

Financial Condition and Performance of Deposit Money Banks in the Second Quarter of 2022

Research, Policy and International Relations Department, NDIC

&

Insurance and Surveillance Department, NDIC

2.0 Introduction

This section highlights the financial condition and performance of the Deposit Money Banks (DMBs) in Nigeria, comprising twenty-three (23) Commercial Banks (including two Non-Interest Banking Windows), six (6) Merchant Banks and three (3) Non-Interest Banks (NIBs). The analysis of the indicators for the second quarter of 2022 was made in comparison with the previous quarter ended on March 31, 2022.

2.1 Structure of Assets and Liabilities

The DMBs' Total Assets stood at ₦65,584.81 billion at the end of the second quarter of 2022, indicating an increase of ₦2,603.28 billion (4.13%) from ₦62,981.53 billion at the end of the first quarter of 2022. The growth in the Total Assets was largely driven by an increase in Loans and Advances to Customers (5.73%), Assets pledged as collateral (27.98%), Financial Assets Held for Trading (14.27%), and Financial Assets Held at Fair Value through Other Comprehensive Income Assets (4.80%), as shown in Table 2.1.

On the Funding side, Total Deposits from Customers of ₦42,099.37 billion represented 64.19 percent of the Total Liabilities during the quarter under review. This shows that DMBs largely relied on Customers' Deposits to fund Assets. It increased by ₦1,634.05 billion (4.04%), from ₦40,465.32 billion at the end of the first quarter of 2022 to ₦42,099.37 billion at the end of the second quarter of 2022. Borrowings also increased by ₦272.81 billion (5.92%), from ₦4,610.16 billion at the end of the first quarter of 2022 to ₦4,882.97 billion at the end of the second quarter of 2022. However, other Liabilities declined by ₦336.08 billion (4.42%), from ₦7,605.91 billion at the end of the first quarter of 2022 to ₦7,269.83 billion at the end of the second quarter of 2022.

The Shareholders' Funds marginally decreased by ₦7.52 billion (0.14%) from ₦5,308.23 billion at the end of the first quarter of 2022 to ₦5,300.71 billion at the end of the second quarter of 2022. It represented 8.08 per cent of the Total Liabilities, which stood at ₦65,584.81 at the end of the second quarter of 2022.

Table 2.1: Structure of DMBs' Assets and Liabilities as at the end of the First and Second Quarters 2022

PARAMETER	As at June 30, 2022		As at March 31, 2022		% Change Between June & March 2022
	Billion (₦)	% of Total Assets	Billion (₦)	% of Total Assets	
ASSETS					
Cash Balances	756.33	1.15	794.83	1.26	-4.84
Balances with Banks & Central Bank	17,288.86	26.36	17,464.36	27.73	-1.00
Loans & Advances to Banks	723.52	1.10	524.06	0.83	38.06
Loans & Advances to Customers	24,284.22	37.03	22,967.57	36.47	5.73
Financial Assets Held for Trading	3,709.93	5.66	3,246.60	5.15	14.27
Financial Assets held at Fair Value through Other Comprehensive Income (FVOCI)	6,292.74	9.59	6,004.39	9.53	4.80
Financial Assets held at Amortised Cost	4,586.89	6.99	4,640.29	7.37	-1.15
Assets Pledged as Collateral	2,606.96	3.97	2,036.95	3.23	27.98
Investment in Subsidiaries & Associates	630.76	0.96	614.71	0.98	2.61
Property Plant and Equipment	1,323.82	2.02	1,273.43	2.02	3.96
Other Assets	3,243.62	4.95	3,268.91	5.19	-0.77
Assets Classified as Held for Sale & Discontinued Operations	137.16	0.21	145.44	0.23	-5.69
TOTAL ASSETS	65,584.81	100.00	62,981.53	100.00	4.13
LIABILITIES					
Deposit from Banks	3,913.67	5.97	2,992.74	4.75	30.77
Deposit from Customers	42,099.37	64.19	40,465.32	64.25	4.04
Financial Liabilities Held for Trading	101.55	0.15	84.94	0.13	19.55
Borrowings	4,882.97	7.45	4,610.16	7.32	5.92

PARAMETER	As at June 30, 2022		As at March 31, 2022		% Change Between June & March 2022
	Billion (₦)	% of Total Assets	Billion (₦)	% of Total Assets	
Debt Instrument	2,016.71	3.07	1,914.23	3.04	5.35
Other Liabilities	7,269.83	11.08	7,605.91	12.08	-4.42
Capital and Reserve	5,300.71	8.08	5,308.23	8.43	-0.14
TOTAL LIABILITIES	65,584.81	100.00	62,981.53	100.00	4.13

Source: NDIC

2.2 Capital Adequacy

The Average Capital Adequacy Ratio (CAR) of the DMBs declined by 46 basis points, from 14.60 per cent as at March 31, 2022 to 14.14 per cent as at June 30, 2022. This was due to an increase in Total Risk-Weighted Assets (TRWA) by ₦1,278.37 billion (4.31%), from ₦29,687.35 billion as at March 31, 2022 to ₦30,965.72 billion as at June 30, 2022.

Table 2.2: DMBs' Capital Adequacy Position

PARAMETERS	As at June 30, 2022 (₦ Billion)	As at March 31, 2022 (₦ Billion)	% Change Between June & March, 2022
Primary Capital (Tier 1 Capital)	3,785.09	3,731.18	1.44
Qualifying Secondary Capital (Tier II Capital)	593.39	602.45	-1.50
Total Qualifying Capital	4,378.48	4,333.63	1.03
Total Risk-Weighted Assets	30,965.72	29,687.35	4.31
Capital to Risk-Weighted Assets (%)	14.14	14.60	
Capital to Total Assets Ratio (%)	6.68	6.88	
Adjusted Capital Ratio (%)	14.68	15.37	

Source: NDIC

2.3 Asset Quality

Total Credit of the DMBs witnessed a growth of ₦1,527.00 billion (5.98%), from ₦25,538.42 billion as at March 31, 2022, to ₦27,065.42 billion as at June 30 2022. Out of the Total Credit of ₦27,065.42 billion, the sum of ₦1,340.34 billion was impaired, resulting in an Impaired Credits to Total Credits Ratio of 4.95 per cent as at June 30, 2022, compared with a 5.08 per cent as at March 31, 2022. The decline in this ratio suggested improvement in DMB asset quality over the period under review.

Table 2.3: Asset Quality

PARAMETERS	As at June 30, 2022 Total (₦' Billion)	As at March 31, 2022 Total (₦' Billion)	Change	
			Variance Between June & March 2022 (₦)	% Change Between June & March 2022
Total Assets	65,584.81	62,981.53	2,603.28	4.13
Total Earning Assets	41,089.34	38,375.39	2,713.95	7.07
Total Credit	27,065.42	25,538.42	1,527.00	5.98
Impaired Credit	1,340.34	1,297.33	43.01	3.32
Impaired Credit to Total Credit (%)	4.95	5.08	-0.13	
Total Earning Assets to Total Assets (%)	62.65	60.93	1.72	
Total Impairment to Impaired Credit (%)	83.13	90.30	-7.17	
Impaired Credit to Shareholders' Fund (Adjusted)	31.89	31.10	0.79	

Source: NDIC

2.4 Sectoral Allocation of Credits

The sectoral allocation of DMBs credits shows that Oil & Gas, Manufacturing, and General sectors recorded the highest exposure with 22.01 per cent, 16.81 per cent, and 10.48 per cent, respectively, of the Total DMB Credit of ₦27,065.42 billion as at June 30, 2022. The percentage of credit allocated to the Oil and Gas sector decreased from 22.35 per cent as at March 31, 2022, to 22.01 per cent as at June 30, 2022, while Activities of Extraterritorial Organizations & Bodies, as well as that of Arts, Entertainment & Recreation Sectors, had the least credit allocation with 0.02 per cent and 0.11 per cent for the quarter under review.

Table 2.4: Structure of Credit Allocation among Sectors (%)

S/ N	Sectors	As at June 30, 2022		As at March 31, 2022	
		% of Total Credit	% of Impaired Credits	% of Total Credit	% of Impaired Credits
1	Agriculture	6.25	2.44	6.50	3.48
2	Mining and Quarrying	0.12	7.90	0.08	0.20
3	Manufacturing	16.81	2.33	16.63	8.41
4	Real Estate	2.72	9.42	2.76	5.59
5	Public Utilities	0.53	12.44	0.68	1.39
6	General Commerce	7.42	6.65	7.28	10.44

S/ N	Sectors	As at June 30, 2022		As at March 31, 2022	
		% of Total Credit	% of Impaired Credits	% of Total Credit	% of Impaired Credits
7	Transportation and Storage	2.75	9.37	3.07	5.61
8	Finance and Insurance	6.09	0.20	5.75	0.42
9	General	10.48	6.39	10.24	13.03
10	Government	8.72	1.19	9.45	0.07
11	Water Supply; Sewerage, Waste Management, and Remediation Activities	0.14	82.93	0.13	2.31
12	Construction	4.38	13.91	4.28	15.69
13	Information and Communication	4.75	13.78	3.87	12.21
14	Professional, Scientific, and Technical Activities	0.93	5.62	1.14	1.35
15	Administrative and Support Service Activities	0.24	9.37	0.23	0.47
16	Education	0.32	7.45	0.35	0.54
17	Human Health and Social Work Activities	0.53	12.94	0.48	1.33
18	Arts, Entertainment, and Recreation	0.11	42.13	0.10	0.91
19	Activities of Extraterritorial Organizations and Bodies	0.02	0.19	0.02	0.00
20	Power and Energy	3.12	4.01	3.23	2.53
21	Capital Market	1.57	0.09	1.37	0.03
22	Oil and Gas	22.01	3.74	22.35	13.99
	Grand Total	100.00	254.49	100.00	100.00

Source: NDIC

2.5 Earnings and Profitability

The DMBs reported an unaudited Profit before Tax (PBT) of ₦209.79 billion during the second quarter of 2022, indicating an increase of ₦9.58 billion (4.78%) from ₦200.21 billion recorded in the first quarter ended March 31, 2022. As shown in Table 2.5, Return on Assets remained at 0.32 per cent in the second quarter as it was in the first quarter, while Return on Equity increased from 4.80 per cent as at March 31, 2022, to 4.99 per cent as at June 30, 2022.

Table 2.5: Earnings and Profitability Performance of the Banking Industry

Parameter	As at June 30, 2022 N' Billion	As at March 31, 2022 N' Billion	Variance Between June & March 2022 N' Billion	% Change
Interest Income	905.11	835.47	69.64	8.34
Interest Expense	374.65	383.86	-9.21	-2.40
Net Interest Income	530.46	451.61	78.85	17.46
Net Fees and Commission	211.96	208.01	3.95	1.90
Trading Income	162.73	150.43	12.30	8.18
Other Income	65.29	31.44	33.85	107.67
Recoveries	9.29	9.82	-0.53	-5.40
Total Operating Income	921.54	820.89	100.65	12.26
Operating Expenses	711.75	808.71	-96.96	-11.99
Profit Before Tax	209.79	200.21	9.58	4.78
Return on Assets	0.32	0.32	0.00	
Return on Equity	4.99	4.80	0.19	
Net Interest Margin	1.34	1.18	0.16	
Yield on Earning Assets	2.28	2.18	0.10	

Source: NDIC**2.6 Liquidity Profile**

The DMBs' Total Deposits increased by ₦1,634.05 billion (4.04%), from ₦40,465.32 billion as at March 31, 2022, to ₦42,099.37 billion as at June 30, 2022. The Average Liquidity Ratio declined by 46 basis points, from 43.16 per cent as at March 31, 2022, to 42.70 per cent as at June 30, 2022, as a result of a larger increase in the volume of Current Liabilities, relative to Current Asset. The Total Credit to Deposits Ratio, which measures banks' lending activities increased slightly by 124 basis points, from 63.11 per cent as at March 31, 2022, to 64.35 per cent as at the end of June 30, 2022, slightly below the 65 per cent prescribed minimum threshold.

Table 2.6: DMBs Liquidity Profile

Parameters	As at June 30, 2022	As at March 31, 2022	Variance Between June & March 2022 (₦ Billion)	% Change Between June & March, 2022
	(₦ Billion)	(₦ Billion)		
Total Credit (TC)	27,089.98	25,538.42	1,551.56	6.08
Total Deposits	42,099.37	40,465.32	1,634.05	4.04
Net Interbank Takings	366.47	100.78	265.69	263.63
Average Liquidity Ratio	42.70	43.16	-0.46	
Loan (TC) to Deposit Ratio	64.35	63.11	1.24	
Interbank Takings to Deposits	2.34	1.27	1.07	

Source: NDIC

2.7 Conclusion

The financial and prudential performance of DMBs showed an improvement in the second quarter of 2022 relative to that of the previous quarter, as shown by relevant indicators, except for the Capital Adequacy and Liquidity Ratio. The average Capital Adequacy and Liquidity Ratio of the DMBs stood at 14.14 per cent and 42.70 per cent, while the NPL ratio stood at 4.95 per cent, respectively. In addition, Total Assets and Deposits rose by 4.13 per cent and 4.04 per cent, respectively.