NDIC Quarterly Vol. 33 No. 1&2 (2018) *pp. 13-20*

FINANCIAL CONDITION AND PERFORMANCE OF DEPOSIT MONEY BANKS IN THE FIRST AND SECOND QUARTER OF 2018

By

Research, Policy & International Relations **AND** Insurance and Surveillance Departments

1.0 INTRODUCTION

During the second quarter of 2018, the Nigerian economy continued to show signs of recovery from the 2016 recession. Nigeria's overall GDP grew by 1.95% in the first Quarter of 2018. That growth trajectory was supported by rising price of crude oil and improved production level in the country. Inflation also declined from 12.5% in April 2018 to 11.6% in May 2018 and was projected to decline further on the back of sustained exchange rate stability and effective liquidity management, amongst others.

These economic developments influenced financial performance of the banking industry in many ways, as reflected in key financial indicators. Total Industry Assets increased marginally from ₦32.54 trillion in Q4, 2017 to ₦33.38 trillion in Q1 2018 but recorded a marginal decrease of 0.47% in Q2 2018 to ₦33.22 trillion. Total Deposits from Customers increased from ₦19.38 trillion in Q4 2017 to ₦19.99 trillion in Q1 2018 and grew further by 1.90%to ₦20.37 trillion in Q2 2018. The Capital to Risk-Weighted Assets Ratio (CAR) also improved from 10.23% in Q4 2017 to 11.91% in Q1 2018 and further improved to 12.08% in Q2 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 ₦32.54 trillion recorded in Q4 2017 to ₦33.38 trillion in Q1 2018.However, the Industry Assets recorded a minimal decline of ₦0.16 trillion or 0.47% in Q1 2018 to ₦33.22 trillion in Q2 2018.The decrease was largely due to decrease in Other Assets which fell by 18.63%, from ₦2.14 trillion in Q1 2018 to ₦1.74 trillion in Q2 2018. Loans & Advances to Banks, Assets pledged as Collateral as well as Loans & Advances to Customers also declined by 10.84%, 3.68% and 2.67% respectively in the period under review.

On the Liabilities side, total Deposits from Customers which constituted 61.32% of the Industry Total Liabilities increased by 1.9% from ₦19.99 trillion in Q1 2018 to ₦20.37 trillion in Q2 2018. That is an increment of ₦0.61 trillion from Q4, 2017 to Q1, 2018. Seven (7) banks had Total Deposits in excess of ₦1 trillion each. Cumulatively, those banks had ₦13.14 trillion or 64.51% of the Total Deposits of ₦20.37 trillion in Q2 2018.

The structure of the industry's Total Assets and Liabilities for Q4, 2017, Q1 2018 and Q2 2018 are presented in Table 1 and Charts 1.1 and 1.2.

TABLE 1: Structure of DMBs' Assets and Liabilities for Q4, 2017 and Q1 & Q2 2018

ASSETS	Q4 2017 (% OF TOTAL ASSETS)	Q1 2018 (% OF TOTAL ASSETS)	Q2 2018 (% OF TOTAL ASSETS)	Change
Cash Balances	1.70	1.81	2.19	0.38
Balances with Banks & Central Bank	22.47	23.96	23.61	-0.35
Loans & Advances to Banks	1.04	1.32	1.18	-0.14
Loans & Advances to Customers	43.14	40.15	39.27	0.88
Financial Assets Held for Trading	5.16	4.66	4.92	0.26
Investment Securities: Available for Sale	9.02	9.51	10.65	1.14
Investment Securities: Held to Maturity	5.32	4.93	5.28	0.35
Assets Pledged as Collateral	3.6	3.61	3.50	-0.11
Investment in Subsidiaries & Associates	1.16	1.19	1.22	0.03
Investment Properties	N/A	N/A	0.45	0.45
Property Plant and Equipment	2.87	2.37	2.43	0.06
Other Assets	4.47	6.43	5.26	-1.17
Asset Classifies as Held for Sale & Discontinued Operations	0.05	0.05	0.05	0
TOTAL ASSETS	100	100.00	100.00	0
LIABILITIES		**% OF TOTAL LIABILITIES**	**% OF TOTAL LIABILITIES**	
Deposit from Banks	3.52	4.20	4.73	0.53
Deposit from Customers	59.54	59.92	61.32	1.4
Financial Liabilities Held for Trading	0.07	0.09	0.06	-0.03
Borrowings	8.88	9.76	9.18	-0.58
Debt Instrument	4.11	3.90	4.09	0.19
Other Liabilities	13.29	12.14	11.70	-0.44
Shareholders' Fund	10.59	9.99	8.92	-1.07
TOTAL LIABILITIES	100.00	100.00	100.00	

Source: NDIC

CHART 1.1: Structure of DMBs Assets for Q2 2018

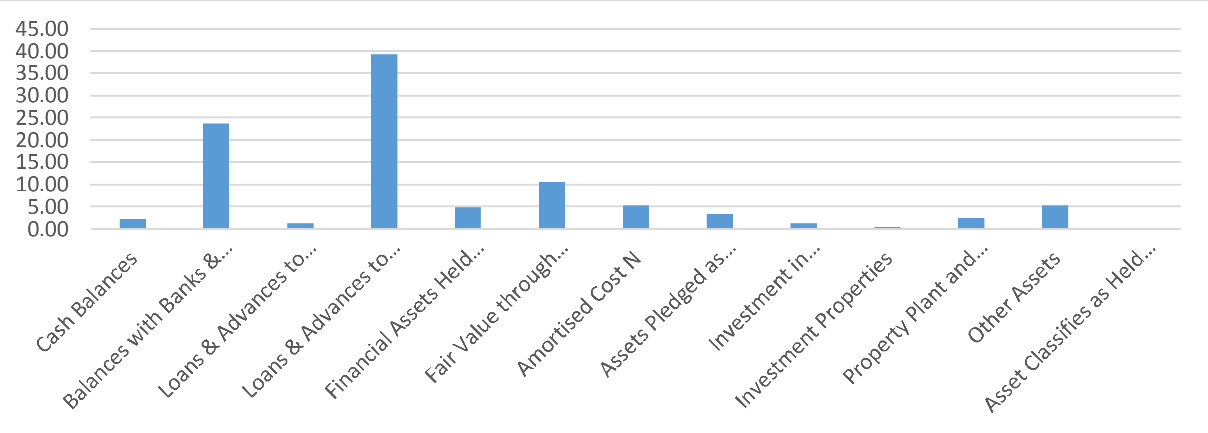


CHART 1.2: Structure of DMBs Liabilities for Q2 2018

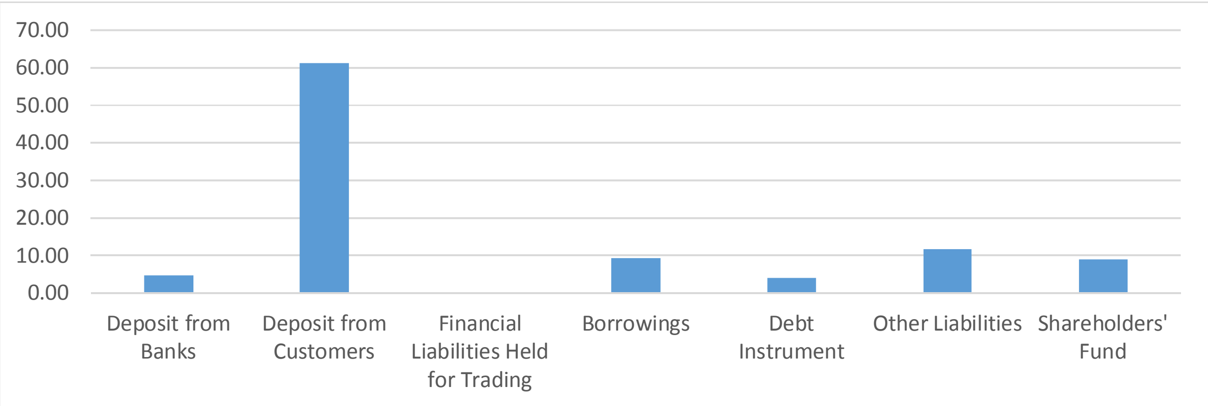


Table 1 and chart 1 shows that Loans & Advances to Customers was the largest component of the Total Assets of DMB's in both quarters accounting for 40.15% & 43.93% in Q1 & Q2 of 2018. As can be seen from the table and charts, Loans & Advances to Customers was the highest component on the Assets side in both quarters, with 40.15% in Q1 2018 and 439.27% in Q2 2018, indicating a decrease of 2.67%. Balances with Banks & Central Bank came second with 23.96% and 23.61% in Q1 2018 and Q2 2018, respectively.

Investment Securities: Available for Sale accounted for 10.65% in Q2 2018 while Amortised Costs & Other Assets amounted to 5.28% & 5.26% of the total assets in the same period. Total Deposits from Customers was the largest component on the Liabilities side with 59.92% in Q1 2018 and 61.32% in Q2 2018. Other Liabilities and Shareholders' Funds accounted for 11.70% and 8.92% in the same period. Financial Liabilities Held for Trading remained the lowest component accounting for 0.06% in Q2 2018 and 0.09% in Q1, 2018.

3.0 FINANCIAL CONDITION OF DMBs

3.1 Capital Adequacy

The Capital to Risk-Weighted Assets Ratio (CAR) also improved from 10.23% in Q4 2017 to 11.91% in Q1 2018 and further improved slightly to 12.08% in Q2 2018.The increase was attributable to the decline in Total Risk Weighted Assets by ₦0.33 trillion, from ₦21.73 trillion in Q1 2018 to ₦21.40 trillion in Q2 2018.

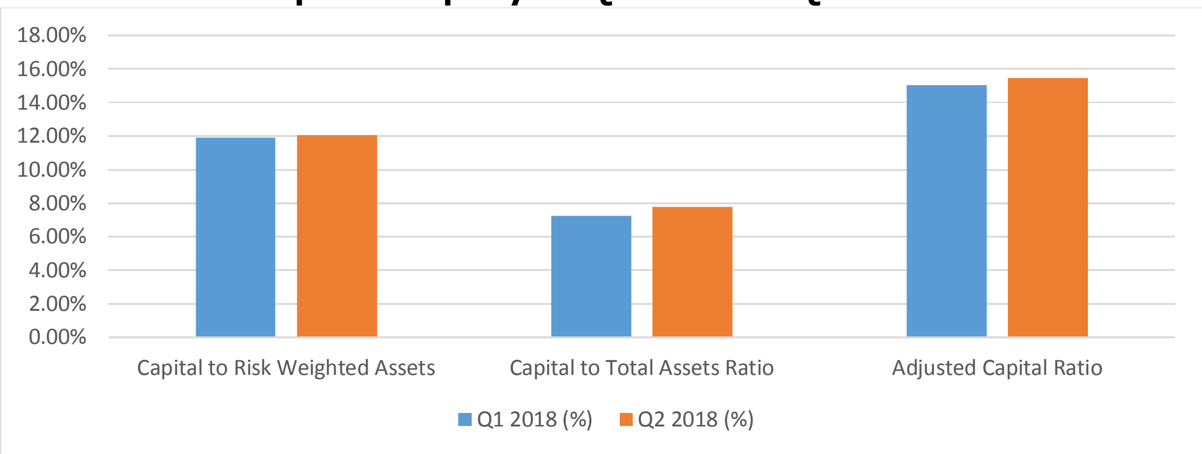
TABLE 2: DMBs Capital Adequacy Position for Q4 2017, Q1 2017 and Q2 2018

Capital Adequacy Ratio	Q4 2017 (%)	Q1 2018 (%)	Q2 2018 (%)
Capital to Risk Weighted Assets	10.23	11.91%	12.08%
Capital to Total Assets Ratio	6.77	7.23%	7.78%
Adjusted Capital Ratio	12.55	15.04%	15.44%

Source: NDIC

Despite the rise in the CAR, capital shortfalls of four (4) banks translated to a recapitalization requirement of ₦1.43 trillion in Q2, an increase of ₦1.39trillion from Q1 2018. Table 2 and Chart 2 depict the CAR position of the industry for Q1 and Q2 2018.

CHART 2: DMBs Capital Adequacy for Q4 2017 and Q1 2018



3.2 Asset Quality

Total Credit, which comprises the bulk of the Earning Assets, slightly decreased from ₦15.913 trillion in Q4 2017 and continued to decrease from ₦15.78 trillion in Q1 2018 to ₦15.52 trillion in Q2 2018. Impaired Credits fell to ₦1.94 trillion, representing 12.47% of Total Credits, an improvement from 13.87% in Q1 2018.

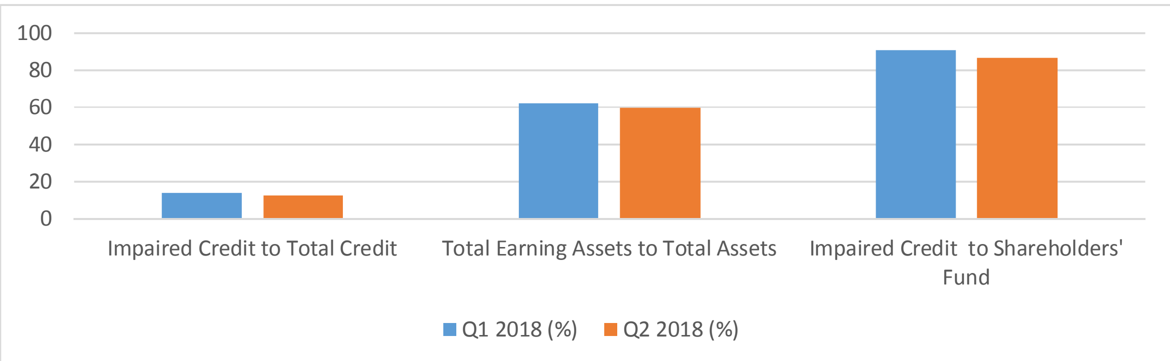
During the period under review, the Impaired Credit ratio of 13.87% exceeded the maximum threshold of 5% prescribed by the CBN. Credits to insiders amounted to ₦734 billion, 41.05% of which ₦301.30 billion was impaired. The Q1 2018 and Q2 2018 Asset Quality indicators are shown in Table 3 and Chart 3.A sum of ₦750 billion (15%) credit avail to this sector was however impaired. Table 3 & chart 3 present the indicators of Asset quality in both quarters under review.

TABLE 3: DMBs Asset Quality Indicators in Q3 and Q4 2017

Details	Q4 2017 (%)	Q1 2018 (%)	Q2 2018 (%)
Impaired Credit to Total Credit	14.84	13.87	12.47
Total Earning Assets to Total Assets	74.21	62.12	59.74
Impaired Credit to Shareholders' Fund	100.96	90.75	86.66

Source: NDIC

CHART 3: DMBs Asset Quality for Q4 2017 and Q1 2018



3.3 Earnings and Profitability

In Q4 2017, the industry recorded a Profit Before Tax (PBT) of ₦154.08billion which was lower than the Q1 2018 value of₦159.51 billion. That was also lower than the ₦195.19 billion recorded in Q2 2018, representing an increase of 22.37% from Q1 to Q2 2018. This could be attributed to a 25.15% increase in Trading Income from ₦62.52 billion in Q1 2018, to ₦78.24 billion in Q2 2018, and an increase of 197.53% in Recoveries, from ₦4.36 billion in Q1 2018 to ₦12.97 billion in Q2 2018.

Return on Assets (ROA) decreased from 0.48% in Q4 2017 to 0.32% in Q1 2018 and then increased to 0.64% in Q2 2018. Also, Return on Equity (ROE) increased from 4.69% in Q4 2017 to 5.17% in Q1 2018 and further increased to 6.65% in Q2 2018. The Q1 2018 and Q2 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	**Q4 2017 (%)**	**Q1 2018 (%)**	**Q2 2018 (%)**
Return on Assets	0.48	0.32	0.64
Return on Equity	4.69	5.17	6.65
Net Interest Margin	0.94	1.44	1.40
Yield on Earning Assets	2.64	2.66	2.54
Parameters	**Q4 2017 (N' billion)**	**Q1 2018 (N' billion)**	**Q2 2018 (N' billion)**
Profit Before Tax	154.08	159.52	195.19
Interest Income	841.60	802.83	767.78
Operating Expenses	449.02	433.45	430.89
Interest Expense	332.69	371.84	343.58
Net-Interest Income	455.01	430.99	424.19

Source: NDIC

CHART 4.1: DMBs Earning and Profitability ratios for Q1 2018 and Q2 2018

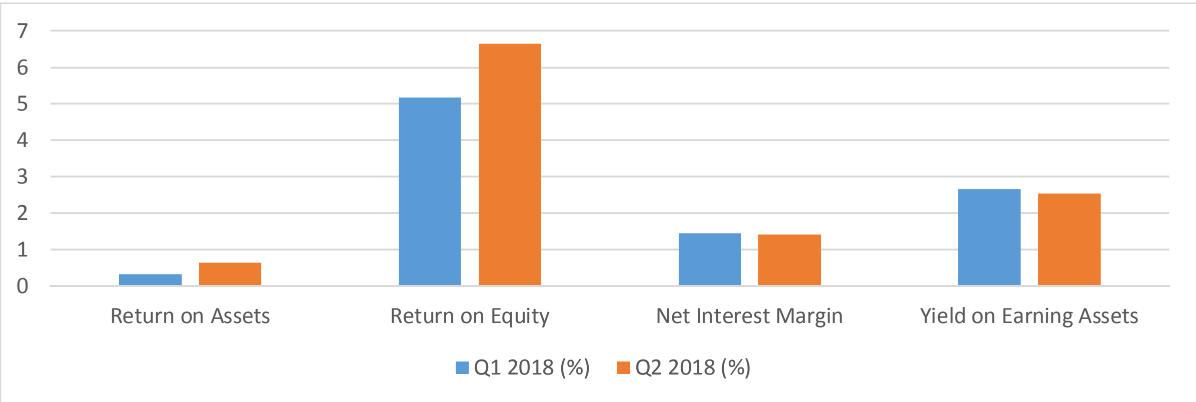
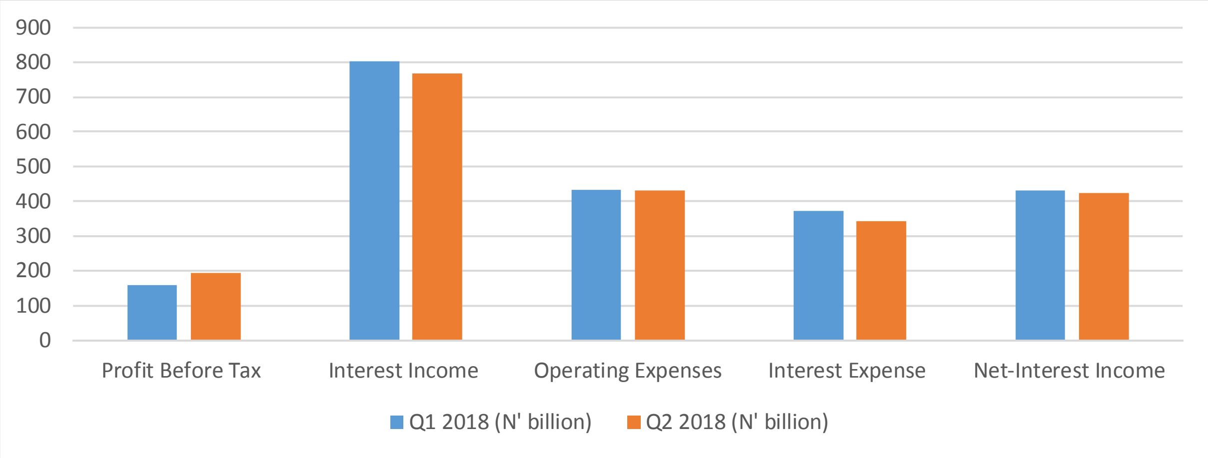


CHART 4.2: Earning and Profitability for Q1 2018 and Q2 2018



3.4 Liquidity Profile

As at Q4 2017, the Average Liquidity Ratio (ALR)of the industry was 45.56%, which increased to 46.07% in Q1 2018 and further improved to 61.75% in Q2 2018. The Net Credit to Deposits Ratio, measures banks' level of lending activities, decreased from 70.98% in Q1 2018 to 67.86% in Q2 2018, as shown in Table 5 and Chart 5.

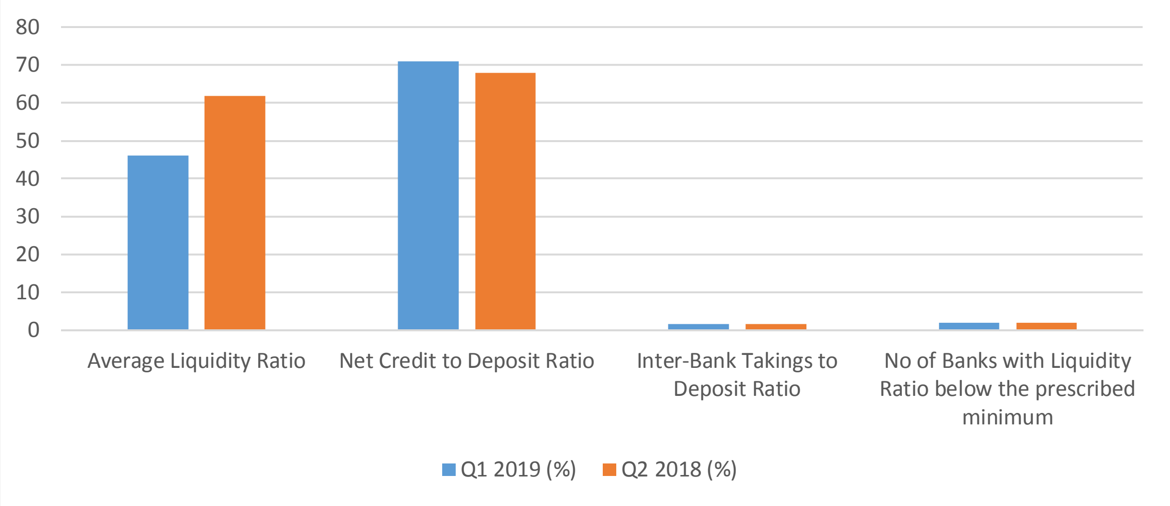
All except two (2) of the DMBs met the minimum liquidity ratio of 30% for Commercial Banks and 20% for Merchant Banks in Q2 2018.

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

Indicators	**Q4 2017 (%)**	**Q1 2018 (%)**	**Q2 2018 (%)**
Average Liquidity Ratio	45.56	46.07	61.75
Net Credit to Deposit Ratio	72.30	70.98	67.86
Inter-Bank Takings to Deposit Ratio	1.35	1.75	1.61
No of Banks with Liquidity Ratio below the prescribed minimum	4	2	2

Source: NDIC

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



4.0 CONCLUSION

DMBs had an improved performance during the quarter under review as evidenced by the Banking Industry Average CAR increased from 11.91% in Q1 2018 to 12.08% in Q2 2018. The Net Credit to Deposits Ratio remained at an acceptable level that is below 80%. Profit Before Tax increased by 22.37%. Impaired Credits to Total Credits and Operating Expenses declined. Trading Income and Recoveries improved in the period under review. However, Industry Total Assets decreased slightly by 0.47% from ₦33.38 trillion in Q1 2018 to ₦33.22 trillion in Q2 2018.