NDIC 2018 ANNUAL REPORT
EXECUTIVE SUMMARY

In its unique role as deposit insurer, and in collaboration with the other financial safety-net participants, the Nigeria Deposit Insurance Corporation (NDIC) during the period under review promoted the safety and soundness of the nation's banking system and by extension, continued to promote the safety and stability of the entire financial services industry. The 2018 Annual Report is divided into three (3) parts organised into 17 Sections. In addition to the sections, the Report of the Managing Director/Chief Executive is also included. This executive summary provides the highlights of some Sections of the report that deal with the operations of the NDIC as well as the state of the banking industry in 2018. Below are the highlights of the NDIC's activities and achievements during the year 2018.

1.0 MANDATE, VISION, CORE VALUES AND STRATEGIC PLAN

1.1 The NDIC aims at meeting the following Public Policy Objectives:

- Protecting depositors by providing an orderly means of reimbursement in the case of imminent or actual failure of insured financial institution;
- Contributing to financial system stability by making incidence of bank runs less likely; and
- Enhancing public confidence by providing a framework for orderly resolution and exit of failing and failed insured institutions.

1.2 NDIC's functions, as stated in Section 2 of the NDIC Act:

- Insuring all deposit liabilities of licensed banks and such other deposit-taking financial institutions;
- Giving assistance to insured institutions in the interest of depositors;
- Guaranteeing payments to depositors;
- Assisting monetary authorities in the formulation and implementation of banking policy; and
- Pursuing any other measure necessary to achieve the functions of the Corporation.

1.3 The NDIC's mandate are:

- Deposit Guarantee;
- Bank Supervision;
- Distress Resolution; and
- Bank Liquidation.

1.4 The Vision, Mission and Core Values of NDIC:

The **Vision:** "*To become the best deposit insurer in the world by 2020*"

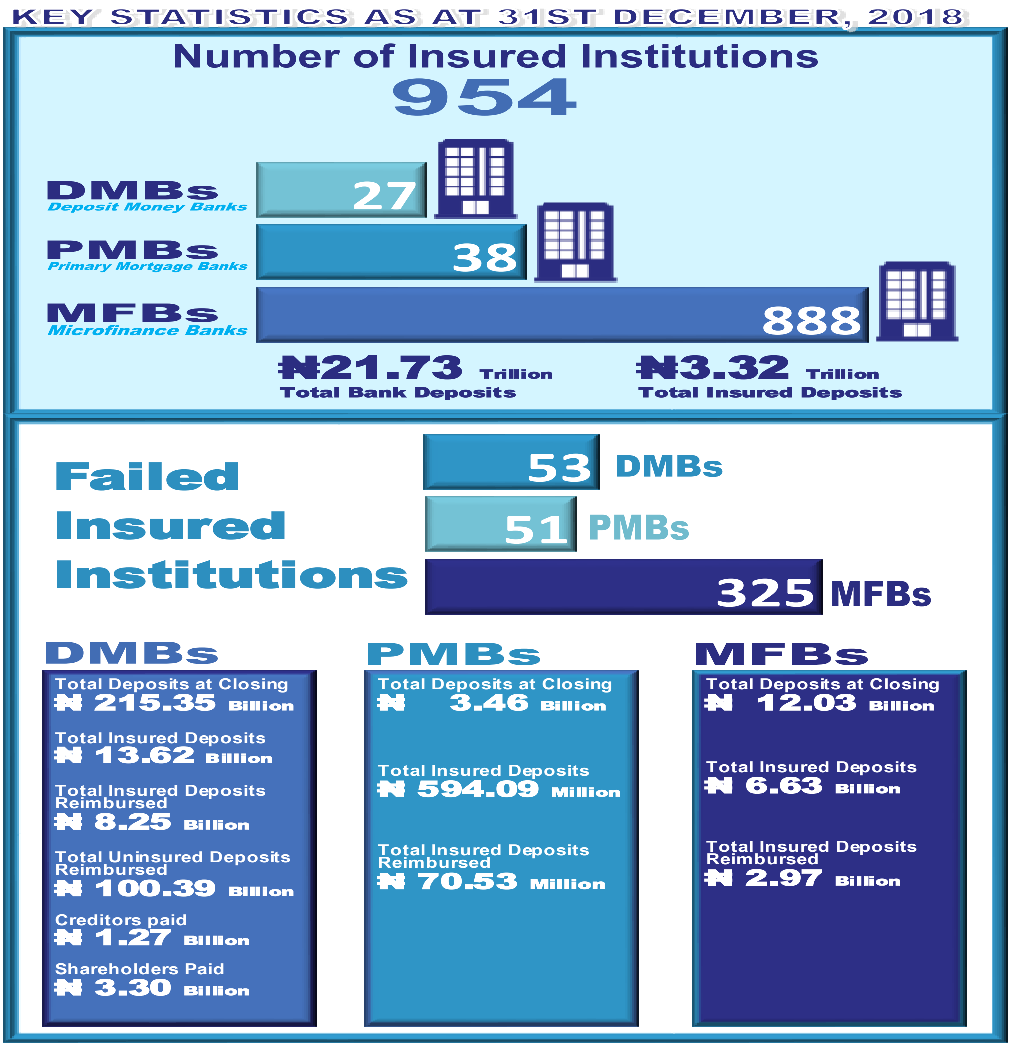
The **Mission:** "*To protect depositors and contribute to the stability of the financial system through effective supervision of insured institutions, provision of financial/technical assistance to eligible insured institutions, prompt payment of guaranteed sums and orderly resolution of failed insured financial institutions*".

Core Values: **H**onesty; **R**espect & **F**airness; **D**iscipline; **P**rofessionalism; **T**eam Work; and **P**assion.

1.5 Strategic Plan

In 2018, the NDIC conducted its activities within the framework of its Strategic Plan (2016 – 2020), which was built on four strategic thrusts representing the key areas it must excel so as to attain its public policy objectives as well as deliver value to its stakeholders. During the year, the NDIC completed 16 initiatives representing 34% compared with 11 in 2017, while 30 initiatives were in progress representing 64%, compared with 28 in 2017 and 1 initiative representing 2% was yet to commence compared with 8 in 2017.

1.6 Key statistics of the insured institutions as at 31st December, 2018 is presented below.



2.0 DEPOSIT INSURANCE COVERAGE AND FUNDS MANAGEMENT

2.1 Coverage Level: In 2018, the coverage level for Deposit Money Banks (DMBs), Non-Interest Banks (NIBs) and Primary Mortgage Banks (PMBs) and subscribers of Mobile Money Operators (MMOs) remained at ₦500,000 per depositor per bank. For Microfinance Banks (MFBs), the coverage level remained at ₦200,000 per depositor per bank.

2.2 Growth in Number of Accounts: The total number of accounts in DMBs increased by 13.01% from 99,114,035 as at 31st December, 2017 to 112,005,516 as at 31st December, 2018 through recent drive to enhance financial inclusion as well as other social welfare schemes.

2.3 Increase in Number of Accounts Covered: The number of fully covered accounts at ₦500,000 in DMBs also increased from 96,760,687 in 2017 to 109,305,169 in 2018, representing an increase of 12.96%. Therefore, the number of fully covered accounts that fell within the ₦500,000 garaunteed limit represented 97.59% of all depositors in licensed DMBs.

2.4 Premium Rate Applied: 0.45% was the mean rate applied to both the DMBs and PMBs in 2018, while the flat-rate premium assessment method was used for the MFBs due to inability to properly assess all the risk factors for all the MFBs in operation.

2.5 Premium Collection: In 2018, the sum of ₦92.45 billion was collected as premium from the DMBs. Similarly, the sum of ₦306.24 million was collected from the NIB and ₦1.065 billion from the MFBs and PMBs.

2.6 Insurance Fund: The Deposit Insurance Fund (DIF) grew by 14.66% from ₦955.18 billion as at 31st December, 2017 to ₦1,095.23 billion as at 31st December, 2018. The Special Insured Institutions Fund (SIIF) increased by 10.72% from ₦99.24 billion as at 31st December 2017 to ₦109.88 billion as at 31st December, 2018, while Non-Interest Deposit Insurance Fund (NIDIF) increased by 43.47% from ₦693.70 million as at 31st December, 2017 to ₦999.94 million as at 31st December, 2018.

The Total Insurance Fund of ₦1.206 trillion fell short of the NDIC Estimated Insurance Fund Risk Exposure of ₦3.32 trillion as at 31st December, 2018.

3.0 SURVEILLANCE OF INSURED FINANCIAL INSTITUTIONS

3.1 Supervision of DMBs

3.1.1 Risk Asset Examination of DMBs: During the year, the NDIC and CBN jointly conducted the Risk Assets Examination of 26 DMBs to assess the risk assets' quality, review the adequacy of their loss provisions and risk-weighted capital ratios as prerequisite for the approval of their 2017 annual reports by the CBN.

3.1.2 Maiden Examination was conducted on Nova Merchant Bank Limited, licensed in 2017, but commenced operations in September 2018. The focus of that examination was to assess the bank's safety and soundness and its compliance with the relevant provisions of BOFIA 1991 (as amended).

3.1.3 Risk-Based Examination of 26 DMBs, including 1 Non-interest bank, Jaiz Bank Plc, and a non-interest window of Sterling Bank was conducted in 2018.

3.1.4 Consolidated Risk-Based Examination was conducted on 3 financial Holding Companies: FBN Holdings Plc, FCMB Holdings Plc and Stanbic-IBTC Holdings Plc, in collaboration with other Financial Services Regulation Coordinating Committee (FSRCC) member agencies: NAICOM, PENCOM and SEC.

3.1.5 Investigation of Complaints: In 2018, 50 petitions/complaints by customers were received, investigated and resolved. The complaints involved ATM frauds, unauthorised fund transfers, conversion of cheques and suppression of deposits.

3.2 Supervision of MFBs

The NDIC examined 294 MFBs, focusing on their operations, board and management oversight, risk management practices, internal control systems, and the level of compliance with applicable laws, rules and regulations. The licenses of 153 MFBs were revoked by the CBN in 2018.

3.3 Supervision of PMBs

Risk Based Examination was conducted on 10 PMBs, covering risk assets' review, board and senior management oversight, risk management practices, financial reporting and funds management. The licences of 6 PMBs were revoked by the CBN during the year.

3.4 Capacity Building for Operators

The NDIC, through Special Insured Instituions Department (SIID) offered technical assistance to Chartered Institute of Bankers of Nigeria (CIBN) and MBAN/MDC in the area of curriculum development for mortgage bankers. During the year, SIID conducted two sensitization workshops each for 450 MFBs Operators on "Movable Collaterals" in three locations: Enugu, Lagos and Abuja, to enhance their capacity in lending to MSMEs. Also, training was organized on Differential Premium Assessment System (DPAS) for 40 MFBs operating in the Southwest zone to deepen their knowledge on the subject matter.

3.5 Mobile Money Operators (MMOs)

There were 23 licensed MMOs as at 31st December, 2018 out of which 4 were inactive. Nine (9) of the MMOs were bank-led, while 14 were non-bank led. As at December 2018, 17 MMOs rendered returns to the Corporation. The Corporation's estimated risk exposure to subscribers of seventeen (17) Mobile Money Operators that rendered returns amounted to ₦1.50 billion, representing 0.14% of the DIF.

4.0 RESOLUTION AND MANAGEMENT OF FAILED INSURED FINANCIAL INSTITUTIONS

4.1 FAILURE RESOLUTION

4.1.1 In line with its mandate as the liquidator of failed insured institutions, the NDIC ensured effective closure of the affected institutions and prompt reimbursement of the depositors in 2018. Accordingly, the liquidation activities of

NDIC covered a total of 429 institutions, comprising 53 DMBs, 325 MFBs and 51 PMBs.

4.1.2 The winding-up order process in respect of the four banks for which bridge banks were established is ongoing.

4.1.3 Resolution of Failed Skye Bank Plc

In 2018, NDIC adopted the bridge bank mechanism to resolve the distressed Skye Bank to protect depositors' funds, employees and minimise disruption to the payment system. The bridge bank, Polaris Bank Ltd was subsequently acquired by AMCON pending its sale to credible and financially-sound third-party acquirers. The establishment of the bridge bank, Polaris Bank Ltd, saved a total of N949.6 billion deposits of 5,403,267 depositors. It also safeguarded over 6,000 jobs and ensured the continuity of banking operations in 227 branches nationwide.

4.1.4 Liquidation Activities of MFBs and PMBs

During the year, the NDIC effectively closed 138 Microfinance Banks (MFBs) and 5 Primary Mortgage Banks (PMBs) whose licenses were revoked by the CBN between 8th October and 3rd December, 2018.

4.2 CLAIMS SETTLEMENT AND ADMINISTRATION

In the discharge of its obligation as Liquidator, the NDIC had made cumulative payments amounting to ₦116.258 billion to depositors, creditors and shareholders as at 31st December, 2018. The breakdown includes payments of insured and uninsured deposits of ₦108.641 billion, ₦2.973 billion and ₦70.53 million to depositors of defunct DMBs, MFBs and PMBs, respectively. The NDIC also made payments of ₦1.272 billion to Creditors and ₦3.30 billion to Shareholders of banks in-liquidation.

(a) Payment of Insured Deposits to Depositors of DMBs

In 2018, NDIC paid ₦4.83 million to 338 depositors of 18 closed DMBs. As at 31st December, 2018, the NDIC has paid a cumulative sum of ₦8.25 billion as insured amount to 442,999 depositors of closed DMBs against the payment of ₦8.24 billion to 442,661 depositors as at 31st December, 2017.

(b) Payment of Insured Deposits to Depositors of Closed MFBs

In 2018, the NDIC paid ₦89.24 million insured deposits to 1,804 depositors of MFBs in-liquidation compared to 173 depositors of closed MFBs and ₦13.24 million paid in 2017. The significant increase was due to the 138 MFBs that were closed during the year. The cumulative payment of ₦2.97 billion was made to 83,415 depositors of closed MFBs as at 31st December, 2018, compared to ₦2.88 billion paid to 81,611 depositors of closed MFBs as at 31st December, 2017.

c) Payment of Insured Deposits of Closed PMBs

In 2018, the NDIC paid the sum of ₦2.13 million insured deposits to 29 depositors of closed PMBs, compared to ₦15.38 million paid to 170 depositors in 2017. The NDIC had paid the cumulative sum of ₦70.53 million to 869 depositors as at 31st December, 2018 compared with ₦68.40 million paid to 840 depositors as at 31st December, 2017.

(d) Payment of Liquidation Dividend to Uninsured Depositors of DMBs

During the year, the NDIC paid the sum of ₦1.52 billion to uninsured depositors of 20 DMBs in-liquidation. The NDIC has paid the cumulative sum of ₦100.39 billion as liquidation dividend to uninsured depositors of closed DMBs as at 31st December, 2018.

(e) Payments to Shareholders of Banks in-liquidation

The NDIC paid the sum of ₦593.78 million to 48 shareholders of Alpha Merchant Bank, Rims Merchant Bank and Continental Merchant Bank in 2018. The cumulative liquidation dividend paid amounted to ₦3.30 billion to 679 shareholders of 6 DMBs in-liquidation as at 31st December, 2018 against ₦2.71 billion paid to 631 shareholders of DMBs in-liquidation as at 31st December, 2017. However, the total liquidation dividend declared for shareholders of DMBs-in-liquidation stood at ₦4.04 billion as at 31st December, 2018.

(f) Banks for which NDIC has Declared Full Payment of both Insured and Uninsured Deposits as at 31st December, 2018

Through sustained and diligent liquidation activities, the NDIC has realized assets to fully pay the deposits of the customers of 17 out of the 49 Deposit Money Banks in-liquidation. In effect, all the depositors of the 17 defunct banks who came forward to file their claims have been paid all their monies (both insured and uninsured) that were erstwhile trapped in such banks.

4.3 ASSET MANAGEMENT ACTIVITIES

In 2018, the NDIC ensured the efficient conversion of assets of closed financial institutions to cash for the payment of Liquidation Dividend to uninsured depositors, creditors and shareholders. Overall, the NDIC realised the sum of ₦777.03 million from the disposal of risk assets, physical assets and investments for the DMBs, MFBs and PMBs in-liquidation during the year ended 31st December, 2018.

4.3.1 Major Challenges Faced in Asset Management Activities in 2018.

The major challenges faced were inadequate documentation of borrowers' information by failed banks; unwilling attitude of high net-worth debtors of failed banks to liquidate their debts; preponderance of uncollateralised loans; problems associated with identifying assets of judgment debtors; protracted legal processes due to frequent adjournment of cases; large outstanding insider-related debts usually characterised by poor documentation and insider abuse; and difficulties to repay loans induced by economic realities, policy inconsistencies as well as issues relating to moral hazards.

5.0 PUBLIC AWARENESS AND CORPORATE SOCIAL RESPONSIBILITY

The NDIC embarked on several public awareness initiatives and programmes to further promote public confidence and contribute to financial system stability.

6.1 Public Awareness Initiatives: Some of the public awareness strategies employed in 2018 to enhance public understanding of NDIC activities and DIS were: radio and TV depositors awareness jingles in local languages; press conferences/briefings; monitoring and engagement through social media; and several in-house publications. Other strategies adopted included: sponsorship of sensitisation seminars and workshops such as the Annual Workshop for Business Editors and Finance Correspondents Association of Nigeria (FICAN) and sensitisation seminar for the Bar and Bench, among others.

6.2 24-Hour Toll-Free HelpDesk: The Help Desk continued to educate and enlighten depositors as well as attend to enquires and issues raised by customers of banks and the general public. During the year under review, the Helpdesk received 312 calls. In addition, a total of 5,181 e-mails were received and forwarded to the appropriate Departments for investigation and resolution.

6.3 Corporate Social Responsibility (CSR): The NDIC sponsored a number of projects in educational institutions nationwide as part of its CSR geared towards enhancing public awareness, in line with its strategic objectives. Accordingly, in 2018, the NDIC expended the sum of ₦162.15 million on 7 projects in various parts of the country.

7.0 REVIEW OF THE PROPOSED AMENDMENT TO THE NDIC ACT 2006

The amendment to the NDIC Act No. 16 of 2006 was still under consideration of the National Assembly during the year under review. To facilitate the passage of the bill, a retreat was organised for members of the relevant committee of the National Assembly to further acquaint them with the mandate and operations of the NDIC.

The focus of the proposed amendment is to empower the NDIC to discharge its supervisory mandate and also strengthen its capacity as a liquidator of insured financial institutions.

8.0 RESEARCH ACTIVITIES, INTERNATIONAL EXCHANGE AND COOPERATION

8.1 RESEARCH ACTIVITIES

The NDIC undertakes research activities related to its mandate in order to sustain and promote stability in the Nigerian banking system. During the year, several research activities were undertaken and published as books and in the NDIC Journal:

8.1.1 Development of Case Studies on Bank Failures in Nigeria: In 2018, the NDIC continued with the publication of case studies of bank failures. Thus, volumes 1–7 of the "Case Studies on Bank Failures in Nigeria" had been produced and distributed to stakeholders. The motivation for documenting the case studies is to serve as an authoritative and valuable source of all that happened at the point of failure of the affected banks. The studies also outline the lessons learnt so as to guide future policy decisions and influence banking practice.

8.1.2 The studies published in the NDIC Quarterly Journal in 2018 are:

- Study on Mobile Money and Monetary Policy in Nigeria
- The Effects of Oil Price Volatility on Selected Banking Stock Prices in Nigeria

- Financial Innovation and Industrial Growth Volatility: Evidence from the Nigerian Banking Industry
- Board Structure, Audit Committee and Earnings Management of Deposit Money Banks in Nigeria

8.1.3 Book on 30 Years of Deposit Insurance in Nigeria

The NDIC articulated a draft publication on "30 Years of Deposit Insurance in Nigeria" which was developed, reviewed and finalised during the year. The book focussed on the achievements, benefits and limitations of the deposit insurance practice in Nigeria.

It commemorates the 30th Anniversary of the NDIC's existence and its desire to bridge the knowledge gap on the features, benefits, limitations of deposit insurance practice in Nigeria among the general public.

8.2 INTERNATIONAL EXCHANGE AND COOPERATION

The NDIC was involved in several international exchange and cooperation, geared towards effective experience-sharing and capacity building with both local and international partners, during the year under review.

8.2.1 In 2018, the NDIC hosted the 2018 IADI-Africa Regional Committee (ARC) Annual General Meeting (AGM) and Technical Assistance Workshop, with the theme "*Financial Stability, System Wide Crises Preparedness and Effective Bank Resolution*", from 25th - 28th September, 2018 in Lagos, Nigeria. The event was attended by both local and international delegates. At that event, the NDIC's Managing Director/Chief Executive was elected as the Chairman of ARC, while Mohamud A. Mohamud, the Chief Executive Officer of Kenya Deposit Insurance Corporation (KDIC), was elected as the Vice Chairman.

8.2.2 The NDIC participated at several IADI Executive Council (EXCO) meetings and conferences held in 2018 as well as provided technical assistance to other African deposit insurance agencies. Also, during the year under review, the NDIC obtained full membership of the Islamic Financial Services Board (IFSB).

8.2.3 The NDIC continued with its effort of extending the teaching of DIS to selected tertiary institutions in the country. Accordingly, Train-the-Trainers programme on "Fundamental of Deposit Insurance Scheme (DIS)" was organised in Lagos for lecturers of the University of Lagos; University of Abuja; and Bayero University, Kano.

9.0 CORPORATE GOVERNANCE

9.1 Board of Directors

In 2018, the NDIC operated without a Board. All decisions taken were forwarded to the Honourable Minister of Finance for approval. The EXCO and the Hon. Minister acted in compliance with the NDIC Act 2006 and the NDIC's Strategic Plan in their decision making. During the year, President Mohammadu Buhari, GCFR appointed the following persons to the Board of NDIC:

i. Mrs. Ronke Sokefun – Chairman of the Board
ii. Barr. Festus Keyamo, SAN

iii. Alhaji Garba Bello
iv. Brig-Gen Josef O. J. Okoloagu (rtd)
v. Mustapha Adewale Mudashiru
vi. Mr. Adewale W. Adeleke

On 12th December, 2018, the Senate confirmed the appointment of the Board members. These eminent Nigerians in conjunction with representatives of the CBN, Federal Ministry of Finance and the NDIC EXCO form the Board of Directors of the NDIC.

9.2 Compliance with Statutory Laws and Government Policies

9.2.1 The NDIC complied with the provisions of Fiscal responsibility Act 2007, Pension Reform Act 2014 (as amended), National Health Insurance Scheme (NHIS), National Housing Fund Act as well as the provisions of the Code of Conduct for Public Officers. The NDIC also rendered returns in respect of banks in-liquidation to the CAC and CBN as required by CAMA 1990 and BOFIA 1991 (as amended), respectively. In addition, the NDIC continued to comply with the requirements of FIRS on taxes and Public Procurement Act in respect of contracts. Furthermore, all requests by the National Assembly, Ministry of Finance and CBN were promptly responded to.

9.2.2 The NDIC remitted the sum of ₦53.199 billion to the Consolidated Revenue Fund (CRF) of the Federation as at 31st December, 2018.

10.0 FINANCIAL CONDITION AND PERFORMANCE OF INSURED INSTITUTIONS

The banking industry exhibited resilience amidst the macroeconomic and socio-political factors that impacted on its financial condition in 2018. There were 27 DMBs (21 Commercial Banks, 5 Merchant Banks and one Non-Interest Bank), 888 MFBs and 38 PMBs as at 31st December, 2018.

10.1 Financial Condition of DMBs

10.1.1 Capital Adequacy

The banking industry average Capital Adequacy Ratio (CAR) increased to 15.26% as at 31st December, 2018 from 10.23% as at 31st December, 2017, above the regulatory minimum of 10% and 15% for banks with national and international authorisation, respectively. The increase in the CAR could be explained by the 44.88% increase in the total qualifying capital from ₦2,201.58 billion in 2017 to ₦3,189.55 billion in 2018 and complemented by the 2.89% decline in the Total Risk-Weighted Assets from ₦21,520.82 billion in 2017 to ₦20,898.71 billion in 2018.

The recapitalisation requirements declined from ₦1.57 trillion in 2017 to ₦704.88 billion as at 31st December, 2018.

10.1.2 Asset Quality of DMBs

Total credit extended by the DMBs to the domestic economy amounted to ₦15.29 trillion in 2018, representing a 3.90% decrease from the ₦15.91 trillion recorded in 2017. Similarly, the industry non-performing loans (NPLs) decreased by 25.15% to ₦1.79 trillion in 2018 from ₦2.36 trillion in 2017.

The banking industry was exposed to high credit risk as depicted by the high NPLs ratio of 11.70% as at 31st December, 2018, though an improvement when compared with NPLs ratio of 14.84% recorded as at 31st December, 2017. The industry NPLs ratio of 11.70% exceeded the maximum prudential threshold of 5% for DMBs. In the same vein, the NPLs to Shareholders' Fund Ratio improved from 69.21% in 2017 to 57.50% in 2018.

10.1.3 Earnings and Profitability

The banking industry unaudited profit before tax (PBT) significantly rose from ₦150 billion in 2017 to ₦310 billion in 2018. That could be attributed to a reduction in operating expenses by 25% from ₦440 billion in 2017 to ₦330 billion in 2018. The Yield on Earning Assets increased from 2.62% as at 31st December, 2017 to 3.23% as at 31st December, 2018. Similarly, Return on Assets (ROA) rose to 0.88% as at 31st December, 2018 from 0.48% recorded as at 31st December, 2017. Also, Return on Equity (ROE) increased from 4.70% as at 31st December, 2017 to 9.73% as at 31st December, 2018.

10.1.4 Liquidity Position of DMBs

The banking industry was liquid with liquidity ratio above the minimum threshold. The average Liquidity Ratio was 51.87% as at 31st December, 2018 compared with 45.56% for the same period in 2017. Equally, loans to deposit ratio was 72.30% as at 31st December, 2017 but reduced slightly to 64.69% as at 31st December, 2018 and was within the maximum prudential threshold of 80%.

10.1.5 Sectoral Allocation of Credit

The analysis of sectoral allocation of credit by DMBs shows that the sector with highest credit concentration in 2018 was the oil and gas. The level of DMBs exposure to the Oil & Gas Sector stood at ₦4.66 trillion or 30.46% of the industry total credits of ₦15.29 trillion as at 31st December, 2018. The second in the level of exposure was the Manufacturing Sector with ₦2.25 trillion or 14.71% of total credits. That was followed by the Government with ₦1.34 trillion or 8.78% of the total credits. While the General Commerce accounted for ₦1.14 trillion or 7.44% of total credits, the Finance & Insurance and General sectors received 6.49% and 6% of total credit, respectively.

10.1.6 Level of Soundness of DMBs in 2018

The analysis of the financial condition of the 26 DMBs' as at 31st December, 2018 based on Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and sensitivity to market risk, revealed that the overall condition of DMBs in the year 2018 was relatively stable and sound in 2018. It recorded an increase in the average capital adequacy ratio from 10.23% in 2017 to 15.26%, liquidity ratio of 51.87% as against 45.56% recorded in 2017, an improvement in NPLs ratio from 14.84% in 2017 to 11.70% as well as improvement in earnings & profitability.

10.2 FINANCIAL CONDITION OF NIBs

Jaiz Bank and Sterling Bank Non-Interest Window recorded capital adequacy ratios (CARs) of 18% and 15.27%, respectively as at 31st December, 2018 which were above the regulatory threshold of 10%. Also, the Jaiz Bank generated a total gross income of ₦7.16 billion against total expenses of ₦6.5 billion, resulting in unaudited profit before tax (PBT) of ₦0.66 billion as at 31st December, 2018. A further analysis indicates a ratio of total expenses to gross income of 90.8%. On the other hand, the Sterling Bank Non-Interest Bank Window recorded unaudited profit before tax of ₦1.34 billion with a total income of ₦2.18 billion against a total expenditure of ₦0.84 billion. That represented 38.53% ratio of expenses in relation to the gross income as at 31st December, 2018.

10.3 FINANCIAL CONDITION OF MFBs

In 2018, the CBN revoked the licences of 153 MFBs while a few new ones were licensed. As a result of these developments, there was a decrease in the number of MFBs in operation from 1,008 as at 31st December, 2017 to about 888 as at 31st December, 2018. Similarly, the number of MFBs rendering statutory returns dropped from 651 in 2017 to 595 in 2018.

10.3.1 Capital Position of MFBs

The MFBs' shareholders' funds stood at ₦89.15 billion as at 31st December, 2018 which was a significant improvement when compared with ₦85.77 billion as at 31st December, 2017.

10.3.2 Asset Quality of MFBs

The total assets of MFBs stood at ₦384.50 billion as at 31st December, 2018 against ₦360.59 billion as at 31st December, 2017. Likewise total loans and advances stood at ₦221.51 billion in December 2018 against ₦201.37 billion in December 2017. The NPLs decreased by 5.27% from ₦26.18 billion in December 2017 to ₦24.80 billion in December 2018. Similarly, the NPLs (portfolio-at-risk) ratio improved from 13% in 2017 to 11.20% in 2018 but still above the regulatory threshold of 5%.

10.3.3 Earning and Profitability

The MFBs' sub-sector reported a gross income of ₦105.00 billion as at 31st December, 2018 against ₦89.63 billion in 2017. Interest income also recorded an increase of 3.06% from ₦78.98 billion in 2017 to ₦81.40 billion in 2018. Non-interest income slightly improved by 2.25% from ₦23.08 billion as at 31st December, 2017 to ₦23.60 billion as at 31st December, 2018.

Profit before tax recorded a marginal increase of 0.06% from ₦16.21 billion in 2017 to ₦16.22 billion in 2018. But Return on Asset (ROA) and Return on Equity (ROE) decreased from 4.50% and 18.90% in 2017 to 4.22% and 18.19% in 2018, respectively.

10.3.4 Liquidity Position

The MFBs' total deposits increased, by 14.7% from ₦166.88 billion in 2017 to ₦191.41 billion in 2018. The average liquidity ratio also increased from 72.54% in 2017 to 73.95% in 2018, and above the minimum regulatory threshold of 20%.The

MFBs' loan to deposits ratio stood at 115.73% as at 31st December, 2018 against 120.66% as at 31st December, 2017.

10.4 FINANCIAL CONDITION OF PMBs

In 2018, the operating licences of 6 PMBs were revoked by the CBN while some either converted to MFBs or were acquired. As at 31st December, 2018, there were 38 PMBs in operation. This analysis is based on the returns rendered by 27 PMBs.

10.4.1 Capital Position

The PMBs' subsector shareholders' fund declined to ₦67.19 billion as at 31st December, 2018 from ₦91.65 billion in the corresponding period of 2017. The decline was largely associated with both the reduction in the number of PMBs in operation and the number that rendered their statutory returns in 2018.

10.4.2 Asset Quality

The PMBs' total loans stood at ₦153.45 billion as at 31st December, 2018, against ₦155.60 billion recorded as at 31st December, 2017. The quality of those credits further deteriorated significantly as Non-Performing Loans (NPLs) rose from ₦5.76 billion in 2017 to ₦18.63 billion in 2018, resulting in increase in the NPLs to Gross Loan Ratio from 3.70% in 2017 to 12.14% in 2018. That ratio exceeded the regulatory threshold of 5%.

10.4.3 Earnings and Profitability

The PMBs gross earnings significantly dropped from ₦48.47 billion in 2017 to ₦29.80 billion in 2018. Operating Expenses marginally declined from ₦19.61 billion in 2017 to ₦17.67 billion in 2018. The subsector recorded a Loss of ₦2.29 billion in 2018, against a profit of ₦19.87 billion in 2017 due to poor asset quality. Consequently, return on asset (ROA) was negative 0.74% in 2018 against 6.12% in 2017 while return on equity (ROE) was negative 3.41% against 21.68% in 2017.

10.4.4 Liquidity Position

The PMBs total deposits declined from ₦103.22 billion in 2017 to ₦98.91 billion in 2018. The PMBs' average liquidity ratio was 102.53% in 2018, against 154.35% in 2017 and above the regulatory threshold. The Loans to Deposit Ratio increased from 150.75% in 2017 to 158.28% in 2018.

11.0 STRUCTURE OF DMBs' STATEMENT OF FINANCIAL POSITION

The total assets of the DMBs (inclusive of Contingent Assets) as at 31st December, 2018 was ₦42.08 trillion against ₦38.53 trillion as at 31st December, 2017.

11.2 DMBs' Shareholders' Funds

The DMBs' Shareholders' Fund was ₦4.29 trillion in 2018 compared with ₦2.66 trillion reported in 2017. The increase in Shareholders' Fund might be due to the injection of funds by shareholders as well as recapitalisation by AMCON, among others.

11.4 Ownership Structure

The private sector continued to dominate the ownership of Nigerian banks while government continued to divest from banks in line with the requirements of the

Code of Corporate Governance for Banks and Discount Houses, as government shareholding was below 10% in all the DMBs. However, with the intervention of AMCON in Polaris (formerly Skye) bank, government's ownership in the bank had increased. 15 out of the 27 DMBs had partial or full foreign ownership in 2018.

11.5 Market Share of Asset of DMBs

In 2018 as in previous years, a few DMBs controlled the assets of the banking industry. As at 31st December, 2018, Top 5 DMBs held assets of ₦19.04 trillion, representing 54.26% of the industry total assets of ₦35.10 trillion (excluding Contingent Assets). The Top 10 DMBs' total assets marginally increased to ₦27.02 trillion in 2018 from ₦25.23 trillion in 2017 while its proportion relative to industry total assets slightly decreased from 77.52% in 2017 to 76.97% in 2018. The total asset of the remaining 16 was ₦8.08 trillion which represented 23.02% of total assets of the banking industry in 2018 against ₦7.41 trillion, representing 22.48% in 2017.

11.6 Deposit Liabilities of DMBs by Market Share, and Type

The total deposits of DMBs stood at ₦21.73 trillion in 2018 compared with ₦19.38 trillion in 2017. The market share by deposit liabilities of the top 5 DMBs was 54.44% in 2018 against 53.57% in 2017. In the same vein, the top 10 DMBs held 77.45% of the industry deposits in 2018 against 77.81% in 2017. The remaining 17 DMBs held only 22.54% of the banking industry total deposits.

11.7 Deposit Liabilities by Type

The amount of Savings Deposits held in DMBs increased from ₦3.95 trillion in 2017 to ₦4.72 trillion in 2018. Furthermore, Demand Deposits was ₦10.83 trillion in 2017 against ₦12.28 trillion in 2018 while time deposits increased from ₦4.60 trillion in 2017 to ₦4.73 trillion in 2018.

12.0 FRAUDS, FORGERIES AND FIDELITY BOND INSURANCE COVER

During the year, the DMBs rendered returns on frauds and forgeries to the NDIC in compliance with Sections 35 and 36 of the NDIC Act No. 16 of 2006. Also, the banks provided information on their status regarding Fidelity Bond Insurance as required by Section 33 of the NDIC Act.

12.1 Frauds and Forgeries in DMBs in 2018

12.1.1 A total of 37,817 fraud cases were reported in 2018 against 26,182 in 2017. The amount involved stood at ₦38.93 billion in 2018 compared to ₦12.01 billion in 2017.

12.1.2 The actual amount lost to fraud incidences in 2018 stood at ₦15.15 billion as against ₦2.37 billion and ₦2.40 billion in 2017 and 2016, respectively. The rising fraud incidences could be attributed to the increase in the sophistication of fraud related techniques such as hacking, cybercrime as well as increase in I.T related products and usage, fraudulent withdrawals and unauthorised credit.

12.2 Incidence and Types of Frauds & Forgeries Reported

12.2.1 The channels and instruments through which the reported frauds and forgeries were perpetrated indicated that Internet and technology-based sources of fraud had the highest frequency, accounting for 59.2% of fraud cases and 42.83% of the actual total loss suffered.

12.2.2 The number of ATM/Card-related fraud cases declined from 16,397 in 2017 to 10,063 in 2018. That may be attributed to improved security features of the card as well as security awareness on the part of users. Web-based fraud cases, however, increased from 7,869 in 2017 to 12,343 in 2018.

12.3 Staff Involvement in Frauds and Forgeries

A total of 899 staff were involved in frauds and forgery cases in 2018 compared with 320 in 2017. The number of temporary staff involved in fraud was 394, accounting for 43.83% of the total number of staff involved in frauds. This was followed by Officers & Executive Assistants' cadre with 206 or 22.91%. Supervisors and Managers accounted for 119 or 13.24% of the total fraud cases.

The number of temporary staff involved in fraud and forgery cases had consistently been on the increase. The DMBs and regulators need to address the problem of contract/temporary staff in terms of welfare and permanent employment in view of the risk their current status poses to banks operations. Furthermore, banks should strengthen their internal controls and validate their recruitment process.

13.0 MAJOR DEVELOPMENTS IN OTHER INSURED FINANCIAL INSTITUTIONS

13.1 OPERATIONS OF MFBs

In 2018, the number of licensed MFBs stood at 888. The South-West Zone had the highest number of operational MFBs of 309, against 361 in 2017. The number of MFBs in the South-South region also dropped to 90 in 2018 from 112 in 2017. In the South-East, it dropped to 156 in 2018 from 177 in 2017. For the North-West, it dropped from 132 MFBs in 2017 to 117 in 2018. The North Central recorded a drop from 184 in 2017 to 147 in 2018 However, the number of MFBs in the North-East remained unchanged at 42.

13.1.2 Recapitalisation of MFBs

During the year, the CBN granted one year extension to April 2021 for the recapitalization of MFBs. Furthermore, two tiers of Unit MFBs were created, namely: Tier 1 (Unit Rural) and Tier 2 (Unit Urban). The capital requirement for Tier 1 Unit Rural MFBs was fixed at ₦50 million, while Tier 2 Unit Urban MFBs remained at ₦200 million.

The compliance timeline was reviewed to allow MFBs sufficient time to recapitalize. The Tier 1, Unit-Rural MFBs are expected to raise their capital to ₦25 million by April 2020 and to ₦50 million by April 2021. In the same vein, Tier 2 Unit Urban MFBs should meet capital base of ₦100 million by April 2020 and ₦200 million by April 2021. The State and National MFBs were given up to April 2021 to meet the new capital requirements.

13.1.3 National MFB (NIRSAL National Microfinance Bank)

The Bankers' Committee, in collaboration with the NIPOST and NIRSAL initiated the establishment of a National Microfinance Bank. The Bankers Committee would own 50% of the bank's equity, while the Nigeria Incentive-Based Risk Sharing

System for Agricultural Lending (NIRSAL) and the Nigerian Postal Service (NIPOST) would own 40% and 10%, respectively. The NIRSAL MFB would leverage on NIPOST's presence in 774 local government areas of the country to reach its targeted beneficiaries.

13.1.4 Challenges faced by the Microfinance Sub-Sector

In 2018, the Microfinance subsector was faced with challenges which included: the adoption of inappropriate business models; poor corporate governance Practices and insider abuse; poor asset quality and loan underwriting process; weak capital base; dearth of experienced and skilled staff in microfinance; low financial literacy levels particularly in rural areas; and high operating cost.

13.2 OPERATIONS OF PMBS

The number of PMBs in operation was 38 in 2018. The South-West geo-political zone had the highest number of PMBs with 21 while the North Central had 9. Others accounted for the remaining 8.

13.2.1 Challenges Facing PMBs Sector

During the year, the PMBs encountered the following challenges which affected their ability to achieve their policy objectives. These challenges include the following: preference for Bank Placements in DMBs; weak capital base and difficulty in raising capital due to scarcity of long-term funds; perfection and Foreclosure Challenges; delay in accessing NHF funds; poor Corporate Governance and Risk Management Practices; and huge Stock of Non-Current Assets-Held-For-Sale

14 OVERALL CONDITION OF THE NIGERIAN BANKING SYSTEM

Overall, the banking industry in Nigeria has witnessed noticeable level of improvement in most indicators of financial sector soundness, reflecting the salutary macroeconomic stability achieved in the year 2018. The financial condition of the MFBs and PMBs subsector of the system, however remained susceptible to vulnerabilities. The sustained high NPL relative to the prudential norm and some level of undercapitalization in the subsector, among other factors, continued to weigh on banking sector resilience.

However, the NDIC remains poised to enhancing the stability of the Banking system through sustained and proactive approach to its off site and onsite suivellance in close collaboration with the Central Bank of Nigeria (CBN) as well other members of the Financial Services Regulation Coordinating Committee (FSRCC) in Nigeria.

MANAGEMENT

JULY 2019