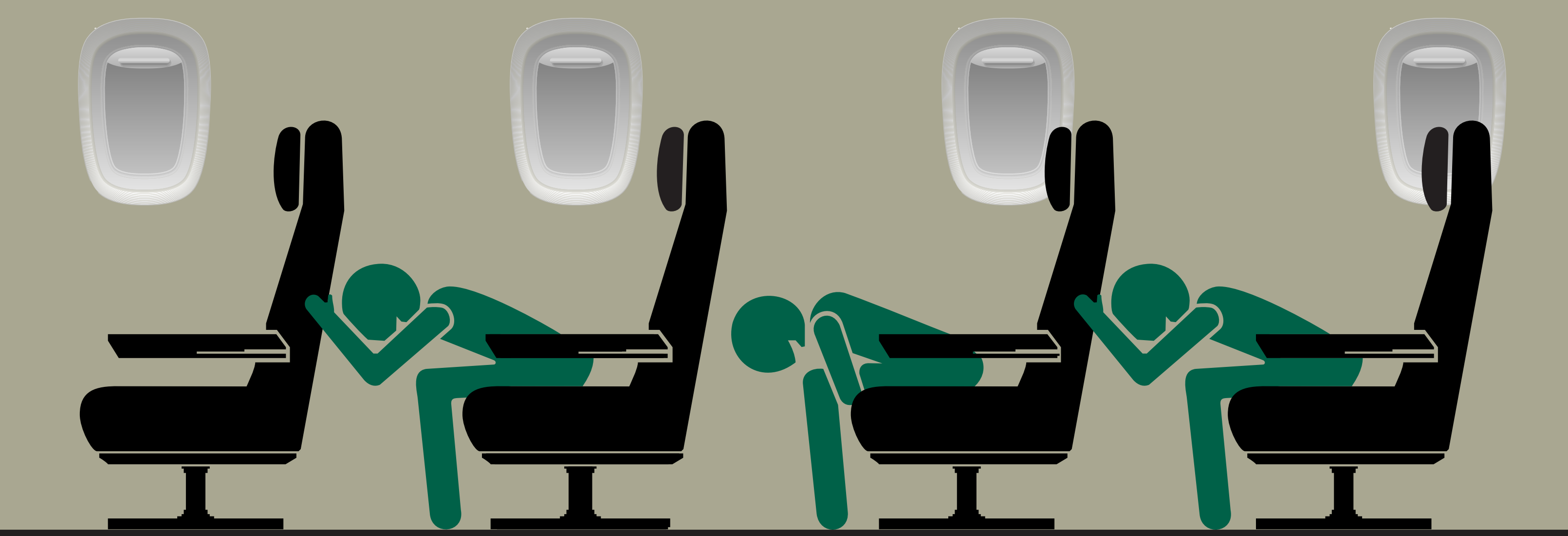
Afrinvest

NIGERIAN BANKING SECTOR REPORT

BRACE FOR IMPACT

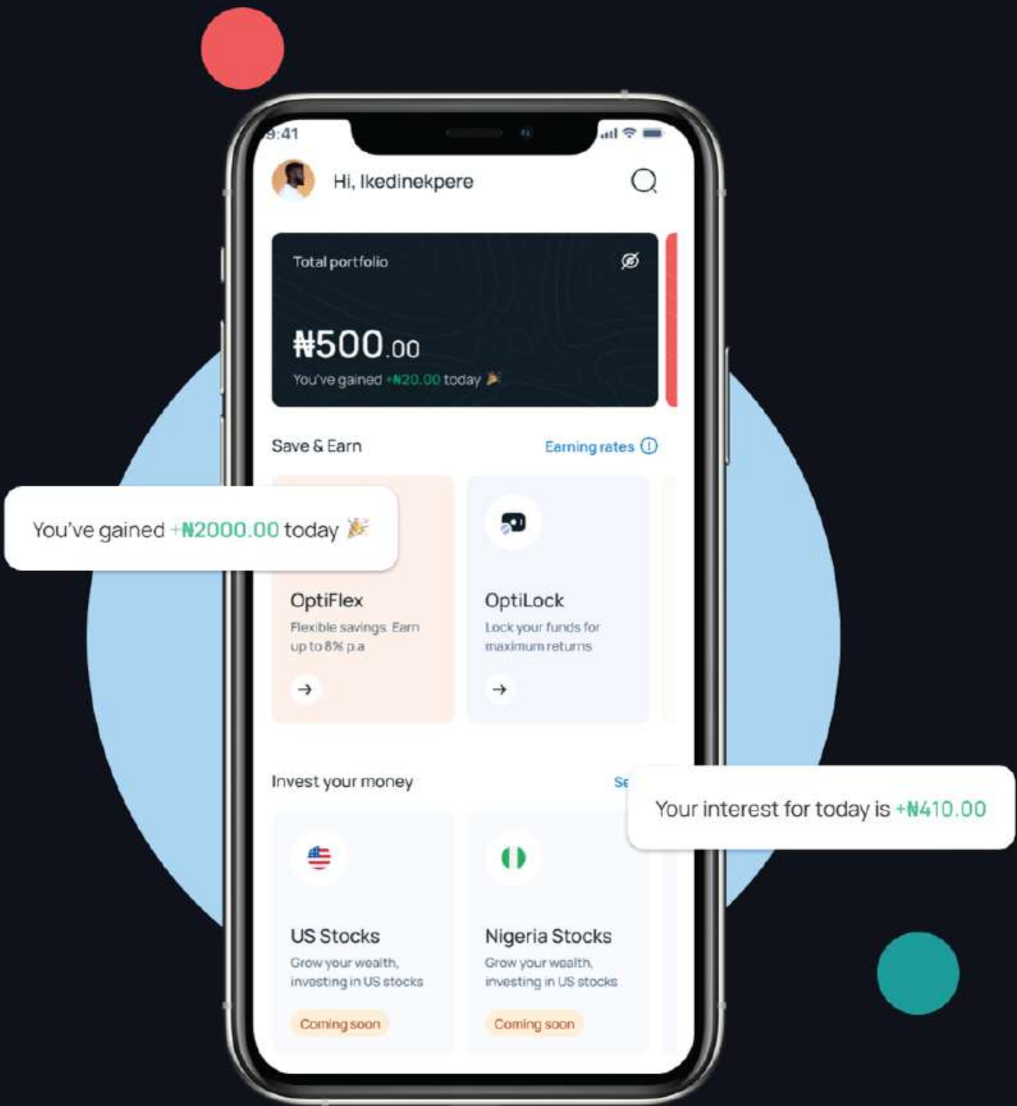


OCTOBER 2022

Contents

optimus by Afrinvest

www.optimus.ng



Save. Invest. Spend. with Optimus

Optimus by Afrinvest is a financial technology solution that helps you do the most by harmonizing banking, wealth management, and brokerage needs into one simple platform. Optimus is changing the way people interact with money to achieve financial freedom.

Download on the Play store

Download on the App store

Powered by Afrinvest

1

EXECUTIVE SUMMARY

Executive Summary

GLOBAL ECONOMIC REVIEW & OUTLOOK

Since the publication of our 2021 Nigerian Banking Sector report – “Resilience Amidst Endemic and Pandemic Constraints”, the initial bullish projections for 2022 have been undermined by deteriorating fundamentals. More recently, the IMF noted that the World's real GDP contracted in the second quarter of 2022. The increasingly gloomy projections have been the upshot of mounting downside risks, further inhibiting a world economy yet to fully shrug off the impact of the pandemic. Consequently, the IMF downgraded its global growth projections for the third consecutive time in 2022. In the October 2022 edition of the World Economic Outlook (WEO), the IMF projected that the world economy would grow by 3.2% in 2022 (2021: 6.0%) on the back of slower growth across both the Advanced Economies (AEs) and the Emerging and Developing Economies (EMDEs).

On the global trade front, the resurgence of the pandemic and other risk factors in 2022 has continued to weigh on the modest recovery recorded in global supply chain in the latter part of 2021. In 2021, the World Trade Organisation (WTO) reported that global trade value rebounded by c.25.0% to about $28.5tn. The resilience was due to the slowdown in infection rate, abating pandemic restrictions, increasing commodity prices, and a strong recovery in demand supported by economic stimulus packages. In H1:2022, global trade was shaped by a mix of gloomy global growth outlook as well as the Russia-Ukraine war which pressured the commodities market. Commodity prices surged in the immediate aftermath of the invasion of Ukraine, particularly for commodities that Russia and Ukraine are key exporters. In addition, WTO stated in its report that 36 trade-related sanctions have been imposed on Russia (a large commodity exporter) since February. It is estimated that the recovery witnessed in world merchandise trade volume in 2021 (grew 9.8%) would slow down to 3.0% by end of 2022 (a downgrade of 1.7ppts from the previous forecast). We expect the ripple effect of this development to negatively impact the global financial system.

GLOBAL MONETARY POLICY REVIEW & OUTLOOK

Since the start of the year, inflation has been running hot globally. The Bloomberg world inflation index revealed that the average price level of goods and services rose by 57.0% in H1:2022. The surge in global price levels has been largely driven by disruptions on the supply side, notably, the resurgence of the COVID-19 lockdown in China and the negative spill-over effect of the Russia-Ukraine crisis on commodity markets. Consequently, global Central Banks have embarked on an aggressive hawkish policy stance, with more than 60 increases in benchmark rates since February, in a bid to rein in inflation.

Among the AEs, the Bank of England (BoE) for the sixth time in 2022 hiked its benchmark rate by 50bps to 2.25% in September, the largest increase in more than two decades on the back of the elevated annual inflation level (July 2022: 9.9%). The BoE also noted that inflation has not peaked and is expected to hit double digits by year-end. Hence, we expect the BoE to tighten its policy rate further as inflation risks push on. In the US, although annual headline inflation cooled down to 8.3% in August (May: July 8.5%), the Federal Open Market Committee (FOMC) raised rates by 150bps between July and September to a new range of 3.00 to 3.25%, its fourth successive hikes in 2022. The policy direction of the FOMC can be linked to stubborn core inflation, rising to 6.3% in August, the same pace of increase from the previous month, and headline inflation above the FOMC's 2.0% target. Given a higher inflationary outlook, we project that a hawkish policy stance would persist globally over the next 12 months. Hence, we expect liquidity conditions to tighten, while the financial markets elongate their volatility.

GLOBAL BANKING SECTOR PERFORMANCE REVIEW & OUTLOOK

The global banking space remained resilient in 2021, leveraging stimulus support and accommodative monetary policy. Consequently, global banks accumulated buoyant capital reserves which culminated in a solid performance during the period. However, the change in monetary policy direction owing to the high inflation level, and the spill-over shock of the Russia-Ukraine conflict in 2022 heightened credit and market risks for global banks.

Based on the "Global Banking Outlook Mid-Year 2022" report by S&P Global Ratings and data sourced from Bloomberg, banking performance was buoyant in the North American region with Profit Before Tax (PBT) margin and Return on Equity (ROE) averaging 40.5% and 14.2% respectively in the last twelve months despite the Loan-to-Deposit ratio (LDR) coming in lower than the other regions. Among the selected banks, TD Bank (Canada) recorded the largest capital buffer with a Capital Adequacy Ratio (CAR) of 19.1%. In terms of asset quality and operational efficiency, JPMorgan Chase (US) outperformed peers in the region with Cost of Risk (CoR) and Cost-to-Income ratio (CIR) of -0.9% and 58.4% respectively. In Latin America and the Caribbean, banks' capital buffers and profitability were solid with CAR and PBT margin averaging 17.9% and 34.4%, respectively. However, the significant expansion of risky assets raises concern as the region's LDR averaged 108.1% – implying increased funding risk.

Across Europe, buoyant capital buffers and strong profitability were observed. Specifically, CAR in Western Europe was stronger (20.8%) than in Eastern Europe (17.1%) while the profitability of Eastern European (EE) banks was slightly better than that of their western counterpart (PBT margin printed at 36.1% vs 34.3%). For the Asia-Pacific region, asset quality and capital adequacy were strong with CoR and CAR averaging 0.6% and 19.2% sequentially. Likewise, profitability was impressive with a PBT margin of 50.0% supported by the resilience of Australian banks while LDR stood at 89.7%. Among the selected banks, Australian banks recorded impressive asset quality (CoR: -0.04%) and the highest LDR (above 100.0%). In terms of operational efficiency, Chinese banks led the pack with a CIR of 37.3% and 38.2% for Industrial & Commercial Bank and Bank of China accordingly, although their CAR was lower than the regional average.

The Middle East & African region recorded the most impressive operational performance among the assessed regions with CIR and PBT margin averaging 35.9% and 50.3%, respectively relative to global averages of 51.2% and 40.9%. Likewise, capital and asset quality were upbeat as the region's CAR and CoR averaged 17.2% and 0.7%, respectively, compared to 18.1% and 0.6% for the global average. Among selected banks, QNB (Qatar) was the most efficient with a CIR of 23.1% while Bank Leumi Le-Israel BM (Israel) reported the best asset quality (CoR: -0.3%). In 2022, lending growth is projected to remain strong while the sector's profitability is expected to strengthen on the back of moderate CoR and higher net interest margins.

DOMESTIC MACROECONOMIC REVIEW & OUTLOOK

In 2021, the Nigerian economy recovered markedly from the pandemic-induced strain of the prior year. Real GDP grew 3.4% (2020: -1.9%), beating our projection by 0.4ppts. The recovery was mainly driven by the expansion of activities in the non-oil sector (up 4.4%), while the oil sector remained in a recession. This growth momentum was sustained into 2022 albeit with a wider divergence between the oil and non-oil sectors. In H1:2022, real GDP expanded by 3.3%, driven by the non-oil sector which grew 5.4%. On the other hand, the oil sector contracted by 18.9% – the highest in comparable periods over the last decade. Given the resilient H1:2022 performance and our expectation of sustained positive performance by key non-oil activity sectors in Q3 & Q4:2022, we have revised our FY:2022 baseline growth forecast upward by 40bps to 3.3% (IMF: 3.2%, FG: 4.2%). However, we maintain that growth momentum in the medium term would remain short of the level that can meaningfully lift the average well-being of the citizenry (Afrinvest estimate: minimum of 7.4% p.a.) due to persistent domestic and external headwinds.

On price level, domestic inflation rate has remained persistently high, averaging 14.3% in the last six years. In H1:2022, headline inflation averaged 16.7% (H1-2021: 17.6%) owing to the impact of the Russia-Ukraine war on input prices, continued FX illiquidity, and structural challenges. Based on the World Bank estimate, the stinging fang of the elevated price level would drag 5.0m more Nigerians into extreme poverty (to reach 95.1m) by 2022 year-end. Although the CBN has taken the lead in the efforts at curtailing the runaway inflation rate (e.g., the back-to-back hike of the MPR in May, July, and Sept. 2022 to 15.5%), we posit that only concerted fiscal and monetary policy efforts targeted at resolving insecurity challenges, optimising exchange rate management, fixing structural loopholes, and curbing reckless fiscal spending would resolve the high inflation quagmire.

On the fiscal policy front, the divergence between the share of FG's recurrent (debt & non-debt combined) and capital expenditure component has widened significantly in the last decade. Sadly, economic growth and fiscal stability have suffered the biggest impact from the worsened divergence. Before then, we observed a strong nexus between capital expenditure performance and growth in the decade to 2009. From 1999 to 2009, the divergence between the size of recurrent and capital expenditure averaged 48.5%. Over this period, GDP growth (average: 7.0%) outpaced population growth (2.6% p.a.) significantly. This trend dovetailed into a strong labour market performance as the unemployment rate eased steadily to about 5.0% by 2009 year-end, according to NBS data. Also, GDP per capita surged by 279.9% to $1,891, while fiscal condition ended the decade strong as FG revenue to expenditure ratio printed at 76.5% (2009) with public debt stock (₦3.8tn) to GDP ratio of 7.5%. Sadly, this trend has completely reversed over the last decade.

Between 2010 and 2021, the divergence between the share of recurrent and capital expenditure budgets widened to 74.3% on average. As a result, the share of capital expenditure in the total budget has dropped to an average of 18.9% per annum. When examined from 2015, the divergence is wider at an average of 75.3%, while the average share of capital expenditure in the total budget printed lower at 18.5%. This suggests that the economy's average propensity to consume (represented by recurrent expenditure) has increased by more than 20.0% in the last decade. Unfortunately, average productivity (represented by capital expenditure) compressed by over 40.0%. Not surprising, average growth momentum weakened by more than 50.0% in the last decade to 3.2%, with the 2015 to 2021 performance even more devastating at a meagre 1.1%.

Looking ahead, Nigeria is set for another cycle of leadership in 2023 as the tenure of President Muhammadu Buhari, 30 state governors, and over 1,000 legislatures draw to a close. At a time when there is daunting fiscal, monetary, and social challenges to surmount, Nigerians cannot afford to elect leaders who lack the competence, capacity, and creativity to find lasting solutions to the national quagmire. Even with a leadership that is willing to introduce the needed reforms, the present challenging environment would worsen before it can get better. Hence, regardless of who the President is, Nigerians would need to brace for impact. Noteworthy, the political will of the incoming administration to implement tough reforms that would curtail major economic leakages such as the subsidy regime on PMS (which has gulped over ₦7.0tn since 2010) and ensure the proper channelling of scarce resources to critical sectors would be a refreshing start.

MONETARY POLICY REVIEW & OUTLOOK

In the 12 months to September 2022, the CBN in continuation of its unorthodox policy model wielded monetary policy tools and regulatory wand to seek to achieve six broad objectives:

(i) Rein in inflation
(ii) Stabilise exchange rate
(iii) Curtail the erosion of foreign reserves
(iv) Deepen financial inclusion
(v) Galvanise financial system stability; and
(vi) Enhance non-oil export potentials

Our assessment of the result of CBN's policy actions on these objectives is outlined below.

On inflation management, the CBN in 2022 due to heightened external pressures switched from its 3-year-long dovish regime to a hawkish tone, raising the benchmark rate thrice (May: 150bps, July: 100bps, and September: 150bps) to 15.5%. However, these moves have been unable to stem inflation as price levels rose further in June (88bps), July (105bps), and August (88bps) to 20.5% – the highest level on the NBS record. Although the drivers of the high inflation trend are more rooted in structural factors, we note that the sustained divergence between market rates and the MPR (since 2020) would be counter-productive to the objective of the MPR hike. For instance, despite the MPR averaging 11.5% from 2020 to May 2022, the market rates on long-dated T-bills and 10-year Bonds averaged 1.8% and 10.4%, respectively. This implies that the average returns on these instruments are priced at a discount of 1.1 and 9.7ppts, respectively, compared to the MPR. Even after the successive MPR hikes to 15.5%, the discounted pricing remains high at 2.3 and 9.9ppts, respectively, in September.

Conventionally, MPR hikes indicate the CBN's readiness to incentivise liquidity mop-ups with sizeable re-pricing of the yield curve accompanying the move. We suspect that this pattern which was observed during the 2011 and 2016 high inflation episodes has been jettisoned to ease pressure on the FG's stressed wallet (debt-service to revenue ratio peaked at 118.9% in April 2022). In our view, for the MPR hike to tame inflation, a sizeable re-pricing of market rates accompanied by increased paper supply would be needed. Also, we hold that sustained liquidity injection through the various CBN interventions and deficit financing through Ways & Means is another clog in the wheel of any anti-inflation policy measures that must be eliminated.

On exchange rate management, CBN's strategy (differentiated rates across market segments and capital control) failed the litmus test over the reviewed period, as anticipated in our 2021 BSR. The value of the Naira depreciated further by 5.6% and 23.2% to ₦436.50/$1.00 and ₦712.00$1.00 (on 19/09/2022) at the NAFEX window and parallel market, respectively. Sadly, a near-term improvement is not in sight, given FX supply constraints due to the self-inflicted injuries in Nigeria's oil & gas sector (the largest source of FX accretion).

Meanwhile, despite the over 30.0% increase in the average price of crude oil to $104.62/bbl over the 12 months to September 2022, Nigeria's foreign reserves which peaked at $41.8bn in October 2021 (supported by proceeds from SDR: $3.5bn and Eurobond: $3.0bn) fell to $38.3bn at the end of Q3:2022. Based on our estimate of unsettled obligations (c.$8.0bn), actual reserves could be below c.$32.0bn. While the pressure points on the FX reserves cannot be entirely blamed on the CBN, it has not convinced the market to accept its exchange rate management strategy. This has had a negative impact on foreign capital flows. For instance, foreign capital flows that peaked at $24.0bn in 2019 fell to $9.7bn and $6.7bn in 2020 and 2021, respectively. Given the disappointing $3.1bn inflows recorded in H1:2022 and the heightened risk environment due to pre-election activities, our base case estimate suggests an annualised inflow of about $5.9bn in 2022.

On financial inclusion drive, the two most visible efforts of the CBN geared towards deepening financial inclusion during the reviewed period were (i) the launch of the digital currency, the e-Naira, in October 2021, and (ii) granting of full Payment Service Bank (PSB) and Super-Agent license to MTN Nigeria (only PSB) and Airtel Nigeria (both) in April 2022, respectively. At the end of H1:2022, MTN's PSB business which fully kickstarted in Q2:2022 reported 4.2m registered wallets, of which 2.4m (representing 4.5% of its total fintech subscribers) are active. In contrast, CBN's e-Naira adoption rate is underwhelming, with about 250,000 accounts linked to the e-Naira wallet. Of this, about 173,200 (0.3% of the 54.0m active BVN enrolment as of April 2022) were active as of H1:2022. The CBN governor, in May, accused DMBs of not adequately promoting the e-Naira due to its low transaction cost structure which the banks find unattractive. This conflict of interest aligns with concerns raised in our 2021 BSR. We canvass that proper engagement with critical stakeholders and resolution of the conflict of interest remain key to the achievement of the financial inclusion goal through the e-Naira.

On a positive note, our assessment of CBN's financial stability indicators points to modest improvements over the reviewed period. Notably, industry Liquidity (LR) and Non-Performing Loan (NPL) ratios both improved by 130bps (up) and 75bps (down), respectively, to 42.6% and 4.95%. However, the Capital Adequacy ratio (CAR: 14.1%) underperformed the June 2021 level by 140bps. Yet, all the indicators beat the prudential guideline limits of 30.0% (LR), 5.0% (NPLs), and 13.0% (CAR), respectively, despite myriads of challenges in the business environment. We expect this improvement to be sustained over the coming years.

On export promotion drives, we noted some immediate gains from the two recent development finance initiatives of the CBN – the 100-for-100 Policy on Production & Productivity (PPP) and the RT-200 FX launched in November 2021 and February 2022, respectively. Following CBN's disbursement of ₦23.0bn to 28 high-impact businesses at the start of the year, non-oil export earnings rose 18.9% to $1.8bn at the end of Q1:2022. This is the highest rise in more than half a decade. Similarly, the rebate incentive (₦65.00/$1.00) tied to one of the operating pillars of the RT-200 FX programme also paid off, as inflows from exporters at the I&E window improved significantly in H1:2022. Data from FMDQ shows an inflow of about $2.4bn from exporters in H1:2022, the highest over comparable periods since the establishment of the FX window. Notwithstanding, we hold that the estimated FX gains from these initiatives in the near term (c.$5.0bn - $8.0bn p.a.) would remain inadequate in bridging the estimated $15.0bn to $25.0bn likely shortfall from low crude oil exports and weak foreign investment flows, annually.

FINANCIAL SECTOR REGULATORY ENVIRONMENT REVIEW & OUTLOOK

In the last 12 months, the CBN has focused on firming up existing regulatory guidelines and subsequently rolled out frameworks to drive full compliance. We spotlight the "Revised Guideline on Regulatory Capital" released in September 2021. The revised guideline aims to strengthen the resilience of the banking sector to absorb macroeconomic disturbances and to enforce compliance with the provisions of Basel III which became fully operational in 2022. Against this backdrop, the revised guideline directed all banks to maintain (in addition to the subsisting minimum regulatory capital ratios for their license authorisation) a Capital Conservative Buffer (CCB-1) equivalent to 1.0% of their Total Risk-Weighted Assets (TRWA) and a Countercyclical Capital Buffer (CCB-2), the size of which will be determined by the CBN based on prevailing macroeconomic and financial sector conditions. In terms of composition, both CCB-1 and CCB-2 are to be in the form of a Common Equity Tier-1 (CET1) capital. By implication, the new baseline Capital Adequacy Ratio (CAR) for banks with National and International licenses has increased to 11.0% and 16.0%, respectively from 10.0% and 15.0%. Meanwhile, the baseline for D-SIBs increased to 17.0% (from 16.0%), reflecting the additional 1.0% High Loss Absorbency (HLA) provision which began in 2014. In all, we anticipate a likely reduction in dividend pay-out, while banks with weak capital levels are expected to be more active in capital raising.

Also, on November 29 2021 the Apex Bank in a move targeted at curbing FX infractions directed DMBs and authorised dealers to commence the processing of Form-A and Form-NCX on its Automated Trade Monitoring System (TRMS) effective November 30 2021 as against the subsisting manual processing. With this measure, the CBN expects an improvement in the monitoring of invisible transactions (PTA/BTA, medicals, education, other remittances etc.) and non-commercial exports through the Nigerian Customs Service (NCS), Shipping Lines & Airlines, and National Museum & Monuments. While the basis of CBN's action is compelling, we believe the cumbersome nature of the TRMS (e.g., delay in processing) and CBN's regimented FX allocation to banks and other authorised dealers may discourage the processing of time-bound authorised transactions (invisibles and non-commercial exports) through this channel.

Furthermore, as part of its regulatory oversight targeted at enhancing loan recovery in the banking sector, the CBN in an updated circular issued on January 19 2022 announced that the Global Standing Instruction (GSI) automated loan recovery feature would henceforth operate on a continuous and unrestricted basis until full loan and interest are repaid. This implies that loan defaulters in the Nigerian banking industry would now remain on a perpetual watch list. Hence, recouping existing obligation(s) from a borrower's linked and unlinked accounts would no longer be encumbered, so long a link can be established between the qualifying account and bearer's BVN details. We do not expect a material shift in the regulatory undertone of the CBN over the coming 12 months.

BANKING SECTOR REVIEW & OUTLOOK

During 2021, most of the world was marked by the removal of pandemic restrictions. On a global scale, the resumption of activities pushed GDP up by 5.9%. In Nigeria GDP recovered by 3.4% (2020: -1.9%) with financial services sector up by 10.5% (2020: 13.3%). This improvement is reflected in the banking sector's earnings and profitability which appreciated in 2021, driven by broader adoption of digital channels post-lockdowns, a mild upswing in industry OPEX, and a slightly improved cost-to-income ratio. Furthermore, deposit expansion and mild growth in impairment charges supported the steepest bottom-line growth in 4 years. As a result, aggregate gross earnings for the banks within Afrinvest's coverage grew 12.7% in 2021 to ₦5.6tn. Also, PBT and PAT increased by 25.6% and 22.0% compared to 0.3% and 4.2% in 2020, respectively.

In terms of asset creation, the loan books of the banks under our coverage grew 17.4% to ₦29.6tn in 2021, reflecting CBN's drive to widen credit penetration. This growth was helped by a surge in deposit base by 19.0% to ₦51.8tn on the back of an increase in economic activities throughout the year. Also, aggregate credit to the private sector rose 19.7% in 2021, faster than the 18.5% growth in 2020, according to CBN. Impressively, average industry NPL ratio improved in 2021 to 4.1% from 4.8%, supported by the extension of regulatory forbearances by the CBN. Likewise, impairment charges on loans and other financial assets rose by 6.4% in 2021, an improvement over 85.7% previously. Meanwhile, CAR excluding UNITY and ETI slightly dipped to 21.1% in 2021 from 21.4% due to risk assets growth. Although CAR remains above regulatory threshold, we advocate industry recapitalizations to offset the impact of inflation and devaluation on capital whilst improving their global competitiveness.

Aside from the Commercial Banking space, we also assessed the Non-interest and Merchant Banking segment this year in order to establish trends and potential opportunities. For the Non-interest banking industry, its growth potential is underpinned by several factors, such as a large population with an interest in non-interest products; increasing government support for the industry; and the establishment of more Non-interest banks to exploit market opportunities. Hence, over the last 5 years the industry's net profit margin has improved from an average of 15.3% in Q4:2017 to 39.4% in Q4:2021 – reflecting better efficiency.

For Merchant Banking, the renaissance of the segment in Nigeria's financial industry began around 2010, after the 2008 Global Financial Crisis (GFC) collapsed the decade-old Universal Banking model. With this revision, many banks were reissued distinctive licenses to separate commercial and merchant banking functions. In our assessment of the Merchant Banking landscape, we observed a feeble capacity to execute their mandates of financing economic growth. This opinion is premised on the low ratio of Merchant banks' assets to total GDP at 0.8% compared to 40.5% for Commercial banks. While we found Nigerian Merchant banks to be efficient, they pale in comparison to the size of selected peers globally.

All in all, the performance of the banking sector failed to inspire a solid outing on the domestic bourse owing to sustained pressure from FPI outflows and portfolio realignment by domestic players in search for alpha. Unsurprisingly, the NGX Banking-10 index rose only 3.3% in 2021 (2020: 10.1%) relative to the broader market's 6.1% appreciation for the year.

Looking ahead, we highlight the areas of opportunities and key trends that would define the banking sector over the medium term.

1. **Enhanced Digital Products:** The potential for digital banking to improve cost efficiency, deepen market reach, appeal to large youthful demographics, and create new revenue lines would spur increased investment in the creation, acquisition, and strengthening of technology/fintech platforms.
2. **Greater International Footprint:** Amidst the stifling operating environment, Nigerian banks are exploring new growth opportunities beyond their borders. A case in point is UBA's venture into the Middle Eastern and Northern Africa (MENA) region with the commencement of its operation in the United Arab Emirates (UAE). Also, Fidelity Bank's plan to acquire Union Bank UK would open the lender to international opportunities. Whilst not immediate, we expect to see a gradual but steady expansion by lenders across international markets, especially in regions where there is a concentration and growth of Nigerian diaspora.
3. **Capital Raise:** Activity in the industry should intensify on the back of the expected expansion of products & platforms and in a bid to improve their market reach. Thus, there should be increased traction of banks on the capital market to finance these projects.
4. **Consumer Credit Expansion:** We expect to see the proliferation of consumer credit opportunities by banks to improve compliance with CBN's LDR and bolster profitability, especially through short-cycle loans like salary advances that have lower risks of deteriorating loan books.

BANKING THEMATIC SECTION... BRACING FOR IMPACT

The last decade of banking in Nigeria followed directly after the post-global financial crisis (GFC) shakeup which culminated in the re-organization of banking operations. The rigorous post-GFC sanitation exercise by the CBN led to acquisitions such as Access Bank, FCMB, and ETI takeover of Intercontinental Bank, Fin Bank, and Oceanic Bank respectively. In tandem with these changes, the regulatory landscape evolved and naturally presented new opportunities and costs to lenders. Over the broad period since 2012, the CBN has introduced policies such as slashing banks' electronic charges, raising the minimum loan to deposit ratio, limiting the tenure of bank MDs to 10 years, updating guidelines on internal capital generation and dividend pay-out ratio, amongst others. At the same time, Nigeria's external and internal imbalances added to the policy dilemma of the CBN. The persistent rise in consumer prices over the past decade by 245.5% as of August 2022 and the Naira devaluation by about 62.2% between 2012 and 2021 have eroded the gains banks have made in real terms. For instance, our estimation shows that gross earnings, net income, and asset base of banks have weakened. At the same time, exchange rate volatility has harmed capital buffers.

The fiscal challenges presented by weak FG earnings have contributed to the muddling of monetary policy and strong use of CRR debits as a subtle strategy, in our view, to compensate for the inflationary effect of ballooned overdraft to the FG.

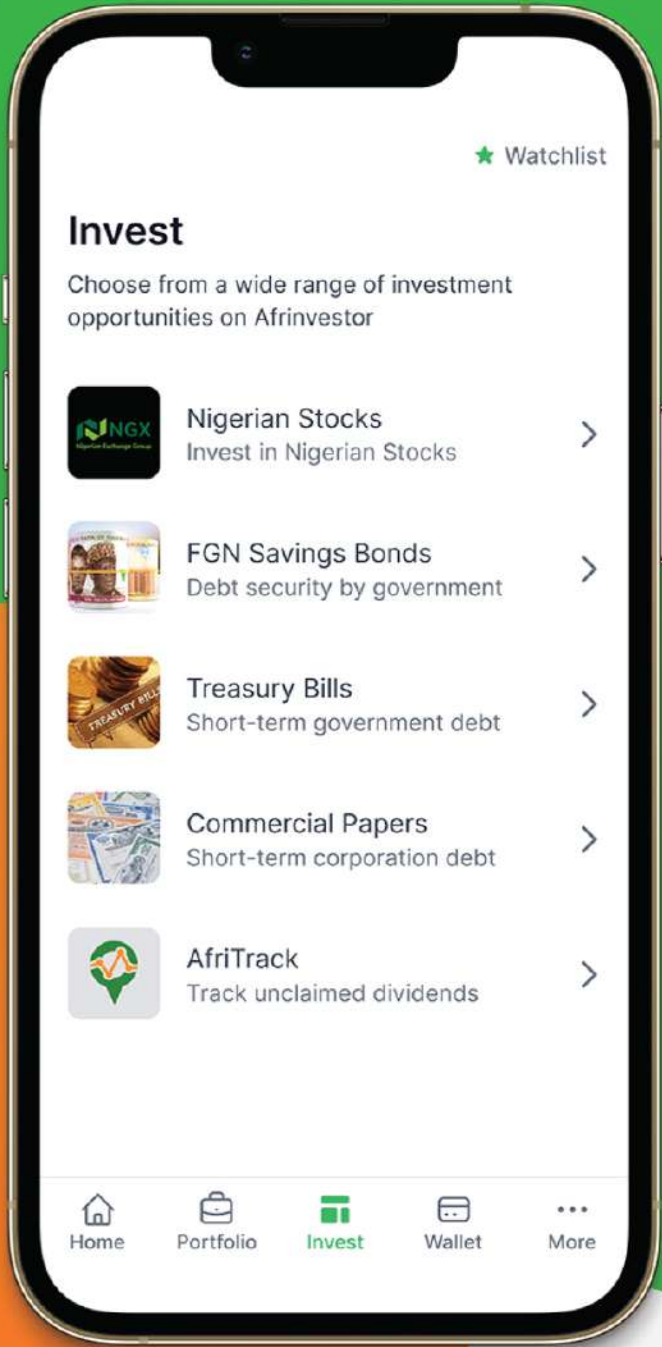
Meanwhile, in increasing its developmental financing role, especially in agriculture financing, the CBN risks crowding out banks and private sector financing which is more effective in de-risking the sector and incentivizing growth without moral hazards.

Importantly, the weak economic growth has robbed banks of the dividend of large and youthful demographics. Over the last 10 years to 2021, real GDP has grown by a CAGR of 1.9% compared to 2.3% CAGR for the population. The result has been a drop in real per capita income levels and a rise in unemployment from as low as 6.4% in Q4:2014 to a record-high of 33.3% in Q4:2020. In line with the decline in income level, poverty has risen to 40.1% based on national standards of annual real per capita expenditure threshold of ₦137,430. For banks, this reality means that upscaling would be less efficient than in an economy where growth exceeds population expansion. Not surprising, Nigeria's financial depth is weak as is for countries with high fertility rates and a fragile economic base.

To turn the tide, we recommended that critical reforms be undertaken as matter of urgency to avoid a repeat of the negative trends seen in the last decade. Some other measures advised include the tapering of fiscal deficit financing – credit to the government – to check money supply expansion, alignment of rates across windows and the adoption of market reflective FX rate via the crawling peg regime. We believe that the outcome for banks in the coming decade would rely on the policy actions taken today to address the issues raised.

Afrinvestor

A new **trading** experience tailor-made for you.



- Track stock price movements and market updates in real time
- Trade stocks and bid for fixed income instruments anytime, anywhere.
- Get the latest and best deals delivered straight to you through push notifications.
- Enjoy instant support from our expert investment advisers with the live chat feature.
- Make deposits into and withdrawals from your account seamlessly within the app.

Search for **Afrinvestor 2.0** on Google Play + App Store

Afrinvestor is brought to you by **Afrinvest Securities Limited** (A Dealing Member of the Nigerian Exchange Group)

Afrinvest (West Africa) Limited

Afrinvest (West Africa) Limited ("Afrinvest" or "the Company") is a financial service holding company with a focus on West Africa and is active in five principal areas: investment banking, securities trading, asset management, fund trust, and investment research & consulting. The Company was originally founded in 1995 as Securities and Trust Company Limited ("SecTrust") which grew to become a respected research, brokerage, and asset management firm. Afrinvest has built a track record in executing transactions within its principal areas of business and prides itself in thorough knowledge of the Nigerian market, business communities, and the regulatory environment; careful, fact-based analysis and recommendations; complete corporate independence and discretion; and the delivery of innovative solutions tailored to the specific needs of our clients. Afrinvest owns four operating subsidiaries.

Afrinvest Capital Limited "ACL" (Our investment banking business) is licensed by the Securities and Exchange Commission as an Issuing House, and it is organised into three distinct units (Financial Advisory, Capital Markets, and Project Advisory) to provide services to institutions, government, and corporations. ACL has built a reputation for combining extensive local and international market expertise with an established reputation for innovations, technical know-how, and global relationships in its service delivery. Our credentials and track record make us the pre-eminent choice for clients in need of investment banking products and services.

Afrinvest Securities Limited "ASL" is licensed by the Nigerian SEC as a broker-dealer and is authorized by the Nigerian Exchange Limited (NGX) as a dealing member. ASL acts as a distribution channel for often exclusive investment products originated by Afrinvest and AAML as well as unique value secondary market trading opportunities in equity, debt, money market, and currency instruments.

Afrinvest Asset Management Limited "AAML" is licensed by the Nigerian SEC as a portfolio manager. AAML delivers world-class asset management services to a range of mass affluent and high-net-worth individual clients. AAML offers investors direct professionally managed access to the Nigerian capital markets through equity-focused, debt-focused, and hybrid unit trust investment schemes amongst which are the Nigeria International Debt Fund (NIDF), Afrinvest Equity Fund (AEF), Afrinvest Plutus Fund (APF), Afrinvest Dollar Fund (ADF), Afrinvest Income Portfolio (Naira) and Afrinvest Income Portfolio (Dollar).

Afrinvest Trustees Limited "ATL" is licensed by the Securities and Exchange Commission to provide trusteeship services in Nigeria. ATL provides its services across corporate, public, and private trusts. ATL holds assets in trusts, manages trust assets, ensures compliance with clients' trust deeds, and protects the interest of the trust beneficiaries in an impartial, prudent, and business-like manner. The Company provides efficient services through collaboration/working relationships with members within the Afrinvest Group as well as other financial institutions.

Afrinvest Research & Consulting "AR&C" warehouses the Research franchise and Consulting practice of the Afrinvest Group. It is a leading provider of research and analytics on the global and Nigerian economy & markets. With a robust research database on the Nigerian market spanning 17 years, AR&C prides itself on a thorough knowledge of the Nigerian economy, business communities, and the regulatory environment. AR&C has a strong team equipped with knowledge, vast experience, and a reputation for transparency, excellence & quality service delivery. The Consulting practice provides technical and management consulting, and acts as advisers on business transformation, and process optimisation. The company provides professional training, strategic business plan formulation, financial modelling and business valuation services. AR&C prides itself on delivering careful, fact-based analysis; recommendations, and innovative solutions tailored to the specific needs of our clients whilst ensuring complete corporate independence and discretion.

Contacts

Investment Research & Consulting

Abiodun Keripe	akeripe@afrinvest.com	+234 1 270 1680 ext. 1034
Aminat Tolani	atolani@afrinvest.com	+234 1 270 1680 ext. 1027
Benedict Egwuchukwu	begwuchukwu@afrinvest.com	+234 1 270 1680 ext. 1023
Damilare Asimiyu	dasimiyu@afrinvest.com	+234 1 270 1680 ext. 1054
Daniel Onasanya	donasanya@afrinvest.com	+234 1 270 1680 ext. 1060
David Ogidan	dogidan@afrinvest.com	+234 1 270 1680 ext. 1104
Mariam Olabode	molabode@afrinvest.com	+234 1 270 1680 ext. 1053
Mobifoluwa Adesina	madesina@afrinvest.com	+234 1 270 1680 ext. 1051
Oladayo Akinfolarin	oakinfolarin@afrinvest.com	+234 1 270 1680 ext. 1077
Omobola Adu	oadu@afrinvest.com	+234 1 270 1680 ext. 1081
Salma Suleiman	ssuleiman@afrinvest.com	+234 1 270 1680 ext. 1103
Segun Adams	sadams@afrinvest.com	+234 1 270 1680 ext. 1073
Temitope Ekundayo	tekundayo@afrinvest.com	+234 1 270 1680 ext. 1102

Securities Trading & Brokerage

Adedoyin Allen	aallen@afrinvest.com	+234 1 270 1680 ext. 1016
Taiwo Ogundipe	togundipe@afrinvest.com	+234 1 270 1680 ext. 1601

Investment Banking

Suru Daniels	sdaniels@afrinvest.com	+234 1 270 1680 ext. 1098
Kate Isabota	kisabota@afrinvest.com	+234 1 270 1680 ext. 1017

Asset Management

Christopher Omoh	comoh@afrinvest.com	+234 1 270 1680 ext. 1505
Robert Omotunde	romotunde@afrinvest.com	+234 1 270 1680 ext. 1039

Trustees

Rita Abengowe	rabengowe@afrinvest.com	+234 1 270 1680 ext. 1005
Chisom Nwogbo	cnwogbo@afrinvest.com	+234 1 270 1680 ext. 1048

For further information, please contact:

Afrinvest West Africa Limited (AWA)
27, Gerrard Road,
Ikoyi, Lagos,
Nigeria.

Tel: +234 1 270 1680

www.afrinvest.com