FINANCIAL CONDITION AND PERFORMANCE OF INSURED BANKS IN THE FIRST AND SECOND QUARTERS OF 2015

BY

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1.0 INTRODUCTION

During the period under review, the Nigeria's banking industry witnessed a mixed performance during the two quarters under review. The first quarter shows some stability in most of the financial indices. However, in the second quarter, there were declines in many parameters, especially in Total Assets, Deposits and Assets Quality. The decline was largely attributable to the fall in the price of crude oil (the main revenue earner for Nigeria) and sliding exchange rate which had impacted negatively on the banks with high exposure to the Oil and Gas sector of the economy.

Total Assets of the industry declined marginally by 1.01% from ₦27.329 trillion as at March 31, 2015 to ₦27.055 trillion as at June 30th, 2015. Similarly, Total Deposits decreased by 0.4% from ₦18.163 trillion as at the end of March 2015 to ₦18.098 trillion as at the end of June 2015.

Asset Quality as represented by the ratio of Non-Performing Loans (NPL) to Total Credits (TC) worsened as the ratio increased from 4.06% as at March 2015 to 9.79% as at June 2015 which was above the maximum 5% benchmark.

The Industry had a liquidity ratio of 42.83% as at June 2015 which depicted a significant fall from 72.39% recorded as at March 31st 2015.

The banks' profitability measured in absolute terms by Profit before Tax (PBT) increased significantly by 14.45% to ₦191.704 billion as at June, 2015 as against ₦167.500 billion recorded in March 2015.

The Industry average Capital Adequacy Ratio (CAR) at 17.38% showed a marginal increase compared to a CAR of 16.82% recorded as at March 2015.

Despite the marginal increment in the CAR of the industry, three (3) deposit money banks (DMBs) out of twenty three (23) in March 2015 and twenty two

(22) in June 2015 failed to meet the minimum prudential Capital Adequacy Ratio of 10%.

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 period under review, The Total Assets of the industry decreased by 1.01% from ₦27.329 trillion as at March 31st, 2015 (1st Quarter) to ₦27.055 trillion as at 30th, June (2nd Quarter). The structure of the industry's total assets and liabilities at 30th June 2015 are presented in Table 1 and Charts 1A and 1B below.

TABLE 1

Structure of Banks' Assets and Liabilities for first and second Quarters of 2015

Assets (%)	30th June 2015	31st March 2015	Liabilities (%)	30th June 2015	31st March 2015
Cash Balances	2.18	1.90	**Deposit From Banks**	3.26	3.79
Balances with Banks & Central Bank	21.80	22.21	**Deposit From Customers**	66.89	66.46
Loans & Advances to Banks	2.02	2.71	**Financial Liabilities Held For Trading**	0.09	0.10
Loans & Advances to	45.71	45.03	**Borrowings**	6.17	5.92

Customers					
Financial Assets Held for Trading	2.56	1.92	**Debt Instrument**	2.74	2.78
Investment Securities: Available for Sale	8.86	8.71	**Other Liabilities**	8.49	8.49
Investment Securities: Held to Maturity	7.15	8.09	**Shareholders' Fund**	12.35	12.46
Assets Pledged as Collateral	1.50	1.42	**TOTAL LIABILITIES**	100.00	100
Investment in Subsidiaries & Associates	1.09	1.06	**CONTINGENT LIABILITIES**	16.86	17.59
Property Plant and Equipments	2.79	2.76	-	-	-
Other Asset	4.21	4.08	-	-	-
Asset Classified as Held for Sale & Discontinued Operations	0.12	0.11	-	-	-
Total	100.00	100.00	Total	100.00	100.00

Source: Banks Returns

NOTE: TOTAL ASSETS (N Trillion) 1st Quarter 2015 = 27.329& 2nd Quarter 2015 =27.055

Chart 1A: Structure of Banks' Assets for the 1st and 2nd Quarters of 2015

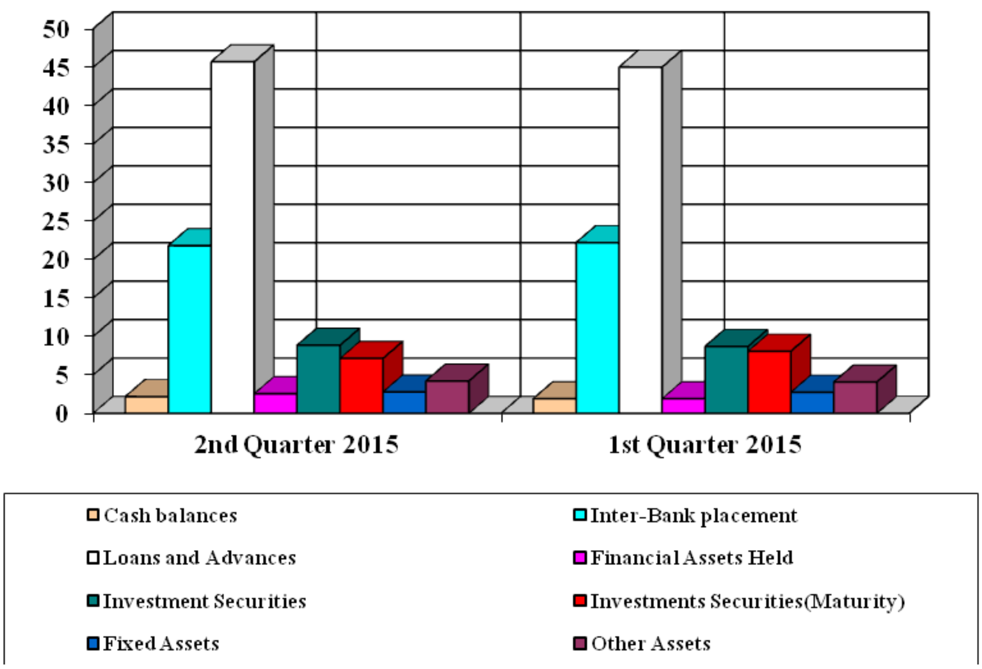
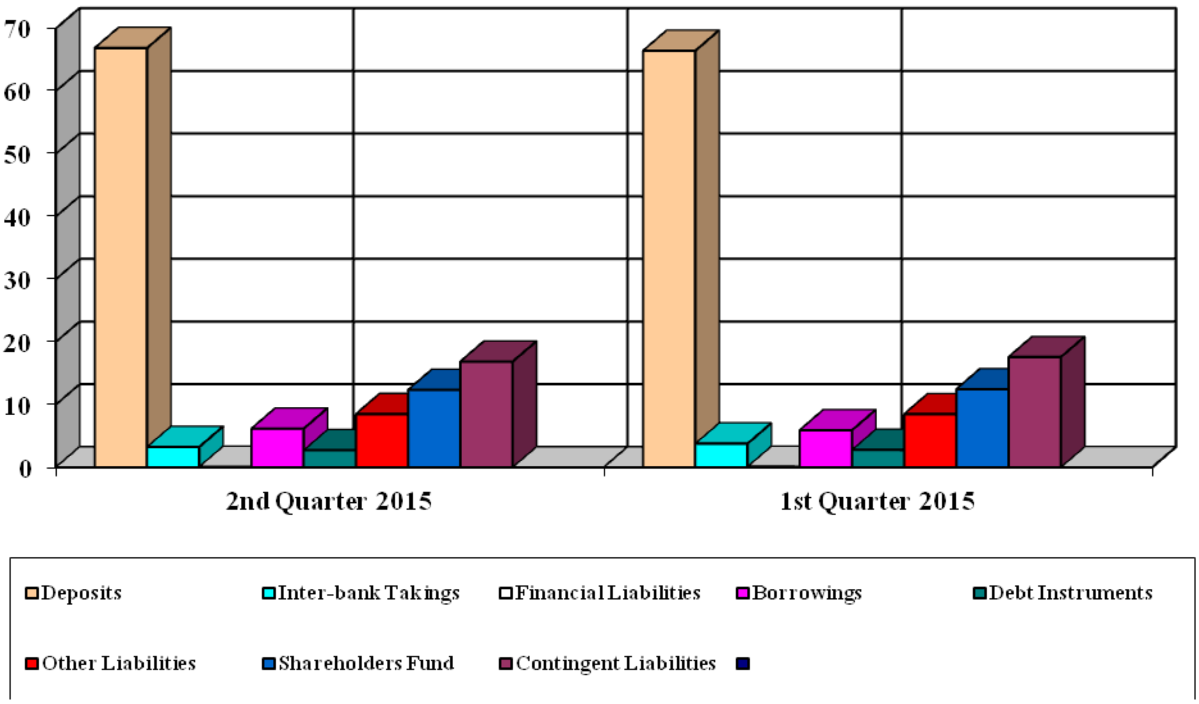


Chart 1A: Structure of Banks' Liabilities for the 1st and 2nd Quarters of 2015



Total Loans and Advances increased by ₦68.658 billion or 0.511% from ₦13.433 trillion as at 31st March, 2015, to ₦13.501 trillion as at 30th June, 2015. This was followed by Balances with Banks & Central Bank of ₦5.897 trillion which accounted for 21.80% of the Total Industry Assets as against the sum of ₦6.070 trillion as at 31st March, 2015. Investment Securities (Available for Sale) accounted for ₦2.397trillion or 8.86% of Total Industry Assets. Similarly, Investment Securities (Held to Maturity) also decreased from ₦2.209 trillion as at 31st March, 2015 to ₦1.935 trillion as at 30th June, 2015 or contributed 7.15% of the Total Assets while Other Assets which contributed ₦1.116trillion or 4.21% of the total Industry Assets as at 30th June, 2015.

As shown in Table 1 and Charts 1A and 1B, Loans and Advances have the highest component of the Total Assets of the Banking industry during the first two quarters of 2015. Its components accounted for 45.71 % and 45.03% in the two quarters respectively. In the second position was Balances with Banks and Central Bank, which stood at 21.80% and 22.21%. Investment Securities available for sale followed suit with 8.86% and 8.71 % while Investment Securities held at maturity stood at 7.15% and 8.09% as at June 2015. For the other components of the Industry's total assets; Loans and Advances to Banks decreased from 2.71% as at 31st March, 2015 to 2.02% as at June 30th 2015. Other Assets also increased to 4.21% as at 30th June, 2015 from 4.08% in March 2015.

On the liabilities side of the balance sheet, Deposits remained the largest with a slight increment from 66.46% in March 2015 to 66.89% in June 2015. Shareholders' Funds contributed 12.35% of the Total Industry Liabilities as at 30th June, 2015. This signifies a slight decline of 0.89% compared to the 12.46% recorded as at 31st March, 2015. Deposits from Banks contributed 3.26% of Total Industry liabilities. This also signifies a decline of -13% compared to 3.79% recorded in March 2015. Other Liabilities and Borrowings, contributed 8.49%, 6.17% and 8.49%, 6.17% to the Total Industry liabilities during the First and Second quarters, respectively.

3.0 ASSESMENT OF THE FINANCIAL CONDITION OF INSURED BANKS

3.1 Asset Quality

The Banking Industry Asset Quality deteriorated during the period under review as revealed by the increased non-performing loans (NPL) during the quarters under review. Total industry Non-Performing Credits increased by ₦775.816 billion or 142% from ₦546.016 billion as at March 2015 to ₦1.321 trillion as at June 30th, 2015. Thus, the Industry Non-performing Credits to Total Credits Ratio worsened from 4.06% as at 31st March, 2015 to 9.7% as at 30th June, 2015. However, this was still well above the statutory maximum threshold of 5%.

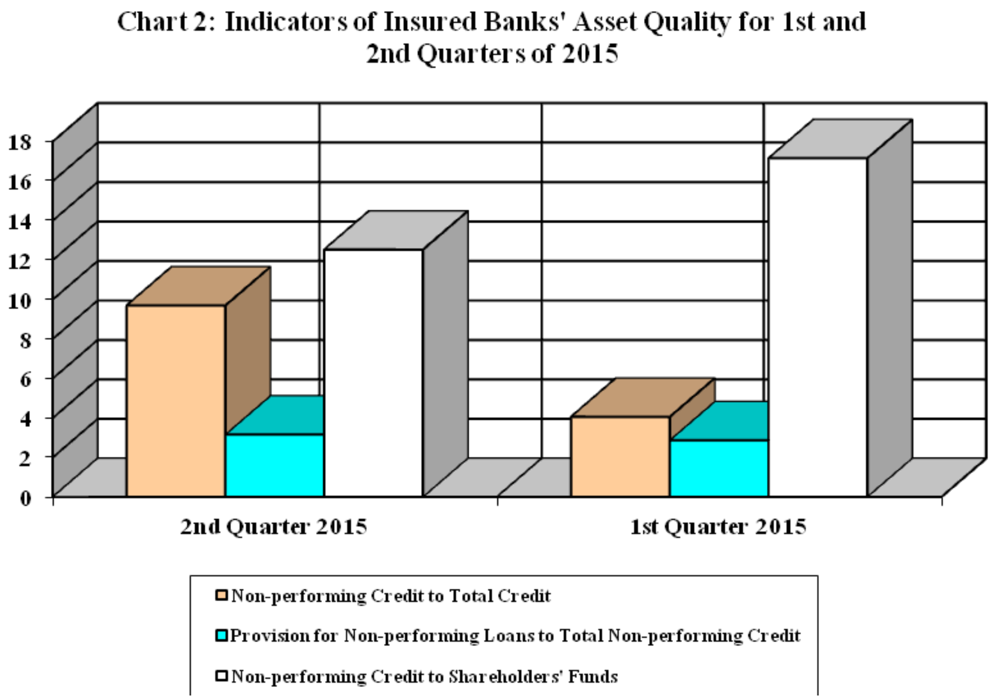
The Banking Industry Total Credit increased by ₦0.068 trillion or 0.50% from ₦13.433 trillion as at 31st March, 2015 to N13.501 trillion as at 30th June, 2015 which represented about 50% of the Industry Total Assets of ₦27.055 trillion as at June 2015.

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

TABLE 2

Asset Quality Indicator (%)	**Industry**	
	30th June 2015	**31st March 2015**
Non-performing Credit to Total Credit	9.7%	4.06%
Provision for Non-performing Loans to Total Non-performing Credit	3.16	2.87
Non-performing Credit to Shareholders' Funds	12.53	17.16

Source: Banks Returns



3.2 Earnings and Profitability

During the period under review, the banks' profitability measured in absolute terms by Profit before Tax (PBT) increased significantly by 14.45% to ₦191.704 billion as at June, 2015 as against ₦167.500 billion recorded in March 2015

This increment is highly attributed to the 22.17% increment in interest income. Net-Interest Income had also increased by 29.75% from N330.145 billion as at March 2015 to ₦428.383 billion at the end June, 2015. Interest Expense had increased by 30.40% from ₦249.906 billion as at March 2015 to ₦280.304 billion as at the end of June, 2015. However, Non-Interest income decreased by 74.71% from ₦319.555 billion as at March 2015 to ₦182.902 billion as at the end of 30th June, 2015.The banking industry Operating Expenses on the other hand, declined by 30.61% from ₦561.576 billion as at 31st March, 2015, to ₦429.956 billion as at 30th June, 2015.

The Banking Industry Return on Assets (ROA) increased from 0.63% as at March 2015 to 0.71% as at June 2015. Return on Equity (ROE) also increased from 4.94% in March 2015 to 5.72% as at June 2015. Net Interest Margin also increased from 1.86% in March 2015 to 2.90% in June 2015. However, Yield on Earning Assets decreased from 3.27% as at 31st March, 2015 to 2.57% as at 30th June, 2015.

Table 3 and Chart 3 presents' selected financial indicators of earnings and profitability for the first and second quarters of 2015

TABLE 3

Insured Banks' Earnings and Profitability Indicators for first and second quarters of 2015

Earnings/Profitability Indicator	Industry	
	June 2015	March 2015
Return on Assets (%)	0.71%	0.62%
Return on Equity (%)	5.75%	2.48%
Net Interest Margin	2.89%	1.86%
Yield on Earning Assets (%)	1.32%	1.43%
Profit Before Tax (N' billion)	191,704	167,500
Interest Income (N' billion)	428,383	330,145
Operating Expenses (N' billion)	429,956	561,576
Non-Interest Income (N' billion)	182,902	319,555

	1st Quarter 2016	2nd Quarter 2015
Return on Assets (%)	0.71	0.62
Return on Equity (%)	5.75	2.48
Net Interest Margin	2.89	1.86
Yield on Earning Assets (%)	1.32	1.43
Profit before Tax	191,704	167,500
Interest Income	428,383	330,145
operating Expenses	429,956	561,576
Non interst income	182,902	319,555

3.3 Liquidity Profile

The Banking industry liquidity decreased significantly as depicted by the relevant indices. The average liquidity ratio decreased from 75.71% as at March 2015 to 42.84% as at June 2015. Individually, all the DMBs in the industry had liquidity ratio in excess of the minimum regulatory requirement of 30%, hence, as at end the two quarters under review, all DMBs were sufficiently liquid. Also, Deposits from Banks decreased by 24.60% from ₦1.099 trillion in March 2015 to ₦882.739 billion as at June 2015. However, borrowings by Banks grew by 3.26% or ₦1 5.08 billion.

The Industry recorded a Net Credit of ₦13.501 trillion as at June 30, 2015 representing an increase of 0.51% over ₦13.432 trillion recorded in March 2015. The Net Credit to Deposits Ratio also increased slightly by 0.65% from 73.95% as at 31st March, 2015 to 74.60% as at June, 2015.

The Banking Industry Volatile Liabilities to Total Assets Ratio increased by 0.04% from 66.93% in March 2015 to 66.89% as at June 2015.

TABLE 4

Indicators of Insured Banks' Liquidity Profile For first and second Quarters of 2015

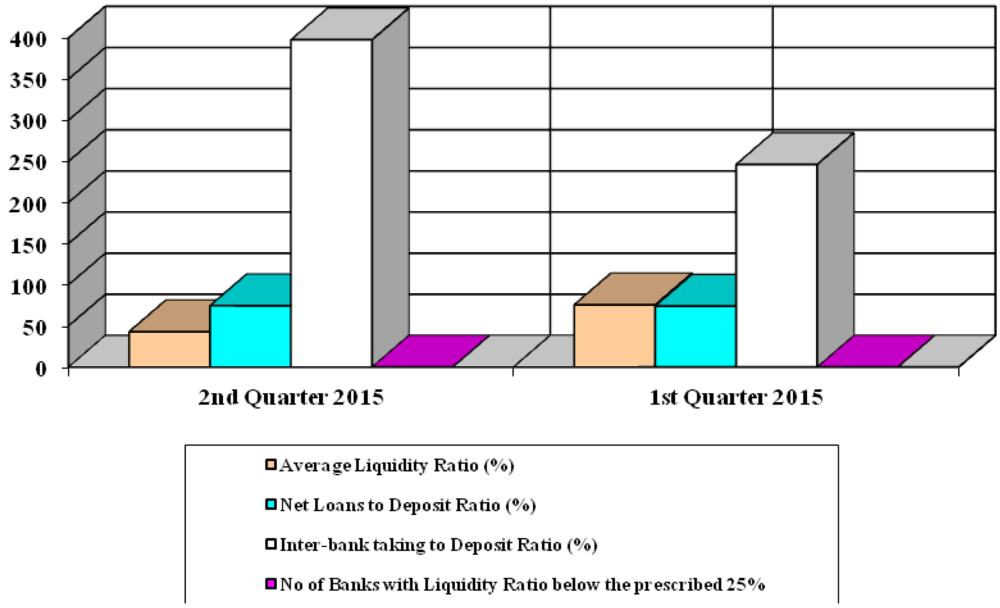
Liquidity	Period	
	June 2015	**March 2015**
Average Liquidity Ratio (%)	42.84	75.71
Net Loans to Deposit Ratio (%)	74.60	73.95
Inter-bank taking to Deposit Ratio (%)	397.70	246.17
No of Banks with Liquidity Ratio below the prescribed minimum	0	0

Source: Bank Returns

Chart 4

Indicators of Insured Banks Liquidity Profile for the 1st and 2nd Quarters Of 2015

Chart 4: Indicators of Insured Banks' Liquidity Profile for the 1st and 2nd Quarters of 2015



3.4 Capital Adequacy

The banking industry capital base remained strong during the year under review. The Banking Industry Capital to Risk Weighted Assets Ratio (CAR) increased from 16.82% as at 31st March, 2015 to 17.38% by 30th June, 2015.

The Banking Industry Capital to Total Assets Ratio increased from 11.63% to 12.12% while the Adjusted Capital Ratio increased from 20.43% as at 31st March, 2015 to 21.66% as at 30th June, 2015.

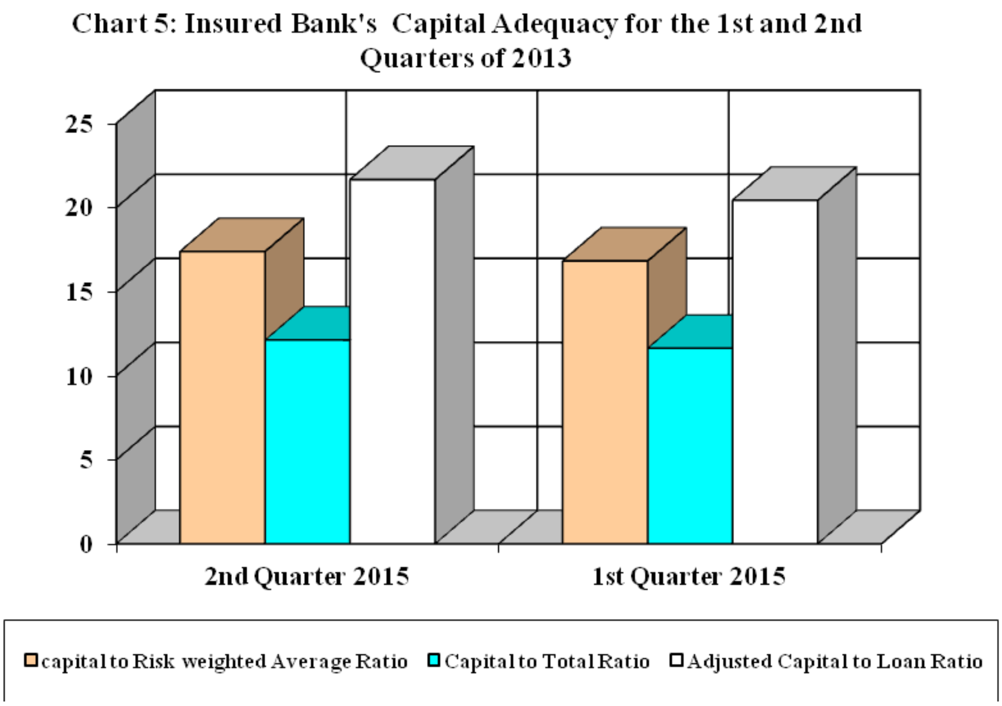
The Total Qualifying Capital of the Banking Industry decreased by ₦0.03 trillion or 0.95% from ₦3.179 trillion as at March 2015 to ₦3.149 trillion as at June 2015. The Total Risk Weighted Assets also decreased slightly by ₦0.789 trillion or 4.18% from ₦18.901 trillion as at 31st March, 2015 to ₦18.112 trillion as at 30th June, 2015, resulting in Banking Industry Capital Adequacy Ratio of 17.38% in June 2015. However, during the two quarters under review, three (3) banks out of twenty three (23) failed to meet the minimum prudential CAR of 10% as at March 2015. Similarly, three (3) banks out of twenty two banks failed to meet the minimum CAR of 10% as at June 2015.

Table 5 and Chart 5 depict the capital adequacy position of the industry for the period under consideration.

TABLE 5

Indicators of Insured Banks' Capital Adequacy Position for the first and second quarters of 2015

Capital Adequacy Indicator	Period	
	June 2015	March 2015
Capital to Risk weighted Average Ratio (%)	17.38	16.82
Capital to Total Asset Ratio (%)	12.12	11.63
Adjusted Capital Ratio (%)	21.66	20.43



3.0 CONCLUSION

The financial indices depicted in the paper shows the financial condition and performance of the banking industry as at June 30th 2015 and 31st March 2015. However, the June report was based on the performance of 22 banks as against 23 banks in March 2015.

The paper shows a decline in Total Assets of the industry by 1.01% from ₦27.329 trillion as at 31st March, 2015 to ₦27.055 trillion as at 30th June, 2015. Similarly, Total Deposits decreased by 0.4% from ₦18.163 trillion as at the end of March 2015 to ₦18.098 trillion as at the end of June 2015. Also, Asset Quality as represented by the ratio of Non-Performing Loans (NPL) to Total Credits (TC) worsened as the ratio increased from 4.06% as at March 2015 to 9.79% as at June 2015 which was above the maximum 5% benchmark. The Average Liquidity Ratio (ALR) of the Banking Industry without the two Merchant Banks was 42.83%. The liquidity ratios for all the 20 banks were above the 30% prudential minimum with the exception of Skye bank and Fidelity bank plc with 27.66% and 29.78% respectively. The liquidity ratio of 42.84% as at June, 2015 declined from 72.39% recorded as at 31st March, 2015. The banks' profitability measured in absolute terms by Profit before Tax (PBT) increased significantly by 14.45% to ₦191.704billion as at June 2015 as against ₦167.500 billion recorded in March 2015.