

Unity Bank Digest

February 8th, 2017



THE HIGHLIGHTS

Fitch Revises Nigeria's rating Outlook to Negative

- Fitch has revised its outlook for Nigeria from stable to negative. This applies to its Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) which have been affirmed at 'B+'. This revision is potentially harmful to Nigeria, which is looking to roll out its international borrowing program.

Nigeria to Issue \$300 million Diaspora Bond

- The Federal Government has announced plans to issue a \$300mn Diaspora bond by June 2017. The bond is expected to have a maturity of five to seven years. Goldman Sachs and Stanbic IBTC have been named as financial advisers for the bond. The success of the Diaspora bond will ride on the strong ties between nationals abroad and the domestic community.

Forcados Pipeline to Reopen

- Nigeria's Trans Forcados pipeline is on track to restart operations by Q2'17-end. The militant attack on the pipeline early last year, cost Nigeria an estimated \$3bn from February – September. Given, the rise in oil prices, this loss is estimated to reach \$7.5bn by Q2'2017. The re-opening of the terminal holds huge gains for the government and Nigerian upstream players such as Seplat, Shoreline IOCs, with regards to increased revenue and forex earnings.

Apple Returns to Growth

- Apple recorded total revenues of \$78.4 billion in the quarter ending December 2016, exceeding market and in-house predictions. This is 3% higher than Q4'15 figures, and the company's strongest ever quarterly sales.



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TOP STORIES

Fitch Revises Nigeria's Rating Outlook to Negative

- Fitch has revised its outlook for Nigeria from stable to negative. This applies to its Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) which has been affirmed at 'B+'.
- According to Fitch, limited government revenue poses a risk to debt sustainability. Government debt currently stands at 17% of GDP and 281% of revenue.
- Fitch expects Nigeria to record a full year growth of 1.5% in 2017. Although this is well below the 2011-15 average growth rate of 4.8%, it's a marginal recovery from the estimated growth of -1.5% in 2016. This growth is hinged on increased oil revenues as a result of a higher oil price and improved security situation in the Niger-Delta.
- Fitch projects a rise in Nigeria's oil production to 2.2mbpd, and Brent oil price to average at \$45pb. Oil revenues are expected to reach 7.4% of GDP in 2017, compared to 6.2% in 2016. Meanwhile, growth in the non-oil economy is expected to be capped by forex shortages.
- Last year, the international ratings agency downgraded Nigeria's long-term foreign and local currency rating from BB- to B+. This was as a result of the fiscal and external vulnerabilities arising from oil production and price shocks, and delayed policy response.
- The ratings agency, which had downgraded the ratings of 10 Nigerian banks last November, also revised the outlook of Lagos state, from stable to negative. This revision is in line with Fitch's criteria that subnational ratings cannot be higher than their sovereign. A downgrade could be applied to the state's rating if operating downgrades decline towards 30% or if unfavourable changes in national tax are made. As Nigeria's commercial hub and highest revenue generating state, this raises questions about the health of other states. Of the 36 states, Lagos ranks 4th on the ease of starting a business index.

- Additionally, while Mexico's outlook was revised to negative, the credit ratings of Tunisia, El Salvador and Virgin Islands were downgraded.

Analysis & Outlook

- *A negative outlook is given to a country when there is a 50% chance of its rating being lowered in the next one to two years. In such a case, the economic picture is being threatened by existing trends that could continue.*
- *This revision is potentially harmful to Nigeria which is looking to raise funds via international debt. As it implies that the credit worthiness of the FG is deteriorating, it is a major blow to investor confidence. The government will have to pay higher yields to attract demand for its planned programs (Diaspora & Euro bonds).*

Nigeria to Issue \$300 million Diaspora Bond

- The Federal Government has announced plans to issue a \$300mn Diaspora bond by June 2017. The bond is expected to have a maturity of five to seven years. Goldman Sachs and Stanbic IBTC have been named as financial advisers for the bond.
- Meanwhile, plans to roll out the \$1 billion Eurobond are ongoing, under the management of Citi Group, Standard Chartered Bank and others. The government plans to inject these funds into infrastructure and capital development.

Analysis & Outlook

- *A Diaspora bond is government debt that is targeted at nationals abroad. Countries such as India and Israel have successfully raised funds through Diaspora bonds.*
- *Factors that go into its success include the structure of the bonds i.e. local of foreign currency denominated payments. Although, the latter will be more attractive to investors, it implies increased borrowing costs for the government, especially in light of the anticipated hike in Fed interest rates and the resulting appreciation of the dollar.*
- *Another consideration is the perception of the government, especially as regards to corruption and efficiency. Additionally, demand will be driven by Diaspora patriotism.*

- *Nigeria is the fifth-largest recipient of Diaspora remittances, which reached \$35 billion in 2016. The success of the Diaspora bond will ride on the strong ties between nationals abroad and the domestic community.*

Forcados Pipeline to Reopen

- Nigeria's Forcados pipeline is set to restart operations by Q2'17-end, according to a chief executive at Seplat, a petroleum development company.
- The pipeline was shut down for most of 2016, following attacks by the Niger Delta Avengers. Seplat, and other production companies who depended on the export pipeline for the transport of their oil, have had to divert to the Warri refinery. This channel is a more complicated and expensive.
- The underwater pipeline has a capacity of 400,000bpd, but exports an average of 200,000bpd – 9% of the oil production benchmark for the 2017 budget.

Analysis & Outlook

- *The militant attack on the Forcados Pipeline cost Nigeria an estimated \$3bn from February – September. Given, the rise in oil prices, this loss is estimated to reach \$7.5bn by Q2'2017.*
- *The re-opening of the terminal holds huge gains with regards to increased revenue and forex earnings. This will lead to accretion in the external reserves and give the CBN more room to support the naira.*
- *This is also good news to Independent Oil Companies (IOC) and upstream players, such as Seplat and Shell, who have been struggling with revenue losses.*
- *Risks include failure to combat militants or engage in constructive dialogue that would end in a peace deal, which might lead to a resurgence in pipeline vandalism.*

Monetary Policy Committee Maintains Status Quo for the Third Time in a Row.

- The Monetary Policy Committee (MPC) has retained the monetary policy rate (MPR) at 14%. The key interest rate has been kept at 14% since the committee first increased it in July 2016.
- The cash reserve ratio (CRR) and liquidity ratio were also kept stable at 22.5% and 30% respectively.

- The decision was made by a unanimous vote against the backdrop of rising inflation and economic contraction.

Analysis & Outlook

- *The decision to maintain rates is in line with earlier forecasts. Going forward, the CBN hinted that it is prepared to adopt an accommodative policy stance. Pending an easing of inflationary pressures and the persistent forex shortage, we expect the monetary authorities to lower rates and adopt a full liberalization of the forex market.*

FG to Introduce Luxury Tax Policy

- The Federal Executive Council (FEC) has approved a luxury tax policy that will raise VAT on selected luxury goods. The rate will be decided on by the National Assembly.

Analysis & Outlook

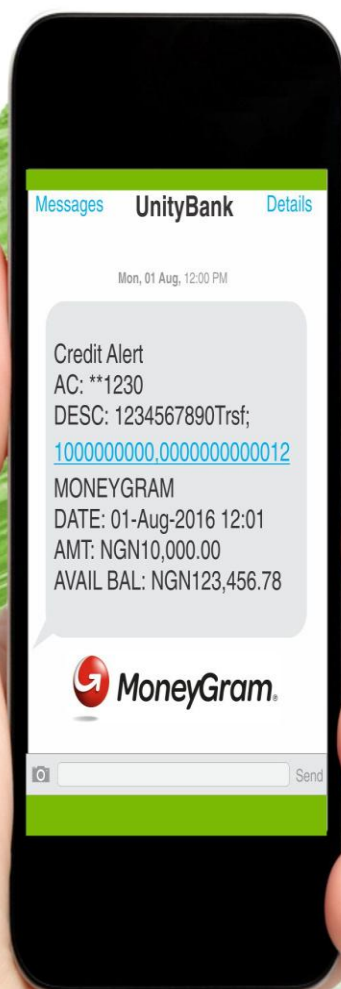
- *A luxury tax is an indirect tax placed on goods/services considered expensive and unnecessary. Luxury goods are positional goods i.e. demand arises due to the attached status, rather than the use-value of the goods themselves. Therefore, to an extent, they are inelastic.*
- *Currently, Nigeria has no luxury tax policy. However, a VAT of 5% is applicable to all goods/services, luxury or basic.*
- *An effective luxury tax policy has great potential to raise revenues for the government and diversify non-oil income streams. This has positive implications on fiscal spending and economic activity.*



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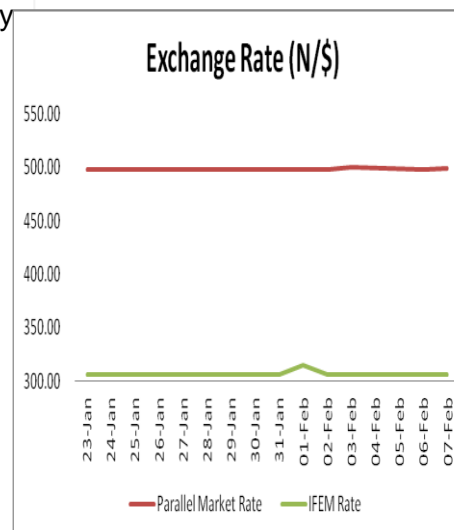
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BUSINESS UPDATE (Review Period: January 23rd – February 7th 2017)

The Forex Market

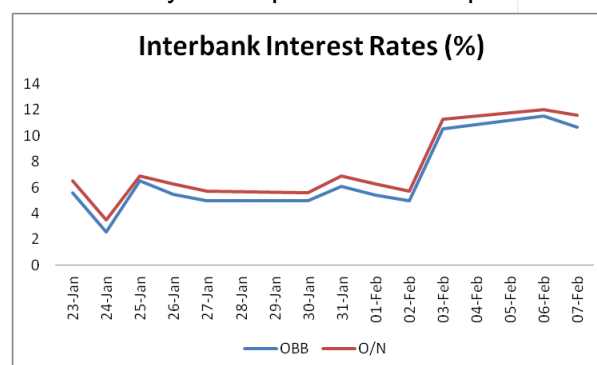
- At the parallel market, the naira:
 - Touched an all time low of N500/\$, before appreciating marginally to close at N499/\$ on February 6th
 - Depreciated by 2.45% against the pound to close at N612/£.
- At the interbank market, the naira stayed relatively flat at N305.75/\$.
- The rate of depreciation of the naira is appearing to be slowing down
 - Parallel market: N490-498/\$ for six consecutive weeks
 - IFEM: N305-307/\$ for 15 consecutive weeks
 - Possible indication that the exchange rate has bottomed out
- Nigeria's gross external reserves level increased by \$1.07 billion (3.9%) to \$28.51bn as at February 7th.
 - 13-month high; highest level since January 22nd 2016
 - Giving the CBN more room to support the naira



SOURCE: FDC Think Tank, FMDQ

The Money Market

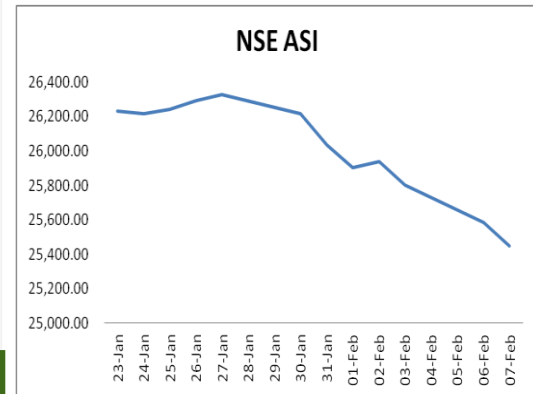
- Short-term interbank interest rates (OBB, O/N) increased by 509bps and 508bps respectively in the review period.
 - OBB closed at 10.67%
 - O/N closed at 11.58%
 - OMO auction of N391bn caused spike in rates.
- T-bills remain highly attractive
 - Minimal risk of default
 - High yield (91-day: 14.29%; 182-day: 18.87%)
 - Crowding out other fixed income retail products with less competitive rates
- International borrowing (Euro & Diaspora bond) will reduce the need for local borrowing
 - Pushing rates down to single digits by year-end



SOURCE: CBN, FDC Think Tank, FMDQ

The Stock Market

- The Nigerian Stock Exchange All Share Index (NSE ASI) declined by 2.9% during the review period to close at 25,446.66 on February 7th.
- Total market capitalization closed at N8.77trn on February 7th



SOURCE: NSE

The Commodities Market

- Brent crude prices stayed relatively flat at \$55.05pb as at February 7th
 - Prices have maintained momentum despite rising rig counts and burgeoning crude stock piles in the US. The number of active oil rigs has increased for 10 consecutive weeks.
 - Data from EIA showed that U.S shale output also increased by 1.82% to 8.94mb in January 2017.
 - The compliance level in the January 22nd meeting was estimated at 80% as collective cuts among OPEC and other producers outside the cartel reached 1.5mbpd
 - Saudi Arabia has reportedly reduced oil production to less than 10mbpd, below target levels. Kuwait and Algeria have also reduced output by more than expected
- Wheat prices closed at \$156.11/tonne, 1.8% lower compared to \$159.07/tonne in the review period
 - Export sales for the 2017/18 marketing year stood at 853,400 tons, much higher than previous forecasts - USDA reports
 - Production in Australia is estimated to reach a near record of 33million tons, while production in Argentina is expected to reach 15.5million tons
 - International Grains Council (IGC) estimated global wheat production at 752million tons, higher than previous estimate of 749million tons
- Corn price declined by 1.48% to \$145.60/tonne from \$147.80/tonne
 - Largely driven by ample global stocks and concerns over U.S President Trump's trade policy
 - Brazilian corn production for 2016/17 is estimated at 86.5million tons compared to 66.57million tons in 2015/16
- Natural gas fell by 3.91% to \$3.070/mmbtu from \$3.195/mmbtu
 - Decline largely driven by milder weather forecast in the U.S
- Sugar prices rose by 4.07% to \$0.2123/pound
 - Increase due to severe droughts in the 2nd largest growing country – India
 - Brazil's centre-south region produced 35,000 tonnes of sugar in the first half of January, down from 127,000 tonnes in the second half of December
- Cocoa prices declined by 4.35% to \$2,047mt from \$2,140/mt on January 23rd.
 - Lower than expected cocoa processing in North America and Europe despite strong figures in Asia
 - Grinding data figure in the U.S fell to a 4 ½ year low by 1.1% to 117,588 y-o-y, grinding in Europe also down 0.89% to 339,379mt according to EU cocoa association



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SOCIAL CORNER

Apple Returns to Growth

- Apple recorded total revenues of \$78.4 billion in the quarter ending December 2016, exceeding market and in-house predictions. This is 3% higher than Q4'15 figures, and the company's strongest ever quarterly sales.
- Hit by cheaper rivals, Apple had recorded falling sales and shrinking revenues in the first three quarters of 2016. This Q4 growth is mainly attributed to a bounce back of sales, in North America, Western Europe and Japan. Apple recorded a sale of 78.3 million iPhones in Q4, compared to 74.8 million in Q3.
- Meanwhile, services, such as App store, Apple Music and iCloud, were the fastest growing segment of the technology company. December 2016 was the most profitable month on record for the App store, which raked in \$3 billion in purchases. Total service revenue in Q4'16 stood at \$7.1 billion, 18% higher than Q4'15. Apple expects its service business to have doubled by 2021.
- Still, the world's most valuable company maintains a modest outlook for Q1'2017, citing the strength of the dollar which could hurt sales in foreign markets.



The Nigerian climate is not Apple inclined and as such new developments in the company and its product space are likely to have limited impact on the domestic consumer goods scene.

A stronger dollar would increase the cost of apple products for Nigerian buyers. This comes in addition to the rising costs from exchange rate woes. Therefore, it is anticipated that the demand for Apple products in Nigeria is likely to decline. Regardless, the Nigerian market is not a strong enough market to dent the Apple revenue portfolio.

What Next for WhatsApp?

- WhatsApp is working on a feature that lets users track their family, friends and acquaintances in real time
- This feature will first be available on WhatsApp's beta version for iOS and Android, but will be disabled by default. Users can activate the feature for as little as one minute, to share their current location with others.
- Additionally, the new update will allow users to delete or edit messages, even after they have been sent.
- Despite the presence of strong competition, the tech company continues to evolve with consumers' needs and wants. WhatsApp has over 1 billion users in 180 countries.



This is good news for the Nigerian consumer in that his/her needs are wants are converging with the company's initiatives. The downside of the tracking feature, if not utilized properly, is that it poses a security and safety risk.

Corporates React to Trump's Executive Orders

- President Trump has issued an executive order imposing a 90-day ban on inbound travel from citizens of seven terrorist-prone countries. Affected countries include Iraq, Syria, Somalia, Yemen, Iran, Libya
- In response, Microsoft announced that it will be providing legal assistance to its employees. Airbnb has offered free housing to refugees and others who will not be able to enter the U.S. because of the ban.
- Lyft, a transportation company, has also committed to donate \$1 million to American Civil Liberties Union (ACLU). ACLU's mission is to defend and preserve individual rights. The company also ran a \$24 million anti-Trump campaign during the U.S. elections.



- Meanwhile, its rival, Uber experienced backlash in the early moments after the ban. A union representing taxi drivers had issued a statement refusing to pick up passengers from Kennedy Airport, in protest of Trump's order. The unavailability of uber drivers usually leads to surge pricing, a function that increases cost of a ride during peak periods. Thus, Uber's tweet which announced that it would be turning off all surge pricing in the area was interpreted as intending to counteract the effect of the protest. This led to the hashtag #DeleteUber. The company has since issued a public apology and revealed its \$3 million fund which it had earlier set up for drivers affected by the immigration ban.
- Others, including Apple and Adobe have expressed concern over the new order and emphasized the role immigrants played in the establishment of the companies.
- Additionally, Trump's order calls for a review of the Visa Interview Waiver Program which allows travelers to renew visas without a physical interview. He has also ordered a 120-day suspension of the U.S. refugee program.
- Trump has also issued an order to begin withdrawal from the Trans-Pacific Partnership trade deal. He has directed the Secretary of Defense to draft a plan to defeat ISIS and issued a memorandum to restructure of the National Security Council and the Homeland Security Council.

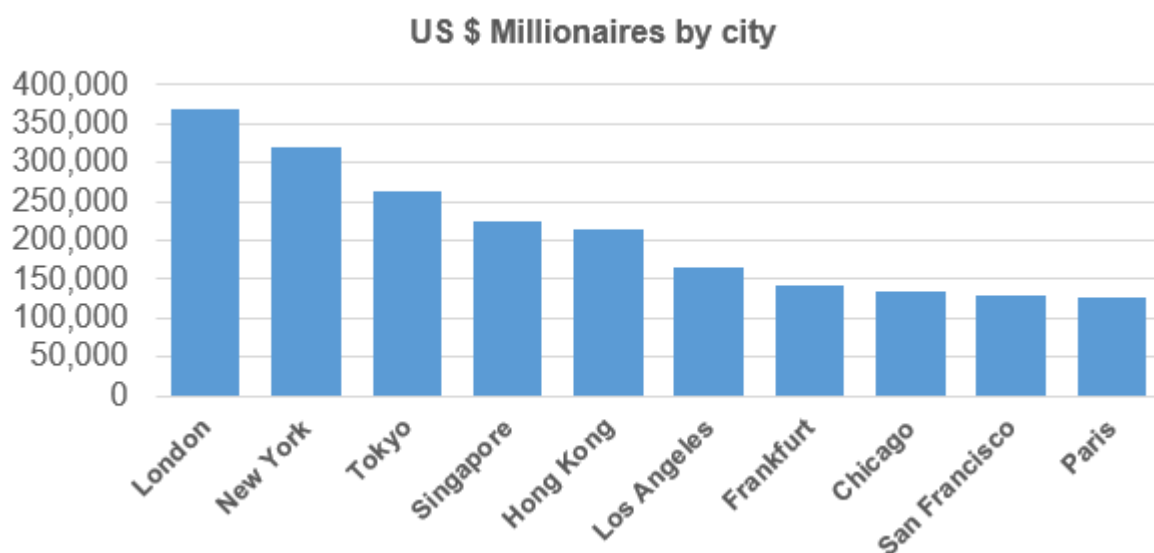


Nigerians will be affected by a stricter U.S. immigration process. Those who have recently visited the seven-terrorist-prone areas might be subject to extra immigration scrutiny. Additionally, the possible suspension of the Visa Waiver Program will mean longer queues at visa embassy.

LIFESTYLE

LUXURY TRAVEL & TOURISM- CULLED FROM 'VISITBRITAIN.ORG'¹

There are 15.4 million High Net Worth Individuals (HNWI) worldwide and they are of growing interest to international tourism destinations as their appetite for luxury travel translates into increased visitor spend and, thereby, economic growth.



Source: Knight Frank, 2015

High spending visitors in the UK

The vast majority of the 36.1 million visits by overseas residents that the UK welcomed during 2015 will have been by those on 'average' incomes, but it is interesting to examine which source markets generate the highest spend per visit and the highest spend per night.

It makes sense to look at both these metrics as some markets may display a high spend per visit but this is thanks to an above average length of stay or an atypical journey purpose distribution.

¹ Available at <<https://www.visitbritain.org/luxury>>

Table 1 below covers the top seven markets in terms of spend per visit during 2015 while Table 2 deals with spend per night high fliers.

Both tables feature several Gulf countries, with Saudi Arabia in first place as both the country spending the most on average per visit (£3,769) and also per night (£206). This is well above the average for 2015 of £611 per visit and £81 per night. Kuwait, China, Qatar and Singapore feature in both lists, due to their high standard of living, especially amongst international travelers. Pakistan and Nigeria both have high average spend per visit, but not per night and this is due to a high average night per visit in both cases. For Pakistan the average number of nights per visit is 38, well above the average of 8, and for Nigeria it is 22, which in both cases inflates the overall spend per visit.

Table 1: Average spend per visit

Market	Spend per visit
Saudi Arabia	£3,769
Kuwait	£2,898
China	£2,174
Qatar	£2,148
Pakistan	£2,078
Nigeria	£1,626
Singapore	£1,523

Table 2: Average spend per night

Market	Spend per night
Saudi Arabia	£206
Singapore	£169
Israel	£167
Kuwait	£160
Qatar	£155
China	£149
Luxembourg	£134

Only countries with a base size larger than 100 have been included

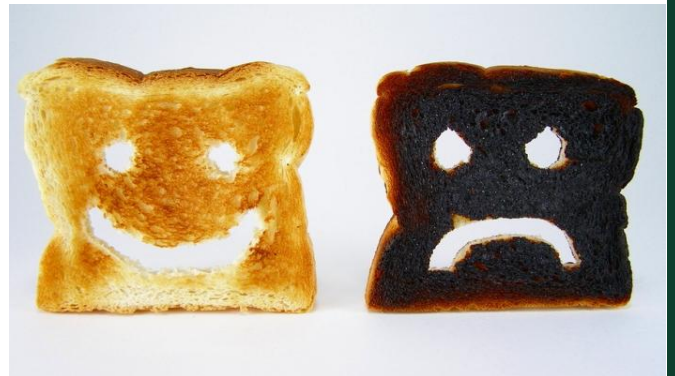
Our research tells us that to appeal to the luxury market, Britain needs to offer a cocktail mix of traditional luxury and modernity. A luxury holiday is all about status and reward so whilst it needs to be expensive to give it credibility, value is crucial.

CAN BURNT TOAST AND ROASTED POTATOES CAUSE CANCER? - CULLED FROM CNN.COM²

The Food Standards Agency in the UK launched a campaign Monday to warn about cancer risks linked to eating burnt toast, over-roasted potatoes and other starchy foods cooked at high temperatures.

The campaign is based on longstanding evidence from animal studies in 2002, but the link is yet to be proved in human studies. Some experts are highlighting that other lifestyle factors pose much greater cancer risks, such as smoking and obesity.

What exactly is the problem with these overcooked starchy foods? Earlier mouse studies identified that high levels of a compound called acrylamide led to an increased risk of cancer.



Acrylamide is what makes bread and potatoes turn golden in color when fried, baked, toasted or roasted. The compound is formed from simple sugars, such as glucose, reacting with an amino acid, known as asparagine, when these foods are cooked at temperatures above 120 degrees Celsius. Asparagine is found naturally in starchy foods.

If cooked for too long, these foods turn from golden to brown and eventually black. As they do, they produce higher levels of acrylamide, further increasing your cancer risk, as highlighted by the FSA campaign, called "Go for Gold."

The campaign asks people to keep their food golden and not let it cook to those darker colors.

The aim is to increase awareness among the public. Although the research is not new, the agency believes that people remain unaware.

"Our research indicates that the majority of people are not aware that acrylamide exists, or that they might be able to reduce their personal intake," Steve Wearne,

² Available at <http://edition.cnn.com/2017/01/23/health/burnt-toast-cancer-risk-roast-potatoes-acrylamide-bn/index.html?iid=ob_article_footer_expansion>

director of policy at the Food Standards Agency, said in a statement. The government body analyzes and shows current research in food safety, nutrition and food-related disease of importance to public health.

Wearne added that his agency wants to "highlight the issue so that consumers know how to make the small changes that may reduce their acrylamide consumption whilst still eating plenty of starchy carbohydrates and vegetables as recommended in government healthy eating advice."

The advice given in the campaign is to:

- Aim for a yellow or golden brown color when frying, roasting or baking food.
- Follow cooking instructions on food packages to avoid overcooking.
- Eat a balanced diet.
- Avoid keeping potatoes in the fridge before cooking them, as this can further increase acrylamide levels.



How big is the cancer risk?

Evidence of cancer risk has not been proved in humans, but experts point out that this data may never become available, as teams cannot readily expose people to acrylamide to test the outcome.

"No one will willingly eat acrylamide ... (but) because it's carcinogenic in animals, it would be carcinogenic in humans," said Donald Mottram, emeritus professor of food chemistry at the University of Reading in the UK.

Mottram's team first identified how acrylamide was made in food when the links to cancer first emerged in 2002.

"(The FSA) have given this advice before, but not quite so clearly defined," he said, highlighting the third point included: to eat a balanced diet. The US Food and Drug Administration has also provided advice for some years on how best to reduce acrylamide exposure in your diet.

Boiling the foods brings no risk, as acrylamide is not formed, said Mottram.

"I still eat crisps and fries ... but what we want to do is prepare these foods so the risks are minimized," Mottram said. "Color is a good guide. It's the only guide you have in your home."

Nigel Halford, professor of plant genetics at Rothamsted Research in the UK, agrees.

"They're not saying don't eat roast potatoes or don't eat bread, but instead that people can do fairly simple things to reduce their exposure," Halford said. "It does make quite a difference."

Halford is developing new forms of potatoes with reduced levels of sugars and asparagine to limit their ability to produce acrylamide. "We're looking at ways to reduce the precursors," he said.



But rather than relying on these changes, Halford recommends following the FSA advice. "Consumers get weary of this advice, and you've seen the kick-back today," he said. "But they're just saying to cook to a lighter color."

Cancer Research UK commented that while recognizing the risk associated with over-browning these foods, people should remember that other lifestyle-related factors have a bigger impact on cancer risk.

"To be on the safe side, people can reduce their exposure by following a normal healthy, balanced diet -- which includes eating fewer high-calorie foods like crisps, chips and biscuits, which are the major sources of acrylamide," said Emma Shields, Cancer Research UK's health information officer.

"It's also important to remember that there are many well-established risk factors like smoking, obesity and alcohol, which all have a big impact on the number of cancer cases in the UK."

CONTACT INFORMATION

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