

Financial Condition and Performance of Deposit Money Banks in Second Quarter, 2023

4.0 Introduction

This section highlights the financial condition and performance of Deposit Money Banks (DMBs) in Nigeria. There were thirty-five (35) licensed DMBs in Nigeria as at the end of the second quarter of 2023, comprising twenty-six (26) Commercial Banks, six (6) Merchant Banks, three (3) Non-Interest Banks (NIBs) and two (2) Non-Interest Banking Windows (NIB Windows). This report highlights the financial condition and performance of thirty-four (34) Deposit Money Banks, as Signature Bank had not commenced the rendition of statutory returns during the period under review.

The financial condition and performance of Deposit Money Banks in the second quarter of 2023 was made in comparison with the previous quarter ended March 31, 2023.

4.1 Structure of Assets and Liabilities

The DMBs Total Assets stood at ₦96,565.22 billion as at end of second quarter 2023, which was an increase of ₦16,864.81 billion (21.16%) from ₦79,700.41 billion as at end of first quarter 2023.

The growth in total assets was driven by an increase in the Naira values of the Fx-denominated assets, Loans & Advances to Customers (20.96%), Balances with Banks & Central Bank (20.20%), Financial Assets held for Trading (86.67%), and Financial Assets held as Fair Value through Other Comprehensive Income (FVOCI) (17.87%). In the same vein, Loans & Advances to Banks increased by 41.09 per cent, and Assets Pledged as Collateral, grew by 15.21 per cent, as shown in Table 4.1

On the liability side, Deposit from Customers and other liabilities grew by 17.28 per cent and 26.82 per cent from ₦49,492.92 billion and ₦12,513.15 billion as at end of first quarter 2023 to ₦58,046.30 billion and ₦15,869.76 billion as at end of second quarter 2023, respectively. Similarly, Borrowings and Deposit from Banks increased by 29.36 per cent and 36.82 per cent from ₦5,724.66 billion and ₦3,487.42 billion as at end of first quarter 2023 to ₦7,405.55 billion and ₦4,771.55 billion as at end of second quarter 2023.

The Shareholders' Funds which accounted for 6.08 per cent of total liabilities as at end of second quarter 2023, decreased by 4.93 per cent from ₦6,175.22 billion as at end of first quarter 2023 to ₦5,870.66 billion as at end of second quarter 2023.

Table 4.1: Structure of DMBs' Assets and Liabilities for the Second and First Quarter, 2023

PARAMETER	As At June 30, 2023		As At March 31, 2023		% Change Between June 2023 and March 2023
	₦ Billion	% of Total Assets	₦ Billion	% of Total Assets	
ASSETS					
Cash Balances	634.98	0.66	385.66	0.48	64.65
Balances with Banks & Central Bank	27,389.25	28.36	22,787.04	28.59	20.20
Loans & Advances to Banks	1,487.44	1.54	1,054.24	1.32	41.09
Loans & Advances to Customers	33,302.78	34.49	27,531.36	34.54	20.96
Financial Assets Held for Trading	6,508.71	6.74	3,486.77	4.37	86.67
Financial Assets held as Fair Value through Other	8,969.53	9.29	7,609.98	9.55	17.87

PARAMETER	As At June 30, 2023		As At March 31, 2023		% Change Between June 2023 and March 2023
	₦ Billion	% of Total Assets	₦ Billion	% of Total Assets	
Comprehensive Income (FVOCI)					
Financial Assets held as Amortised Cost	6,407.76	6.64	6,182.89	7.76	3.64
Assets Pledged as Collateral	2,673.37	2.77	2,320.38	2.91	15.21
Investment in Subsidiaries & Associates	729.36	0.76	607.60	0.76	20.04
Property Plant and Equipment's	1,512.95	1.57	1,632.52	2.05	-7.32
Other Assets	6,790.91	7.03	5,960.90	7.48	13.92
Asset Classified as Held for Sale & Discontinued Operations	158.14	0.16	141.06	0.18	12.11
TOTAL ASSETS	96,565.22	100.00	79,700.41	100.00	21.16
LIABILITIES					
Deposit from Banks	4,771.55	4.94	3,487.42	4.38	36.82
Deposit from Customers	58,046.30	60.11	49,492.92	62.10	17.28
Financial Liabilities Held for Trading	1,252.13	1.30	102.38	0.13	1123.02
Borrowings	7,405.55	7.67	5,724.66	7.18	29.36
Debt Instrument	3,349.27	3.47	2,204.67	2.77	51.92
Other Liabilities	15,869.76	16.43	12,513.15	15.70	26.82
Shareholders' Fund	5,870.66	6.08	6,175.22	7.75	-4.93
TOTAL LIABILITIES	96,565.22	100.00	79,700.41	100.00	21.16
CONTINGENT LIABILITIES	24,301.05	25.17	16,389.39	20.56	48.27
NUMBER OF BANKS	35		33		

Source: NDIC (2023)

4.2.0 Financial Condition of DMBs

4.2.1 Capital Adequacy

The Average Capital Adequacy Ratio (CAR) of DMBs declined by 2.90 percentage points from 14.17 per cent as at March 31, 2023, to 11.27 per cent as at June 30, 2023. This was due to a decrease in Total Qualifying Capital (TQC) by ₦281.63 billion (5.68%) from ₦4,958.79 billion as at March 31, 2023 to ₦4,677.16 billion as at June 30, 2023, and an increase in Total Risk-Weighted Assets (TRWA) by ₦6,493.24 billion (18.55%) from ₦34,999.02 billion as at March 31, 2023 to ₦41,492.26 billion as at June 30, 2023 (Table 4.2).

Table 4.2: DMBs' Capital Adequacy Position

PARAMETERS	As at June 30, 2023	As at March 31, 2023	% Change Btw June 2023 & March 2023
	₦ Billion	₦ Billion	
Primary Capital (Tier 1 Capital)	4,002.79	4,314.73	-7.23
Qualifying Secondary Capital (Tier II Capital)	674.38	644.07	4.71
Total Qualifying Capital	4,677.16	4,958.79	-5.68
Total Risk Weighted Assets	41,492.26	34,999.02	18.55
Capital to Risk Weighted Assets (%)	11.27	14.17	-2.90
Capital to Total Assets Ratio (%)	4.84	6.22	-1.38
Adjusted Capital Ratio (%)	11.04	14.55	-3.51

Source: NDIC (2023)

4.2.2 Asset Quality

The quality of risk assets as at June 30, 2022, is shown in Table 4.3. Total assets increased by ₦16,864.81 billion (21.16%) from ₦79,700.41 billion at the end of March 2023 to ₦96,565.22 billion at the end of June 2023.

Total credit increased by ₦7,162.96 billion (23.35%) from ₦30,682.95 billion as at March 31, 2023 to ₦37,845.92 billion as at June 30, 2023. Out of the total credit of ₦37,845.92 billion, the sum of ₦1,566.38 billion (4.14%) was non-performing, which was within the prudential limit of 5%, an improvement from 4.52% reported as at March 31, 2023.

Table 4.3: Asset Quality

Parameters	As at June 30, 2023	As at March 31, 2023
	(₦ Billion)	(₦ Billion)
Total Assets	96,565.22	79,700.41
Total Earning Assets	54,305.33	46,597.70
Total Credit	37,845.92	30,682.95
Impaired Credit	1,566.38	1,387.41
Impaired Credit to Total Credit (%)	4.14	4.52
Total Earning Assets to Total Assets (%)	56.24	58.47
Total Impairment to Impaired Credit (%)	92.38	96.17

Source: NDIC (2023)

4.3 Sectoral Allocation of Credits

The sectoral allocation of credit of the DMBs shows that Oil & Gas, Manufacturing and General sectors recorded the highest exposure with 25.73 per cent, 18.38 per cent and 8.32 per cent of the total DMBs credit of ₦37,845.92 billion as at June 30, 2023. The percentage of credit extended to the Oil and Gas sector increased from 22.40 per cent at March 31, 2023 to 25.73 per cent at June 30, 2023. Out of the Oil & Gas sector exposure, 3.32 per cent was impaired. On the other hand,

Activities of Extraterritorial Organizations & Bodies had the least credit allocation with 0.0002 per cent for the quarter under review.

Table 4.4: Structure of Credit Allocation among Sectors (%)

S/N	Sectors	As at June 30, 2023		As at March 31, 2023	
		% of Total Credit	% of Impaired Credits	% of Total Credit	% of Impaired Credits
1	Oil and Gas	25.73	3.32	22.40	4.30
2	Manufacturing	18.38	1.79	18.32	1.65
3	General	8.32	6.11	9.19	6.25
4	General Commerce	7.99	5.48	8.06	5.89
5	Finance and Insurance	7.61	0.25	6.99	0.28
6	Government	6.42	0.05	8.48	0.02
7	Agriculture	5.03	3.76	6.38	2.89
8	Information and Communication	4.56	8.83	4.19	11.37
9	Construction	4.05	13.65	3.85	14.85
10	Power and Energy	3.16	3.34	2.98	7.43
11	Transportation and Storage	2.47	10.27	2.62	9.53
12	Real Estate	2.15	6.92	2.36	8.10
13	Capital Market	1.58	0.07	1.61	0.08
14	Professional, Scientific and Technical Activities	0.79	4.66	0.80	5.66
15	Public Utilities	0.46	0.06	0.43	0.07
16	Human Health and Social Work Activities	0.47	15.26	0.51	12.24
17	Administrative and Support Service Activities	0.27	2.28	0.21	3.10
18	Education	0.23	6.33	0.29	5.28
19	Water Supply; Sewerage, Waste Management and Remediation Activities	0.19	88.15	0.16	76.65
20	Mining and Quarrying	0.08	0.20	0.09	0.20
21	Arts, Entertainment and Recreation	0.07	56.22	0.07	53.43
22	Activities of Extraterritorial Organizations and Bodies	0.0002	14.85	0.0004	11.87
	Grand Total	100.00	4.14	100.00	4.52

Source: NDIC (2023)

4.4 Earnings and Profitability

The DMBs reported a Profit-Before-Tax (PBT) of ₦756.02 billion as at end of second quarter 2023, marking an increase of ₦442.34 billion (141.02%) compared with ₦313.68 billion as at end of first quarter, 2023.

Return on Assets (ROA) increased to 2.60 per cent in the quarter under review from 0.70 per cent as at March 31, 2023, while the Return on Equity (ROE) increased by 26.86 percentage points from 9.38 per cent as at March 31, 2023 to 36.24 per cent as at June 30, 2023, as shown in Table 4.5.

Table 4.5: Earning and Profitability Performance of the Banking Industry

Parameter	As at June 30, 2023 (₦ Billion)	As at March 31, 2023 (₦ Billion)	% Change
Interest Income	1,592.74	1,283.73	24.07
Interest Expense	841.84	659.05	27.73
Net Interest Income	750.90	624.68	20.21
Trading Income	302.54	221.69	36.47
Recoveries	21.07	10.61	98.58
Operating Income	1,739.25	1,053.07	65.16
Total Operating Expenses	1,006.30	751.93	33.83
Profit Before Tax	756.02	313.68	141.02
Return On Assets (%)	2.60	0.70	1.9
Return On Equity (%)	36.24	9.38	26.86

Source: NDIC (2023)

4.5 Liquidity Profile

The DMBs' Total Deposit Liabilities increased by ₦8,553.39 billion (17.28%) from ₦49,492.92 billion as at March 31, 2023 to ₦58,046.30 billion as at June 30, 2023. The Average Liquidity Ratio (ALR) of the DMBs increased by 4.44 percentage points from 43.97 per cent as at March 31, 2023 to 48.41 per cent as at June 30, 2023. The Loan to Deposit Ratio increased by 3.21 percentage points from 61.99 per cent as at March 31, 2023 to 65.20 per cent as at June 30, 2023 (Table 4.6).

Table 4.6: DMBs Liquidity Profile

Parameters	As at June 30, 2023 (₦ Billion)	As at March 31, 2022 (₦ Billion)	% Change Between March 2023 & June 2023
Total Credit	37,845.92	30,682.95	23.35
Total Deposits	58,046.30	49,492.92	17.28
Liquidity Ratio (%)	48.41	43.97	4.44
Loan (TC) to Deposit Ratio (%)	65.20	61.99	3.21

Source: NDIC (2023)

4.6 Conclusion

The performance of the banking industry improved in the second quarter of the year. During the period under review, the Total Assets of the industry increased by ₦16,864.81 billion (21.16%) from ₦79,700.41 billion as at March 31, 2023 to ₦96,565.22 billion as at June 30, 2023. Although, the Average Capital Adequacy Ratio (CAR) of DMBs declined by 2.9 percentage points from 14.17 per cent as at March 31, 2023 to 11.27 per cent as at June 30, 2023, it was within the prudential range of 10 – 15 per cent. Similarly, the Earnings and Profitability indicators improved as ROA and ROE

increased from 0.70 per cent and 9.38 per cent at end-March 2023 to 2.60 per cent and 36.24 per cent at end-June 2023, respectively.