FINANCIAL CONDITION AND PERFORMANCE OF DEPOSIT MONEY BANKS IN THE FIRST HALF OF 2019

By

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

1.0 INTRODUCTION

The Nigerian economy recorded marginal growth of 2.01% in Q1 and 1.94% in Q2, 2019, suggesting that recovery from recession was still weak, however with a promising outlook. Inflation, declined slightly from 11.44% in Q4 2018 to 11.25% in Q1 2019, and then rose to 11.40% in Q2 2019. Relative stability remained in both the Investors' and Exporters' (I&E) window of the foreign exchange market due to autonomous inflows and sustained intervention efforts of the CBN. Nigeria's External Reserves which stood at US$43.11 billion in Q4 2018 rose to US$44.43 billion in Q1 2019 and US$45.07 billion in Q2 2019.

The CBN continued to maintain MPR rate at 13.50%, with implications for increase in firms' access to credit, improvement in Loan to Deposit Ratio, and reduction in Non-Performing Loans. However, in order to further invigorate economic growth through investment in the real sector, the CBN had directed that all DMBs should maintain a minimum Loan to Deposit Ratio (LDR) of 60% by September 30, 2019 in addition to the recent special MSME intervention funds where small businesses could have access to affordable financing.

These economic developments impacted financial sector performance in Q1 and Q2 of 2019, as reflected in key financial indicators which were mostly on an increasing trend. Total Industry Assets increased from ₦35.10 trillion in Q4 2018 to ₦36.54 trillion and ₦38.04 trillion in Q1 and Q2 2019, respectively. Total Deposits from Customers also increased from ₦21.73 trillion in Q4 of 2018 to ₦22.00 trillion in Q1 of 2019 and ₦22.84 trillion in Q2 of 2019. The Capital to Risk-Weighted Assets Ratio (CAR) declined slightly from 15.55% in Q1 2019 to 15.26% in Q2 2019.

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 ₦35.10 trillion recorded in Q4 2018 to ₦36.54 trillion in Q1 2019. The trend continued in Q2 2019 as Total Industry Assets rose to ₦38.04 trillion. The increment was largely attributed to a 25.97% increase in Other Assets as well as slight increments in Balances with Banks and Central Bank, Loans and Advances to Customers and Banks.

On the Liabilities side, Total Deposits from Customers which constituted 60.06% of the Industry Total Liabilities increased by 3.84% from ₦21.73 trillion in Q4 2018 to ₦22.00 trillion in Q1 2019 and ₦22.84 trillion in Q2 2019. Seven (7) banks had Total Deposits in excess of ₦1 trillion each. Cumulatively, these banks had ₦16.13 trillion or -70.61% of the Total Industry Deposits of ₦22.84 trillion in Q2 2019.

The structure of the industry's Total Assets and Liabilities for Q4 2018, Q1 2019 and Q2 2019 are presented in Table 1 as well as Charts 1.1 and 1.2.

TABLE 1: Structure of DMBs' Assets and Liabilities for Q1 and Q2 2019

ASSETS	**Q4 2018**	**Q1 2019**	**Q2 2019**
Cash Balances	2.25	2.15	1.90
Balances with Banks & Central Bank	23.19	24.57	24.58
Loans & Advances to Banks	1.19	1.66	2.01
Loans & Advances to Customers	36.67	35.92	35.03
Financial Assets Held for Trading	4.89	4.92	4.84
Investment Securities: Available for Sale	11.52	10.10	9.74
Investment Securities: Held to Maturity	7.32	5.87	6.05
Assets Pledged as Collateral	3.83	5.36	5.43
Investment in Subsidiaries & Associates	1.24	1.25	1.13
Investment Properties	2.41	2.71	0.36
Property Plant and Equipment	5.03	5.08	2.71
Other Assets	5.03	5.08	6.15
Asset Classified as Held for Sale & Discontinued Operations	0.07	0.06	0.07
TOTAL ASSETS	100.00	100.00	100.00
LIABILITIES	**% OF TOTAL**	**% OF TOTAL**	**% OF TOTAL**
Deposit from Banks	5.00	5.49	6.68
Deposit from Customers	61.90	60.22	60.06
Financial Liabilities Held for Trading	0.13	0.13	0.09
Borrowings	8.69	9.13	7.96
Debt Instrument	3.63	3.44	3.00
Other Liabilities	11.65	11.97	12.98
Shareholders' Fund	8.99	9.63	9.24
TOTAL LIABILITIES	100.00	100.00	100.00

Source: NDIC

CHART 1.1: Structure of DMBs Assets for Q1 and Q2 2019

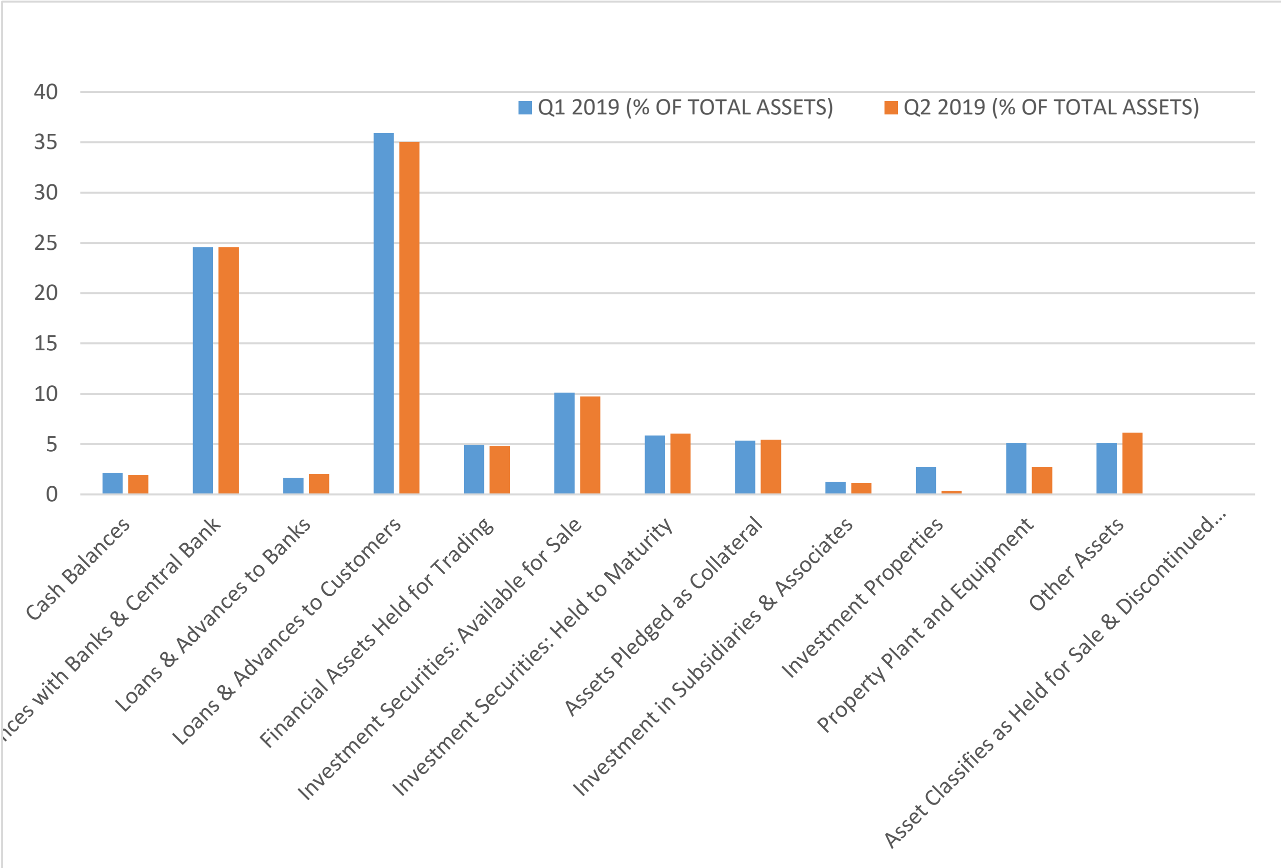


CHART 1.2: Structure of DMBs Liabilities for Q1 and Q2 2019

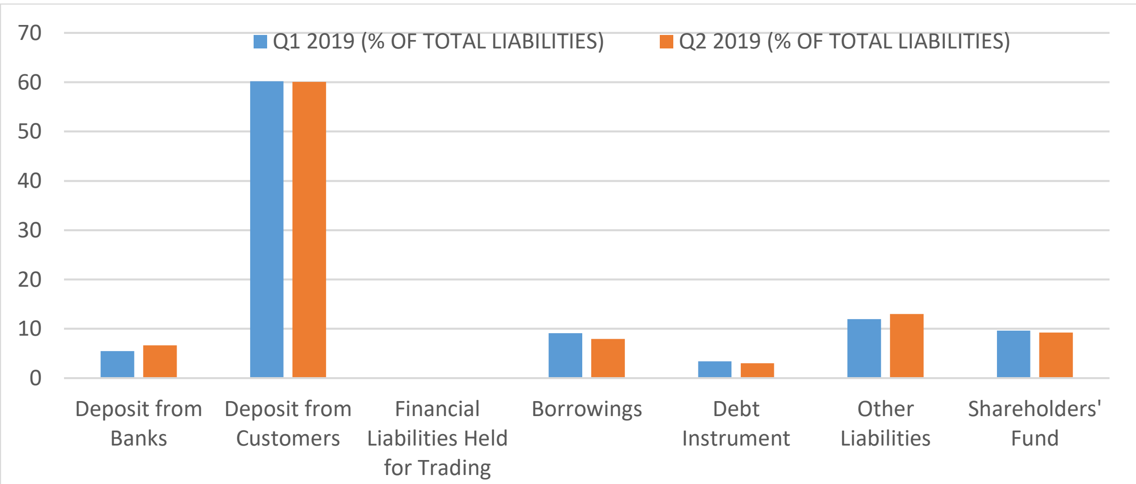


Table 1 and chart 1 show that Loans & Advances to Customers was the largest components of DMB's Total Assets in both quarters, accounting for 35.92% & 35.03% in Q1 & Q2 of 2019 respectively. Balances with Banks & Central Bank came second with 24.57% in Q1 2019 and 24.58% in Q2 2019.

Total Deposits from Customers was the largest component on the Liabilities side with 60.22% in Q1 2019 and 60.06% in Q2 2019. Other Liabilities and Shareholders' Funds accounted for 12.98% and 9.24% in Q2 2019, respectively.

3.0 FINANCIAL CONDITION OF DMBs

3.1 Capital Adequacy

The banking industry's Capital Adequacy Ratio (CAR) declined slightly from 15.55% in Q1 2019 to 15.26% in Q2 2019. The decrease was attributable to the increase in Total Risk Weighted Assets from ₦21.19 trillion in Q1 2019 to ₦21.50 trillion in Q2 2019 and a decrease in total qualifying Capital from ₦3.30 trillion in Q1 2019 to ₦3.28 trillion to Q2 2019.

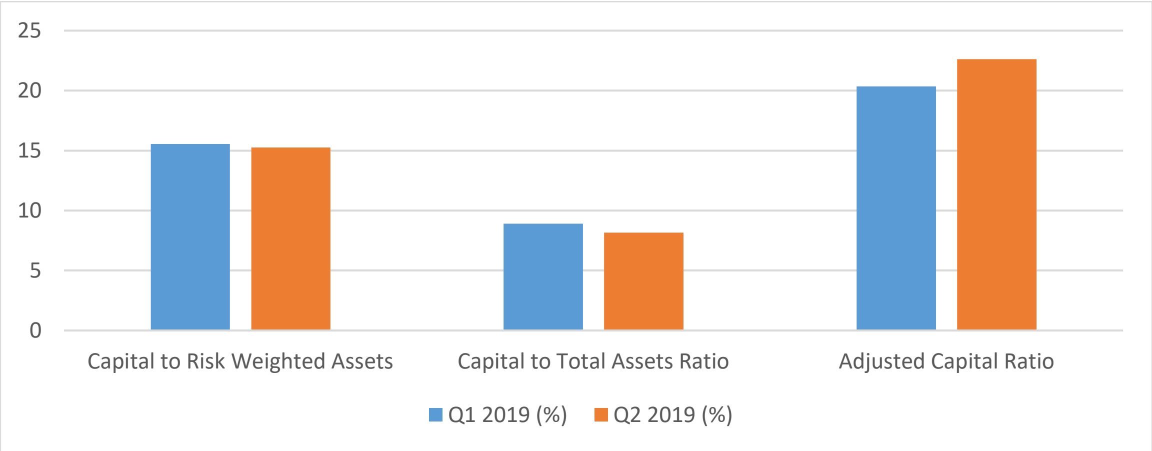
TABLE 2: DMBs Capital Adequacy Position for Q1 and Q2 2019

Capital Adequacy Ratio	Q4 2018 (%)	Q1 2019 (%)	Q2 2019 (%)
Capital to Risk Weighted Assets	15.27	15.55	15.26
Capital to Total Assets Ratio	9.09%	8.91	8.16
Adjusted Capital Ratio	20.10%	20.36	22.61

Source: NDIC

The Capital shortfalls of four (4) banks translated to a recapitalization requirement of ₦680.25 billion in Q1 2019 and, ₦728.80 billion in Q2 2019. Table 2 and Chart 2 depict the CAR position of the industry for Q1 and Q2 2019.

CHART 2: DMBs Capital Adequacy for Q1 and Q2 2019



3.2 Asset Quality

The banking industry's Total Earning Assets constituted 60.88% of the Industry Total Assets, which increased from ₦22.05 trillion in Q4 2018 to ₦22.52 trillion and ₦23.15 trillion in Q1 and Q2 2019, respectively. Total Credit which represents the bulk of the Earning Assets, decreased slightly from ₦15.49 trillion in Q1 2019 to ₦15.39 trillion in Q2 2019**.** Recoveries of bad debts increased from ₦17.11 billion in Q1 2019 to ₦37.67 billion in Q2 2019.

Impaired Credits amounted to ₦1.44 trillion or 9.35% in Q2 2019, an improvement from Q1 2019 figure of ₦1.67 trillion or 10.80% of Total Credits. Total Industry Impaired Credits continued to exceed the maximum threshold of 5% prescribed by the CBN. Credits to insiders amounted to ₦679.14 billion in Q1 2019, 47.77% of which or ₦324.42 billion was impaired. The figure rose to ₦729.21 billion in Q2 2019, of which 46.50% or ₦339.07 billion was impaired.

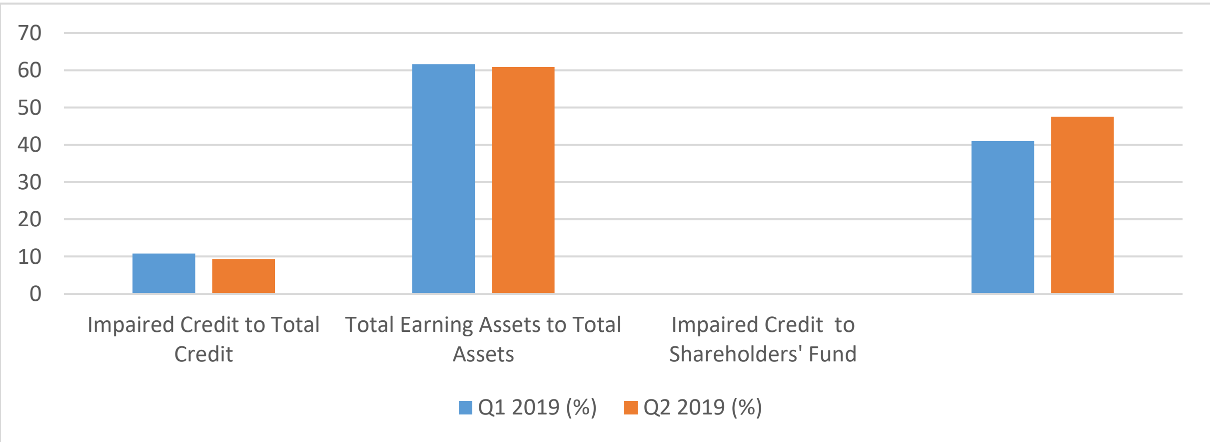
Credit to the Oil and Gas sector remained dominant, standing at ₦4.65 trillion or 30.02% and ₦4.44 trillion or 28.86% of Total Industry Credits in Q1 and Q2 2019, respectively. The impaired amount stood at ₦740.66 billion in Q1 2019 and ₦577.50 billion in Q2 2019. Asset Quality indicators are shown in Table 3 and Chart 3.

TABLE 3: DMBs Asset Quality Indicators in Q1 and Q2 2019

Details	**Q4 2018 (%)**	**Q1 2019 (%)**	**Q2 2019 (%)**
Impaired Credit to Total Credit	11.70	10.80	9.35
Total Earning Assets to Total Assets	62.81	61.64	60.88
Impaired Credit to Shareholders' Fund	57.5	47.54	40.99

Source: NDIC

CHART 3: DMBs Asset Quality for Q1 and Q2 2019



3.3 Earnings and Profitability

The industry recorded a Profit Before Tax (PBT) of ₦211.99 billion in Q2 2019, a decrease from the Q1 2019 figure of ₦219.22 billion. This could be attributed to 76.98% decrease in Trading Income and 7.82% increase in Operating expenses, amongst other factors.

Return on Assets (ROA) increased from 0.41% in Q1 2019 to 0.57% in Q2 2019. Also, Return on Equity (ROE) decreased from 6.73% in Q1 2019 to 6.54% in Q2 2019. The Q1 2019 and Q2 2019 Earnings and Profitability indicators are shown in Table 4 as well as Charts 4.1 and 4.2.

TABLE 4: **DMBs Earnings and Profitability Indicators in Q1 and Q2 2019**

Indicators	**Q4 2018 (%)**	**Q1 2019 (%)**	**Q2 2019(%)**
Return on Assets	0.88	0.41	0.57
Return on Equity	9.73	6.73	6.54
Net Interest Margin	1.85	1.19	1.86
Yield on Earning Assets	3.23	2.08	3.50
Parameters	**Q4 2018 (N' billion)**	**Q1 2019 (N' billion)**	**Q2 2019 (N' billion)**
Profit Before Tax	306.48	219.22	211.99
Interest Income	698.16	807.35	798.29
Operating Expenses	329.04	411.88	444.10
Interest Expense	298.98	363.06	373.38
Net-Interest Income	399.18	444.29	424.91

Source: NDIC

CHART 4.1: DMBs Earning and Profitability ratios for Q1 and Q2 2019

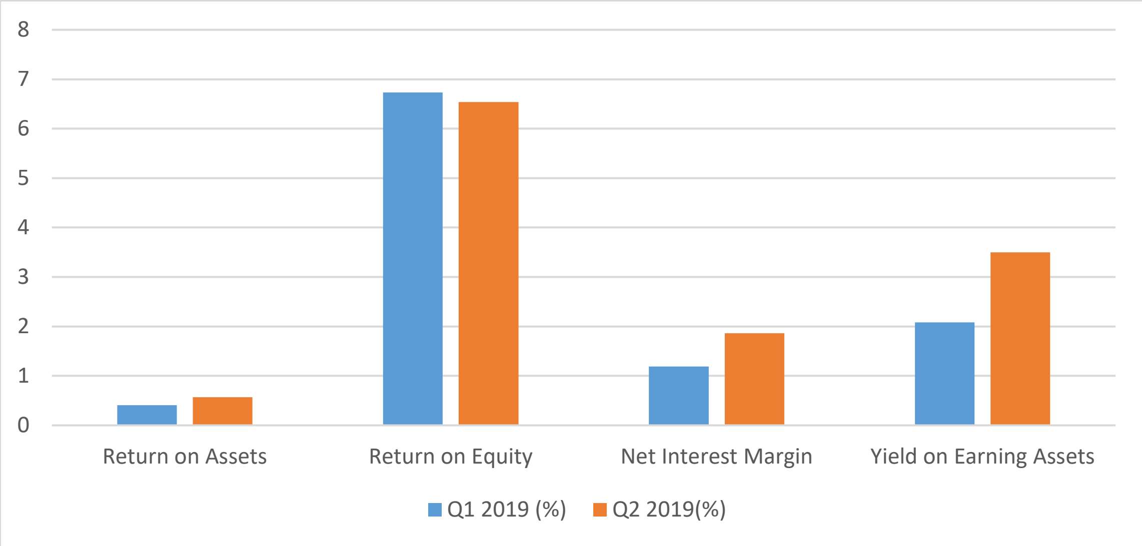
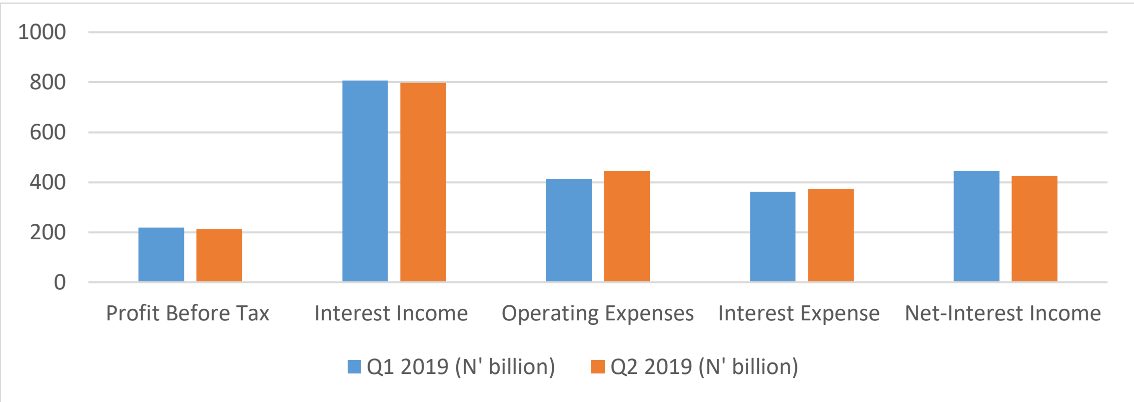


CHART 4.2: Earning and Profitability for Q1 and Q2 2019



3.4 Liquidity Profile

In Q1 2019, the Average Liquidity Ratio (ALR) of the industry was 77.85%. The ratio decreased to 75.80% in Q2 2019. The Net Credit to Deposits Ratio that measures banks' level of lending activities stood at 65.09% in Q1 2019 and 62.37% in Q2 2019, as shown in Table 5 and Chart 5.

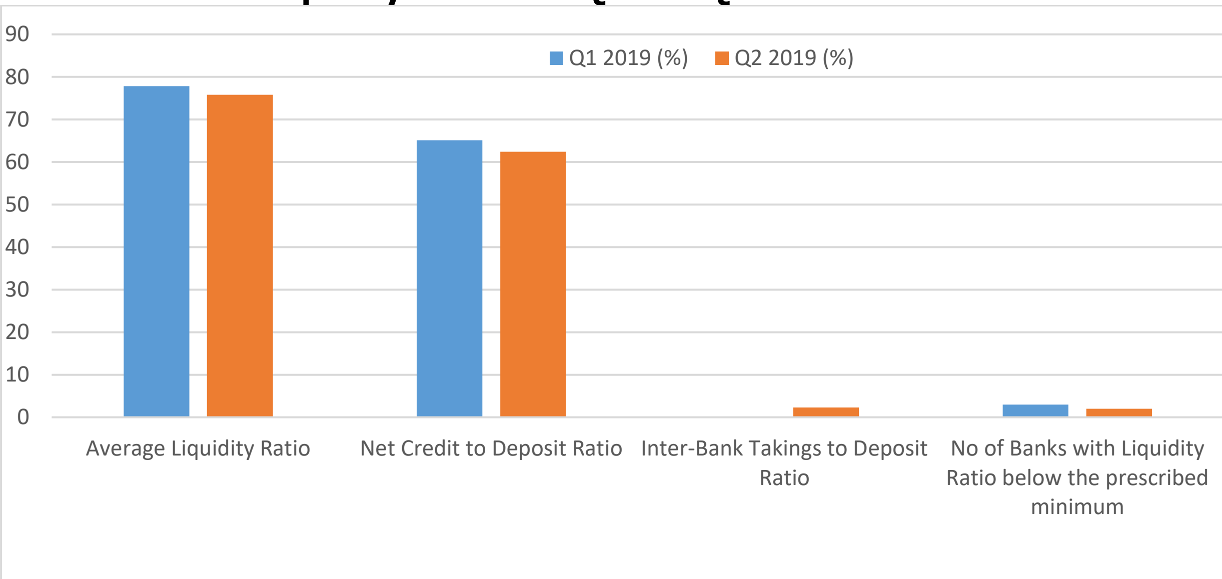
All except three (3) and two (2) banks respectively, met the minimum liquidity requirements in Q1 and Q2 2019, respectively.

TABLE 5: DMBs Liquidity Profile for Q1 and Q2 2019

Indicators	Q4 2018 (%)	Q1 2019 (%)	Q2 2019 (%)
Average Liquidity Ratio	51.87	77.85	75.8
Net Credit to Deposit Ratio	64.69	65.09	62.37
Inter-Bank Takings to Deposit Ratio	1.73	0.12	2.33
No of Banks with Liquidity Ratio below the prescribed minimum	2	3	2

Source: NDIC

CHART 5: DMBs Liquidity Profile for Q1 and Q2 2019



4.0 CONCLUSION

The banking industry maintained a virtually stable performance in the first two quarters of 2019. During the period, the banking industry average CAR decreased from 15.55% in Q1 2019 to 15.26% in Q2 2019. Total Industry Assets increased by 2.79% between Q1 and Q2 2019. The Net Credit to Deposits Ratio remained at an acceptable position, that is, below 80%. Profit Before Tax decreased by 3.29%, Operating Expenses increased by 7.82%, while Recoveries rose by 120.08% during the period under review. Impaired Credits to Total Credits, while above the prudential threshold continued on a decreasing trend.