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Nigeria

Banking & Financial Services Report

Includes 10-year forecasts to 2028

Contents

Key View

Key View: *Nigeria offers investors a combination of a large banking sector and regionally competitive capital markets. With regards to the banking sector, Nigeria has a relatively high level of banking penetration in urban areas and large businesses also enjoy a fairly high degree of connectivity to international financial markets. Nevertheless, high interest rates as well as the difficulties that firms face in obtaining foreign currency and credit at competitive rates are some of the most problematic aspects of doing business in the country. In the near term, a brightening economic outlook for 2018 and 2019, thanks to recovering oil prices, will have a positive, if small, impact on the growth of the market's banking and financial services sector, following years of instability in the wake of the oil price collapse.*

Nigeria has a relatively well-developed banking sector by regional standards, with regionally high levels of banking mobile financial services penetration in urban areas and robust use of advanced financial instruments in the local economy. The country is also well connected to international financial markets and the country has seen an influx of foreign portfolio investments. While Nigeria has seen a growing consumer class over the past decade which has increased the savings rate, the country is weighed down by high lending rates in local banks, which limits access to credit for smaller firms, particularly in the non-oil economy.

Our outlook for the growth of the Nigerian banking and financial services sector over the coming years is brightening as rising oil prices and production, strengthening financial services sector regulations and softening liquidity constraints ensure that the sector as a whole remains stable. Despite significant pressure from non-performing loans (NPLs) since 2016, the systemically important top five banks, which together account for more than half of total banking sector assets, are financially sound and we expect a broad continuation of sector rebalancing in line with the economic recovery. Furthermore, the sector is undergoing consolidation, with mergers creating the potential for financially stronger banks that can meet stricter capital adequacy requirements.

Latest Trends And Developments

- Nigeria's recovery from recession in 2016 will continue in 2019, with higher fiscal spending around the February elections and upturns in oil supply helping to drive expansion. However, any protracted policymaking uncertainty following the February 16 elections will deter both local and foreign investors, while high local borrowing costs will act as a further constraint.
- Overall growth will remain tepid, with real GDP expanding by some 2.2% - the fastest rate since 2015, but well below the government's official 3.0% projection, and long-term averages. Nevertheless, this should support loan growth. Prospects for broad-based expansion remain weak, given continued dependence on the hydrocarbons sector, leaving longer-term growth vulnerable to external commodity developments.
- Stricter capital adequacy requirement deadlines have been extended to allow banks time to adjust and prevent a shock to the system. Nevertheless, consolidation in the sector continues, with **Access Bank** looking to take over its struggling local rival **Diamond Bank** in a deal worth about USD200mn that will create Nigeria's biggest bank in terms of assets and Africa's largest retail bank with its regional presence.
- The life and non-life insurance segments will remain at an early stage of development, with the latter posting a slightly stronger performance than the former, owing to the national requirement that motor and property insurance lines are compulsory, although enforcement is poor and fraud prevalent. The potential for growth remains high, with Nigeria home to Sub-Saharan Africa's largest population, which is also witnessing rapid urbanisation and a growing consumer class. In 2019, life premiums should amount to NGN185.7bn (USD609mn), up by 14.1% y-o-y, while the non-life insurance segment is forecast to grow by 8.9% to NGN259.7bn (USD851mn).
- The asset management sector will remain small by global standards, with its growth having been hindered by slippages in the banking sector, particularly over 2015-2017, and the high-risk operating environment. In 2018, the sector remained dominated by money market funds and domestic firms catering to the needs of foreign investors investing in real estate. Nigerian mutual funds generated an estimated gain of NGN1.9bn in 2018, to bring the collective investment sector's total Net Asset Value to NGN648.2bn, up by 52.3%. Growth was achieved despite huge withdrawals in November and poor performance in equities. Inflows in mutual funds totalled NGN386bn, while there were total outflows of NGN165bn. Fixed income funds outperformed other sectors in 2018, with total AUM rising by 116% compared to a 55% rise for money market funds and 50% for bonds. AUM

in equity based: ethical and mixed funds fell.

- Although large within a regional context, the Nigeria Stock Exchange (NSE) faces liquidity challenges, in contrast to South Africa's bourse. Low trading comes as a result of the high-risk environment and lack of thorough investment guidelines. The government is taking steps to address this, most notably by launching a data trading centre, though changes will take several quarters to take shape, buttressed by a period of prolonged macroeconomic stability. In February 2019, the NSE had a total market capitalisation of about NGN22.2trn (USD61.35bn), a 13.92% increase y-o-y. In 2018, the NSE did not escape the trends seen in equity markets across emerging economies with political risk, oil price volatility and rising interest rates leading to bearish performance. The All Share Index fell by 17.8% over the course of the year to 31,430 points, while equity market capitalisation declined by 13.9% to NGN11.73trn (USD31bn).

FINANCIAL SERVICES FORECASTS (NIGERIA 2017-2022)

Indicator	2017e	2018e	2019f	2020f	2021f	2022f
Finance nominal GVA, USDbn	12.17	13.79	16.08	16.51	16.59	17.49
Finance USD nominal growth, % y-o-y	-12.8	13.3	16.6	2.7	0.5	5.4
Finance nominal GVA, NGNbn	3,713.08	4,206.25	4,944.60	5,614.89	6,262.83	6,866.09
Finance NGN nominal GVA growth, % y-o-y	3.3	13.3	17.6	13.6	11.5	9.6
Finance nominal GVA, % total GVA	3.38	3.34	3.34	3.30	3.25	3.18

e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

FINANCIAL SERVICES FORECASTS (NIGERIA 2023-2028)

Indicator	2023f	2024f	2025f	2026f	2027f	2028f
Finance nominal GVA, USDbn	18.52	19.44	21.28	23.24	25.55	27.77
Finance USD nominal growth, % y-o-y	5.9	5.0	9.5	9.2	9.9	8.7
Finance nominal GVA, NGNbn	7,591.98	8,397.81	9,619.49	10,865.03	12,327.46	13,816.30
Finance NGN nominal GVA growth, % y-o-y	10.6	10.6	14.5	12.9	13.5	12.1
Finance nominal GVA, % total GVA	3.12	3.07	3.05	3.02	3.02	3.01

f = Fitch Solutions forecast. Source: National sources, Fitch Solutions

SWOT

Banking & Financial Services SWOT

SWOT Analysis	
Strengths	• Largest population in Africa and one of the largest globally, presenting a huge potential market. • Improving regulatory environment in the wider banking and financial services sector. • Foreign investors have been drawn to the opportunities in the insurance sector.
Weaknesses	• Lack of major multinational competitors at present in the wider banking and financial services sector. • Ongoing political problems, which keep oil production below its full potential. • Connected lending, and, consequently, non-performing loans, is a historical weakness in the banking sector. • Lack of capital and capacity in the insurance sector means that many large risks, particularly in the important energy sector, need to be (re)insured outside Nigeria. • Widespread poverty means that there is little capacity for spending on traditional or non-essential insurance products. • Fraud is prevalent, particularly in the motor insurance sector. • Poor enforcement of compulsory insurances.
Opportunities	• Macroeconomic growth should continue to pick up, given stronger oil prices and improved oil production, underpinning banking sector asset quality and growth. • The central bank has enacted reforms in recent years to improve accounting practices and transparency. • Partial exchange rate liberalisation in early 2017 is a positive signal for further devaluation to the official rate, which would alleviate liquidity concerns. • Group life cover is now compulsory for employers, providing potential for growth in corporate business and gradually improved knowledge of insurance in the population.
Threats	• Perceptions of the Nigerian banking sector were badly damaged by the crisis in 2009, and have yet to fully recover. • Deposit growth is affected by tight monetary policy and capital flight. • Nigeria's economy remains overly dependent on oil price fluctuations, impacting the potential of the market's banking and financial services sector.

Banking

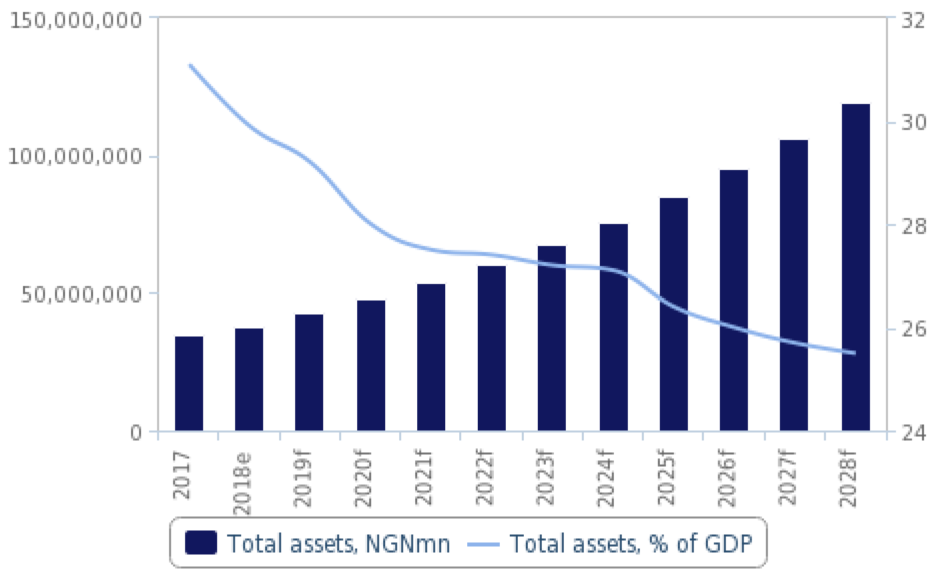
Banking Snapshot

Key View: *More extensive legislation and improved oversight measures since the 2009 financial crisis continue to boost the transparency of the Nigerian banking sector, by SSA standards. Nevertheless, significant challenges remain, particularly in relation to financial reporting, consumer protection, the prevalence of financial and cybercrime and over-exposure to the hydrocarbons sector.*

Latest Trends And Developments

- In February 2019, Nigeria's central bank extended the time banks will have to implement stricter IFRS 9 accounting standards for bad loans. Lenders now have four years to absorb impairments arising from the implementation of the new standards in 2018. This will enable a transition that will protect banks' capital adequacy ratios. IFRS 9 requires them to have enough capital to cover existing losses and potential future losses. Lenders with international licences are required to have a minimum capital adequacy ratio of 15% and those with local licenses 10%. In June 2018, the banking industry average rose to 12.1% from 10.2% at end 2017.
- The central bank is set to introduce new capital rules in Q219 that will determine what sort of funding qualifies as capital in line with Basel III standards.
- **Access Bank** is looking to take over its struggling local rival **Diamond Bank** in a deal worth about USD200mn that will create Nigeria's biggest bank in terms of assets and Africa's largest retail bank with its regional presence.

Banking Asset Growth Will Fall Behind GDP Growth
Total Banking Assets (2017-2028)



e/f = Fitch Solutions estimate/forecast. Source: Fitch Solutions, CBN

Forecast Scenario

Key View

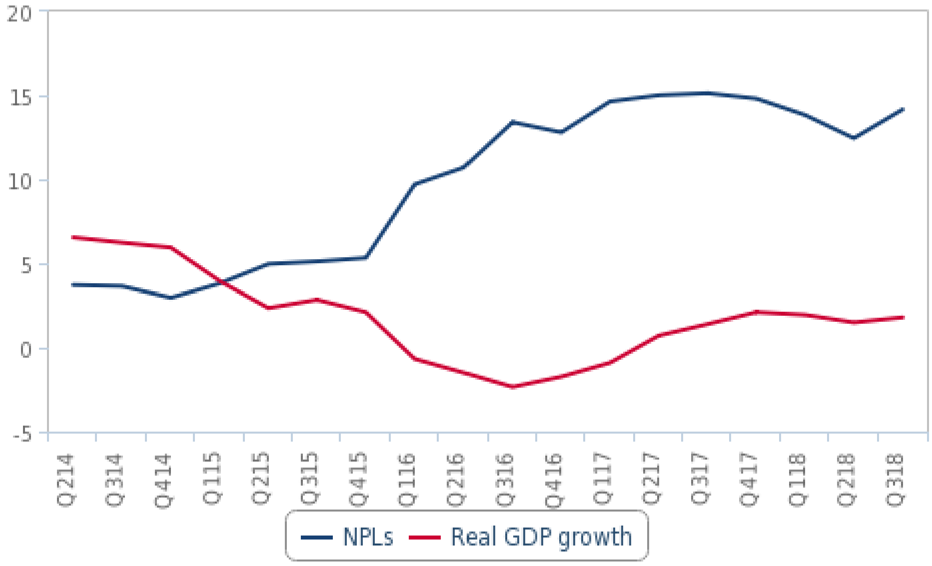
- Rising oil export receipts will bolster hard currency revenues and support banks' balance sheets in the coming quarters.
- More rapid economic growth should lead to a modest improvement in asset quality. However, the impact on banks' appetite to lend to the private sector will be constrained by continued crowding out.
- The extension of the timetable for implementing IFRS 9 standards will ease pressure on bank capital adequacy ratios, but the mooted introduction of Basel III requirements from Q219 will place an additional squeeze on capital buffers, and some smaller banks may struggle to meet the more stringent requirements.

Rising oil export receipts will support banks' balance sheets in the coming quarters. We at Fitch Solutions expect Nigeria's commercial banking sector to undergo a modest recovery over the coming quarters. On a y-o-y basis, client loan growth has shrunk by a monthly average of 4.1% in the 14 months to August 2018 (the most recent available data), largely reflecting weak economic growth and banks' concerns about elevated levels of non-performing loans (NPLs). However, we expect real GDP growth to accelerate in 2019—to around 2.4%, from 1.9% in 2018—with higher fiscal spending around the February 16 elections and moderate improvements in oil production and prices helping to drive expansion. The oil sector continues to play a very substantial role in the banking sector, both in terms of credit demand and as a source of foreign currency revenue. Indeed, according to the National Bureau of Statistics, the oil and gas sector accounted for 23.1% of total credit supplied to the private sector in Q318. A stronger performance by the sector should thus provide tailwinds for the banking industry.

Asset quality will continue to improve—albeit slowly. The collapse in oil prices in 2014, and subsequent economic underperformance in Nigeria in 2015-17, saw asset quality decline considerably: the ratio of NPLs to total loans rose from 3.0% at end-2014 to 15.1% in Q317. However, NPLs have subsequently moderated, averaging 13.5% in the first nine months of 2018—although this remains well above the CBN's regulatory threshold of 5.0%, and a change in accounting standards could see reported NPL levels rise substantially. We believe that rising economic activity in 2019 will see asset quality continue to improve over coming quarters. However, the impact of this improvement on banks' willingness to lend to the private sector will be constrained by two factors: continued crowding out, and banks' need to comply with more stringent capital requirements.

NPLs Will Remain In Double-Digit Levels For Some Time

Nigeria - NPLs (% Of Total Loans) And Real GDP Growth (% y-o-y)



Source: Central Bank of Nigeria, National Bureau of Statistics, Fitch Solutions

A higher fiscal deficit driven by weak revenue mobilisation amid still tight domestic financing conditions will **continue to see elevated bond yields, serving to crowd out private sector credit.** The proposed 2019 budget targets a reduction in the fiscal deficit to 1.3% of GDP, but this is unlikely to be attained: we expect overruns of the projected NGN4.0trn (USD11.1bn) recurrent spending, with expenditure on salaries particularly likely to exceed budgeted totals in what is an election year. Some overshooting of spending on capital projects is also possible. As of February 14, average yields on FGN bonds stood at around 15%, and further increases in borrowing costs are likely in the domestic bond market in 2019, regardless of the outcome of the February election, reflecting pressures on the fiscal deficit.

Furthermore, the implementation of more stringent banking regulations – and higher associated costs for the banking sector – constitutes a further potential constraint on the expansion of credit to the private sector, although the Central Bank of Nigeria (CBN) is sending out mixed signals on such regulations, as it tries to smooth the transition to the adoption of internally recognised standards in the banking sector. In February it announced that banks will have four years in which to absorb impairments arising from the implementation of IFRS9 in January 2018, having previously suggested that banks would have to reflect the full impact in their accounts by end March 2019. However, the CBN has also stated that it will **introduce full Basel III requirements from Q219, placing an additional constraint on banks' capital buffers**. Basel III dictates leverage and liquidity coverage ratios, and requires that banks build up a counter-cyclical buffer, meaning that banks will be required to raise more capital in periods of high credit growth. While this should improve systemic risk over the longer term, the combination of increased capital requirements (particularly in Tier 1 capital) and minimum liquidity requirements is likely to reduce banks' return on equity (ROE), while some small- to medium-sized banks may struggle to raise capital to the necessary levels. Higher costs and lower ROEs could lead to some consolidation in the industry: Diamond Bank and Access Bank are already due to merge in H119, and further such mergers are possible. Overall, the introduction of Basel III is likely to lead to risk inhibition among banks, suggesting that overall growth in client loans will be just 5.0% y-o-y—following two years of contraction in 2017-18.

Forecast Tables

ASSETS FORECASTS (NIGERIA 2017-2022)

Indicator	2017	2018e	2019f	2020f	2021f	2022f
Total assets, NGNmn	34,593,888	38,053,277	43,000,203	48,160,228	53,939,455	60,412,190
Total assets, USDmn	113,403	124,764	140,984	130,162	140,102	151,030
Total assets, % of GDP	31.1	29.9	29.2	28.0	27.5	27.4
Total assets, % y-o-y	9.2	10.0	13.0	12.0	12.0	12.0
Client loans, NGNmn	15,345,105	15,038,203	15,790,113	17,053,322	19,270,254	21,775,388
Client loans, USDmn	50,303	49,305	51,770	46,090	50,052	54,438
Client loans, % of GDP	13.8	11.8	10.7	9.9	9.8	9.9
Client loans, % y-o-y	-3.2	-2.0	5.0	8.0	13.0	13.0
Client loans, USD per capita	263	251	257	223	236	251
Client loans, % of total assets	44.4	39.5	36.7	35.4	35.7	36.0

e/f = Fitch Solutions estimate/forecast. Source: Central Bank of Nigeria, Fitch Solutions

ASSETS FORECASTS (NIGERIA 2023-2028)

Indicator	2023f	2024f	2025f	2026f	2027f	2028f
Total assets, NGNmn	67,661,652	75,781,051	84,874,777	95,059,750	106,466,920	119,242,951
Total assets, USDmn	161,099	170,678	184,510	200,125	217,279	236,124
Total assets, % of GDP	27.2	27.1	26.4	26.0	25.7	25.5
Total assets, % y-o-y	12.0	12.0	12.0	12.0	12.0	12.0
Client loans, NGNmn	24,606,188	27,804,993	31,419,642	35,504,195	40,119,741	45,335,307
Client loans, USDmn	58,586	62,623	68,303	74,745	81,877	89,772
Client loans, % of GDP	9.9	9.9	9.8	9.7	9.7	9.7
Client loans, % y-o-y	13.0	13.0	13.0	13.0	13.0	13.0
Client loans, USD per capita	263	274	292	312	333	356
Client loans, % of total assets	36.4	36.7	37.0	37.3	37.7	38.0

f = Fitch Solutions forecast. Source: Central Bank of Nigeria, Fitch Solutions

LIABILITIES FORECASTS (NIGERIA 2017-2022)

Indicator	2017	2018e	2019f	2020f	2021f	2022f
Total liabilities and capital, NGNmn	34,593,888	38,053,277	43,000,203	48,160,228	53,939,455	60,412,190
Total liabilities and capital, USDmn	113,403	124,764	140,984	130,162	140,102	151,030
Total liabilities and capital, % of GDP	31.1	29.9	29.2	28.0	27.5	27.4
Total liabilities and capital, % y-o-y	9.2	10.0	13.0	12.0	12.0	12.0
Client deposits, NGNmn	19,146,806	20,678,550	22,746,405	26,158,366	30,082,121	34,594,440
Client deposits, USDmn	62,766	67,798	74,578	70,698	78,135	86,486
Client deposits, % of GDP	17.2	16.3	15.5	15.2	15.3	15.7
Client deposits, % y-o-y	4.5	8.0	10.0	15.0	15.0	15.0
Client deposits, USD per capita	328	346	371	342	369	398
Client deposits, % of total liabilities	55.3	54.3	52.9	54.3	55.8	57.3

e/f = Fitch Solutions estimate/forecast. Source: Central Bank of Nigeria, Fitch Solutions

LIABILITIES FORECASTS (NIGERIA 2023-2028)						
Indicator	**2023f**	**2024f**	**2025f**	**2026f**	**2027f**	**2028f**
Total liabilities and capital, NGNmn	67,661,652	75,781,051	84,874,777	95,059,750	106,466,920	119,242,951
Total liabilities and capital, USDmn	161,099	170,678	184,510	200,125	217,279	236,124
Total liabilities and capital, % of GDP	27.2	27.1	26.4	26.0	25.7	25.5
Total liabilities and capital, % y-o-y	12.0	12.0	12.0	12.0	12.0	12.0
Client deposits, NGNmn	39,783,606	45,751,147	52,613,819	60,505,892	69,581,775	80,019,042
Client deposits, USDmn	94,722	103,043	114,377	127,380	142,003	158,453
Client deposits, % of GDP	16.0	16.4	16.4	16.5	16.8	17.1
Client deposits, % y-o-y	15.0	15.0	15.0	15.0	15.0	15.0
Client deposits, USD per capita	426	452	489	531	578	629
Client deposits, % of total liabilities	58.8	60.4	62.0	63.7	65.4	67.1

f = Fitch Solutions forecast. Source: Central Bank of Nigeria, Fitch Solutions

KEY RATIOS FORECASTS (NIGERIA 2017-2028)												
Indicator	**2017**	**2018e**	**2019f**	**2020f**	**2021f**	**2022f**	**2023f**	**2024f**	**2025f**	**2026f**	**2027f**	**2028f**
Loan/deposit ratio	80.14	72.72	69.42	65.19	64.06	62.94	61.85	60.77	59.72	58.68	57.66	56.66
Loan/asset ratio	44.36	39.52	36.72	35.41	35.73	36.04	36.37	36.69	37.02	37.35	37.68	38.02

e/f = Fitch Solutions estimate/forecast. Source: Central Bank of Nigeria, Fitch Solutions

Competitive Landscape

Nigeria's banking sector is dominated by five large domestic companies: **Zenith Bank**, **FirstBank of Nigeria**, **United Bank for Africa**, **Access Bank** and **Guaranty Trust Bank**. Together these institutions account for almost 70% of total banking sector assets.

Background

The Nigerian banking sector is well developed by regional standards and has made significant strides in improving regulatory oversight over the past two decades, including the implementation of Basel II regulations. It is connected to international financial markets and the US dollar can be used in transactions, easing international trade. The main challenges facing the sector include US dollar shortages and the high number of non-performing loans (NPLs) in the sector, with the latter compounded by low commodity prices and weak economic growth.The Nigerian banking sector is regulated by the Central Bank of Nigeria (CBN), which began operations in 1959, and the Nigeria Deposit Insurance Corporation (NDIC), established in 1988, which work together to ensure efficiency in the sector.

The Nigerian banking sector has already undergone two major reforms to improve its performance and regulatory oversight. The first took place in 2004, with a focus on consolidation through the process of mergers and acquisitions. This brought down the number of commercial banks operating in the country to 25 from 89. The second, more major reform, took place in 2009, with the aim to improve transparency following the global financial crisis and its knock-on impact on the Nigerian bank sector. In 2011, the CBN introduced non-interest banking, allowing for the establishing of Islamic banking operations in Nigeria to cater to its Muslim population.

The Asset Management Corporation of Nigeria (AMCON) was established by the government with the aim of acquiring NPLs of commercial banks to ease them of toxic assets and restrict these banks to only banking activities (though this was stopped in 2014). It also supported the implementation of international financial reporting standards (IFRS) to bring financial reporting in the sector in line with global standards. Finally, the CBN - a key industry regulator - introduced a stricter supervision framework for the country's largest banks, identified as systematically important banks (SIBS). Under the framework, the operations of SIBs are monitored closely, with regulatory authorities conducting stress tests on their capital and liquidity adequacy. SIBs are also required to maintain a minimum capital adequacy ratio of 15%.

Nigeria's commitment to improving business transactions and investment inflows, in addition to the central bank's foreign exchange trading window, was a boon for investors. Investors needing to settle trade-related requirements in US dollars can do so by phone, and at rates set by the buyers and sellers themselves, rather than by the bank or the market. These moves will likely curb the market premium and push up foreign reserve levels. As dollars have been in short supply in Nigeria since the oil price drop, the country has had to look at new ways to attract foreign investment; we believe that greater exchange rate flexibility would ease some of the underlying problems in the long run. We also argue that a failure to introduce greater flexibility to a more unified exchange rate would be negative for the banking sector, as we would likely see NPLs rise as firms buckle under the pressure of high input costs.

There are also opportunities in the financial services sector to unlock value in the country's large remittances market. In 2016, Nigeria received an estimated USD20.1bn in personal remittances, according to the World Bank, ranking it the top recipient of remittances in SSA, with more than 10 times the annual receipts of Ghana. While investment and equities have slumped, remittances were relatively stable since 2014, as many households rely on funds from the diaspora. This makes the country the world's sixth-largest receiver, after India, China, the Philippines, Mexico and France – according to the World Bank. Nigeria received 60% of the remittances sent to SSA in 2015; estimates further show that remittances to the region grew by 3.4% in 2016. It may well be possible that remittances through informal channels may almost reach more than 50% the amount sent through formal channels, given the vast size of the black market, low banking penetration rates and the need to circumvent high transaction fees. This untapped remittance market, combined with increasing internet and mobile penetration, provide opportunities for the formalisation of remittances through formal banking channels. The rise of mobile financial services in the SSA region shows the significant potential for the growth of financial services providers to reduce fees and attract large inflows via formal channels.

Nigerian banks are especially keen to help diaspora customers navigate the country's real estate market. A depositor abroad could use the bank's services to find reliable developers, finance and purchase a house in Nigeria, for instance. These types of accounts also afford some protection in the situation where relatives entrusted with making transactions for those based overseas do not act in good faith. While internet banking has enabled banks to provide customers abroad with a new range of services, regulation has not kept pace, which is hamstringing growth in the industry.

Larger businesses do not face many of the same restrictions in accessing credit due to their ability to borrow cheaper international credit or take advantage of the capital markets to raise funds. Nigeria's domestic debt markets can also be a major source of development finance and the issuance of long-term domestic debt instruments is becoming less of a hurdle. Confidence in the sector as a repository for savings is growing and, according to the World Bank, 44.2% of individuals aged 15 and over had an account at a formal banking institution in 2016, comparing favourably with the regional average of 17.8% for West African countries. Within this, adult rural dwellers are considerably less likely to have a formal bank account in Nigeria, with 38.9% of the adult rural population holding an account. This state of affairs indicates the relative concentration of banks in urban areas, as well as the growing importance of possessing an account to conduct basic transactions in Nigeria's large cities.

However, participation in the banking sector drops off considerably for Nigerians falling in the bottom 40% income bracket, which is characterised by a bank account possession rate of 33.81%. This state of affairs indicates the limited penetration of banking and financial services within the population, which could multiply transaction costs and delays for businesses. Furthermore, purchasing power in the population will remain subdued over the short-to-medium term due to the high inflation and high lending rates (approximately 19.1% in 2016-2017) and tight lending conditions.

With regard to borrowing trends, Nigeria's banking sector has posted strong credit growth over the last several years, albeit from a low base, benefiting from rising deposits and economic growth, particularly prior to 2016. We saw nascent signs of recovery as the economy rebounded in 2018. However, interest rates are relatively high, likely to range between 12-25% over the medium term (2019-2023), and loan terms are limited in terms of time, which places loans out of the reach of much of the population. In particular, domestic manufacturing companies are hit hardest by the high lending rates, which, along with high operating expenses, weaken their competitiveness. As a result, most small-to-medium-sized businesses that take credit from local banks are involved in high turnover and high margin trading activities, yet many fail to grow due to high variable expenses.

The oil sector, which maintained a period of recovery in 2017 and 2018, represents a significant proportion of banks' lending, accounting for between 20-40% of borrowing at the country's three largest banks - First Bank, Guaranty Trust Bank and Zenith Bank. Nigerian banks have, to a degree, protected themselves from the fallout of poorly performing oil companies through restructuring much of this lending into debt with a longer maturity. Nonetheless, we still expect that there will be some pressure exerted on banks' portfolios in the quarters ahead.

Market Structure

Zenith Bank is one of Nigeria's most profitable banks and the largest in terms of assets, although at end September 2018 its gross loans fell by 8.3% in the context of an NPL ratio of over 10%. It was established in 1990 and started operations as a commercial bank in July 1990. It became a public limited company in June 2004 and was listed on the Nigerian Stock Exchange in October 2004 following a successful IPO. In March 2013, the bank was listed on the London Stock Exchange by converting USD850mn worth of ordinary shares to global depositary receipts (GDR). The bank has more than 500 branches and a presence in eight other countries. Its head office is based in Lagos and it is present in all state capitals, the Federal Capital Territory, major towns and metropolitan centres of Nigeria. In April 2007, it became the first Nigerian bank in 25 years to be licensed by the British Financial Services Authority to start banking operations with Zenith Bank (UK), with this subsidiary opening a Dubai branch in October 2015. The bank is also present through subsidiaries in Ghana, Sierra Leone, the Gambia and a representative office in South Africa and China.

FirstBank (originally called Bank of British West Africa) was incorporated as a limited liability company in 1894 and adopted its current name in 1991. Its networks include more than 860 branches, with 615 in Nigeria, 131 FirstBank agencies and 117 local and international subsidiary branches across 11 other countries. The bank serves more than 12.1mn customers. Its services include capital market operations, insurance brokerage, currency exchange, private equity/venture capital, pension fund management, registrarship, trusteeship, mortgages and microfinance.

In 2002, FirstBank established a wholly owned banking subsidiary in the UK, regulated by the Financial Services Authority. It was the first Nigerian bank to own a full bank in the UK. In 2007, FBN (UK) obtained authorisation to set up a Paris office as a marketing base to serve Francophone West Africa. FBN also has operations in SSA states, as well as representative offices in South Africa, China and the UAE. The most recent expansion was achieved in January 2016 with the start of operations of **FBN Bank Senegal**. A key element of the bank's strategy is its continued focus on retail banking/consumer financing, gradually shifting towards a diversified high-yield portfolio, by targeting the relatively under-banked consumer market.

TOP 10 COMMERCIAL AND RETAIL BANKS BY TOTAL ASSETS, NGNMN

	Total Assets	Total Common Equity	Date
Zenith Bank	5,617,785	777,904	9/30/2018
First Bank of Nigeria	5,060,694	615,000	6/30/2018
Access Bank	4,555,173	472,683	9/30/2018
United Bank For Africa	4,507,166	509,286	9/30/2018
Guaranty Trust Bank	3,433,197	534,296	9/30/2018
Ecobank Nigeria	1,724,865	219,628	6/30/2018
Fidelity Bank	1,680,804	192,387	9/30/2018
Union Bank of Nigeria	1,581,762	293,451	9/30/2018
Diamond Bank	1,554,928	221,615	9/30/2018
Stanbic IBTC Bank	1,332,670	138,700	12/31/2017

Note: Data is latest available. Source: Company reports, Fitch Solutions

United Bank for Africa is the product of the merger of Nigeria's third and fifth largest banks, the old **UBA** and the erstwhile **Standard Trust Bank** (STB) and a subsequent acquisition of the erstwhile **Continental Trust Bank Limited** (CTB). The union emerged as the first successful corporate combination in the banking sector. UBA is one of Africa's leading financial institutions, offering universal banking to around 10mn customers across 632 branches, 1,750 ATMs and nearly 13,500 points of sale in 19 SSA countries. The bank has also operated a New York branch since 1984. In July 2015, UBA secured a rights issue worth NGN11.5bn as part of its efforts to shore up its capital base ahead of the full implementation of Basel II requirements. In October 2016, UBA and the European Investment Bank partnered to support a EUR60mn lending programme to support private investment in Nigeria.

Access Bank is a full-service commercial bank with an extensive international footprint. It has banking subsidiaries in the UK and six Sub-Saharan Africa (SSA) markets, including Côte d'Ivoire, the Democratic Republic of the Congo, Ghana, Rwanda, Sierra Leone, the Gambia, Tanzania and Zambia, representative offices in China, Lebanon and the UAE and is listed on the London and Irish stock exchanges. It is one of the largest banks in Nigeria, boasting around 8mn customers and 3,500 staff members. Its combined domestic and international network comes to approximately 368 branches and 1,500 ATMs.

As of Q119, Access Bank was preparing for a merger with Diamond Bank, Nigeria's ninth biggest bank in terms of assets. The merger would create a bank with more than NGN6trn of assets. The resulting entity which will maintain the brand name Access Bank, but with Diamond Bank colours, will have more than 29mn customers, 13mn of which are mobile customers, with a presence in 12 countries - the biggest retail bank in Africa. Access Bank reported 1% growth in gross loans by end September 2018, while its NPL ratio is a relatively healthy 5%. Access' operating profit was 2.1% of average assets, which is lower than some rivals. However, Diamond Bank was in a weaker position, with gross loans down by 3.7% and operating profit at just 0.2% of average assets. Merger would remove from the banking sector a struggling bank, while boosting Access Bank's commercial profile.

TOP 10 BANKS - ASSET QUALITY

	Growth Of Gross Loans (%)	NPL Ratio (%)	Reserves For NPLs (% of NPLs)	NPL Charges (% of gross loans)	Date
Zenith Bank	-8.3	10.7	109.3	0.8	9/30/2018
First Bank of Nigeria	-4.0	na	na	4.7	6/30/2018
Access Bank	1.0	5.0	101.8	0.4	9/30/2018
United Bank For Africa	0.3	na	na	0.7	9/30/2018
Guaranty Trust Bank	-8.3	5.6	156.2	0.2	9/30/2018
Ecobank Nigeria	-7.3	8.8	107.9	2.6	6/30/2018
Fidelity Bank	11.6	5.2	123.5	0.5	9/30/2018
Union Bank of Nigeria	5.0	na	na	1.9	9/30/2018
Diamond Bank	-3.7	na	na	4.1	9/30/2018
Stanbic IBTC Bank	7.6	7.9	100.1	6.6	12/31/2017

na = not available. Note: Data is latest available. Source: Company reports, Fitch Solutions

Guaranty Trust Bank (GTB) was incorporated in July 1990 as a private limited liability company wholly owned by Nigerian individuals and institutions. It was licensed as a commercial bank in August 1990 and started operations in 1991. In September 1996, GTB became a publicly quoted company on the Nigeria Stock Exchange. In February 2002, the bank obtained a universal banking licence and was appointed as a settlement bank in 2003. In 2007, GTB became the first Nigerian bank to be listed on the main market of the London Stock Exchange. GTB established a UK subsidiary in March 2008. GTB UK is authorised by the British Financial Services Authority to operate as a full commercial bank, offering corporate and retail banking services. Based in London, GTB UK is the group's first operation in Europe and provides banking services, such as receiving deposits and writing mortgages for commercial and retail customers and intermediaries. The group also has subsidiaries in Côte d'Ivoire, the Gambia, Ghana, Liberia, Sierra Leone, Kenya, Rwanda and Uganda.

TOP 10 BANKS - EARNINGS AND PROFITABILITY

	Net Interest Income (% of earning assets)	Expenses (% of gross revenues)	Operating Profit (% of average assets)	Net Income (% of average equity)	Date
Zenith Bank	7.1	50.1	4.0	25.3	9/30/2018
First Bank of Nigeria	6.9	55.3	1.3	9.2	6/30/2018
Access Bank	5.3	65.3	2.1	17.7	9/30/2018
United Bank For Africa	6.4	63.2	2.5	15.9	9/30/2018
Guaranty Trust Bank	9.6	38.0	6.3	34.7	9/30/2018
Ecobank Nigeria	6.8	63.1	1.5	11.2	6/30/2018
Fidelity Bank	6.9	68.4	1.8	12.6	9/30/2018
Union Bank of Nigeria	8.6	72.7	1.3	6.5	9/30/2018
Diamond Bank	8.0	71.4	0.2	1.0	9/30/2018
Stanbic IBTC Bank	10.4	53.9	2.6	23.3	12/31/2017

Note: Data is latest available. Source: Company reports, Fitch Solutions

TOP 10 BANKS - CAPITAL AND LEVERAGE

	Tangible Common Equity (% of tangible assets)	Net Income Minus Cash Dividends (% of total equity)	Date
Zenith Bank	13.4	24.8	9/30/2018
First Bank of Nigeria	11.8	9.3	6/30/2018
Access Bank	10.2	17.8	9/30/2018
United Bank For Africa	10.6	16.2	9/30/2018
Guaranty Trust Bank	15.2	35.6	9/30/2018
Ecobank Nigeria	12.6	12.7	6/30/2018
Fidelity Bank	11.4	12.4	9/30/2018
Union Bank of Nigeria	12.7	6.7	9/30/2018
Diamond Bank	13.8	1.0	9/30/2018
Stanbic IBTC Bank	9.8	20.8	12/31/2017

Note: Data is latest available. Source: Company reports, Fitch Solutions

TOP 10 BANKS - FUNDING AND LIQUIDITY

	Loans (% of customer deposits)	Interbank Assets (% of interbank liabilities)	Customer Deposits (% of total funding)	Date
Zenith Bank	63.1	na	71.3	9/30/2018
First Bank of Nigeria	69.7	127.0	74.7	6/30/2018
Access Bank	84.1	52.7	63.4	9/30/2018
United Bank For Africa	53.9	95.0	81.5	9/30/2018
Guaranty Trust Bank	62.1	469.5	83.8	9/30/2018
Ecobank Nigeria	78.0	36.0	79.9	6/30/2018
Fidelity Bank	89.9	na	81.3	9/30/2018
Union Bank of Nigeria	66.8	35.0	81.6	9/30/2018
Diamond Bank	73.4	130.6	83.9	9/30/2018
Stanbic IBTC Bank	52.1	15.0	77.3	12/31/2017

na = not available. Note: Data is latest available. Source: Company reports, Fitch Solutions

Regulatory Environment

The Nigerian banking sector is well developed by regional standards and has made significant strides in improving regulatory oversight over the past 15 years, including the implementation of Basel II regulations. It is connected to international financial markets and the US dollar can be used in transactions, easing international trade. The main challenges facing the sector include US dollar shortages and the high number of non-performing loans (NPLs) in the sector, with the latter compounded by low commodity prices and weak economic growth.

The authorities are considering an amendment to the Banks and Other Financial Institutions Act to, among other things, prohibit shell banks and unlicensed banks, and increase fines for infringements.

The Nigerian banking sector is regulated by the Central Bank of Nigeria (CBN), which began operations in 1959, and the Nigeria Deposit Insurance Corporation (NDIC), established in 1988, which work together to ensure efficiency in the sector. The supervision and examination of banks falls to the CBN, where its governor appoints a Director of Banking Supervision to carry out related duties, including processing the returning schedule of the activities of banks' activities. The NDIC is responsible for guaranteeing payment of depositors in the event of failure of an insured bank, protecting depositors through supervision, and undertaking failure resolution in the industry. Where the acquisition of shares results in a change of ownership or control of the bank, the prior approval of the CBN must be obtained.

The primary legislation for the regulation of banks in Nigeria is the Banks and Other Financial Institutions Act (BOFIA) which, with the Central Bank of Nigeria (Establishment) Act 2007 (CBN Act), gives the CBN powers to supervise and regulate banks and other financial institutions in Nigeria.

Other relevant legislation includes:

- Companies and Allied Matters Act (Cap 59, Laws of the Federal Republic of Nigeria 1990 (CAMA)), which regulates companies generally
- Nigerian Deposit Insurance Corporation Act, which is responsible for insuring all deposit liabilities of licensed banks
- Foreign Exchange (Monitoring and Miscellaneous Provisions) Act, which established the Autonomous Foreign Exchange Market and provides the regulatory framework for foreign exchange transactions in Nigeria

Under the BOFIA, the CBN is responsible for granting banking licences to carry on the business of banking and for supervising and regulating banks and other financial institutions. The CBN is also responsible for the supervision and monitoring of the Autonomous Foreign Exchange Market and has the power to issue guidelines under the Foreign Exchange (Monitoring and Miscellaneous Provisions) Act. The CBN regularly issues circulars and guidelines in line with its oversight responsibilities over banks, other financial institutions and the foreign exchange market. The CBN also has the power to intervene when, as a result of its various examinations and supervisory powers, it considers that a bank is failing. It can then direct that the management and control of the bank should be turned over to the NDIC. Foreign investment in the sector is governed by the CBN, and any foreign banks or investors wishing to establish banking business in Nigeria must meet its prescribed regulatory requirements, as per the following rules:

- A foreign applicant must incorporate a company in Nigeria, apply for a business permit, register with the Nigerian Investment Promotion Commission and obtain a banking licence. This means that the company must be incorporated in accordance with Companies and Allied Matters Act (Cap 59, Laws of the Federal Republic of Nigeria 1990 (CAMA)
- The foreign bank or investor(s) must meet the minimum capital requirements
- The foreign bank or investor(s) may invest in existing Nigerian banks provided that (unless specifically approved) no single foreign investor acquires more than the shares of the single-largest Nigerian institutional or individual shareholder and that the aggregate shareholding of the foreign investors does not exceed 10% of that bank's total capital
- As with domestic investors, should the acquisition of shares by a foreign bank or investor(s) result in a change of ownership or control of the bank, the prior approval of the CBN must be obtained. The acquisition of an equity holding of 5% and above by any investor in a bank is subject to CBN approval

The minimum paid-up capital requirements for the different categories of banks are as follows:

- Regional commercial banking licence: NGN10bn or other prescribed amount
- National commercial banking licence: NGN25bn or other prescribed amount
- International commercial banking licence: NGN50bn or other prescribed amount
- Merchant banking licence: NGN15bn or other prescribed amount

For an applicant meeting all the requirements, the Governor of the CBN may issue a licence with or without conditions, or refuse to issue a licence and does not need to give any reasons for his refusal. An applicant must submit all documents for both stages of approval. All licensed banks must have the following organisational systems and policies in place:

- Risk management framework specifying the governance architecture, policies, procedures and processes for the identification, measurement, monitoring and control of the risks inherent in its operations
- Whistle-blowing policies and mechanisms, including assurance of confidentiality that encourage stakeholders to report any unethical conduct to the bank or the CBN
- Code of Conduct committing the bank, board and management to the highest standards of professional behaviour, business conduct and sustainable business practices
- Conflict of interest policy to guide the board in managing conflicts of interest

At the board level, the Code for Corporate Governance for Banks and Discount Houses requires each board to have a risk management and board audit committee headed by non-executive directors.The appointment of auditors for banks must be approved by the CBN (CBN Code of Corporate Governance for Banks and Other Financial Institutions, 2014). External auditors must render reports to the CBN on banks' risk management practices, internal controls and level of compliance with regulatory directives. The Code stipulates that the tenure of auditors for any given bank is a maximum of 10 cumulative years, after which the auditor cannot be reappointed to audit the bank until after another 10 consecutive years has expired. An audit firm must not provide audit services to a bank if one of the bank's senior officials (such as directors, chief finance officer, chief audit officer) was employed by the firm and worked on the bank's audit in the immediate past two years.

In 2013, the CBN introduced a stricter supervision framework for the country's top eight banks, identified as Systematically Important Banks (SIBs), given they account for more than 70% of the industry's total assets, loans and deposits, and their failure or collapse could disrupt the entire financial system and the country's real economy. These eight banks included: **First Bank of Nigeria**, **United Bank for Africa**, **Zenith Bank**, **Access Bank**, **Ecobank Nigeria**, **Guaranty Trust Bank**, **Skye Bank** and **Diamond Bank**. Under the new supervision framework, the operations of SIBs are closely monitored, with regulatory authorities conducting stress tests on the SIBs' capital and liquidity adequacy. Moreover, SIBs are required to maintain a higher minimum capital adequacy ratio of 15%. The CBN supports non-interest banking. Both **Jaiz Bank International** and **Stanbic IBTC** have established Islamic banking operations in Nigeria.

Regulation of systemically important financial institutions requires firms to carry out quarterly stress tests of their capital and liquidity, the results of which must be reviewed by the CBN. The framework also requires such institutions to develop specific recovery plans to be submitted to the CBN and NDIC by January 1 every year and make monthly and quarterly reports to the CBN on their financial condition and risk management activities. On December 10 2013, the CBN issued guidance notes for the implementation of Basel II/III in Nigeria. The Basel Guidance Notes set out basic approaches to be adopted by banks for the computation of credit risk, market risk and operational risk. The Framework for the Regulation and Supervision of Domestic Systemically Important Banks in Nigeria was also issued in the light of the Basel Committee on Banking Supervision and the Financial Stability Board developing a framework for Domestic Systemically Important Banks and Global Systemically Important Financial Institutions. The implementation of the Basel II/III standards by the CBN in Nigeria is an ongoing process and a target date for full implementation of the Basel III standards is yet to be set.

Nigeria's banking sector has recovered strongly from a combination of weak governance and the effects of the global recession in 2009. This was largely thanks to a number of reforms undertaken by the CBN, including the adoption of uniform year-end international financial reporting standards (IFRS) financial reporting to increase transparency, a stronger emphasis on risk management and corporate governance, and the nationalisation of three distressed banks. Nigeria, through the CBN, has signed up to a number of international standards, such as the Financial Action Task Force (FATF) Recommendations on Combating Money Laundering and the Financing of Terrorism and Proliferation.

The CBN introduced the IFRS 9 on January 1 2018, which contains provisions that make it nearly impossible for banks to hide toxic assets. The introduction of a new accounting rule by the CBN, mandating banks to make further disclosures of their assets, including loan portfolios, bodes well for sector transparency. Apart from coming with a new regime in the manner in which assets are classified in banks' books, the IFRS 9 specifically directs lenders to make provisions in advance for NPLs. This is a significant departure from the old system of making provision for incurred bad loans as opposed to expected bad loans. Banks will be required to incorporate forward-looking assessments in their estimates of credit losses using the Expected Credit Loss models, rather than Incurred Loss models. There is also a new classification approach for financial instruments as well as changes to hedge accounting. While lager lenders could withstand the shift, smaller banks will likely feel a squeeze on their profitability. The expected increase in provision will affect capital and could potentially impact covenants in external financing agreements for some banks.

However, financial institutions will face some challenges to the efficient implementation of the IFRS 9 in Nigeria. These include the lack of skilled professionals with the required ability; the knowledge gap on the part of the regulators; timing of the commencement of IFRS 9 projects by Nigerian entities; limited external rating data and coverage issue and insufficient internal historical data required to support model building.

Subdued oil prices and significant security-related production challenges have underpinned the shortage of hard currency in the country since 2016. The government has imposed strict capital controls which have had a negative effect on the operations of businesses across virtually all sectors. Many import-reliant firms suspended their operations in 2016-2017 due to these strict conditions that make it difficult to obtain inputs, particularly in manufacturing and retail sectors. The onerous bureaucracy surrounding the repatriation of profits and carrying out offshore payments has significantly weighed on the ease of doing business in the country for multinationals.

According to the Nigerian Foreign Exchange (Monitoring and Miscellaneous Provisions) Act, foreign capital invested in a company must be imported through an authorised dealer, which will issue a Certificate of Capital Importation. This certificate entitles the foreign investor to open a bank account in foreign currency, which is critical for many foreign-owned enterprises, given the recent devaluation of the local currency and liquidity constraints in the market. Finally, a company engaging in international trade must get an import-export license from the Nigerian customs service.

The CBN recently announced plans to issue electronic certificates for capital imported into the country, which will also save investors time. The electronic certificate will replace the hard copy (as issued previously), which investors or companies were required to get in just 24 hours, according to a 1995 law. The certificate is a declaration that the company has invested foreign currency in Nigeria and is necessary for the company to repatriate returns on those investments. Investors have complained in the past that they have struggled to meet the one-day deadline.

Key Legislation

In terms of regulatory oversight, the key piece of legislation is the CBN Act, 2007. Additional key legislation includes:

- Banks and Other Financial Institutions Act, 1991
- AMCON Act, 2010
- Companies and Allied Matters Act, 2014
- Foreign Exchange (Monitoring and Miscellaneous Provisions) Act
- Nigeria Deposit insurance Corporation Act

The liquidation of banks is largely governed by the:

- Nigerian Deposit Insurance Corporation Act: this ensures that the liquidation process involves orderly and efficient closure of the failed institutions with minimum disruption to the banking system, cost-effective realisation of assets and settlement of claims to depositors, creditors and, where possible, shareholders
- Companies and Allied Matters Act: this sets out the qualifications of a receiver and the procedure for the appointment of a receiver
- Banks and Other Financial Institutions Act: this Act approves the control of a failing bank by the NDIC
- Investment and Securities Act: empowers the Securities and Exchange Commission to intervene before an intermediary becomes insolvent or when effectively insolvent

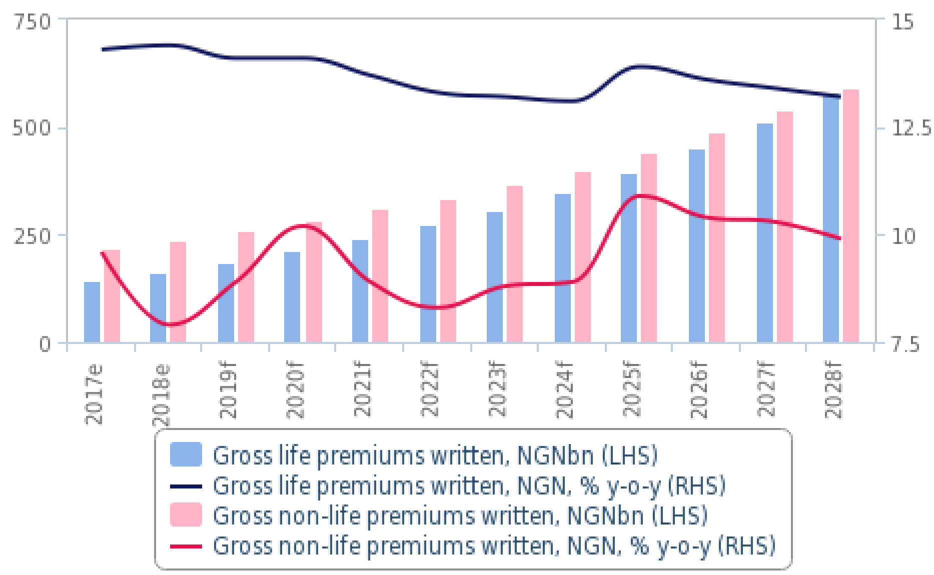
Insurance

Insurance Snapshot

Key View: *Nigeria's insurance market offers tremendous long-term potential, which is supported by the size of its economy and population. However, the industry's development has been constrained by widespread poverty and a lack of insurance affordability. Even more affluent middle-class consumers have a tendency to avoid paying for insurance, hampering the growth of compulsory basic lines such as motor vehicle insurance. The country's economic stability in recent years has further hindered growth, with penetration and density levels remaining low even by regional standards. As oil prices pick up and the economic recovery gains traction, rising business and consumer spending will lead to faster headline growth in insurance premiums. This will be undermined by high inflation, remaining close to 12% through the duration of our forecast period. Should these headwinds subside, there is considerable long-term growth potential in areas such as health and microinsurance.*

Life Will Lead Premiums Growth

Insurance Premiums By Sector (2017-2028)



e/f = Fitch Solutions estimate/forecast. Source: NAICOM, Fitch Solutions

Latest Trends And Developments

- In February 2019, **NSIA Insurance** launched a new international health insurance product known as the NSIA Health Insurance on the Nigerian market, in partnership with US-based **Cigna** and South Africa's **Hollard**. The plan has reportedly attracted interest from local companies who want to provide their staff with access to quality healthcare in Nigeria and worldwide as well as multinationals operating in Nigeria.
- Accounting for 41.7% of total written insurance premiums in 2019, Nigeria's life insurance market constitutes the smaller segment of the country's insurance industry. The outlook for Nigeria's life market is improving, as an uplift in oil prices and in the country's economic performance drive household income growth and affordability. Add to this the country's large (and growing) population and the very low rate of life insurance penetration at present, and the long-term opportunities for life insurers in Nigeria are considerable. However, the immediate outlook remains somewhat uncertain, in large part due to the high level of inflation, which will mean that the real value of premiums will remain fairly muted and the US dollar value of premiums will be negligible. In 2019, life premiums should amount to NGN185.8bn (USD609mn), up by 14.1% y-o-y.
- Nigeria's non-life market will underperform the life segment over the next few years, growing by about 9.0% a year in local currency terms. The figure will be much lower in real terms, owing to the sustained high rate of inflation, which will only drop

back below 10% during 2019 and even then will remain higher than in most other markets. The one positive for non-life insurers will be growing demand as the economy accelerates, driving business and consumer spending and demand for key product lines. The non-life insurance segment is forecast to grow by 8.9% to NGN259.7bn (USD851mn) in 2019.

GROSS INSURANCE PREMIUMS WRITTEN (NIGERIA 2017-2022)

Indicator	2017e	2018e	2019f	2020f	2021f	2022f
Total gross premiums written, NGNbn	363.26	401.27	445.41	498.18	552.67	610.45
Total gross premiums written, NGN, % y-o-y	11.4	10.5	11.0	11.8	10.9	10.5
Gross life premiums written, NGNbn	142.36	162.83	185.75	212.01	241.14	273.22
Gross life premiums written, NGN, % y-o-y	14.3	14.4	14.1	14.1	13.7	13.3
Gross non-life premiums written, NGNbn	220.90	238.45	259.67	286.17	311.53	337.23
Gross non-life premiums written, NGN, % y-o-y	9.6	7.9	8.9	10.2	8.9	8.3

e/f = Fitch Solutions estimate/forecast. Source: NAICOM, Fitch Solutions

GROSS INSURANCE PREMIUMS WRITTEN (NIGERIA 2023-2028)

Indicator	2023f	2024f	2025f	2026f	2027f	2028f
Gross life premiums written, NGNbn	309.30	349.70	398.18	452.45	513.29	580.88
Gross life premiums written, NGN, % y-o-y	13.2	13.1	13.9	13.6	13.4	13.2
Gross non-life premiums written, NGNbn	366.78	399.43	442.89	489.14	539.40	593.02
Gross non-life premiums written, NGN, % y-o-y	8.8	8.9	10.9	10.4	10.3	9.9
Total gross premiums written, NGNbn	676.08	749.13	841.07	941.59	1,052.70	1,173.91
Total gross premiums written, NGN, % y-o-y	10.8	10.8	12.3	12.0	11.8	11.5

f = Fitch Solutions forecast. Source: Fitch Solutions, NAICOM

Competitive Landscape

The Nigerian life insurance market is less developed than the non-life market, and both are highly fragmented. Only six companies hold over 5% of market share in the life sector and just four in the non-life sector. In the coming years, we believe that the competitive landscape will become more concentrated, as the small number of foreign players capture market share from sub-scale local groups. Growth in the middle class, together with improvements in education and literacy levels, are likely to drive growth in the insurance market as offerings become more affordable and better understood.

The Nigerian insurance industry is structured around four types of players: insurers and reinsurers, insurance brokers, agents and loss adjusters. Brokers are thought to control about three-quarters of all insurance premiums in Nigeria. Specific segments that remain intensely competitive include investment products, life risk products, general insurance and health insurance (not medical scheme business). Currently, the industry consists of approximately 57 companies compared to 140 registered insurers in 1994. Revised capital requirements which were first introduced by NAICOM in 2005 were a major driver behind this move and in the medium term, there is further scope to consolidate the market and mergers with and acquisitions by foreign companies will help to achieve this.

Over the past decade, the Nigerian insurance industry has grown steadily and this can be shown by total premiums, which have grown from about NGN75bn in 2005 to more than NGN400bn currently. Foreign investors have shown great interest in the Nigerian insurance sector through entry into the market. These include **Sanlam** and **Old Mutual** from South Africa and **AXA** from France acquiring a USD246mn stake in **Mansard Insurance**. Progress can be seen in the introduction of new insurance products in the growing mortgage and housing sector. Even though Nigeria has shown positive signs of development in this industry, there is still room for more growth when compared to other emerging markets. The key challenges faced by the Nigerian insurance industry include low penetration levels, a lack of consumer trust, low implementation of compulsory insurance and a lack of professionals that are adequately skilled in this space. These challenges, however, can be overcome if the insurance industry in Nigeria adopts some of the ideas and methods from the banking sector in Nigeria, which has grown significantly over the past decade.

NAICOM's transformation agenda for the 2017-2020 period envisages growth in written premiums to reach NGN1trn by 2020. Job creation in the insurance industry, enforcement of compulsory insurance and building of consumer trust and public awareness are part of the commission's plans to achieve its transformation agenda. The transformation agenda supports the Central Board of Nigeria's financial system strategy 2020. Growth in the number of people holding an insurance policy is also included in the agenda. Approximately only 1.5% of all Nigerian adults are covered by insurance, which shows that that there is a lot more potential to increase the number of policyholders in the medium term.

The low insurance penetration in Nigeria is, in part, a consequence of the lack of trust and confidence in insurance companies. A contributor to this perception of the market is the limited knowledge of insurance among the public. However, with rising literacy rates and financial literacy in particular, there is scope for industry players to develop a revised market strategy centred on educating the public on the mechanism of insurance and conveying the benefits inherent in its provision. Furthermore, increasing urbanisation and affluence are usually accompanied by the accumulation of assets and other insurable risks, which is positive for the growth of insurance.

Nevertheless, the life insurance sector, in particular, will see its growth trajectory constrained by structural risks that include cultural constraints, low per capital income and low life insurance literacy. Furthermore, the sector itself faces regulatory enforcement challenges and some unfavourable government policies which have underpinned fragmentation within the industry. Other weaknesses include low capacity building and inability to attract specialised insurance skill sets linked to inadequate funding and capitalisation; patchy data that lead to inappropriate pricing and profiling of risk; poor governance structures ascribed to inefficiency present in owner-managed institutions; inadequate capitalisation which restricts underwriting capacity or the company's ability to absorb insurance risk; and poor distribution channels.

Market share figures for the life sector are released with a lag and not readily available. Figures from 2016 indicate that **Leadway**

Assurance held 25.4% of the life market. The firm is backed by reinsurers **Swiss Re** and **Munich Re**. Additional players in the sector include **AIICO** (a locally-owned public insurer) with 17.8%, **African Alliance** (10.4%), **Custodian Life Assurance** (9.8%) and **FBN Life** (8.0%).

In the coming years, we expect to see foreign players become more interested in penetrating the market, capitalising on its strong growth opportunities and openness to new entrants. The government is particularly eager to draw in expertise from established players to develop new, low-cost products for the country's growing middle class and micro-insurance solutions geared towards the lower-income portion of the population. For example, in 2013, Old Mutual entered the market with the establishment of **Old Mutual Nigeria Life Assurance Company Limited**. In addition, in late 2014, the large France-based multinational AXA entered the Nigerian life insurance market through the full acquisition of **Assur Africa Holdings**, which also included a 77% stake in Mansard Insurance (now re-branded to **AXA Mansard Insurance**). This provided AXA with the opportunity to combine its brand reputation and industry experience with direct access to established distribution channels and customer bases. In July 2017, UK-based **Prudential** bought a majority stake in **Zenith Life** and signed a bankassurance deal with **Zenith Bank**. Most recently, in July 2018, German financial services firm **Allianz Group** completed its acquisition of 99% of Nigerian insurer **Ensure Insurance**.

TOP 10 LIFE INSURANCE COMPANIES BY GROSS PREMIUMS, USDMN

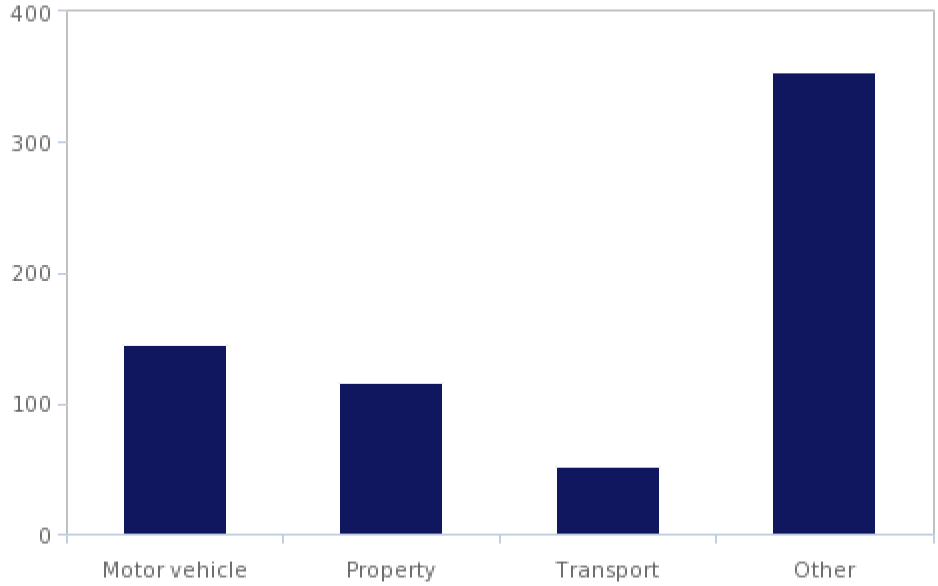
	2011	2012	2013	2014	2015	2016
Leadway Assurance	28.8	60.1	105.1	128.2	157.8	122.7
AIICO	64.3	43.7	84.1	147.1	122.6	86.1
African Alliance	11.7	21.0	41.3	61.3	71.9	50.4
Custodian Life (formerly Crusader Life)	8.3	11.2	11.2	15.2	35.8	47.2
FBN Life	8.2	18.2	24.5	43.0	49.1	38.5
Mutual Benefit Life	29.5	16.8	15.9	23.1	17.4	16.0
Niger Insurance	30.5	44.8	47.6	48.0	39.9	15.4
AXA Mansard	15.2	20.1	18.7	23.1	18.4	13.9
Royal Exchange Prudential	3.9	7.6	13.5	16.0	17.7	13.5
Zenith Life	6.5	11.9	9.6	14.5	15.1	13.0

Source: NAICOM, Fitch Solutions

Participation in the non-life segment is constrained by weak regulatory frameworks. Investors are most concerned about allegations of fraud by policyholders and the creditworthiness of insurers, especially given a backdrop of wider concerns about banking sector stability. The non-life market is also highly fragmented, with the largest player, Leadway Assurance, taking a market share of just 11.7%, according to 2016 figures, and just four companies holding over 5% market share. The second largest player is **Custodian And Allied**, holding a market share of 8.8% in 2016. Like Leadway Assurance, Custodian And Allied is a composite insurer. Other prominent players include **AXA Mansard Insurance** (7.7% share) and **NEM Insurance** (5.8%).

Motor Insurance Is Largest Single Non-Life Segment

Non-Life Premiums Written By Sub-Sector, USDmn (2019f)



f = Fitch Solutions forecast. Source: NAICOM, Fitch Solutions

TOP 10 NON-LIFE INSURANCE COMPANIES BY GROSS PREMIUMS, USDMN

	2011	2012	2013	2014	2015	2016
Leadway	125.7	172.3	121.6	n.a.	98.7	83.7
Custodian And Allied	64.5	74.5	107.8	97.8	83.5	63.0
AXA Mansard	49.0	58.3	66.6	n.a.	61.9	55.5
NEM	52.7	60.8	56.1	57.8	54.1	41.3
Royal Exchange Assurance	37.8	39.0	42.3	40.7	35.2	34.9
Zenith General	36.2	37.2	41.5	46.7	40.5	33.2
AIICO	54.1	60.2	58.7	n.a.	38.0	28.5
Sovereign Trust	41.1	48.7	54.5	43.6	36.0	26.3
Mutual Benefit Assurance	35.1	31.6	32.9	68.7	51.7	25.9
STACO	41.6	43.8	42.3	35.7	29.2	22.5

Source: NAICOM, Fitch Solutions

Regulatory Environment

Nigeria's insurance industry is guided by the Insurance Act of 2003, which makes provisions for the application of different types of insurance, the penalties for not having insurance and the regulations governing the process of obtaining insurance protection. It classifies insurance into two main types (life insurance and general insurance), ensures that only registered businesses can carry out insurance activities, lays out the process for registration of insurers and the minimum paid-up share capital of insurers, stipulates the types of investments that insurers may participate in and compulsory insurance policies. On this last point, there are six insurance policies made compulsory by law: motor third party insurance, employee group life insurance, healthcare professional indemnity, insurance of public buildings, insurance of buildings under construction and employers' liability insurance.

Under the Insurance Act of 2003, no insurer can commence business operations without prior registration with the National Insurance Commission (NAICOM), the regulatory body charged with the supervision and regulation of businesses. NAICOM is empowered by the National Insurance Commission Act No 1 of 1997.

In 2010, the Local Content Act was passed in an attempt to increase the participation of Nigerian insurance companies in the insurance of oil and gas risks. The law requires all life insurance, 70% of non-life insurance and 40% of marine insurance businesses to be underwritten locally.

There has been a series of regulatory changes surrounding the insurance industry. For example, recapitalisation requirements introduced in 2007 increased capital requirements by over 1,000%; the six insurance products made compulsory in the 2003 Insurance Act were enforced; the Cabotage Act of 2003 and the Nigerian Content Act of 2010 were enforced; the 'no premium, no cover' rule was enforced; operational guidelines for insurers and reinsurers were issued; and guidelines for micro-insurance, takaful and developing risk management frameworks were issued. A code for good corporate governance for insurers was introduced in the sector in 2009. NAICOM's guidelines for takaful (Islamic insurance) and micro-insurance aimed to reduce financial exclusion from all types of financial services and increase insurance penetration. NAICOM believes that micro-insurance is an important risk management tool for protecting vulnerable populations. The enforcement of the 'no premium, no cover' rule was also intended to improve penetration rates.

The new Pension Reform Act, which came into effect on July 1 2014, stipulates that employers in Nigeria must contribute to employees' pensions if they employ more than 15 staff members. Retirement gratuities may count towards the contributions made to employees' pensions and death benefits arising from group life policies can be paid directly to named beneficiaries.

Key Legislation

In terms of regulatory oversight, the key piece of legislation is the Insurance Act, 2003. Additional key legislation includes:

- National Insurance Commission Act No 1 of 1997
- Local Content Act, 2010

Industry Regulators

The Nigerian insurance industry is regulated by NAICOM, which was established by the National Insurance Commission (NIC) Act to ensure the effective administration, supervision and regulation of insurance businesses in the country and to regulate transactions between insurers and reinsurers within and outside Nigeria. The NIC establishes the standards for the conduct of insurance business in the country, approves rates for premiums and commissions in the industry and protects policyholders and other beneficiaries of insurance contracts. It protects government assets and serves as advisor to the federal government. Under the Insurance Act of 2003, no insurer can commence business operations without prior registration with NAICOM.

Nigerian insurers typically focus on broker-driven corporate accounts, especially in the oil and gas sector. In order to improve penetration levels, NAICOM launched the Market Development and Restructuring Initiative in 2009 to, among others, enforce compulsory insurance and eradicate fraud in the sector - such as insurance products procured by motorists from unregistered insurers in the country. In 2011, NAICOM, in collaboration with the Nigerian Insurance Association (NIA) created the Nigerian Insurance Industry Database to serve as the only central record of all insurance policies in Nigeria. There are six insurance products made compulsory by law by the Insurance Act 2003 and other sister legislation:

- Group life insurance in line with the Pencom Act 2004
- Employers liability in line with the Workmen's Compensation Act 1987
- Buildings under construction - section 64 of the Insurance Act 2003
- Occupiers liability insurance - section 65 of the Insurance Act 2003
- Motor third party insurance - section 68 of the Insurance Act 2003
- Healthcare professional indemnity insurance under section 45 of the NHIS Act 1999

Current capital requirements are factor-based without regard to the nature of risks. The fixed minimum capital requirement is relatively high, resulting in the low return on capital faced by the industry. NAICOM is in the process of moving towards a risk-based supervision model.

Asset Management

Asset Management Snapshot

Key View: *Nigeria's asset management sector remains small by global standards, and faces significant liquidity constraints following a prolonged period of macroeconomic turbulence since 2016, which compounds growth risks stemming from structurally low financial literacy and income levels among the majority of the population. The improving outlook for the banking sector and high demand for products will provide longer-term growth opportunities, though we note that the underdeveloped nature of the sector will inhibit any major shifts in the near term.*

Latest Trends And Developments

- According to data released by the Securities and Exchange Commission (SEC), Nigerian mutual funds generated an estimated gain of NGN1.9bn in 2018, to bring its total net asset value to NGN648.2bn, up by 52.3%. Growth was achieved despite huge withdrawals in November and poor performance in equities. Inflows in mutual funds totalled NGN386bn, while there were total outflows of NGN165bn.
- In March 2019, **FSDH Asset Management Limited** opened an application list for the initial public offering (IPO) of its FSDH Treasury Bills Fund. The asset management firm was offering 15mn units of its Treasury Bills Fund at par value of NGN100 each. The IPO was scheduled to close on March 28 2019. The FSDH Treasury Bills Fund, a money market collective investment scheme, is an open-ended fund that will primarily invest in low risk short-term securities such as treasury bills, commercial papers and fixed deposits.
- In February 2019, the Nigerian Stock Exchange (NSE) launched a new trading platform for mutual funds that will facilitate electronic transactions with seamless connection among key parties in transactions, including the NSE, Central Securities Clearing System, stockbrokers and fund managers.
- Fixed income funds outperformed other sectors in 2018, with total AUM rising by 116% compared to a 55% rise for money market funds and 50% for bonds. AUM in equity-based: ethical and mixed funds fell.
- Nigeria's asset management sector will continue to be dominated by a handful of players led by **Stanbic IBTC Asset Management**, as low income levels and liquidity issues in the sector have limited its expansion.

Competitive Landscape

Nigeria's asset management sector is dominated by **Stanbic IBTC Asset Management** and a handful of domestic players. While there are investment opportunities, generally low income levels and liquidity issues in the banking sector mean that there is limited room for expansion.

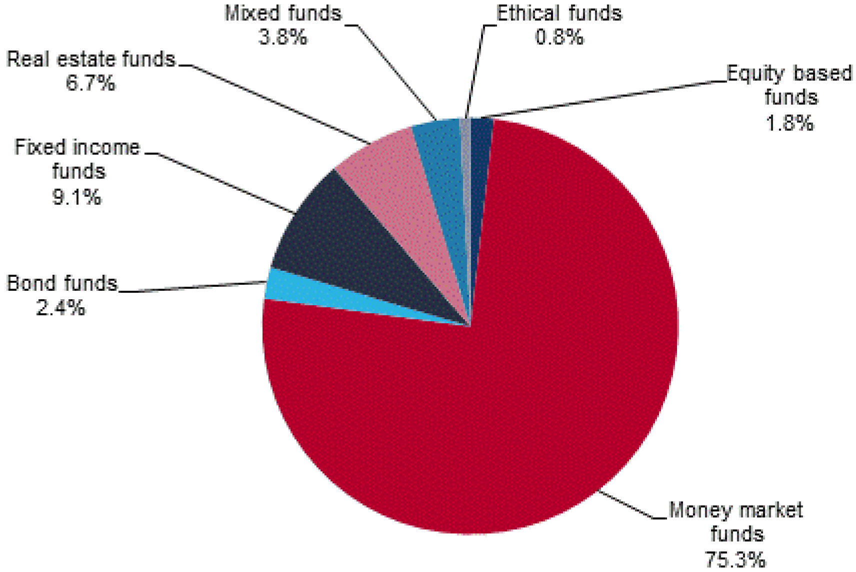
As Nigeria's economy expands though, its asset management industry offers tremendous long-term potential. Nigeria's assets under management in mutual funds (AUM) stood at NGN651bn on November 2 2018, with a further NGN6bn in exchange-traded funds. The majority (76%) is invested in money market funds. Real estate funds are also popular, accounting for 7% of AUM. Pension products are a growing asset class as the government seeks to cater to the needs of this under-served formal sector market. The private sector is also making good strides, with a few companies serving as regional leaders, and a middle class is in the early stages of development. The latest data from the Securities and Exchange Commission (SEC) reveal 76 mutual funds in the country as of August 24 2018. The mutual funds are further segmented into categories, such as equity-based mutual funds, fixed income security funds, money market funds, bond funds, mixed funds, real estate funds and ethical funds.

Notable players in the industry include:

- Stanbic IBTC Asset Management, a member of South Africa's **Standard Bank Group**, is the largest asset manager in Nigeria, accounting for 42% of AUM (as of November 2018). It offers a wide range of funds to both individuals and institutional investors.
- **FBN Capital Asset Management** handles 23% of Nigeria's AUM, and also offers a range of investment products and services, with strategies spanning various asset classes and sectors.
- Established in 1994 as an asset management firm, **Asset & Resources Management Company** offers a blend of traditional asset management and alternative investment services. The firm has four mutual funds comprising the aggressive growth fund, money market fund, ethical fund and discovery fund. It is headquartered in Lagos with offices across the country. The SEC put its current AUM in mutual funds and exchange-traded funds at NGN56bn, around 9% of the market.
- **FSDH Asset Management Limited**, accounting for 6% of AUM, is a wholly owned subsidiary of **FSDH Merchant Bank** and began offering asset management services in 1997.
- **First Ally Asset Management Limited** was incorporated on July 16 2014 and is licensed by the SEC as a fund/portfolio manager. It is the full service asset management subsidiary of **First Ally Capital Limited**. It provides customised financial solutions using a variety of asset classes.
- Other notable players include **AXA Mansard Investment**, **Vetiva Fund Managers Ltd**, **Lotus Capital Ltd** and **Meristem Wealth Management Ltd**, **Alternative Capital Partners Ltd**, **Afrinvest Asset Management Ltd**, **Chapelhill Denham Management Ltd**, **Cordros Asset Management Ltd**, FSDH Asset Management Ltd, **Greenwich Asset Management Ltd**, **PAC Asset Management Ltd**, **SCM Capital Ltd**, **SFS Capital Nigeria Ltd** and **Zenith Asset Management Ltd**.

Nigeria Collective Investment Schemes

Fund Types By Percentage Of Total NAV, February 2019



Source: Securities and Exchange Commission, Nigeria

Fixed income funds outperformed other sectors in 2018, with total AUM more than doubling, compared to a 70% rise for money market funds and 45% for bonds. AUM in equity-based: ethical and mixed funds have fallen over the period.

Nigeria's federal government has also recently introduced two additional investment instruments to retail investors' subscription: the FGN Savings Bond and the FGN Eurobond. The FGN savings bond is targeted at the everyday saver and mirrors money market instruments. It is also backed up by full faith, thus making the instrument's risk profile low. The FGN Eurobond is targeted primarily at high net worth individuals and corporate organisations (both local and foreign), with investment in foreign currency. This option is listed on the London Stock Exchange and is aimed at improving liquidity conditions.

Regulatory Environment

Asset management firms are subject to market regulator, the Securities and Exchange Commission (SEC), the main regulatory institution of the Nigerian capital market.

Key Legislation

In terms of regulatory oversight, the key piece of legislation is the Investments and Securities Act No. 45 of 1999. In Nigeria, mutual funds are regulated under section 8(g) of the Investment and Securities Act and they have to be registered as a trust or a trust company in accordance with the provisions of the Trustees Act, Investment and Securities Act and the Companies and Allied Matters Act 1990 as amended.

The Investment and Securities Act contains some provisions made to protect the interest of the investing public, including disclosure requirements, operating modalities that ensure transparency and other prudential norms that govern investments by mutual funds.

Under the Companies and Allied Matters Act, the Corporate Affairs Commission has regulatory powers over all registered companies in Nigeria, including banks and other financial institutions, particularly in respect of certain statutory filings required by them.

Industry Regulators

Mutual funds come under the regulation of the SEC. The SEC is the main regulatory institution of the Nigerian capital market and is supervised by the Federal Ministry of Finance. It began as an ad hoc, non-statutory Capital Issues Committee in 1962 as an arm of the Central Bank of Nigeria. It became the Security Exchange Commission in 1973 and, after being chartered with the SEC Decree No. 71 of 1979, became known as the Securities and Exchange Commission. The SEC now falls under the Investments and Securities Act No. 45 of 1999. Its role is to ensure equitable dealings in securities and guard against insider trading. The investments of a mutual fund should be managed by an asset management company registered under the Companies Act in accordance with the regulations of the SEC.

A code of conduct is specified for mutual funds that governs advertisement of the funds. The regulatory objective here is to prevent mutual funds from making false claims. Fund managers are required to file a monthly return with SEC in a format specified to permit regular off-site surveillance. Mutual funds are also required to submit their audited accounts to SEC annually and make full disclosures of their investment assets. SEC undertakes inspection and audit of their operations as well as valuation of their assets.

One of the most important mechanisms for investor protection in any financial market is the provision of vital and up-to-date information to investors; however, not all fund managers in Nigeria provide recent facts to their clients on the funds they manage. Fund managers in Nigeria lack full transparency as there is no formal requirement for them to provide detailed and current information on their mutual funds to investors. This is against the practice of other investment associations and regulators in other countries. In the UK for example, the Association of Investment Companies encourages member firms to provide sufficient information for investors to make decisions.

However, to boost transparency, several bodies have been formed in recent years. The Financial Reporting Council of Nigeria (FRCN) was established under the Financial Reporting Council of Nigeria Act and has the powers to enforce compliance with accounting, auditing, corporate governance and financial reporting standards. The FRCN also develops and publishes accounting and financial reporting standards for the preparation of financial statements of public interest entities, which includes banks and other financial institutions. The Financial Services Regulations Co-ordinating Committee was established by the CBN Act to co-ordinate the supervision of financial institutions and to articulate the strategies for the promotion of safe, sound and efficient practices by financial intermediaries.

Stock Exchanges

Stock Exchanges Snapshot

Key View: *The expansion of Nigeria's stock market has been limited by low market turnover, following a period of liquidity issues in the banking sector, macroeconomic volatility and weaknesses in financial reporting. While the government has taken steps to allow portfolio investors to trade in US dollars at a flexible rather than fixed rate, the multiple exchange rate system will continue to deter some participants. Nevertheless, MSCI's decision to retain Nigeria in its Frontier Indices has improved confidence, and the market has also benefited from the recovery in oil prices.*

Latest Trends And Developments

- In February 2019, the Nigerian Stock Exchange (NSE) had a total market capitalisation of about NGN22.2trn (USD61.35bn), a 13.92% increase y-o-y.
- In 2018, the NSE did not escape the trends seen in equity markets across emerging economies with political risk, oil price volatility and rising interest rates leading to bearish performance. The All Share Index fell by 17.8% over the course of the year to 31,430 points, while equity market capitalisation declined by 13.9% to NGN11.73trn (USD31bn).
- In the NSE fixed income market, market capitalisation grew by 11.8% to NGN10.2trn, including NGN1.16trn from the federal government's capital raising for fiscal and infrastructure deficits. In the Exchange Traded Fund (ETF) market, the dampened appetite for equity products led to an 8.5% decline in market capitalisation to NGN6.13bn. The recently implemented multi-fund structure for Pension Fund Administrators supported the Stanbic Pension ETF which returned 16.37%, while the effect of the depressed performance of the equities industrial index led to a 37% decline in the Vetiva Industrial ETF.
- In December 2018, **Skyway Aviation Handling Company** staged the first IPO in four years with more than 406mn shares offered for sale. It concluded in early January, raising NGN1.89bn. **MTN Group** is still in discussions with the Nigerian authorities to resolve a dispute over tax and foreign exchange, and the company's much anticipated IPO is still on hold.

Competitive Landscape

The Nigerian Stock Exchange (NSE) is a registered company limited by guarantee, founded in 1960. It is licensed under the Investments and Securities Act and regulated by the Securities and Exchange Commission (SEC) of Nigeria. The NSE offers listing and trading services, licensing services, market data solutions and ancillary technology services. Following the deregulation of the capital market in 1993, prices of new issues are determined by issuing houses and stockbrokers, while on the secondary market prices are made by stockbrokers only.

It is a member of the International Organisation of Securities Commissions, the World Federation of Exchanges, Sustainable Stock Exchanges Initiative, the SIIA's Financial Information Services Division and the Intermarket Surveillance Group. It is also a founding member and executive committee member of the African Securities Exchanges Association.

Equities are listed under 11 industry sectors: agriculture, conglomerates, construction/real estate, consumer goods, financial services, healthcare, ICT, industrial goods, natural resources, oil and gas, and services. The NSE has 13 indices that track market and sector performance and the main index is the NSE 30 Index.

Some large investors consider the capital markets, specifically the NSE, as a more viable financing option, given commercial banks' high interest rates and the short maturities of local debt instruments. Access to foreign exchange has improved following the Central Bank of Nigeria (CBN)'s introduction of an Investors' & Exporters' FX Window in April 2017, which allows portfolio investors, export banks and the regulator to trade US dollars.

The NSE has failed to attract significant new listings in recent years and stock market capitalisation is largely focused on five counters. More than 100 companies have delisted since 2002, mostly due to regulatory intervention to remove them from the market. Eighteen have voluntarily delisted due to the economic climate and buy-outs that have taken them private.

Investor apathy in equities has prevented growth in listings and the market remains shallow. In an effort to re-attract investors who fled in 2014-2016 as oil prices collapsed, in 2017 Nigeria's monetary policy officials moved to further harmonise some of the country's multiple exchange rates. Banks had been using a special currency window for investors (Nafex), but were not allowed to publish their trades. However, as of August 2017, currency dealers were granted permission to quote naira levels used in actual trades in real time. Allowing banks to start quoting Nafex rates effectively increases rate convergence and boosts transparency. Further moves to increase transparency and harmonise FX rates will boost investor confidence. Moreover, for foreign investors not already using Nafex, greater transparency and more liberalised FX trade regimes will make naira assets significantly cheaper and raise the attractiveness of local assets for bond investors.

Nigeria's capital market has attracted considerable interest from foreign investors. According to an NSE report, foreign portfolio investors accounted for more than 40% of total transactions since 2014. The main attractions of the Nigerian bourse are its relative liquidity by regional standards, and participation of a number of blue-chip companies, including large fast-moving consumer goods conglomerates and the country's biggest financial institutions. We note that portfolio investment opportunities could increase significantly in the future if the bourse succeeds in attracting major companies in the telecoms and energy sectors.

The Nigerian government has also issued bonds to restructure the Nigerian government domestic debt portfolio from short-term to medium- and long-term instruments. Some state governments have issued bonds to finance development projects, while some domestic banks have used the bond market to raise additional capital.

In August 2017, the NSE launched a data centre to support its activities, in an attempt to provide improved monitoring of its activities and stimulate investment in the economy. Nigeria is also trying to boost foreign currency inflows via mobilising funds from the estimated 18mn Nigerians based outside the country. The Debt Management Office raised a USD300mn diaspora bond in mid-2017. The SEC is also developing a regulatory framework for green bond issuance, which is due to be announced shortly.

Regulatory Environment

While the Nigerian Stock Exchange (NSE) is a self-regulatory organisation, it is overseen by the Securities and Exchange Commission (SEC) as the main regulatory institution of the Nigerian capital market. The approval of the SEC is required for the acquisition of controlling shareholdings in banks.

The Nigerian SEC has issued stringent guidelines for state entities wishing to raise funds on capital markets, such as requiring credit assessments conducted by recognised credit rating agencies. In Q217, investor sentiment strengthened following the commencement of the FX window as it signalled a possible return of flexibility in FX rate determination; though a multiplicity of rates at official windows is still a concern. Nevertheless, improvements are needed in the protection of minority investors.

The acquisition of an equity holding of 5% and above by any investor in a bank is subject to Central Bank of Nigeria (CBN)'s prior approval. Where such shares are listed securities and are acquired through the stock exchange, the bank must apply for a no objection letter from the CBN immediately after the acquisition. No single shareholder can acquire more than 5% in the share capital of any bank without the approval of CBN. Further, to discourage the government (including its agencies) from having majority shareholding in banks, the government's equity holding in any bank is limited to 10%.

Key Legislation

In terms of regulatory oversight, the key piece of legislation is the CBN Act of 2007. Additional key legislation includes:

- Investments and Securities Act No. 45 of 1999

Industry Regulators

The SEC began as an ad hoc, non-statutory Capital Issues Committee in 1962 as an arm of the CBN. It became the Security Exchange Commission in 1973 and, after being chartered with the SEC Decree No. 71 of 1979, became known as the Securities and Exchange Commission. The SEC now falls under the Investments and Securities Act No. 45 of 1999. Its role is to ensure equitable dealings in securities and to guard against insider trading.

With regard to the NSE, the SEC has the mandate of surveillance over the exchange to forestall breaches of market rules and to detect and prevent unfair manipulations and trading practices.

Macroeconomic Overview

Modest Uptick In Nigerian Growth But Hydrocarbons Dependence Will Persist

Key View

- Nigeria's recovery from recession in 2016 will continue in 2019, with higher fiscal spending around the February elections and upturns in oil supply helping to drive expansion.
- However, any protracted policymaking uncertainty following February 16 elections will deter both local and foreign investors, while high local borrowing costs will act as a further constraint.
- Overall growth will remain tepid, with real GDP expanding by some 2.2%—the fastest rate since 2015, but well below the government's official 3.0% projection, and long-term averages.
- Prospects for broad-based expansion remain weak given continued dependence on the hydrocarbons sector, leaving longer-term growth vulnerable to external commodity developments.

Nigeria's recovery from its 2016 recession will continue in 2019. We expect overall growth in 2019 to remain tepid, with real GDP expanding by some 2.2%—the fastest rate since 2015, but well below the government's official 3.0% projection, and long-term averages.

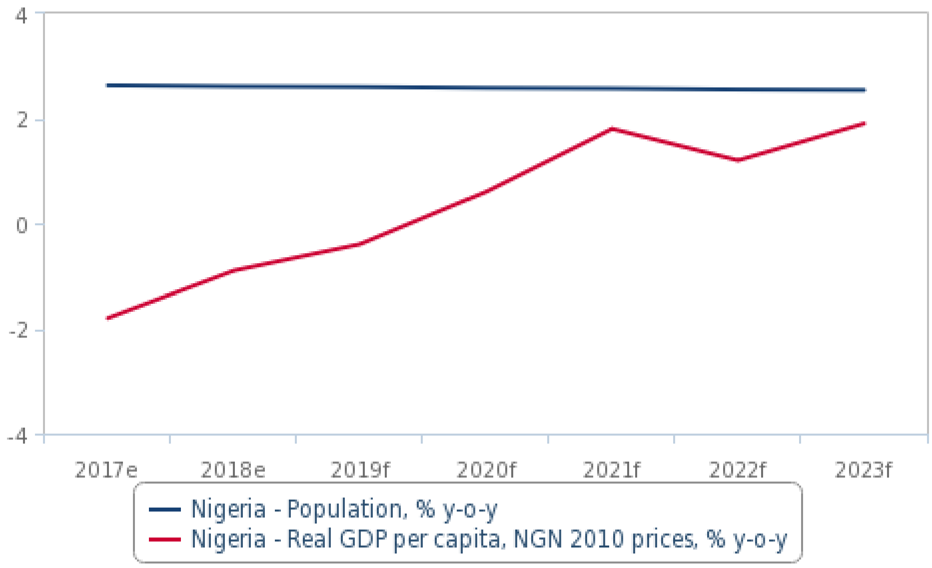
The economy grew by 1.8% year-on-year (y-o-y) in the third quarter of 2018, compared with 1.5% in the previous quarter and 1.2% a year earlier, according to the most recent quarterly GDP report published by the National Bureau of Statistics (NBS) in December 2018 *(see 'Nigerian GDP Growth Rises But Remains Subdued In Q318', December 11 2018)*. The Q318 uptick was driven by the non-oil sector, which expanded by 2.3%, driven by strong performance in the services sector. In contrast, the hydrocarbons sector, which is the main source of government income, shrank by 2.9%. However, crude output is set to recover: our Oil & Gas team forecast Nigerian oil and gas production to increase by 6.3% y-o-y in 2019, driven by the start-up of key production assets including the ExxonMobil Egina field. Egina will contribute 200,000 barrels/day (b/d) at plateau, although Nigeria's participation in OPEC+ production cuts of 53,000 b/d for at least the first half of 2019 will act as a partial constraint on the sector's expansion.

Higher fiscal spending around the February elections is also likely to sustain real GDP growth. The federal government has proposed a new monthly minimum wage of NGN27,000 (USD75)—up from NGN18,000 at present—and the House of Representatives has subsequently adjusted this upwards, passing legislation setting the minimum at NGN30,000 (as sought by trade unions). Further modifications are possible, since the legislation must be passed by the Senate and receive presidential assent. However, a substantial rise in base pay is highly likely, and this will serve to bolster private demand, and thus the non-oil sector, albeit from a low base.

However, any protracted policymaking uncertainty following the February 16 elections will deter both local and foreign investors. Unusually for Nigerian elections, there is a substantial difference in policy direction between the incumbent, Muhammudu Buhari, and the main challenger, Atiku Abubakar. Buhari has been ideologically disposed towards state intervention in the economy, whereas Abubakar has positioned himself as a pro-business candidate espousing a free-market reform agenda. We believe that Abubakar is likely to win the presidential poll, with positive implications for market sentiment, but his ability to pass reforms including liberalisation of the currency regime and deregulation of the hydrocarbons sector will in part depend on the composition of the legislature after the election. There is a clear risk that policymaking uncertainty or stasis after the vote will weigh on business and investor sentiment into H219. Such constraints are already apparent: foreign direct investment inflows in the first nine months of 2018 totalled just under US$1.7bn—32.0% down on the year-earlier period. High local borrowing costs will act as a further constraint, while even if Abubakar promotes a reform agenda it will take time to tackle issues such as the crowding out of the private sector.

A Slow Improvement In GDP Per Head

Nigeria — Population And Real GDP Per Head



e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

Over the longer term we expect a modest uptick in growth, on the expectation that Abubakar makes at least some progress in opening the economy up to investment. However, growth in the non-oil sector is likely to remain constrained by the slow pace of improvement in private demand, and by lending conditions that remain tight. A broad improvement in lending to the industrial and service sectors is unlikely in the absence of sustained fiscal consolidation—freeing up additional funds for lending—and we do not think this will occur before the end of our long-term forecast period to 2028. This implies continued dependence on the hydrocarbons sector to drive growth, which will leave the economy vulnerable to commodity-price swings and local production trends: after 2019 our Oil & Gas team currently see limited growth in the sector given a very restricted pipeline of projects, although there is an upside risk that genuine reform of the industry will spur a resurgence in much needed investment. All told, we expect growth over 2020-2028 to average 4.2%—a rate that would imply a slow improvement in GDP per head, nevertheless it represents only around half the 7.4% average seen between 2000 and 2015—the growth slump being a function of the collapse in oil prices in 2014-2015, and a concomitant spike higher in unemployment and underemployment to circa 43%, from 18%.

Macroeconomic Forecasts

MACROECONOMIC INDICATORS (NIGERIA 2018-2028)

Indicator	2018e	2019f	2020f	2021f	2022f	2023f	2024f	2025f	2026f	2027f	2028f
Nominal GDP, USDbn	415.9	484.3	502.8	514.2	555.3	599.2	640.6	704.6	776.9	853.4	932.2
Nominal GDP, EURbn	346.6	406.9	405.5	418.1	444.2	479.4	512.5	563.7	621.6	682.7	745.8
GDP per capita, USD	2,123	2,409	2,439	2,431	2,560	2,695	2,809	3,015	3,243	3,476	3,705
GDP per capita, EUR	1,769	2,024	1,967	1,977	2,048	2,156	2,247	2,412	2,594	2,781	2,964
Real GDP growth, % y-o-y	1.7	2.4	3.2	4.2	3.8	4.5	3.6	5.7	4.3	4.1	3.9
Private final consumption, % of GDP	74.9	75.3	75.2	75.7	75.7	75.5	76.0	77.0	78.0	78.8	79.3
Government final consumption, % of GDP	6.1	6.3	6.3	6.4	6.6	6.7	6.8	6.8	6.7	6.7	6.6
Fixed capital formation, % of GDP	17.9	18.0	18.0	18.3	18.5	18.6	18.7	18.5	18.4	18.4	18.5
Population, mn	195.88	200.96	206.15	211.45	216.84	222.35	227.96	233.69	239.54	245.49	251.57
Consumer price inflation, % y-o-y, ave	12.2	13.4	14.2	10.5	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Lending rate, %, ave	21.4	19.3	19.3	19.5	16.2	13.0	12.0	12.3	12.5	12.1	12.0
Central bank policy rate, % eop	14.00	14.00	14.00	11.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Exchange rate NGN/USD, ave	305.03	307.50	340.00	377.50	392.50	410.00	432.00	452.00	467.50	482.50	497.50
Exchange rate NGN/EUR, ave	366.11	367.46	413.10	466.21	486.70	512.50	540.00	565.00	584.38	603.13	621.88
Budget balance, USDbn	-13.7	-15.7	-16.3	-15.6	-17.9	-20.0	-21.2	-22.6	-24.4	-26.5	-28.8
Budget balance, % of GDP	-3.3	-3.2	-3.2	-3.0	-3.2	-3.3	-3.3	-3.2	-3.1	-3.1	-3.1
Goods and services exports, USDbn	62.7	68.8	75.2	77.1	81.8	87.9	88.7	89.0	87.1	85.5	84.1
Goods and services imports, USDbn	61.7	70.9	77.1	84.0	91.4	98.0	104.3	111.1	118.3	126.0	134.2
Balance of trade in goods and services, USDbn	1.0	-2.1	-1.9	-6.8	-9.7	-10.1	-15.6	-22.1	-31.2	-40.5	-50.1
Balance of trade in goods and services, % of GDP	0.2	-0.4	-0.4	-1.3	-1.7	-1.7	-2.4	-3.1	-4.0	-4.7	-5.4
Current account balance, USDbn	15.5	12.6	13.1	9.2	7.1	8.2	5.1	1.2	-4.8	-10.9	-17.3
Current account balance, % of GDP	3.7	2.6	2.6	1.8	1.3	1.4	0.8	0.2	-0.6	-1.3	-1.9
Foreign reserves ex gold, USDbn	43.1	43.5	43.9	44.4	45.2	46.2	47.1	48.0	49.0	50.0	51.0
Import cover, months	8.4	7.4	6.8	6.3	5.9	5.7	5.4	5.2	5.0	4.8	4.6

e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

Household Income Forecasts

HOUSEHOLD INCOME DATA (NIGERIA 2017-2023)

Indicator	2017e	2018e	2019f	2020f	2021f	2022f	2023f
Households, number	54,538,946	56,775,431	59,106,593	61,354,970	63,688,756	65,910,071	68,414,883
Households, % y-o-y	4.7	4.1	4.1	3.8	3.8	3.5	3.8
Average working adults per household	1.9	1.8	1.8	1.8	1.8	1.8	1.8
Gross Income, per household, NGN	1,094,817.56	1,215,946.35	1,363,093.62	1,549,125.83	1,714,614.82	1,874,370.90	2,055,387.71
Gross Income, per household, USD	3,589.27	3,986.38	4,469.16	4,590.00	4,542.03	4,775.47	5,013.14
Gross Income, per capita, NGN	530,584.9	592,051.3	666,720.7	761,122.1	845,098.9	926,166.5	1,018,022.9
Gross Income, per capita, USD	1,739.48	1,940.99	2,185.97	2,255.18	2,238.67	2,359.66	2,482.98
Disposable Income, per household, NGN	930,594.92	1,033,554.39	1,158,629.58	1,316,756.96	1,457,422.60	1,593,215.27	1,747,079.55
Disposable Income, per household, USD	3,050.9	3,388.4	3,798.8	3,901.5	3,860.7	4,059.1	4,261.2
Disposable Income, per capita, NGN	450,997.20	503,243.62	566,712.58	646,953.76	718,334.05	787,241.55	865,319.44
Disposable Income, per capita, USD	1,478.6	1,649.8	1,858.1	1,916.9	1,902.9	2,005.7	2,110.5
Tax and social contributions, % of gross income	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Tax and social contributions, per capita, NGN	79,587.74	88,807.70	100,008.10	114,168.31	126,764.83	138,924.98	152,703.43
Tax and social contributions, per capita, USD	260.9	291.1	327.9	338.3	335.8	353.9	372.4
Households '000 earning USD5,000+	6,609.5	8,782.3	11,849.1	13,045.9	13,220.5	15,303.5	17,683.3
Households '000 earning USD10,000+	1,107.5	1,490.6	2,064.8	2,256.6	2,228.5	2,593.3	3,019.5
Households earning USD5,000+, % total	12.1	15.5	20.0	21.3	20.8	23.2	25.8
Households earning USD10,000+, % total	2.0	2.6	3.5	3.7	3.5	3.9	4.4

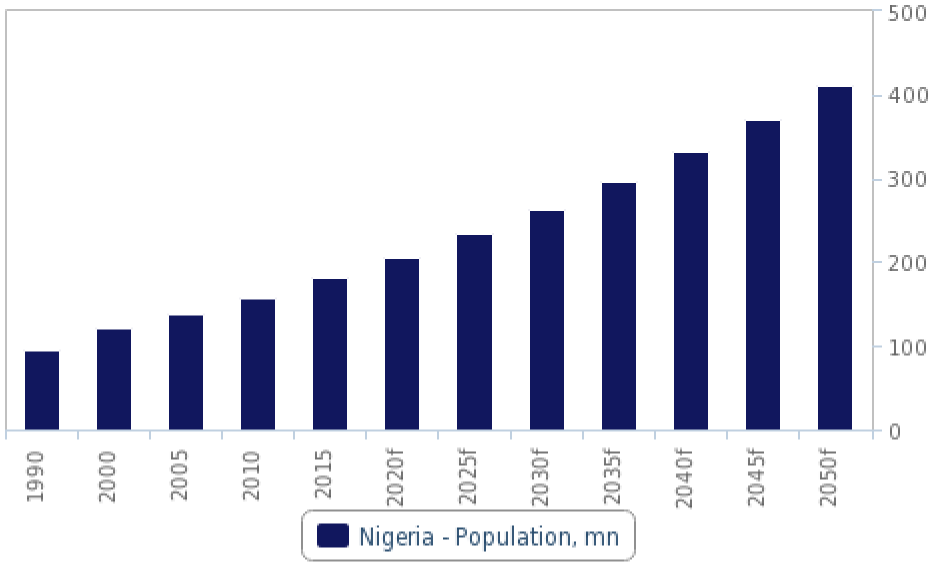
e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

Nigeria Demographic Outlook

Demographic analysis is a key pillar of our macroeconomic and industry forecasting model. Not only is the total population of a country a key variable in consumer demand, but an understanding of the demographic profile is essential to understanding issues ranging from future population trends to productivity growth and government spending requirements.

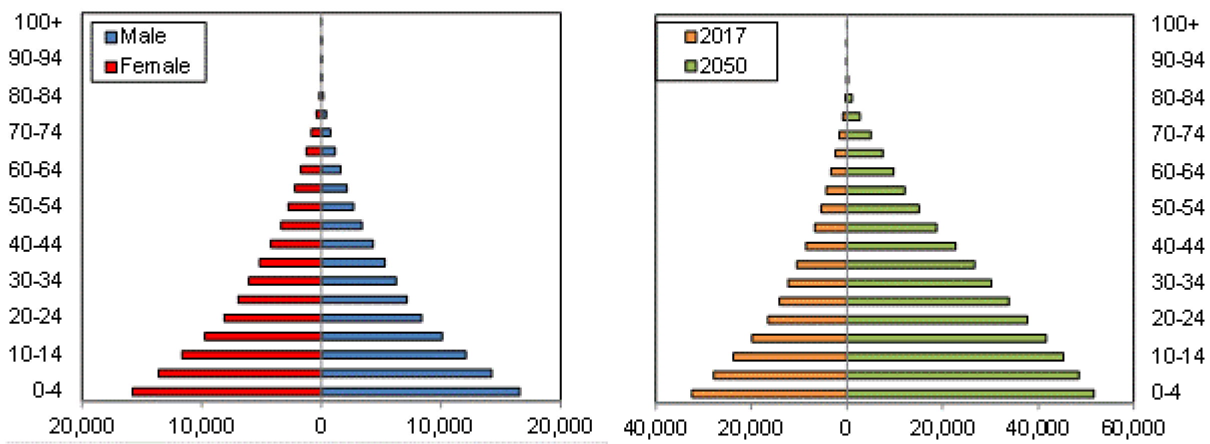
The accompanying charts detail the population pyramid for 2017, the change in the structure of the population between 2017 and 2050 and the total population between 1990 and 2050. The tables show indicators from all of these charts, in addition to key metrics such as population ratios, the urban/rural split and life expectancy.

Population
(1990-2050)



f = Fitch Solutions forecast. Source: World Bank, UN, Fitch Solutions

Nigeria Population Pyramid
2017 (LHS) & 2017 Versus 2050 (RHS)



Source: World Bank, UN, Fitch Solutions

POPULATION HEADLINE INDICATORS (NIGERIA 1990-2025)

Indicator	1990	2000	2005	2010	2015	2020f	2025f
Population, total, '000	95,270.0	122,352.0	138,939.5	158,578.3	181,181.7	206,152.7	233,691.9
Population, % y-o-y		2.53	2.62	2.70	2.68	2.58	2.51
Population, total, male, '000	47,928.9	61,684.9	70,160.0	80,204.2	91,768.7	104,524.8	118,562.9
Population, total, female, '000	47,341.1	60,667.1	68,779.5	78,374.1	89,413.0	101,627.9	115,128.9
Population ratio, male/female	1.01	1.02	1.02	1.02	1.03	1.03	1.03

na = not available; f = Fitch Solutions forecast. Source: World Bank, UN, Fitch Solutions

KEY POPULATION RATIOS (NIGERIA 1990-2025)

Indicator	1990	2000	2005	2010	2015	2020f	2025f
Active population, total, '000	49,681.5	65,560.5	74,459.2	84,414.5	96,296.0	110,907.5	128,253.5
Active population, % of total population	52.1	53.6	53.6	53.2	53.1	53.8	54.9
Dependent population, total, '000	45,588.5	56,791.6	64,480.3	74,163.8	84,885.7	95,245.2	105,438.4
Dependent ratio, % of total working age	91.8	86.6	86.6	87.9	88.2	85.9	82.2
Youth population, total, '000	42,845.6	53,347.3	60,672.2	69,822.7	79,928.3	89,595.2	98,881.2
Youth population, % of total working age	86.2	81.4	81.5	82.7	83.0	80.8	77.1
Pensionable population, '000	2,742.9	3,444.2	3,808.1	4,341.0	4,957.5	5,650.0	6,557.2
Pensionable population, % of total working age	5.5	5.3	5.1	5.1	5.1	5.1	5.1

na = not available; f = Fitch Solutions forecast. Source: World Bank, UN, Fitch Solutions

URBAN/RURAL POPULATION & LIFE EXPECTANCY (NIGERIA 1990-2025)

Indicator	1990	2000	2005	2010	2015	2020f	2025f
Urban population, '000	28,276.1	42,627.4	54,289.2	68,949.8	86,561.4	106,638.7	129,131.1
Urban population, % of total	29.7	34.8	39.1	43.5	47.8	51.7	55.3
Rural population, '000	66,993.9	79,724.6	84,650.3	89,628.4	94,620.4	99,514.0	104,560.8
Rural population, % of total	70.3	65.2	60.9	56.5	52.2	48.3	44.7
Life expectancy at birth, male, years	44.7	45.4	47.5	50.1	52.2	54.4	56.4
Life expectancy at birth, female, years	47.2	47.2	49.0	51.6	53.8	56.1	58.4
Life expectancy at birth, average, years	45.9	46.3	48.2	50.8	53.0	55.2	57.4

na = not available; f = Fitch Solutions forecast. Source: World Bank, UN, Fitch Solutions

POPULATION BY AGE GROUP (NIGERIA 1990-2025)

Indicator	1990	2000	2005	2010	2015	2020f	2025f
Population, 0-4 yrs, total, '000	16,808.7	21,083.5	24,325.6	27,699.3	31,109.2	33,914.2	36,830.0
Population, 5-9 yrs, total, '000	14,066.1	17,217.6	19,698.2	23,021.7	26,417.7	29,887.1	32,768.2
Population, 10-14 yrs, total, '000	11,970.9	15,046.2	16,648.3	19,101.7	22,401.4	25,793.9	29,283.0
Population, 15-19 yrs, total, '000	9,873.7	13,315.5	14,628.9	16,213.2	18,648.9	21,923.3	25,319.8
Population, 20-24 yrs, total, '000	7,995.2	11,266.8	12,810.6	14,102.2	15,671.5	18,076.4	21,341.5
Population, 25-29 yrs, total, '000	6,722.1	9,154.2	10,783.6	12,292.0	13,565.3	15,115.8	17,517.4
Population, 30-34 yrs, total, '000	5,653.0	7,356.3	8,739.2	10,319.2	11,795.2	13,052.3	14,612.2
Population, 35-39 yrs, total, '000	4,723.9	6,158.7	7,006.5	8,345.9	9,884.0	11,331.0	12,595.7
Population, 40-44 yrs, total, '000	4,126.6	5,142.6	5,839.0	6,665.1	7,964.6	9,463.4	10,898.2
Population, 45-49 yrs, total, '000	3,535.2	4,246.9	4,840.7	5,516.4	6,319.8	7,580.9	9,049.1

Indicator	1990	2000	2005	2010	2015	2020f	2025f
Population, 50-54 yrs, total, '000	2,903.3	3,631.8	3,941.1	4,511.8	5,165.1	5,945.6	7,166.7
Population, 55-59 yrs, total, '000	2,329.1	2,993.9	3,285.5	3,587.2	4,131.1	4,759.0	5,508.1
Population, 60-64 yrs, total, '000	1,819.4	2,293.6	2,584.1	2,861.3	3,150.5	3,659.8	4,244.8
Population, 65-69 yrs, total, '000	1,318.1	1,628.7	1,826.3	2,085.7	2,336.5	2,605.0	3,053.3
Population, 70-74 yrs, total, '000	829.6	1,037.9	1,136.6	1,300.4	1,508.6	1,719.0	1,940.3
Population, 75-79 yrs, total, '000	411.1	534.9	580.4	654.6	764.6	907.6	1,052.3
Population, 80-84 yrs, total, '000	147.6	194.6	211.9	239.6	277.1	333.4	405.5
Population, 85-89 yrs, total, '000	32.3	42.7	47.0	54.0	62.7	75.3	93.6
Population, 90-94 yrs, total, '000	3.9	5.1	5.4	6.4	7.5	9.1	11.4
Population, 95-99 yrs, total, '000	0.2	0.3	0.4	0.4	0.5	0.6	0.8
Population, 100+ yrs, total, '000	0.0	0.0	0.0	0.0	0.0	0.0	0.0

na = not available; f = Fitch Solutions forecast. Source: World Bank, UN, Fitch Solutions

POPULATION BY AGE GROUP % (NIGERIA 1990-2025)

Indicator	1990	2000	2005	2010	2015	2020f	2025f
Population, 0-4 yrs, % total	17.64	17.23	17.51	17.47	17.17	16.45	15.76
Population, 5-9 yrs, % total	14.76	14.07	14.18	14.52	14.58	14.50	14.02
Population, 10-14 yrs, % total	12.57	12.30	11.98	12.05	12.36	12.51	12.53
Population, 15-19 yrs, % total	10.36	10.88	10.53	10.22	10.29	10.63	10.83
Population, 20-24 yrs, % total	8.39	9.21	9.22	8.89	8.65	8.77	9.13
Population, 25-29 yrs, % total	7.06	7.48	7.76	7.75	7.49	7.33	7.50
Population, 30-34 yrs, % total	5.93	6.01	6.29	6.51	6.51	6.33	6.25
Population, 35-39 yrs, % total	4.96	5.03	5.04	5.26	5.46	5.50	5.39
Population, 40-44 yrs, % total	4.33	4.20	4.20	4.20	4.40	4.59	4.66
Population, 45-49 yrs, % total	3.71	3.47	3.48	3.48	3.49	3.68	3.87
Population, 50-54 yrs, % total	3.05	2.97	2.84	2.85	2.85	2.88	3.07
Population, 55-59 yrs, % total	2.44	2.45	2.36	2.26	2.28	2.31	2.36
Population, 60-64 yrs, % total	1.91	1.87	1.86	1.80	1.74	1.78	1.82
Population, 65-69 yrs, % total	1.38	1.33	1.31	1.32	1.29	1.26	1.31
Population, 70-74 yrs, % total	0.87	0.85	0.82	0.82	0.83	0.83	0.83
Population, 75-79 yrs, % total	0.43	0.44	0.42	0.41	0.42	0.44	0.45
Population, 80-84 yrs, % total	0.15	0.16	0.15	0.15	0.15	0.16	0.17
Population, 85-89 yrs, % total	0.03	0.03	0.03	0.03	0.03	0.04	0.04
Population, 90-94 yrs, % total	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Population, 95-99 yrs, % total	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Population, 100+ yrs, % total	0.00	0.00	0.00	0.00	0.00	0.00	0.00

na = not available; f = Fitch Solutions forecast. Source: World Bank, UN, Fitch Solutions

Banking & Financial Services Methodology

Industry Forecast Methodology

Our industry forecasts are generated using the best-practice techniques of time-series modelling and causal/econometric modelling. The precise form of model we use varies from industry to industry, in each case being determined, as per standard practice, by the prevailing features of the industry data being examined.

Common to our analysis of every industry is the use of vector autoregressions, which allow us to forecast a variable using more than the variable's own history as explanatory information. For example, when forecasting oil prices, we can include information about oil consumption, supply and capacity.

When forecasting for some of our industry sub-component variables, however, using a variable's own history is often the most desirable method of analysis. Such single-variable analysis is called univariate modelling. We use the most common and versatile form of univariate models: the autoregressive moving average model (ARMA).

In some cases, ARMA techniques are inappropriate because there is insufficient historic data or data quality is poor. In such cases, we use either traditional decomposition methods or smoothing methods as a basis for analysis and forecasting.

We mainly use OLS estimators, and, in order to avoid relying on subjective views and encourage the use of objective views, we use a 'general-to-specific' method. We mainly use a linear model, but simple non-linear models, such as the log-linear model, are used when necessary. During periods of 'industry shock', for example poor weather conditions impeding agricultural output, dummy variables are used to determine the level of impact.

Effective forecasting depends on appropriately selected regression models. We select the best model according to various different criteria and tests, including but not exclusive to:

- R2 tests explanatory power; adjusted R2 takes degree of freedom into account;
- Testing the directional movement and magnitude of coefficients;
- Hypothesis testing to ensure coefficients are significant (normally t-test and/or P-value); and
- All results are assessed to alleviate issues related to auto-correlation and multi-collinearity.

Human intervention plays a necessary and desirable role in all of our industry forecasting. Experience, expertise and knowledge of industry data and trends ensure analysts spot structural breaks, anomalous data, turning points and seasonal features where a purely mechanical forecasting process would not.

Sector-Specific Methodology

Our Banking & Financial Services Report series is closely integrated with our analysis of country risk, macroeconomic trends and financial markets. The reports draw heavily on our extensive economic dataset, which includes up to 550 indicators per country, as well as our in-depth view of each local market. We collate our banking databanks from official sources (including central banks and regulators) wherever possible, and only fall back on secondary sources where all attempts to secure primary data have failed. Company data is sourced, in the first instance, from company reports, with central bank, regulator or trade association data only used as a backup.

- The banking forecast scenario focuses on total assets, client loans and client deposits.
- Total assets are analogous to the combined balance sheet assets of all commercial banks in a particular country. They do not

incorporate the balance sheet of the central bank of the country in question.
- Client loans are loans to non-bank clients. They include loans to public sector and state-owned enterprises. However, they generally do not include loans to governments, government (or non-government) bonds held or loans to central banks.
- Client deposits are deposits from the non-bank public. They generally include deposits from public sector and state-owned enterprises. However, they only include government deposits if these are significant.
- We take into account capital items and bond portfolios. The former include shareholders funds, and subordinated debt that may be counted as capital. The latter includes government and non-government bonds.

In quantifying the collective balance sheets of a particular country, we assume that three equations hold true:

- Total assets = total liabilities and capital;
- Total assets = client loans + bond portfolio + other assets;
- Total liabilities and capital = capital items + client deposits + other liabilities.

In terms of the equations, other assets and other liabilities are balancing items that ensure equations two and three can be reconciled with equation one. In practice, other assets and other liabilities are analogous to inter-bank transactions. In some cases, such transactions are generally with foreign banks.

In most countries for which we have compiled figures, building societies/thrifts are an insignificant part of the banking landscape, and we do not include them in our figures. The US is the main exception to this.

In some cases, total assets and client loans include significant amounts that are owned or that have been lent to customers in another country. In some cases, client deposits include significant amounts that have been deposited by residents of another country. Such cross-border business is particularly important in major financial centres such as Singapore and Hong Kong, the richer OECD countries and certain countries in Central and Eastern Europe.

Fitch Solutions, 30 North Colonnade, Canary Wharf, London. E14 5GN, UK

Tel: +44 (0)20 7248 0468

Fax: +44 (0)20 7248 0467

Web: www.fitchsolutions.com

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