FINANCIAL CONDITION AND PERFORMANCE OF INSURED BANKS IN THIRD AND FOURTH QUARTERS OF 2015 BY

RESEARCH POLICY & INTERNATIONAL RELATIONS AND INSURANCE

AND SURVELLANCE DEPARTMENTS

1.0 INTRODUCTION

The last two quarters of 2015 witnessed a decline of economic activities in the domestic economy. This is mainly as a result of the decline in crude oil globally. Nigeria being a country that is mainly dependent on oil for revenue was therefore affected resulting in revenue shortfalls and also decline in the banking industry's profitability.

Despite the above, the Nigerian banking industry witnessed a mixed performance as some of the relevant financial indices of the Banking industry appreciated while others decreased.

During the last two quarters of 2015, total assets of the banking sector increased by 0.74% from ₦26.764 trillion as at 30th September 2015 to ₦26.962 trillion as at 31st December 2015. This increment was mainly as a result of the increase in balances with banks and Central Bank, Net Loans and Advances/Leases to customers, property plants and equipment, and investment securities.

During the periods under review, Loans and Advances to customers which have the highest contribution of the total asset increased to ₦12.114 trillion in December 2015 from ₦11.917 trillion in September 2015 .Balances with Banks and the Central Bank increased slightly by 0.81% from ₦5.631 trillion in September 2015 to ₦5.676 trillion in December 2015. Also, investment securities: available for sale increased by 14.58% from ₦2.495 trillion in September 2015 to ₦ 2.859 trillion in December 2015. Similarly, investment securities: held to maturity increased by 7.46% from ₦ 2.137 trillion to ₦2.296 trillion in December 2015.

Asset quality of the banking industry declined slightly during the two quarters under review as the ratio of impaired credits to total credit deteriorated by 2.51% from 4.75% in September 2015 to 4.87% in December 2015.

The industry experienced a significant decline in profitability as profit-before-tax showed 24.95% decrease from N151, 662 billion as at September 2015 to N113, 827 billion as at December 215.

The Capital Adequacy Ratio reduced slightly as the Capital to Risk-Weighted Asset Ratio declined by 0.07% from 17.73% in September 2015 to 17.66% in December 2015 .However, during the two quarters under review, two (2) Deposit Money Banks out of twenty three (23) failed to meet the minimum prudential Capital Adequacy Ratio of 10%.

The banking industry liquidity ratio recorded some improvement from 53.30% in September 2015 to 54.52% in December 2015.

Apart from this introduction, the rest of this paper comprises of three sections. Section two presents the Structure of Assets and Liabilities; Section three assesses the financial condition of insured banks, while Section four concludes.

2.0 STRUCTURE OF ASSETS AND LIABILITIES

During the periods under review, the Total Assets of the industry increased by 0.74% from ₦26.764 trillion as at 30th September 2015 to ₦26.962 trillion as at 31st December 2015. The structure of industry total assets and liabilities at the end of the third and fourth quarters of 2015 are presented in Table 1 and Charts 1A and 1B.

TABLE 1

Structure of Banks' Assets and Liabilities for third and fourth quarters of 2015

Assets (%)	**December 2015**	**September 2015**	**Liabilities (%)**	**December 2015**	**September 2015**
Balances with banks and central bank	21.05	21.04	Deposits from customers	64.77	65.09
Loans and advances to customers	44.93	44.53	Deposits from banks	2.41	3.34
Investmentsecurities: available for sale	10.61	9.33	Shareholders fund	12.90	12.70
Property plant and equipment	3.02	2.89	Borrowings	8.02	6.44
Financial asset held for trading	1.96	2.47	Debt instrument	2.60	2.90
Other Assets	3.62	4.48	Other liabilities	9.24	9.46
Assets pledged as collateral	1.58	1.75	Financial liabilities held for trading	0.06	0.07
Investment in subsidiaries and associates	1.15	1.18	-	-	-
Others	12.08	12.33	-	-	-
Total	**100.00**	**100.00**	**Total**	**100.00**	**100.00**

Source: ISD, NDIC

NOTE: TOTAL ASSETS (N Trillion) December 2015 = ₦26.962 & September 2015 =₦26.764

Chart 1A: Structure of Banks' Assets for the 3rd and 4th Quarters of 2015

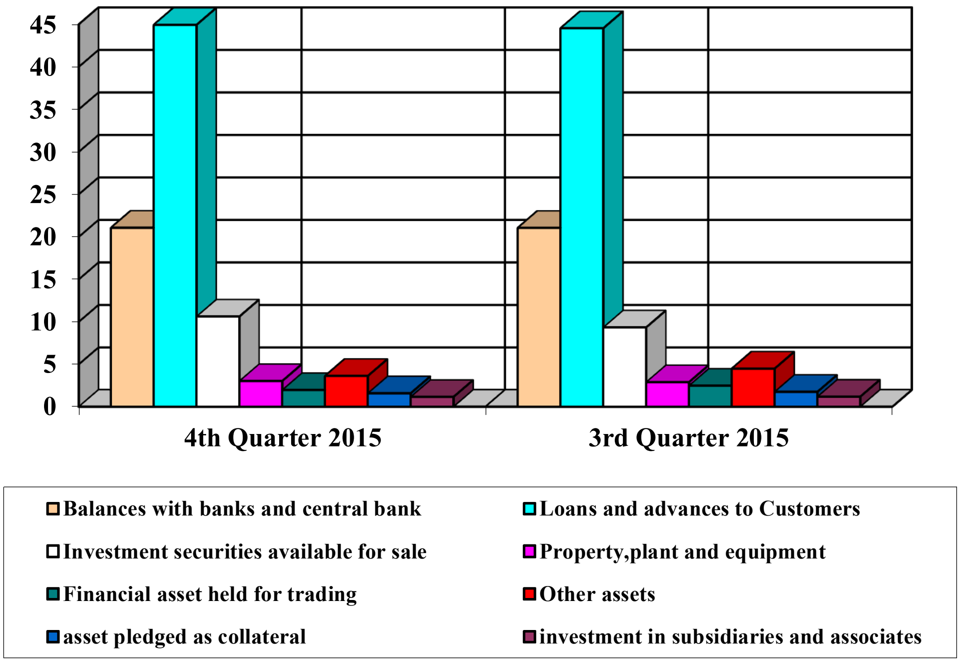
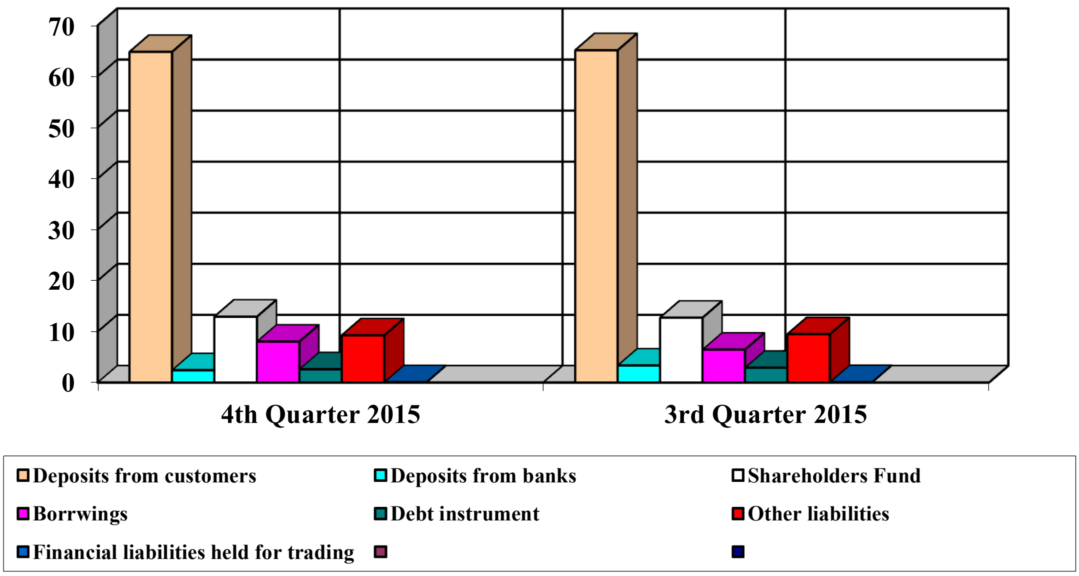


Chart 1A: Structure of Banks' Liabilities for the 3rd and 4th Quarters of 2015



The largest proportion of total assets during the periods under review was Loans and Advances to customers which its components accounted for 44.93% and 44.53% of the total assets of the Nigerian banking industry as at December and September 2015. In the second position was balances with banks and Central Bank which stood at 21.05% and 21.04% in the same period. While Investment Securities available for

sale followed suit with 10.61% and 9.33% respectively. For the other components of the industry's total assets; Loans and advances to banks was 1.77% as at December 31st 2015 and 2.23% as at September 30th 2015. While financial assets held for trading was 1.96% and 2.47% during the two quarters under review, also investment in subsidiaries and associates was 1.15% and 1.18%. And property, plant and equipment had a 0.13% increment from 2.89% in September to 3.02% in December 2015
On the Liabilities side of the Balance Sheet, deposits from customers has the highest percentage of the banking industry total liability with 64.77% and 65.09% during the period under review.

There was a marginal increase in shareholders fund from 12.70% in September to 12.90% in December 2015. Other liabilities accounted for 9.24% in December and 9.46% in September 2015. Borrowings were 8.02% in December and 6.44% in September 2015. While deposits from banks contributed 3.34% of the total liabilities in September 2015 and 2.41% in December 2015 respectively.

ASSESMENT OF THE FINANCIAL CONDITION OF INSURED BANKS

3.1 Asset Quality

The Banking Industry Total risk assets or total Credit marginally increased by 1.89%, rising from ₦13.082 trillion in September, 2015 to ₦13.329 trillion as at December 2015.

The quality of Assets of the Banking Industry which is measured by the proportion of Impaired Credits to Total credits however deteriorated during the period under review. Volume of non-performing credits increased by ₦27.57 or 4.44%, from ₦621.343 billion as at September to ₦ 648.913 billion at December 2015. Its ratio to Total Credit which stood at 4.87% in December 2015 was still less than the statutory maximum threshold of 5%.The Ratio of impaired credit to shareholders' fund decreased from 13.28% in September to 12.79% in December 2015. Also, during the two quarters under review, the ratio of provision for impaired credit to impaired credit also decreased from 3.95% in September to 3.78% in December 2015.

Table 2 and Chart 2 present the indicators of insured banks Asset Quality for the third and fourth quarters of 2015.

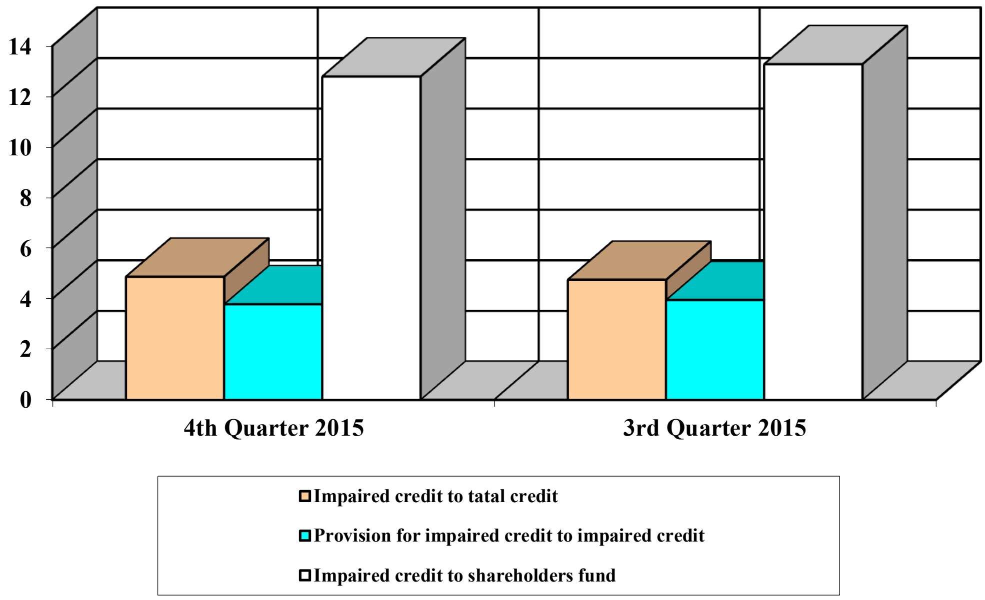
TABLE 2

INDICATORS OF INSURED BANKS' ASSET QUALITY FOR THE 3rd AND 4th QUARTERS OF 2015

Asset Quality Indicator (%)	Industry	
	December 2015	September 2015
Impaired credit to total credit	4.87	4.75
Provision for impaired credit to impaired credit	3.78	3.95
Impaired credit to shareholders fund	12.79	13.28

Source: Banks Returns

Chart 2: Indicators of Insured Banks' Asset Quality for 3rd and 4rd Quarters of 2015



3.2 Earnings and Profitability

The industry recorded a decline in profitability between the third and fourth quarters of 2015. Profit-Before-Tax stood at N113.827 billion as at the end of the fourth quarter, showing a 24.95% decrease from the N151.662 billion recorded at the end of the third quarter of 2015. Interest Income declined by 2.29% from N623.738 billion reported for the quarter ended September 2015 to N609.429 billion for the quarter ended December 2015, Recoveries dropped by 35.57% from September figure of N4.561 billion to a figure of N2.939 billion as at December 2015. Operating expenses on the other hand increased by 8.48%, from the figure of ₦375.085 billion in September to ₦406.891 billion in December, 2015. also, Non-Interest Income appreciated by 11.49%, from ₦145.376 billion in September to ₦162.076 billion in December 2015, while interest expenses declined by 3.96% from ₦349.091 billion in September to ₦239.216 billion in December, 2015.These and other indices are depicted in Table 3 and Chart 3.

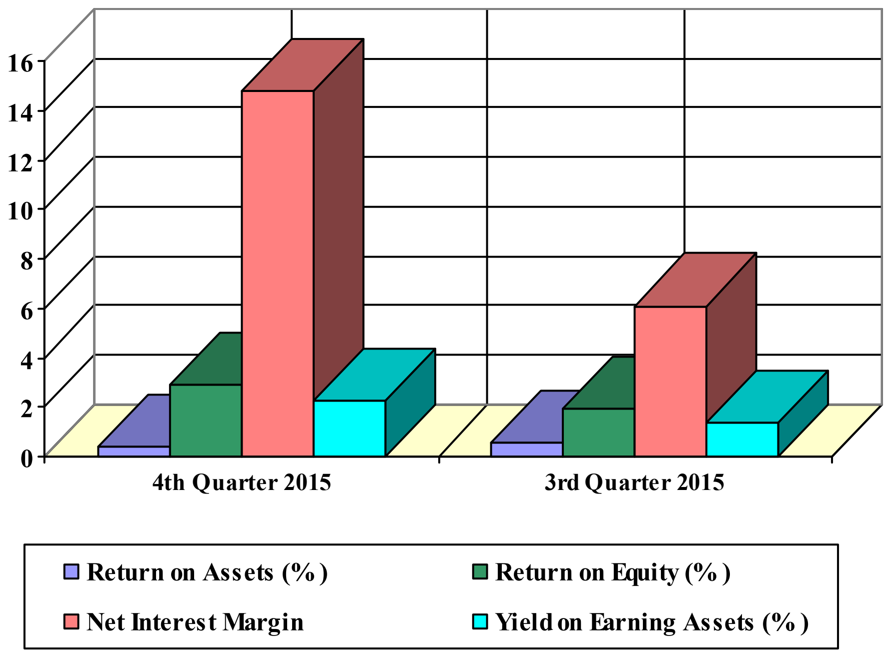
TABLE 3

INSURED BANKS' EARNINGS AND PROFITABILITY INDICATORS FOR THE 3rd AND 4th QUARTERS OF 2015

Earnings/Profitability Indicator	Industry	
	December 2015	September 2015
Return on Assets (%)	0.38	0.55
Return on Equity (%)	2.90	1.91
Net Interest Margin	14.79	6.09
Yield on Earning Assets (%)	2.24	1.35
Profit Before Tax (N' billion)	113.827	151.662
Interest Income (N' billion)	609.428	623.737
Operating Expenses (N' billion)	406.891	375.084
Non-Interest Income (N' billion)	162.076	145.375

Source: Banks Returns

Chart 3: Insured Banks' Earnings and Profitability for the 3rd and 4th Quarters of 2015



As can be seen from the above chart and table, return on Assets (ROA) decreased significantly by 31.06% between the third and fourth quarters of 2015. Return on Equity (ROE) however increased to 2.90% in December 2015 from 1.91% in September 2015.

3.3 Liquidity Profile

The industry liquidity position remained positive and stable during the period under review. The average liquidity ratio increased by 4.9 percentage points from 53.30% in September to 58.18% in December 2015 .which is well above the required 30% minimum requirement. The net credit to deposit ratio fell marginally by 1.24 percentage points from 75% to 73.76. While interbank takings to deposits ratio also decreased from 430.99% to 464.31% in the two quarters under review. One bank failed to meet the required liquidity ratio of 30% during the period under review. These are shown in the chart 4 and table 4 below.

Chart 4: Indicators of Insured Banks' Liquidity Profile for the 3rd and 4th Quarters of 2015

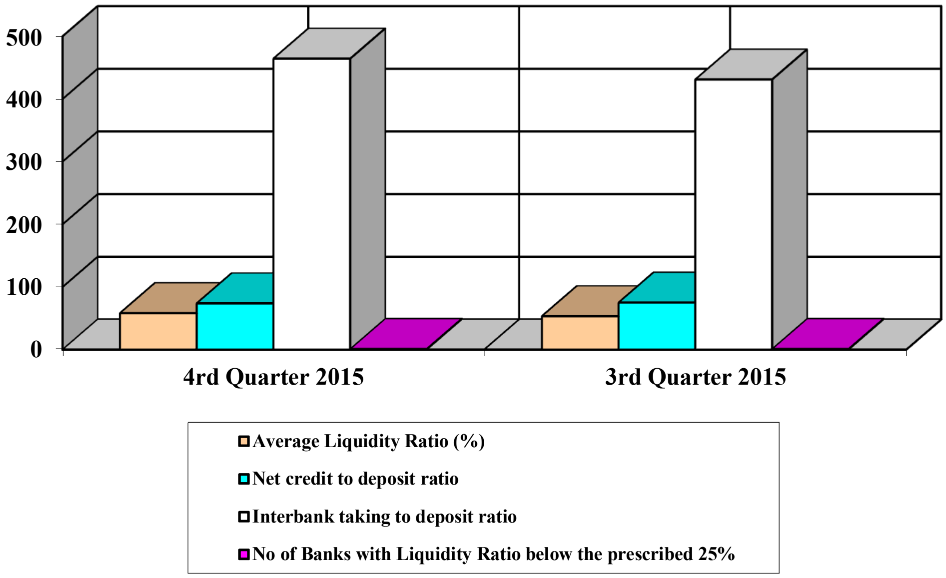


TABLE 4

INDICATORS OF INSURED BANKS' LIQUIDTY PROFILE FOR THE 3rd AND 4th QUARTERS OF 2015

Liquidity	Period	
	December 2015	**September 2015**
Average Liquidity Ratio (%)	58.18	53.30
Net credit to Deposit Ratio (%)	73.76	75.00
Inter-bank taking to Deposit Ratio (%)	464.31	430.99
No of Banks with Liquidity Ratio below the prescribed 30%	1	1

3.4 Capital Adequacy

In the periods under review, the capital adequacy position of the industry was strong. However, The Banking Industry Capital to Risk Weighted Assets Ratio (CAR) marginally deteriorated from 17.73% as at 30^{th} September 2015 to 17.66% at the close of the period under review. Also, 2 banks did meet the prudential 10% capital adequacy threshold during the two quarters under review. These and other capital adequacy indicators are depicted in Table 5 and chat 5 below:

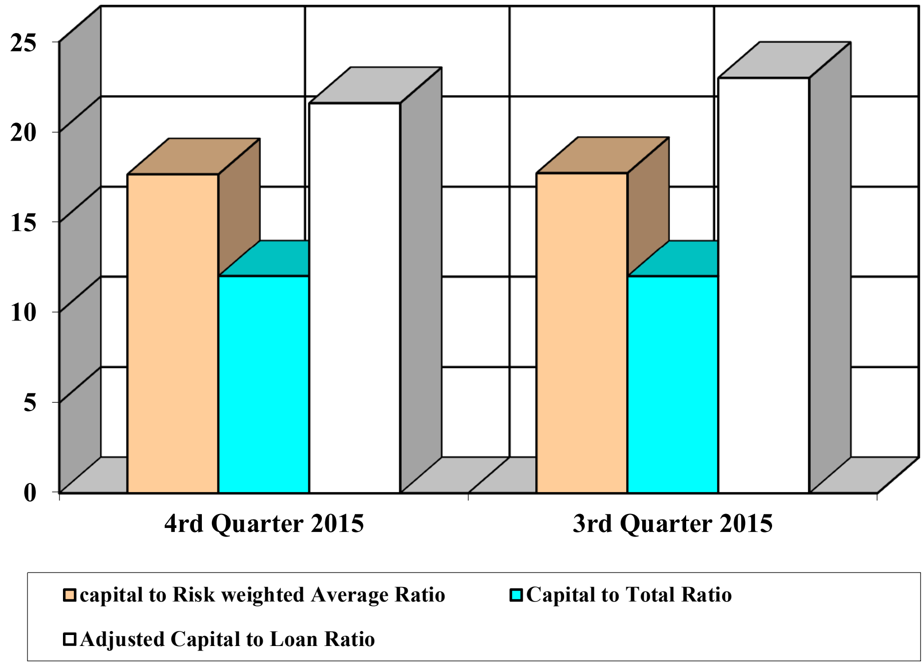
TABLE 5

INDICATORS OF INSURED BANKS' CAPITAL ADEQUACY POSITION FOR THE 3^{rd} AND 4^{th} QUARTERS OF 2015

Capital Adequacy Indicator	Period	
	December 2015	September 2015
Capital to Risk weighted Average Ratio (%)	17.66	17.73
Capital to Total Asset Ratio (%)	12.01	12.00
Adjusted Capital Ratio (%)	21.60	23.00

Source: Banks Returns

Chart 5: Insured Bank's Capital Adequacy for the 3rd and 4th Quarters of 2015



4 CONCLUSION

From the above it can be seen that the condition and performance of the insured banks as at September and December 2015 showed some positive and negative indices. On the positive side, Total Assets, Shareholders Funds, Recapitalization needs, Total Credits, Total Deposit Base, Liquidity Ratio, and Estimated Insurance Funds, all improved during the quarter; while on the flip side, CAR and Earnings looked down during the period.