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FINANCIAL CONDITION AND PERFORMANCE OF DEPOSIT MONEY BANKS IN THE THIRD AND FOURTH QUARTER OF 2018

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1.0 INTRODUCTION

The Nigerian economy continued to witness marginal recovery during the third and fourth quarters of 2018. On the other hand, the Consumer Price Index (year-on-year) which measures Inflation, rose from 11.28% in September 2018 to 11.44% in December 2018. Also, there was relative stability in both the Investors' and Exporters' (I&E) window of the foreign exchange market due to autonomous inflows and sustained economic intervention efforts of the CBN. However, the intervention resulted in the decline of Nigeria's External Reserves which stood at US$47.80 billion in June 2018, but dropped to US$43.11 billion in December 2018.

The CBN has continued to maintain MPR rate at 14% to contain inflation and achieve price stability. Unfortunately, these rates have remained high with the attendant adverse effect on liquidity positions and funds accessibility by the private sector. Also, the maximum lending rate has been hovering between 30% and 31% since December 2017, thus making access to finance really difficult for businesses especially the Micro, Small and Medium Enterprises (MSMEs). Nonetheless, with the recent special MSME intervention funds by the CBN, small businesses could have access to affordable financing which could boost the economy.

These economic developments influenced financial sector performance in the third and fourth quarters of 2018, as reflected in key financial indicators which were mostly on an increasing trend. Total Industry Assets increased from ₦33.22 trillion in Q2 2018 to ₦34.84 trillion in Q3 2018 and marginally increased again to ₦35.10 trillion in Q4 2018. Total Deposits from Customers increased from ₦20.37 trillion in Q2 2018 to ₦20.92 trillion in Q3 2018 and further grew to ₦21.73 trillion in Q4 of 2018. The Capital to Risk-Weighted Assets Ratio (CAR) also improved from 12.08% in Q2 2018 to 14.14% in Q3 2018 and additionally increased to 15.27% in Q4 2018. The rest of this chapter is organized as follows. Section 2 presents the structure of Assets and Liabilities. Section 3 assesses the financial condition of insured banks, while Section 4 concludes.

2.0 STRUCTURE OF ASSETS AND LIABILITIES

Total Industry Assets marginally increased from ₦33.22 trillion recorded in Q2 2018 to ₦34.84 trillion in Q3 2018. The trend continued in Q4 2018 as Total Industry Assets rose to ₦35.10 trillion. The increment was largely attributed to the increase in Amortized Cost by 35.95% from ₦1.89 trillion in Q3 2018 to ₦2.57 trillion in Q4 2018. Fair Value through Other Comprehensive Income (FVOCI), Assets Pledged as Collateral, and Financial Assets held for Trading also increased by 13.13%, 10.82% and 7.92%, respectively, during the same period.

On the Liabilities side, Total Deposits from Customers which constituted 61.32% of the Industry Total Liabilities increased from ₦20.37 trillion in Q2 2018 to ₦20.92 trillion in Q3 2018 and grew further to ₦21.73 trillion in Q4 2018, which is an increment of 3.85%. Seven (7) banks had Total Deposits in excess of ₦1 trillion each. Cumulatively, these banks had ₦14.18 trillion or 65.25% of the Total Industry Deposits of ₦21.73 trillion in Q4 2018.

The structure of the industry's Total Assets and Liabilities for Q2 2018, Q3 2018 and Q4 2018 are presented in Table 1 and Charts 1.1 and 1.2.

TABLE 1: Structure of DMBs' Assets and Liabilities for Q3 and Q4 2018

ASSETS	**Q2 2018 (% OF TOTAL ASSETS)**	**Q3 2018 (% OF TOTAL ASSETS)**	**Q4 2018 (% OF TOTAL ASSETS)**	**Change**
Cash Balances	2.19	2.15	2.25	5.46
Balances with Banks & Central Bank	23.61	23.36	23.19	0.02
Loans & Advances to Banks	1.18	1.35	1.19	- 11.05
Loans & Advances to Customers	39.27	38.03	36.67	- 2.84
Financial Assets Held for Trading	4.92	4.57	4.89	7.92
Investment Securities: Available for Sale	10.65	10.26	11.52	13.13
Investment Securities: Held to Maturity	5.28	5.42	7.32	35.95
Assets Pledged as Collateral	3.50	3.48	3.83	10.82
Investment in Subsidiaries & Associates	1.22	1.16	1.24	7.83
Investment Properties	0.45	0.03	2.41	1,040.52
Property Plant and Equipment	2.43	2.77	5.03	- 12.34
Other Assets	5.26	7.36	5.03	- 31.15
Asset Classifies as Held for Sale & Discontinued Operations	0.05	0.05	0.07	38.39
TOTAL ASSETS	100	100.00	100.00	0.76
LIABILITIES	**% OF TOTAL LIABILITIES**	**% OF TOTAL LIABILITIES**	**% OF TOTAL LIABILITIES**	
Deposit from Banks	4.73	4.43	5.00	13.79
Deposit from Customers	61.32	60.06	61.90	3.85
Financial Liabilities Held for Trading	0.06	0.15	0.13	- 12.61

Borrowings	9.18	8.96	8.69	- 2.28
Debt Instrument	4.09	3.65	3.63	0.04
Other Liabilities	11.70	12.31	11.65	- 4.63
Shareholders' Fund	8.92	10.44	8.99	- 13.19
TOTAL LIABILITIES	100.00	100.00	100.00	0.76

Source: NDIC

CHART 1.1: Structure of DMBs Assets for Q3 and Q4 2018

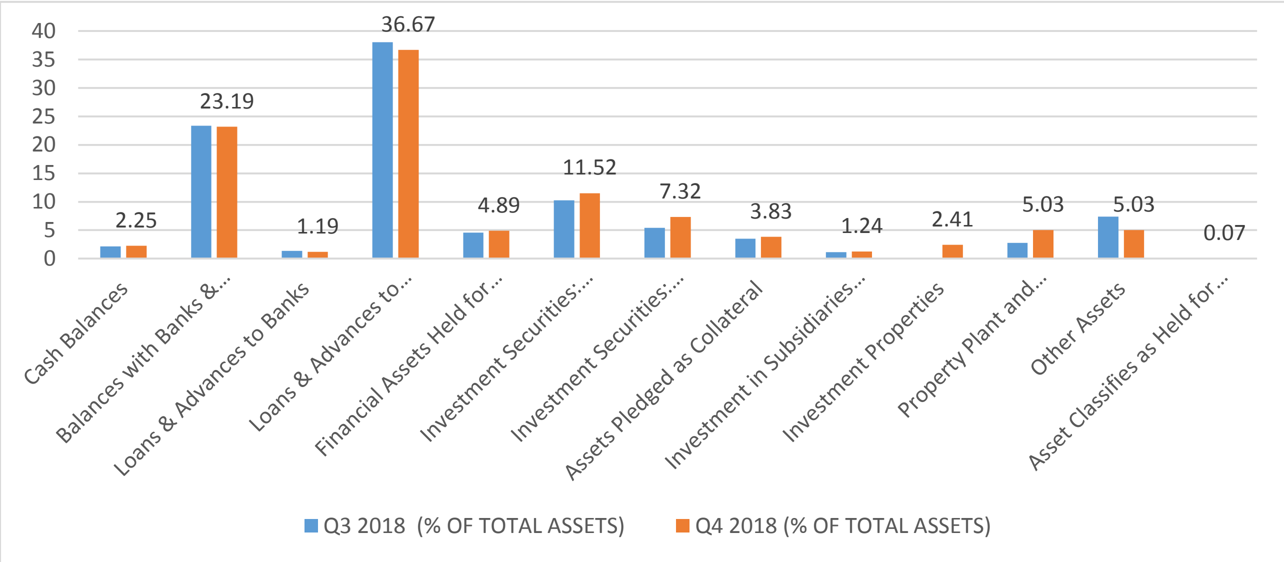


CHART 1.2: Structure of DMBs Liabilities for Q3 and Q4 2018

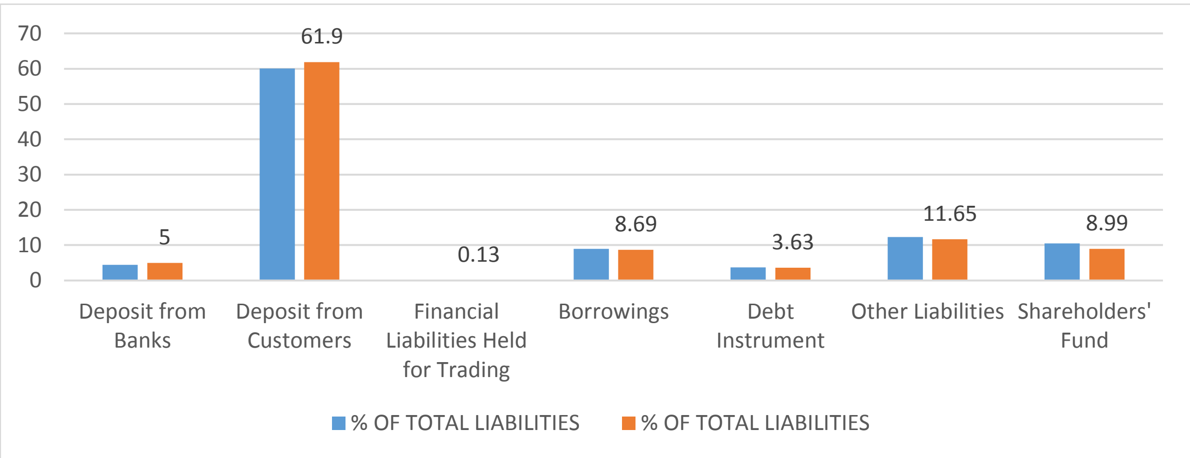


Table 1 and chart 1 shows that Loans & Advances to Customers was the largest components of the Total Assets of DMB's in both quarters accounting for 38.03% & 36.67% in Q3 and Q4 of 2018, respectively. Balances with Banks & Central Bank came second with 23.36% and 23.19% in Q3 and Q4 2018, respectively.

Total Deposits from Customers was the largest component on the Liabilities side with 60.06% in Q3 2018 and 61.90% in Q4 2018. Other Liabilities and Shareholders' Funds accounted for 11.65% and 8.99% in Q4 2018.

3.0 FINANCIAL CONDITION OF DMBs

3.1 Capital Adequacy

The Capital to Risk-Weighted Assets Ratio (CAR) improved from 12.08% in Q2 2018 to 14.14% and 15.27% in Q3 and Q4 2018 respectively. The increase was attributable to the decline in Total Risk Weighted Assets from ₦21.49 trillion in Q3 2018 to ₦20.90 trillion in Q4 2018. Total qualifying Capital also increased from ₦3.04 trillion in Q3 2018 to ₦3.19 trillion in Q4 2018.

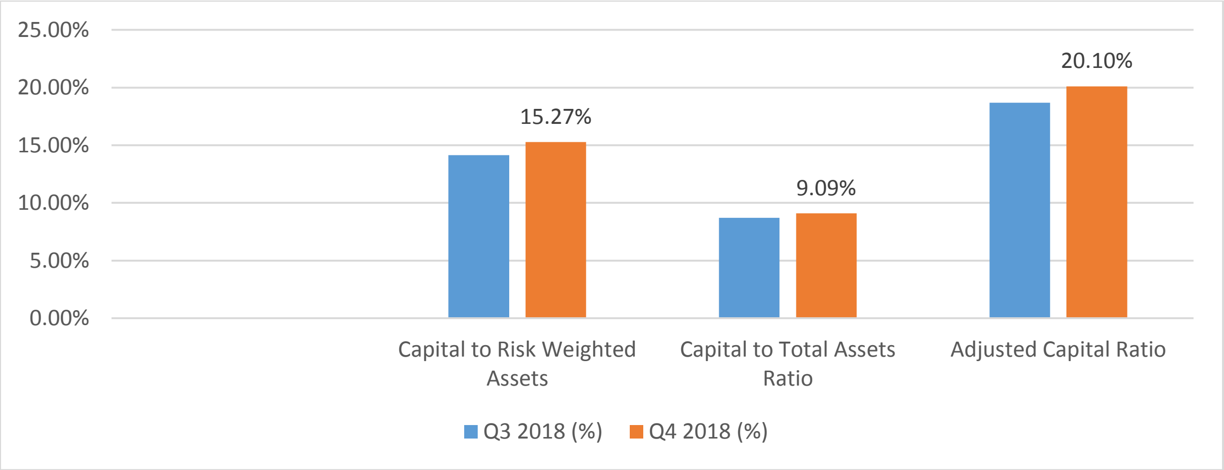
TABLE 2: DMBs Capital Adequacy Position for Q3 and Q4 2018

Capital Adequacy Ratio	Q2 2018 (%)	Q3 2018 (%)	Q4 2018 (%)
Capital to Risk Weighted Assets	12.08%	14.14%	15.27%
Capital to Total Assets Ratio	7.78%	8.72%	9.09%
Adjusted Capital Ratio	15.44%	18.69%	20.10%

Source: NDIC

Despite the rise in the CAR, capital shortfalls of four (4) banks translated to a recapitalization requirement of ₦726.23 billion in Q3 2018 and, ₦704.88 billion in Q4 2018. This indicates a decreasing trend from Q2 2018 figure of ₦1.43 trillion. Table 2 and Chart 2 depict the CAR position of the industry for Q1 and Q2 2018.

CHART 2: DMBs Capital Adequacy for Q3 and Q4 2018



3.2 Asset Quality

The Banking Industry Total Earning Assets, which constituted 62.81% of the Industry Total Assets, increased by 4.43%, from ₦21.12 trillion Q3 2018 to ₦22.05 trillion in Q4 2018. Total Credit which represents the bulk of the Earning Assets, decreased slightly by 3.34% from ₦15.81 trillion in Q3 2018 to ₦15.29 trillion in Q4 2018**.**

Out of the Industry Total Credits (TCs) of ₦15.29 trillion, impaired Credits amounted to ₦1.79 trillion or 11.70%, indicating an improvement from Q3 2018 figure of ₦2.24 trillion, or 14.18% of Total Credits. The total credit was ₦15.52 trillion in Q2 2018, out of which ₦1.94 trillion or 12.47% was impaired. However, Impaired Credits continued to exceed the maximum threshold of 5% prescribed by the CBN. Credits to insiders amounted to ₦721.28 billion in Q3 2018, 50.79% of which or ₦366.31 billion was impaired. The figure rose to ₦756.40 billion in Q4 2018, 46.15% or ₦349.11 billion was impaired.

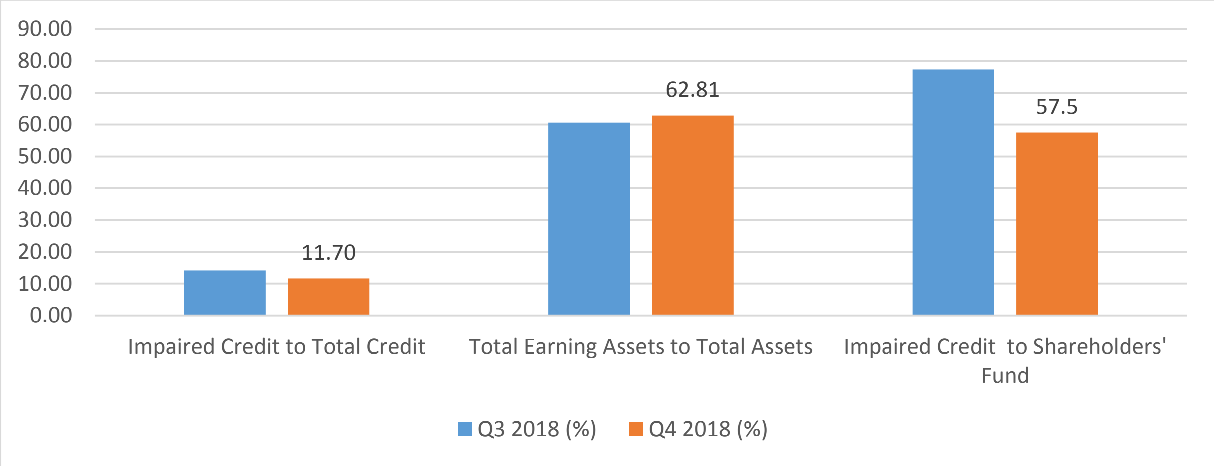
Credit to the Oil and Gas sector remained dominant, standing at ₦4.87 trillion in Q3 2018 or 30.81% of Total Credits, out of which ₦966.86 billion or 43.50% was impaired. The figure declined slightly in Q4 2018, standing at ₦4.66 trillion or 30.46% of Total Credits. The impaired amount stood at ₦878.40 billion. Q3 2018 and Q4 2018 Asset Quality indicators are shown in Table 3 and Chart 3.

TABLE 3: DMBs Asset Quality Indicators in Q3 and Q4 2018

Details	**Q2 2018 (%)**	**Q3 2018 (%)**	**Q4 2018 (%)**
Impaired Credit to Total Credit	12.47	14.17	11.70
Total Earning Assets to Total Assets	59.74	60.61	62.81
Impaired Credit to Shareholders' Fund	86.66	77.27	57.5

Source: NDIC

CHART 3: DMBs' Asset Quality for Q3 and Q4 2018



3.3 Earnings and Profitability

The industry recorded a Profit Before Tax (PBT) of ₦306.48 billion in Q4 2018, which was much higher than the Q3 2018 figure of ₦122.57 billion and also greater than ₦159.51 billion of Q2 2018. That could be attributed to a 23.89%, 29.27% and 20.12% decrease in Interest expense, Operating expenses and Trading Income, respectively.

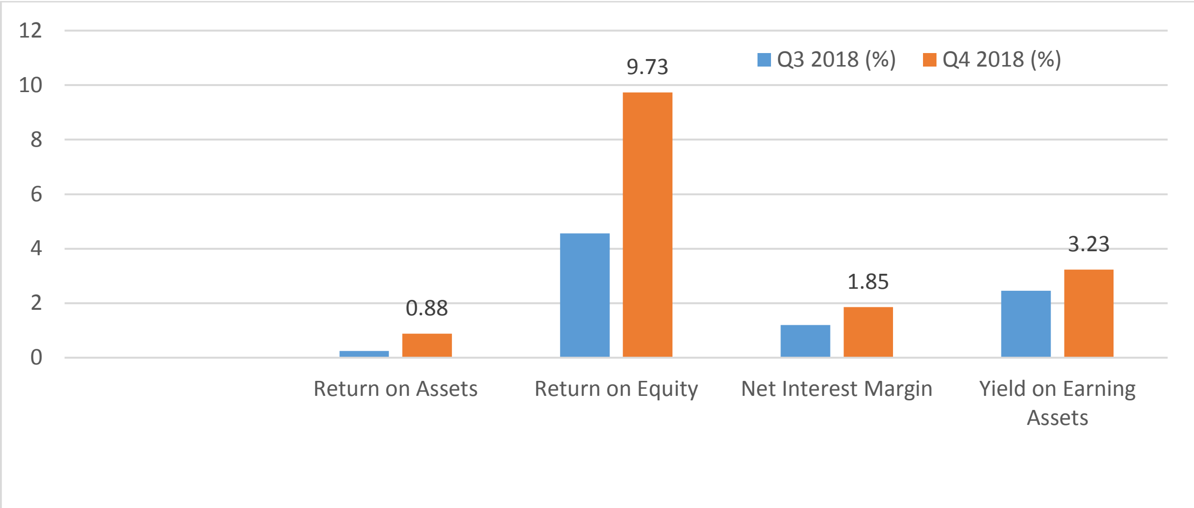
Return on Assets (ROA) increased from 0.24% in Q3 2018 to 0.88% in Q4 2018. Also, Return on Equity (ROE) increased from 4.56% in Q3 2018 to 9.73% in Q4 2018. The Q3 2018 and Q4 2018 Earnings and Profitability indicators are shown in Table 4 and Charts 4.1 and 4.2.

TABLE 4: **DMBs Earnings and Profitability Indicators in Q4 2017and Q1& Q2 2018**

Indicators	**Q2 2018 (%)**	**Q3 2018 (%)**	**Q4 2018 (%)**
Return on Assets	0.64	0.24	0.88
Return on Equity	6.65	4.56	9.73
Net Interest Margin	1.40	1.20	1.85
Yield on Earning Assets	2.54	2.46	3.23
Parameters	**Q2 2018 (N' billion)**	**Q3 2018 (N' billion)**	**Q4 2018 (N' billion)**
Profit Before Tax	195.19	122.57	306.48
Interest Income	767.78	769.95	698.16
Operating Expenses	430.89	465.18	329.04
Interest Expense	343.58	392.85	298.98
Net-Interest Income	424.19	377.09	399.18

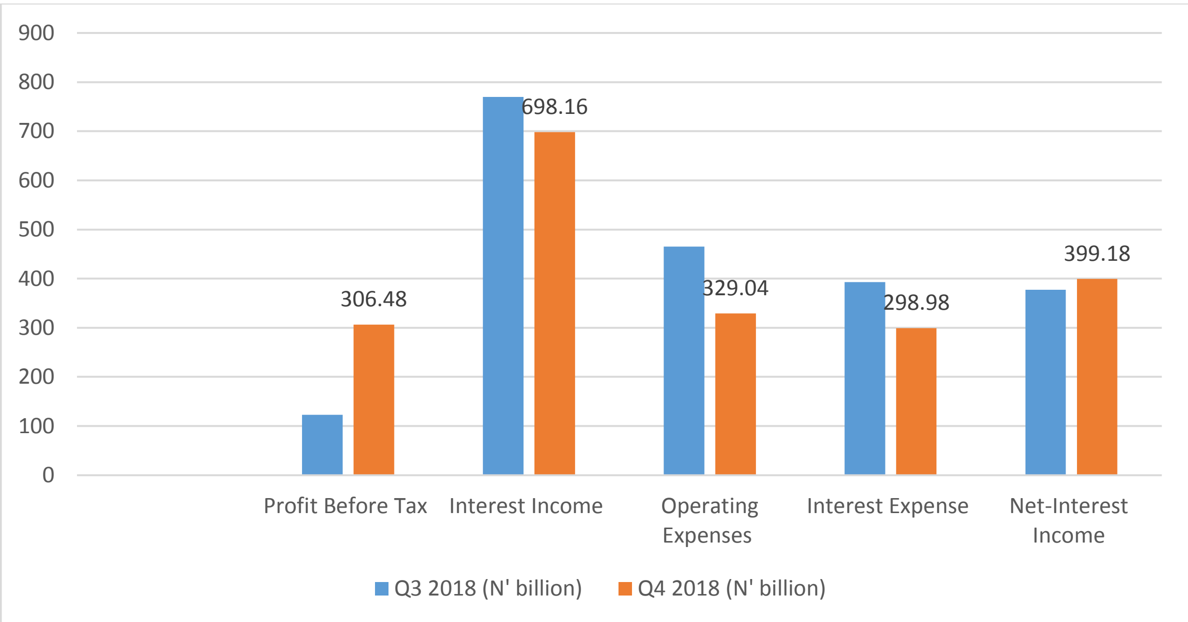
Source: NDIC

CHART 4.1: DMBs Earning and Profitability ratios for Q3 and Q4 2018



Source: NDIC

CHART 4.2: Earning and Profitability for Q3 and Q4 2018



Source: NDIC

3.4 Liquidity Profile

In Q2 2018, the Average Liquidity Ratio (ALR) of the industry was 61.75%. The ratio rose to 83.18% in Q3 2018 and then declined to 51.87% in the final quarter of 2018. The Net Credit to Deposits Ratio, measures banks' level of lending activities, stood at 67.33% in Q3 2018 then declined slightly to 64.69% in Q4 2018, as shown in Table 5 and Chart 5.

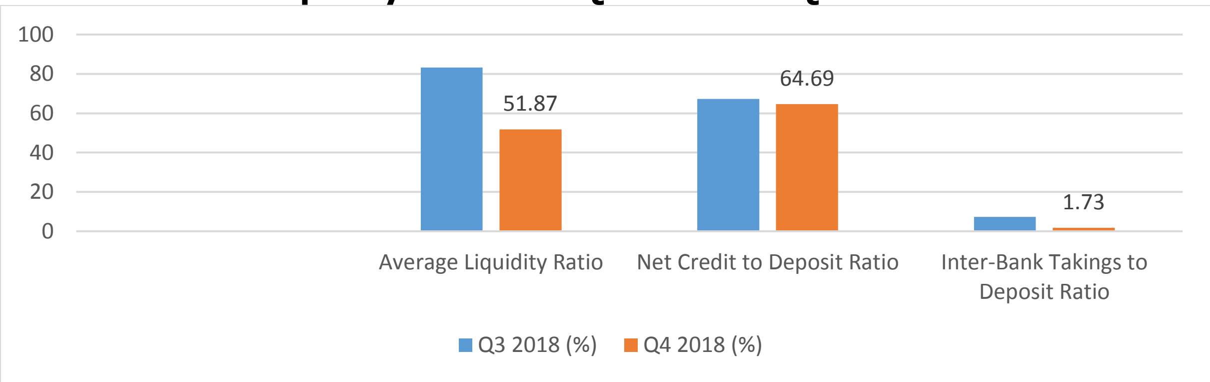
All except two (2) of the DMBs met the minimum liquidity ratios of 30% for Commercial Banks and 20% for Merchant Banks in Q4 2018.

TABLE 5: DMBs Liquidity Profile for Q4 2017 and Q1 2018

Indicators	Q2 2018 (%)	Q3 2018 (%)	Q4 2018 (%)
Average Liquidity Ratio	61.75	83.18	51.87
Net Credit to Deposit Ratio	67.86	67.33	64.69
Inter-Bank Takings to Deposit Ratio	1.61	7.38	1.73
No of Banks with Liquidity Ratio below the prescribed minimum	2	2	2

Source: NDIC

CHART 5: DMBs Liquidity Profile for Q1 2018 and Q2 2018



4.0 CONCLUSION

DMBs had an improved performance in the second half (Q3 and Q4) of 2018. During the quarters under review, the Banking Industry Average CAR increased from 14.14% in Q3 2018 to 15.27% in Q4 2018. Total Industry Assets increased by 0.76% from Q3 to Q4 2018. Profit Before Tax increased by 150.04%. Impaired Credits to Total Credits and Operating Expenses declined, while Recoveries also improved during the period under review.