REVIEW OF DEVELOPMENTS IN BANKING AND FINANCE IN THE FIRST AND SECOND QUARTER 2015

1.0 INTRODUCTION

The banking sector recorded a number of developments during the first and second quarters of 2015. Some of these developments were by products of the Central Bank of Nigeria (CBN) Monetary Policy Committee Meetings

2.0 CBN MONETARY POLICY COMMITTEE MEETINGS

The CBN Monetary Policy Committee (MPC) met during the period to review conditions and challenges that confronted the domestic economy, reassess short-to-medium term risks to inflation and challenges from the harsh external environment.

There were (3) three MPC meetings in the first and second quarters. The first held on the 19th and 20th January, the second on the 23rd and 24th of March, while the third and final meeting for the first and second Quarter held on the 18th and 19th May 2015.

3.0 EXTERNAL ECONOMY

During the period under review the pace of global economic recovery ranged between tepid to moderate. Low commodity prices weighed heavily on the growth of output. In addition, expectations of a rise in US short term interest rates continue to fuel capital outflows and currency weaknesses in emerging markets and developing economies against the backdrop of sustained weakness within the Euro zone.

During the first quarter 2015, the United States provided the global growth impetus as consumer demand strengthened on the heels of falling oil prices and accommodative monetary policy. In contrast the Euro zone still faced continued output decline resulting in the European Central Bank introducing a massive €1.1 trillion asset purchase programme which commenced in March 2015. The programme though open-ended, is expected to last until September 2016. Global growth continued to be constrained by a number of factors including high debt, rising unemployment, geopolitical tensions and conflicts, weak external demand and the exit of the US Federal Reserve Bank from quantitative easing which triggered sharp corrections in the financial markets.

The International Monetary Fund (IMF) has projected a marginal increase in global output from 3.4 percent in 2014 to 3.5 percent in 2015 with variations across regions and major economies. Stronger currencies in both the United states and the United kingdom may likely moderate net exports and the asset purchase programme introduced by the UK and Japan indicate the divergent monetary policy stances amongst key advanced economies with the attendant widening of long-term interest rate differentials.

In china, growth is expected to decline below the long run target of 7.0 percent in 2015 owing to financial market vulnerabilities, declining productivity, excess capacity and weakening domestic demand. Developing economies continued to show relative resilience with growth projected at 4.8 percent for 2015 from 4.4 percent in 2014.

4.0 DOMESTIC ECONOMY

The slowdown in growth which surfaced in the third quarter of 2014 intensified in the first quarter of 2015 as a result of declining crude oil prices. The National bureau of Statistics (NBS) estimated Real GDP growth at 3.96 percent in the first quarter of 2015 which is significantly lower than the 5.94 percent and 6.21 percent in the preceding quarter and the corresponding period in 2014.

The non-oil sector continued to drive the growth in the first quarter of 2015, recorded at 5.59 percent. Services, trade and agriculture contributed 2.82, 1.27 and 1.05 percentage points respectively as key growth drivers. Modest recorded increments in the oil sector in the fourth quarter of 2014 appear to have been eroded as oil GDP fell by 8.5 percent in the first quarter of 2015 compared with the increase of 1.2 percent in the preceding quarter.

Overall, concerns about continued weakening economic momentum as a feature prevalent in virtually all oil exporting countries further substantiate the need to accelerate initiatives and reforms aimed at diversifying the economic base of the country. Also, the successful conclusion of the 2015 general elections and renewed thrust against insurgency suggest that the pace of economic progress would pick up in the near term.

5.0 MONEY SUPPLY

Broad Money Supply (M2) declined by 1.70 percent in February 2015 over the level at the end-December 2014. This translated to an annualized decline of 10.23 percent when compared with the provisional growth benchmark of

15.24 percent for fiscal 2015. This decline reflects the contraction of 18.14 percent and 8.22 percent in Net Foreign Assets (NFA) and other assets (net) respectively during the period. The fall in NFA is attributable to the combined effects of weakening oil prices and reversal of portfolio capital flows. Net Domestic Credit (NDC) grew by 9.89 percent in February 2015, annualized to a growth rate of 59.31 percent, compared with a growth rate of 7.89 percent recorded in the corresponding period of 2014 and an indicative benchmark of 29.3 percent for 2015.

Interest rates in all segments of the money market trended upwards between 26th November 2014 and 13th January 2015. The interbank call rate opened at 8.98 percent on 26th November 2014 and closed at 26.15 percent on 16th January 2015. Similarly the OBB and 30 day NIBOR increased from 10.2 and 11.38 to 23.46 and 11.63 percent respectively. These increments particularly for interbank and OBB were primarily as a result of tightening measures introduced at the November 2014 meeting of the Monetary Policy Committee (MPC).

Broad money supply (M2) increased by 1.80 per cent in April 2015 over the level at end-December 2014 a figure transformed to an annualized increase by 5.39 per cent which was lower than the growth benchmark of 15.24 percent for fiscal 2015. The modest increase in money supply reflected the growth in the net domestic credit (NDC) of 9.66 per cent.

Annualized, net domestic credit grew by 28.98% over the end-December, 2014 level, which was within the provisional benchmark of 29.3% for 2015. The significant growth in aggregate credit was traced mainly to Federal Government borrowing which increased by 177.26 per cent in April 2015 or 531.78 per cent on annualized basis.

6.0 SUSTAINING MACROECONOMIC GAINS

To sustain the macroeconomic gains, the Central Bank of Nigeria (CBN) at its first MPC meeting for the year, noted with satisfaction the growth performance of the economy as well as the year-end inflation outcome. It did however also observe that its decisions of November 2014 needed sometime to crystallize thus its decisions to retain the status quo;

i. MPR to be retained at 13percent;
ii. CRR on private sector deposits at 20 percent;
iii. Retain CRR on public sector deposits at 75 percent;
iv. Retain Liquidity Ratio at 30 percent.

This would be applied on all Federal, State, Local Government and MDA deposits. For non-public sector deposits, the CRR would be retained at 20 percent. Deposits from the following institutions are regarded as public sector deposits;

i. NNPC Joint Venture (JV) Accounts;
ii. Sovereign Investment Funds;
iii. Government MDA's/Companies Collection Accounts such as: Customs, FIRS etc.
iv. Pilgrim Welfare Boards; and
v. All accounts belonging to Government Universities.

The CBN on the backdrop of the successful completion of the 2015 General election and its attendant benefit on the macroeconomic environment (given other prevailing realities within the economic space), noted that monetary policy was gradually approaching its tightening limits and thus needed to be synchronised with complementary fiscal and structural policies. It also noted that in order to reduce the opportunity for the occurrence of moral hazard, the discriminatory effect of the variance in public and private sector CRR which has constrained the policy space would need to be reviewed.

This led to the decision by the MPC in its May 2015 meeting to merge the CRR of both the public sector deposits and private sector deposits at 31 percent in its circular referenced BSD/DIR/GEN/LAB/08/024. It also noted that maintenance period would be weekly and that the CRR rate would be applied on the average adjusted deposits for the preceding maintenance period and not on the incremental deposits. Computed Cash Reserve would be maintained for the subsequent period. It also decided that the;

i. MPR to be retained at 13percent with a corridor of +/- 200 basis points around the midpoint; and
ii. Retain Liquidity Ratio at 30 percent.

The CBN recognized that while additional tightening measures may not be appropriate to prevent the overheating of the economy, the harmonization of the CRR was imperative in order to achieve the twin objectives of curbing abuses and improving the efficacy of monetary policy.

7.0 CIRCULARS AND GUIDELINES ISSUED BY CBN

The following are the circulars and Guidelines issued by the Central Bank of Nigeria (CBN) during the period under review.

7.1 Utilization of rDAS and Interbank Funds/Review of the Foreign Exchange Trading positions of Banks

In the circular ref. TED/FEM/FPC/GEN/01/002 dated January 21, 2015, the CBN informed authorized dealers of its continuing attempt to review developments in the foreign exchange market and to curb speculative demand in the market as well. The CBN instructed that both rDAS and interbank funds be henceforth used strictly for funding of Letters of Credit, Bills for Collection and other invisible transactions. It also has restricted the sale of rDAS and Interbank Funds to BDC's and other authorized buyers.

7.2 Implementation of Two Factor Authentication for Internal Banking Processes

The CBN issued a circular referenced BPS/DIR/GEN/CIR/06/001 dated January 19, 2015 to all deposit money banks (DMBs) on the increased insider abuse involving identity theft and abuse of authorization procedures. The circular directed all DMBs as follows:

i. Implement a Maker/Checker control structure for all payment platforms, including account and database system maintenances on core banking systems. DMBs are expected to comply by December 31, 2015.
ii. Implement Two Factor Authentications at login points for applications driving Transfers, Withdrawal, Deposit, Standing Order, Account Maintenance and System Maintenance processes. The DMBs are expected to submit their implementation to the CBN by January 30, 2015 while the deadline for fall implementation is December 31, 2015, failing which defaulting banks would incur a penalty of N50, 000.00 daily.

iii. All payment processing Gateways and Third Party Processors should implement Fraud-Monitoring Tools to check transfers from an account to multiple bank accounts by December 31, 2015.

7.3 Circular to all Banks, Discount Houses and Other Financial Institutions on compliance with the United States of America's Foreign Accounts Tax Compliance Act (FATCA) 2010

In the circular ref. FPR/DIR/GEN/CIR/04/004 DATED January 22, 2015, refers to the Hiring Incentive to Restore Employment (HIRE) Act, otherwise referred to as Foreign Accounts Tax Compliance Act (FATCA) enacted in the United States (US). The Act seeks to broaden tax coverage to foreign financial assets (FFA), including offshore accounts of US "persons" which is defined to include US tax payers or foreign business where a US tax payer holds substantial ownership interest.

The US Internal revenue Service (IRS) essentially requires certain categories of Foreign Financial Institutions (FFI's) including banks, discount houses and other financial institutions to enter into agreement with it in order to provide periodic information on US persons' accounts with them to the IRS.

7.4 N300 Billion Real Sector Support Facility (RSSF) Guidelines

The Central Bank of Nigeria (CBN), in its bid to further unlock the potential of the real sector to engender output growth, value added productivity and job creation has released a guideline in its attempt to establish a N300 billion Real Sector Support Facility (RSSF). It is intended that this facility shall provide much needed support to large enterprises for start-ups and expansion financing needs of N500million up to a maximum of N10 billion. The sectors of particular interest include Manufacturing, Agricultural value chain and selected Service sub-sectors.

7.5 Re-Prohibition from Borrowing to Capitalize Banks

In the letter ref. BSD/DIR/GEN/LAB/08/008, the Central Bank of Nigeria (CBN), reminds financial institutions that in a previous circular dated November 2000, Prohibits borrowing within the banking system as a source of funds geared towards the recapitalization of banks. Where such funds are borrowed outside the banking system, they must be of the type and nature that qualify as part of capital in accordance with Guidance Notes on the Calculation of Regulatory capital and are still subject to the verification by the CBN.

7.6 Exposure Draft on the Guidelines for Banking Operations in the Free Trade Zones in Nigeria.

In the letter ref. BPS/DIR/GEN/CIR/02/004, dated February 6, 2015, In furtherance of its mandate for the development of banking operations in Nigeria, the Central Bank of Nigeria (CBN), released the Exposure Draft on the Guidelines for Banking Operations in the Free Trade Zones in Nigeria for review and comments.

7.7 Guidelines on the Governance of Financial Regulation Advisory Council of Experts for Non-Interest (Islamic) Financial Institutions in Nigeria.

Section 9.1 of the Central Bank of Nigeria (CBN) Guidelines for the regulation and Supervision of Institutions offering Non-Interest Financial Institutions provides for the establishment of an advisory body at the CBN on Islamic Banking and finance. The body, to be referred as Financial Regulation Advisory Council of Experts (FRACE), shall advise the CBN on matters relating to Islamic commercial jurisprudence for the effective regulation and supervision of Non-Interest (Islamic) Financial Institutions (NIFIs) in Nigeria.
The Guidelines sets out the membership, composition, qualification, duties and responsibilities of the FRACE among others.

7.8 Terms and Conditions for Participation by Deposit Money Banks (DMB's) in the implementation and Execution of Nigeria Electricity Market Stabilization facility ("CBN-NEMSF")

In the circular ref. FPR/DIR/GEN/CIR/01/004, DATED March 4, 2015, the Central Bank of Nigeria (CBN) released the terms and conditions for the participation of Deposit Money Banks (DMBs) in the implementation and execution of the Nigeria Electricity Market Stabilization Facility ("CBN-NEMSF").

7.9 New Policy on Dormant Accounts

The CBN introduced new guidelines for the treatment and management of dormant account balances by deposit-taking financial institutions. This is contained in a circular referenced FPR/DIR/CIR/GEN/01/003 dated 16th February, 2015, to all deposit taking financial institutions and stakeholders in the financial services industry.

Among the objectives of the policy is to ensure that dormant account funds are identified and channeled through appropriate institutions to make them more productive to the economy and eliminate the possibility of banks converting dormant account balances to income. The policy is also intended to curb possible abuse in the operation of dormant accounts as well as set operational standards for banks and other financial institutions in line with best practice.

7.10 Closure of Retail, Wholesale Dutch Auction Windows

The CBN on 18th February, 2015 closed the Retail Dutch Auction System (RDAS) and Wholesale Dutch Auction System (WDAS) Foreign Exchange windows in bid to stabilize the naira.

Consequently, all demand for foreign exchange should be channelled to the Interbank Foreign Exchange Market. The policy was as a result of a widening margin between the rates in the interbank and the rDAS window, reinforced by undesirable practices including round-tripping, speculative demand, rent-seeking, spurious demand, and inefficient use of scarce foreign exchange resources by economic agents.

7.11 CBN Slashes Spending Limit on Naira Debit Cards to $50,000 Per Annum

The CBN in a circular referenced No: TED/FEM/FPC/GEN/01/009 dated 13th April, 2015, cut down the spending limit on Naira Debit Cards for transactions abroad from $150,000 per person annually, to $50,000 per person annually. The daily cash withdrawal limit on the card was also fixed at $300 per person.

7.12 Appointment of New CBN Deputy Governor

The appointment of Dr. Okwu Joseph Nnanna as a Deputy Governor of the Central Bank of Nigeria representing the South-East geo-political zone was confirmed by the Senate on 13th April, 2015.

7.13 AMCON Sold Two (2) Bridged Banks to New Owners

The AMCON had transferred the ownership of Mainstreet Bank Limited and Enterprise Bank Limited to their new owners, Skye Bank Plc and Heritage Bank Limited, respectively. This was announced at the divestment ceremony held in Lagos on 27th January, 2015.

The Governor of the CBN, Mr. Godwin Emefiele, warned against a reoccurrence of the factors which led to the takeover of the three bridged banks. He observed that if the Bridge bank option had not been adopted the systemic crisis in the banking sector would have been unprecedented and costly in terms of its effects on other banks.

7.14 Skye Banks Appoints Four (4) Executive Directors

The Board of Directors of Skye Bank Plc announced the elevation and appointments of four new executive directors. The list of the new executive directors include; Mr. Bayo Sanni, Executive Director, Lagos Commercial Banking; Mr. Idris Yakubu, Executive Director, Abuja and Northern Region; Mrs. Markie Idowu, Executive Director, Technology and Service Delivery Channels and Mrs. Abimbola Izu, Executive Director, Corporate services.

The bank described the development as "part of the overall efforts to uphold the very high standards and tradition of professionalism which have become the bank's driving force for service excellence and leadership."

8.0 EXTERNAL SECTOR DEVELOPMENTS

The Gross official reserves stood at US$34.49 billion on the 5th of January 2015. The Gross external reserves figure declined for the months of February and March concurrently and then tapered somewhat for the months April, May and June respectively.

Nigeria's gross Foreign Reserve (FR) dipped by $4.55billion in Q1 of 2015, this is going by the gross Foreign Reserve movements as published by Central Bank of Nigeria as at March 25, 2015. The gross foreign reserve was impacted by price volatility in the global oil market. While its Year on Year analysis revealed that the gross FR went down, Money Market Analysts are of the opinion that the CBN must begin to look for ways of managing the foreign reserve with a view to reduce or avoid regular depletion of the nation's reserve base.

The macroeconomic concept that draws from a combination of strong fiscal policies post 2015 general election is expected to strongly resist regular depletion of the foreign reserve to meet international trade payments or to at least ensure that there is a commensurate trade-off between draw down and asset inflows into Nigeria Foreign Reserve. Nigeria's quest for a strong foreign reserve position might be extremely difficult in the medium to long term without achieving the twin goals of eradicating fuel subsidy and significantly improving local refining capacity.

The movement in the foreign reserve from January to June 2015 is shown in Table 1, below:

TABLE 1: Movement in the Foreign Reserves (US$)

DATE	GROSS	LIQUID	BLOCKED
6/5/2015	29,306,866,312	28,436,379,045	870,487,267
5/5/2015	29,630,776,490	28,747,136,083	883,640,407
4/7/2015	29,614,491,474	28,714,925,463	899,566,012
3/5/2015	30,815,858,935	29,885,977,881	929,881,055
2/5/2015	33,872,897,637	32,922,997,908	949,899,729
1/5/2015	34,493,455,664	33,518,455,053	975,000,611

SOURCE: CBN WEBSITE

9.0 INFLATION

The headline inflation progressively increased from 8.2% in January to 9.2% % in June 2015, due largely to food importation as well as other core components. Core Inflation rose to 8.4% in June from 6.8% in January 2015 while food inflation also rose from 9.2% in January 2015 to 10% June 2015.

TABLE 1

DATE	HEADLINE INFLATION (%)	FOOD INFLATION (%)	CORE INFLATION (%)
Jan-2015	8.2	9.2	6.8
Feb-2015	8.4	9.4	7.0
Mar-2015	8.5	9.4	7.5

Apr-2015	**8.7**	**9.5**	**7.7**
May-2015	**9**	**9.8**	**8.3**
Jun-2015	**9.2**	**10**	**8.4**

Source: CBN

10.0 CAPITAL MARKET

The bearish conditions in the capital market continued as indicators trended downwards in the review period. The All-Share Index (ASI) declined by 16.1 percent from 41,329.19 to 34,657.15 between December 31, 2013 and December 31, 2014. This trend was carried into January 2015, eventually levelling out in February 2015.

Modest improvements were subsequently recorded as the year progressed as recorded, the All Share Index (ASI) rose by 9.3 per cent from 31,744.82 on March 31, 2015 to 34,708.11 on April 30, 2015. Market Capitalization also increased by 10.0 per cent from ₦10.72 trillion to ₦11.79 trillion during the review period.

11.0 NAIRA EXCHANGE RATE

During the period under review, the closure of RDAS returned some level of stability to the foreign exchange market checking the depletion of the forex account balance and round-tripping. The naira exchange rate opened at N197.80./US$ and closed at N197.00/US$ between March and May 2015, with a daily average of N197.04/US$. This represented an appreciation of N0.80k for the period. At the same period, the Bureau-de-Change segment also opened at N225.00/US$ and closed at N217.50/US$, with a daily average of N216.75/US$. This represented an appreciation of N7.50k for the period.