



# Analysts Monthly Review

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## Rising Non-Performing Loans of Nigerian Banks: A Threat to Financial Stability

Tracking the soundness of a country’s financial institutions is very important. Particularly in response to the global and financial crises in the 1980s and 1990s, national and international institutions started monitoring the soundness of the financial system more intensively. A wide range of instruments is used to assess the financial system stability in analytical practice which provide some ideas of the soundness of the financial sector as a whole.

The measures of financial stability often considered include: Asset quality ratio, Capital adequacy ratio and Income/expense ratios. Asset quality ratio measures the quality of assets owned by banks and a major indicator is the ratio of non-performing loans (NPLs) to gross loans. Capital adequacy ratio measures the capital expected to maintain balance with the risks exposure of the financial institution in order to absorb the potential losses and protect the financial institution’s debt holders. The ratio of regulatory capital to risk weighted assets is the most common indicator of this measure. Further, Income / expense ratios are used to measure the profitability of the banks. Common operating ratios used to assess banks’ profitability include return on assets (ROA) and return on equity (ROE). Return on assets is measured by dividing the annual earnings (profit after tax) by its total assets while return on equity is the ratio of earnings (profit after tax) to total equity.

The Central Bank of Nigeria (CBN) and Nigeria Deposit Insurance Corporation (NDIC) maintain close watch on these indicators of financial stability in Nigeria. Recently, the CBN released the Nigeria’s Financial Stability Report for the first half (H1) of 2017. The report shows that the ratio of NPLs to gross loan rose from 12.8 percent in 2016 to 15 percent in H1 2017. Also, ratio of regulatory capital to risk weighted assets decreased from 14.8 percent in 2016 to 11.5 percent in H1 2017. In addition, return on assets increased from 1.3 percent to 2.6 percent in H1 2017.



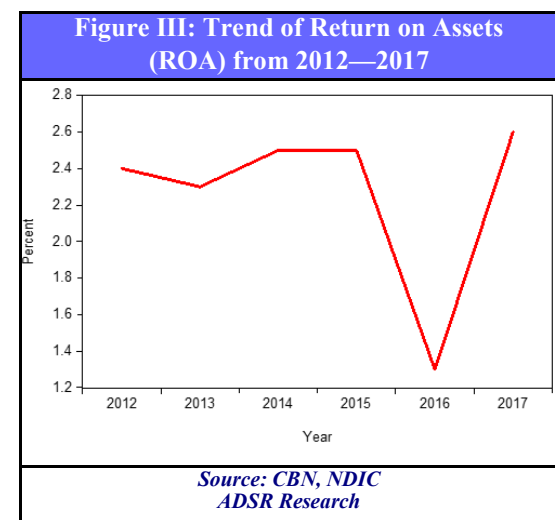
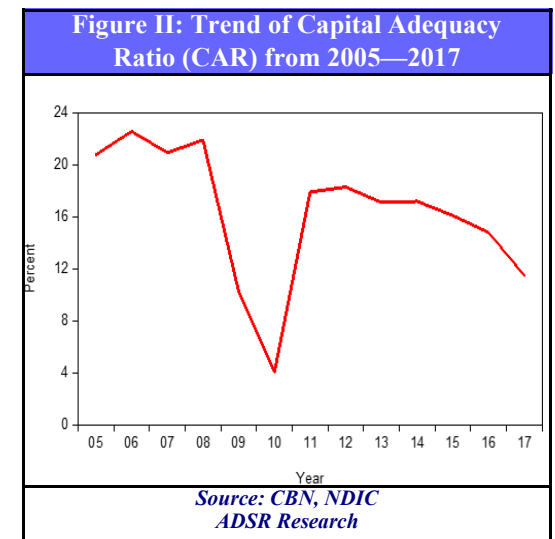
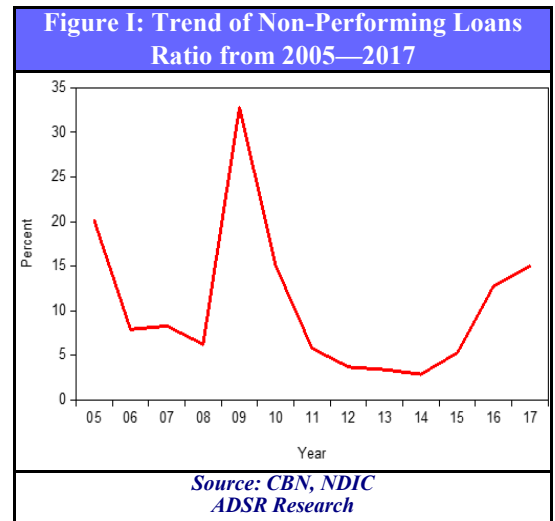
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In the CBN's explanation, the rise in the non-performing loans reflects the deterioration in banks' loan portfolio. Thus, the Apex Bank has proposed a framework for the establishment of private asset restructuring companies that will acquire the non-performing loans. Likewise, the decline in capital adequacy ratio was attributed to the challenges in the oil and gas sector. To this, the Bank promises to intensify its efforts to proactively engage bank operators to effectively manage the associated risks.

Figures I, II and III depict the trend of non-performing loans, capital adequacy ratio and return on assets respectively. The rising trend of the ratio of non-performing loans to total gross loans peaked at 32.8 percent in the year 2009 resulting from the financial crisis during the period. This resulted in the government opting for a bailout solution through Asset Management Corporation of Nigeria (AMCON) to buy some non-performing loans from banks with an estimated five trillion naira. This helped the ratio dropped between 2011 to 2015 but recently increasing given the recent statistics from the CBN. Also, capital adequacy ratio was relatively stable in the period of 2005 to 2008 until the sharp and lowest decline of 4.06 percent recorded in 2010. The CAR later picked up in 2011 but have been on the downward trend since 2015. Further, return on assets was relatively stable ranging between 2.3 percent and 2.5 percent from the period of 2012 to 2015. However, a decline was recorded in 2016 while the latest figure of 2.6 represents an improvement.

High level of bad debt are detrimental to banks and can cripple their operation and survival. This have great implications on the growth of the economy as a whole as non-performing loans grow, thereby causing resource allocation inefficiency. Likewise, lower capital adequacy ratio of banks implies the inability of meet up with short term financial obligations, thereby putting depositors at risk. This bank distress will ultimately make them lose their major source of financing and subsequently become insolvent in the long run. Hence, timely detection and management of these indicators performance is necessary and cannot be underscored.

It will be difficult to isolate the banking system from the rest of the economy. Thus, Nigeria banks are still suffering from the hangover of the recently-exited recession. Guiding against a feedback effect on the rest of the economy therefore, the financial regulator has to intensify its efforts in strengthening the financial system. The proposed private asset restructuring companies should be critically evaluated in terms of how it can actually address some of the limitations of the AMCOM and whether such private arrangement will not constitute a risk later.



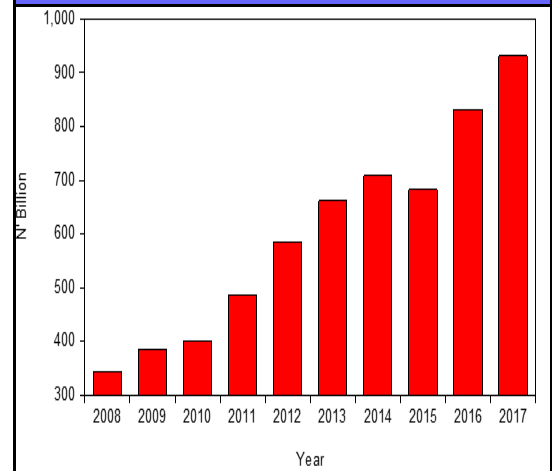
**States' IGR Increased to N931.23bn in 2017**

The National Bureau of Statistics (NBS) reported the Internally Generated Revenue at State Level for the year 2017, reflecting the performance of the states across Nigeria. The total amount generated by states across the country amounted to N931.23billion in 2017. This implies an increase of 12.03% when compared to the amount of N831.19bn generated in 2016. The report also indicates that 31 states recorded an increase in their IGR compared to the year 2016 while 5 states recorded a decline in the amount they generated in the year 2017. States with declined IGR are: Anambra, Akwa-Ibom, Bauchi, Osun and Taraba State.

In a related development, the Federation Account Allocation Committee (FAAC) shared the sum of N647.39bn to the federal, state and local government from the revenue generated in February 2018 in which Federal government received the sum of N257.92bn, States received N130.82bn and Local government received N100.86bn while the sum of N57.36bn was shared among the oil producing states as 13% derivation fund.

Nigerian states need to intensify their efforts to generate more IGR as the current level is still low relative to what they obtain from FAAC distribution.

**Trend of Nigeria's Internally Generated Revenue (IGR) from 2008—2017**



*Source: National Bureau of Statistics, 2018  
ADSR Research*

**States' IGR rose by 12.03% in 2017 relative to 2016**

**Inflation Rate Dropped to 14.33% in February 2018**

The National Bureau of Statistics (NBS) reported a drop in the inflation rate to 14.33 percent year on year in February 2018. This represents a decline of 0.80% compared to 15.13% recorded in January 2018. This is the 13th consecutive month of a decline.

Similarly, the core index increased to 11.7 percent (year-on-year) in February which is down by 0.4 percent points from the rate recorded in January. In addition, all major food sub-indexes increased during the month as the Food Index increased to 17.59 percent (year on year) which is down by 1.33 percent points from the rate of 18.92 percent reported in January. The Urban and Rural Index stood at 14.76 percent and 13.06 percent in February respectively.

This continuous drop in the inflation rate is on the positive side for the Nigerian economy. However, the spending ahead of the 2019 election could push up prices thereby leading to a slight increase in this rate. We expect that monetary authorities would continue to balance its roles of price and currency stability as the new MPC members resume duty.

**Trend of Inflation Rate in Nigeria**

|          | 2017<br>Feb | 2017<br>Dec | 2018<br>Jan | 2018<br>Feb |
|----------|-------------|-------------|-------------|-------------|
| Headline | 17.78       | 15.37       | 15.13       | 14.33       |
| Core     | 16.01       | 12.09       | 12.09       | 11.70       |
| Food     | 18.53       | 19.42       | 18.92       | 17.59       |
| Urban    | 18.57       | 15.78       | 15.56       | 14.76       |
| Rural    | 16.98       | 15.02       | 14.76       | 13.96       |

*Source: National Bureau of Statistics, 2018;  
ADSR Research*

**This is the 13th consecutive month of decline.**

## Nigeria's Capital Market Indices Dipped in February 2018

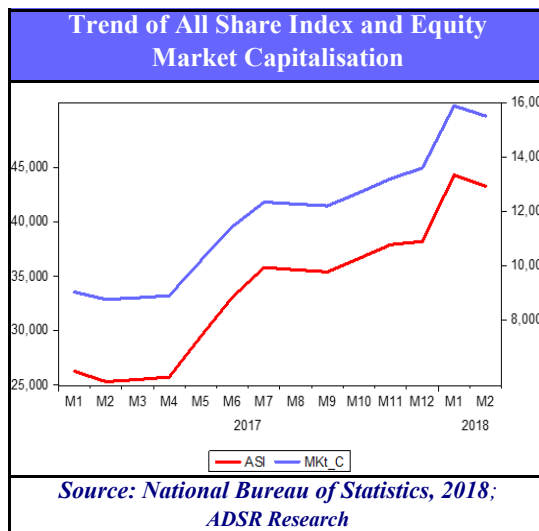
The All Share Index of the Nigerian Stock Exchange closed the month of February 2018 at 43,330.54 losing 2.28% from 44,343.65 in January 2018. The equities market capitalization at the end of the month stood at N15.5trn, losing 2.18% month-on-month,

Also, Foreign Portfolios Investment (FPIs) decreased by 46.24% from N394.44bn recorded in January 2018 to N212.05bn in February 2018. Total domestic transactions fell by 43.5% from N228.05bn recorded in January to N128.83bn in February 2018. In the domestic market, retail and institutional transactions stood at N52.75bn and N76.08bn respectively. This indicates a higher participation by institutional investors over their retail counterparts.

In the Unlisted Securities Market, the index finished the month of February 2018 at 670.86 points, gaining 6.46% month-on-month. However, the Index gained 9.7% year-on-year and gained 10.9% year to date. Consequently, Market Capitalization for the Unlisted Securities Market ended the month at N453.99bn which rose by 6.5% and gained 9.71% year on year. Also, it rose by 10.9% year to date.

In addition, monthly rates on the FMDQ showed that the Open Buy Back (OBB) and Overnight (O/N) rate stood at 3.75% and 4.5% respectively for the month of February 2018.

There was evidence of a slow down in the trading activities in the Nigerian stock market for the reviewed period. However, we expect the market to improve especially if there is expectation of improved Q1'2018 results of the companies.



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## External Reserves Further Rises to \$42.49bn in February 2018

Nigeria's external reserves continue to improve in the year 2018 as it rose by 4.42% to \$42.49 billion on a month by month basis in February 2018. The rise in the external reserves is attributed to the rising exports, foreign exchange management by CBN, increased external borrowing and increased foreign portfolio inflow.

The reserves in this year increased by \$3.58 billion or 9.2 percent from \$38.9 billion as at 2nd January 2018. The increased foreign exchange reserves is regarded as an important macroeconomic mechanism for increasing long term economic growth.

At the interbank market, the naira closed the month of February 2018 at N305.9/US\$ while the parallel market closed at N362.48/US\$. The interbank market depreciated by 0.04% during the month while the parallel market appreciated by 0.19% at the end of February 2018.

Accretion to Nigeria's external reserve will continue to stabilize the value of the naira as the monetary authority also continues its currency management efforts. However, the portfolio and debt components of the reserves remain risk items.

|                        | 2017 Dec | 2018 Jan | 2018 Feb |
|------------------------|----------|----------|----------|
| Interbank EXR          | 306.31   | 305.78   | 305.90   |
| Parallel EXR (AVR)     | 362.83   | 363.20   | 362.48   |
| Ext. Res.(\$' Billion) | 38.77    | 40.69    | 42.49    |

Source: National Bureau of Statistics, 2018; ADSR Research

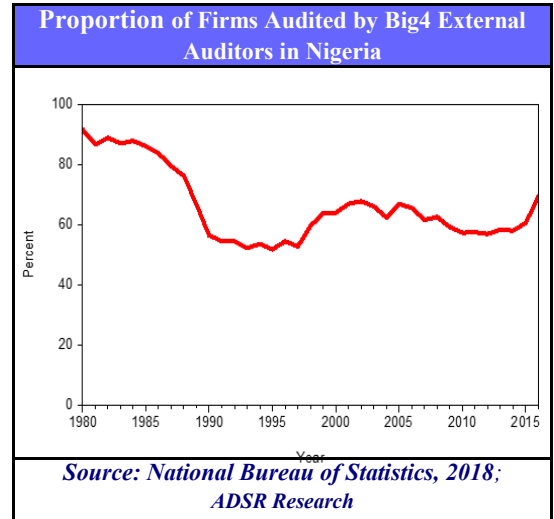
**The portfolio and debt components of the reserves remain risk items**

## Proportion of Listed Firms that Use BIG4 Auditors to Audit their Financial Statements

Auditing is a cornerstone of accountability and external auditors play a major role in protecting corporate governance in any organization. The role of external auditors is to report the state of the company’s finance and attest to the validity of financial reports that are released. This is because the financial statement is the source of financial information available to investors and other stakeholders of the company.

Mostly, having a high quality external auditors help organizations achieve accountability and integrity, improve operations and instill confidence among citizens and stakeholders. The big 4 audit firms in Nigeria are Pricewaterhouse-Coopers (PWC), KPMG, Akintola Williams Deloitte and Ernst & Young. We examined the trend and proportion of listed companies that use the big 4 auditors to audit their financial statement in Nigeria from 1980 – 2016.

The result revealed that the proportion of firm that use the big 4 auditors to audit their financial statement were above 75% between the year of 1980 - 1987. However, the trend declines in the period 1989 -1998 but picking up again in recent times, with the proportion ranging between 60% to 70%. In recent years, the proportion have increased marginally with its peak in the year 2016 representing 69.4% of firms who are auditing with the big 4 auditors in Nigeria.



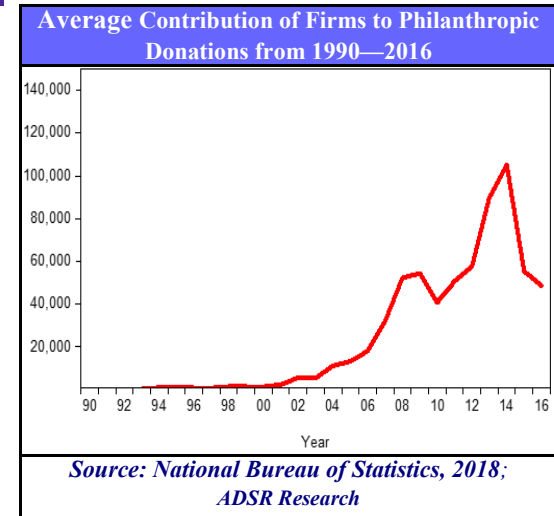
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## Contributions of Nigerian Firms’ to Corporate Philanthropic Donations

Beyond the aim of making profit, corporate charitable donations provide important benefits for the organization itself as well as other internal and external stakeholders. Some companies in Nigeria are already devoted to providing these donations. In order to gain further intuitions about the Nigerian firms’ commitment to these philanthropic donations, we examined the trend of average expenditures on donations for all listed companies for the period of 1990 - 2016.

The result revealed that the annual average contributions to philanthropic donations were minimal during the 1990s but it later gained much relevance in the early 2000. During the period of 2004 to 2012, the average contribution to philanthropic donations ranges between N11million to N60million. However, it was at its peak in 2014 of N105.09million, but to decrease in 2015 and 2016, reported at N55.44million and N48.67million respectively. This may be likely due to the recession that confronted the Nigerian economy which also affected the companies.

We expect corporate philanthropic donations to increase in subsequent years as the Nigerians economy turns out the recession crisis.



**Despite the decline, we hope that these philanthropic donations will rise further even as the Nigerians economy turns out its recession.**

## Refined Petroleum Prices Declines in February 2018

According to the data released by the National Bureau of Statistics (NBS), the average price paid by consumer for Premium Motor Spirit (PMS) fell from N190.87 in January to N172.5 in February 2018. This represents an decrease of 9.6% month on month and increase of 15.1% year-on-year. On a state by state basis, the highest average prices of petrol were recorded in Plateau, Osun and Edo which stood at N206.82, N201.29 and N200.83 respectively. In the same vein, lowest average price of petrol were reported in Katsina, Abuja and Kogi which stood at N145, N145 and N147.06 respectively.

However, average price paid by consumers for diesel decreased by 1.84% month-on-month and decreased by 15.8% year-on-year from N213.82 in January to N209.89 in February 2018. In addition, average price per litre paid by consumers for Kerosene fell by 0.1% and 18.1% month-on-month and year-on-year from N288.85 in January to N288.57 in February 2018. Similarly, average price paid by consumers for the refilling of a 5kg cylinder for Cooking Gas decreased by 1.56% month-on-month and decreased by 20.4% year-on-year from N2,190.07 in January to N2,155.97 in February 2018.

There are evidences of gradual decline in the prices of petrol, kerosene and cooking gas which would help reduce the expenditure of households and firms as they have to spend less of their income on these commodities. More so, we expect domestic petroleum prices to continue to fall during the year with the recent drop in the rate of inflation.

## Nigeria's Job Vacancies Scaled Down in February 2018

The Anasat databank recorded a decrease of 29.6% in the number of job vacancy advertisement in Nigeria newspapers in the month of February, 2018 compared to January 2018. The result shows the trend, type and pattern of jobs advertised during this period. The total number of job openings decreased from 432 in January to 304 in February 2018.

Manufacturing sector tops the list of the first three (3) sectors with 20.4% of the total number of job advertisement placed and this is followed by Education sector with 17.8%. During the month, Human health and social services sector takes the third highest rank with 16.1% of the total job advertised. The sector with the least number of job advertisement is the Transport and Storage Sector representing only 0.33% of job advertised in February. However, no job vacancy was available in the Construction sector. However, Manufacturing sector experiences a decline of 20.5% and 38.0% month on month and year on year respectively while Education sector recorded a increase of about 54.3% month on month and a decrease of about 18.2% year on year. In addition, it is observed that the Human Health and Social Sector witnessed just a 2.1% month on month increase and a 54.4% year on year decrease.

Furthermore, the skills most sort for by companies in February 2018 were the professionals. These account for 35.2% of the job advertisement for the month under review. Other major skills advertised include managers and clerical support workers accounting for 27.3% and 7.9% of the job advertisement in the month. Analysis of data shows that job advertisements in Nigeria have reduced and this is evident in the country's already high unemployment rate.

A major implication of this is that unemployment will still remain a major challenge in Nigeria and the rate is unlikely to fall in the next two quarters.

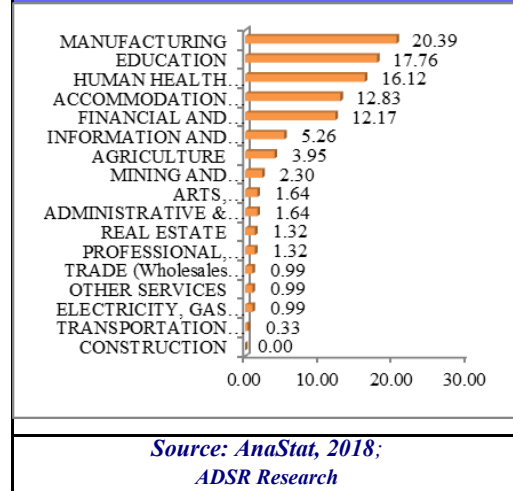
## Average Prices of Petroleum Products (₦)

|                              | 2017<br>Feb | 2018<br>Jan | 2018<br>Feb |
|------------------------------|-------------|-------------|-------------|
| PMS (Petrol)                 | 149.81      | 190.87      | 172.5       |
| AGO (Diesel)                 | 249.38      | 213.82      | 209.89      |
| HHK (kerosene)<br>Per litre  | 352.42      | 288.85      | 288.57      |
| HHK (kerosene)<br>Per gallon | 1366.08     | 1024.83     | 1,030.33    |
| Cooking gas 5kg              | 2,708.38    | 2,190.07    | 2155.97     |
| Cooking gas 2.5kg            | 5345.87     | 4,327.89    | 4,333.27    |

*Source: National Bureau of Statistics, 2018  
ADSR Research,*

**More so, we expect domestic petroleum prices to continue to fall during the year with the continuous decline in the rate of inflation .**

## Nigeria's Job Vacancy Advert for Feb 2018



**The total number of job openings decreased from 432 in January to 304 in February 2018**

## Wise Quotes

"We all have our time machines. Some take us back, they're called memories. Some take us forward, they're called dreams".

- Jeremy Irons

"Men talk of killing time, while time quietly kills them".

- Dion Boucicault

"If you tell the truth you don't have to remember anything".

- Mark Twain

"The most beautiful people I've known are those who have known trials, have known struggles, have known loss, and have found their way out of the depths".

- Elisabeth Kubler-Ross

"Regret for wasted time is more wasted time".

- Mason Cooley

"The only reason for time is so that everything doesn't happen at once".

- Albert Einstein



## Jokes

"Why did the physics teacher break up with the biology teacher? There was no chemistry".

"A guest calls the waiter and complains, "How come there are no chairs at our table?"

The waiter shrugs, "I'm sorry but you only booked one table..."

"I asked my daughter if she'd seen my newspaper. She told me that newspapers are old school. She said that people use tablets nowadays and handed me her iPad. The fly didn't stand a chance".

"A recent scientific study showed that out of 2,293,618,367 people, 94% are too lazy to actually read that number".

"I've always thought my neighbors were quite nice people. But then they put a password on their Wi-Fi".

## Analysts

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As an academic authority, ADSR is a partner of choice to researchers and postgraduate candidates for dissertation advisory. As an advisor, ADSR works with corporates, governments and supranationals to deliver data and intelligence support that cuts through complex decision making issues thus unearthing intrinsic value in a way that builds public confidence.

ADSR is fixated on altering the perception of data and accentuating the place of intelligence in order to fuel growth and development across the African continent.

Our services include: Economic Research and Advisory, Economic and Statistical Modelling, Postgraduate Thesis Support, Training, Data Processing and Analytics and AnaStat Data Platform.

## Contributors:

**Damola R. Aderonmu**  
Data Management & Analytics

**Temitope O. Faronbi**  
Research & Training

**Peace D. Olubere**  
IT & Publications

## Contacts:

|                        |   |
|------------------------|---|
| Corporate Head Office: | 38, Oyo Road, (Sango-U.I Road), Old Airport, Samonda, Ibadan, Oyo State, Nigeria.   |
| Phones:                | +234 703 747 0047,<br>+234 807 186 6887<br>+234 809 876 4491  |
| Website:               | <a href="http://www.adsrng.com">www.adsrng.com</a>  |
| E-mails:               | <a href="mailto:info@adsrng.com">info@adsrng.com</a> ,<br><a href="mailto:mail.adsr@gmail.com">mail.adsr@gmail.com</a> ,  |
| Facebook:              | <a href="https://www.facebook.com/ADSRLtd">www.facebook.com/ADSRLtd</a>   |
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