FINANCIAL CONDITION AND PERFORMANCE OF DEPOSIT MONEY BANKS IN THE THIRD AND FOURTH QUARTERS OF 2017

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1.0 INTRODUCTION

During the two quarters under review, the Nigerian economy recorded positive GDP growth rate of 1.40% in Q3 having exited recession in the Q2, 2017 and for the 3rd consecutive quarter, the GDP further grew by 1.92% in Q4 2017. The improvement was as a result of interventions of the Central Bank of Nigeria (CBN) and other regulators. The developments included the introduction of the Investors and Exporter's (I&E) Forex Exchange window by the CBN, increased crude oil production and oil price appreciation, decline in inflation rate, increased foreign exchange reserves position, amongst others.

Notwithstanding these developments, the Deposit Money Banks (DMBs) operating environment in the two quarters faced challenges such as insecurity, high inflation rate, high operating expense, bad loans and increased incidences of frauds and forgeries among others. Despite these challenges, the banking industry in Q3 and Q4, 2017 recorded mixed performance in most of the financial indices.

In Q3 2017, total industry Assets recorded a marginal increase of 0.32% from ₦30.70 trillion as at Q2 2017 to ₦31.10 trillion in Q3 2017 and further increased by 4.63% to ₦32.54 trillion in Q4 2017. Total Deposits from Customers decreased by 0.19% from ₦17.96 trillion in Q2 2017 to ₦17.93 trillion in Q3 2017 but increased by 8.08% to ₦19.38 trillion in Q4 2017. The banking industry Capital to Risk-Weighted Assets Ratio (CAR) declined from 11.51% in Q2 2017 to 10.56% in Q3 2017 and 10.23% in Q4 2017.

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 Insured Banks; and Section Four is Conclusion.

2.0 STRUCTURE OF ASSETS AND LIABILITIES

The total industry Assets recorded a marginal increase of 0.32% rising from ₦30.70 trillion in Q2 2017 to ₦31.10 trillion in Q3 2017. Total Assets further increased by 4.63% to ₦32.542 trillion in Q4 2017. The increment could be attributed to increase in Assets Classified as Held for Sales & Discounted Operations, Loans and Advances to Banks, Financial Assets Held for Trading, and Assets Pledged as Collateral.

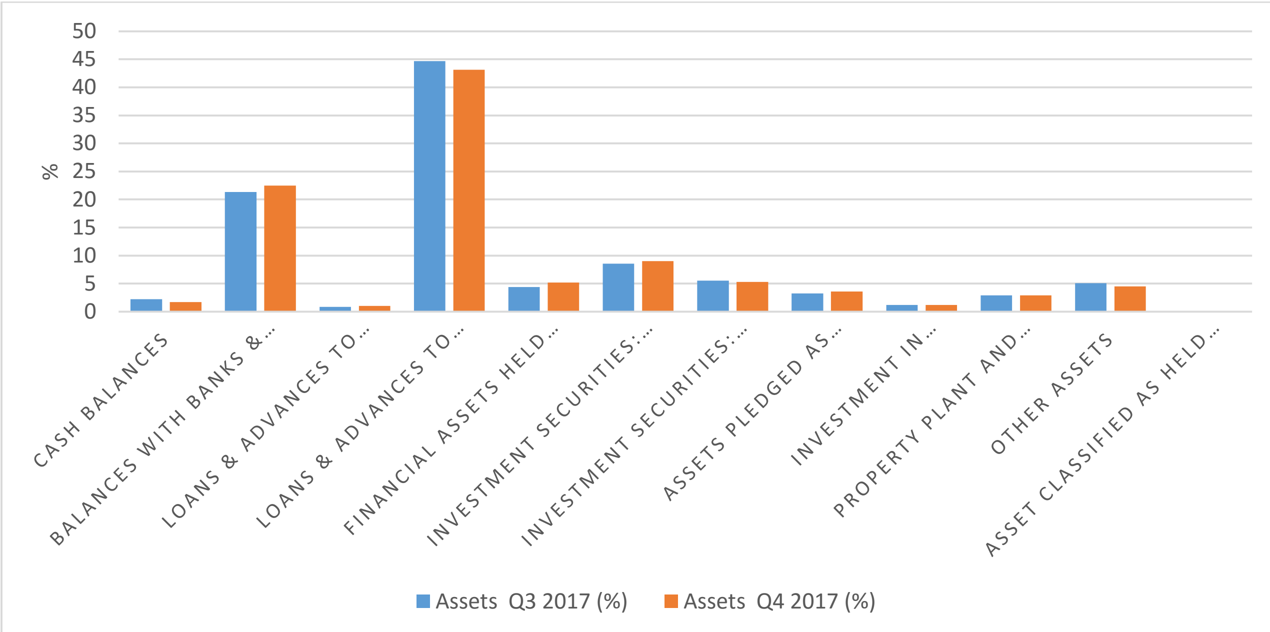
On the Liabilities side, total Deposits from Customers decreased by 0.19% from ₦17.96 trillion in Q2 2017 to ₦17.93 trillion in Q3 2017 but increased by 8.08% to ₦19.38 trillion in Q4 2017. The structure of the industry's Total Assets and Liabilities for Q3 and Q4 2017 are presented in Table 1 and Charts 1.1 and 1.2.

TABLE 1: Structure of Banks' Assets and Liabilities for Q3 and Q4 2017

Assets			**Liabilities**		
	Q3 2017 (%)	Q4 2017 (%)		Q3 2017 (%)	Q4 2017 (%)
Cash Balances	2.20	1.70	Deposit from Banks	5.12	3.52
Balances with Banks & Central Bank	21.32	22.47	Deposit from Customers	57.65	59.54
Loans & Advances to Banks	0.86	1.04	Financial Liabilities Held for Trading	0.09	0.07
Loans & Advances to Customers	44.66	43.14	Borrowings	8.84	8.88
Financial Assets Held for Trading	4.41	5.16	Debt Instrument	4.12	4.11
Investment Securities: Available for Sale	8.53	9.02	Other Liabilities	13.46	13.29
Investment Securities: Held to Maturity	5.54	5.32	Shareholders' Fund	10.72	10.59
Assets Pledged as Collateral	3.26	3.6			
Investment in Subsidiaries & Associates	1.21	1.16			
Property Plant and Equipment's	2.92	2.87			
Other Assets	5.06	4.47			
Asset Classified as Held for Sale & Discounted Operations	0.02	0.05			
Total	100	100	Total	100	100

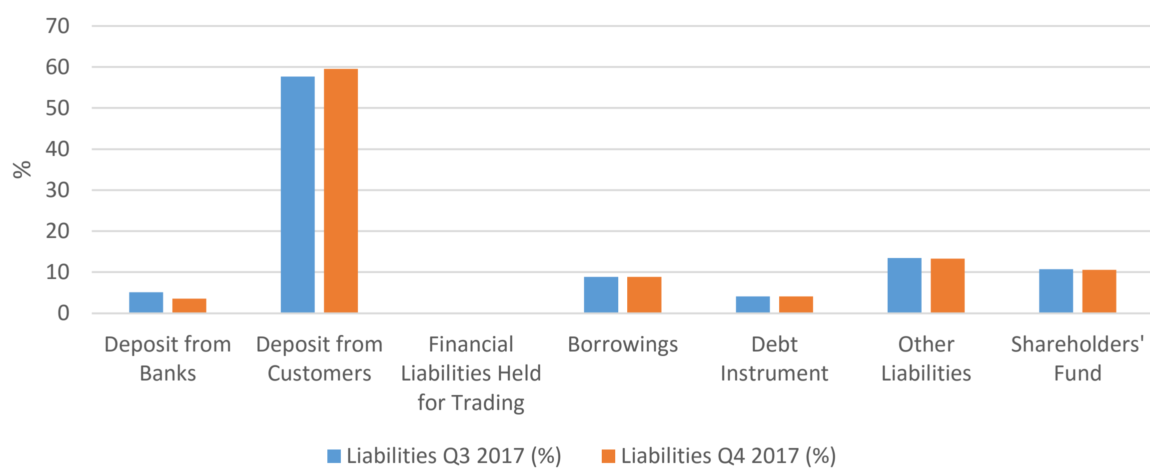
Source: NDIC

CHART 1.1: Structure of DMBs Assets for Q3 and Q4 2017



Source: NDIC

CHART 1.2: Structure of DMBs Liabilities for Q3 and Q4 2017



Source: NDIC

As can be seen from the table and charts, on the Assets' side, Loans & Advances to Customers had the highest component of 43.14% in Q4 and 44.66% in Q3, 2017. That represents a decrease of 3.40%. Balances with Banks & Central Bank had the second highest component with 22.47% and 21.32% in Q4 and Q3, 2017, respectively.

Furthermore, Investment Securities: Available For Sale accounted for 9.02% and 8.53%, Investment Securities: Held to Maturity accounted for 5.32% and 5.54% and Loans and Advances to Banks accounted for 1.04% and 0.86% for Q4 and Q3, 2017, respectively.
On the Liabilities side, Total Deposits from Customers had the highest component with 59.54% in Q4 and 57.65% in Q3, 2017. Shareholders' Funds accounted for 10.59% in Q4 and 10.72% in Q3, 2017. Other Liabilities accounted for 13.29% and 13.46% for Q4 and Q3, 2017, respectively. Financial Liabilities Held for Trading had the lowest component of 0.07% in Q4 2017 and 0.09% in Q3 2017.

3.0 FINANCIAL CONDITION OF DMBs

3.1 Capital Adequacy

The banking industry CAR declined from 11.51% in Q2 2017 to 10.56% in Q3 2017 and to 10.23% in Q4 2017. The decrease was attributable to further erosion of the industry total qualifying Capital by ₦0.23 trillion or 9.18% from ₦2.50 trillion to ₦2.27 trillion for Q2 and Q3 2017, respectively.

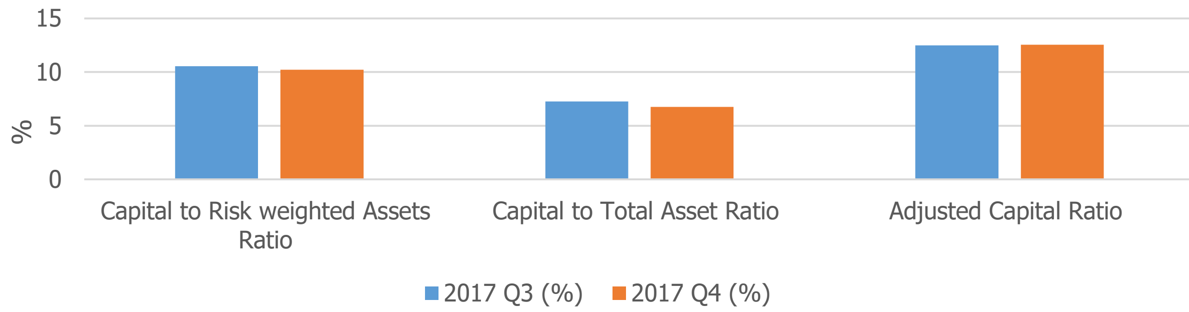
The increasing levels of required provisions for credit losses, operating losses, and declining profits due to economic downturn, amongst other factors, could have precipitated the erosion of the industry capital base. Table 2 and Chart 2 depict the CAR position of the industry for Q3 and Q4, 2017.

TABLE 2: DMBs Capital Adequacy Position for Q3 and Q4 2017

Capital Adequacy Indicator	**2017**	
	Q3 (%)	**Q4 (%)**
Capital to Risk weighted Assets Ratio	10.56	10.23
Capital to Total Asset Ratio	7.28	6.77
Adjusted Capital Ratio	12.49	12.55

Source: NDIC

CHART 2: DMBs Capital Adequacy for Q3and Q4 2017



Source: NDIC

3.2 Asset Quality

Total Credit, which represented the bulk of the Earning Assets, increased slightly by 0.66% from ₦15.87 trillion in Q2 2017 to ₦15.98 trillion in Q3 2017. Out of the industry Total Credits (TCs) of ₦15.98 trillion, Impaired Credits amounted to ₦2.43 trillion, representing 15.18% of TCs. That was an increase over the Impaired Credit Ratio of 12.73% recorded in Q2 2017.

However, in Q4 2017, Total Credit decreased slightly by 0.40% from ₦15.976 trillion in Q3 2017 to ₦15.913 trillion in Q4 2017. Out of the TCs of ₦15.913 trillion in Q4 2017, Impaired Credits amounted to ₦2.361 trillion, representing 14.84% of Total Credits. That was an improvement over the Impaired Credit Ratio of 15.18% recorded in Q3 2017.

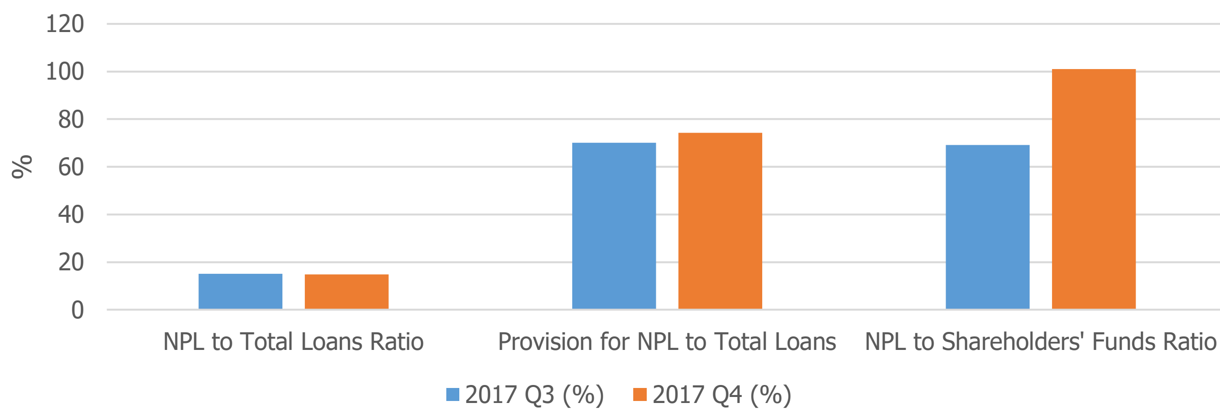
During the periods, the Impaired Credit ratio of 15.18% in Q3, and 14.84% in Q4 both exceeded the maximum threshold of 5% prescribed by the CBN. The Q3 and Q4, 2017 Asset Quality indicators are shown in Table 3 and Chart 3.

TABLE 3: DMBs Asset Quality Indicators in Q3 and Q4 2017

Details	**2017**	
	Q3 (%)	**Q4 (%)**
NPL to Total Loans Ratio	15.18	14.84
Provision for NPL to Total Loans	70.08	74.21
NPL to Shareholders' Funds Ratio	69.21	100.96

Source: NDIC

CHART 3: DMBs Asset Quality indicators in Q3 and Q4 2017



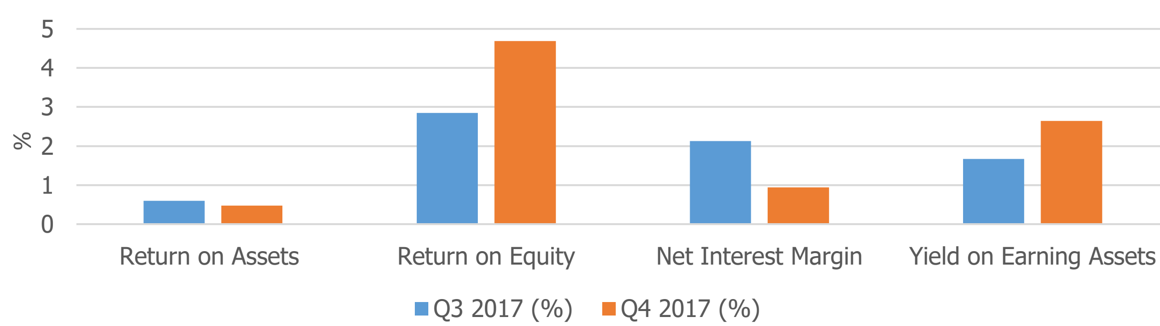
Source: NDIC

3.3 Earnings and Profitability

In Q3 2017, the banking industry recorded a Profit Before Tax (PBT) of ₦156.73 billion against a Profit Before Tax of ₦183.66 billion recorded in Q2 2017. That represented a decrease of 14.67% which could be attributed to: a substantial decline in Trading Income from ₦117.30 billion in Q2 2017 to ₦91.35 billion in Q3 2017, and an increase of 7.75% in Operating Expenses from ₦398.25 billion in Q2 to ₦429.12 billion in Q3 2017.

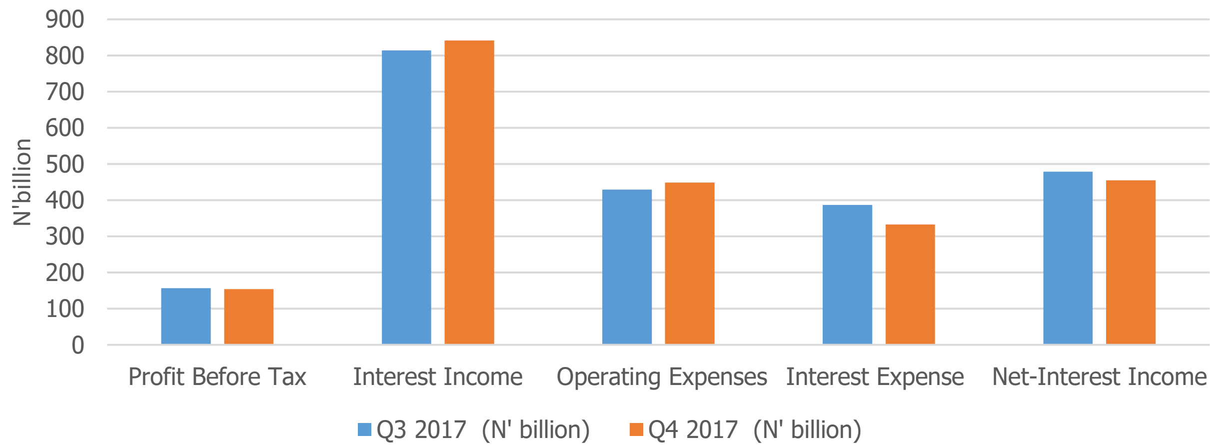
In Q4 2017, the industry recorded a Profit Before Tax of ₦154.08 billion against a profit of ₦156.73 billion recorded in Q3 2017, representing a decrease of 1.69%. In the quarter under review, Return on Assets (ROA) decreased from 0.60% in Q3 to 0.48% in Q4 2017 while Return on Equity (ROE) increased from 2.85% to 4.69% in the quarter under review. The Q1 and Q2, 2017 Earnings and Profitability indicators are shown in Table 4 and Charts 4.1 and 4.2.

CHART 4.1: DMBs Earning and Profitability ratios for Q3 and Q4



Source: NDIC

CHART 4.2: Earning and Profitability for Q3 and Q4



Source: NDIC

TABLE 4: **DMBs Earnings and Profitability Indicators in Q3 and Q4 2017.**

Parameters	**Q3 2017**	**Q4 2017**
Return on Assets (%)	0.60	0.48
Return on Equity (%)	2.85	4.69
Net Interest Margin	2.13	0.94
Yield on Earning Assets (%)	1.67	2.64
Profit Before Tax (N' billion)	156.73	154.08
Interest Income (N' billion)	814.37	841.60
Operating Expenses (N' billion)	429.11	449.02
Interest Expense (N' billion)	386.58	332.69
Net-Interest Income (N' billion)	478.74	455.01

Source: NDIC

3.4 Liquidity Profile

In Q3 2017, Average Liquidity Ratio (ALR) of the industry decreased significantly from 65.85% in Q2 2017 to 48.54% in Q3 2017. Similarly, the ALR of the industry decreased significantly from 48.54% in Q3 to 45.56% in Q4 2017. The Net Credit to Deposit Ratio, which measures banks' level of lending activities, decreased to acceptable position of below 80% from 91.90% in Q3, 2017 to 72.30 % in Q4 2017, as shown in Table 5 and Chart 5.

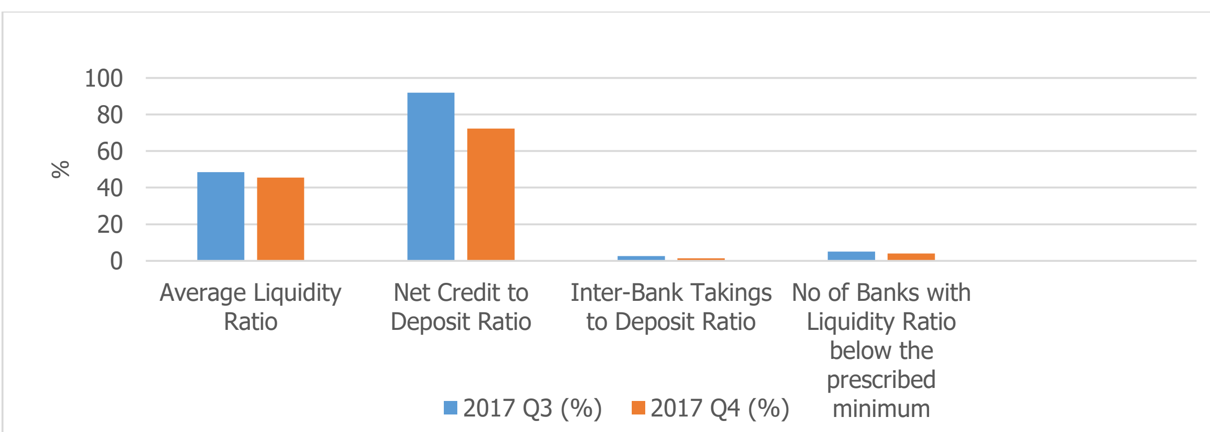
During the quarters under review, all the DMBs met the minimum liquidity ratios of 30% for Commercial Banks and 20% for Merchant Banks except 5 in Q3 and 4 in Q4 2017, respectively.

TABLE 5: Liquidity Profile of DMBs for Q3 and Q4 2017.

Parameters	**2017**	
	Q3 (%)	**Q4 (%)**
Average Liquidity Ratio	48.54	45.56
Net Credit to Deposit Ratio	91.90	72.30
Inter-Bank Takings to Deposit Ratio	2.52	1.35
No of Banks with Liquidity Ratio below the prescribed minimum	5	4

Source: NDIC

CHART 5: DMBs Liquidity Profile for Q3 and Q4



Source: NDIC

4. CONCLUSION

The DMBs had a mixed performance during the two quarters under review. The Net Credit to Deposits Ratio decreased to acceptable position of below 80%. Total Deposits from Customers, Capital to Risk Weighted Assets Ratio, and PBT all decreased, while the Industry Total Assets appreciated during the two Quarters.