FINANCIAL CONDITION AND PERFORMANCE OF INSURED DEPOSIT MONEY BANKS (DMBS) FOR THIRD QUARTER 2016

BY

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1.0 INTRODUCTION

A review of the third quarter performance of the banking industry showed a decline in most of the indices, as a result of the recession in second quarter of 2016 which continued in the third quarter 2016.

The impact of the recession in the general economy had a negative impact on some of the indices. These include: quality of risk assets, quantum of earnings, and credit as well as deposit base of the banking industry in the period under review.

In the third quarter of 2016, the overall Assets of the industry recorded a growth of ₦0.207 trillion or 0.69% from ₦29.985 trillion in June 2016 to ₦30.192 trillion as at September 30, 2016. Also, Loans and Advances to customers, which constituted 47.78% of the Total Assets increased marginally by ₦0.304 trillion or 2.15% from ₦14.120 trillion as at June 30, 2016 to ₦14.424 trillion as at 30th September, 2016. On the other hand, Loans and Advances to banks which accounted for 1.09% of the Industry Total Assets decreased significantly by 37.45% from ₦527.187 billion in June, 2016 to ₦329.767 billion in September, 2016**.** The quality of these assets deteriorated during the period under review as the ratio of Impaired Credits to Total Credits increased from 8.80% in June 2016 to 11.38% as at September 2016.

The profitability of the banking industry has gone down significantly as profit before tax decreased by 121.62% from ₦194.657 billion in June 2016 to (-₦42.076) billion as at September 2016.

The banking industry Capital to Risk Weighted Assets Ratio (CAR) marginally increased from 14.74% as at 30th June, 2016 to 14.98% as at September 2016. Despite the increment, 3 out of the 25 banks did not meet the required regulatory threshold of 10%

and 15% for National and Domestic-Systemically Important Banks (D-SIBs). On the other hand, the Average Liquidity Ratio (ALR) for the industry decreased from 55.97% in June 2016 to 52.87% as at September 2016.

The rest of the paper comprises of three sections. Section 2 presents the Structure of Assets and Liabilities; Section 3 assesses the financial condition of Insured DMBs, while Section 4 concludes.

2.0 STRUCTURE OF ASSETS AND LIABILITIES

During the quarter under review, overall Assets of the industry recorded a growth of ₦0.207 trillion or 0.69% from ₦29.985 trillion in June 2016 to ₦30.192 trillion as at September 30, 2016.

On the Liabilities side, Total Deposits from customers which constituted 59.83% of the industry Total Liabilities decreased by ₦0.474 trillion or 2.55% from ₦18.538 trillion in June 2016 to ₦18.064 trillion in September 2016.

The structure of the industry's total Assets and Liabilities as at the end September 2016 are presented in Table 1 and Charts 1A and 1B.

TABLE 1

Structure of Insured DMBs' Assets and Liabilities
For June and September 2016

Assets	Sep 2016 (%)	June 2016 (%)	Liabilities	Sep 2016 (%)	June 2016 (%)
Cash Balances	1.47	1.39	Deposits from Customers	59.83	61.82
Balances with Banks and Central Bank	18.92	21.26	Deposits from Banks	3.19	3.80

Loans and Advances to Banks	1.09	1.76	Financial Liabilities held for Trading	0.06	0.03
Loans and Advances to Customers	47.78	47.09	Due to Other Banks	-	-
Investment Securities Available for Sale	9.64	8.32	Borrowings	10	9.34
Investment Security Held to Maturity	7.96	8.14	Other Liabilities	11.18	9.39
Other Assets	4.86	5.10	Debt Instrument	3.26	3.08
Property, Plant and Equipment	2.79	2.80	Shareholders' Funds (Unadjusted)	12.47	0.75
Assets Pledged as Collateral	1.09	1.41	Others	-	-
Others	4.4	2.73			
Total	**100.00**	**100.00**	**Total**	**100.00**	**100.00**

Source: NDIC

Chart 1A: Structure of Insured DMBs' Assets for June and September 2016

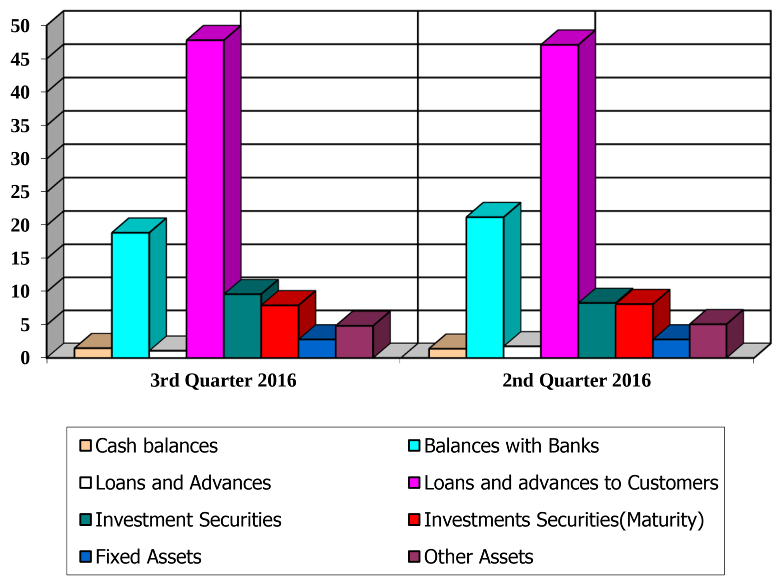
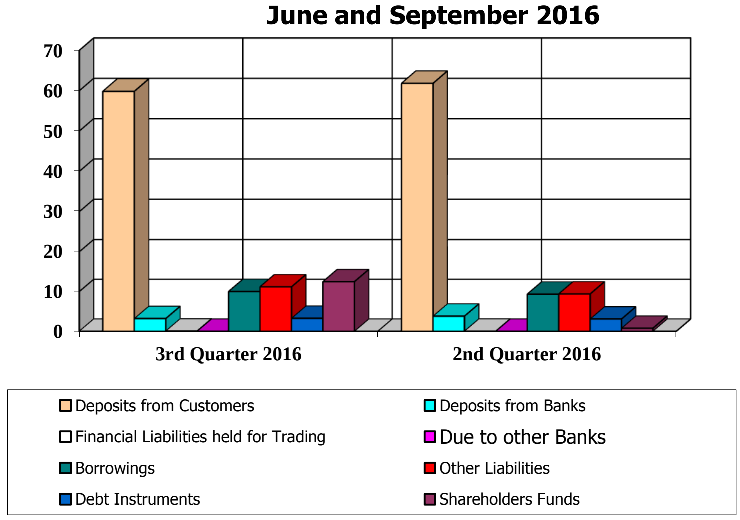


Chart 1B: Structure of Insured DMBs' Liabilities for June and September 2016



From Table 1 and Chart 1A, Loans and Advances to customers have the highest percentage of the industry total assets with 47.78%. This shows a marginal increase of ₦0.304 trillion or 2.15% from ₦14.120 trillion as at June 30, 2016 to ₦14.424 trillion as at 30th September, 2016. However, Loans and Advances to banks which accounted for 1.09% of the industry Total Assets decreased significantly by 37.45% from ₦527.187 billion in June, 2016 to ₦329.767 billion to September, 2016.

However, for the other components of the industry's Total Assets in the third quarter of 2016; Balances with banks and Central Bank (CBN), accounted for 18.92% of the total asset. Investment Securities Available for Sale accounted for 9.64% of the Total Asset, while Investment Security Held to Maturity accounted for 7.96% of the total assets.

On the Liabilities side, Total Deposits from customers which constituted 59.83% of the Industry Total Liabilities decreased by ₦0.474 trillion or 2.55% from ₦18.538 trillion in June 2016 to ₦18.064 trillion as at September ending 2016.

Also, Shareholders' Funds which stood at ₦3.766 trillion and accounted for 12.47% of the industry Total Liabilities as at September 2016 increased by ₦0.007 trillion or 0.18% when compared with Shareholders' Funds of ₦3.759 trillion recorded in June 2016.

3.0 ASSESSMENT OF THE FINANCIAL CONDITION OF INSURED DMBS

Asset Quality

The banking industry Total Earning Assets increased by 3.12%, from ₦19.938 trillion in June 2016 to ₦20.560 trillion in September 2016, out of this, Total Credit increased by 4.22% from ₦15.647 trillion in June 2016 to ₦16.307 trillion in September 2016.

Out of the Industry Total Credits (TCs) of ₦16.307 trillion, Non-Performing Credits/Loans (NPLs) amounted to ₦1.856 trillion, which represented 11.38% of the Total Credits. This was a decline over the NPL ratio of 8.83% recorded in June 2016. However, in absolute terms, NPLs increased by 34.71% from ₦1.378 trillion as at 30th June, 2016 to ₦1.856 trillion as at September 30, 2016. The NPL ratio of 11.38% exceeded the maximum regulatory threshold of 5% prescribed by the CBN. In addition to the significant increase of ₦0.477 trillion in NPLs, this shows that the quality of Assets of the banking industry which is mainly measured by the proportion of Impaired Credits or Non-performing loans (NPL) to Total Credits deteriorated during the period under review.

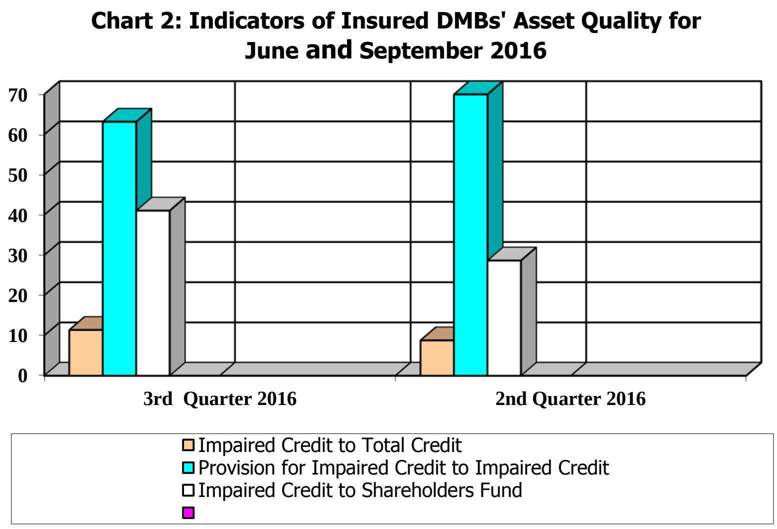
Furthermore, the ratio of Non-Performing Credits to Shareholders' Funds increased from 28.66% in June 2016 to 41.06 in September 2016. The ratio of Provision for Impaired Credit to Impaired Credit decreased from 69.98% in June 2016 to 63.17% in September 2016, while Impaired Credit to Total Credit increased from 8.80% in June 2016 to 11.38% in September 2016. Table 2 and Chart 2 present the indicators of insured DMBs Asset Quality for September 2016.

TABLE 2

Insured DMBs' Asset Quality for June and September 2016

Asset Quality Indicator	**Period**	
	September 2016 (%)	**June 2016 (%)**
Impaired Credit to Total Credit	11.38	8.80
Provision for Impaired Credit to Impaired Credit	63.17	69.98
Impaired credit to Shareholders' Funds	41.06	28.66

Source: NDIC



3.2 Earnings and Profitability

During the period under review, the various components of Earnings for the banking industry showed a mixture of increases and decreases. However, the overall profitability of the banking industry declined by 120.55%. This led to overall net loss of about (-₦42.076) billion as Profit before Tax as at September 30, 2016 as against ₦194.657 billion reported in June 2016.

For the positive components, Interest Income increased by 17.01% from ₦582.786 billion in June 2016 to ₦666.148 billion in September 2016. Trading Income from Foreign Exchange increased by ₦177.63 billion or 94.09% from ₦188.79 billion in June 2016 to ₦366.420 billion in September 2016. Interest Expense increased by 39.67% from ₦200.528 billion in June 2016 to ₦280.073 billion in September 2016. Also on the positive side, the banking industry's Operating Expenses decreased slightly by ₦11.227 billion or 2.14% from ₦527.137 billion in June 2016 to ₦515.860 billion in September 2016.

For the negative components, Non-Interest Income recorded a decline of 65.36%, from ₦336.984 billion in June 2016 to ₦116.725 billion in September 2016. Also, Recoveries declined by 36.12% from June 2016 figure of ₦2.552 billion to ₦1.629 billion as at September 2016. The significant decline in Recoveries and Non-interest income could be explained by the current economic recession which was characterized by declining output, high inflation, and scarce foreign exchange among others.

Furthermore, the Profitability of the Industry measured by Return on Assets (ROA) further decreased from 0.72% as at June 2016 to -014% as at September 2016. Return on Equity (ROE) also decreased from 1.82% as at June 2016 to -0.43% during the period under review.These and other indices are depicted in Table 3 and Chart 3 below:

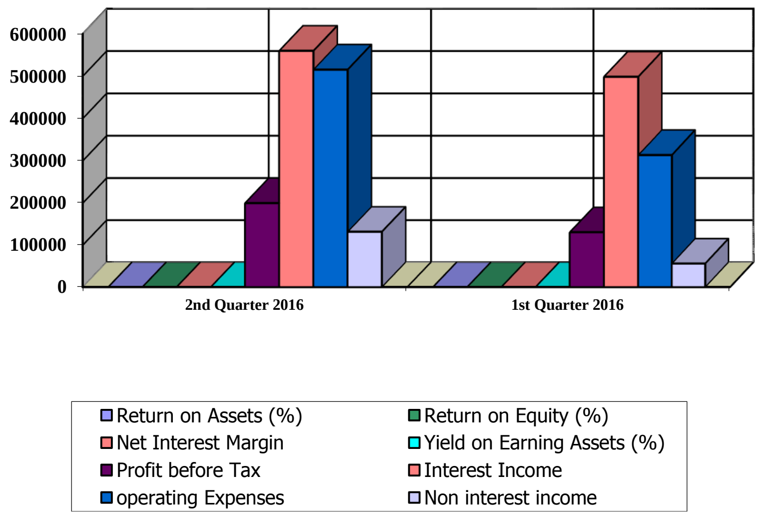
TABLE 3

Insured DMBs' Earnings and Profitability Indicators for June and September 2016

Earnings/Profitability Indicator	**Period**	
	September 2016	**June 2016**
Return on Assets (%)	-0.14	0.72
Return on Equity (%)	-0.46	1.82
Net Interest Margin	5.15	3.2
Yield on Earning Assets (%)	1.13	1.04
Profit Before Tax (N' billion)	-40.350	199,777
Interest Income (N' billion)	662,077	559,677
Operating Expenses (N' billion)	513,611	515,308
Non-Interest Income (N' billion)	116,470	131,597

Source: NDIC

Chart 3: Insured DMBs' Earnings and Profitability for June and September 2016



3.3 Liquidity Profile

The banking industry experienced increased liquidity as depicted by the relevant indices. Average Liquidity Ratio (ALR) of the banking industry increased from 55.97% in June 2016 to 69.347% as at September 2016. The increase could be explained by the inclusion of a new bank in the list of DMBs whose entrance into the financial system impacted positively on overall or average liquidity of the Banking system. The average liquidity ratio of the industry remained above the 30.00% minimum requirement as at September 2016.

Also as at September 2016, the Net Credit to Deposit Ratio increased to 1490.32% from 84.40% in June 2016 2016. Interbank Takings to Total Assets decreased to 388.44% in September 2016 from 400.95% in June 2016.

Twenty (21) of the twenty-four (24) DMBs in operation met and surpassed the minimum regulatory threshold of 30.00%. however 3 banks fell below the minimum 30.00% regulatory requirement. Table 4 and Chart 4 present the liquidity profile of the banking industry as at September 2016.

TABLE 4

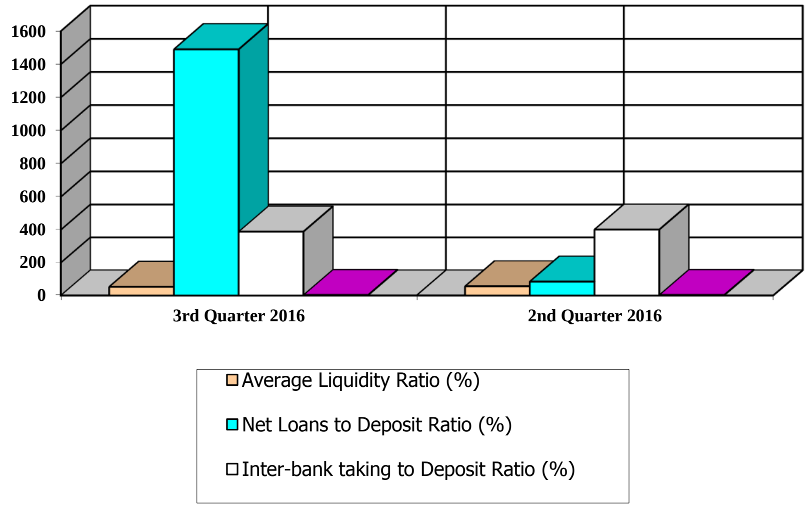
Indicators of Insured DMBs' Liquidity Profile

For June and September 2016

Liquidity	**Period**	
	September 2016	**June 2016**
Average Liquidity Ratio (%)	52.87	55.97
Net Credit to Deposit Ratio (%)	1490.32	84.40
Inter-bank taking to Deposit Ratio (%)	388.44	400.95
No of Banks with Liquidity Ratio below the prescribed minimum	3	3

Source: NDIC

Chart 4: Indicators of Insured DMBs Liquidity Profile as at June and September 2016



3.4 Capital Adequacy

During the period under review, the banking industry Capital to Risk Weighted Assets Ratio (CAR) increased from 14.74% in June, 2016 to 19.49% in September 2016. Also Capital to Total Asset ratio declined significantly from 12.54% in June 2016 to 0.72% in September 2016. Total Risk Weighted Assets decreased from ₦21.480 trillion as at June 2016 to ₦19.506 trillion as at September 2016.Total Qualifying Capital increased by 20.10%, from ₦3.17 trillion in June 2016 to ₦3.80 trillion in September 2016. Adjusted Capital Ratio also increased from 17.26.0% as at June, 2016 to 20.09% as at September 2016.

However, two (2) banks have capital adequacy ratio less than the prescribed 10% and 15%, respectively, for both National and International Banks as at September 2016.Table 5 and Chart 5 depict the capital adequacy position of the industry for the periods under review.

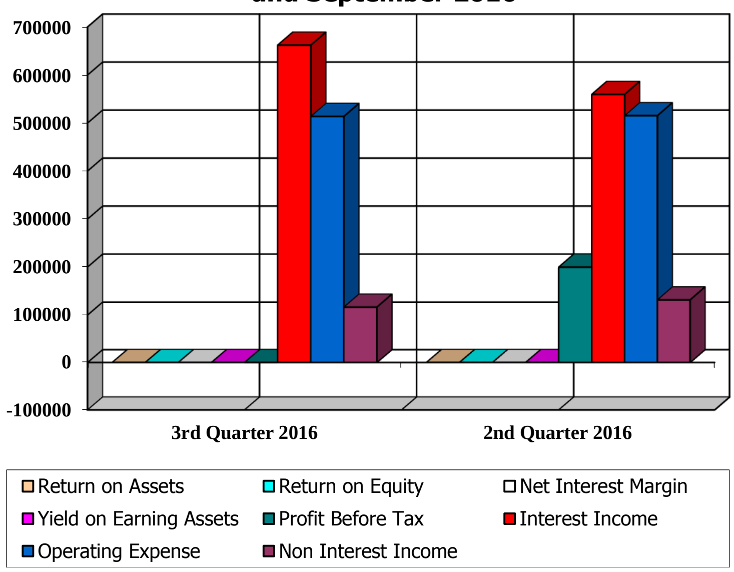
TABLE 5

Indicators of Insured DMBs' Capital Adequacy Position

For June and September 2016

Capital Adequacy Indicator	**Period**	
	September 2016	**June 2016**
Capital to Risk weighted Assets Ratio (%)	19.49	14.74
Capital to Total Asset Ratio (%)	0.72	12.54
Adjusted Capital Ratio (%)	20.09	17.26
Banks with Capital Adequacy ratio less than 10% and 15%	2	3

Chart 5: Insured DMB's Capital Adequacy as at June and September 2016



4.0 CONCLUSION

The banking industry witnessed both positive and negative changes in financial parameters during the quarter under review in contrast to the previous quarter. Total Assets increased marginally by ₦0.207 trillion from ₦29.985 trillion in June 2016 to ₦30.192 trillion at the end of September 2016. Shareholders' Funds also increased marginally by ₦0.007 trillion from ₦3.722 trillion in June 2016 to ₦3.766 trillion at the end of September 2016. The banking industry Capital Adequacy Ratio (CAR) stood at 14.98% which was more than the regulatory threshold of 10.00%. However, there was a significant decline in the industry's major earnings components like profit before tax, return on assets, and return on equity. The negative indices can be mainly attributed to current recession in the country and unfavorable macro-economic indices in the general economy.