FINANCIAL CONDITION AND PERFORMANCE OF DEPOSIT MONEY BANKS IN Q1 AND Q2 2020

By

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1.0 INTRODUCTION

The Banking Industry's financial conditions showed an impressive resilience in the first half of the 2020, despite negative impacts of the COVID-19 Pandemic on the economy. Though the financial performance indicators declined in Q1 2020, most rebounded in Q2 2020, demonstrating inherent resilience and responsiveness to regulatory policies. Financial performance indicators like Profit Before Tax (PBT) and Return on Equity (ROE) increased in Q2 2020. Asset quality consistently improved with increase in the capital adequacy ratios in Q1 and Q2 2020 and a decline in the non-performing loan ratio in Q2 2020.

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 significantly increased from ₦40.40 trillion in Q4 2019 to ₦44.24 trillion in Q1 2020 and ₦47.61 trillion in Q2 2020, recording a percentage growth of 9.50% and 7.62% 2019 in the respective quarters. The large increase in Total Industry Assets by ₦3.84 trillion and ₦3.37 trillion in Q1 and Q2 of 2020 derived from increase in loans and advances, among other components. Loans and Advances to Customers which, as shown in Table 1, account for the largest proportion of total Asset increased by ₦909.06 billion (5.86%) from ₦15.52 trillion in Q4 2019 to ₦16.43 trillion in Q1 2020, and by ₦341.84 billion (2.08%) to ₦16.77 trillion in Q2 2020. Similarly, there were upticks in Loans and Advances to Other Banks of ₦179 billion (25.36%) from ₦704.30 billion in Q4 2019 to ₦883.0 billion in Q1 2020, and by ₦217 billion (2.07%) to ₦1.1 trillion in Q2 2020. Other sources of growth in Total Industry Assets in Q1 and Q2 2020, as shown in Table 2, were Financial Assets Held for Trading, Investment in Subsidiary and Associates and Investment Properties.

Total Liabilities of the Banking Industry comprised Total Deposits from Customers as the largest component (see Table 1), explaining 59.39% in Q2, 2020, against 59.63% and 54.45% in Q1, 2020 and Q4, 2019, respectively. Corresponding growth in the Industry Total Liabilities in Q1 and Q2 of 2020 stemmed from increase in Total Deposits from Customers by ₦2.29 trillion (9.52%) in Q4, 2019 from ₦24.09 trillion to ₦26.38 trillion in Q1 2020, and by ₦1.89 trillion (7.17%) to ₦28.27 trillion in Q2, 2020. Other significant sources of increase in Liabilities, as indicated in Table 2, were Deposit from Other Banks, Other Liabilities and Shareholder's Fund, among others.

Further details on the structure of the Industry's Total Assets and Liabilities for Q4 2019, Q1 2020 and Q2 2020 are presented in Table 1, while their quarterly growth rate and contribution of each components to change in total asset and liability for Q1 2020 and Q2 2020 are presented in Table 2.

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

ASSETS (% of Total)	Q2, 2020	Q1, 2020	Q4,
Cash Balances	1.85	2.20	1.95
Balances with Banks & Central Bank	31.07	26.04	22.54
Loans & Advances to Banks	2.30	2.00	1.74
Loans & Advances to Customers	35.23	37.14	38.42
Financial Assets Held for Trading	5.93	5.96	5.67
Financial Assets held as Fair Value through	7.83	9.25	9.37
Financial Assets held as Amortised Cost	3.13	3.70	5.27
Assets Pledged as Collateral	4.71	5.13	5.84
Investment in Subsidiaries & Associates	0.96	1.03	1.10
Investment Properties	0.35	0.36	0.36
Property Plant and Equipment	2.07	2.18	2.41
Other Assets	4.51	4.94	5.25
Asset Classified as Held for Sale & Discontinued Operations	0.06	0.07	0.08
TOTAL ASSETS	**100.00**	**100.00**	**100.00**
LIABILITIES (% of Total)	Q2, 2020	Q1, 2020	Q4,
Deposit from Banks	7.35	7.33	6.50
Deposit from Customers	59.39	59.63	54.45
Financial Liabilities Held for Trading	0.44	0.34	0.11
Borrowings	8.11	8.75	8.30
Debt Instrument	2.50	2.95	2.91
Other Liabilities	13.56	12.16	10.69
Shareholders' Fund	8.65	8.85	8.38
TOTAL LIABILITIES	**100.00**	**100.00**	**100.00**

Source: NDIC

TABLE 2: Quarterly Growth of Asset and Liability Components and their Contributions

ASSETS	Quarterly Growth		Contribution to	
	Q2,	Q1, 2020	Q2,	Q1, 2020
Cash Balances	-9.43	23.62	-2.74	4.83
Balances with Banks & Central	28.39	26.48	97.10	62.86

Loans & Advances to Banks	24.04	25.36	6.24	4.74
Loans & Advances to	2.08	5.86	10.16	23.67
Financial Assets Held for	6.97	15.22	5.54	9.01
Financial Assets held as Fair Value through Other	-8.90	8.07	-10.81	7.99
Financial Assets held as Amortised Cost	-8.84	-23.09	-4.35	-12.82
Assets Pledged as Collateral	-1.11	-3.88	-0.80	-2.34
Investment in Subsidiaries & Associates	0.11	2.76	0.04	0.29
Investment Properties	3.27	10.36	0.22	0.36
Property Plant and Equipment	1.90	-0.64	0.63	-0.24
Other Assets	-1.60	2.93	-1.13	1.68
Asset Classified as Held for Sale & Discontinued	0.11	-6.53	-0.07	-0.04
TOTAL ASSETS	7.62	9.50	100.00	100.00
LIABILITIES	**Q2,**	**Q1, 2020**	**Q2,**	**Q1, 2020**
Deposit from Banks	8.00	12.68	7.61	16.06
Deposit from Customers	7.17	9.52	56.24	114.13
Financial Liabilities Held for	37.22	220.11	1.75	2.76
Borrowings	-0.23	5.47	-0.29	13.48
Debt Instrument	-8.72	1.33	-3.41	3.37
Other Liabilities	20.07	13.75	31.94	27.63
Shareholders' Fund	5.27	5.62	6.02	13.79
TOTAL LIABILITIES	7.62	9.50	100.00	100.00

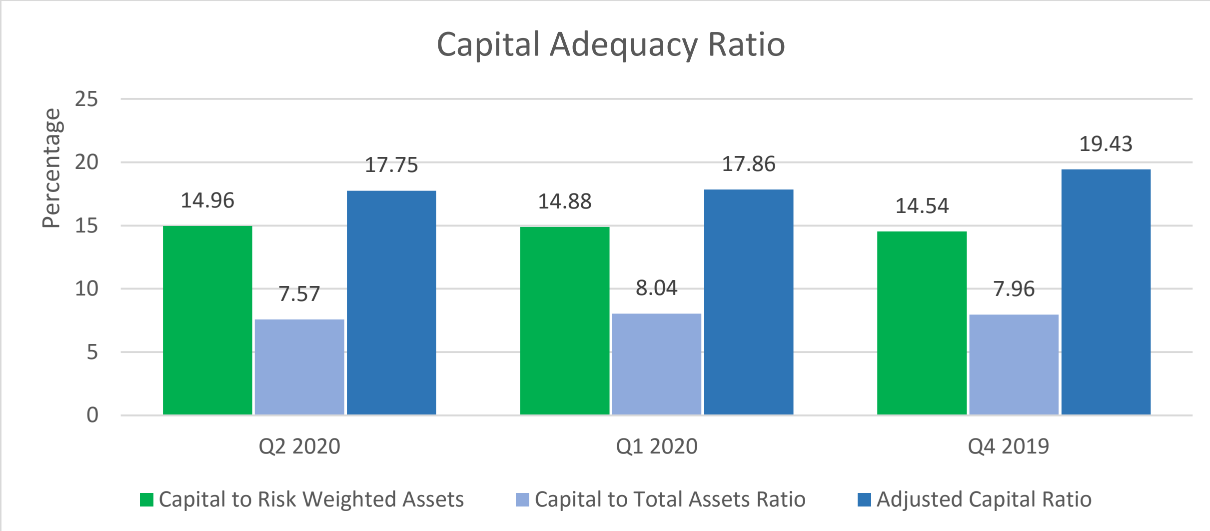
Source: NDIC

3.0 FINANCIAL CONDITION OF DMBs

3.1 Capital Adequacy

The Average Capital Adequacy Ratio (CAR) of the Banking Industry consistently improved, albeit slightly. Chart 1 shows that CAR increased from 14.54% in Q4 2019 to 14.88% and 14.96% in Q1 and Q2 of 2020, respectively. These increases derived from stronger growth performance of Qualifying Capital relative to growth in Risk Assets in the respective quarters. The capital increased by 9.52% and 1.49% while risk weighted asset rose by 4.47% and 0.72% in Q1 and Q2 of 2020, respectively.

Chart 1: DMBs Capital Adequacy Position



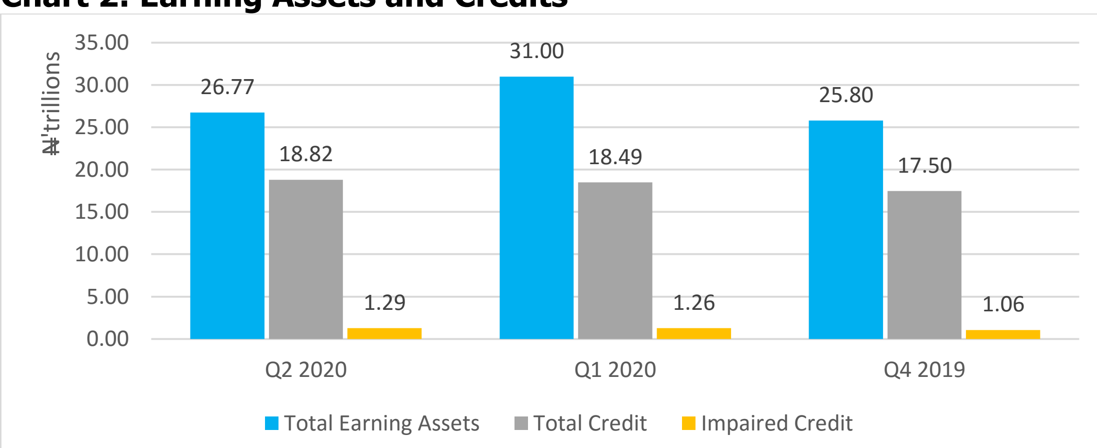
Source: NDIC

Capital to Total Assets fluctuated around 8%, rising from 7.96% in Q4 2019 to 8.04% in Q1 2020, before dipping to 7.57% in Q2, 2020. Adjusted Capital ratio, as chart 1 shows, declined consistently from 19.43% in Q4 2019 to 17.86% and 14.96% in Q1 and Q2, 2020, respectively.

3.2 Asset Quality

The Total Earning Assets increased, as depicted in chart 2, by 20.14% from ₦25.80 trillion in Q4 2019 to ₦31.00 trillion in Q1 2020, before declining by 13.65% to ₦26.77 trillion in Q2, 2020. Total credit however rose by 5.67% from ₦17.50 trillion in Q4 2019 to ₦18.49 trillion in Q1 2020, and by 1.79% to ₦18.82 trillion in Q2 2020.

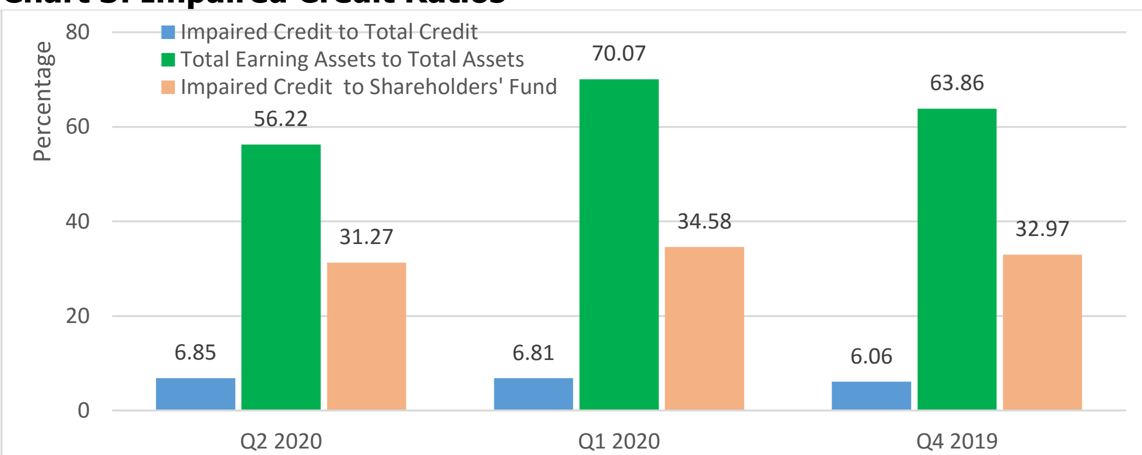
Chart 2: Earning Assets and Credits



Source: NDIC

The quality of the Industry's Risk Asset, measured by Nonperforming Loan ratio (NPL)/ratio of Impaired Credit to Total Credit dipped over the period, as depicted in chart 3. The Impaired Credit to Total Credit ratio increased from 6.06% in Q4 2019 to 6.81% in Q1 2020, and to 6.85% in Q2 2020, as shown in chart 3. The rising trend in the impairment ratio over the period was attributable to weak loan performance in the period occasioned by the COVID-19 Pandemic. Impaired Credit to Shareholders' Fund however declined to 31.27% in Q2 2020 from 34.58% in Q1 2020, having increased from 32.97% in Q4 2019. This showed that the credit risk indicated by NPL ratio was adequately cushioned by increase in Shareholder's Fund.

Chart 3: Impaired Credit Ratios



Source: NDIC

3.3 Sectoral Credit Allocation

The structure of sectoral credit allocation was relatively stable with allocations in Q1 2020 not significantly different from Q2 2020. Charts 4 & 5, show that dominant sectors with highest allocations in Q1 2020 continued to receive largest credit allocation in Q2 2020. The concentration of credit allocations to Oil & Gas, Manufacturing and General Commerce continued to be high, attaining 26.27%, 16.17% and 6.69% in Q2 2020; against the 26.28%, 16.06% and 7.02% in Q1 2020, respectively.

CHART 4: Sectoral Credit Allocation in Q2 2020

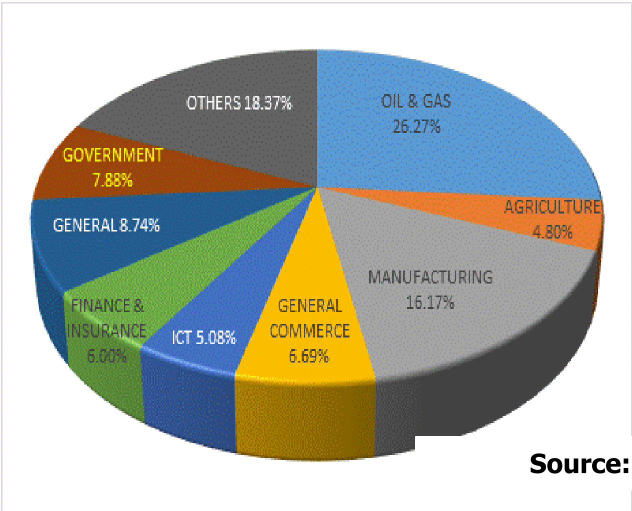
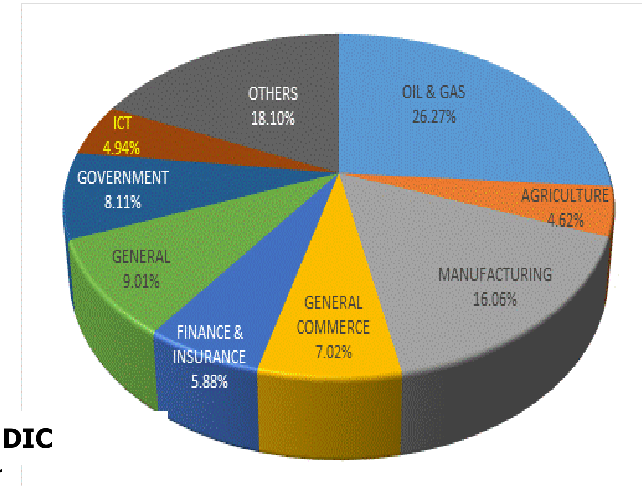


CHART 5: Sectoral Credit Allocation in Q1 2020



Source: NDIC

3.3 Earnings and Profitability

The financial performance of the Banking Industry improved in Q2 2020 from the decline witnessed in Q1 2020 in the wake of COVID-19 Pandemic. The unaudited Profit Before Tax (PBT) of DMBs increased by 8.50% from ₦202.16 billion in Q1 2020 to ₦219.34 billion in Q2 2020, as against 3.48% profit decline in Q1 2020 from ₦209.44 billion in Q4 2020. Other profitability indicators had the same trajectory as PBT, registering positive growth in Q2 2020 and growth declines in Q1 2020.

Table 4 shows that the positive growth in PBT arose from a strong growth in Interest Income of 15.32% from in Q2 2020 from ₦428.67 billion in Q1 2020 to ₦494.33 billion in Q2 2020. That in turn stemmed from stronger growth of 10.57% in Interest Income, compared to 3.59% growth in Interest Expense.

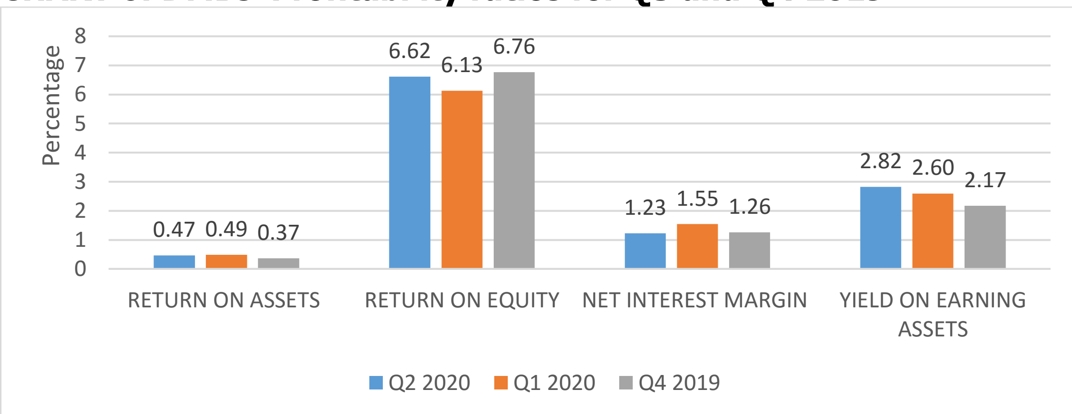
TABLE 4: **DMBs Earnings and Profitability Indicators for Q3 and Q4 2019**

Indicators (N' billion)	**Q2 2020**		**Q1 2020**		**Q4 2019**
	Magnitude	Quarterly Growth	Magnitude	Quarterly Growth (%)	Magnitude
Profit Before Tax	219.34	8.50	202.16	-3.48	209.44
Interest Income	796.97	10.57	720.81	-5.05	759.12
Interest Expense	302.64	3.59	292.15	-7.98	317.50
Net-Interest	494.33	15.32	428.67	-2.93	441.62
Operating	491.65	11.50	440.95	-2.17	450.74

Source: NDIC

Return on Assets (ROA) increased, as depicted in Chart 6, from 0.37% in Q1 2020 to 0.49% in Q2 2020 before a slight decline to 0.47% in Q2 2020. Return on Equity (ROE) however declined from 6.76% in Q4, 2019 to 6.13% in Q1 2020, before rising to 6.62% in Q2 2020. Generally, there were marked differences in the trajectory followed by these ratios, as well as others like net interest margin and yield on earning assets. That may be due to difference in the trend of the underlying variables.

CHART 6: DMBs' Profitability ratios for Q3 and Q4 2019



Source: NDIC

3.4 Liquidity Profile

The Average Liquidity Ratio (ALR) of the Banking Industry consistently declined from 45.45% in Q4 2019 to 41.94% and 36.94% in Q1 and Q2 of 2020, respectively. Similarly, Net Credit to Deposit (NCD) Ratio fell from 68.68% in Q4 2019 to 65.87% and 63.04% in Q1 and Q2 of 2020, respectively. The decline in ALR may be attributable to the Banking Sector's compliance with the CBN Loan to Deposit Ratio (LDR). The decline in NCD ratio may though suggests otherwise, but this could be largely explained away by the impact of the COVID Pandemic.

TABLE 5: DMBs Liquidity Profile for Q3 and Q4 2019

Indicators (%)	Q2 2020	Q1 2020	Q4 2019
Average Liquidity Ratio	36.94	41.94	45.45
Net Credit to Deposit Ratio	63.04	65.87	68.68
Inter-Bank Takings to Deposit Ratio	1.04	1.63	0.74

Source: NDIC

4.0 CONCLUSION

The Banking Industry demonstrated resilience in the period under review, especially in the second quarter of 2020. During this period, the financial performance improved, with Profit Before Tax increasing from ₦202.16 billion in Q1 2020 to ₦219.34 billion in Q2 2020, and Return on Equity rising from 6.13% in Q1 2020 to 6.62% in Q2 2020. Although the Total Earning Asset declined from ₦31.00 trillion in Q1 2020 to ₦26.77 trillion in Q2 2020, Yield on Earning Asset increased from 2.6% in Q1 2020 to 2.82% in Q2 2020.

The quality of credit though dipped with Impaired Credit to Total Credit (NPL) ratio increasing from 6.81% in Q1 2020 to 6.85% in Q2 2020, the decrease in Impaired Credit to Shareholder's Fund from 34.58% in Q1 2020 to 31.27% in Q2 2020 show that there was more capital available to cushion the effects of risk inherent in rising NPL ratio.