FINANCIAL CONDITION AND PERFORMANCE OF INSURED DEPOSIT MONEY BANKS (DMBS) IN THE FIRST AND SECOND QUARTERS OF 2016

BY

RESEARCH POLICY & INTERNATIONAL RELATIONS AND INSURANCE AND SURVELLANCE DEPARTMENTS

1.0 INTRODUCTION

A review of the two quarters under review showed a diverse performance in most of the indices in the banking industry. This was not unrelated to the down-turn being experienced in the general economy resulting from falling oil prices, foreign exchange shortages, declining GDP growth rate and rising inflation among others. The impact of these was evident in the quality of risk assets, quantum of earnings, and credit as well as deposit base of the banking industry in the period under review.

The first quarter of 2016 showed a net increase in the banking industry Total Assets by 1.31%, from ₦26.96 trillion in December 2015 to ₦27.32 trillion in March 2016. However, the period witnessed a mixed performance of asset changes as some appreciated while others declined. Loans and Advances to customers, which constituted 43.65% of the Total Assets decreased by 1.58% from ₦12.11 trillion as at December 31, 2015, to ₦11.92 trillion as at 31st March, 2016. Similarly, Loans and Advances to banks which accounted for 1.57% of the industry Total Assets decreased by 9.80% from ₦476.83 billion in December 2015 to ₦430.09 billion as at March 2016**.** The quality of these assets deteriorated during the period under review as the ratio of impaired Credits to Total Credits increased from 4.87% in December 2015 to 9.49% as at March 2016.

Similarly, in the second quarter of 2016, Total Assets of the industry recorded a growth of ₦2.668 trillion or 9.77% from ₦27.32 trillion in March 2016 to ₦29.99 trillion as at June 30, 2016. Loans and Advances to customers, which constituted 47.09% of the Total Assets increased by ₦2.19 trillion or 18.43% from ₦11.92 trillion as at March 31, 2016 to ₦14.12 trillion as at 30th June, 2016.

The profitability of the banking industry showed an upward movement during the two quarters under review. Profit-Before-Tax of the banking industry increased from ₦113.82 billion to ₦130.48 billion between December 2015 and March 2016. Similarly, there was an increase of about 49.18% in the Profit before Tax between March and June 2016, as it stood at ₦194.65 billion as against the ₦130.48 billion reported for the quarter-ended March 2016

The banking industry Capital to Risk Weighted Assets Ratio (CAR) declined marginally from 17.66% as at 31st December 2015 to 16.56% as at March 2016. Also, in the second quarter of 2016, the CAR declined from 16.56% as at 31st March, 2016 to 14.74% as at 30th June 2016. However despite the decline in this index in the two quarters under review, the industry CAR were still above the prudential requirement of 10%. On the other hand, the Average Liquidity Ratio (ALR) for the industry improved from 58.18% in December 2015 to 64.02% as at March 2016 but depreciated to 55.97% in June 2016.

The rest of the paper comprises of three sections. Section two presents the Structure of Assets and Liabilities; Section three assesses the financial condition of Insured DMBs, while Section four concludes.

2.0 STRUCTURE OF ASSETS AND LIABILITIES

During the two quarters under review, the Total Assets of the industry increased by 1.31%, from ₦26.96 trillion in December 2015 to ₦27.32 trillion in March 2016. Similarly, in the second quarter of 2016 the industry asset recorded a growth of ₦2.67 trillion or 9.77% from ₦27.32 trillion in March 2016 to ₦29.99

trillion as at June 30, 2016. The structure of the industry's total assets and liabilities as at the end of the first and second quarters of 2016 are presented in Table 1 and Charts 1A and 1B.

TABLE 1

Structure of Banks' Assets and Liabilities as at June 2016 and March 2016

Assets	**June 2016 (%)**	**March 2016 (%)**	**Liabilities**	**June 2016 (%)**	**March 2016 (%)**
Cash Balances	1.39	1.67	Deposits from Customers	61.82	64.82
Balances with Banks and Central Bank	21.26	22.61	Deposits from Banks	3.80	2.51
Loans and Advances to Banks	1.76	1.57	Financial Liabilities held for Trading	0.03	0.02
Loans and Advances to Customers	47.09	43.65	Due to Other Banks	-	-

Investment Securities Available for Sale	8.32	9.84	Borrowings	9.34	8.23
Investment Security Held to Maturity	8.14	9.39	Other Liabilities	9.39	9.32
Other Assets	5.10	4.26	Debt Instrument	3.08	2.63
Property, Plant and Equipment	2.80	2.98	Shareholders' Funds (Unadjusted)	0.75	13.64
Assets Pledged as Collateral	1.41	1.10	Others	-	-
Others	2.73	2.93			
Total	**100.00**	**100.00**	**Total**	**100.00**	**100.00**

Source: NDIC

Chart 1A: Structure of Banks' Assets as at June 2016 and March 2016

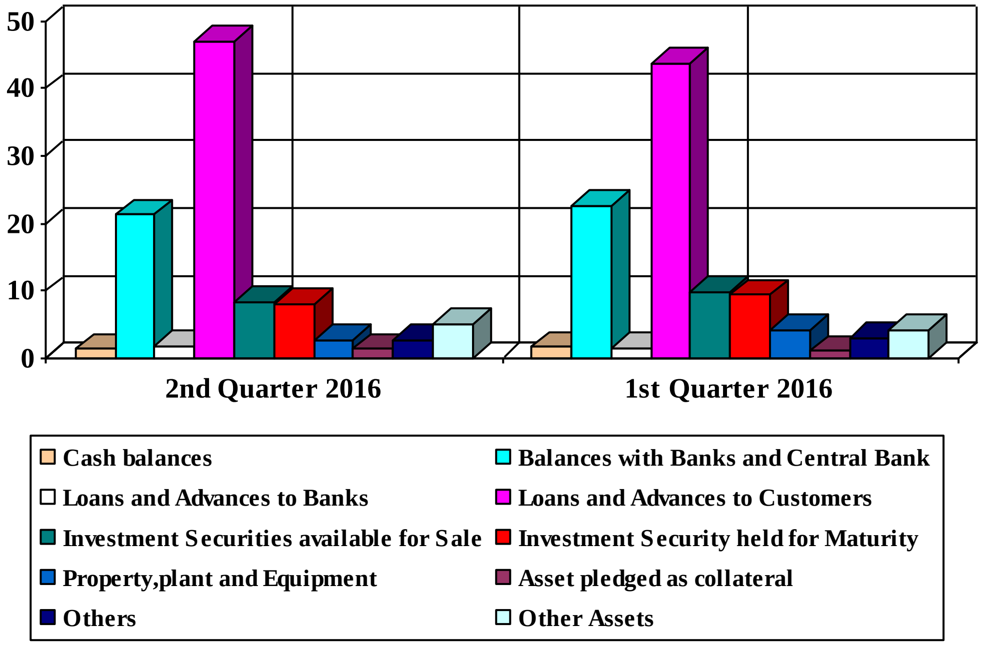
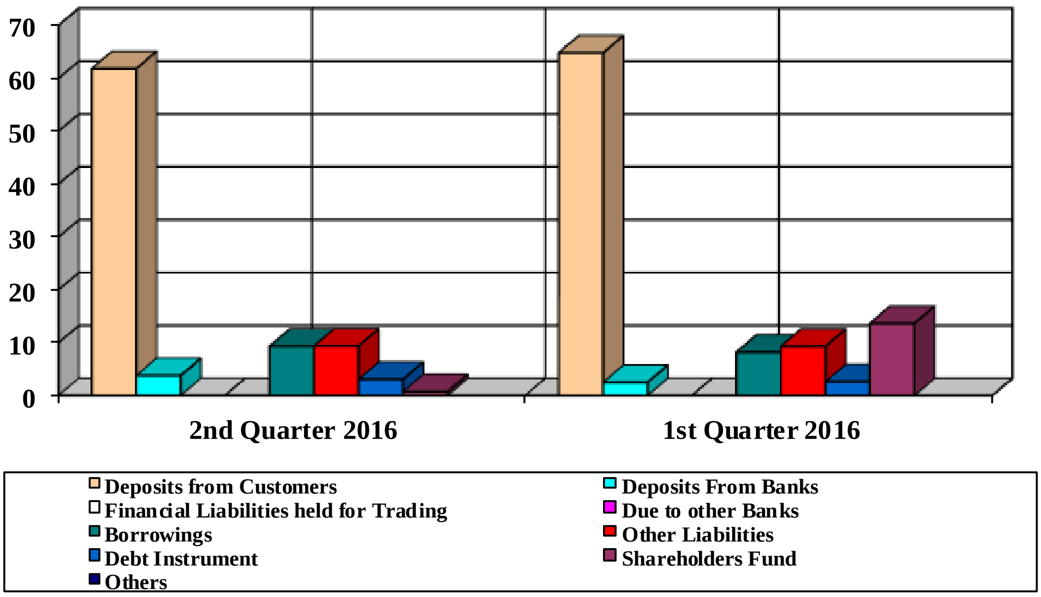


Chart 1B: Structure of Banks' Liabilities as at June 2016 and March 2016



Loans and Advances to Customers have the highest component of the assets of the banking industry for both first and second quarters of 2016. As at March 31st 2016, it accounted for 43.65% of the Total Assets. This showed a decrease of 1.58% from ₦12.12 trillion as at December 31, 2015, to ₦11.92 trillion as at 31 March, 2016. However, there was a 18.43% increase in the second quarter from the ₦11.92 trillion recorded in March, to ₦14.12 trillion in June 2016. Loans and advances to customers accounted for 47.09% in the second quarter of 2016.

Similarly, Loans and Advances to Banks accounted for 1.57% of the industry Total Assets, and it decreased by 9.80% from N476.83 billion in December 2015 to ₦430.09 billion as at March 2016. In the second quarter, it accounted for 1.76% of the industry Total Assets and it recorded an increment of 22.57% from ₦430.09 billion to ₦527.18 billion.

However, for the other components of the industry's Total Assets in the first quarter of 2016; balances with banks and Central Bank (CBN), accounted for 22.61% of the total asset. Investment Securities Available for Sale accounted for 9.84% of the Total Asset, while Investment Security Held to Maturity accounted for 9.39% of the total assets. In the second quarter, balances with banks and central bank accounted for 21.26% of the total asset. Investment securities available for sale accounted for 8.32% of the total asset, while investment security held at maturity accounted for 8.14% of the total asset

On the liability side, Total Deposits had the highest component of liability with 63.88% of the industry Total Liabilities in the first quarter of 2016, and it declined slightly from ₦17.46 trillion in December 2015 to ₦17.45 trillion as at March 2016.

Similarly, in the second quarter of 2016, Total Deposits from Customers have the highest component. It constituted 61.82% of the industry Total Liabilities which recorded an increase of 6.24% from ₦17.45 trillion in March 2016 to ₦18.54 trillion in June 2016.

3.0 ASSESSMENT OF THE FINANCIAL CONDITION OF INSURED DMBS

Asset Quality

In the first quarter of 2016, the industry's Total Credit marginally declined by 2.56% from ₦13.33 trillion in December, 2015 to ₦12.99 trillion in March 2016. In the second quarter of 2016, it increased by 17.84% from ₦13.28 trillion in March 2016 to ₦15.65 trillion in June 2016. The decline experienced in the first quarter was due to the increase in Cash Reserve Ratio (CRR) and Monetary Policy Rate (MPR) and the increased aversion displayed by banks towards lending in a recessionary period among others.
The quality of loans declines as in absolute terms, Non-Performing Loans (NPLs) increased by 4.87% in March 2016 from ₦648.91 billion as at the end of December 2015 to ₦1.26 trillion at the end of March 2016 with a ratio of 9.45%. The trend continued in the second quarter as the NPLs increased by 9.32% in March 2016 from ₦1.26 trillion to ₦1.38 trillion in June 2016. The NPL ratios in both first and second quarter exceeded the maximum threshold of 5% prescribed by the CBN.

Furthermore, the ratio of Non-Performing Credits to Shareholders' Funds increased from 28.66% in March 2016 to 41.06 in June 2016. The Ratio of Provision for Impaired Credit to Impaired Credit decreased slightly from 69.98% in March 2016 to 63.17% in June 2016, while Impaired Credit to Total Credit increased from 28.66% in March 2016 to 41.06% in June 2016. Table 2 and Chart 2 present the indicators of Insured DMBs Asset Quality for June 2016 and March 2016.

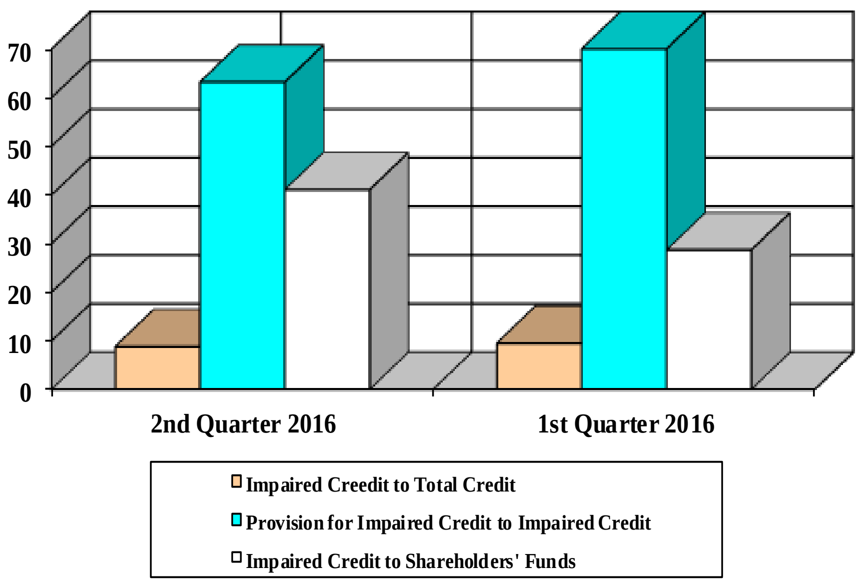
TABLE 2

Insured DMBs Asset Quality

Asset Quality Indicator	**Period**	
	June 2016 (%)	**March 2016 (%)**
Impaired Credit to Total Credit	8.80	9.49
Provision for Impaired Credit to Impaired Credit	63.17	69.98
Impaired credit to Shareholders' Funds	41.06	28.66

Source: NDIC

Chart 2: Indicators of Insured Banks' Asset Quality as at June 2016 and March 2016



3.2 Earnings and Profitability

As at 31st March 2016, Profit-Before-Tax increased by 14.63% to ₦130.48 billion from ₦113.83 billion reported for the quarter ended December 2015. The increment was as a result of a 15% increment in recoveries and the decline in operating expenses by 22.98%. On the flip side, Interest Income declined by 18.27% from ₦609.43 billion reported for the quarter ended December 2015 to ₦498.08 billion for the quarter ended March 2016. Non-Interest Income declined by 65.52%, from ₦162.08 billion in December 2015 to ₦46.26 billion in March 2016. Also, Interest Expenses declined by 24.13% from ₦239.22 billion in December 2015 to ₦181.49 billion in March, 2016.

In the second quarter, Profit-Before-Tax increased by 49.18% in June 2016 to ₦194.66 billion when compared with the ₦130.48 billion reported for the quarter-ended March 2016. Interest Income increased by 17.01% from ₦498.08 billion in March 2016 to ₦582.79 billion in June 2016. Non-Interest Income recorded a remarkable growth of 503.03%, from ₦55.88 billion in March 2016 to ₦336.98 billion in June 2016. Similarly, Interest Expense increased by 10.49% from ₦181.49 billion in March 2016 to ₦200.52 billion in June 2016. Operating Expenses also increased significantly by ₦213.74 billion or 68.20% from ₦313.40 billion in March 2016 to ₦527.14 billion in June 2016.

Furthermore, Return-on-Assets (ROA) increased from 0.38% as at December 2015 to 0.57% as at March 2016, and then again to 0.72% as at June 2016. However, Return-on-Equity (ROE) first depreciated from 2.90% in March 2015 to 1.41% then increased to 1.82% in June 2016. These and other indices are depicted in Table 3 and Chart 3.

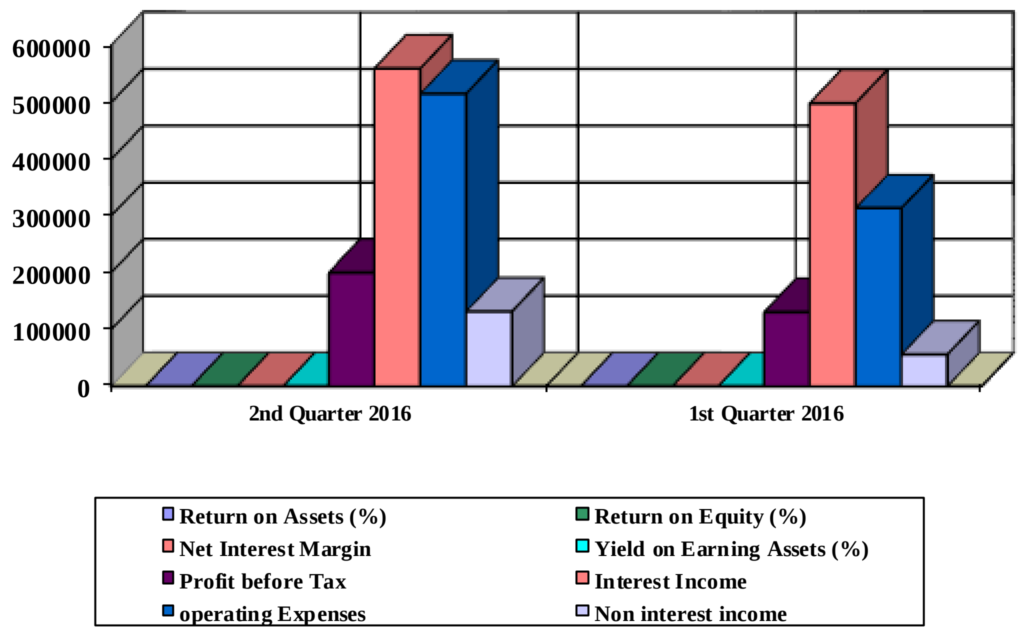
TABLE 3

Insured DMBs' Earnings and Profitability Indicators as at June 2016 and March 2016

Earnings/Profitability Indicator	Period	
	June 2016	March 2016
Return on Assets (%)	0.72	0.57
Return on Equity (%)	1.82	1.41
Net Interest Margin	3.2	2.65
Yield on Earning Assets (%)	1.04	2.03
Profit Before Tax (N' billion)	199,777	130,482
Interest Income (N' billion)	559,677	498,080
Operating Expenses (N' billion)	515,308	313,400
Non-Interest Income (N' billion)	131,597	55,881

Source: NDIC

Chart 3: Insured Banks' Earnings and Profitability as at June 2016 and March 2016



3.3 Liquidity Profile

The banking industry experienced increased liquidity as depicted by the relevant indices. The improvement was partly due to slight increase in the cash reserve requirement for banks from 20% to 22.50% by the CBN. Average Liquidity Ratio increased to 64.02% as at the end of March 2016 from 58.18% in December 2015, but depreciated from 64.02% in March 2016 to 55.97% in June 2016. The depreciation was due to the monetary policies the CBN initiated in that period. The average liquidity ratio of the industry remained above the 30% minimum requirement all through the two quarters under review.

Also in the first quarter of 2016, the Net Credit to Deposit Ratio increased to 76.28% in March 2016 from 73.76% in December 2015. Interbank Takings to

Deposits Ratio decreased to 400.95 % from 472.63% during the same period. The increment in the first quarter was sustained in the second quarter as The Net Credit to Deposits Ratio also increased from the figure in March 2016 to 84.40% in June 2016. The substantial increase was attributable to the increase in Net Credit from ₦13.311trillion as at March 31, 2016 to ₦15.60 trillion as at June 30, 2016.

All banks in the system met the required Liquidity Ratio of 30% within the period except one bank in first quarter of 2016 while three banks failed to meet the required 30% liquidity ratio in second quarter of 2016. Table 4 and Chart 4 present the liquidity profile of the banking industry as at June 2016 and March 2016.

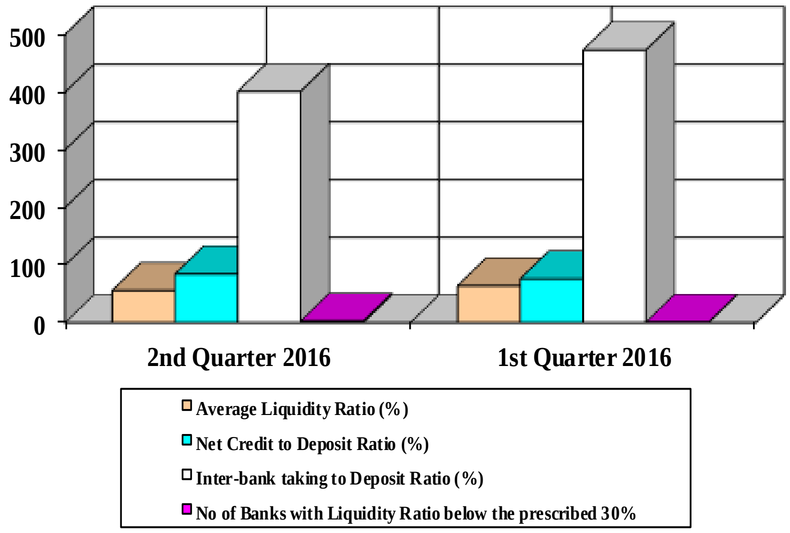
TABLE 4

Indicators of Insured DMBs' Liquidity Profile as at March 2016 and June 2016

Liquidity	**Period**	
	June 2016	**March 2016**
Average Liquidity Ratio (%)	55.97	64.02
Net Credit to Deposit Ratio (%)	84.40	76.28
Inter-bank taking to Deposit Ratio (%)	400.95	472.63
No of Banks with Liquidity Ratio below the prescribed minimum	3	1

Source: NDIC

Chart 4: Indicators of Insured Banks' Liquidity Profile as at June 2016 and March 2016



3.4 Capital Adequacy

During the periods under review, the banking industry Capital to Risk Weighted Assets Ratio (CAR) declined marginally from 17.66% as at 31st December, 2015 to 16.56% as at March end 2016. The slight decline was brought about by the combined effects of both the Total Risk Weighted Assets (Credit, Operational and Market) and the Total Qualifying Capital (Tier 1& and Tier 2). Also, Total Risk Weighted Assets increased from ₦18.34 trillion as at December 2015 to ₦18.10 trillion or 3.43% as at March 2016. Total Qualifying Capital decreased by 2.99%, from ₦3.24 trillion in December 2015 to ₦3.15 trillion in March 2016. Adjusted Capital Ratio also slightly deteriorated from 22.00% as at December, 2015 to 20.31% as at 31st March 2016. However, three (3) banks have capital adequacy ratio less than the prescribed 10% and 15%, respectively, for both National and International Banks as at 31st March 2016.

In the second quarter of 2016 on the other hand, the banking industry CAR also declined marginally from 16.56% as at 31st March, 2016 to 14.74% at June 30th 2016. The slight decline was brought about by the combined effects of the Total

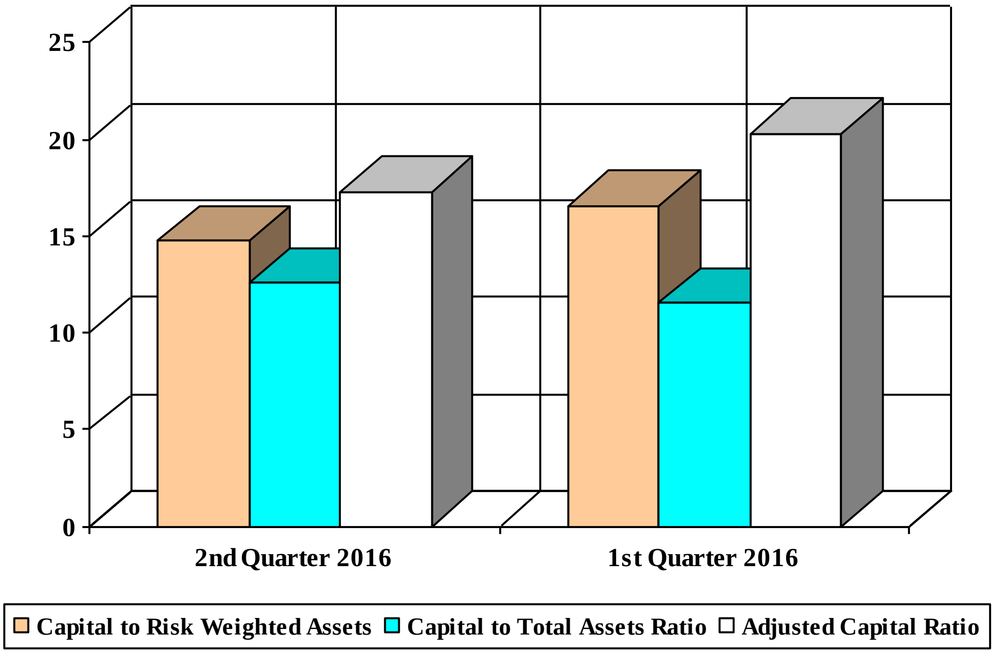
Risk Weighted Asset (Credit, Operational and Market) and the Total Qualifying Capital. While Total Risk Weighted Assets increased exponentially from ₦18.10 trillion as at March 2016 to ₦21.48 trillion or 13.08% as at June 2016, Total Qualifying Capital grew marginally by 0.66%, from ₦3.15 trillion in March 2016 to ₦3.17 trillion in June 2016 due to increase in provisioning requirement. Adjusted Capital Ratio slightly deteriorated from 20.31% as at March 2016 to 17.26% as at June 2016. Three (3) banks had CAR less than the prescribed 10% and 15%, respectively, for both national and international Banks as at June 2016. Table 5 and Chart 5 depict the capital adequacy position of the industry for the periods under review.

TABLE 5

Indicators of Insured DMBs' Capital Adequacy Position as at June 2016 and March 2016

Capital Adequacy Indicator	Period	
	June 2016	**March 2016**
Capital to Risk weighted Assets Ratio (%)	14.74	16.56
Capital to Total Asset Ratio (%)	12.54	11.52
Adjusted Capital Ratio (%)	17.26	20.31

Chart 5: Insured Bank's Capital Adequacy as at June 2016 and March 2016



4.0 CONCLUSION

In conclusion, the banking industry during the two quarters under review had a mixed performance. In the first quarter of 2016, Total Assets, Shareholders Funds, CAR, Liquidity Ratio, all improved during the quarter; while on the flip side, Total Credits, Total Deposit Base and Earnings declined during the period. Similarly in the second quarter, Total Assets, Shareholders Funds, CAR, Profitability, Total Deposits, Total Earning Assets as well the quality of the assets all improved during the period, while CAR and Liquidity Ratio depreciated in the second quarter. Although the banking industry had done well in most of the indices in the two quarters, the negative indices can be attributed to the deteriorated macroeconomic environment in which the banks operated.