

## Financial Condition and Performance of Deposit Money Banks in the Third and Fourth Quarter of 2021

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### 3.0 Introduction

The banking industry showed a mixed performance in the second half of 2021. Financial performance indicators such as Return on Assets and Return on Equity improved at the end of December 2021 relative to the end of September 2021. However, the Capital to Risk-Weighted Assets Ratio deteriorated at the end of December 2021 relative to the end of September 2021.

The rest of this chapter is organized as follows: Section 3.1 presents the Structure of Assets and Liabilities; Section 3.2 presents the Financial Condition of Banks; and Section 3.3 presents the Conclusion.

### 3.1 Structure of Assets and Liabilities

Total industry assets increased from ₦53.71 trillion at the end of the second quarter of 2021 to ₦56.57 trillion at the end of the third quarter and further to ₦59.30 trillion at the end of the fourth quarter, as shown in Table 3.1. The growth in assets was due to an increase in Loans and Advances to Customers from ₦19.96 trillion at the end of the second quarter of 2021 to ₦20.81 trillion at the end of the third quarter and further to ₦22.17 trillion at the end of the fourth quarter of the year. Also, Investments in Subsidiaries and Associates grew by 2.40 per cent, 0.53 per cent, and 5.77 per cent at the end of the second, third, and fourth quarters of 2021, respectively. Furthermore, Property, Plant, and Equipment grew by 0.72 per cent, 1.02 per cent, and 5.11 per cent at the end of the second, third quarter, and fourth quarters of the same year.

On the liabilities side, Deposits from Customers grew from ₦33.89 trillion at the end of the second quarter of 2021 to ₦35.55 trillion at the end of the third quarter and ₦38.45 trillion at the end of the fourth quarter of the year, as shown in Table 3.1. Also, Borrowing grew by 7.90 per cent, 14.42 per cent, and 3.99 per cent at the end of the second, third and fourth quarters of 2021, respectively. However, deposits from Banks decreased from ₦3.13 trillion at the end of the second quarter of 2021 to ₦3.02 trillion at the end of the third quarter and ₦2.71 trillion at the end of the fourth quarter of the year. The industry's total liabilities as at end-December 2021 stood at ₦59.30 trillion, comprising Deposit from Customers (64.84%), Other Liabilities (10.48%), Borrowings (8.51%), as well as Shareholders' Funds (8.15%), amongst others.

**Table 3.1: Structure of DMBs' Assets and Liabilities at the end of the Third and Fourth Quarter of 2021**

PARAMETER	End-Fourth Quarter, 2021		End-Third Quarter, 2021		End-Second Quarter, 2021	
	INDUSTRY (₦'Billion)	% of TOTAL	INDUSTRY (₦'Billion)	% of TOTAL	INDUSTRY (₦'Billion)	% of TOTAL
<b>ASSETS</b>						
Cash Balances	841.38	1.42	1,074.73	1.90	1,270.12	2.36

Balances with Banks & Central Bank	16,376.48	27.61	15,404.69	27.23	14,287.32	26.60
Loans & Advances to Banks	474.70	0.80	546.79	0.97	651.41	1.21
Loans & Advances to Customers	22,168.29	37.38	20,811.18	36.79	19,957.03	37.15
Financial Assets Held for Trading	2,354.79	3.97	2,388.11	4.22	1,939.83	3.61
Financial Assets held as Fair Value through Other Comprehensive Income (FVOCI)	5,165.23	8.71	5,998.28	10.60	5,099.76	9.49
Financial Assets held as Amortised Cost	5,241.89	8.84	3,739.27	6.61	4,048.29	7.54
Assets Pledged as Collateral	2,218.08	3.74	2,132.61	3.77	2,113.50	3.93
Investment in Subsidiaries & Associates	527.58	0.89	498.79	0.88	496.15	0.92
Property Plant and Equipment	1,271.95	2.14	1,210.15	2.14	1,197.91	2.23
Other Assets	2,521.47	4.25	2,717.87	4.80	2,606.47	4.85
Asset Classified as Held for Sale & Discontinued Operations	142.64	0.24	42.99	0.08	47.14	0.09
<b>TOTAL ASSETS</b>	<b>59,304.47</b>	<b>100.00</b>	<b>56,565.46</b>	<b>100.00</b>	<b>53,714.91</b>	<b>100.00</b>
<b>LIABILITIES</b>						
Deposit from Banks	2,713.37	4.58	3,023.39	5.34	3,128.69	5.82
Deposit from Customers	38,453.62	64.84	35,545.16	62.84	33,886.17	63.09
Financial Liabilities Held for Trading	69.49	0.12	51.32	0.09	60.18	0.10
Borrowings	5,046.48	8.51	4,852.65	8.58	4,241.11	7.90
Debt Instrument	1,972.28	3.33	1,946.85	3.44	1,759.56	3.28
Other Liabilities	6,215.93	10.48	6,423.67	11.36	5,995.05	11.16
Shareholders' Fund	4,833.31	8.15	4,722.41	8.35	4,644.15	8.65
<b>TOTAL LIABILITIES</b>	<b>59,304.47</b>	<b>100.00</b>	<b>56,565.46</b>	<b>100.00</b>	<b>53,714.91</b>	<b>100.00</b>

Source: NDIC

### 3.2 Financial Conditions of DMBs

This is analysed in terms of Capital Adequacy, Asset Quality, and Liquidity in the following sections.

### 3.3 Capital Adequacy

The Industry Capital to Risk-Weighted Assets ratio (CAR) declined from 15.46 per cent at the end of the second quarter of 2021 to 14.98 per cent at the end of the third quarter and 14.51 per cent at the end of the fourth quarter of the year (Table 3.2). This was attributable to the increase in Total Risk-Weighted Assets from ₦26.70 trillion at the end of the second quarter of 2021 to ₦27.79 trillion at the end of the third quarter and ₦29.40 trillion at the end of the fourth quarter of the year. Similarly, the Total Qualifying Capital increased from ₦4.13 trillion at the end of the second quarter of 2021 to ₦4.17 trillion at the end of the third quarter and ₦4.27 trillion at the end of the fourth quarter of the year.

**Table 3.2: DMBs' Capital Adequacy Position**

Capital Adequacy Performance Indicators (%)	End of Fourth Quarter, 2021	End of Third Quarter, 2021	End of the Second Quarter, 2021
Capital to Risk-Weighted Assets Ratio	14.51	14.98	15.46
Capital to Total Assets Ratio	7.19	7.37	7.68
Adjusted Capital Ratio	15.67	16.30	16.78
<b>Parameters (₦' Billion)</b>			
Total Qualifying Capital	4,266.79	4,167.79	4,127.19
Total Risk-Weighted Assets	29,397.13	27,790.89	26,700.85

Source: NDIC

### 3.4 Asset Quality

The quality of risk assets in the quarter under review is shown in Table 3.3. The ratio of Impaired Credit to Total Credit declined from 5.69 per cent at the end of the second quarter of 2021 to 5.43 per cent at the end of the third quarter and further to 4.79 per cent at the end of the fourth quarter. Total Earning Assets grew by 2.93 per cent at the end of the second quarter and 5.50 per cent at the end of the third quarter of 2021. It further increased by 6.20 per cent at the end of the fourth quarter of 2021. Also, Total Credits grew from ₦22.06 trillion at the end of the second quarter of 2021 to ₦22.99 trillion at the end of the third quarter and ₦24.61 trillion at the end of the fourth quarter of the year. Other Asset Quality performance indicators are shown in Table 3.3.

**Table 3.3: Asset Quality**

Performance Indicators (%)	End-Fourth Quarter, 2021	End-Third Quarter, 2021	End-Second Quarter, 2021
Impaired Credit to Total Credit	4.79	5.43	5.69
Total Earning Assets to Total Assets	61.43	60.65	60.54
Total Impairment to Impaired Credit	101.66	100.11	97.47
Impaired Credit to Shareholders' Fund	29.44	32.39	32.92
<b>Parameters (₦' Billion)</b>			
Total Assets	59,304.47	56,565.46	53,714.91
Total Earning Assets	36,433.70	34,306.09	32,517.97
Total Credit	24,607.59	22,993.66	22,060.85

Source: NDIC

### 3.5 Sectorial Allocation of Credits

Table 3.4 presents the sectorial allocation of credits in the banking sector. The Oil and Gas as well as the Manufacturing Sectors, received the largest credit allocation, while Activities of Extraterritorial Organizations and Bodies received the least credit allocation. The percentage of credit to the Oil and Gas sector declined from 24.24 per cent at the end of the second quarter of the year to 23.70 per cent at the end of the third quarter and 23.01 per cent at the end of the fourth quarter of 2021. Similarly, the percentage of credit allocation to the Manufacturing sector declined from 16.56 per cent at the end of the second quarter to 16.36 per cent at the end of the third quarter. However, it increased to 16.62 per cent at the end of the fourth quarter of 2021.

**Table 3.4: Structure of Credit Allocation among Sectors (%)**

S/N	SECTORS	End-Fourth Quarter, 2021	End-Third Quarter, 2021	End-Second Quarter, 2021
1	Oil and Gas	23.01	23.70	24.24
2	Manufacturing	16.62	16.36	16.56
3	General	9.72	9.73	9.46
4	Government	9.62	9.55	9.14
5	General Commerce	7.20	7.02	6.53
6	Agriculture	5.92	5.41	5.36
7	Finance and Insurance	5.72	5.04	5.65
8	Construction	4.35	4.80	5.01
9	Information and Communication	3.91	4.67	4.70
10	Power and Energy	3.62	3.76	3.73
11	Transportation and Storage	2.84	2.69	2.50
12	Real Estate	2.81	2.96	3.10
13	Capital Market	1.36	1.11	1.05
14	Professional, Scientific, and Technical Activities	1.08	1.16	1.02
15	Public Utilities	0.67	0.46	0.45
16	Human Health and Social Work Activities	0.50	0.51	0.48
17	Education	0.43	0.50	0.38
18	Administrative and Support Service Activities	0.22	0.23	0.22
19	Water Supply; Sewerage, Waste Management, and Remediation Activities	0.13	0.14	0.13
20	Arts, Entertainment, and Recreation	0.13	0.14	0.09
21	Mining and Quarrying	0.10	0.09	0.11
22	Activities of Extraterritorial Organizations and Bodies	0.03	0.00	0.00
	<b>GRAND TOTAL</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Source: NDIC

### 3.6 Earnings and Profitability

The industry recorded a Profit Before Tax of ₦277.10 billion for the fourth quarter of 2021, which was higher than ₦181.38 billion and ₦189.29 billion recorded for the third and second quarters, respectively. Return on Assets declined to 0.33 per cent at the end of the third quarter of 2021 from

0.36 per cent at the end of the second quarter. However, it increased to 0.48 per cent at the end of the fourth quarter. Similarly, Return on Equity which declined to 4.68 per cent in the third quarter from 4.96 per cent at the end of the second quarter, improved to 6.92 per cent at the end of the fourth quarter of 2021. Other earnings and profitability indicators are shown in Table 3.5.

**Table 3.5: Earning and Profitability Performance of the Banking Industry**

Performance Indicators (%)	Fourth Quarter 2021	Third Quarter, 2021	Second Quarter, 2021
Profit Before Tax (₦' Billion)	277.10	181.38	189.29
Interest Expense (₦' Billion)	401.62	370.10	304.16
Net Interest Income (₦' Billion)	438.38	390.96	447.38
Operating Expenses (₦' Billion)	865.50	672.50	533.22
Recoveries (₦' Billion)	24.01	11.57	15.98
Return On Assets (%)	0.48	0.33	0.36
Return On Equity (%)	6.92	4.68	4.96
Net Interest Margin (%)	1.20	1.14	1.38
Yield On Earning Assets (%)	2.31	2.22	2.31

Source: NDIC

### 3.7 Liquidity Profile

The Average Liquidity Ratio, which stood at 42.03 per cent at the end of the third quarter of 2021, declined to 41.34 per cent at the end of the fourth quarter of 2021, as shown in Table 3.6. Also, Net Credit to Deposit Ratio, which measures banks' lending activities, declined from 61.82 per cent at the end of the third quarter of 2021 to 53.62 per cent at the end of the fourth quarter of 2021.

**Table 3.6: DMBs Liquidity Profile**

Performance Indicators (%)	Fourth Quarter, 2021	Third Quarter, 2021	Second Quarter, 2021
Average Liquidity Ratio	41.34	42.03	41.29
Net Credit to Deposit Ratio	53.62	61.82	61.63
Interbank Takings to Deposits	1.42	1.99	2.28

Source: NDIC

### 3.8 Conclusion

The banking industry showed a mixed performance in the last two quarters of 2021. Total Industry Assets grew by 4.84 per cent from ₦56.57 trillion at the end of the third quarter to ₦59.30 trillion at the end of the fourth quarter. However, Net Credit to Deposit Ratio declined to 53.62 per cent at the end of the fourth quarter from 61.82 per cent at the end of the third quarter. Furthermore, the banking industry Capital to Risk-Weighted Assets Ratio declined to 14.51 per cent at the end of the fourth quarter from 14.98 per cent at the end of the third quarter of 2021.