

FINANCIAL CONDITION AND PERFORMANCE OF INSURED BANKS IN THE SECOND AND FIRST QUARTERS OF 2013

BY

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1.0 INTRODUCTION

The financial condition of Nigeria's banking industry witnessed some improvements in most of the relevant indices in the first two quarters of 2013.

As at 30th June, 2013, the industry's Total Assets stood at ₦21.37 trillion. This is an increase of 1.62% from ₦21.03 trillion as at the end of the first quarter of 2013. This increment was mainly as a result of the increase in Interbank Placements, Total Short term Investment, Other Short Term Funds, Net Loans and Advances/Leases and Net Other Assets.

Net Loans and Advances/Leases increased to ₦8.02 trillion in second quarters, 2013 against the ₦7.56 trillion recorded as at the end of first quarter of 2013, thereby indicating an increase of 6.08%. Net Other Assets on the other hand increased from ₦1.04 trillion in first quarter of 2013 to ₦1.12 trillion naira in the second quarter of 2013 indicating an increase of 7.2%.

The quality of these assets remained relatively stable during the period under review as the ratio of Non Performing Credits to Total Credits dropped from 3.76 percent in the first quarter to 3.70 percent by the end of the second quarter. The industry experienced an upward shift in profitability as Profit-Before-Tax increased to N291.28 billion as at 30th June 2013 as against ₦138.75 billion recorded in the quarter ending 31st March 2013. The capital adequacy ratio reduced slightly as the Capital to Risk-Weighted Asset Ratio decreased by 2.24% points to 19.15% in the second quarter from the 19.59% recorded in the first quarter. However, the capital adequacy ratios in the two quarters were still above the prudential requirement of 10%. There was an upsurge in liquidity as the average liquidity ratio rose to 339.52% as at 30th June 2013 from 121.67% as at 31st March 2013.

Apart from this introduction, the rest of this paper comprises of three sections. Section two presents the Structure of Assets and Liabilities; Section three assesses the financial condition of insured banks, while Section four concludes.

2.0 STRUCTURE OF ASSETS AND LIABILITIES

During the period under review, The Total Assets of the industry increased by 1.66% to ₦21.38 trillion in the second quarter as at 30th June 2013 from ₦21.03 trillion in the first quarter as at 31st March 2013. The structure of the industry's total assets and liabilities at the end of the first and second quarters of 2013 are presented in Table 1 and Charts 1A and 1B below.

TABLE 1
Structure of Banks' Assets and Liabilities as at ends of March and June 2013

Assets (%)	2 nd Quarter 2013	1 st Quarter 2013	Liabilities (%)	2 nd Quarter 2013	1 st Quarter 2013
Cash and Due from Other Banks	18.66	18.96	Deposits	71.47	70.91
Inter-bank Placements	2.87	2.78	Inter-bank Takings	0.18	0.55
Government Securities	21.80	23.53	CBN Overdraft	0.08	0.10
Other Short-term Funds	0.75	0.68	Due to Other Banks	0.63	0.93
Loans and Advances	37.54	35.93	Other Borrowed Funds	0.00	-
Investments	9.99	10.03	Other Liabilities	11.27	10.74
Other Assets	5.24	4.96	Long-term Loans	4.1	4.46
Fixed Assets	3.15	3.13	Shareholders' Funds (Unadjusted)	0.97	1.03
			Reserves	11.3	11.29
Total	100.00	100.00	Total	100.00	100.00

Source: Banks Returns

NOTE: TOTAL ASSETS (N Trillion) 1st Quarter 2013 = 21.027 & 2nd Quarter 2013 = 21.375

OFF BALANCE SHEET ENGAGEMENTS (N Trillion) 2nd Quarter 2013 = 5.59 & 1st Quarter 2013 = 5.49

Chart 1A: Structure of Banks' Assets for the 1st and 2nd Quarters of 2013

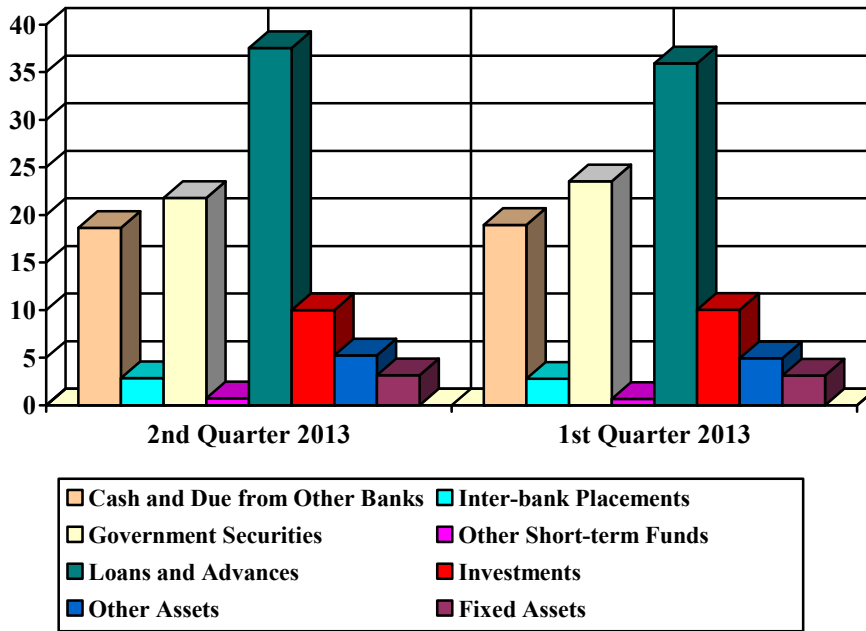
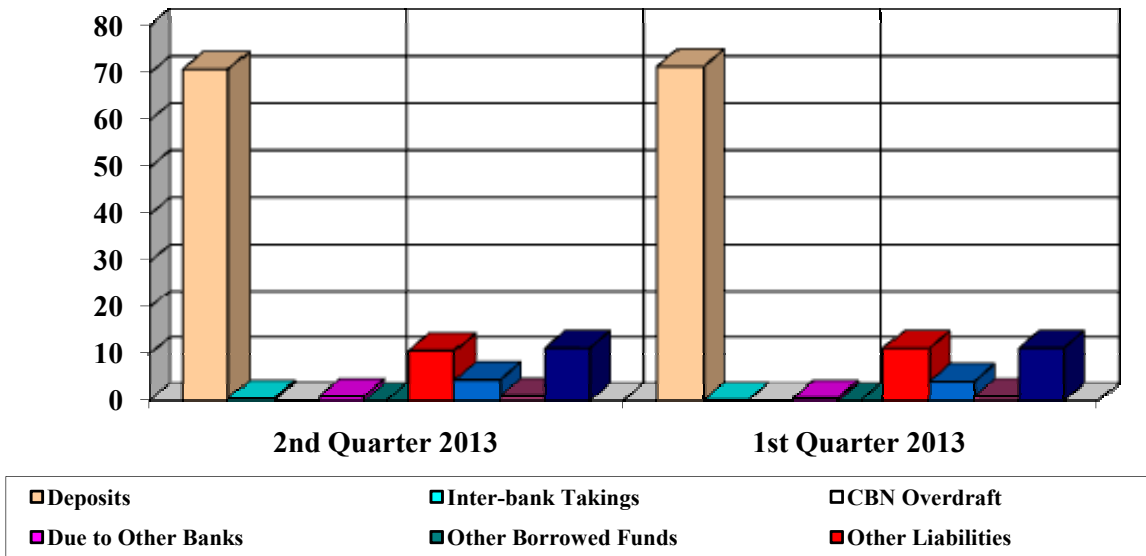


Chart 1A: Structure of Banks' Liabilities for the 1st and 2nd Quarters of 2013



The largest proportion of total assets during the two quarters under review was Loans and Advances which its components accounted for 37.54% and 35.93% in the first and second quarters respectively. Government Securities followed suit with 23.53% and 21.80% as at the end of first and second quarters, respectively. In the third position was Cash Due from other Banks, it decreased from 18.96% as at the end of first quarter to 18.66% as at the end of second quarter. For the other components of the industry's total assets; Interbank Placements increased to 2.87% from 2.78 % during the period under review, Other Assets increased from 4.96% as at the end of March 2013 to 5.74% by the end of June, 2013. On the other hand, there was a slight decline in fixed asset during the period under consideration.

On the liabilities side of the balance sheet, Deposits remained the largest with a proportion accounting for 71.47% as at the end of the first quarter and decreased by a 0.78 percentage points to 70.91% by the end of the second quarter. There was a marginal decline in reserves during the period under review from 11.30% to 11.29%. Long Term Loans accounted for 4.46% in the second quarter, signaling an increase of 0.36 percentage points from 4.1% in the first quarter, and Interbank Takings increased to 0.77% from 0.25% during the period under review.

3.0 ASSESMENT OF THE FINANCIAL CONDITION OF INSURED BANKS

3.1 Asset Quality

The industry's Total loans and Advances experienced a 6.19% increase between the first and second quarters of 2013 from ₦7.56 trillion as at end of March 2013. The quality of these assets continued to improve as the industry's ratio of Non Performing Credits to Total Credits decreased by 1.6 percentage points during the period under review. Similarly, the ratio of Non-Performing Credits to Shareholders' Fund remained relatively stable although showing a slight increase to 12.52% from 12.26% between the two quarters. During the period under review, the ratio of Provision for Non-Performing Loans to Total Non-Performing Loans however decreased by 10.35 percentage points to 104.59 from 116.66.

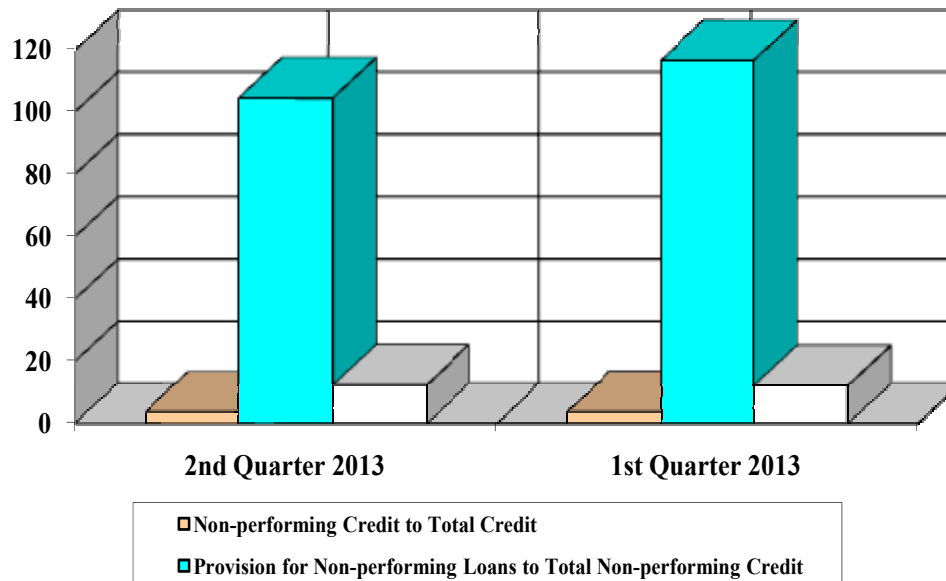
Table 2 and Chart 2 present the indicators of insured banks Asset Quality for the first and second quarters of 2013.

TABLE 2

Asset Quality Indicator (%)	Industry	
	2 nd Quarter 2013	1 st Quarter 2013
Non-performing Credit to Total Credit	3.70	3.76
Provision for Non-performing Loans to Total Non-performing Credit	104.59	116.66
Non-performing Credit to Shareholders' Funds	12.52	12.26

Source: Banks Returns

Chart 2: Indicators of Insured Banks' Asset Quality for 1st and 2nd Quarters of 2013



3.2 Earnings and Profitability

There was a significant increase in profitability during the period under review. Profit before-tax increased by 109.9% to ₦291.28 billion as at end of second quarter from ₦138.75 billion recorded at the end of first quarter. The significant jump in profitability was as a result of the increase in interest income which jumped from ₦468.986 billion to ₦960.19 billion as at the end of second quarter. Similarly, noninterest income also increased from ₦198.0 billion to ₦357.9 billion during the same period. These and other indices are depicted in Table 3 and chart 3 below:

TABLE 3

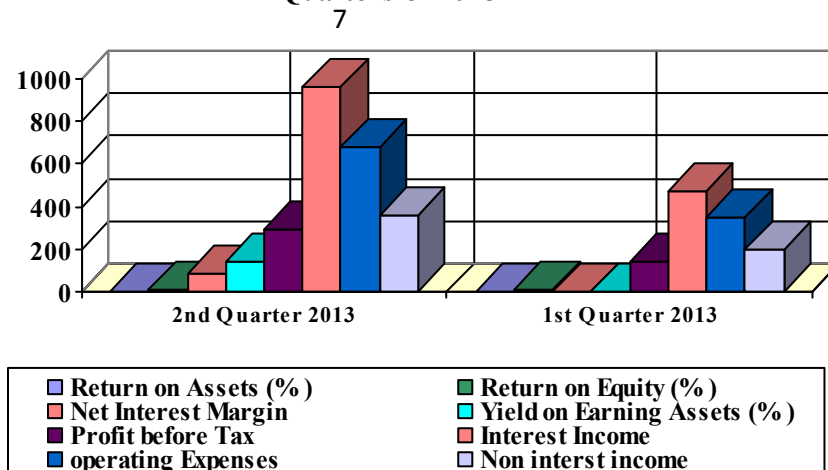
Insured Banks' Earnings and Profitability Indicators for the 2nd and 1st Quarters Of 2013

Earnings/Profitability Indicator	Industry	
	2nd Quarter 2013	1 st Quarter 2013
Return on Assets (%)	1.36	0.66
Return on Equity (%)	11.20	5.46
Net Interest Margin	86.82	1.85
Yield on Earning Assets (%)	139.49	3.04
Profit Before Tax (N' billion)	291,284	138,75
Interest Income (N' billion)	960,195	468,986
Operating Expenses (N' billion)	678,954	351,974,
Non-Interest Income (N' billion)	357,831	198,002

Source: Banks Returns

As can be seen from Table 3, Return on Assets (ROA) increased significantly between the first and second quarters of 2013. Both Return on Equity (ROE) and Yield on Earning Asset (YEA) also followed the same upward trend; with Return on Equity(ROE) moving upwards to 11.20 percentage point in second quarter from 5.46 percentage points in first quarter and yield on earning assets increased to 139.4946 percentage points from 3.0446 Percentage Points during the same period. This is further explained in Chart 3.

Chart 3: Insured Banks' Earnings and Profitability for the 1st and 2nd Quarters of 2013



3.3 Liquidity Profile

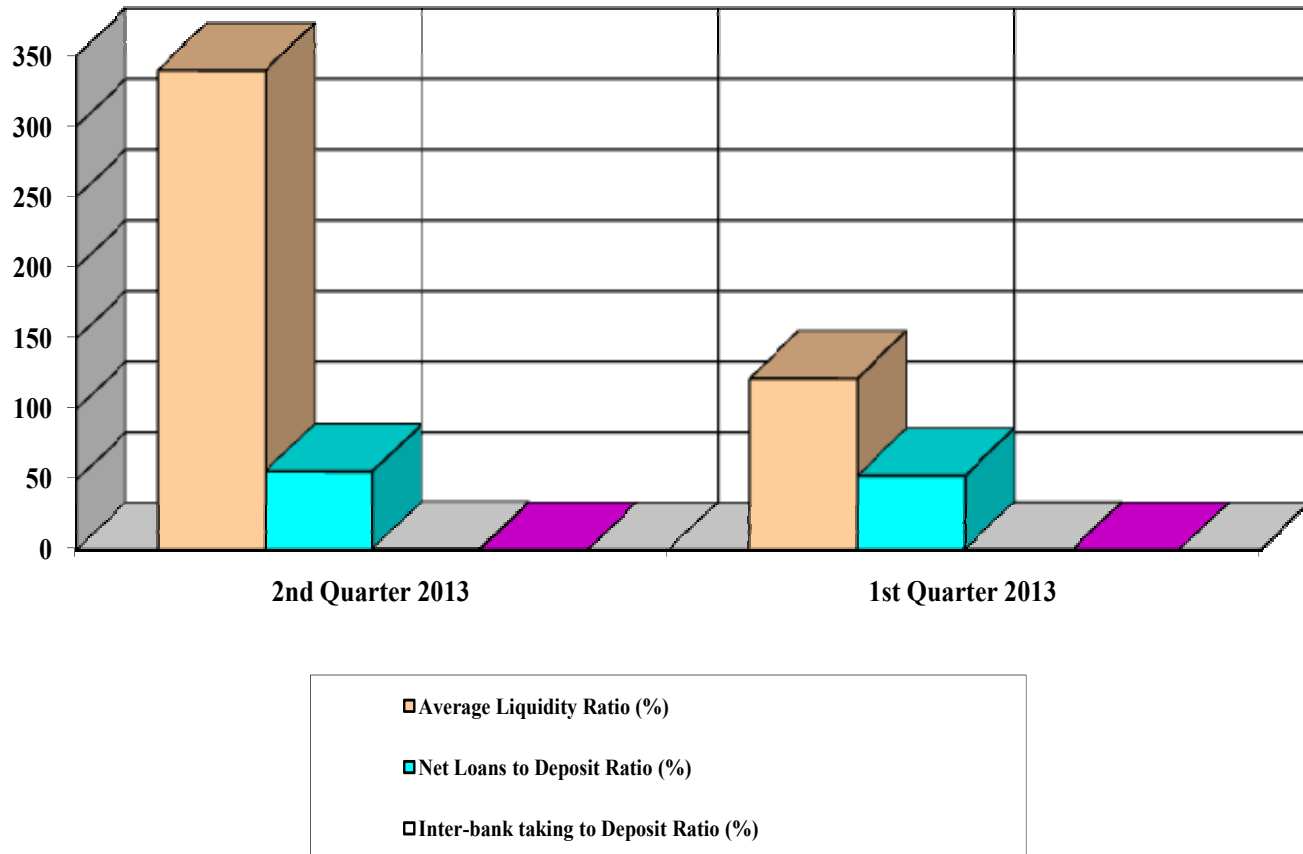
The Banking industry experienced increased liquidity as depicted by the relevant indices. Average liquidity ratio increased to 339.52% as at the end of second quarter from 121.67% as at the end of first quarter, while the average liquidity ratio remained above the 30% minimum requirement. The Net Credit to Deposit Ratio increased to 55.86% from 52.83% and Interbank Takings to Deposits Ratio also increased to 0.77% from 0.25% during the period under review. All banks in the system met the required Liquidity Ratio of 30% within the period. Table 4 and Chart 4 present the liquidity profile of the banking industry during the first and second quarters of 2013.

TABLE 4
Indicators of Insured Banks' Liquidity Profile For
The 2nd and 1st Quarters Of 2013

Liquidity	Period	
	2 nd Quarter 2013	1 st Quarter 2013
Average Liquidity Ratio (%)	339.52	121.67
Net Loans to Deposit Ratio (%)	55.86	52.83
Inter-bank taking to Deposit Ratio (%)	0.77	0.25
No of Banks with Liquidity Ratio below the prescribed minimum	0	0

Source: Bank Returns

Chart 4: Indicators of Insured Banks' Liquidity Profile for the 1st and 2nd Quarters of 2013



3.4 Capital Adequacy

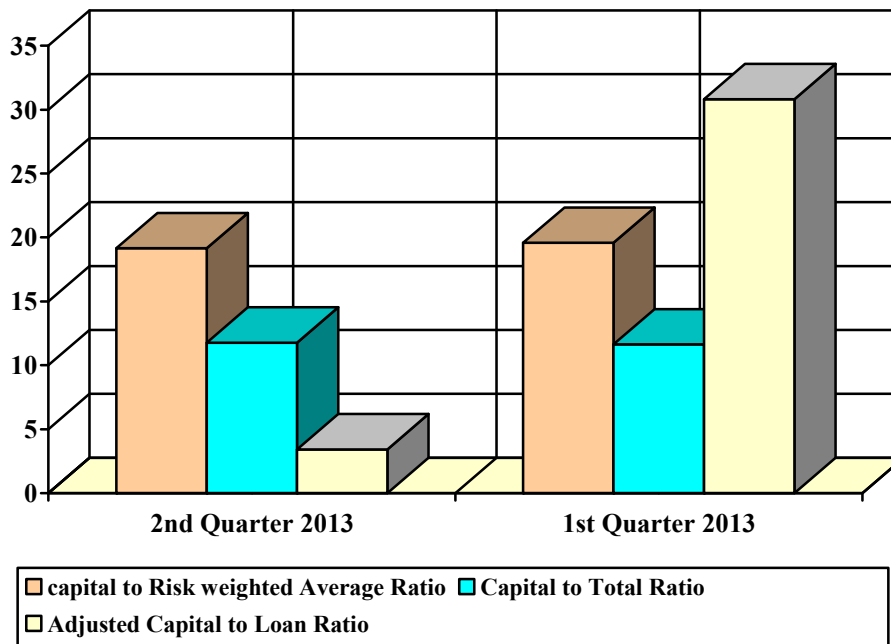
During the periods under review, the capital adequacy ratios position of the industry stood at 19.59% and 19.15% as at first and second quarters, respectively, showing that the banking industry was well capitalized. However, only one bank remained undercapitalized for both quarters. Table 5 and chart 5 depict the capital adequacy position of the industry for the period under consideration.

TABLE 5

Indicators of Insured Banks' Capital Adequacy Position for the 1st and 2nd Quarters Of 2013

Capital Adequacy Indicator	Period	
	2 nd Quarter 2013	1 st Quarter 2013
Capital to Risk weighted Average Ratio (%)	19.15	19.59
Capital to Total Asset Ratio (%)	11.77	11.63
Adjusted Capital to Loan Ratio (%)	3.42	30.82

Chart 5: Insured Bank's Capital Adequacy for the 1st and 2nd Quarters of 2013



4.0 CONCLUSION

It is evident that the banking industry condition is stable and the performance of the banks is on track during the first and the quarters of 2013. This was as depicted by the strong liquidity and capital positions as well as the positive changes in asset quality and profitability recorded by the banks during the period under review.

