FINANCIAL CONDITION AND PERFORMANCE OF DEPOSIT MONEY BANKS (DMBs) IN THE FOURTH QUARTER OF 2016

BY

RESEARCH POLICY & INTERNATIONAL RELATIONS AND INSURANCE AND SURVEILLANCE DEPARTMENTS

1.0 INTRODUCTION

In Q4 2016, the Nigerian economy remained in recession having recorded a negative GDP growth of 2.24% in Q3 and negative 1.3% in Q4 2016.

Internally, the economy was affected by the depreciation of the Naira against major currencies, foreign exchange shortage and high inflation rate and low oil production. Externally, the economy was affected by global lower oil prices thereby leading to a shortfall in government revenue.

The banking industry being an important sector of the economy was not immune to these developments as shown by most of the financial performance indicators.

In the Q4 of 2016, Total Industry Assets declined by ₦0.041 trillion or 0.14% from ₦30.19 trillion in Q3 2016 to ₦30.15 trillion in Q4 of 2016.

Total Loans and Advances to customers being the highest component on the asset side, increased marginally by ₦0.12 trillion or 0.80% from ₦14.43 trillion in Q3 2016 to ₦14.54 trillion in Q4 2016. Similarly, Loans and Advances to banks increased by ₦13.44 billion or 4.07% from ₦329.77 billion in Q3 2016 to ₦343.21 billion as at end of Q4 2016.

Non-performing Loans represented 10.31% of Total Credits in Q4 compared to 11.38% recorded in Q3 2016.the NPL ratio of 10.31% exceeded the maximum threshold of 5% prescribed by the CBN.

On the liabilities side, Total Deposits from customers constituted 61.49% of the Industry Total Liabilities increased by ₦0.48 trillion or 2.63% from ₦18.06 trillion in Q3, 2016 to ₦18.54 trillion as at end of Q4 2016. Also there was a decrease in Shareholders' Funds of 0.68% to ₦3.74 trillion in Q4 2016 from ₦3.77 trillion recorded in Q3 2016.

The banking industry recorded a Profit Before Tax of ₦440 billion as at the end of Q4 2016 as against a loss of ₦38.901 billion recorded in Q3 2016.

Capital Adequacy Ratios (CAR) of the industry decreased slightly from 15.00% in Q3 2016 to 14.78% in Q4 2016 under review.

On the other hand, the Average Liquidity Ratio (ALR) of the Banking Industry decreased slightly from 52.87% in Q3 2016 to 43.93% in Q4 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 DMBs, Section four concludes.

2.0 STRUCTURE OF ASSETS AND LIABILITIES

In Q4 2016, Total Assets of the industry recorded a slight decline of ₦0.04 trillion or 0.14% from ₦30.19 trillion in Q3 2016 to ₦30.15 trillion in Q4 2016. This decline could be attributed to the reduction in Financial Assets Held for Trading, Investment Securities Available for Sale and Other Assets.

On the Liabilities side, Total Deposits from Customers constituted 61.49%, while Shareholders Fund had 12.41% and borrowings have 9.08%.

The structure of the industry's total assets and liabilities as at the end of Q4 2016 are presented in Table 1 and Charts 1a,1b.

TABLE 1

Structure of Banks' Assets and Liabilities for Q3 and Q4 2016

Assets	Q3 2016 (%)	Q4 2016 (%)	Liabilities	Q3 2016 (%)	Q4 2016 (%)
Cash Balances	1.47	1.77	Deposits from customers	59.83	61.49
Balances with Banks and Central Bank	18.92	19.27	Deposits from Banks	3.19	2.40
Loans & Advances to Banks	1.09	1.14	Financial Liabilities held for Trading	0.06	0.14
Loans & Advances to Customers	47.78	48.22	Due to Other Banks	-	-
Investment securities available for sale	9.65	9.01	Borrowings	10	9.06
Investment Security Held for Maturity	7.97	7.80	Other Liabilities	11.18	11.15

Other Assets	4.87	3.91	Debt instrument	3.26	3.35
Property, Plant and Equipment's	2.79	2.81	Shareholders' Funds (Unadjusted)	12.47	12.41
Assets Pledged as Collateral	1.09	1.86	Others	-	-
Others	4.4	0.01			
Total	**100.00**	**100.00**	**Total**	**100.00**	**100.00**

Source: NDIC

Chart 1A: Structure of Banks' Assets in Q3 and Q4 2016

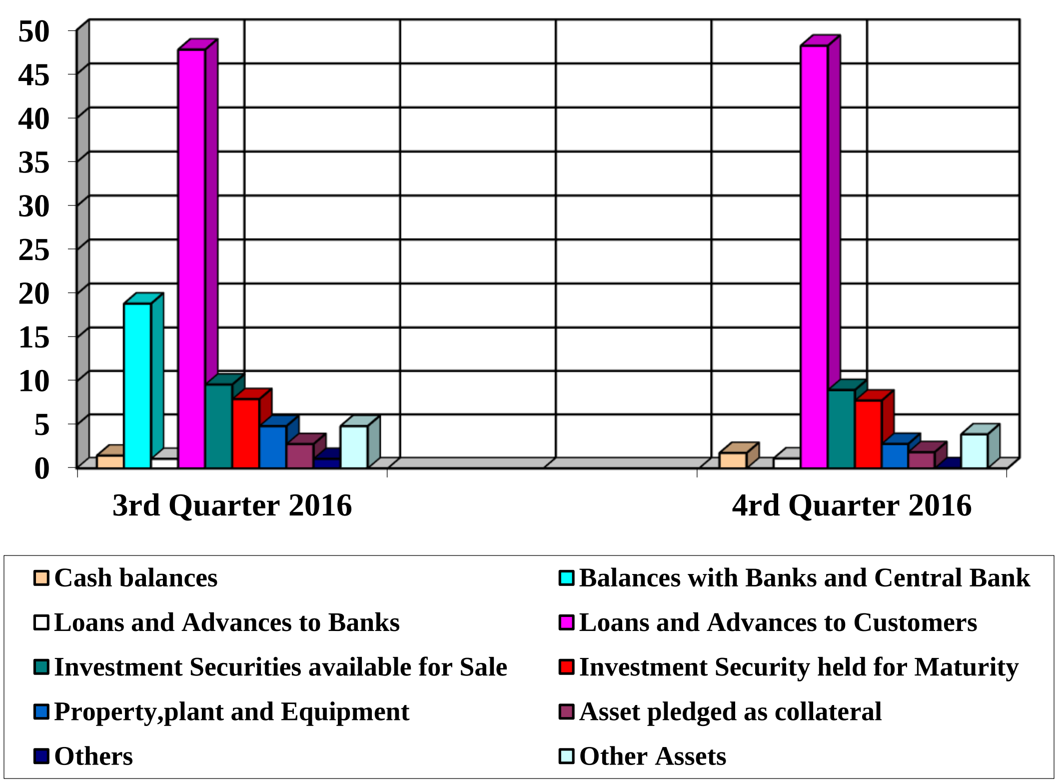
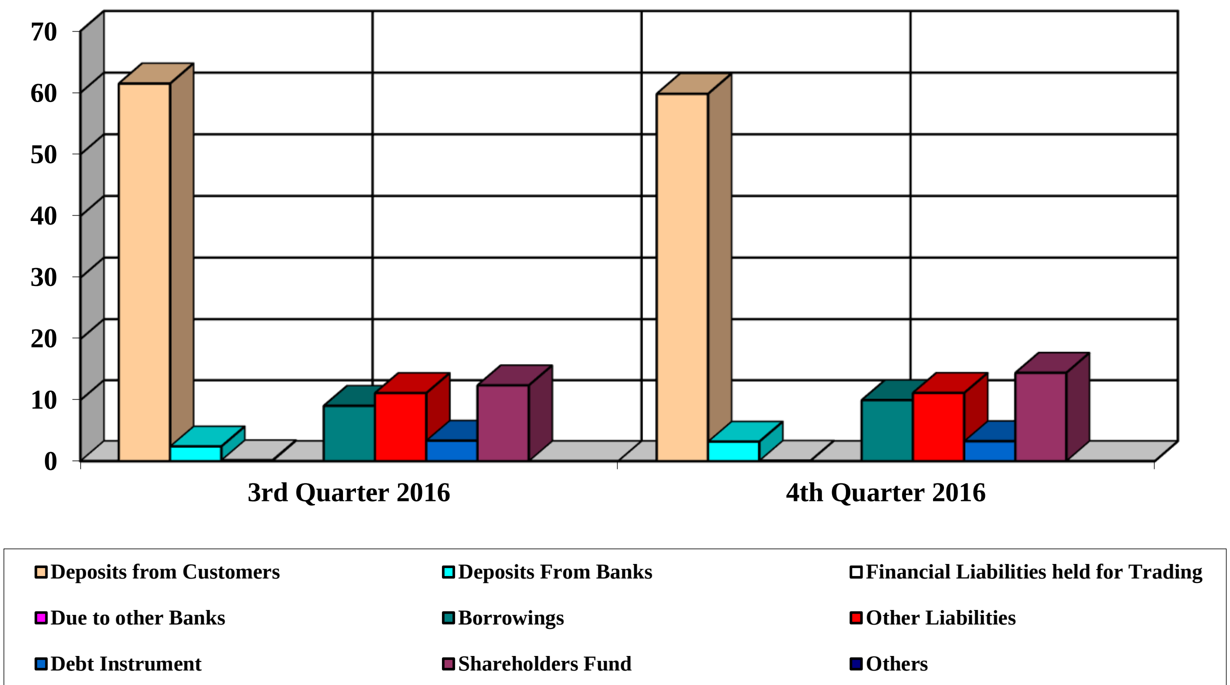


Chart 1A: Structure of Banks' Liabilities in Q3 and Q4 2016



As can be seen from the Tables and Charts, on the asset side, Loans and Advances to Customers had the highest component of 48.22% in Q4, and 47.84% in Q3 2016. Representing an increment of 0.80%. Balances with Banks and Central Bank had the second highest component with 19.27% and 18.92% in Q3 and Q4 respectively.

Furthermore, Investment Securities Available: for sale which accounted for 9.01%, Investment Security held to maturity accounted for 7.80%. Also, loans and advances to banks accounted for 1.14%, and cash balances was 1.77%.

Total Deposits had the highest component with 61.49% of the Industry Total Liabilities. This shows a slight increase of 1.66% over 59.83% in Q3 2016. Shareholders fund accounted for 12.41%, and Other Liabilities accounted for 11.15%. Financial Liabilities Held for Trading have the lowest component of 0.14%.

3.0 ASSESSMENT OF THE FINANCIAL CONDITION OF DMBs

Asset Quality

Total Credits, which represented bulk of the earning assets, decreased slightly by 0.30% from ₦16.31 trillion in Q3 2016 to ₦16.26 trillion as at Q4 2016. NPLs which shows the quality of assets amounted to ₦1.68 trillion, representing 10.31 % of the Total Credits. This was a decrease over the Impaired Credit ratio of 11.38% recorded in Q3 2016.

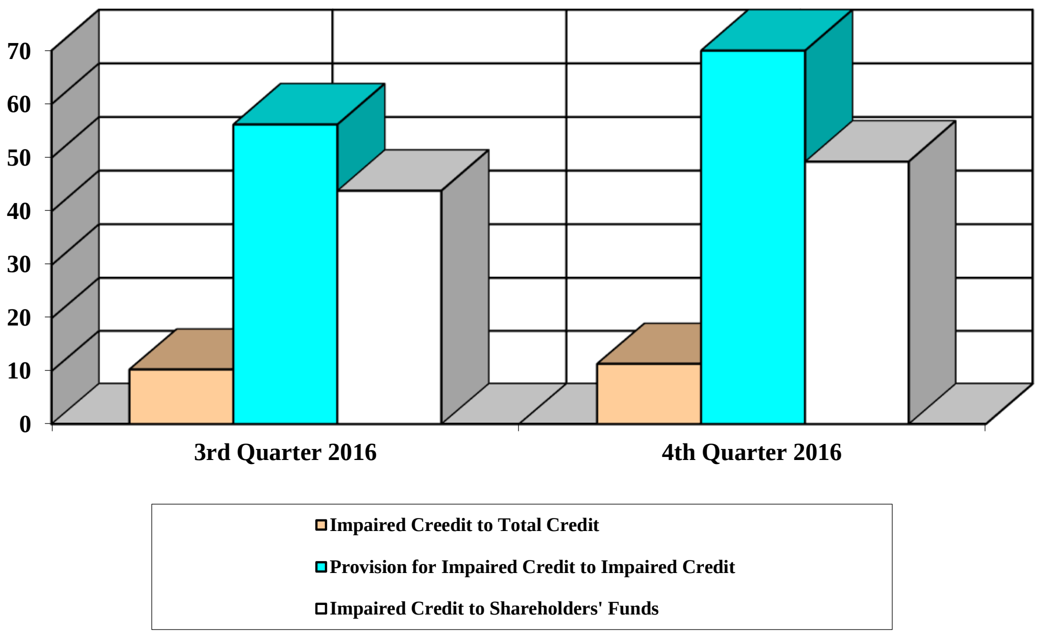
The NPL ratio of 10.31% exceeded the maximum threshold of 5% prescribed by the CBN. The ratio of Non-Performing Credits to Shareholders' fund declined by 11.02% from 49.27% in Q3 2016, to 43.84 in Q4 2016. Also the ratio of provision for impaired credit to impaired credit decreased from 69.98% in Q3 2016 to 56.20% in Q4 2016. Table 2 and Chart 2 present the indicators of insured banks Asset Quality for Q4 2016.

TABLE 2: Asset Quality Indicators in Q3 and Q4 2016

Details	Quarters	
	Q4 2016 (%)	Q3 2016 (%)
NPL Ratio to Total Loans	10.31	11.38
Provision for NPL to Total Loans	56.20	69.98
NPL to Shareholders' Funds Ratio	43.84	49.27

Source: NDIC

Chart 2: Indicators of Insured Banks' Asset Quality in Q3 and Q4 2016



3.2 Earnings and Profitability

The banking industry recorded a PBT of ₦440 billion as at the end of Q4 as against a loss of ₦40.14 billion recorded in Q3 2016. This improvement is attributable to an increase in Net Interest Income, loan recoveries and decline in operating expense.

Similarly, Return on Assets (ROA) improved from negative 0.20 % in Q3 2016 to 0.25 % in Q4 2016. Return on Equity (ROE) also improved from negative 1.05 % in Q3 2016 to 12.56% in Q4 under review.

Furthermore, total Operating Expenses decreased by 25.44% to ₦383.39 billion in Q4 2016 from ₦514.22 billion in Q3 2016. Also, interest expenses declined by 26.80% from ₦588.14 billion in Q3 2016 to ₦430.52 billion in Q4 2016. These and other indices are depicted in Table 3 and Chart 3 below:

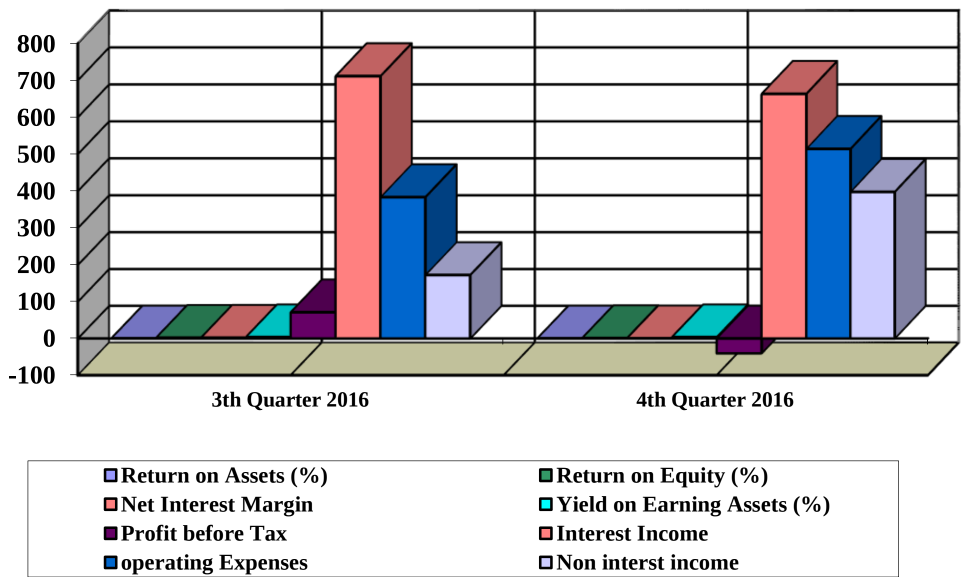
TABLE 3: **DMBs Earnings and Profitability Indicators in Q3 and Q4 2016.**

Parameters	Q4 2016	Q3 2016
Return on Assets	1.48	(0.20)
Return on Equity (%)	12.56	(1.05)
Net Interest Margin	1.96	0.41
Yield on Earning Assets (%)	3.51	3.50
Profit Before Tax (N' billion)	440	(40.14)
Interest Income (N' billion)	440	662.93
Operating Expenses (N' billion)	383.39	514.22
Interest Expense (N' billion)	430.52	588.14
Non-Interest Income (N' billion)	172.37	397.64

Source: NDIC

3.3 Liquidity Profile

Chart 3: Insured Banks' Earnings and Profitability in Q3 and Q4 2016



The banking industry Average Liquidity Ratio (ALR) decreased slightly from 52.87 % in Q3 2016 to 43.93 % in Q4 2016.

Four (4) out of the Twenty Five (25) DMBs in operation failed to meet the minimum liquidity threshold of 30% in Q4 2016.

The Net Credit to Deposits ratio decreased from 89.96% in Q3 2016 to 87.29% in Q4 2016. In both quarters, the net credit to deposit ratio exceeded the maximum prudential threshold of 80% indicating over trading.

The banking industry average liquidity ratio decreased from 52.87% in Q3 to 43.93% in Q4 2016. Twenty one (21) out of 25 DMBs met the minimum Liquidity threshold of 30%.Table 4 and Chart 4 present the liquidity profile of the banking industry as at Q4 2016.

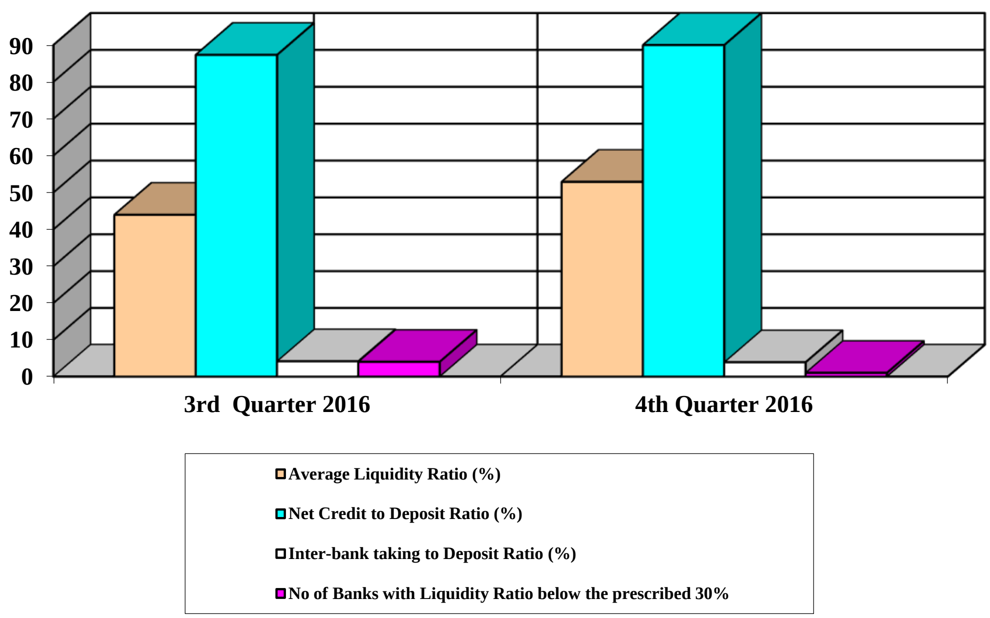
TABLE 4

Indicators of Insured Banks' Liquidity Profile for Q3 and Q4 2016.

Parameters	Quarters	
	Q4 2016 (%)	Q3 2016 (%)
Average Liquidity Ratio	43.93	52.87
Net Credit to Deposit Ratio	87.29	89.96
Inter-bank taking to Deposit Ratio	4.16	3.88
No of Banks with Liquidity Ratio below the prescribed minimum	4	3

Source: NDIC

Chart 4: Indicators of Insured Banks' Liquidity Profile in Q3 and Q4 2016



3.4 Capital Adequacy

The Banking Industry Capital Adequacy Ratio (CAR) decreased slightly from 15.00 % in Q3 2016 to 14.78 % in Q4 2016.

The industry's average CAR of 14.78% was above the threshold of 10% for National Banks and fell below the threshold of 15% for International Banks. At the end of Q4 2016, three (3) out of the 25 Banks in operation could not meet the minimum CAR requirement of 10%.

The increasing levels of required provisions for credit losses, operating losses, and declining profits due to economic downturn among other factors could have precipitated the erosion of industry capital base.

Table 5 and Chart 5 depict the capital adequacy position of the industry for Q3 and Q4 2016.

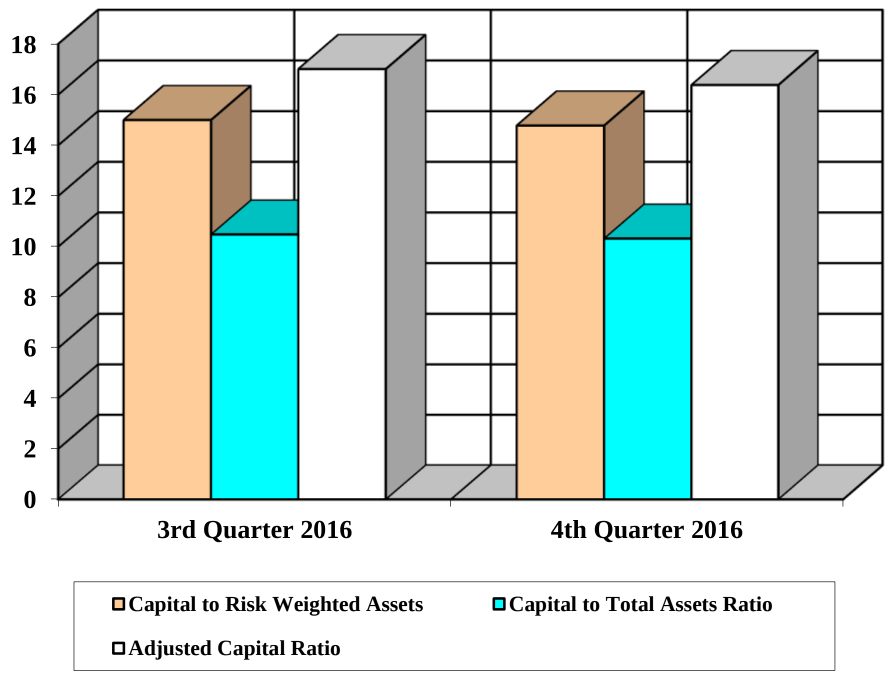
TABLE 5

Indicators of DMBs Capital Adequacy Position for Q3 and Q4 2016

Capital Adequacy Indicator	**Period**	
	Q4 2016 (%)	**Q3 2016 (%)**
Capital to Risk weighted Assets Ratio	14.78	15.00
Capital to Total Asset Ratio	10.32	10.48
Adjusted Capital Ratio	16.38	17.01

Source: NDIC

Chart 5: Insured Bank's Capital Adequacy in Q3 and Q4 2016



4.0 CONCLUSION

Considering the fact that the DMBs average liquidity and capital adequacy ratios were above the prescribed threshold indicated that the banking industry remained stable and sound despite the harsh economic environment under which it operated.