New Release

2021 BANKING INDUSTRY REPORT

AGUSTO & CO: THE BANKING INDUSTRY WOULD HAVE RECORDED AN ROE OF 31.6% IF NOT FOR THE AGGRESSIVE IMPLEMENTATION OF THE CASH RESERVE POLICY IN 2020

Agusto & Co. Limited, Nigeria's foremost research house and rating institution recently released its flagship 2021 Banking Industry Report, which is the most current and comprehensive report on the banking industry in Nigeria based on the review of the financial statements of twenty commercial banks and five merchant banks. The report reviewed the Industry structure, financial condition, the regulatory environment in addition to the macroeconomic environment and its impact on the Nigerian Banking Industry.

According to **Agusto & Co's** Banking report, the COVID-19 pandemic brought about an extraordinary test for the global community. Although the global COVID mortality rate stands low at about 2.2%, casualties increased from less than 3,000 in December 2019 to about 3.9 million as at 30 June 2021. Nigeria's mortality rate stood comparably lower at about 1% as at the same date. However, the local economy had its fair share of pandemic-related adversities. However, leveraging lessons from the 2016/2017 economic recession, the Nigerian banking industry was better prepared in 2020. Proactive measures in the form of forbearance granted by the Central Bank of Nigeria CBN), enabled banks to provide temporary and time-limited restructuring of facilities granted to households and businesses severely affected by COVID-19. There was generally a cautious approach to lending in the Industry, given difficulties in the operating environment. Although gross loans and advances grew by 12%, loan growth was negative when the 19.3% naira devaluation is considered. Underpinned by the forbearance and proactive measures adopted by banks, the NPL ratio improved to 6.6% (FYE 2019: 7.6%).

The reliability of business continuity measures was tested in 2020, considering the movement restrictions that lasted for months. Most banks showed resilience through innovative measures including remote work arrangements and upgrade of network infrastructure to accommodate higher traffic on digital channels. These arrangements also provided support during the mandatory curfew elicited by the civic unrest that followed the #EndSARS protests in October 2020. Indeed, the pandemic brought to the fore, technology's crucial role in deepening financial services as some banks recorded as much as a 50% increase in digital banking transaction volumes. However, **Agusto & Co** notes that these gains were limited by the CBN-induced reduction in bank charges, which took effect in January 2020. As a result, electronic banking income declined by 27.3%, accounting for a lower 13.2% (FY 2019: 21.1%) of non-interest income.

The CBN's policies targeted at lowering interest rates have persisted especially given the dire need to stimulate the economy following adversities created by the pandemic. However, given the need to moderate inflation amidst efforts to maintain a stable exchange rate, the cash reserve requirement (CRR) was increased and standardised to 27.5% for both merchant and commercial banks.

₦482 billion

Industry's profit before taxation. Assuming the sterile CRR were invested in treasury securities at 5%.

The standardised CRR was implemented alongside discretionary deductions. **Agusto & Co** notes that as at FYE 2020, the Industry's restricted cash reserves exceeded ₦9.5 trillion and translated to an effective CRR of 37%. It is noteworthy that Nigeria has the highest reserve requirement in sub-Saharan Africa. South Africa, Kenya and Ghana all have CRR's of below 10%. We believe the elevated CRR level moderated the Industry's performance and liquidity position during the year under review. Assuming the sterile CRR were invested in treasury securities at 5%, ₦482 billion would have been added to the Industry's profit before taxation. This would have increased the Industry's return on average equity (ROE) by 11% to 31.6% in the financial year ended 31 December 2020.

Impact of Restricted Funds (CRR) on the Banking Industry's Profitability in FY 2020

	Cash Reserve Requirement	Estimated interest income forgone assuming 5% return
Zenith Bank Plc	1,370,619,000	68,530,950
Access Bank Plc	1,275,279,265	63,763,963
First Bank of Nigeria Ltd	1,230,974,871	61,548,744
United Bank for Africa Plc	1,072,094,000	53,604,700
Guaranty Trust Bank Plc	1,008,748,051	50,437,403
Fidelity Bank Plc	540,129,000	27,006,450
Ecobank Nigeria Plc	406,043,000	20,302,150
Standard Chartered Bank Nigeria Ltd	362,542,981	18,127,149
Union Bank of Nigeria Plc	356,452,000	17,822,600
Stanbic IBTC Bank Ltd	368,357,000	18,417,850
First City Monument Bank Plc	311,746,155	15,587,308
Wema Bank Plc	246,974,959	12,348,748
Sterling Bank Plc	228,791,000	11,439,550
Citibank Nigeria Ltd	209,236,306	10,461,815
Polaris Bank Plc	204,832,000	10,241,600
Unity Bank Plc	91,130,360	4,556,518
Providus Bank Plc	89,567,141	4,478,357
Coronation Merchant Bank Ltd	72,327,019	3,616,351
FBN Merchant Bank Ltd	39,370,061	1,968,503
Nova Merchant Bank Ltd	35,170,012	1,758,501
FSDH Merchant Bank Plc	27,061,559	1,353,078
Globus Bank Ltd	25,999,790	1,299,990
Rand Merchant Bank Ltd	22,899,811	1,144,991
Jaiz Bank Ltd	22,590,165	1,129,508
Titan Trust Bank Ltd	22,521,705	1,126,085
	9,641,457,211	**482,072,860**