3.3 6th MPC Meeting - held on 25th and 26th November, 2019

The MPC in its 6th meeting continued to retain the MPR at 13.50 percent with the asymmetric corridor at +200 and -500 basis points; the CRR at 22.5 percent; and Liquidity Ratio at 30.00 percent.

The decision to retain MPR at 13.5 percent as it was in its previous meeting was due to the improvements in the macroeconomic indicators such as GDP, Nonperforming Loans (NPLs) Capital Adequacy Ratio (CAR) and Loan to Deposit Ratio (LDR), suggesing that prevailing monetary policy stance was yielding results. The MPC therefore decided that maintaining the current stance would be necessary in order to sustain the improvements.

FINANCIAL CONDITION AND PERFORMANCE OF DEPOSIT MONEY BANKS IN Q3 AND Q4 2019

By

Research, Policy & International Relations AND Insurance and Surveillance Departments

1.0 INTRODUCTION

The Banking Industry's financial conditions improved in the last quarter of 2019, relative to the preceding quarter. Financial performance indicators like Profit Before Tax (PBT), Return on Asset (ROA) and Return on Equity (ROE) increased. Asset quality improved with decline in Non-Performing Loans (NPL) ratios. These performances indicate increased Banking Sector's resilience to macroeconomic headwinds in the second half of the year. However, regulatory indicators such as Capital Adequacy Ratio (CAR) and Liquidity Ratio slightly dipped, on the average, in Q4 2019 relative to Q3 2019.

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

The Total Industry Assets was ₦38.04 trillion in Q2 2019 and increased by 6.09% from ₦38.08 trillion in Q3 2019 to ₦40.40 trillion in Q4 2019. The increment largely derived from 6.56% growth in Loan and Advances to Customers which accounted for 41.31% of the ₦2.31 trillion increase in Total Assets. Other sources of growth in Total Industry Assets are Financial Assets Held as Fair Value through Other Comprehensive Income (FVOCI), Financial Assets Held for Trading, and Balances with Banks & Central Bank which grew by 6.88%, 17.94% and 8.13%, respectively, and accounted for 10.52%, 15.05% and 29.58% of growth in DMB's Total Assets over the period. Table 1 shows that the structure of the Total Industry Assets in Q4 2019 was fairly similar to the preceding quarter. Loan and Advances to Customers and Balances with Banks & Central Bank retained their dominance, accounted for 38.42% and 22.54% of the Total Assets in Q4 2019, compared to 38.24% and 22.12%, respectively, in Q3 2019.

Total Deposits accounted for 56.54% of Total Liabilities in Q4 2019, compared to 59.62% in Q3, 2019. Though its percentage contribution to Total Liabilities declined, Total Deposits remained dominant (as shown in table 1) and explained 53.78% of the ₦2.31 trillion increase in Total Liabilities from ₦38.08 trillion in Q3 2019 to ₦40.40 trillion in Q4 2019. As a percentage of Total Liabilities, Borrowings decreased from 9.57% to 9.08% while Other Liabilities and Shareholders Fund increased to 11.70% and 9.17% from 9.68% and 9.08%, respectively. Apart from being the second largest component of Total Liabilities, Other Liabilities explained 35.34% of growth in Total Liabilities and thus ranks second to Total Deposit from customers.

TABLE 1: Structure of DMBs' Assets and Liabilities for Q3 and Q4 2019

ASSETS (% of Total)	Q3 2019	Q4 2019	% CHANGE
Cash Balances	2.13	1.95	-8.45
Balances with Banks & Central Bank	22.12	22.54	1.90
Loans & Advances to Banks	1.88	1.74	-7.45
Loans & Advances to Customers	38.24	38.42	0.47
Financial Assets Held for Trading	5.10	5.67	11.18
Investment Securities: Available for Sale	9.30	9.37	0.75
Investment Securities: Held to Maturity	5.96	5.27	-11.58
Assets Pledged as Collateral	5.83	5.84	0.17
Investment in Subsidiaries & Associates	1.16	1.10	-5.17
Investment Properties	0.36	0.36	0.00
Property Plant and Equipment	2.43	2.41	-0.82
Other Assets	5.39	5.25	-2.60
Asset Classified as Held for Sale & Discontinued Operations	0.09	0.08	-11.11
TOTAL ASSETS	100.00	100.00	

LIABILITIES	% OF TOTAL LIABILITIES	% OF TOTAL LIABILITIES	% CHANGE
Deposit from Banks	6.41	7.12	11.08
Deposit from Customers	56.54	59.62	0.05
Financial Liabilities Held for Trading	0.29	0.12	-58.62
Borrowings	9.57	9.08	-5.12
Debt Instrument	2.71	3.18	17.34
Other Liabilities	9.68	11.70	20.87
Shareholders' Fund	9.08	9.17	0.99
TOTAL LIABILITIES	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 decreased from 15.50% in Q3 2019 to 14.54% in Q4 2019, as shown in table 2. The decline was associated with 2.37% decrease in Capital and 4.10% increase in Risk Weighted Assets over the period. The average CAR in Q4 2019 indicated that the Banking Industry required capital of ₦701.40 billion, an increase of 4.14% above ₦673.54 billion recapitalization requirements in Q3 2019.

TABLE 2: DMBs Capital Adequacy Position for Q3 and Q4 2019

Capital Adequacy Ratio	Q3 2019 (%)	Q4 2019 (%)
Capital to Risk Weighted Assets	15.50	14.54
Capital to Total Assets Ratio	8.95	7.96
Adjusted Capital Ratio	20.11	19.43

Source: NDIC

3.2 Asset Quality

The Total Earning Assets increased by 12.76% from ₦22.88 trillion in Q3 2019 to ₦25.80 trillion in Q4 2019. As a percentage of Total Asset, Total Earning Assets also increased from 60.08% in Q3 2019 to 63.86% in Q4 2019, as shown in table 3.

The quality of the Industry's Risk Asset (Total Credit/Loans and Advances) improved over the period as Impaired Credit to Total Credit ratio declined from 6.66% in Q3 2019 to 6.06% in Q4 2019. Similarly, Impaired Credit to Shareholders' Fund decreased from 40.99% to 32.97% over the same period. The decline in the impairment ratio were attributable to increase in recovery from Bad Debts from ₦7.13 billion to ₦7.30 billion over the period, despite 4.68% impairment in Total Insider-Credits as at 31st December, 2019.

TABLE 3: DMBs Asset Quality Indicators for Q3 and Q4 2019

Details	Q3 2019 (%)	Q4 2019 (%)
Impaired Credit to Total Credit	6.66	6.06
Total Earning Assets to Total Assets	60.08	63.86
Impaired Credit to Shareholders' Fund	40.99	32.97

Source: NDIC

3.4 Sectoral Distribution of Credit

Sectoral credit allocation in Q4 2019, as depicted in figures 8 & 9, was fairly similar to that of the preceding quarter, with concentration of credit to Oil & Gas, Manufacturing and General Commerce remaining dominant in the two quarters. The figures show that the credit allocation to Oil & Gas and Manufacturing however declined from 27.67% and 15.84% in Q3 2019 to 26.49% and 15.28% in Q4 2019, respectively, while allocation to General Commerce increased from 6.84% to 7.33% over the period.

FIGURE 8: Sectoral Credit Allocation in Q4 2019

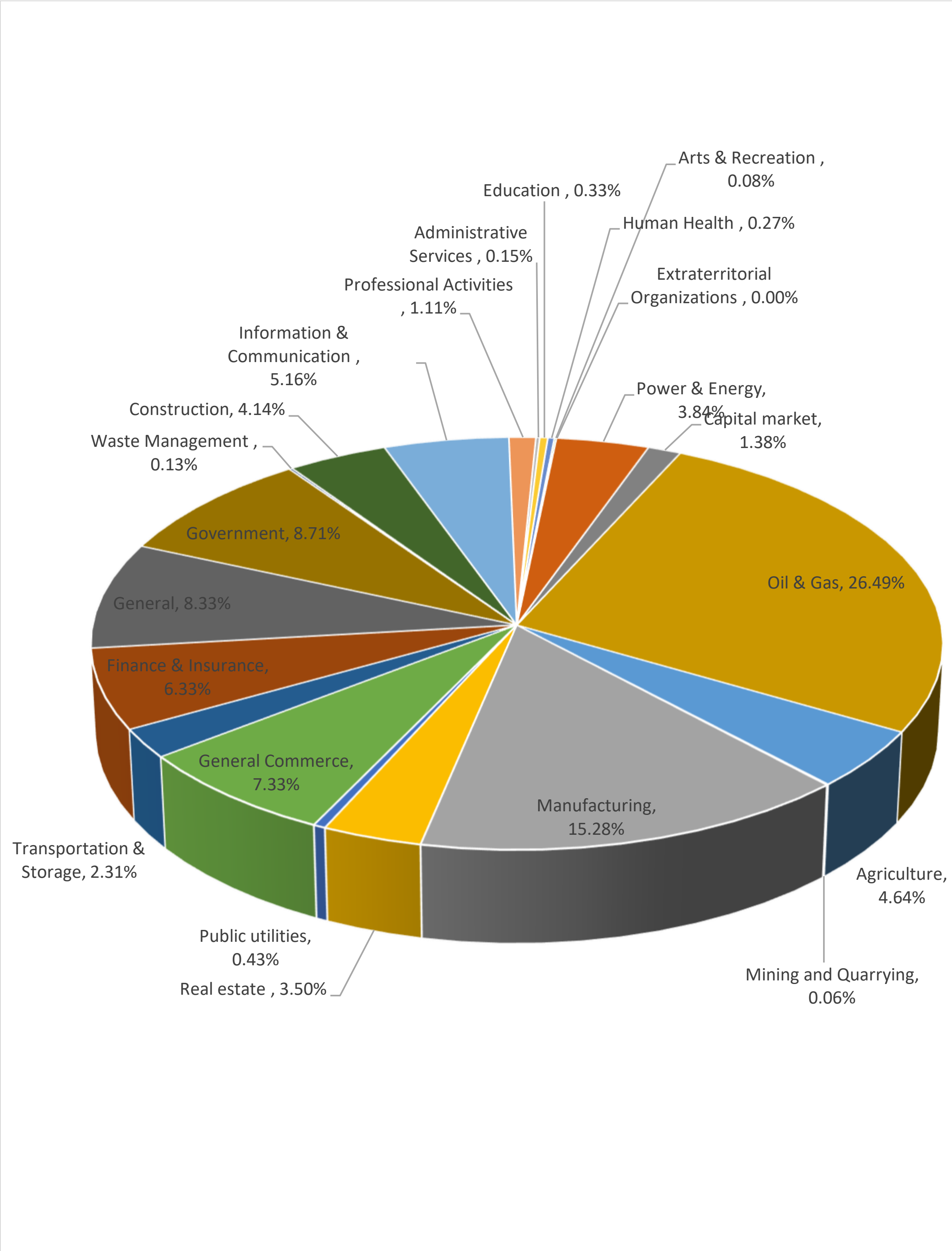
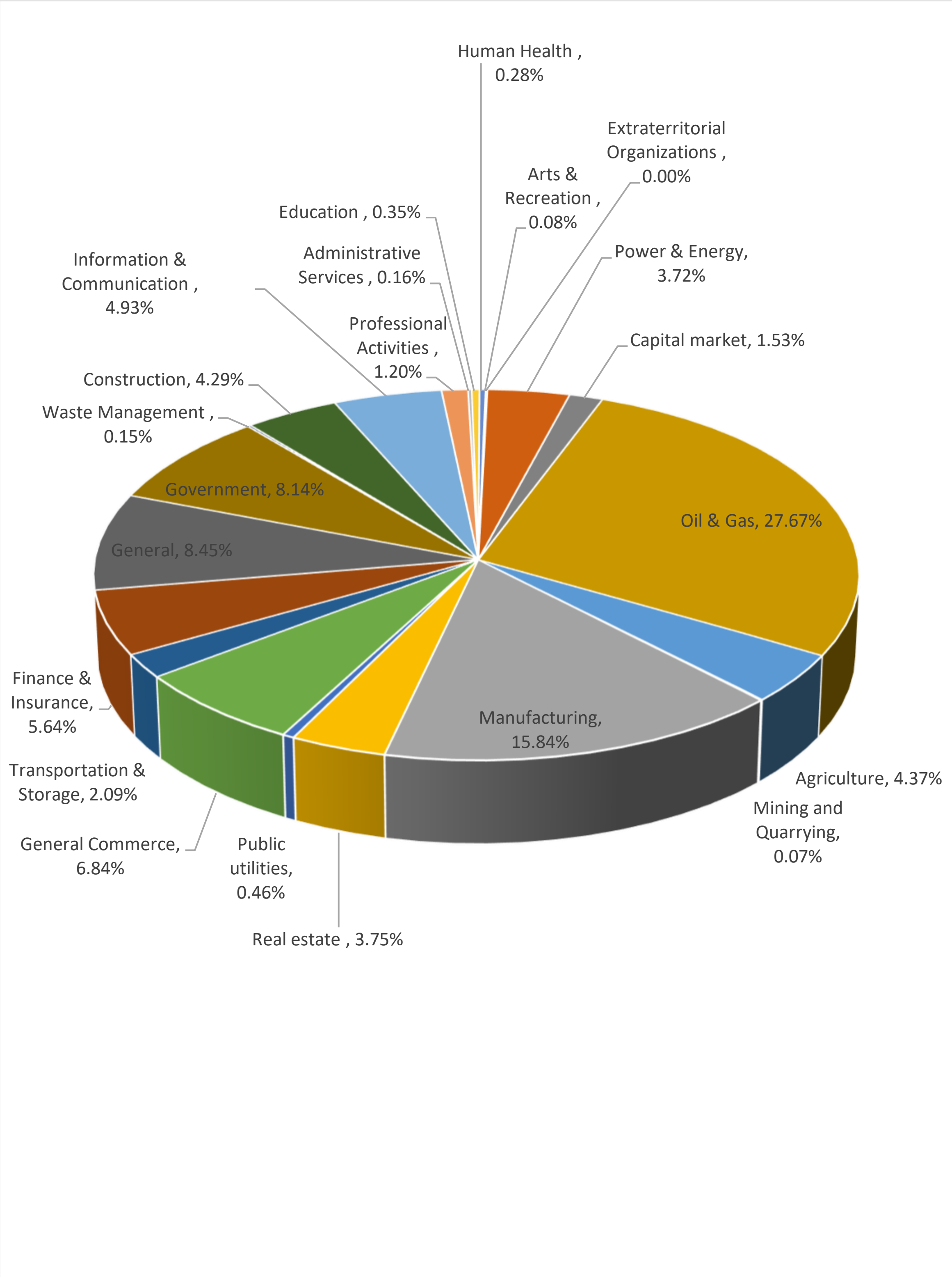


FIGURE 9: Sectoral Credit Allocation in Q3 2019



3.4 Earnings and Profitability

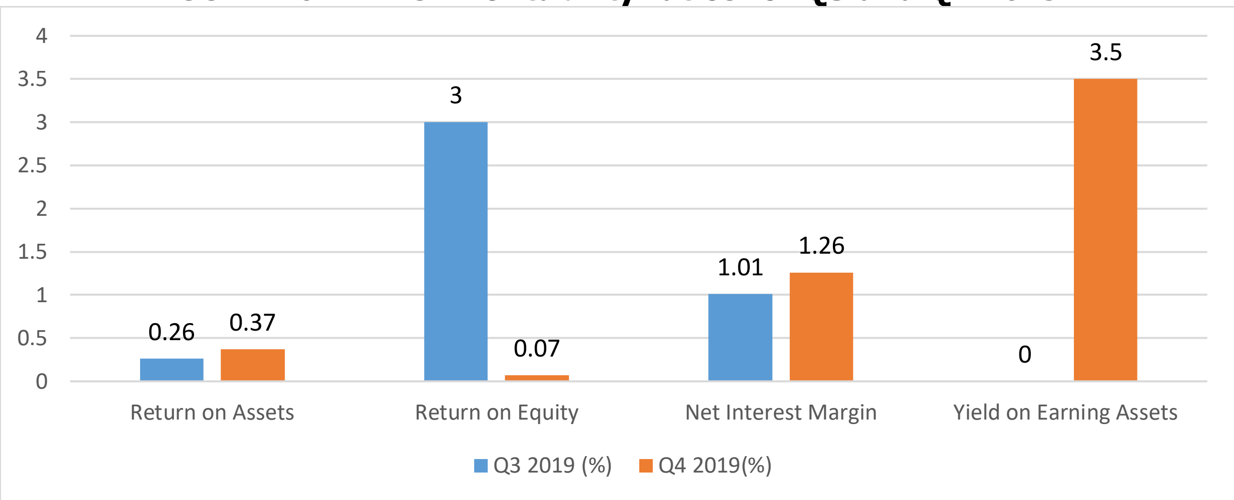
The unaudited Profit Before Tax (PBT) of DMBs increased by 122.06% from ₦108.29 billion in Q3 2019 to ₦240.47 billion in Q4 2019. The rise in the Banking Industry's profitability, as shown in table 4 and figure 10, came from 103.55% increase in Net Interest Income from ₦230.05 billion to ₦468.27 billion, relative to 68.1% increase in Total Operating Expense increased from ₦284.03 billion to ₦477.45 billion over the period. Consequently, Return on Assets (ROA) increased from 0.26% in Q3 2019 to 0.37% in in Q4 2019. Similarly Return on Equity (ROE) fell from 3% to 0.07% over the same period.

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

	Quarter	
Indicators (N' billion)	Q3 2019	Q4 2019
Profit Before Tax	108.29	240.47
Interest Income	542.48	841.20
Interest Expense	312.43	372.93
Net-Interest Income	230.05	468.27
Operating Expenses	284.03	477.45

Source: NDIC

FIGURE 10: DMBs' Profitability ratios for Q3 and Q4 2019



Source: NDIC

3.4 Liquidity Profile

Table 5 shows that the Average Liquidity Ratio (ALR) of the Banking Industry decreased from 47.74% Q3 2019 to 45.45% in Q4 2019. The Net Credit to Deposit Ratio increased from 67.98% in Q3 2019 to 68.68% in Q4 2019, indicating DMBs' further compliance with CBN's minimum Loan to Deposit (LDR) ratio of 65% prescribed for real sector growth.

TABLE 5: DMBs Liquidity Profile for Q3 and Q4 2019

Indicators (%)	Q3 2019	Q4 2019
Average Liquidity Ratio	47.74	45.45
Net Credit to Deposit Ratio	67.98	68.68
Inter-Bank Takings to	0.69	0.74

Source: NDIC

4.0 CONCLUSION

The banking industry maintained a stable performance in the third and fourth quarter of 2019. Though the Banking Industry's Average CAR slightly decreased over the period, other financial performance metrics improved. Asset Quality increased as Non-Performing Loan ratio declined. Profitability also improved with increase in Net Interest Margin (NIM) and Return on Asset (ROA) in the period. In addition, the liquidity ratio remained above the regulatory threshold of 30%.