Furthermore, the Guide introduced the requirement for efficient handling of customers' complaints and prescribed a sanction regime for unapproved and arbitrary charges.

b. **Guidelines on Pillar 2 Risks and Stress Testing for Banks:** This detailed the procedures for the identification, measurement, monitoring, reporting, management and assessment of pillar 2 risks. It also provided guidance on the conduct of stress tests by banks to assess their vulnerability to different risk types and external shocks.

c. **Guidelines on Islamic Financial Services Board Standards for Nigeria Non-interest Financial Institutions:** This provided guidance on the computation of regulatory capital, credit risk, market risk and operational risk by non-interest financial institutions. It also provided guidance on disclosure requirements, management of investment accounts and the practice of smoothing profit pay-out to investment account holders.

d. **Regulation for the Operations of Mortgage Guarantee Companies in Nigeria:** Issued in November 2019, this stipulated the requirements for companies intending to provide mortgage guarantees to lenders. The regulation detailed the licensing, financial and prudential requirements as well as permissible and non-permissible activities, among others.

e. **Regulation for the Operation of Indirect Participants in the Payments System:** The regulation, issued in October 2019, detailed the requirements and obligations of non-clearing financial institutions, whose settlements are facilitated by direct participating banks.

f. **Guidelines on Electronic Payment of Salaries, Pensions, Suppliers and Taxes in Nigeria:** This Guidelines, issued in February 2014 was reviewed and re-titled "Regulation on Electronic Payments and Collections for Public and Private Sector in Nigeria" in September 2019. The regulation provided guidance on end-to-end electronic payment of salaries, pensions and other remittances, suppliers and revenue collections including but not limited to taxes, levies, penalties, recoveries, assessments, and the disbursement of funds for social programmes, bill payments, honorarium, scholarships, allowances, etc.

Statutory Returns

Returns were rendered by banks and credit bureaux as required in Section 25 of the Banks and Other Financial Institutions Act (BOFIA), Cap B3, LFN 2004. The returns were subjected to review in line with the CBN's supervisory process.

Grant of Regulatory Approvals

Approvals were granted to banks for the appointment of persons who met the minimum requirements for board and top management positions. At end-December 2019, 40 persons were appointed to board while 163 were to top management positions.

Approvals were also granted for the establishment and rationalisation of branches of banks. At end-December 2019, the branch network of banks increased to 5,462 from 5,450 at end-December 2018.

The audited financial statements of banks, credit bureaux and FHCs for the year ended

December 31, 2019 were approved for publication. The total assets, profit, expenses and shareholders' funds of banks at end-December 2019, alongside the comparative figures of 2018, per the audited financial statements are presented below:

Table 6: Audited Financial Data of Banks at End-December 2019 and 2018

S/N	Financial Data	Dec-19 Total ₦'000	Dec-18 Total ₦'000
1	Total Assets	41,423,222,374.0	34,462,838,189.0
2	Gross Earnings	4,281,071,256.0	3,760,496,884.0
3	Interest Income	2,651,271,695.0	2,299,192,979.0
4	Total Expenses	2,225,146,015.0	1,970,357,293.0
5	Profit Before Tax	892,168,761.0	773,207,282.0
6	Profit After Tax	786,073,374.0	676,846,714.0
7	Shareholders' Funds	4,443,193,940.0	3,642,667,562.0

Credit Risk Management System and Credit Bureaux Databases

The reporting of credit facilities in the CRMS by financial institutions continued to rise as the number of credit facilities reported at end-December 2019 increased to 10,694,298 from 4,976,292 at end-December 2018, an increase of 114.9 per cent. The total number of facilities with outstanding balances in the CRMS increased to 2,534,836 at end-December 2019 compared with 1,866,468 at end-December 2018, representing an increase of 35.8 per cent.

Financial institutions are required to subscribe and have data exchange agreements with a minimum of two private credit bureaux. At end-December 2019, the three licensed credit bureaux had the following number of credit records, subscribers, borrowers and value of credit facilities in their databases:

Table 7: Credit Bureaux Data at End-December 2019

S/N	Description	CRC Credit Bureau	Credit Registry	First Central Credit Bureau
1	Number of credit records	34,335,089	29,013,592	28,990,813
2	Number of subscribers	1,340	543	1,096
3	Value of credit facilities (₦'trillion)	22.4	28.6	19.6
4	Number of borrowers	17,850,915	62,125,898	16,432,102

Fraud and Forgeries

The number of attempted fraud and forgery cases increased to 62,636 at end-December 2019 from 46,370 at end-December 2018. This was an increase of 16,266 cases or 35.1 per cent. The total amounts involved were ₦205.2 billion and $10.3 million at end-December 2019, compared to ₦37.8 billion and $8.7 million at end-December 2018.

The actual losses reduced to ₦5.4 billion and $0.2 million at end-December 2019, from ₦14.4 billion and $1.2 million at end-December 2018. Although the amounts involved in 2019 were larger when compared with 2018, the actual losses were lower.

Most of the fraud and forgery incidents were perpetrated by external parties with some involving the employees of banks through fraudulent ATM withdrawals, illegal funds transfer, cash suppression, conversion of customers' deposits etc. To minimise the incidence of fraud and forgeries, banks were required to improve their risk management practices and put in place appropriate internal control measures.

Blacklisting of Errant Persons
Following the increasing number of cases of fraud and forgeries, the number of persons blacklisted in the banking industry has continued to increase. During the period, 773 persons were blacklisted for fraud and dishonesty and 126 persons for miscellaneous offences, bringing the total number of persons blacklisted to 23,724 at end-December 2019, compared to 22,825 at end-December 2018.

To minimise incidences of fraud and forgery in the banking industry, the CBN will continue to engage banks to ensure that appropriate risk management practices are put in place. Also, the off-site supervisory processes, including the assessment of the fitness and propriety of persons employed in the industry, will continue to be enhanced to ensure that only suitable persons are retained.

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

Banks, credit bureaux and financial holding companies were examined during the year as detailed below:

i. Routine Examination
The routine examination of 26 banks, three FHCs, the Asset Management Corporation of Nigeria (AMCON) and three credit bureaux, was conducted during the year.

The banks were examined using the RBS methodology, while the Risk-based Solo-plus approach was used for the FHCs. The AMCON and three credit bureaux were examined using the compliance approach. The examination revealed that the FHCs maintained their Composite Risk Ratings (CRRs) for the previous year, also largely ring-fencing their subsidiaries. Out of the 26 banks examined, 25 maintained their previous CRRs, while the rating of one bank changed. Furthermore, an improvement in the industry CAR was observed due mainly to improved earnings, recoveries, write-offs and sale of NPLs by some banks.

The examination of the credit bureaux revealed that the institutions had not fully executed the required data exchange agreements with some credit providers due to inadequate IT connectivity in some locations. The three credit bureaux had data quality issues due to the failure of some data providers to provide data as and when due and involvement in prolonged litigations due to cumbersome court processes. Credit bureaux were thus encouraged to consider alternative dispute resolution mechanism in the settlement of disputes instead of litigation.

The examination of AMCON revealed that the Corporation made losses with a deterioration in its NPL ratio during the review period. The poor performance of the Corporation's credit portfolio was due to obligors' defaulting on the terms and conditions of restructuring.

ii. Target Examination and Ad-Hoc/Spot Checks

a. Risk Assets Examination

The Risk Assets Examination of 27 banks was conducted during the year to determine the adequacy of their provision on risk assets in line with the provisions of the Prudential Guidelines for Banks and Discount Houses, 2010. The exercise also involved the assessment of the reasonableness of the earnings, expenses and profits reported in the books of the banks. The examination revealed improved industry level of capital and prudential ratios due to increased earnings as a result of higher volume of transactions, better asset quality and reduction in impairment charges, among others, when compared to the preceding year.

b. Risk-based Approach to Anti-Money Laundering/Combating the Financing of Terrorism Examination

To assess banks' compliance with AML/CFT laws and regulations, the CBN conducted Risk-based AML/CFT (RBA) examination during the year. The RBA examination uses a quantitative and qualitative approach to identify ML/TF risks in banks taking into cognisance their structural and inherent risks and the effectiveness of their AML/CFT risk mitigation techniques. A pilot run of the RBA examination was conducted in three banks in the first quarter of 2019 using the International Monetary Fund's (IMF) Offsite Risk Assessment Methodology (ORAM) tool. The exercise was subsequently carried out in all the 27 banks in the second quarter of 2019. Of the banks examined, seven were rated 'Low'; seven, 'Moderate'; and 13, 'Above Average' ML risk.

The exercise provided a platform for the CBN's preparation for the Mutual Evaluation exercise by GIABA and FATF, which was conducted in September 2019.

c. Foreign Exchange Examination

The routine examination of the foreign exchange (FX) operations of 27 Authorised Dealers (ADs) consisting 23 commercial and four merchant banks was conducted during the year. Also, a series of ad hoc reviews/spot checks were carried out. The routine examination, which covered the period April 1, 2018 to March 31, 2019, revealed that some ADs were operating above the approved Foreign Currency Trading Position limit, contrary to Memorandum 5 Section 4(c)(i) of the CBN Foreign Exchange Manual and CBN circular referenced FMD/DIR/CIR/GEN/08/008 dated June 5, 2017. Furthermore, non-compliance with the Net Open Position limit, in contravention of the provision of the CBN circular referenced BSD/DIR/GEN/LAB/08/006 dated January 28, 2015, was observed.

The special investigations focused on the following:

a. Foreign exchange transactions of banks with focus on those that are not valid for FX. The investigation arose from concerns that some of the transactions were consummated without the use of Form M;

b. The use of customers' domiciliary accounts for the importation of textile materials; and

c. The sourcing of FX by some companies from BDCs and banks to fund the importation of items that are not eligible for FX.

Following the investigations, further guidance was issued to the industry on the appropriate use of Form M, some bank customers' and BDCs accounts were placed on "Post No Debit" pending further investigation and appropriate sanctions were imposed on erring institutions.

The CBN will continue to enhance its supervisory processes to ensure that financial institutions implement effective risk management and governance practices, as well as comply with extant rules and regulations.

3.03 ON-SITE EXAMINATION OF CROSS-BORDER ENTITIES

The CBN sustained its commitment to ensuring the effective supervision of off-shore entities of Nigerian banks through on-site examination, in line with the Framework for Cross-border Supervision of Banks.

In this regard, three on-site examinations, including a maiden examination, were conducted using the RBS methodology, while one was conducted using the compliance approach. Two of the examinations were jointly conducted by the CBN and the respective host regulators, while the remaining two were on a solo basis. The joint examinations were carried out on UBA Guinea and UBA Sierra Leone in line with the MoU of the CSWAMZ while the solo examinations were on UBA New York and FBN United Kingdom.

The exercises examined the trend of losses arising from NPLs; investigated specific AML/CFT concerns; reviewed customer due diligence and other procedures in place to mitigate money laundering risks; and assessed the level of IT risk, among others.

The RBS examination revealed high level of NPLs, incidences of fraud and violation of single obligor limit leading to sustained losses and capital erosion. The CRRs of two subsidiaries were 'High' and one, 'Moderate' with the subsidiaries required to take appropriate actions to address the concerns raised.

AML/CFT examinations were conducted on subsidiaries in Kenya, Mozambique, Rwanda, Ghana and Mali to assess the level of compliance with the Financial Action Task Force recommendations. The examinations revealed inadequate staffing of the compliance department leading to weak compliance function; non-automation of AML/CFT processes; and deficiencies in know your customer/customer due diligence. Other weaknesses observed included inadequate independent testing or internal audit of the AML/CFT compliance programme and lack of AML/CFT trainings for board and senior management in some institutions. The subsidiaries were required to rectify the lapses and advised to adhere to home country AML/CFT regulations where these are stricter than those of the hosts.

The on-site examination of offshore entities of Nigerian banks is crucial to ensuring that their operations do not pose threats to either their parents or host countries. The CBN will continue to collaborate with host regulators to ensure the effective supervision of the entities.

3.04 SUPERVISION OF OTHER FINANCIAL INSTITUTIONS

At end-December 2019, there were 6,197 OFIs comprising 7 DFIs, 34 PMBs, 80 FCs, 912 MFBs and 5,164 BDCs, an increase of 709 compared with 5,488 OFIs (7 DFIs, 35 PMBs, 69 FCs, 885 MFBs and 4,492 BDCs) at end-December 2018.

The CBN conducted on-site examination of 1,073 OFIs in 2019, the highlights of which are presented below:

Microfinance Banks

The CBN examined 869 MFBs in 2019. The RBS methodology was applied on 471 MFBs that were previously adjudged as 'sound' and 'satisfactory' while the compliance methodology was used for 398 MFBs that were identified as 'unsound' or 'insolvent'. The examination showed that some institutions were undercapitalised as a result of high provisions due to poor asset quality arising from poor credit administration and weak risk management processes.

Five hundred and thirty-two MFBs met the minimum CAR requirement of 10.0 per cent. However, the average CAR of the MFBs was negative 22.6 per cent. The MFBs that did not meet the capital requirement were required to recapitalise. The average portfolio-at-risk (PAR) ratio of 51.7 per cent was above the 5.0 per cent regulatory limit. Forty-six MFBs (5.1 per cent) had PAR below 5.0 per cent. The industry average liquidity ratio of 121.2 per cent was above the prescribed minimum of 20.0 per cent. A total of 101 MFBs failed to meet the required liquidity ratio. Of the 471 MFBs examined using RBS methodology, 269 MFBs had CRRs of 'High'; 167, 'Above Average'; and 35, 'Moderate'.

Development Finance Institutions

All the seven DFIs were examined using the RBS methodology, except Bank of Agriculture, which was being restructured. The examination revealed the existence of high level of NPLs resulting in huge provisions for loan losses; poor corporate governance practices; weak internal controls; restricted access to stable long-term funds; and loss of focus on core mandates (mission drift).

Four of the institutions met the minimum CAR requirement of 10.0 per cent, while two had negative CARs. The DFIs with negative CAR had submitted their recapitalisation plans towards the injection of fresh capital. The average CAR was 52.8 per cent while the average NPL ratio was 28.1 per cent. Two of the DFIs had NPL ratios below the regulatory limit of 5.0 per cent. Also, five of the DFIs had liquidity ratios above the regulatory minimum of 10.0 per cent, while one was below the minimum ratio. Four of the DFIs had CRRs of 'High'; one 'Moderate' and one 'Low'.

Primary Mortgage Banks

The RBS methodology was used in the examination of 25 PMBs and the compliance approach for the remaining nine. The examination revealed challenges in the areas of corporate governance, risk management practices and liquidity.

The average CAR of the PMBs was 12.3 per cent. Twenty-five PMBs met the minimum CAR requirement of 10.0 per cent while nine failed to meet the requirement. Of the nine PMBs, eight had negative CAR. The PMBs with negative CAR had submitted their recapitalisation plans towards the injection of fresh capital. The average NPL ratio was 48.9 per cent, with only three PMBs having NPL ratios below the regulatory limit of 30.0 per cent. The average liquidity ratio was 97.0 per cent, with the liquidity ratio of 20 PMBs above the regulatory minimum of 20.0 per cent. Of the 25 PMBs examined using RBS, 15 PMBs had CRR of 'High'; seven 'Above Average'; and three 'Moderate'.

Finance Companies

Fifty-seven FCs were examined using the RBS methodology, while seven were examined using the compliance approach. The examination revealed that challenges in the areas of risk asset quality, corporate governance practices and high operating costs, persisted during the period. Fifty FCs met the minimum CAR requirement of 12.5 per cent, while 14 failed to meet the requirement. The average NPL ratio was 15.8 per cent, with 40 FCs recording NPL ratios below the regulatory limit of 10.0 per cent. Of the 57 FCs examined using RBS, 37 FCs had CRR of 'High'; 14, 'Above Average'; and six, 'Moderate'.

Bureaux De Change

A total of 100 BDCs were examined during the period. The examination revealed that most of the BDCs failed to submit audited financial statements, maintain proper books of account, render returns to the Nigeria Financial Intelligence Unit or display exchange rates and AML/CFT caution notices. Sanctions were imposed on erring BDCs in line with extant regulations.

The challenges in the OFIs sub-sector, which have remained persistent, constitute a source of concern to the CBN. The Bank will continue to implement measures aimed at enhancing the performance of the sub-sector towards ensuring that the OFIs contribute more meaningfully to the economic development of the country.

3.05 ACTIVITIES OF THE BANKERS' COMMITTEE

The Bankers' Committee undertook several activities during the year, including meetings, a retreat and financial literacy programmes as discussed below:

Meetings

Six bi-monthly meetings were held during the year. Deliberations focused on the following key issues:

a. Need to improve repayment culture, strengthen credit administration and reduce NPLs in the banking industry: The Committee deliberated and agreed on the desirability of introducing the GSI, a credit risk protection clause, which requires a borrower to consent that upon loan default, the lender is authorised to recover the outstanding loan amount from other bank accounts in the banking industry.

b. Mortgage Interest Drawback Programme: The Committee deliberated on the need to reduce the high cost of mortgages, reward timely repayment of loans and drive affordable housing. It agreed that the Programme should be funded through the Agri-Business/Small and Medium Enterprise Investment Scheme, an initiative of the Bankers' Committee to support and complement the efforts of the Federal Government at promoting agri-businesses/small and medium enterprises as a vehicle for sustainable economic development and employment generation.

c. Financial Ombudsman Bill: The Committee deliberated and submitted input on the draft Financial Ombudsman Bill that is aimed at facilitating the speedy resolution of financial and other related disputes in the Nigerian financial services sector.

d. Customer Data Protection: A presentation was made to the Committee on a proposal to introduce a regulation on the protection of the personal data of customers of banks and other financial institutions under the purview of the CBN. The proposed regulation seeks to define the rights of customers, the obligations of persons who process personal data as well as prescribe sanctions and remedies for breaches.

e. Establishment of Centres of Excellence: In continuation of the CBN's flagship intervention programme in the education sub-sector, the Committee was informed of the establishment of Centres of Excellence in three Federal Universities located in Nsukka, Ibadan and Zaria. The Centres offer collaborative post-graduate programmes aimed at producing critical mass of post-graduate degree holders for the financial services industry.

Retreat

The Committee held its annual retreat with the theme "Delivering Inclusive Growth: Leveraging Digital Finance" in Ogere, Ogun State, from December 13-14, 2019. Deliberations at the Retreat focused on advancing the use of digital and mobile technology to promote sustainable economic growth and development. Papers were presented by resource persons on:

a. Trends in the Global Economy and Implications for Nigeria, which discussed the trends and emerging considerations in the global economy and implications for the financial system and Nigerian economy;

b. Bank 4.0 – The Future of Financial Inclusion, which focused on innovative solutions for transforming the financial system and driving inclusive economic growth; and

c. Diversifying the Nigerian Economy: Digital Finance Potential, which discussed opportunities for leveraging digital and mobile technology towards improving access to finance and optimising digital finance to achieve sustainable diversification of Nigeria's economy and inclusive growth.

Panel sessions were also held on streamlining taxation through digital technology, protecting the financial system from cyber-attacks and emerging digital ecosystems for SMEs.

At the end of the Retreat, the Committee resolved to undertake specific actions and programmes towards the development of a viable and secure digital ecosystem that will support improved access to finance, enable job creation and drive inclusive growth in Nigeria. The Committee also reiterated its commitment to continue to collaborate with stakeholders to support identified sectors in the economy, promote digital finance and drive financial inclusion in pursuit of sustainable economic development.

Financial Literacy Day

As part of efforts to promote financial literacy, the Bankers' Committee participated in the celebration of the Financial Literacy Day of the Global Money Week with the theme "Learn, Earn, Save" on March 28, 2019. Each bank selected 30 schools nationwide, comprising five schools in each of the six geopolitical zones where students were taught in line with the theme of the Day in a bid to encourage savings culture among youths. The CBN, Deputy Governor, Financial System Stability, Mrs. Aishah Ahmad, with the bank CEOs participated in the exercise with each CEO visiting a school in the State assigned to the bank.

World Savings Day

The 2019 World Savings Day was celebrated on October 31, 2019, with representatives of the CBN and banks visiting schools to sensitise students on the importance of developing savings culture. The event focused on increasing awareness on the importance of savings as a path to financial empowerment and provided the opportunity for interested students and parents to open savings accounts in banks.

Fraud Awareness Campaign

The Fraud Awareness Campaign, with the theme "Keep it to Yourself", took place between July and December 2019. The message of the Campaign, which focused on fraud awareness and prevention, was disseminated through radio in Yoruba, Hausa, Igbo and Pidgin English and social media in English language.

Account Opening Week

The maiden edition of the account opening week aimed at deepening access to financial services, was held in November 2019. The programme was held in six selected States, namely, Kano, Gombe, Nasarawa, Ondo, Ebonyi and Bayelsa, where accounts were opened for members of the public with the participation of the various State Governments.

Ethics and Professionalism

The Sub-committee on Ethics and Professionalism received 62 petitions with claims totalling ₦10.8 billion and $6.7 million during the year. Sixty-eight petitions (inclusive of cases from the previous year) were resolved and appropriate settlement amounting to ₦1.2 billion and $1.4 million awarded.

The Bankers' Committee has continued to support initiatives and policies aimed at promoting efficient financial services delivery and real sector growth. The CBN remains committed to collaborating with the Committee in ensuring that the banking sector continues to effectively contribute to the economic growth and development of Nigeria.

3.06 CONSUMER PROTECTION ACTIVITIES

In furtherance of its role of enhancing consumer confidence in the financial system, the CBN carried out the following activities:

Complaints Management and Resolution

i. Complaints Received and Resolved

A total of 3,132 complaints against financial institutions were received from customers during the year, an increase of 81 (2.7 per cent) over the 3,051 received in 2018. Of the total complaints received, 3,002 or 95.9 per cent were against banks, while 130 or 4.1 per cent were against OFIs. The categories of complaints included ATM dispense errors, excess charges, account management issues, card and international trade/guarantee. Along with complaints from the prior period, the total number of complaints resolved in 2019 was 3,309, a decrease of 2,910 or 46.8 per cent from 6,219 in 2018.

ii. Refunds

Total refunds to customers during the year were ₦8.7 billion and $1.0 million compared with ₦9.9 billion, $1.8 million, €26,319.4 and £2,890.0 in 2018. This brought the cumulative refunds to customers at end-December 2019 to ₦77.1 billion, $21.4 million, €52,606.0 and £9,086.0.

iii. Mediation Meetings

Eleven mediation meetings involving banks and aggrieved consumers were held during the year compared with 23 mediation meetings in 2018.

iv. Regulatory Sanctions on Banks

During the year, sanctions were imposed on eight banks for failure to comply with consumer protection regulations in line with Section 64 of the BOFIA, Cap B3, LFN 2004.

Consumer Complaints Management System

In January 2019, the Consumer Complaints Management System (CCMS), a web-enabled solution for complaints management, which allows for the exchange of correspondence between the CBN and financial institutions, was deployed. Financial Institutions are required to make daily upload of complaints received with their resolution status in the CCMS. Complaints that remain unresolved after the set timelines are flagged for the CBN's intervention.

Consumer Protection Compliance Examination

Consumer Protection Compliance examination was conducted on banks and some selected OFIs in June and November 2019 to assess their levels of compliance with consumer protection regulations and directives. The examination revealed that compliance in respect of: prescribed one-off charge for issuance of token was 90.9 per cent; minimum interest of 30.0 per cent of MPR p.a. on savings account, 72.7 per cent; prescribed $20 for foreign currency card maintenance fee, 90.9 per cent; interest rate for CBN intervention loans, 100.0 per cent; directives issued after the previous examination, 81.8 per cent; and resolution of outstanding complaints, 23.9 per cent.

Consumer Protection Regulations

In furtherance of the objectives of ensuring high standards for efficient service delivery, market discipline and fair treatment of customers, the CBN issued the Consumer Protection Regulations in December 2019. The Regulations cover Disclosure and Transparency, Fair Treatment of Consumers, Responsible Business Conduct and Complaints Handling and Redress.

The Regulations are aimed at protecting consumers from unfair, unethical and predatory practices that could undermine consumer confidence in the use of financial products and services. In addition, the Regulations require banks and OFIs to disclose material information to consumers and establish complaint redress mechanisms that are free, fair, timely, transparent and accessible. Furthermore, banks and OFIs are prohibited from compelling consumers to buy products or services from a particular third-party provider as a pre-condition for the grant of a credit facility.

Following the issuance of the Regulations, banks and OFIs were required to forward their board-approved consumer protection policies to the CBN latest by March 31, 2020.

Financial Literacy

i. National Financial Literacy Stakeholders' Conference

The CBN, in conjunction with other stakeholders, organised a national financial literacy conference with the theme "Implementing Financial Literacy and Consumer Protection to advance Financial Inclusion in Nigeria", in Abuja, from January 17-18, 2019. The conference afforded stakeholders the opportunity to deliberate on the progress made and challenges to financial inclusion in Nigeria. Also, the following policy and strategy documents were formally presented:

a. Revised National Financial Inclusion Strategy;
b. Consumer Protection Framework;
c. Nigeria Financial Education Strategy;
d. National Financial Literacy Framework; and
e. Monitoring and Administration of Instruments for Pilot Testing of Financial

Education Curriculum in Katsina State.

Recommendations from the conference centered on the need to develop suitable products to enhance financial inclusion, adopt effective communication channels to deliver financial literacy programmes, establish structures for sustained engagement with consumers by financial service providers and strengthen collaboration and coordination among stakeholders.

ii. E- Learning Portal

The CBN, in collaboration with the German Agency for International Development (GIZ) and other stakeholders, commenced the development and deployment of a national financial literacy e-Learning portal called "SabiMoni". The portal seeks to provide information to support financial education trainers/facilitators/multipliers to enhance financial literacy in Nigeria. The Federal University of Technology, Minna was selected to develop and deploy the portal, which is expected to go live by the first quarter of 2020.

iii. Targeted Financial Education Programme

A 5-day train-the-trainer programme was organised for 31 representatives of Methodist Church, Abuja Diocese in Abuja, from August 26-30, 2019, under the Targeted Financial Education Programme for faith-based organisations. The objective of the training was to enhance financial education in furtherance of the attainment of the year 2020 financial inclusion target.

iv. National Pilot Scheme of the National Youth Service Corps Peer Educator Programme

The CBN, in collaboration with the Federal Ministry of Youth and Sports Development and other stakeholders, conducted a train-the-trainer financial education programme for 135 volunteer corps members in Abia, Sokoto and Plateau states.

v. Monitoring and Administration of Instruments for the Pilot Testing of Financial Education Curriculum

The CBN, in conjunction with the National Education Research Development Council, conducted the monitoring and administration of instruments for the pilot testing of financial education curriculum in Katsina State, from July 1-6, 2019. The exercise was to test the understanding of students on the financial literacy modules integrated into basic subjects and ensure standardisation of teaching methods in the pilot states prior to national roll out.

The Bank will continue to strengthen its consumer protection oversight, with a view to enthroning good consumer protection culture in the industry, in order to sustain consumer confidence in the use of financial products and services.

3.07 PAYMENTS SYSTEM ACTIVITIES

As part of efforts to enhance the safety and efficiency of the payments system in Nigeria, the following activities were carried out during the year:

I. The Nigeria e-Fraud Forum (NeFF) released its 2018 annual report titled, "Emerging Fraud Trends: An Evaluation of the Industry Cybersecurity Posture" on May 3, 2019. Highlights of the report revealed that the volume of fraud increased to 38,852 from 25,043 reported in the preceding year. Actual e-fraud loss of ₦2 billion was suffered by the industry in 2018, compared with ₦1.6 billion in the preceding year. Mobile channel recorded the highest volume and value, with an estimate of 11,492 in volume and ₦598.8 million in actual loss value, calling for concerted efforts by all stakeholders to stem the trend. Discussions were held with representatives of the telecommunications industry in a bid to develop strategies to minimise SIM swap fraud in the country.

ii. The NeFF held a meeting in Lagos on September 27, 2019 with the discussions focused on enhancing identity verification as a panacea for fraud mitigation. The meeting deliberated on the challenges of verifying customers' identities given the increased use of digital channels for transactions and remote customer on-boarding. Propositions were made on the need for further collaboration with the Nigerian Communications Commission to curb the use of unregistered SIMs and operationalise a solution for real-time exchange of SIM swap information between banks and telecommunication companies, to be hosted by NIBSS. This was to improve the security of the payments system to reduce incidences of SIM swap fraud and the use of unregistered SIMs. The Forum agreed to establish a committee to evaluate the propositions further.

iii. The NeFF's Steering Committee held its annual retreat in Benin, from November 28-29, 2019. The retreat focused on stemming identity theft and the challenges associated with electronic payment. The Committee agreed to:

a. Embark on activities aimed at improving customer awareness and consumer education;

b. Contribute to bridging skill gaps arising from high turnover of technical staff;

c. Improve the implementation of two-factor authentication policies;

d. Minimise third party risk due to misuse of Application Programming

Interface privileges;

e. Improve collaboration with relevant stakeholders;

f. Operationalise BVN for transaction authentication;

g. Assist in building the capacity of law enforcement agents and judicial officers;

h. Improve fraud reporting; and

i. Ensure full implementation of the Unstructured Supplementary Service Data Framework.

iv. The Electronic Payments Incentive Scheme Award was held in February 2019, to reward the contributions and performance of stakeholders in the electronic payments system. To further improve participation of users and coverage of payment channels, two new categories of awards were introduced, viz: Merchant Bank Award, which rewards outstanding performance in achieving the highest number of transactions on various NIBSS platforms; and Cards Issuing Efficiency Award, which rewards the bank with the lowest failure rate in card transactions authorisation.

v. The Committee of Governors approved the setting up of a Payments System Security and Risk Management Centre (PSSRMC) with responsibility for gathering intelligence, sharing information and coordinating responses to cyber-security threats. The PSSRMC is also to serve as a database for threats to the payments industry and facilitate the prevention of financial crimes in the payments ecosystem. To achieve this, a Project Steering Committee was set up to drive the establishment of the Centre.

vi. New operating licences were granted to nine Payment Solution Service Providers and six Super Agents. Also, the operating licences of two Payment Terminal Service Providers were renewed for another three years.

vii. The CBN commenced the development of the Payments System Vision 2025 (PSV2025). The PSV2025 will cover new payment methods such as QR codes, contactless payments and request to pay; cybersecurity; open banking; big data analysis; and distributed ledger technology, among others.

viii. The on-site assessment and off-site monitoring of Payments Service Providers (PSPs) continued during the year. The off-site review of the returns rendered by

PSPs revealed high downtime on PoS terminal transactions. Consequently, on-site assessment was conducted on PSPs, which revealed inadequate capacity of some operators' infrastructure to handle the rising volume of PoS/web transactions. The exercise was also extended to banks and revealed the same lapses in some. Following the exercise, the affected banks and PSPs were directed to upgrade their infrastructure, while the NIBSS was advised to develop a PoS terminal monitoring solution with capability for identifying application versions on deployed terminals for effective oversight.

In addition, a maiden AML/CFT examination was carried out on some PSPs to ascertain their level of compliance with the AML/CFT laws and regulations. The examination revealed deficiencies in the following areas:

a. Development and implementation of board approved compliance and AML/CFT policy;

b. Designation of compliance officer and staffing of the compliance function;

c. KYC/CDD requirements and identification of beneficial ownership;

d. Identification and reporting of suspicious transactions;

e. Development and implementation of annual training programmes for board, senior management and staff; and

f. Independent assessment of the compliance function.

The affected PSPs were required to rectify the deficiencies highlighted.

ix. The offsite assessment of banks' compliance with BVN regulation was carried out preparatory to on-site examination. The exercise involved the collection of information from banks on accounts without BVN and NIBSS on bank accounts that had invalid or no BVN but carried out debit transactions.

The Bank will continue to monitor the payments system through off-site surveillance and onsite examination of banks and PSPs in order to enhance the efficiency and safety of the payments system.

CHAPTER 4

PERFORMANCE TREND IN THE BANKING SYSTEM

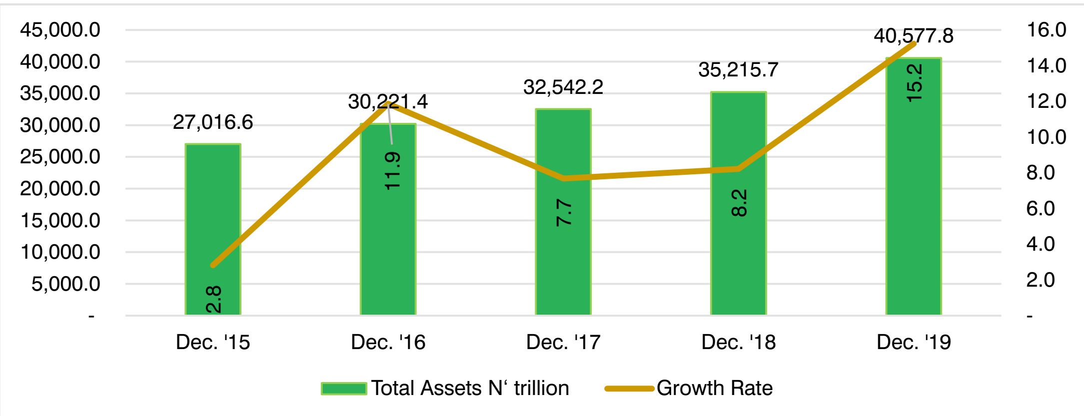
4.01 PERFORMANCE TREND OF BANKS

Table 8: Comparative Statement of Financial Position of the Banks as at December 31, 2019 and 2018

	2019		2018		Variance	Growth Rate
Assets	N'billion	%	N'billion	%	Billion	%
Cash balances	842.6	2.1	790.5	2.2	52.1	6.6
Balances with banks and CBN	9,108.1	22.4	8,141.7	23.1	966.5	11.9
Loan and Advances to Banks	704.3	1.7	418.2	1.2	286.1	68.4
Loans and Advances to Customers	15,584.4	38.4	12,918.6	36.7	2,665.9	20.6
Financial Assets Held for Trading	2,289.1	5.6	1,718.3	4.9	570.8	33.2
Fair Value through Other Comprehensive Income	3,786.0	9.3	4,055.0	11.5	(269.0)	(6.6)
Amortised Cost	2,010.6	5.0	2,558.2	7.3	(547.6)	(21.4)
Assets Pledged as collateral	2,524.5	6.2	1,343.8	3.8	1,180.8	87.9
Investment in subsidiaries	442.7	1.1	436.0	1.2	6.6	1.5
Other Assets	2,132.1	5.3	1,807.4	5.1	324.7	18.0
Assets classified as Held for Sale	32.5	0.1	24.2	0.1	8.4	34.7
Property Plant & Equipment	1,120.8	2.8	1,003.7	2.9	117.0	11.7
Total Assets	40,577.8	100.0	35,215.7	100.0	5,362.1	15.2

Liabilities						
Deposit from banks	2,876.1	7.1	1,756.5	5.0	1,119.6	63.7
Deposit from customers	24,215.5	59.7	21,815.3	61.9	2,400.2	11.0
Financial liabilities held for trading	47.3	0.1	46.6	0.1	0.7	1.5
Borrowings	3,669.6	9.0	3,051.1	8.7	618.5	20.3
Debts instruments in issue	1,286.1	3.2	1,273.9	3.6	12.2	1.0
Other liabilities	4,757.9	11.7	4,101.6	11.6	656.3	16.0
Share Capital	358.6	0.9	301.6	0.9	56.9	18.9
Reserves	3,364.6	8.3	2,869.0	8.1	495.7	17.3
Total Liabilities	40,577.8	100.0	35,215.7	100.0	5,362.1	15.2

Figure 4: Year-on-Year Growth in Total Assets, 2015 – 2019



Deposit Liabilities and Liquidity

Demand deposits remained the major component of customer deposits and amounted to ₦7,252.5 billion (29.9 per cent of total deposits) at end-December 2019, compared with ₦6,752.2 billion (31.0 per cent) at end-December 2018. The next highest components were domiciliary accounts and savings deposits, which stood at ₦5,925.9 billion (24.5 per cent) and ₦5,598.1 billion (23.1 per cent), respectively, at end-December 2019.

The industry liquidity ratio (ratio of specified liquid assets to specified short term liabilities) stood at 45.6 per cent at end-December 2019, compared with 51.9 per cent at end-December 2018. The liquidity ratio was higher than the regulatory minimum of 30.0 per cent.

Figure 5: Deposit Composition (per cent) in December 2019

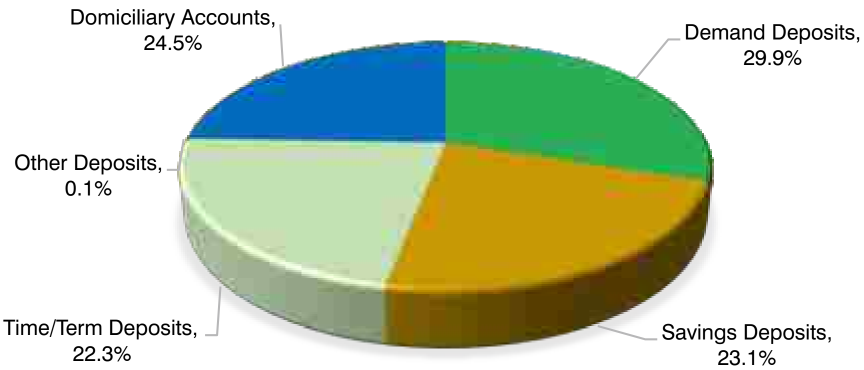


Figure 6: Deposit Composition (per cent) in December 2018

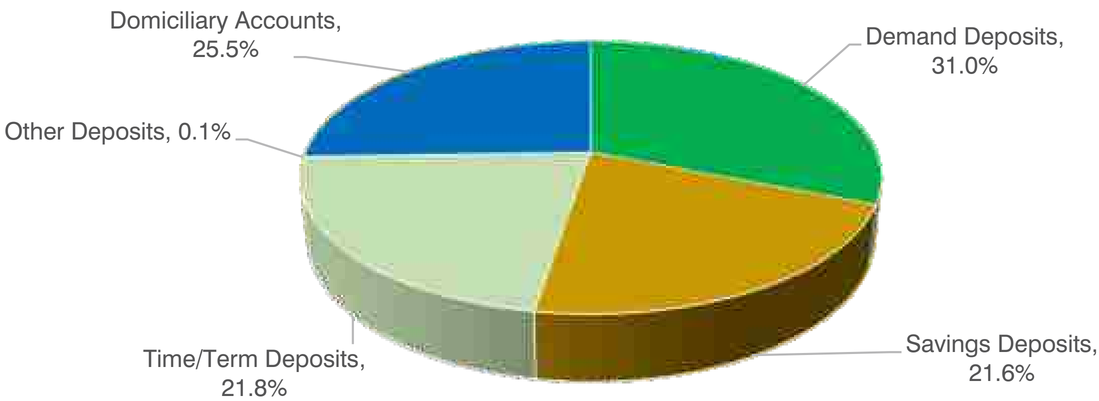
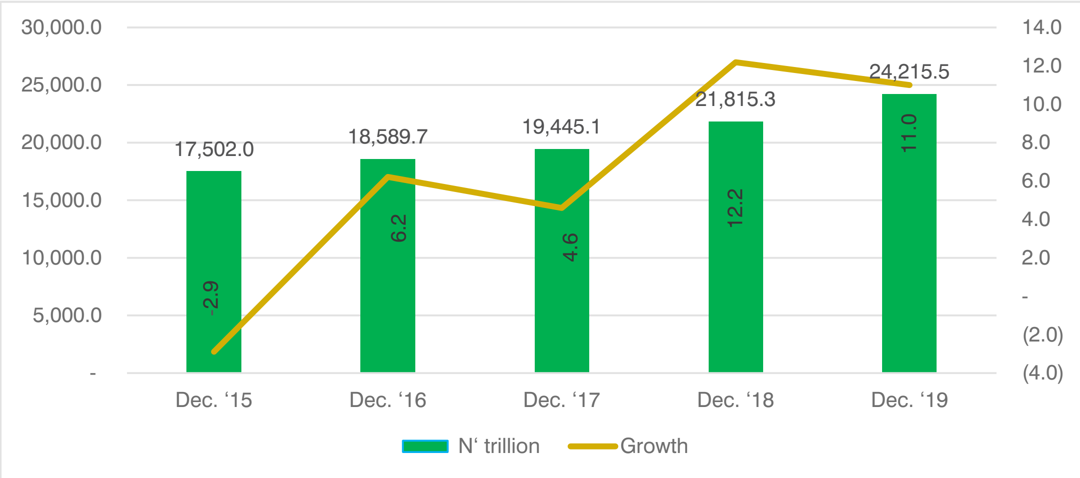


Figure 7: Trends in Total Deposits of DMBs, 2015 – 2019



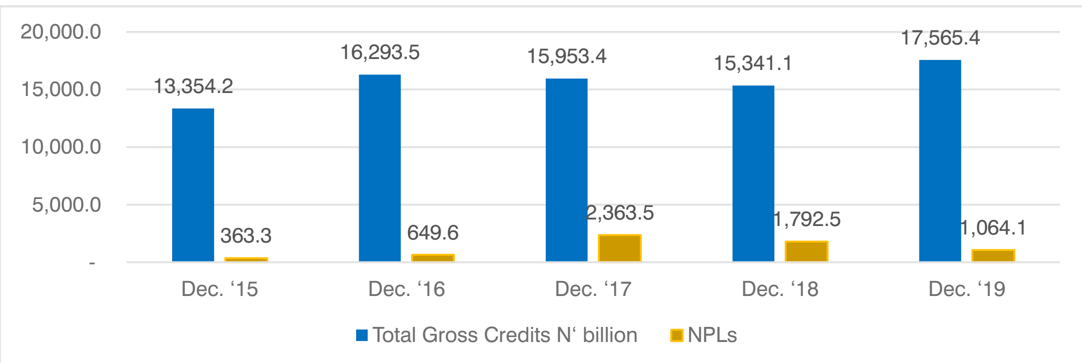
Asset Quality

Gross loans and advances increased by 14.5 per cent or ₦2,224.3 billion to ₦17,565.4 billion at end-December 2019, from ₦15,341.1 billion at end-December 2018. The increase was attributed to the regulatory measures introduced to improve lending to the real sector, particularly the introduction of a minimum loan to deposit ratio requirement, during the year.

Asset quality improved as total NPLs decreased by ₦728.4 billion (40.6 per cent) to ₦1,064.1 billion at end-December 2019, from ₦1,792.5 billion at end-December 2018. The decrease was attributed to improved underwriting standards, sale and write-offs of NPLs during the year. Similarly, the industry NPL ratio also improved to 6.1 per cent from 11.7 per cent at end-December 2018.

The loan loss provision (impairments and Regulatory Risk Reserve) of ₦1,412.2 billion at end-December 2019, represented a coverage ratio of 132.7 per cent, compared with ₦1,793.8 billion or 100.1 per cent coverage at end-December 2018.

Figure 8: Trend in Gross Loans and NPLs, 2015 – 2019



Assets and Deposits of Top Banks

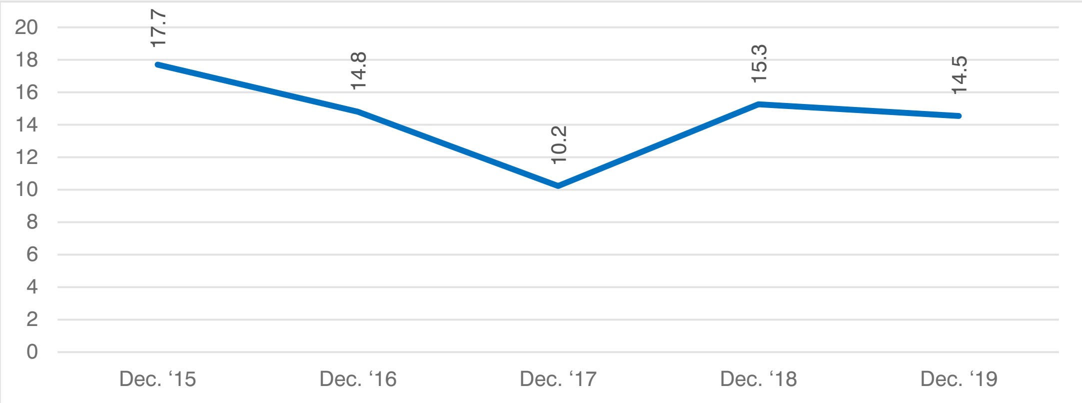
An analysis of the industry total assets at end-December 2019 revealed that the top 5 and top 10 banks held 57.1 per cent and 79.8 per cent, respectively, compared with 54.1 per cent and 76.7 per cent, respectively, at end-December 2018. The top 5 and top 10 banks held 59.9 per cent and 81.6 per cent of total deposits, respectively, compared with 54.2 per cent and 77.2 per cent at end-December 2018.

In terms of gross loans and advances, the top 5 and top 10 banks held 58.8 per cent and 82.5 per cent, respectively, of the industry total loans and advances at end-December 2019, compared with 54.3 per cent and 80.2 per cent at end-December 2018.

Capital Adequacy Ratio of Banks

The industry CAR was 14.5 per cent at end-December 2019, compared to 15.3 per cent at end-December 2018. The year-on-year decrease was due, largely, to the increase in total risk-weighted assets arising from a significant growth in credit. The minimum CAR requirement remained at 10.0 per cent (regional and national authorisation) and 15.0 per cent (international authorisation).

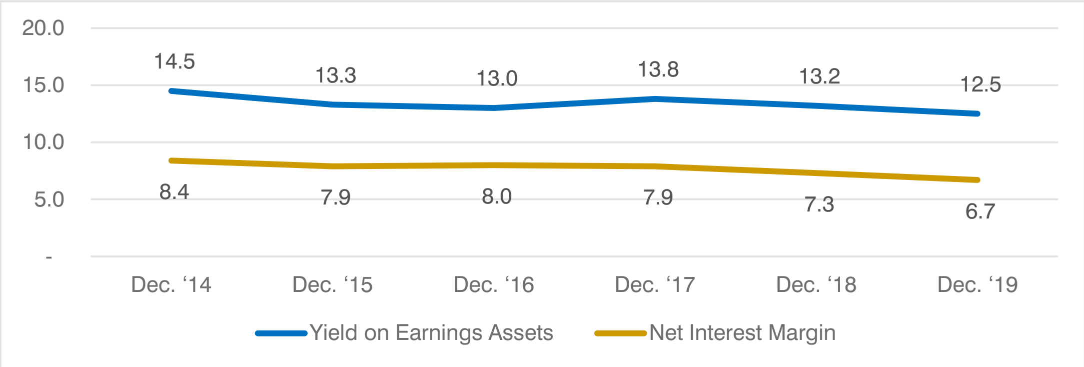
Figure 9: Trend in Industry Capital Adequacy Ratio of Banks, 2015 – 2019



Efficiency of Operations

The yield on earning assets decreased to 12.5 per cent in 2019, from 13.2 per cent in 2018. The decrease was attributed mainly to a higher rate of increase in the earning assets of the industry than the rate of increase in interest income during the year. However, operational efficiency, measured by cost-to-income ratio, improved by 2.5 percentage points to 67.4 per cent in 2019, from 69.9 per cent in 2018. Although, there was a decline in yield on earning assets and net interest margin, the improved efficiency through reduced costs, resulted in improved profitability over the review period. Therefore, the industry return on assets and return on equity increased to 2.3 per cent and 25.8 per cent in 2019, from 2.2 per cent and 22.3 per cent, respectively, in 2018.

Figure 10: Trend in Net Interest Margin and Earnings Yield, 2015 - 2019



The industry remained safe and stable in 2019, with an upswing in total loans and advances, as well as in assets and deposits. Other industry performance indicators, including asset quality, efficiency, liquidity and capital, also improved during the period.

4.02 PERFORMANCE TREND OF OTHER FINANCIAL INSTITUTIONS

The aggregate statement of financial position of development finance institutions, primary mortgage banks, microfinance banks and finance companies, showed that the total assets of the sub-sector increased by 6.5 per cent to ₦3,183.5 billion at end-December 2019, from ₦2,987.9 billion at end-December 2018. The total net loans and advances increased by 17.2 per cent to ₦1,667.0 billion at end-December 2019, from ₦1,422.2 billion at end-December 2018. Similarly, total deposits increased by 9.7 per cent to ₦750.0 billion, from ₦684.0 billion for the same period. Shareholders' funds increased by 3.6 per cent to ₦475.3 billion at end-December 2019, from ₦458.7 billion at end-December 2018.

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

I. Microfinance Banks

The total assets of MFBs increased by ₦74.9 billion (17.8 per cent) to ₦496.9 billion at end-December 2019, from ₦422.0 billion at end-December 2018. The main components of the total assets at end-December 2019 were cash and due from other banks, 14.4 per cent (2018: 10.7 per cent); placements with banks, 17.0 per cent (2018: 19.4 per cent); and net loans and advances, 51.4 per cent (2018: 52.4 per cent). Net loans and advances, which constituted the largest asset item, increased by ₦34.5 billion (15.6 per cent) to ₦255.5 billion at end-December 2019, from ₦221.0 billion in the previous year.

The paid-up capital and shareholders' funds increased by 14.5 per cent and 16.4 per cent at end-December 2019 to ₦78.8 billion and ₦113.7 billion, respectively, from ₦68.8 billion and ₦97.6 billion at end-December 2018. The increases in paid-up capital and shareholders' funds were attributed, largely, to capital injection and increase in operating surplus, respectively. Deposits, which constituted the largest liability item, also increased by ₦36.9 billion (17.3 per cent) to ₦250.2 billion at end-December 2019, from ₦213.3 billion at end-December 2018.

The comparative statement of financial position of MFBs at end-December 2019 and end-December 2018 is shown below:

Table 9: Comparative Statement of Financial Position of Microfinance Banks

	Dec-19		Dec-18		Variance	Growth Rate
Assets	₦'000	%	₦'000	%	₦'000	%
Cash and Due from Other Banks	71,295,471	14.3	45,273,933	10.7	26,021,538	57.5
Placement with Banks	84,311,819	17.0	82,036,568	19.4	2,275,251	2.8
Short Term Investments	28,091,280	5.7	25,169,729	6.0	2,921,551	11.6
Long Term Investments	4,860,131	1.0	5,664,500	1.3	-804,369	-14.2
Net Loans and Advances	255,473,713	51.4	220,954,400	52.4	34,519,313	15.6
Other Assets	30,292,040	6.1	24,655,087	5.8	5,636,953	22.9
Fixed Assets	22,526,221	4.5	18,196,898	4.3	4,329,323	23.8
Total Assets	496,850,675	100.0	421,951,115	100.0	74,899,560	17.8
Financed By:						
Paid-up Capital	78,800,703	15.9	68,815,999	16.3	9,984,704	14.5
Reserves	34,865,071	7.0	28,809,573	6.8	6,055,498	21.0
Shareholders' Funds	113,665,774	22.9	97,625,572	23.1	16,040,202	16.4
Deposits	250,169,006	50.4	213,246,471	50.5	36,922,535	17.3
Takings from Other Banks	14,025,405	2.8	9,255,739	2.2	4,769,666	51.5
Long-term Liabilities	31,696,097	6.4	31,579,324	7.5	116,773	0.4
Other Liabilities	87,294,393	17.6	70,244,009	16.6	17,050,384	24.3
Total Liabilities	496,850,675	100.0	421,951,115	100.0	74,899,560	17.8

Figure 11: Total Assets of Microfinance Banks

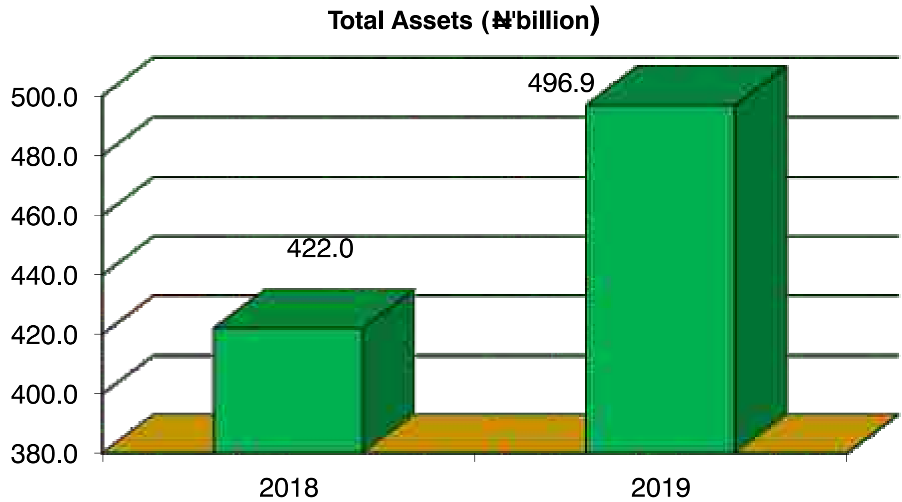


Figure 12: Composition of Assets of Microfinance Banks

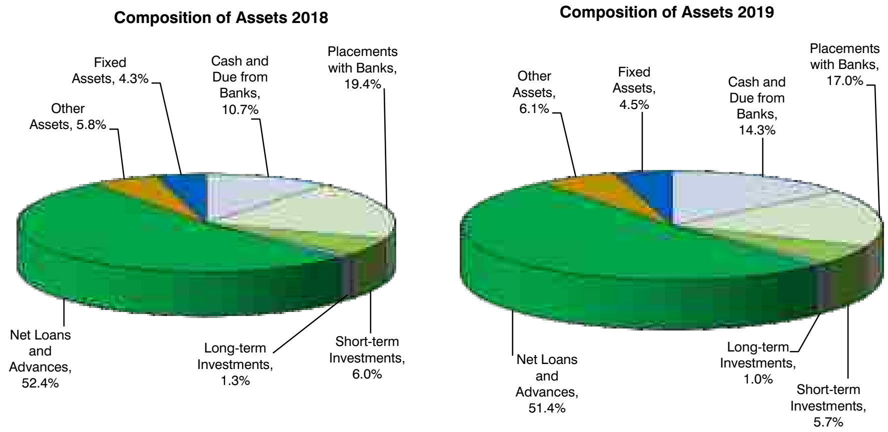
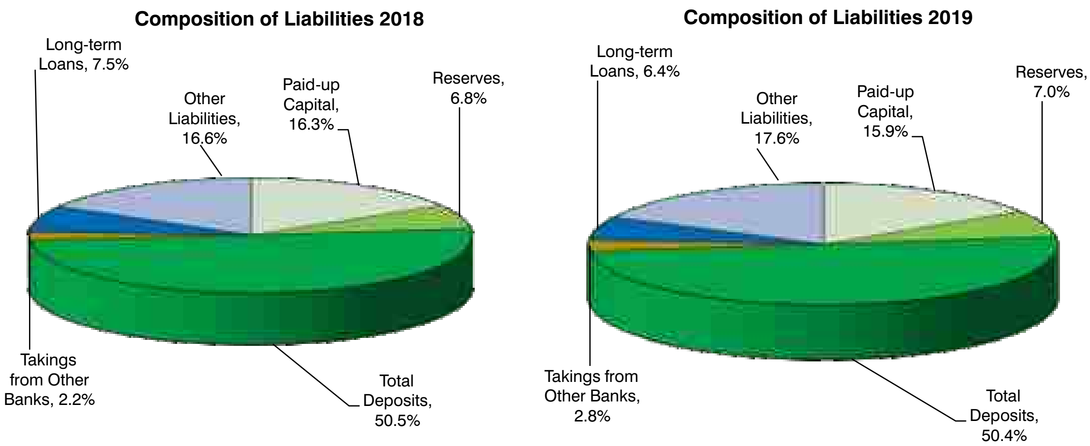


Figure 13: Composition of Liabilities of Microfinance Banks



ii. Primary Mortgage Banks

The total assets of PMBs decreased by ₦19.9 billion (4.4 per cent) to ₦432.1 billion at end-December 2019, from ₦452.0 billion at end-December 2018. The major components of total assets were cash and due from other banks, 13.1 per cent (2018: 12.1 per cent); investments, 16.1 per cent (2018: 19.6 per cent); loans and advances, 55.2 per cent (2018: 50.8 per cent); and other assets, 11.0 per cent (2018: 13.9 per cent).

Total liquid assets of PMBs increased by ₦1.8 billion (3.3 per cent) to ₦56.4 billion at end-December 2019, from ₦54.6 billion at end-December 2018. Investments decreased by ₦18.8 billion (21.3 per cent) to ₦69.6 billion at end-December 2019, from ₦88.4 billion at end-December 2018, while loans and advances, which constituted the largest asset item, increased by ₦8.9 billion (3.9 per cent) to ₦238.5 billion at end-December 2019, from ₦229.6 billion at end-December 2018.

Total deposits increased by ₦3.1 billion (2.2 per cent) to ₦143.6 billion at end-December 2019, from ₦140.4 billion at end-December 2018. However, the shareholders' funds decreased by ₦29.8 billion (35.9 per cent) to ₦53.2 billion at end-December 2019, from ₦83.0 billion in the previous year, due largely, to losses recorded in the period.

The comparative statement of financial position of PMBs at end-December 2019 and end-December 2018 is shown below:

Table 10: Comparative Statement of Financial Position of Primary Mortgage Banks

	Dec-19		Dec-18		Variance	Growth Rate
Assets	**₦'000**	%	**₦'000**	%	**₦'000**	%
Cash and Due from Banks	56,425,412	13.1	54,628,852	12.1	1,796,560	3.3
Investments	69,594,951	16.1	88,378,255	19.6	-18,783,304	-21.3
Loans and Advances	238,488,637	55.2	229,603,910	50.8	8,884,727	3.9
Other Assets	47,663,068	11.0	62,717,687	13.9	-15,054,619	-24.0
Fixed Assets	19,879,334	4.6	16,617,200	3.7	3,262,134	19.6
Total Assets	**432,051,402**	**100.0**	**451,945,904**	**100.0**	**-19,894,502**	**-4.4**
Financed By:						
Paid-up Capital	106,098,321	24.6	110,409,749	24.4	-4,311,428	-3.9
Reserves	(52,923,443)	-12.2	(27,422,696)	-6.1	-25,500,747	93.0
Shareholders' Funds	**53,174,878**	**12.3**	**82,987,053**	**18.4**	**-29,812,175**	**-35.9**
Deposits	143,562,965	33.2	140,426,574	31.1	3,136,391	2.2
Placements from Banks	5,624,041	1.3	7,281,023	1.6	-1,656,982	-22.8
Long Term Loans/NHF	70,725,356	16.4	66,333,942	14.7	4,391,414	6.6
Other Liabilities	158,964,162	36.8	154,917,312	34.3	4,046,850	2.6
Total Liabilities	**432,051,402**	**112.3**	**451,945,904**	**100.0**	**-19,894,502**	**-4.4**

Figure 14: Total Assets of Primary Mortgage Banks

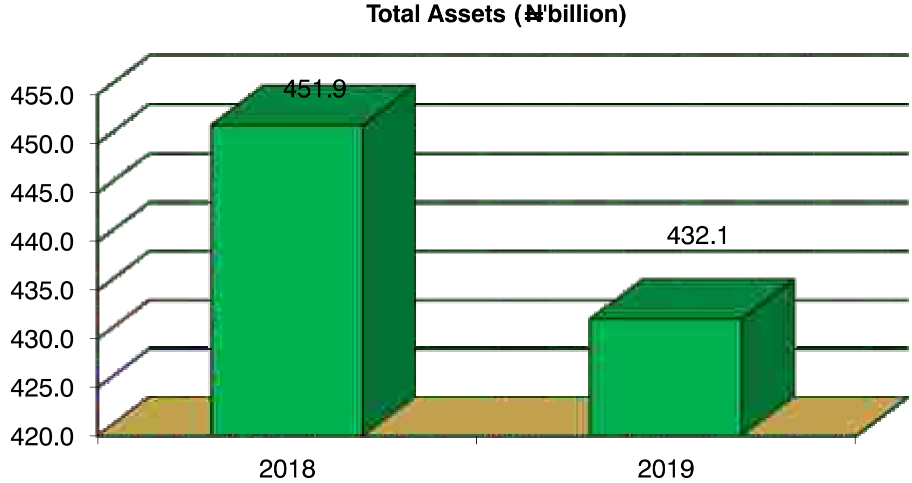


Figure 15: Composition of Assets of Primary Mortgage Banks

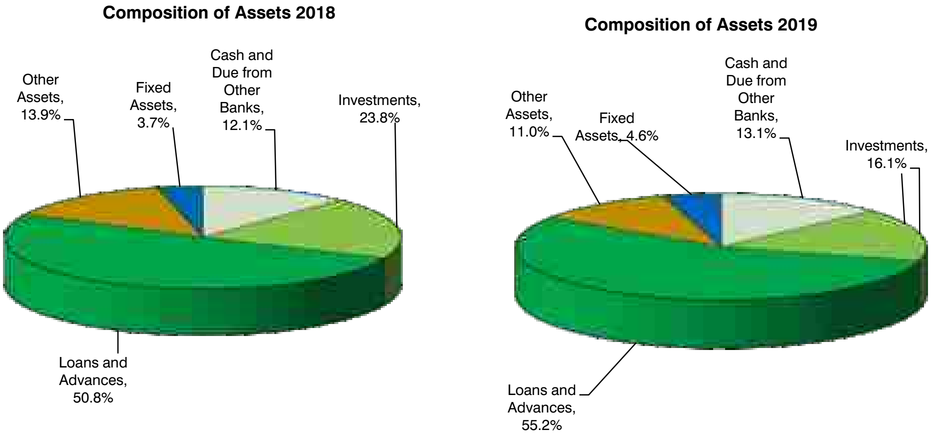
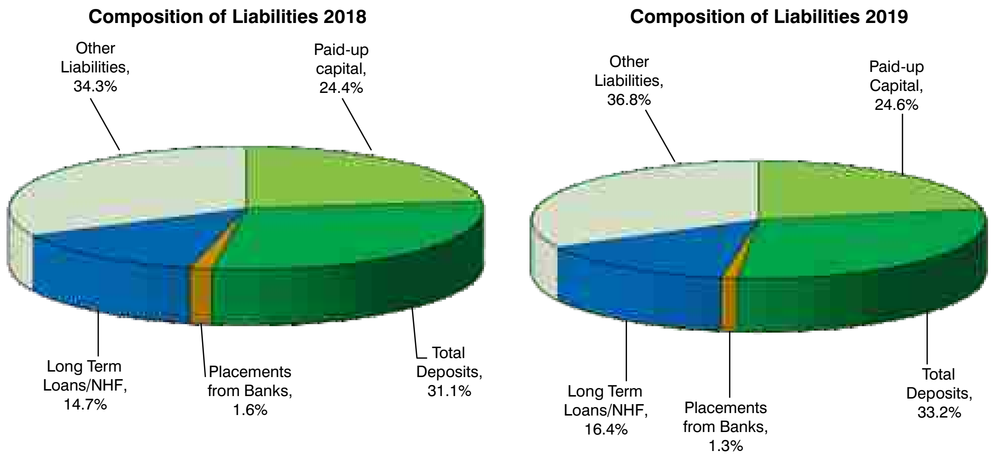


Figure 16: Composition of Liabilities of Primary Mortgage Banks



iii. Finance Companies

The total assets of FCs increased by ₦58.7 billion (33.6 per cent) to ₦233.4 billion at end-December 2019, from ₦174.7 billion at end-December 2018. The key components of total assets were net loans and advances, 34.3 per cent (2018: 30.4 per cent); other assets, 22.5 per cent (2018: 22.8 per cent); and fixed assets, 19.8 per cent (2018: 28.1 per cent).

Total liquid assets increased by ₦23.0 billion (262.6 per cent) to ₦42.7 billion at end-December 2019, from ₦19.7 billion at end-December 2018. Investments decreased by ₦1.4 billion (10.5 per cent) to ₦11.6 billion at end-December 2019, from ₦13.0 billion at end-December 2018, while loans and advances increased by ₦27.0 billion (50.7 per cent) to ₦80.1 billion at end-December 2019, from ₦53.2 billion at end-December 2018. The total borrowings of the FCs increased by ₦49.6 billion (47.8 per cent) to ₦153.4

billion at end-December 2019, from ₦103.8 billion the previous year. Shareholders' funds also increased by ₦8.0 billion (27.5 per cent) to ₦37.3 billion at end-December 2019, from ₦29.3 billion at end-December 2018, due to accretion to reserves.

The comparative statement of financial position of FCs at end-December 2019 and end-December 2018 is shown below:

Table 11: Comparative Statement of Financial Position of Finance Companies

	Dec-19		Dec-18		Variance	Growth Rate
Assets	₦'000	%	₦'000	%	₦'000	%
Cash and Due from Banks	14,794,676	6.3	11,302,824	6.5	3,491,852	30.9
Placements	27,952,628	12.0	8,427,818	4.8	19,524,810	231.7
Investments	11,639,096	5.0	12,999,652	7.4	-1,360,556	-10.5
Net Loans and Advances	80,125,259	34.3	53,163,106	30.4	26,962,153	50.7
Other Assets	52,633,633	22.5	39,782,717	22.8	12,850,916	32.3
Fixed Assets	46,276,933	19.8	49,009,667	28.1	-2,732,734	-5.6
Total Assets	233,422,225	100.0	174,685,784	100.0	58,736,441	33.6
Financed By:						
Paid-up Capital	20,691,553	8.9	16,431,963	13.5	4,259,590	25.9
Reserves	16,596,041	7.1	12,815,741	2.0	3,780,300	29.5
Shareholders' Funds	37,287,594	16.0	29,247,704	15.4	8,039,890	27.5
Long-term Loans Liabilities	3,283,251	1.4	3,044,802	3.0	238,449	7.8
Total Borrowings	153,400,016	65.7	103,815,252	57.2	49,584,764	47.8
Other Liabilities	39,451,364	16.9	38,578,026	24.3	873,338	2.3
Total Liabilities	233,422,225	100.0	174,685,784	100.0	58,736,441	33.6

Figure 17: Total Assets of Finance Companies

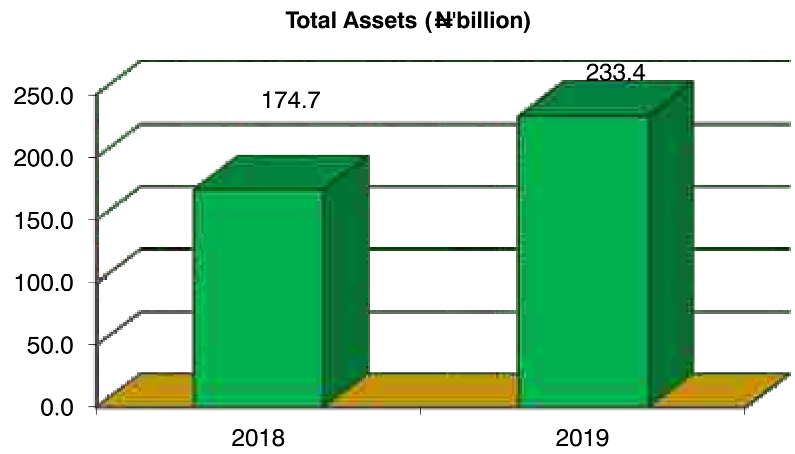


Figure 18: Composition of Assets of Finance Companies

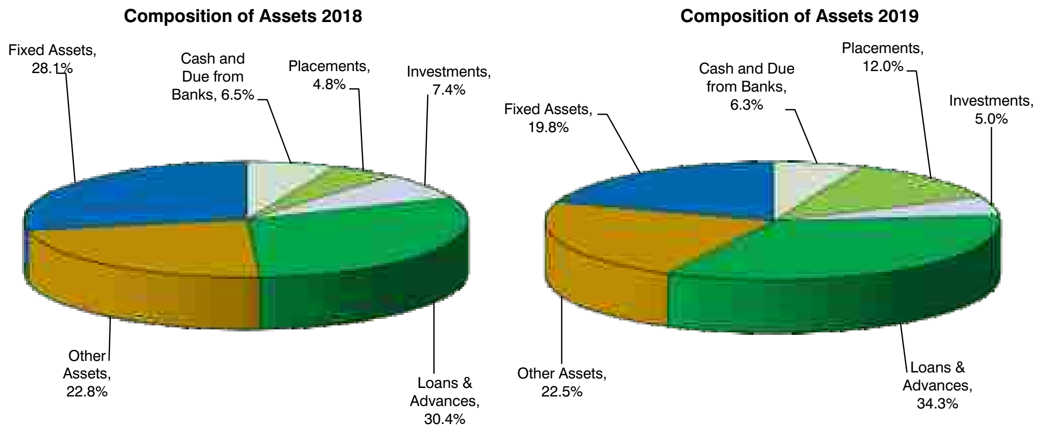
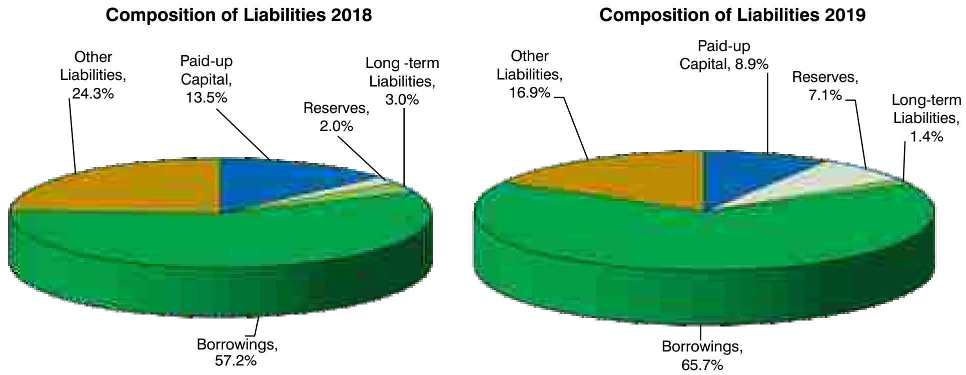


Figure 19: Composition of Liabilities of Finance Companies



iv. Development Finance Institutions

The total assets of the DFIs increased by ₦81.9 billion (4.2 per cent) to ₦2,021.2 billion at end-December 2019, from ₦1,939.3 billion at end-December 2018, due largely to increases in loans and advances, due to other banks and other assets. Cash and bank balances increased by ₦35.1 billion (274.9 per cent) to ₦47.9 billion at end-December 2019, from ₦12.8 billion at end-December 2018. Similarly, other assets and loans and advances increased by ₦28.2 billion (81.6 per cent) and ₦174.4 billion (19.0 per cent) to ₦62.7 billion and ₦1,092.9 billion at end-December 2019, from ₦34.5 billion and ₦918.5 billion at end-December 2018, respectively.

The comparative statement of financial position of DFIs at end-December 2019 and 2018 is shown overleaf:

Table 12: Comparative Statement of Financial Position of Development Finance Institutions

Assets	Dec-19		Dec-18		Variance	Growth Rate
	₦'000	%	₦'000	%	₦'000	%
Cash and Bank Balances	47,874,221	2.4	12,770,391	0.7	35,103,830	274.88
Placement	255,039,253	12.6	358,556,614	18.5	(103,517,361)	(28.87)
Investment	495,104,684	24.5	560,944,947	28.9	(65,840,263)	(11.74)
Loans and Advances	1,092,899,261	54.1	918,472,809	47.4	174,426,452	18.99
Other Assets	62,677,549	3.1	34,509,885	1.8	28,167,664	81.62
Fixed Assets	67,582,007	3.3	54,031,435	2.8	13,550,572	25.08
Total Assets	**2,021,176,975**	**100.0**	**1,939,286,081**	**100.0**	**81,890,894**	4.22
Financed By:			495,235,168			
Share Capital	238,780,740	11.8	238,780,740	12.3	-	-
Reserves	32,359,892	1.6	10,095,335	0.5	22,264,557	(220.54)
Shareholders' Funds	**271,140,632**	**13.4**	**248,876,075**	**12.8**	**22,264,557**	**(8.53)**
Deposits	356,286,718	17.6	330,307,773	17.0	25,978,945	7.87
Borrowings	63,655,778	3.1	3,265,502	0.2	60,390,276	1,849.34
Due to Other Banks	591,381,467	29.3	495,235,168	25.5	96,146,299	19.41
Other Liabilities	410,876,858	20.3	398,859,437	20.6	12,017,421	3.01
Long-term Liabilities	327,835,522	16.2	462,742,126	23.9	(134,906,604)	(29.15)
Total Liabilities	**2,021,176,975**	**100.0**	**1,939,286,081**	**100.0**	**81,890,894**	**4.22**

Figure 20: Total Assets of Development Finance Institutions

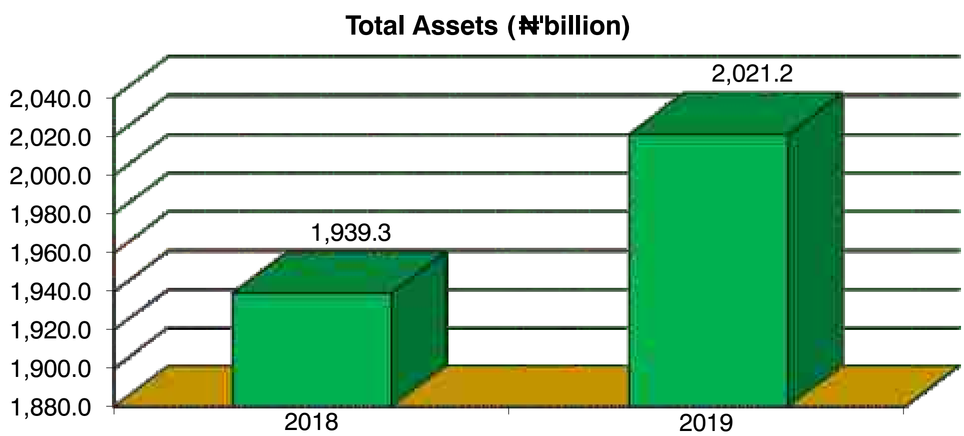


Figure 21: Composition of Assets of Development Finance Institutions

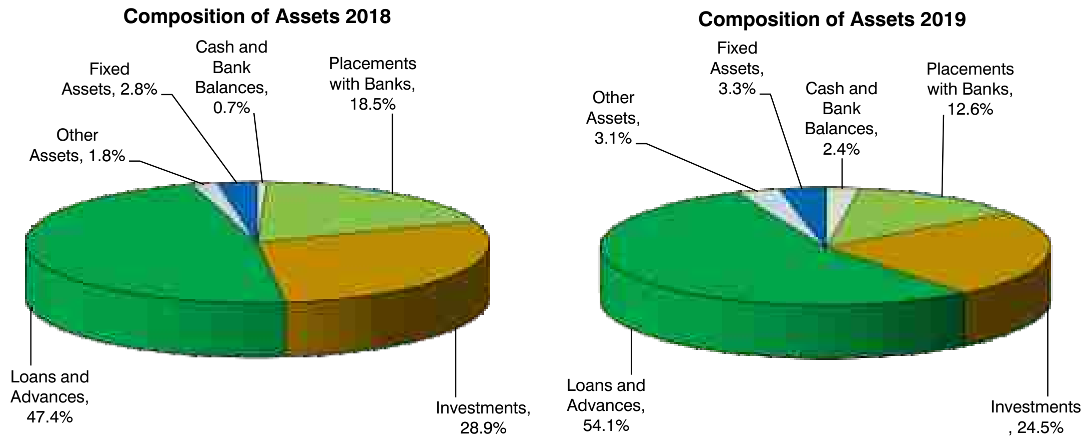
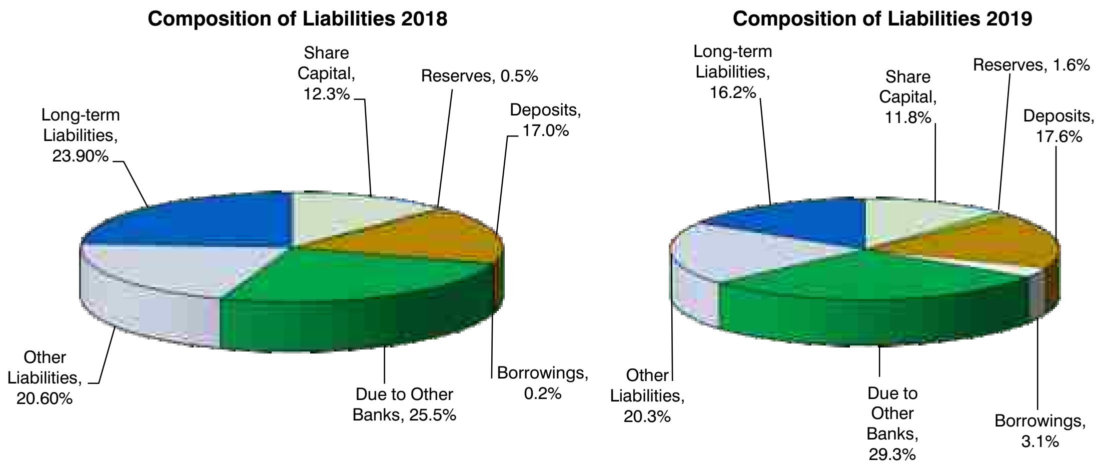


Figure 22: Composition of Liabilities of Development Finance Institutions



The financial performance of the OFIs sub-sector reflected an upward trend during the period. The increase in total assets and shareholders' funds of the sub-sector was attributed to additional capital injection, largely by the MFBs, and accretion of profits by the MFBs, FCs and DFIs. The sub-sector growth was, however, tempered by losses recorded by the PMBs at end-December 2019.

4.03 PERFORMANCE TREND OF ELECTRONIC TRANSACTIONS

The use of electronic-payment channels for transactions increased during the year. A review of the performance trend of the e-payment channels are presented below:

e-Payment Channels

The volume and value of payments on various channels (ATM, PoS, Mobile Money and Internet) increased by 37.2 per cent and 45.4 per cent to 1,759.1 million and ₦15,276.5 billion, respectively at end-December 2019, from 1,282.1 million and ₦10,503.8 billion at end-December 2018.

A breakdown of e-payment transactions for 2019, showed that in terms of patronage, ATM with 47.7 per cent remained the most used channel, followed by PoS and Mobile Money with 24.9 per cent and 21.4 per cent, respectively, while the internet (web) with 5.9 per cent was the least used. Similarly, in terms of value, the ATM constituted the largest item representing 42.6 per cent; followed by PoS with 21.0 per cent; mobile money, 33.3 per cent; and internet (web), 3.1 per cent. The growth in e-payment transactions was due to increased user confidence and awareness.

Figure 23: Classification of e-Money Products by Volume and Value 2019

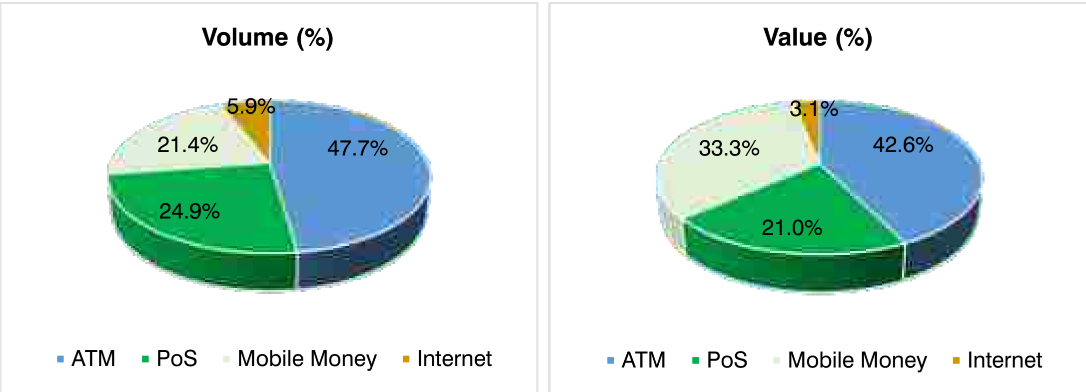
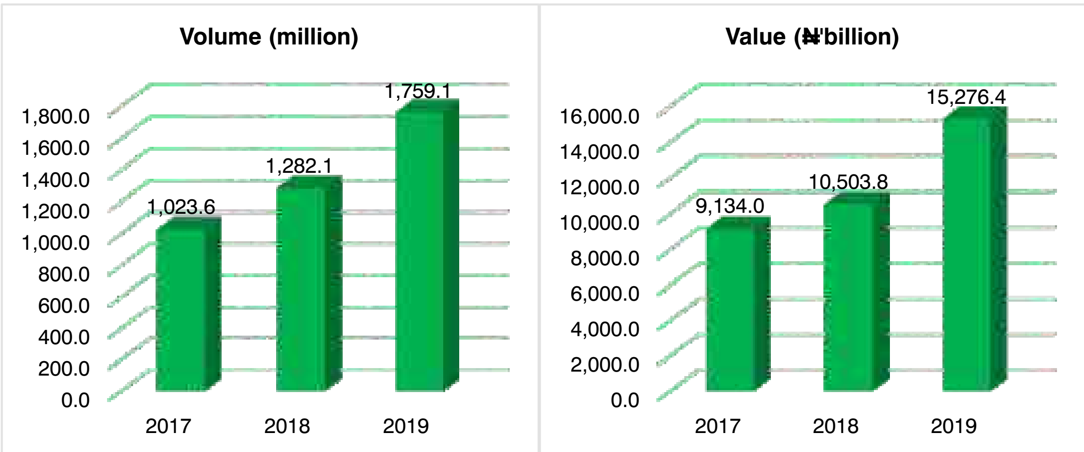


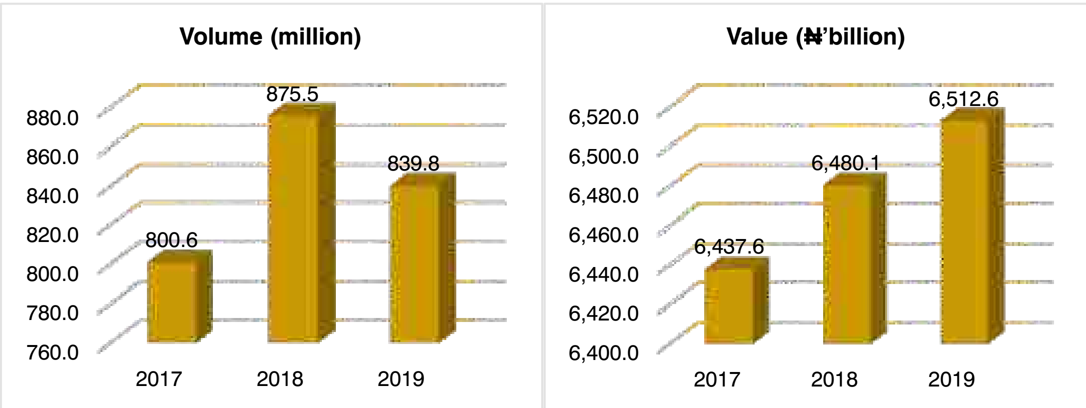
Figure 24: Volume (million) and Value (₦'billion) of Electronic Payments, 2017 – 2019



Automated Teller Machine Transactions

The number of ATMs deployed increased to 19,129 at end-December 2019, from 18,615 at end-December 2018, representing an increase of 3.0 per cent. ATM transactions reduced in volume by 4.1 per cent to 839.8 million from 875.5 million; while in value it rose marginally by 0.5 per cent to ₦6,512.6 billion in 2019, from ₦6,480.1 billion in 2018. The reduction in volume was as a result of increase in the use of electronic funds transfer as a means of payment either on the ATM or through other channels rather than cash withdrawals.

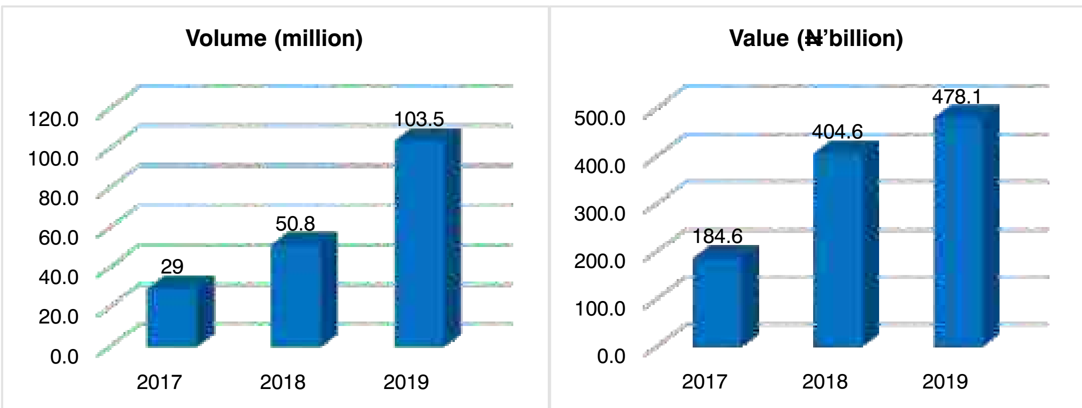
Figure 25: Volume (million) and Value (₦'billion) of ATM Transactions, 2017 – 2019



Web Transactions

The volume and value of transactions on the web increased by 103.7 per cent and 18.2 per cent to 103.5 million and ₦478.1 billion, respectively, at end-December 2019, from 50.8 million and ₦404.6 billion at end-December 2018. The growth in web payments was due to increase in e-commerce activities and mobile payments awareness.

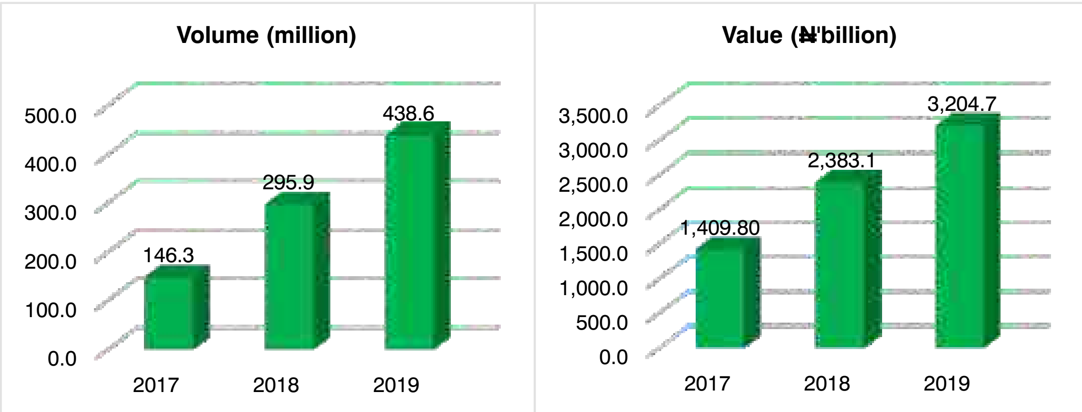
Figure 26: Volume (million) and Value (₦'billion) of Web Transactions, 2017 – 2019



Point-of-Sale Transactions

The volume and value of PoS transactions increased by 48.2 per cent and 34.5 per cent to 438.6 million and ₦3,204.8 billion, respectively at end-December 2019, from 295.9 million and ₦2,383.1 billion at end-December 2018. This was due to increased use of PoS for transactions by merchants.

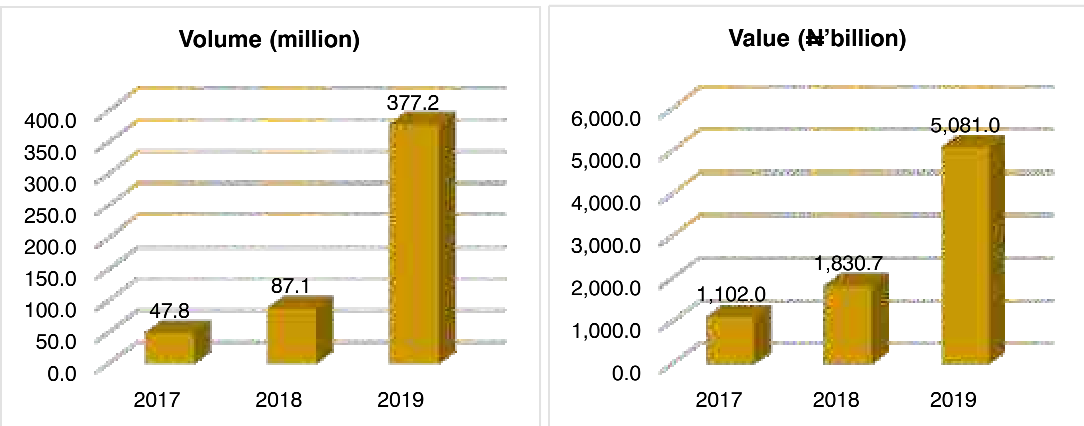
Figure 27: Volume (million) and Value (₦'billion) of Point-of-Sale Transactions, 2017 - 2019



Mobile Money Transactions

The volume and value of Mobile Money transactions increased by 333.1 per cent and 177.5 per cent to 377.2 million and ₦5,080.96 billion, respectively at end-December 2019, from 87.1 million and ₦1,830.0 billion at end-December 2018. The growth was due to increase in number of mobile money products, the effect of the Shared Agent Network Expansion Facility, entrance of new players and improved confidence in the use of the channel.

Figure 28: Volume (million) and Value (₦'billion) of Mobile Money Transactions, 2017 - 2019

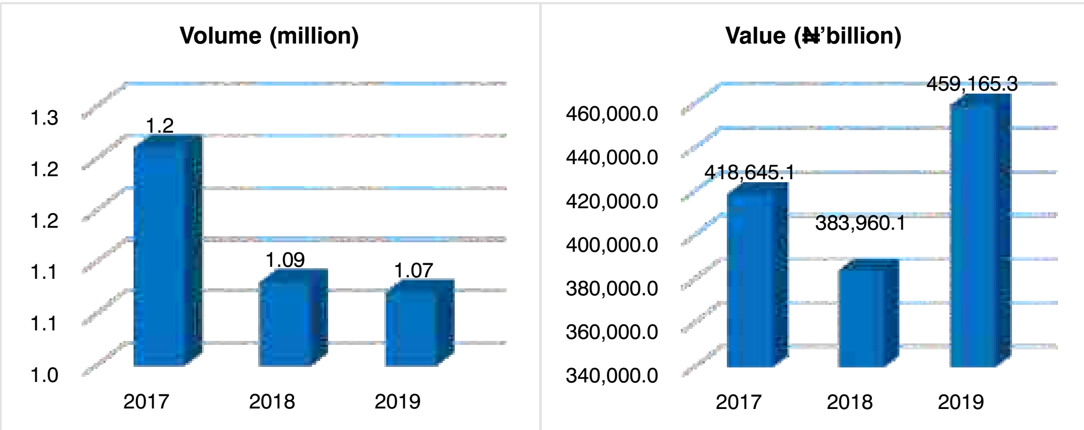


Wholesale Payments System

Real Time Gross Settlement System – Nigerian Settlement System

The volume of transactions on the CBN's Real Time Gross Settlement System (Nigerian Settlement System) decreased by 1.8 per cent to 1.07 million at end-December 2019, from 1.09 million at end-December 2018. Conversely, the value increased by 19.6 per cent to ₦459,165.3 billion from ₦383,960.1 billion, during the same period. The decrease in volume was as a result of the growing use of alternative channels for electronic funds transfer.

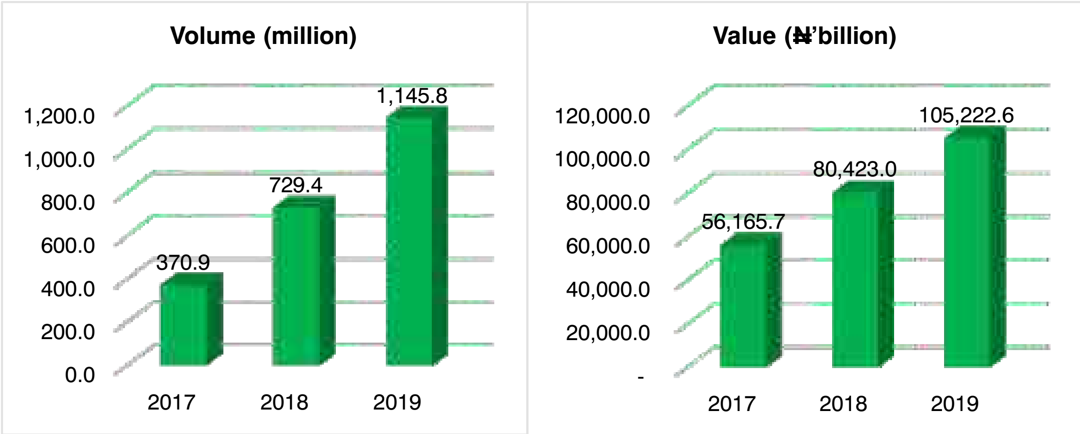
Figure 29: Volume (million) and Value (₦'billion) of Real Time Gross Settlement System Transactions, 2017 – 2019



Nigeria Inter-bank Settlement System Instant Payment Transactions

The volume and value of transactions on the NIBSS Instant Payment (NIP) platform increased by 57.1 per cent and 30.8 per cent to 1,145.8 billion and ₦105,222.6 billion, respectively at end-December 2019, from 729.4 million and ₦80,423.0 billion at end-December 2018. The marked improvement in the utilisation of the platform was due to increased use of mobile devices for NIP transactions and instant value.

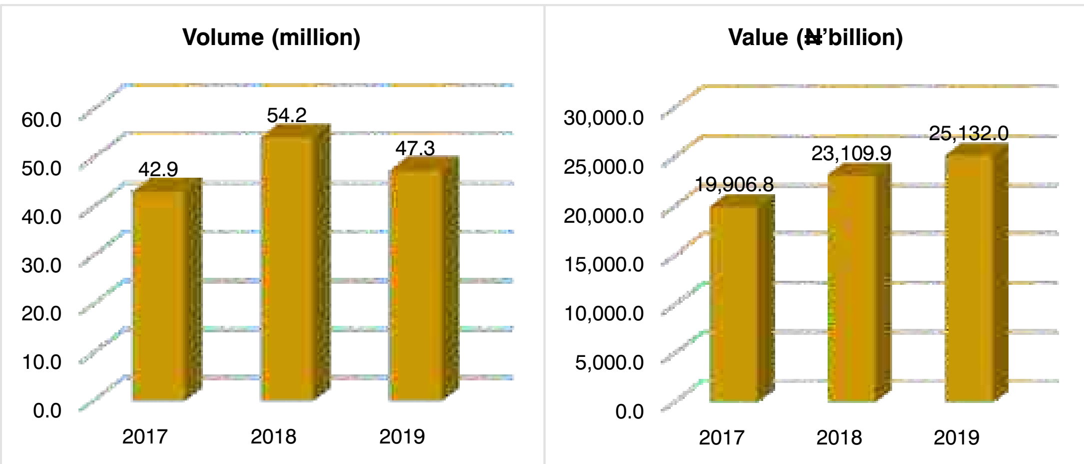
Figure 30: Volume (million) and Value (₦'billion) of NIP Transactions, 2017 – 2019



Nigeria Inter-bank Settlement System Automated Payment Services

The volume of NIBSS Automated Payment Services (NAPS) electronic funds transfer decreased by 12.7 per cent to 47.3 million at end-December 2019, from 54.2 million at end-December 2018. The value, however, increased by 8.8 per cent to ₦25,132.0 billion from ₦23,109.0 billion during the same period. The development was due to customers' preference for the instant payment alternative.

Figure 31: Volume (million) and Value (₦'billion) of NAPS Transactions, 2017 – 2019



Bank Verification Number Scheme and Watch-list

Enrolment on the BVN platform increased by 11.6 percent to 40.4 million at end-December 2019, from 36.2 million at end-December 2018. The number of active customer accounts was 79.3 million out of which 53.4 million accounts were linked to BVN. The difference between the enrolment and linked accounts was as a result of some customers with multiple accounts. In continuation of efforts to implement the BVN in line with the 2017 Regulatory Framework for BVN Operations and Watch-list for the Nigerian Banking Industry, 2,189 BVNs were watch-listed at end-December 2019.

Licensed Operators in the Payments System

The number of licensed operators in the payments system at end-December 2019 is presented below:

Table 13: Licensed Operators in the Payments System

S/N	Payment Services Providers	Number of Operators
1	Mobile Money Operators	26
2	Card Scheme	6
3	Super-Agent	9
4	Payment Solution Service Providers	22
5	Switches	9
6	Third Party Processors	4
7	Payment Terminal Service Providers	21
8	Non-Bank Acquirers	6

e-Payment Transactions

The volume and value of e-Payment transactions during the period are presented below:

Table 14: Volume and Value of e-Payment Transactions

Channel/Product	Volume	Value (₦)
NAPS	47,311,582	25,131,998,130,797
ATM	839,819,922	6,512,612,259,811
PoS	438,614,182	3,204,749,863,644
Internet (Web)	103,497,007	478,140,101,693
Mobile Money	377,265,208	5,080,961,536,595
NIP	1,145,785,229	105,222,562,871,372
m-CASH	251,490	600,921,460
EBILLSPAY	1,099,805	652,586,389,583
REMITA	48,481,208	20,724,633,755,093
CENTRAL PAY	663,163	5,476,055,244

The increase in e-payment transactions during the year was due to the various measures implemented by the CBN. These led to growth in the use of alternative channels for electronic funds transfer and increased user confidence. The CBN remains committed to the implementation of its initiatives towards improving the safety and efficiency of the payments system.

CHAPTER 5

CAPACITY BUILDING

5.01 FINANCIAL POLICY AND REGULATION DEPARTMENT RETREAT

The 5th Retreat of the Financial Policy and Regulation Department (FPRD) of the CBN with the theme "Fostering Financial System Stability: Role of Effective Policy and Regulation Regime" was held in Nasarawa State from August 1-2, 2019. A total of 158 participants from the CBN, the National Pension Commission and the National Insurance Commission attended the Retreat.

The Director, FPRD, Mr. Kevin Amugo, in his welcome address, stated that a "regulatory regime" comprises not only a combination of policy directives and supervision by regulatory agencies, but also monitoring, incentive schemes, self-regulation initiatives crisis intervention and corporate governance accountability arrangements.

He averred that the effectiveness of a regulatory regime is measured by its ability to create an enabling environment for a well-functioning financial system. He implored participants to use the Retreat as a platform for initiating, assessing, and fine-tuning regulatory policies to promote a sound and stable financial system.

In her keynote address, Mrs. Aishah N. Ahmad, the Deputy Governor, Financial System Stability (DG, FSS), noted that the industry had continued to record improvements in all major solvency and operational indices. She stated that, notwithstanding the improvements, vulnerabilities that could threaten the stability of the financial system still exist, including disruptions occasioned by emerging technologies; increased exposure to cyber threats; obligor and sectoral credit concentration; proportionality considerations; shadow banking; and the threat of disintermediation and under-intermediation.

Highlighting the challenge of determining the optimal level of regulation in order to avoid over or under regulation, she charged participants to consider the need to balance regulation with the size and complexity of institutions.

She also challenged participants to keep pace with developments in the digital space, especially in the areas of fintech, cryptocurrency and blockchain technology with a view to ensuring the continued reliability and security of the nation's financial services infrastructure. She tasked the department to:

a. Use policies to drive financial inclusion;

b. Harmonise the CBN's codes of corporate governance with the national code issued by the Financial Reporting Council of Nigeria;

c. Brainstorm on ways of improving the resilience of the microfinance sub-sector; and

d. Complete the Policy Impact Assessment framework.

Paper Presentations

A total of five papers were presented during the retreat as summarised hereunder:

i. In his paper on "Policy Impact Assessment: Effectiveness of the Interplay between Policy Development and Implementation", Mr. Chibuzo A. Efobi informed participants that the Policy Impact Assessment (PIA) Project was approved by Management on March 18, 2018 to establish a systematic process for identifying and assessing the effectiveness of policy interventions; identify and resolve conflicts in policies; and strengthen the credibility of the feedback-loop mechanism within and outside the Bank.

ii. Delivering a paper on "Sustaining Financial System Stability: The impact of Digital Financial Services – Fintech and Regtech", Mr. Matthew Alabi noted that regulatory and technological developments were changing the landscape of financial markets, services, and institutions in completely unexpected ways. Reviewing the frameworks in the United Kingdom, Singapore, Hong Kong and the United States, he described the approaches to fintech regulation as either passive or active. Also, reviewing the publications issued by international standard setting bodies such as the FATF and Basel Committee on Banking Supervision, he highlighted the risks associated with fintech to include strategic, business, cyber, operational, compliance, money laundering/terrorism financing and liquidity risks. He, however, stated that opportunities could still be explored through effective risk management, improvement in process efficiency and innovative use of data for marketing.

   He highlighted the activities of the CBN in the areas of fintech and regtech in 2018 to include unveiling a financial industry sandbox, in collaboration with the NIBSS, to facilitate digital innovation by fintech companies; partnering with Bill and Melinda Gates Foundation to develop regulations for fintechs; and issuance of a press release reiterating that cryptocurrencies were neither licensed nor regulated by the CBN.

iii. Dr. Hassan Mahmoud in a paper titled "Promoting Financial System Stability in Nigeria: Role of Macro-Prudential Regulation and Supervision", discussed the role of macroprudential regulation and supervision in promoting financial system stability in Nigeria. Describing financial stability as the capacity of the financial system to withstand shocks and disruptions in the performance of its intermediation role in the economy, he noted that financial crises are recurring phenomena that manifest in new guises each time. He identified the common triggers of crises as market, regulatory and government failures. He defined macroprudential policy as the use of prudential tools to contain the build-up of systemic risks; control structural vulnerabilities and enhance the resilience of the financial system.

He noted that in Nigeria, macroprudential oversight is conducted at two levels –institutional level (for example the CBN) and inter-agency level under the auspices of the Financial Services Regulation Coordinating Committee (FSRCC). He identified the activities of the CBN at the institutional level to include, the:

a. Identification, measurement and reporting of collective risks faced by the financial system;

b. Examination of risks that may arise from contagion as financial and non-financial institutions interact;

c. Analysis of early warning indicators and making recommendations for corrective action;

d. Conduct of stress tests and liquidity simulations to identify areas of vulnerabilities, thereby providing inputs for policy formulation and regulation; and

e. Management of the Credit Risk Management System.

Concluding, he underscored the need for clear mandate, well-defined objectives, sufficient powers and accountability by financial services regulators as well as enhanced cooperation among the regulators, including those across the border.

iv. Presenting a paper on "Consolidating Financial System Stability through Collaboration and Coordination of Regulatory Efforts", Mr. Hassan Asipita Musa noted that collaboration and coordination among regulators of financial services are intended to minimise incidences of financial crises due to information asymmetry and arbitrage; provide a platform for information sharing to identify early warning signals on emerging risks and vulnerabilities that can precipitate financial instability; measure risks on consolidated basis to support the conduct of consolidated supervision; and build capacity and share experiences.

He traced the history of collaboration among regulators of financial services in Nigeria to the formation of the Financial Services Coordinating Committee in

April 1994 (which later transmuted to the FSRCC) to promote regular interagency meetings on issues of common concern to regulatory and supervisory bodies. Mr. Musa identified the achievements of the FSRCC to include: the implementation of the project on the enhancement of specific tools and framework for managing the stability of the Nigerian Financial system; formation of the AML/CFT Regulators' Consultative forum; signing of MoUs between Nigeria and other countries to enhance cross-border supervision and cooperation.

v. In a paper titled "Fostering Financial System Stability: Role of Effective Policy and Regulation Regime" Prof. Ben Obi of the Department of Economics, University of Abuja, provided an overview of the financial system, financial stability, and financial system regulation and their interconnectedness. He advocated the use of macroprudential policy to address the time and cross-sectional dimensions of systemic risk.

   Citing some of the regulations issued in the financial system, such as the Code of Corporate Governance, loan to deposit ratio policy and review of the banking model, he observed that regulations do not always achieve their goals because certain elements that impact on their outcomes are outside the control of the regulators. He listed such elements to include macroeconomic policies, monetary stability, and the presence and quality of a financial sector safety net.

   Concluding, he noted that significant reforms had been implemented in the financial system to stabilise and enhance its resilience. He implored the CBN to ensure strict enforcement of regulations, especially the loan to deposit ratio directive to enhance financial inclusion.

At the end of the retreat, participants resolved to:

a. Complete the maiden Policy Impact Assessment exercise;

b. Conduct research on cryptocurrency, machine learning, cloud computing, cybersecurity and other emerging trends with relevant stakeholders and advise management on policy options;

c. Review/update the KYC Guidelines to incorporate recent developments relating to identity management system, as well as streamline various KYC-related circulars, directives and initiatives;

d. Harmonise the codes of corporate governance issued by the CBN with that of the Financial Reporting Council of Nigeria;

e. Collaborate with the Payments System Management Department to develop a framework for the establishment of a regulatory sandbox;

f. Collaborate with the Payments System Management Department and the NIBSS to conclude the study on the "Innovation Hub";

g. Develop a Third-Party Risk Management Framework to guide banks in their engagement with fintech companies and other service providers; and

h. Conduct a detailed study on crowdfunding, towards issuing an appropriate regulation to guide its operations in the financial system.

Giving the vote of thanks, Mr. A. C. Eke expressed the department's appreciation to the keynote speaker, paper presenters, discussants and all participants for making the retreat a success.

5.02 PAYMENTS SYSTEM MANAGEMENT DEPARTMENT RETREAT

The Payments System Management Department (PSMD) held its maiden retreat and strategy session in Abuja from February 25-26, 2019. The theme of the Retreat was "Achieving Financial System Stability: The Role of the Payments System." The two-day Retreat had in attendance the DG, FSS, some departmental directors and branch controllers of the CBN, members of staff of PSMD, representatives of other departments of the Bank and industry practitioners.

The Director, PSMD, Mr. Samuel Okojere, in his welcome address stated that the creation of the PSMD in November 2018, was predicated on the need for a payments system that is nationally utilised and internationally recognised in line with the National Payments System Vision 2020 strategy. He stated that the mandate of the Department was to license, regulate and supervise payments service providers. He expressed the hope that the Retreat would serve as a platform to engage stakeholders on the department's strategy and generate useful ideas towards achieving the mandate of the department. Goodwill messages were delivered by the directors of Strategy Management and Legal Services departments.

In her keynote address, the DG, FSS, Mrs. Aishah N. Ahmad, urged participants to keep pace with developments in the digital space in order to develop policy options in the areas of fintech, cryptocurrency, big data analysis and blockchain technology to enhance the reliability and security of the nation's financial services infrastructure.

She challenged the department in the development of its strategy to:

a. Strike a balance between fostering technological innovation and managing risks to financial stability;

b. Consider how to foster innovation and competition needed to advance the payments system;

c. Evaluate the implications of adopting activity-based or entity-based regulatory approach;

d. Ensure that regulation keeps pace with evolution in the payments system;

e. Ensure that developments in the payments system are used to drive financial inclusion;

f. Integrate Regulatory Technology (RegTech) and Supervisory Technology (SupTech) to improve supervisory oversight; and

g. Strengthen inter-agency collaboration and cross-border cooperation.

She also emphasised the need to engage industry practitioners in order to understand their perspectives and challenges with a view to developing policy responses. In conclusion, she advised participants to work towards creating a regulatory environment that would inspire confidence, creativity and prosperity for service providers, users and the economy.

Highlights of some papers presented at the Retreat are as follows:

i. A paper titled "Regulating and Securing the Nigerian Payments Space in the Face of Emerging Disruptive Technologies and Cybersecurity Threats: The Roles of the Regulator and Stakeholders" was presented by Mr. Boye Ademola of KPMG. Defining a digital customer as someone that does at least one instant transfer/payment in a year, he expressed concern that out of 37 million bank account holders linked to BVN, only 12.7 million (34 per cent) carried out instant transfers/payments in 2018. He stated that feedback from fintechs indicated that issues hampering the fintech landscape included absence of a single source of truth, application of stricter banking regulations to fintechs and regulatory overlap. He recommended that the CBN should:

    a. create a directory service for registered fintechs to serve as a single source of truth, thus creating an industry knowledge base;

b. implement regulations that require banks to publish their Application Payments Infrastructure (API) for other banks and fintechs to ensure safe, fast and efficient payments;

c. develop and implement a framework to regulate alternative lending in Nigeria to enhance lending to SMEs;

d. regulate lending-based crowdfunding while encouraging equity-based crowdfunding to be regulated by SEC. Similarly, micro (online) insurance and pensions should be regulated by NAICOM and PENCOM, respectively;

e. encourage banks to invest a percentage of their profits (e.g. 0.1 per cent) in innovation through fintechs; and

f. build capacity of staff in policy and regulation.

ii. Delivering a paper on "Transforming Public Governance with Payment Technology: Nigerian Experience", Mr. Deremi Atanda of SystemSpecs, gave an overview of the experiences of Kenya, India and Nigeria in transforming public governance with payment technology. He stated that the implementation of the Treasury Single Account (TSA) in September 2015, has resulted in increased transparency and accountability as well as lower liquidity reserve needs in governance. The TSA, he continued, has translated to a total savings of N4.3 trillion for the government and eased the disbursement of funds to MDAs. In conclusion, he stated that the TSA has created immense potential for the transformation of the lives of people by enhancing public governance with digital payments.

iii. The Director of Banking Services Department, CBN, Mr. Dipo Fatokun in a paper titled, "My Thoughts on the Future of Payments in Nigeria: The Task before PSMD", highlighted the crucial role of payments system in monetary policy, financial stability and economic development. He listed the initiatives adopted by the CBN to drive the expansion of the payments system to include the Cheque Truncation System, Cash-less Policy, NeFF, BVN, Nigeria Central Switch and RTGS. Due to the rise in cyber-attacks, he advised payment service providers/regulators to ensure continuous investment in advanced authentication technologies to minimise fraud and data breaches. To enhance the safety and efficiency of the payments system, he recommended that the CBN should:

a. Establish a Payments System Security and Risk Management Centre;

b. Develop shared infrastructure with the Nigerian Communications Commission and telecommunication companies to aid the exchange of real-time data on SIM swap/churn information and address incidences of unauthorised USSD and mobile app transfers;

c. Develop regulatory sandbox to support fintechs and start-ups;

d. Introduce measures to better manage third-party risks;

e. Migrate the Nigerian Payment Card industry from merchant service charge regime to inter-change fee regime and consider the liberalisation of transaction charges;

f. Monitor developments on the Distributed Ledger Technology to address challenges associated with cross-border payments;

g. Adopt RegTech and SupTech for rendition, collation and analysis of industry data; and

h. Review the Payments System Vision 2020 to accommodate new strategies for the payments system in Nigeria.

A brainstorming session on "Internal Alignment and Structural Issues; and Measuring our Success" was also held. The session, which was divided into two parts, was moderated by Dr. Olayinka David-West of Lagos Business School. The first part focused on the review of the adequacy of the departmental structure - enhancing capabilities (people, technology, process), setting goals and measuring progress. The second part focused on the identification of risks to performance/achievement of objectives. Following the brainstorming session, recommendations were made in the areas of restructuring of the department, capacity building and risk identification and mitigation.
At the end of the Retreat, participants issued a communiqué with the following recommendations to the department:

a. Engage in regular collaboration with stakeholders within and outside the Bank;

b. Build the capacity of members of staff to deal with the challenges of disruptive technologies in the payments system;

c. Review the Payments System Vision 2020 to accommodate new strategies for payments system in Nigeria – PSV2030; and

d. Develop (in collaboration with FPRD and OFISD) a new risk-based collateral management system for the industry and Nigeria Uniform Bank Account Number for OFIs.

The Director PSMD expressed appreciation to the keynote speaker, paper presenters, discussants and participants for making the Retreat a success. He assured that the Department would make the most of the opportunity to articulate a strategy that will contribute to achieving a safe, stable and sound financial system.

5.03 CAPACITY BUILDING FOR SUPERVISORS

During the year, supervisors were exposed to several training programmes aimed at enhancing their supervisory capabilities. The programmes included local and international courses, conferences and workshops as highlighted below:

Local Programmes

Nine runs of the Bank Examiners' Course, an in-house programme designed to improve the competencies of Examiners, were held during the year. Members of staff of the Financial System Stability Directorate of the Bank, sister regulatory agencies and other central banks in the West African sub-region participated in the programme. Selected staff, who had distinguished themselves while attending the Course, participated in a train-the-trainer programme to increase the number of faculty members for the programme.

Other courses attended by supervisors were on Financial Institution Analysis solution, Basel II and III, International Financial Reporting Standards and AML/CFT. In addition, an RBS refresher programme was organised for supervisors to keep them abreast of emerging developments in supervisory practices.

International Programmes

Supervisors participated in capacity building programmes organised by the Federal Deposit Insurance Corporation, Federal Reserve System and the International Monetary Fund. The programmes included the Examination Management, Loan Analysis, Introduction to Examination, Asset-Liability Management, Financial Institutions Analysis, and Bank Analysis and Examination schools. Others included Anti-Money Laundering Examination Seminar; New York Fed Central Banker Specialized Training Course; Consolidated Supervision and Risk Integration Seminar; Seminar for Senior Bank Supervisors from Emerging Economies; Risk-focused Supervision and Risk Assessment Seminar; and Advanced Credit Risk Management and Management Seminar.

Conferences and Seminars

Supervisors participated in various local and international conferences, symposiums and seminars as detailed hereunder:

Table 15: Details of the Programmes

S/N	Course Title	Number of Staff Trained
1	Bank Examiners' Course, Foundation	105
2	Bank Examiners' Course, Level 1	62
3	Bank Examiners' Course, Level 2	68
4	Bank Examiners' Course, Level 3	50
5	Principles of Asset/Liability and Liquidity Risk Management Programme	10
6	Financial Soundness Indicator Course	5
7	Stress Testing Course	10
8	Macroeconomics Diagnostics	2
9	Payments System Risk Management	5
10	Macro-econometric Modelling for Policy Analyst	2
11	Risk Manag ement and Internal Control Seminar	5
12	Risk -focused Supervision and Risk Assessment Seminar	5
13	Financial System Stability	8
14	Fintech Innovative Banking	5
15	Ethics Training Workshop	2
16	Anti-Money Laundering Examination	10
17	Bank Analysis an d Examination School	13
18	Examination Management School	2
19	Financial Institutions Analysis School	1
20	Loan Analysis School	2
21	Liquidity Risk Management Seminar	1
22	Dealing with Problem Banks Seminar	1
23	Financial Sector Surveillance Course	2
24	Housing, Housing Finance and Construction Study	2
25	International Workshop for Directors of Financial Institutions: Enhancing Board Cyber-risk Oversight	1
26	International Central Bank Course on Banking Supervision with the Basel Framework	1
27	Credit Assessment and Analysis System Training	2

28	Workshop on Accounting and Reporting for Islamic Financial Institutions	1
29	6th Annual Global Financial Services Regulators Summit	2
30	Seminar on Crisis Preparedness and Resolution Options for Financial Regulators and Supervisors, Central Bankers, Deposit Insurers and Senior Officers of Ministry of Finance	2
31	Programme on Country Experiences and Challenges Encountered during the Implementation of Basel II and III	2
32	WAIFEM/IMF Regional Course on Financial Soundness Indicators	3
33	Short Course on Financial Services and Market Regulation	1
34	Regional Training-of-Trainers Workshop on AML/CFT Risk -Based Supervision	1
35	Banque De France's International Banking and Finance Institute Seminar on Fight against Money Laundering	1
36	Workshop on Accounting and Reporting for Islamic Financial Institutions	1
37	New York Fed Central Banker Specialized Training Course	3
38	Consolidated Supervision and Risk Integration Seminar	1
39	Seminar for Senior Bank Supervisors from Emerging Economies	1
40	Advanced Credit Risk Management and Management Seminar	2
41	Advanced Credit Bureau Seminar	5
42	Critical Thinking and Data Analysis Course	2
43	Customer Service and Stakeholder Management Skills Training	3
44	Export Management Programme (EMP 8)	1
45	Basic Life Support/ First Responder Training	1
46	Sensitisation on My Personal Learning Plan	2
47	Workshop on Advanced Mediation Skills Development	2
48	Risk Management and Internal Control	3
49	Risk -focused Supervision and Risk Assessment Seminar	3
50	Introduction to Swaps, Options and Forwards	4
51	Leading Others	2
52	Workshop on the Methodology for Conducting Self-assessment of Basel Core Principles on Effective Banking Supervision	2
53	Addressing Nigeria's Housing Deficit	2
54	Business Writing and Email Etiquette for Effective Communication Training	2
55	Understanding Excess Charges	38
56	Fundamentals of e-Payment Banking Practice and Implications for Customers	37
57	Building Leading Effective Teams	67
58	Risk -based Supervision Course	50
59	Fundamentals of Islamic Finance	5
60	Effective Communication: Mail Handling, Document Tracking and Information Management	4

61	Public Sector Accounting/Budgeting & Strategic Management of a Zero based Budgeting in a Developing Economy	4
62	Advanced Inventory, Stores, Warehouse and Procurement Management	4
63	Leading the Team Programme	3
64	FITC Train -the-Trainer Course	17
65	WAIFEM Regional Course on Microfinance Regulation and Supervision	5
66	Microfinance Acceleration Programme	2
67	European Central Bank (ECB) Seminar on Market Infrastructure and Payments	2
68	5th International Conference of Regional Card Schemes and Retail Financial Infrastructure	2
69	Payments Institute 2019	1
70	Fundamentals of Fraud Workshop	1
71	European Central Bank Conference	
72	Central Bank Payments Conference	2
73	2019 SWIFT African Regional Conference	
74	Seamless West Africa Conference	1
75	Consumer Payments and Finance Academy and 9th Financial Services Symposium	1
76	Inter-Regional Payments Systems Integration Framework	1
77	Afro-Asia Banking Industry Conference and Fair	2
78	IMF Professional Attachment Programme	2
79	Fintech and Regtech Global Summit	2
80	Pan African Payments and Settlement System Training by AFREXIM Bank	2
81	CIBN/NIBSS Collaborative Workshop	2
82	EFInA Training on Targeted Digital Financial Services Product Development for the Last Mile	1
83	CIBN Workshop for Examiners on Computer-based Testing	
84	Workshop on the Development and Use of Mobile Big Data Holding	1
85	Workshop for Examiners on AML/CFT Examination of Payment Service Providers	12
86	Cybersecurity Workshop	12

The programmes attended by supervisors was an affirmation of the Bank's commitment to building the capacity of its staff through continuous learning and improvement. The CBN, in the years ahead, will sustain efforts towards equipping supervisors with competencies required to effectively carry out their responsibilities.

EDITORIAL COMMITTEE

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

1.	Thompson O. Sunday	Chairman	Banking Supervision
2.	Nwabueze V. Orjiakor	Member	Banking Supervision
3.	Temidayo B. Fasipe	Member	Banking Supervision
4	Michael C. Akuka	Member	Financial Policy and Regulation
5.	Andrew A. Apeh	Member	Other Financial Institutions Supervision
6.	Michael D. Dalyop	Member	Other Financial Institutions Supervision
7	Lawal L. Gbadamosi	Member	Consumer Protection
8.	Ibrahim S. Rimintsiwa	Member	Banking Supervision
9.	Aliyu M. Mohammed	Member	Payments System Management
10.	Gloria U. Igwe	Secretary	Banking Supervision

GLOSSARY

ACE	-	Advisory Committee of Experts
AD	-	Authorised Dealer
AMCON	-	Asset Management Corporation of Nigeria
AML/CFT	-	Anti-Money Laundering and Combating the Financing of Terrorism
API	-	Application Payments Infrastructure
ATM	-	Automated Teller Machine
BCP	-	Basel Core Principle
BDC	-	Bureaux de Change
BOFIA	-	Banks and Other Financial Institutions Act
BTA	-	Business Travel Allowance
BVN	-	Bank Verification Number
CABS	-	Community of African Bank Supervisors
CAR	-	Capital Adequacy Ratio
CBN	-	Central Bank of Nigeria
CCIRS	-	Cross Currency Interest Rate Swap
CDD	-	Customer Due Diligence
CIBN	-	Chartered Institute of Bankers of Nigeria
CPTI	-	Credit Portfolio Transparency Index
CRMS	-	Credit Risk Management System
CRR	-	Composite Risk Rating
DFI	-	Development Finance Institution
DMB	-	Deposit Money Bank
EAD	-	Exposure at Default
ECB	-	European Central bank
ECL	-	Expected Credit Loss
ECO	-	Executive Compliance Officer
EFI	-	Export Facilitation Initiative
ETI	-	Ecobank Transnational Incorporated
FATF	-	Financial Action Task Force
FC	-	Finance Companies
FDI	-	Foreign Direct Investment
FHC	-	Financial Holding Company
FITC	-	Financial institutions Training Centre
FPRD	-	Financial Policy and Regulation Department
FRACE	-	Financial Regulation Advisory Council of Experts
FSB	-	Financial Stability Board
FSRCC	-	Financial Services Regulation Coordinating Committee
FSS	-	Financial System Stability
FX	-	Foreign Exchange

GDP	-	Gross Domestic Product
GIABA	-	Inter-Governmental Action Group against Money Laundering in West Africa
GIZ	-	German Agency for International Development
GSI	-	Global Standing Instruction
HITD	-	Head, Information Technology Division
IFSB	-	Islamic Financial Services Board
IFRS	-	International Financial Reporting Standards
IMF	-	International Monetary Fund
KYC	-	Know Your Customer
LC	-	Letter of Credit
LDR	-	Loan to Deposit Ratio
LGD	-	Loss Given Default
MFB	-	Microfinance Bank
MEE	-	Mutual Evaluation Exercise
MGC	-	Mortgage Guarantee Company
ML/FT	-	Money Laundering/Financing of Terrorism
MSME	-	Micro, Small and Medium Enterprises
NAFDAC	-	National Agency for Food and Drug Administration and Control
NAMBUIT	-	National Association of Microfinance Banks Unified Information Technology
NAPS	-	NIBSS Automated Payment Services
NCX	-	Non-Commercial exports
NeFF	-	Nigeria Electronic Fraud Forum
NGF	-	Nigeria Governors' Forum
NHFP	-	Nigeria Housing Finance Programme
NIBSS	-	Nigeria Interbank Settlement System
NIFI	-	Non-Interest Financial Institutions
NIP	-	NIBSS Instant Payment
NPL	-	Non-Performing Loans
NXP	-	Nigerian Export Proceeds Form
OFI	-	Other Financial Institution
ORAM	-	Offsite Risk Assessment Methodology
OTC	-	Over-the-Counter
PAR	-	Portfolio-at-Risk
PD	-	Probability of Default
PHR	-	Personal home Remittance
PIA	-	Policy Impact Assessment
PMB	-	Primary Mortgage Bank
PMI	-	Purchasing Managers' Index
PoS	-	Point of Sale
PSB	-	Payment Service Bank

PSIA	-	Profit-Sharing Investment Accounts
PSP	-	Payment Service Provider
PSMD	-	Payments System Management Department
PSSRMC	-	Payments System Security and Risk Management Centre
PSV	-	Payments System Vision
PTA	-	Personal Travel Allowance
RBA	-	Risk-Based AML/CFT
RBS	-	Risk-Based Supervision
RCG	-	Regional Consultative Group
RTGS	-	Real Time Gross Settlement
SICR	-	Significant Increase in Credit Risk
SIM	-	Subscriber Identification Module
SME	-	Small and Medium Enterprise
SMS	-	Short Message Service
TSA	-	Treasury Single Account
UBA	-	United Bank of Africa
USSD	-	Unstructured Supplementary Service Data
WAIFEM	-	West African Institute for Financial and Economic Management
WAMZ	-	West African Monetary Zone
WUMT	-	Western Union Money Transfer