

FINANCIAL CONDITION AND PERFORMANCE OF DEPOSIT MONEY BANKS IN
Q1 AND Q2 2021

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1.0 Introduction

The Nigerian Banking Industry's financial condition continued to show resilience in the first half of the 2021, despite the negative impact of the COVID-19 pandemic on the economy. On the average, the performance of the industry in terms of asset quality, capital adequacy as well as earnings and profitability are within the prescribed prudential thresholds.

The rest of this chapter is organized as follows: The structure of Assets and Liabilities of the banking industry is presented in Section 2. Section 3 assesses the financial condition of insured banks, while Section 4 presents the conclusions.

2.0 Structure of Assets and Liabilities

The total industry assets increased from ₦50.71 trillion in Q4 2020 to ₦52.26 trillion as at Q1 2021 and further grew by 2.01% to ₦53.31 trillion as at Q2 2021, as shown in table 1. The growth in assets was mainly attributed to increases in Loans and Advances to customers and Financial Assets held at Amortised cost by 4.40% and 35.11% in Q2, 2021, respectively. Similarly, other assets of the industry, which grew by 14.78% also contributed to the growth in the industry total assets. Furthermore, the share of Loans and Advances in the Total Assets grew from 36.08% in Q4 2020 to 36.27% in Q1, 2021, which later increased to 37.15% in Q2 2021.

With respect to liabilities, Total Deposits from Customers increased by 1.82% from ₦33.28 trillion inclusive of the Non-interest banks (NIBs) in Q1 2021 to ₦33.88 trillion in Q2 2021. As shown in Table 1, Deposits from Customers constitute the largest share of total industry liabilities. However, the proportion of customers' deposits in the total industry liabilities dropped from 63.33% in Q4 2020 to 63.09% in Q2 2021. The industry's total liabilities stood at ₦53.71 trillion as at Q2 2021, comprising Deposits from Customers (63.09%), Other Liabilities (11.16%), Shareholders' Fund (8.65%), Borrowings (7.90%) and Deposit from Banks (5.82%).

Table 1: Structure of DMBs' Assets and Liabilities for Q1 & Q2, 2021

| PARAMETER | Q4 2020 | | Q1 2021 | | Q2 2021 | |
|--|--------------------------|---------------|--------------------------|---------------|--------------------------|---------------|
| | INDUSTRY (N' Billion) | % OF TOTAL | INDUSTRY (N' Billion) | % OF TOTAL | INDUSTRY (N' Billion) | % OF TOTAL |
| ASSETS | | | | | | |
| Cash Balances | 1,083.22 | 2.14 | 1,325 | 2.54 | 1,270.12 | 2.36 |
| Balances with Banks & Central Bank | 13,953.16 | 27.52 | 14,650 | 28.03 | 14,287.32 | 26.60 |
| Loans & Advances to Banks | 537.80 | 1.06 | 513 | 0.98 | 651.41 | 1.21 |
| Loans & Advances to Customers | 18,295.21 | 36.08 | 18,954 | 36.27 | 19,957.03 | 37.15 |
| Financial Assets Held for Trading | 3,184.19 | 6.28 | 1,814 | 3.47 | 1,939.83 | 3.61 |
| Financial Assets held as Fair Value through Other Comprehensive Income (FVOCI) | 6,024.85 | 11.88 | 5,780 | 11.06 | 5,099.76 | 9.49 |
| Financial Assets held as Amortised Cost | 1,960.86 | 3.87 | 2,932 | 5.61 | 4,048.29 | 7.54 |
| Assets Pledged as Collateral | 1,906.75 | 3.76 | 2,338 | 4.47 | 2,113.50 | 3.93 |
| Investment in Subsidiaries & Associates | 484.62 | 0.96 | 485 | 0.93 | 496.15 | 0.92 |
| Property Plant and Equipment | 1,157.52 | 2.28 | 1,182 | 2.26 | 1,197.91 | 2.23 |
| Other Assets | 2,080.33 | 4.10 | 2,250 | 4.31 | 2,606.47 | 4.85 |
| Asset Classified as Held for Sale & Discontinued Operations | 33.12 | 0.07 | 38 | 0.07 | 47.14 | 0.09 |
| TOTAL ASSETS | 50,701.63 | 100.00 | 52,259.83 | 100.00 | 53,714.91 | 100.00 |
| LIABILITIES | | | | | | |
| Deposit from Banks | 2,945.03 | 5.81 | 3,174 | 6.07 | 3,128.69 | 5.82 |
| Deposit from Customers | 32,110.06 | 63.33 | 33,021 | 63.19 | 33,886.17 | 63.09 |
| Financial Liabilities Held for Trading | 114.56 | 0.23 | 70 | 0.13 | 60.18 | 0.10 |
| Borrowings | 3,745.72 | 7.39 | 3,915 | 7.49 | 4,241.11 | 7.90 |
| Debt Instrument | 1,506.15 | 2.97 | 1,647 | 3.15 | 1,759.56 | 3.28 |
| Other Liabilities | 6,024.55 | 11.88 | 5,941 | 11.37 | 5,995.05 | 11.16 |
| Shareholders' Fund | 4,255.56 | 8.39 | 4,492 | 8.60 | 4,644.15 | 8.65 |
| TOTAL LIABILITIES | 50,701.63 | 100.00 | 52,259.83 | 100.00 | 53,714.91 | 100.00 |

Source: NDIC

3.0 Financial Condition of DMBs

3.1 Capital Adequacy

The Banking Industry witnessed an increase in the average Capital Adequacy Ratio (CAR) from 15.39% in Q4 2020 to 16.11% in Q1 2021, and declined slightly to 15.46% in Q2, as shown in Table 1. The decline was due to reduction in Total Qualifying Capital (TQC) by 1.65% from N4.196 trillion in Q1 2021 to N4.127 trillion in Q2 2021. The reduction in the capital adequacy ratio was also attributed to the increase in Total Risk Weighted Assets by 2.47% during the review period. It is worthy to note that the Banking industry CAR was above the regulatory threshold of 10% and 15% for national and international banks respectively during the periods under review.

Table 2: DMBs' Capital Adequacy Position

| Capital Adequacy Performance Indicators (%) | Q4 2020 | Q1 2021 | Q2 2021 |
|--|----------------|----------------|----------------|
| Capital to Risk Weighted Assets Ratio | 15.39 | 16.11 | 15.46 |
| Capital to Total Assets Ratio | 7.38 | 7.95 | 7.68 |
| Adjusted Capital Ratio | 16.66 | 17.77 | 16.78 |
| Parameters (N Billion) | | | |
| Total Qualifying Capital | 3,740.74 | 4,196.60 | 4,127.18 |
| Total Risk Weighted Assets | 24,309.57 | 26,043.96 | 26,700.85 |

Source: NDIC

3.2 Asset Quality

The quality of industry's risk assets improved in Q1 2021 as the ratio of impaired credit to total credit declined from 6.13% in Q4 2020 to 5.51% in Q1 2021, but later deteriorated when it increased to 5.69% in Q2 2021. It is worthy to note that the prescribed prudential limit for the ratio is 5%.

Furthermore, the share of Total Earning Assets to Total Assets declined slightly from 60.47% in Q4 2020 to 59.64% in Q1 2021. However, the share increased to 60.51% in Q2 2021. Other assets quality performance indicators are presented in Table 3.

Table 3: Asset Quality

| Performance Indicators (%) | Q4 2020 | Q1 2021 | Q2 2021 |
|--|----------------|----------------|----------------|
| Impaired Credits to Total Credits | 6.13 | 5.51 | 5.69 |
| Total Earning Assets to Total Assets | 60.47 | 59.64 | 60.51 |
| Total Impairment to Impaired Credits | 94.20 | 96.92 | 94.48 |
| Impaired Credits to Shareholders' Fund | 35.38 | 25.80 | 27.08 |
| Parameters (N Billion) | | | |
| Total Assets | 50,701.63 | 52,259.83 | 53,316.79 |
| Total Earning Assets | 30,659.13 | 31,168.01 | 32,263.81 |
| Total Credits | 20,373.48 | 21,015.09 | 21,895.31 |
| Impaired Credits | 1,248.95 | 1,158.95 | 1,249.04 |

Source: NDIC

3.3 Sectorial Allocation of Credits

Table 4 presents the structure of banking sector' sectoral allocation of credits over the period between Q4 2020 and Q2 2021. The oil and gas sector, as well as manufacturing sector, received the highest shares of credit from the banking industry. However, Arts, Entertainment and Recreation had the least allocation of 0.09%, while activities of extraterritorial organizations and bodies got zero allocation of total credits during the period under review.

The share of credit to oil and gas in the banking industry's total credit increased from 22.82% in Q4 2020 to 25.14% in Q1 2021, which later dropped to 24.32% in Q2 2021. In the same vein, the allocation of credit to manufacturing sector increased from 15.95% in Q4 2020 to 16.63% in Q2 2021.

Table 4: Structure of Credit Allocation among Sectors (in %)

| S/N | SECTORS | Q4 2020 | Q1 2021 | Q2 2021 |
|-----|---|---------|---------|---------|
| 1 | Oil And Gas | 22.82 | 25.14 | 24.32 |
| 2 | Manufacturing | 15.95 | 15.71 | 16.63 |
| 3 | General | 10.49 | 8.98 | 9.48 |
| 4 | Government | 8.80 | 8.87 | 9.21 |
| 5 | General Commerce | 7.00 | 6.53 | 6.45 |
| 6 | Finance And Insurance | 6.22 | 6.28 | 5.69 |
| 7 | Agriculture | 5.16 | 5.29 | 5.27 |
| 8 | Information And Communication | 5.01 | 4.98 | 4.72 |
| 9 | Construction | 4.74 | 4.77 | 5.01 |
| 10 | Power And Energy | 3.75 | 3.76 | 3.76 |
| 11 | Real Estate | 3.21 | 3.07 | 3.03 |
| 12 | Transportation And Storage | 2.67 | 2.77 | 2.51 |
| 13 | Capital Market | 1.09 | 0.99 | 1.05 |
| 14 | Professional, Scientific And Technical Activities | 1.04 | 1.04 | 1.03 |
| 15 | Public Utilities | 0.46 | 0.45 | 0.45 |
| 16 | Mining And Quarrying | 0.40 | 0.10 | 0.11 |
| 17 | Education | 0.39 | 0.35 | 0.36 |
| 18 | Human Health And Social Work Activities | 0.38 | 0.43 | 0.48 |
| 19 | Administrative And Support Service Activities | 0.18 | 0.25 | 0.22 |
| 20 | Water Supply; Sewerage, Waste Management And Remediation Activities | 0.14 | 0.14 | 0.14 |
| 21 | Arts, Entertainment And Recreation | 0.10 | 0.11 | 0.09 |
| 22 | Activities Of Extraterritorial Organizations And Bodies | 0.00 | 0.00 | 0.00 |

Source: NDIC

3.4 Earnings and Profitability

The DMBs reported an unaudited Profit Before Tax (PBT) of ₦189.28 Billion as in Q2 2021, which was an improvement on ₦164.30 Billion recorded in Q1 2021. The growth in profit was partly attributed to increased Recoveries by 43.93% from Q1 2020 to Q2 2021 following the gradual recovery of the economy from the impact of COVID-19 Pandemic.

Total Operating Expenses of the DMBs fell by 2.17% from ₦538.54 Billion as at the end of Q1 2021 to ₦533.22 Billion as at the end of Q2 2021.

The earnings and profitability performance of the DMBs also improved in Q2 2021 as reflected in the industry's return on assets, return on equity, net interest margin and yield on earning assets, as presented in Table 5.

Table 5: Earnings and Profitability Performance of the Banking Industry

| Performance Indicators (%) | Q4 2020 | Q1 2021 | Q2 2021 |
|---------------------------------|---------|---------|---------|
| Profit before Tax (₦ Billion) | 260.02 | 164.30 | 189.28 |
| Interest Expense (₦ Billion) | 242.16 | 219.55 | 304.15 |
| Net Interest income (₦ Billion) | 466.88 | 420.38 | 447.38 |
| Operating Expenses (₦ Billion) | 510.97 | 538.54 | 533.22 |
| Recoveries (₦ Billion) | 15.09 | 11.10 | 15.98 |
| Return on Assets (%) | 0.40 | 0.32 | 0.36 |
| Return on Equity (%) | 5.71 | 4.27 | 4.96 |
| Net Interest Margin (%) | 0.95 | 0.82 | 1.38 |
| Yield on Earning Assets (%) | 1.44 | 1.24 | 2.31 |

Source: NDIC

3.5 Liquidity Profile

The Average Liquidity Ratio (ALR) of the DMBs appreciated slightly from 41.01% in Q1 2021 to 41.29% in Q2 2021 due to increase in the value of total specified liquid assets.

The Net Credit to Deposits Ratio, which measures banks' lending activities, increased slightly from 60.51% as at Q1 2021 to 61.40% as at the end of Q2 2021. However, the ratio fell below the 65% prescribed minimum threshold.

Table 6: DMBs Liquidity Profile

| Performance Indicators (%) | Q4 2020 | Q1 2021 | Q2 2021 |
|-------------------------------------|---------|---------|---------|
| Average Liquidity Ratio | 44.44 | 41.01 | 41.29 |
| Net Credit to Deposit Ratio | 59.56 | 60.51 | 61.40 |
| Inter-Bank Takings to Deposit ratio | 0.87 | 1.66 | 2.28 |

Source: NDIC

4.0 Conclusion

The Banking Industry demonstrated resilience in the first half of 2021, especially in the second quarter of the year. During this period, the Total Industry Asset increased by 2.01% from Q1 2021 to Q2 2021 while the capital adequacy performance indicators were within the prescribed regulatory limit.

There was also significant improvement in the earnings and profitability performance of the DMBs in Q2 2021 relative to Q1 2021. Although Net Credit to Deposit ratio for the period under review was below the regulatory threshold of 65%, there was an improvement in Q2 2021 relative to Q1 2021. It is noteworthy that the average liquidity ratio of the industry in the first half of the year was above the prescribed minimum. These improvements showed continued banking sector's resilience to macroeconomic headwinds in the second half of the year, despite the COVID-19 pandemic.