

# RICH HERITAGE BRIGHT FUTURE



Full year ended 31 December 2015 & first quarter ended 31 March 2016

Investors & Analysts Presentation



**FBNHoldings**

## DISCLAIMER

This presentation is based on FBN Holdings Plc's ('FBNH' or 'FBNHoldings' or the 'Group') audited IFRS results for the twelve months ended 31 December, 2015 and the unaudited results for the three months ended 31 March, 2016. The Group's financial statements have been prepared using the accounts of the subsidiaries and businesses within FBNHoldings. In 2015, final accounting for the acquisition of Kakawa Discount House Limited (now FBN Merchant Bank Limited) was concluded resulting in changes between the fair values of the identifiable assets and liabilities at acquisition date compared to those values adopted for provisional accounting in 2014. The impact of the changes have been retrospectively adjusted against 2014 numbers in line with IFRS 3.

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This presentation contains forward-looking statements which reflect management's expectations regarding the Group's future growth, results of operations, performance, business prospects and opportunities. Wherever possible, words such as "anticipate", "believe", "expect", "intend", "estimate", "project", "target", "risk", "goal" and similar terms and phrases have been used to identify the forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to the Group's management. Certain material factors or assumptions have been applied in drawing the conclusions contained in the forward-looking statements. These factors or assumptions are subject to inherent risks and uncertainties surrounding future expectations generally.

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# Outline



<b>Operating Environment</b>	Pg 5
<b>FBNHoldings at a Glance</b>	Pg 7 - 10
<b>Financial Review</b>	Pg 12 – 22
<b>Strategic Review</b>	Pg 24 – 30
<b>Appendix</b>	Pg 33



## Operating environment

# Operating & regulatory environment

## OPERATING ENVIRONMENT

## FBNH AT A GLANCE

## FINANCIAL REVIEW

## STRATEGIC REVIEW

## APPENDIX

### Operating Environment

- Crude oil prices remained at depressed levels leading to a 7.5% y-o-y decline in domestic production as at December 2015
- External reserves declined 15.7% to \$29.07bn in December 2015 and further down to \$27.89bn in March 2016
- Volatility in exchange rate, and Naira under pressure due to depleting external reserves
- Rise in inflation to 12.8% in March 2016 from the single-digit level maintained over the preceding 3 years
- DMO restructured ₦576bn bank loans of 23 states into FGN bonds as a bailout by the Federal Government of bank loans to state governments
- Nigeria phased out of JP Morgan Index

### Regulatory Environment

- Treasury Single Account (TSA) fully implemented
- CBN closed the Retail Dutch Auction (RDAS) window, banning 41 items from accessing Foreign exchange and stopped the sale of FX to Bureau de change (BDCs) in a bid to stabilise the currency
- MPC's harmonised cash reserve ratio (CRR) of 31% was reduced to 22.5% in March 2016
- MPR reduced from 13% to 11% in 2015 but raised to 12% in Q1 2016
- General provision requirement doubled from 1% to 2%
- CBN deadline for higher capital requirements of 16% for systemically important banks to take effect in June 2016



*FBNHoldings*

## FBNHoldings at a glance

# Key highlights

OPERATING ENVIRONMENT

**FBNH AT A GLANCE**

FINANCIAL REVIEW

STRATEGIC REVIEW

APPENDIX

## Total assets

FY15: ₦4,166.2bn  
Q116: ₦4,142.6bn

## Customer deposits

FY15: ₦2,970.9bn  
Q116: ₦2,835.3bn

## Loans & advances (net)

FY15: ₦1,817.3bn  
Q116: ₦1,762.2bn

## Gross loans/deposits

FY15: 65.9%  
Q116: 67.5%

## Gross earnings

FY15: ₦505.2bn  
Q116: ₦107.5bn

## Net interest income

FY15: ₦265.0bn  
Q116: ₦63.9bn

## Operating expenses

FY15: ₦223.6bn  
Q116: ₦50.9bn

## Profit after tax

FY15: ₦15.1bn  
Q116: ₦20.7bn

## NPL ratio

FY15: 18.1%  
Q116: 21.5%

## Net interest margin

FY15: 8.1%  
Q116: 8.1%

## CAR<sup>1</sup> (Basel 2)

FY15: 17.1%  
Q116: 17.2%

## ROAE

FY15: 2.7%  
Q116: 14.4%

## Active customers<sup>1</sup>

FY15: 10.9mn  
Q116: 11.8mn

## Business locations<sup>2</sup>

FY15: 859  
Q116: 860

## ATM<sup>1</sup>

FY15: 2,749  
Q116: 2,641

## Employees

FY15: 9,327  
Q116: 9,312

<sup>1</sup> For FirstBank (Nigeria), FBN Merchant Bank's CAR for FY2015: 24.9% & Q12016: 23.6%; <sup>2</sup> Business locations includes 615 local branches, 63 QSPs, 68 agencies/cash centres for FirstBank (Nigeria) and 114 (local and international) subsidiary locations

# Global footprint: building a stronger, well-diversified financial services group

## OPERATING ENVIRONMENT

## FBNH AT A GLANCE

## FINANCIAL REVIEW

## STRATEGIC REVIEW

## APPENDIX

### Nigeria



- **Name** FBN Holdings Plc.
- **Type** Licensed financial holding company
- **Established** 2012 (formerly First Bank of Nigeria Plc. Established 1894)
- **Products / Services** – Commercial Banking, Merchant Banking & Asset Management, Insurance

### Ghana



- **Name** FBNBank Ghana
- **Type** Licensed Bank
- **Established** 1996
- **Products / Services** – Commercial Banking

### Nigeria



- **Name** First Bank of Nigeria Ltd. (formerly First Bank of Nigeria Plc.)
- **Type** Licensed Bank
- **Established** 2012
- **Products / Services** – Commercial Banking

### Guinea



- **Name** FBNBank Guinea
- **Type** Licensed Bank
- **Established** 1996
- **Products / Services** – Commercial Banking

### UK



- **Name** FBNBank UK Ltd.
- **Type** Licensed Bank
- **Established** 2002
- **Products / Services** – International Banking and Trade Services

### The Gambia



- **Name** FBNBank The Gambia
- **Type** Licensed Bank
- **Established** 2004
- **Products / Services** – Commercial Banking

### France



- **Name** FBNBank UK Ltd.
- **Type** Bank branch
- **Established** 2008
- **Products / Services** – Commercial Banking, International Banking

### Sierra Leone



- **Name** FBNBank Sierra Leone
- **Type** Licensed Bank
- **Established** 2004
- **Products / Services** – Commercial Banking

### Democratic Republic of Congo



- **Name** FBNBank DR Congo
- **Type** Licensed Bank
- **Established** 1994
- **Products / Services** – Commercial Banking

### Senegal



- **Name** FBNBank Senegal
- **Type** Licensed Bank
- **Established** 2014
- **Products / Services** – Commercial Banking



### Representative Offices



- **Name** FBNBank South Africa (2004)
- **Name** FBNBank China (2009)
- **Name** FBNBank UAE (2011)
- **Products / Services** – Banking services

# FBNHoldings – our main operating companies

OPERATING ENVIRONMENT

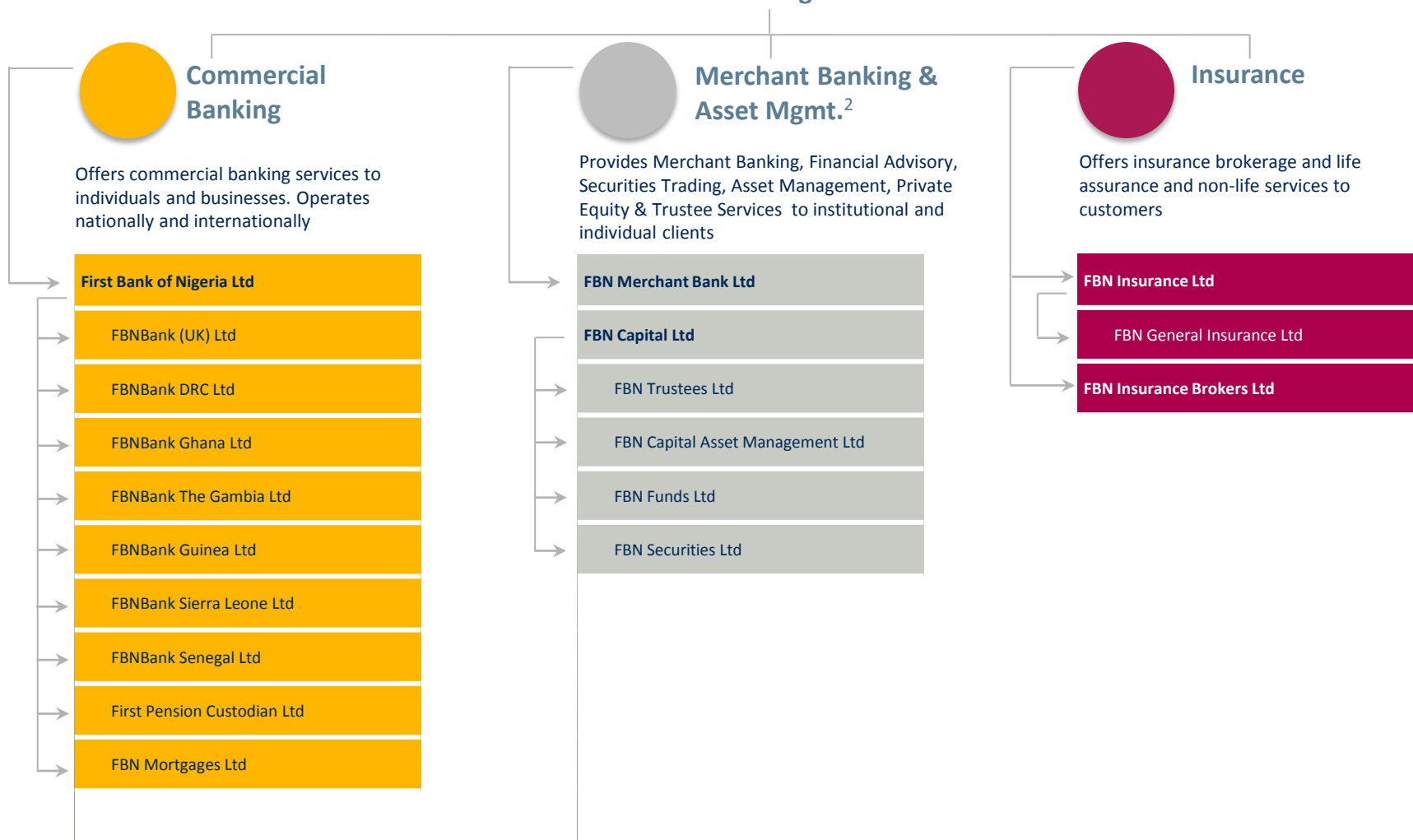
FBNH AT A GLANCE

FINANCIAL REVIEW

STRATEGIC REVIEW

APPENDIX

## FBN Holdings Plc<sup>1</sup>



<sup>1</sup> Other Financial services no longer classified as one of the main operating companies following the sale of our Microfinance business which was classified under this category

<sup>2</sup> Following the acquisition of a Merchant Banking License in the latter part of 2015, the Investment Banking and Asset Management business (IBAM) is now the Merchant Banking & Asset Management Business (MBAM)

# FBNHoldings' contribution by business groups

OPERATING ENVIRONMENT

FBNH AT A GLANCE

FINANCIAL REVIEW

STRATEGIC REVIEW

APPENDIX

Gross Earnings		
FY14 [ <del>¥</del> 455.1bn]	FY15 [ <del>¥</del> 465.8bn]	Δ 2.3%
Q115 [ <del>¥</del> 117.2bn]	Q116 [ <del>¥</del> 100.2bn]	Δ -14.5%
Profit Before Tax		
FY14 [ <del>¥</del> 94.5bn]	FY15 [ <del>¥</del> 10.2bn]	Δ -89.2%
Q115 [ <del>¥</del> 26.1bn]	Q116 [ <del>¥</del> 20.8bn]	Δ -20.4%
Gross Earnings		
FY14 [ <del>¥</del> 23.6bn]	FY15 [ <del>¥</del> 33.3bn]	Δ 41.3%
Q115 [ <del>¥</del> 8.9bn]	Q116 [ <del>¥</del> 5.5bn]	Δ -38.3%
Profit Before Tax		
FY14 [ <del>¥</del> 6.1bn]	FY15 [ <del>¥</del> 10.6bn]	Δ 73.4%
Q115 [ <del>¥</del> 2.6bn]	Q116 [ <del>¥</del> 1.2bn]	Δ -52.5%
Gross Earnings		
FY14 [ <del>¥</del> 6.5bn]	FY15 [ <del>¥</del> 10.5bn]	Δ 60.6%
Q115 [ <del>¥</del> 2.4bn]	Q116 [ <del>¥</del> 2.6bn]	Δ 7.9%
Profit Before Tax		
FY14 [ <del>¥</del> 1.6bn]	FY15 [ <del>¥</del> 2.3bn]	Δ 44.7%
Q115 [ <del>¥</del> 66.1mn]	Q116 [ <del>¥</del> 95.1mn]	Δ 11.4%

Commercial Banking

Merchant Banking and Asset Management

Insurance

\*Contribution of the three major business groups to FBNHoldings will not add up to 100% due to the other financial services, which constitutes 0.9% of Total Assets



## Financial review

# Income statement and balance sheet snapshots

## OPERATING ENVIRONMENT

## FBNH AT A GLANCE

## FINANCIAL REVIEW

## STRATEGIC REVIEW

## APPENDIX

### Income statement

Nbn	FY 14	FY 15	y-o-y	Q1 15	Q1 16	y-o-y
Gross earnings	481.8	505.2	4.9%	126.8	107.5	-15.2%
Net interest income	243.9	265.0	8.7%	59.6	63.9	7.2%
Non-interest income	113.0	99.4	-12.0%	29.3	21.9	-25.2%
Operating income <sup>1</sup>	356.2	364.4	2.3%	88.8	85.8	-3.4%
Operating expenses	236.8	223.6	-5.6%	57.8	50.9	-11.8%
Pre-provision operating profit <sup>1</sup>	119.4	140.8	18.0%	31.0	34.8	12.2%
Impairment charge	25.9	119.3	360.0%	4.1	12.8	212.5%
Profit before tax	94.1	21.5	-77.1%	26.9	22.1	-18.2%
Income tax	10.0	6.4	-36.6%	4.3	1.3	-69.4%
Profit after tax	84.0	15.1	-82.0%	22.6	20.7	-8.3%

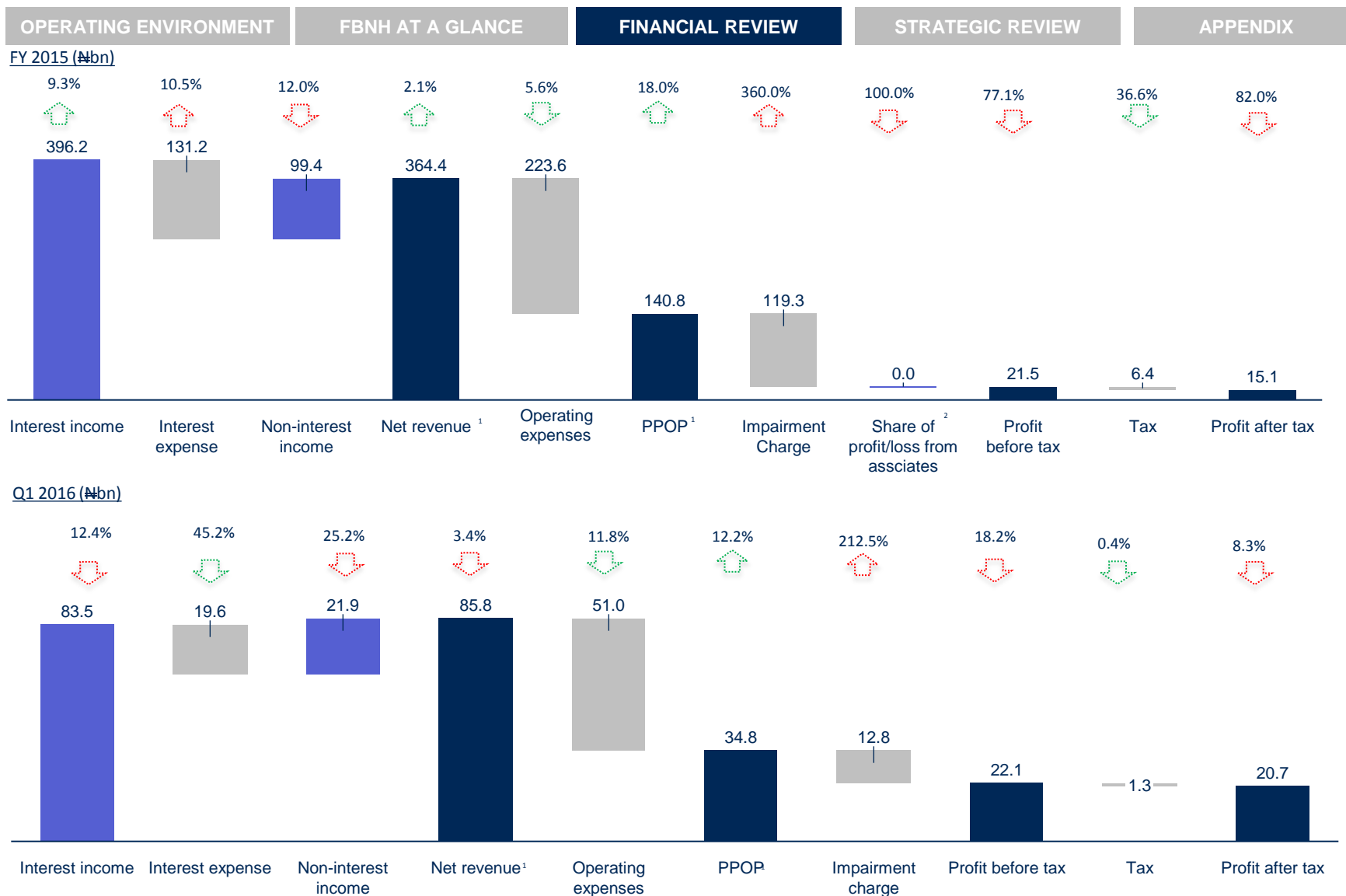
### Statement of financial position

Nbn	FY 14	FY 15	y-o-y	Q1 15	Q1 16	y-t-d
Total assets	4,343.7	4,166.2	-4.1%	4,511.4	4,142.6	-0.6%
Investment securities (interest earning)	735.3	970.2	32.0%	852.3	963.3	-0.7%
Interbank placements	460.9	385.8	-16.3%	596.0	390.6	1.3%
Cash and balances with Central Bank	698.1	715.9	2.5%	651.5	733.5	2.5%
Net loans & advances	2,179.0	1,817.3	-16.6%	2,123.3	1,762.2	-3.0%
Customer deposits	3,050.9	2,970.9	-2.6%	3,207.2	2,835.3	-4.6%
Total equity	524.1	578.8	10.4%	542.5	575.2	-0.6%

Key ratios	FY 14	FY 15	Q1 15	Q1 16
Net interest margin <sup>1</sup>	7.6%	8.1%	6.9%	8.1%
Cost to income <sup>1</sup>	66.5%	61.4%	65.1%	59.4%
Cost of funds	3.4%	3.7%	3.8%	2.3%
NPL	2.9%	18.1%	3.9%	21.5%
NPL coverage <sup>1</sup>	137.9%	40.2%	111.6%	37.4%
Cost of risk	1.3%	5.7%	0.7%	2.6%
ROaE <sup>1</sup>	16.9%	2.7%	17.0%	14.4%
ROaA <sup>1</sup>	2.0%	0.4%	2.0%	2.0%
CAR – FirstBank (Nigeria) - Basel 2	16.7%	17.1%	15.5%	17.2%
Tier 1 CAR – FirstBank (Nigeria) - Basel 2	12.3%	13.3%	12.0%	13.3%
CAR – FirstBank (Nigeria) & its Subsidiaries	16.7%	18.0%	19.1%	18.9%
CAR – FBN Merchant Bank - Basel 2	22.5%	24.9%	21.9%	23.6%
Gross loans to deposits <sup>1</sup>	72.8%	65.9%	67.7%	67.5%

<sup>1</sup>Definition provided in the appendix;

# Income statement evolution



<sup>1</sup> Definition provided in the appendix <sup>2</sup> Share of profit/loss from associates no longer available following the consolidation of Kakawa Discount House Ltd into the Group upon acquisition of 100% shareholding

# Balance sheet efficiency and capital evolution

OPERATING ENVIRONMENT

FBNH AT A GLANCE

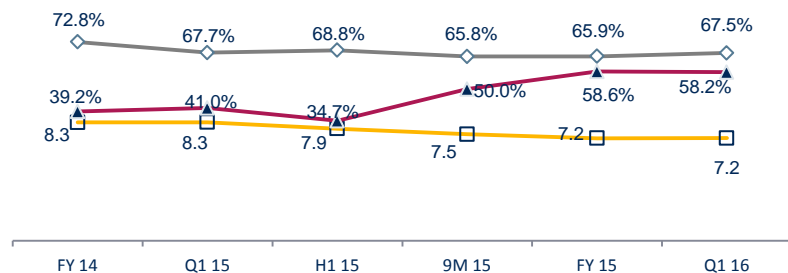
FINANCIAL REVIEW

STRATEGIC REVIEW

APPENDIX

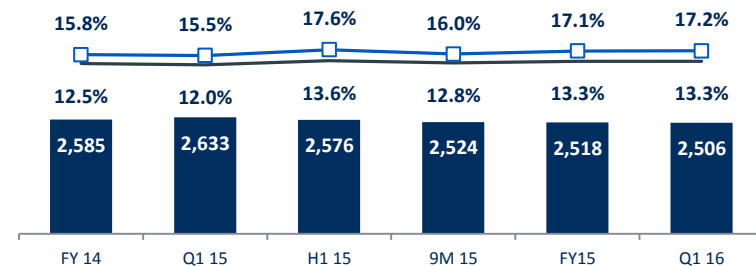
## Balance sheet efficiency

—■— Leverage<sup>1</sup>(times) —◇— Gross loans to deposits —▲— Liquidity

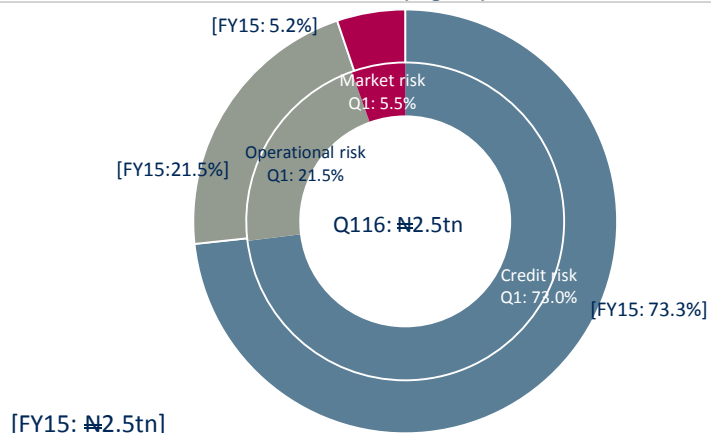


## Capital ratios – FirstBank (Nigeria)

■ Total RWA (N'bn) — Tier 1 capital ratio —□— Total capital adequacy ratio

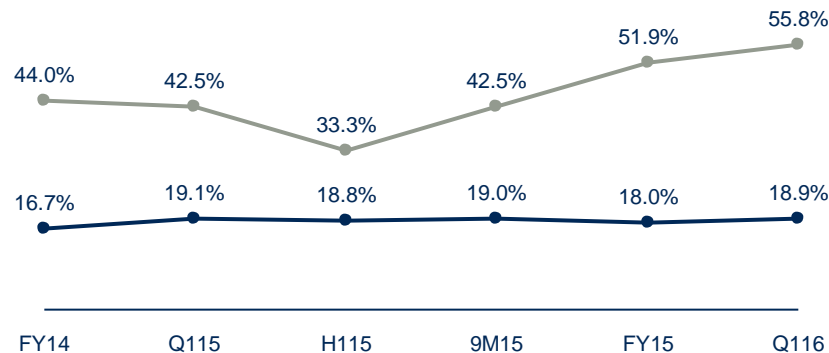


## RWA components FirstBank (Nigeria)



## CAR & Liquidity FirstBank (Nigeria) & its Subsidiaries

—●— Capital Adequacy —●— Liquidity



<sup>1</sup> Definition provided in the appendix

# Breakdown of customer deposits (First Bank of Nigeria Only)

OPERATING ENVIRONMENT

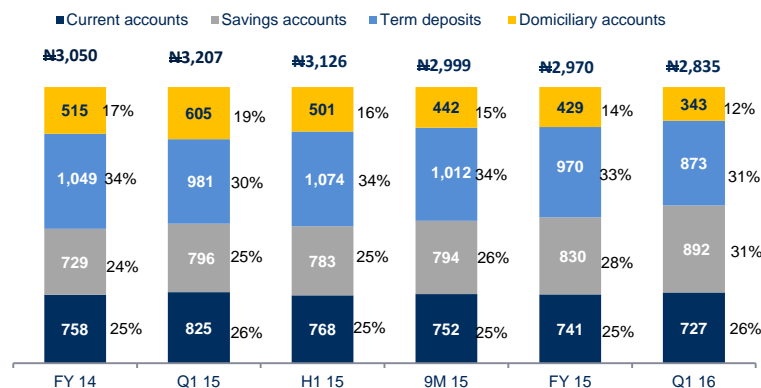
FBNH AT A GLANCE

FINANCIAL REVIEW

STRATEGIC REVIEW

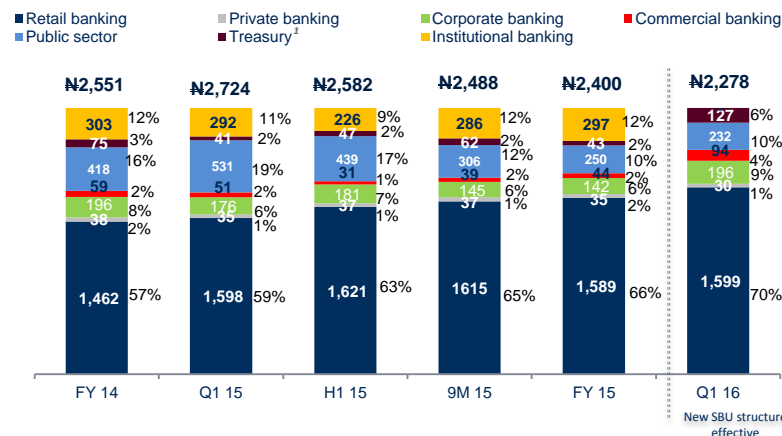
APPENDIX

## Deposits by type ₦bn



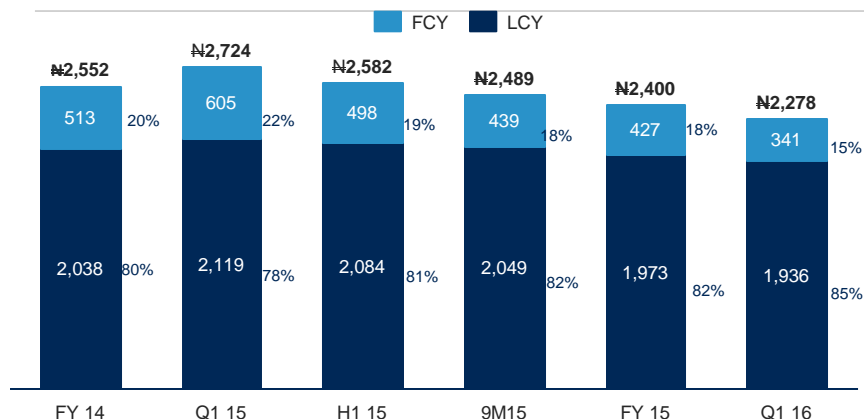
## Deposits by SBU trend ₦bn

FirstBank (Nigeria)



## Deposits by currency ₦bn

FirstBank (Nigeria)



- Customer deposits declined 2.6% y-o-y to ₦2.97tn in FY2015 and 4.6% y-t-d to ₦2.8tn in Q1 2016 (FY 2014: ₦3.05tn)
- In FY2015, deposits were impacted by: the implementation of the TSA which led to the withdrawal of some institutional funds from the Bank, a deliberate terming out of expensive fixed deposits as well as the Central Bank's restriction on cash deposits to domiciliary accounts which has now been lifted
- CASA (current, savings & domiciliary accounts) increased to 67.3% in FY2015 and 69.2% in Q1 2016 (FY2014: 65.6%) buoyed by the sustained growth in savings deposits (Q12016: ₦891.7bn; FY2015: ₦829.8bn; FY2014: ₦728.7bn)
- Retail deposits continue to grow impressively; representing 66.2% and 70.2% of total deposits at FY2015 and Q1 2016 respectively, demonstrating the strength in the brand and loyalty of its customers

<sup>1</sup> Though it contributed to the deposits, Treasury was not a strategic business unit (SBU) until the new SBU structure took effect in January 2016 with Treasury & Financial Institutions being an SBU <sup>2</sup> SBUs:- **Corporate banking**; private organisations with annual revenue > ₦5bn but < ₦10bn and midsize and large corporate clients with annual revenue in > ₦5bn but with a key man risk. **Commercial Banking** comprising clients with annual turnover of ₦500mn and ₦5bn. **Institutional banking (now within Corporate Banking effective January 2016)**; multinationals and corporate clients with revenue > ₦10bn. **Private banking (now with retail effective January 2016)**; High net worth individuals and families. **Public sector**; Federal and state governments. **Retail banking**; mass retail, affluent with annual income < ₦50mn as well as small business and Local governments with annual turnover < ₦500mn

# Gross earnings and margin analysis

OPERATING ENVIRONMENT

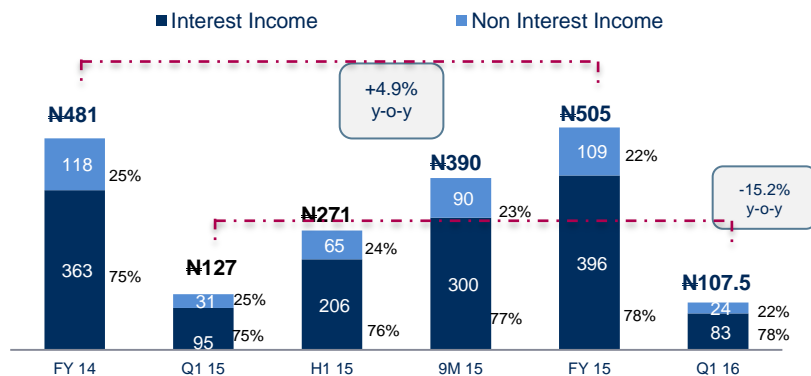
FBNH AT A GLANCE

FINANCIAL REVIEW

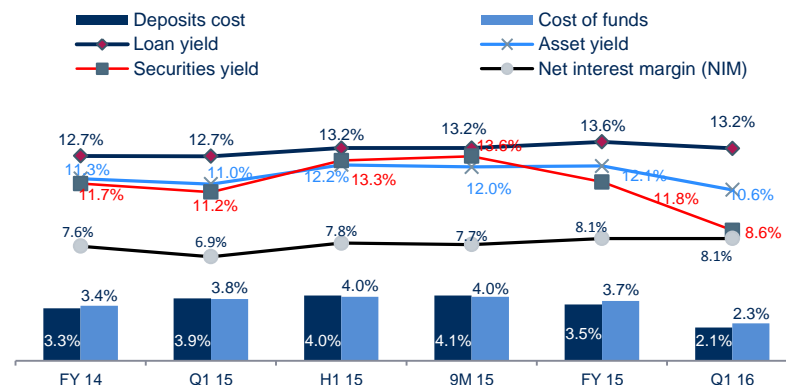
STRATEGIC REVIEW

APPENDIX

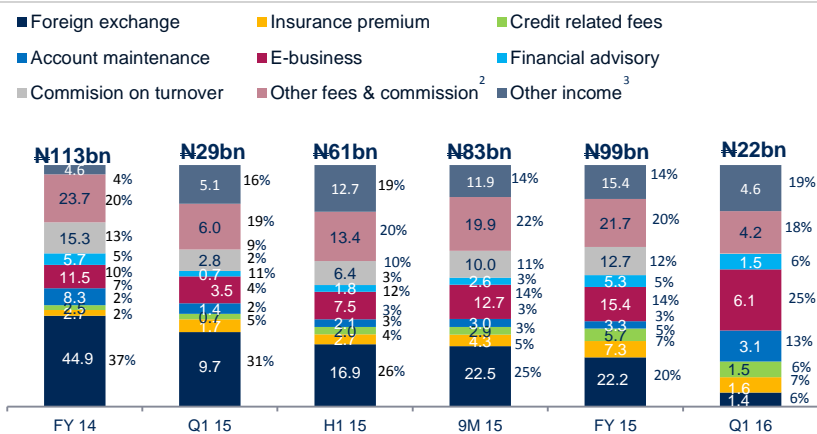
## Gross earnings breakdown (Nbn)



## Net interest margin drivers



## Non-interest income breakdown (Nbn)



- Gross earnings up 4.9% y-o-y to N505.2bn (FY2015) but declined 15.2% y-o-y in Q12016 with faster growth from the non-commercial banking subsidiaries
- Gross earnings in the Merchant Banking & Asset Management as well as the Insurance businesses, contributed 7.5% to FBNH's Q12016 gross earnings (FY2015: 8.7%)
- Net interest margins improved to 8.1% (Q12015: 6.9%) mainly due to improved cost of funds
- Funding costs at 2.3% in Q12016 (Q12015: 3.4%) declined y-o-y owing to deliberate run-off on some expensive deposits and re-pricing
- We expect funding costs to trend higher in view of a rising interest rate environment, albeit we would be defending our margin at current levels
- Normalising for the gains on foreign exchange revaluation from the current and prior year, FBN Microfinance and the disposal of the equity investments, non-interest income would have been flat (-0.3 y-o-y) at N82.2bn (FY2015)
- Electronic banking fees increased 34.1% y-o-y to N15.4bn in FY2015 and 73.9% y-o-y to N6.1bn in Q1 2016.

<sup>1</sup>Non-interest income here is gross and does not account for fee and commission expense <sup>2</sup> Other fees and commission include commission on bonds and guarantees, fee and commission expense, remittance fees, LC commission, money transfer, custodian fees, fund management fees and brokerage & intermediation <sup>3</sup> Other income includes net (losses)/gains on investment securities, net (losses)/gains from financial assets at fair value, dividend income and share of profit/loss from associates

# Operating income vs. operating expenses

OPERATING ENVIRONMENT

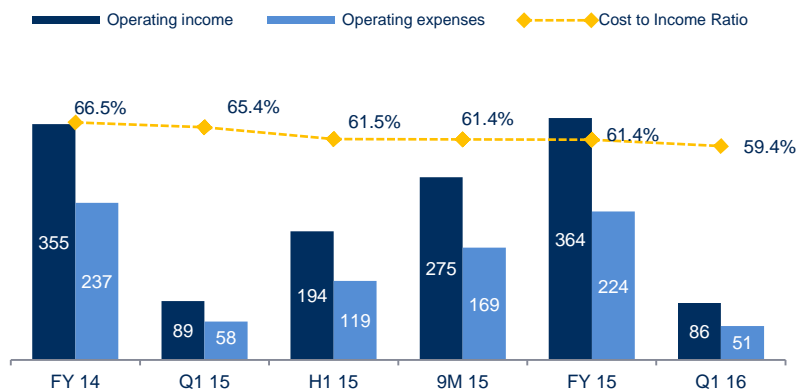
FBNH AT A GLANCE

FINANCIAL REVIEW

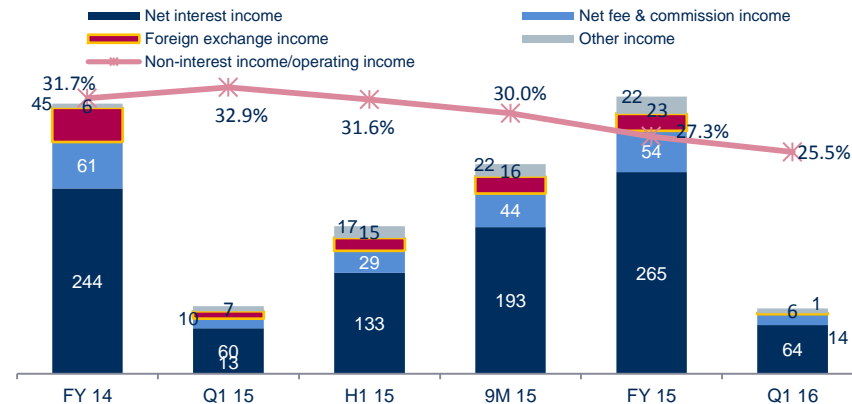
STRATEGIC REVIEW

APPENDIX

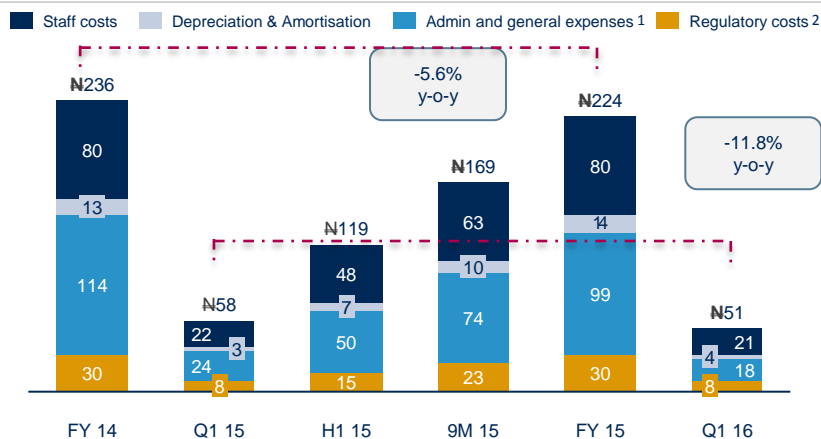
## Operating income and expenses (Nbn)



## Operating income breakdown (Nbn)



## Operating expenses breakdown (Nbn)



- The Merchant Banking and Asset Management, as well as the Insurance businesses, contributed 5.8% and 2.9% respectively to operating income
- Non-interest income/operating income declined gradually over the period as a result of regulatory directives impacting non-interest income
- 5.1 percentage point reduction in cost to income ratio to 61.4% as at FY2015 (FY2014: 66.5%) with further decline to 59.4% in Q12016 (Q12015: 65.4%). This reflects results of cost management initiatives which resulted in an 11.8% (Q12016) y-o-y decline in operating expenses
- Regulatory costs, which account for 13.4% of the operating expenses, declined 0.3% in FY2015 mainly due to the decline in deposit insurance premium as a result of the managed decline in deposits
- Further reduction in operating expenses is planned at Group level, to be driven largely by FirstBank (Nigeria)

<sup>1</sup> Admin and general expenses include maintenance, advert & corporate promotion, legal and other professional fees, stationery and other operating expenses; <sup>2</sup> Regulatory costs is made up by NDIC premium, AMCON resolution cost and others

# Breakdown of loans and advances across the Group

OPERATING ENVIRONMENT

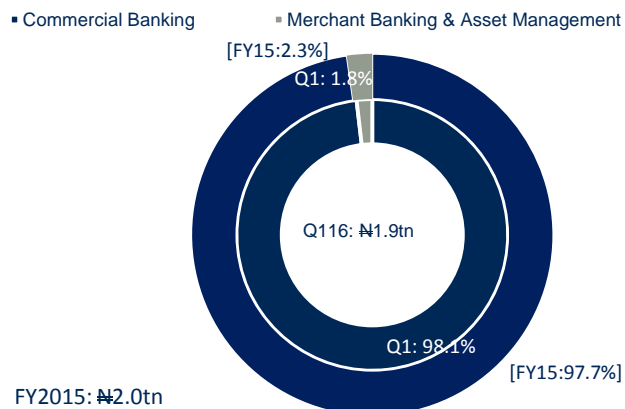
FBNH AT A GLANCE

FINANCIAL REVIEW

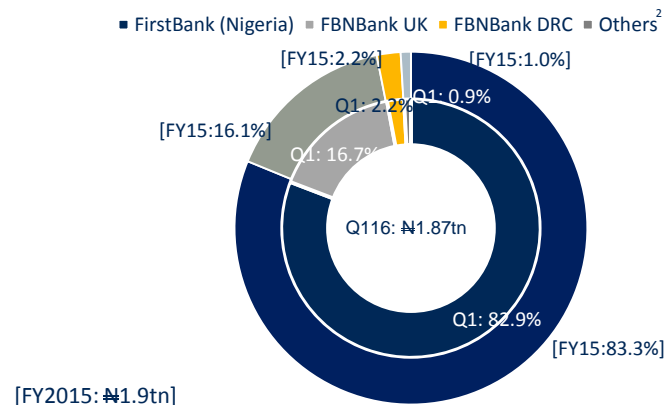
STRATEGIC REVIEW

APPENDIX

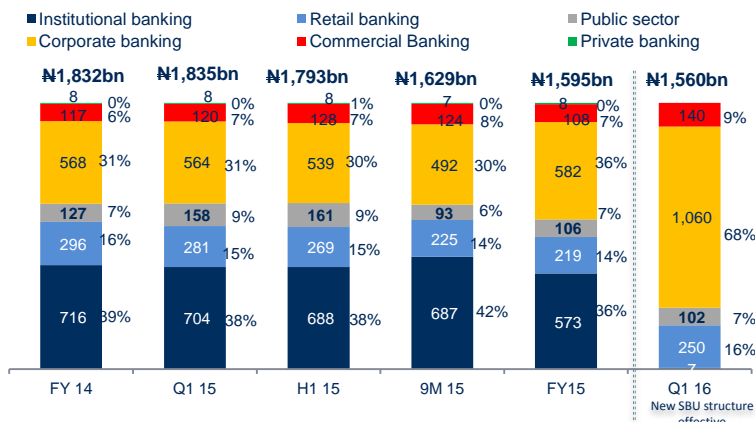
## FBNHoldings gross loans<sup>1</sup> by business groups



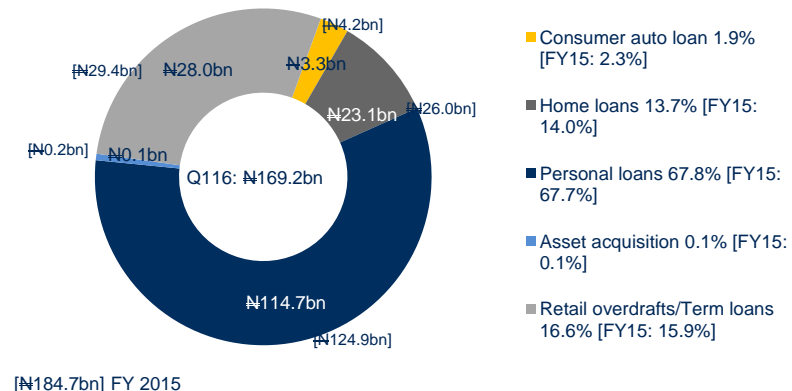
## FirstBank (Nigeria) & its Subsidiaries gross loans



## FirstBank (Nigeria) gross loans by SBU<sup>3</sup> (₦bn)



## FirstBank (Nigeria) core consumer / retail product portfolio



<sup>1</sup> FBNHolding's gross loans include intercompany adjustments <sup>2</sup> Others include FBN Mortgages, FBNBank Ghana, FBNBank Guinea, FBNBank The Gambia, FBNBank Sierra Leone, FBNBank Senegal <sup>3</sup> Effective Jan 2016, the Institutional Banking & Private Banking SBUs ceased to exist while the former has been merged with Corporate Banking SBU the latter now resides within the retail banking SBU

# FirstBank (Nigeria) & FBNBank UK - loans and advances by sector

OPERATING ENVIRONMENT

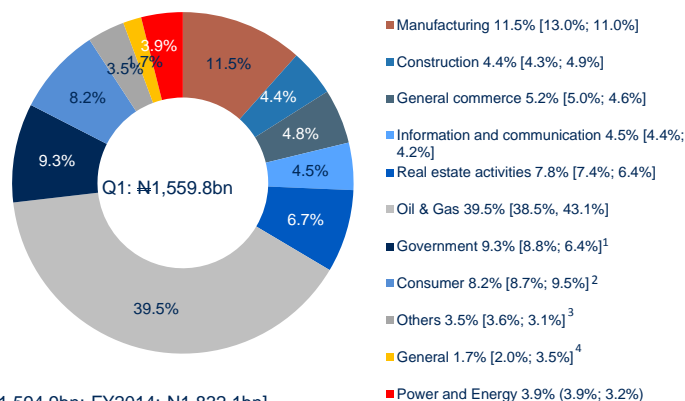
FBNH AT A GLANCE

FINANCIAL REVIEW

STRATEGIC REVIEW

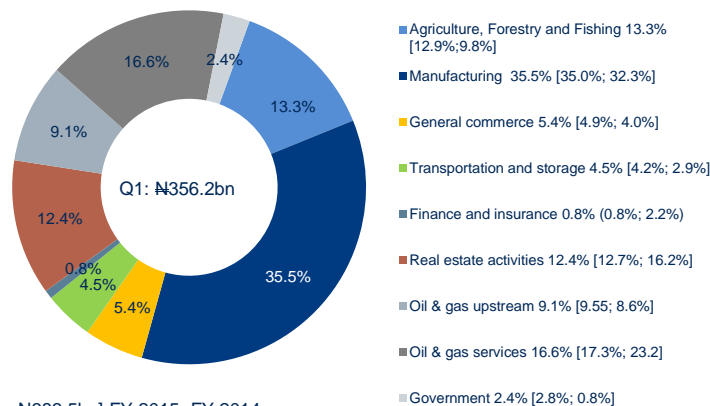
APPENDIX

## Q116 FirstBank (Nigeria) gross loans by sectors



[FY2015: ₦1,594.9bn; FY2014: ₦1,832.1bn]

## Q116 FBNBank UK gross loans by sectors



[£351.2bn; £383.5bn] FY 2015; FY 2014

- Gross loans at the Group level declined 11.9% y-o-y (FY2015)
- This was driven by planned terming out of some loans and the 'bond for loans' initiative (₦110bn) of the Central Bank of Nigeria and Federal Government within the FirstBank (Nigeria) loan portfolio
- Breakdown of the Oil & Gas (O&G) portfolio in upstream, downstream and services as at Q12016 is 17.5%, 14.4% and 7.6% respectively (FY 2015: 16.6%, 13.9%, 7.7%)
- A successful syndicate restructuring, leading to a change in the ultimate obligor of a number of accounts within the O&G sector, drove the reclassification of N98bn in loans from O&G to government in Q42015
- FCY loans are split between the Oil & Gas, Manufacturing, Power and General Commerce with O&G accounting for 65% in FY15;
- Average duration of the loan book is 32 months as at Q12016 (FY2015: 32months; FY2014: 28 months)
- Reduction in oil & gas sector exposure through normal collection of maturing obligations, replacement of short cycle transactions in oil & gas and accelerated resolution of major exposures
- 12% of the loan book was restructured in FY2015, with the oil & gas sector accounting for 70%. The balance of 30% is mainly to real estate, power, vessel/marine transport, retail and other sectors
- Expected remediation on a couple of large non-performing loans from Q12016 will result in a 3% - 6% reduction in the NPL ratio and by extension improve coverage
- Suspension of products with increasing NPLs such as Personal Loans Against Salaries (PLAS), largely due to non-payment of salaries to government employees
- Asset light approach to risk asset creation with focus on short cycled transactions
- At FirstBank (Nigeria), foreign currency loans decreased by 13.9% y-o-y to ₦721.3bn as at FY 2015, a faster decline in versus the 12.2% decline in LCY
- Muted growth in lending to be driven predominantly by corporate banking, and to a much smaller extent, credit cards and retail assets

<sup>1</sup> Government loans are loans to the public sector (federal and state); <sup>2</sup> Represents loans in our retail portfolio < ₦50mn; <sup>3</sup> Others includes finance and insurance, capital market, residential mortgage; <sup>4</sup> General includes personal & professional, hotel & leisure, logistics and religious bodies

# Asset quality analysis (1)

OPERATING ENVIRONMENT

FBNH AT A GLANCE

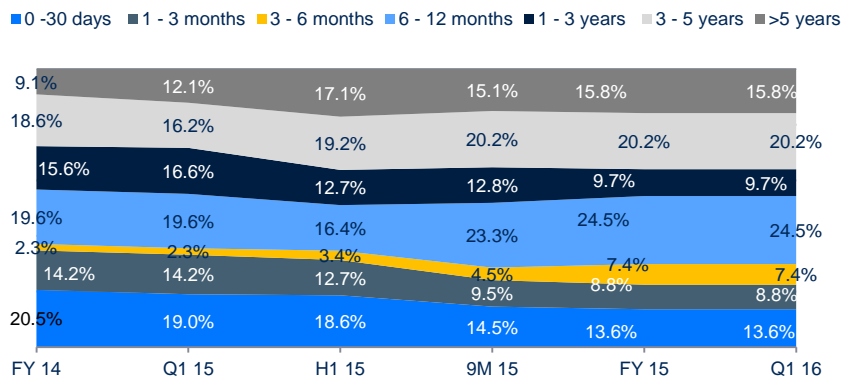
FINANCIAL REVIEW

STRATEGIC REVIEW

APPENDIX

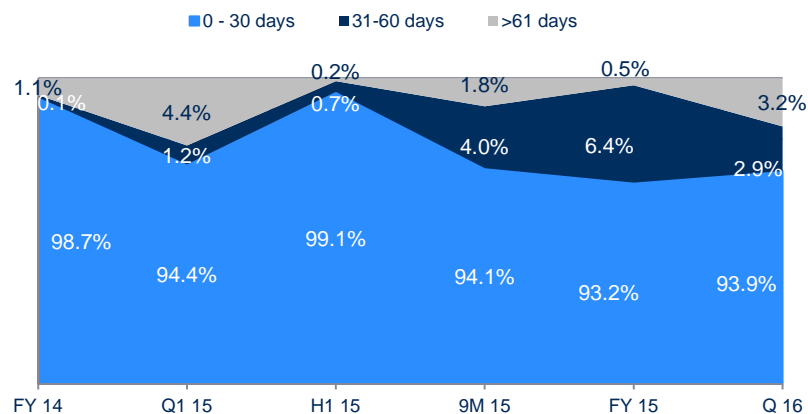
## Loans and advances by maturity

FirstBank (Nigeria)



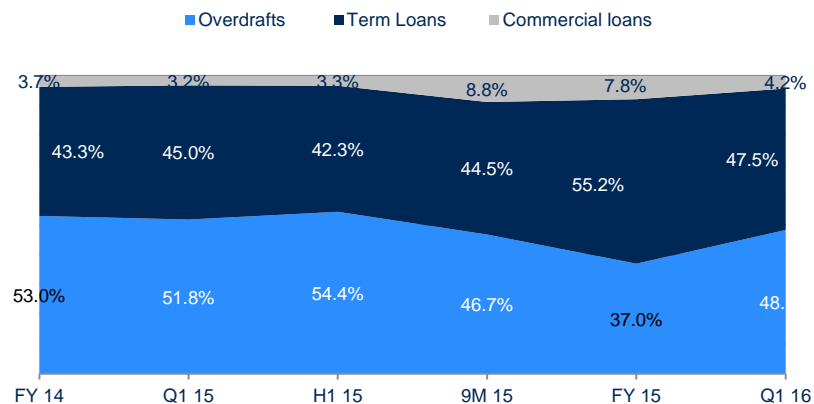
## Ageing analysis of performing loans and advances

FirstBank (Nigeria)



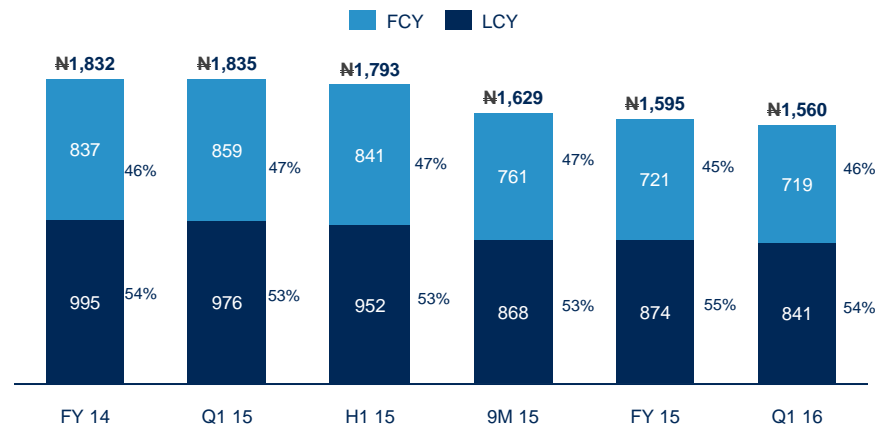
## Loans and advances by type

FirstBank (Nigeria)



## Loans and advances by currency

FirstBank (Nigeria)



# Asset quality analysis (2)

OPERATING ENVIRONMENT

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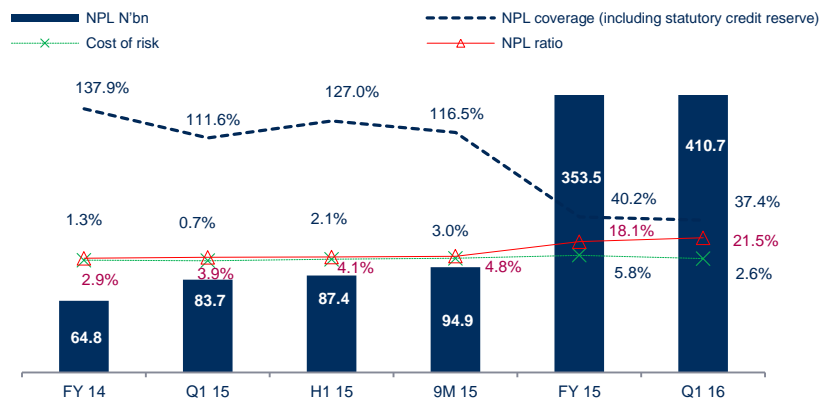
FINANCIAL REVIEW

STRATEGIC REVIEW

APPENDIX

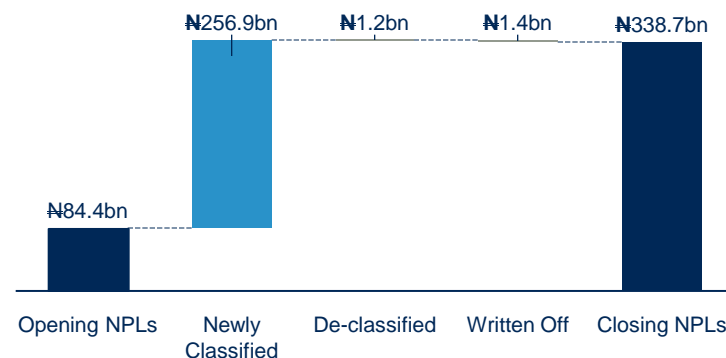
## Asset quality trend

FBNHoldings



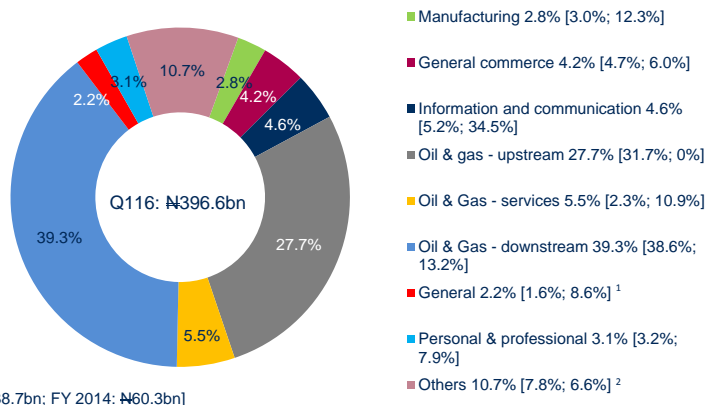
## FY15 NPL evolution

FirstBank (Nigeria)



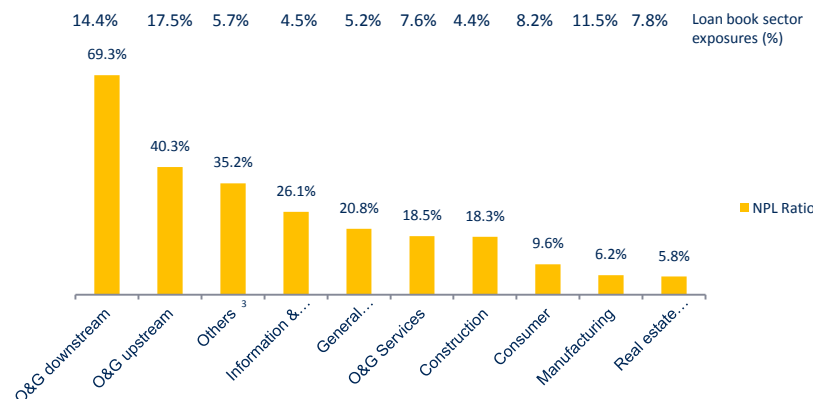
## Q116 NPL breakdown by sector

FirstBank (Nigeria)



## Q116 NPL ratio by sector

FirstBank (Nigeria)



<sup>1</sup> General includes: hotels & leisure, logistics, religious bodies; <sup>2</sup> Others (NPL exposure by sector) include Finance, Transportation, Construction, Agriculture and Real estate activities; <sup>3</sup> Others (NPL ratio by sector) include General, Transportation & storage, Finance & Insurance, Administration, Capital market, Education, Professional & Scientific, Human health and Arts & Entertainment

# Asset quality analysis (3)

OPERATING ENVIRONMENT

FBNH AT A GLANCE

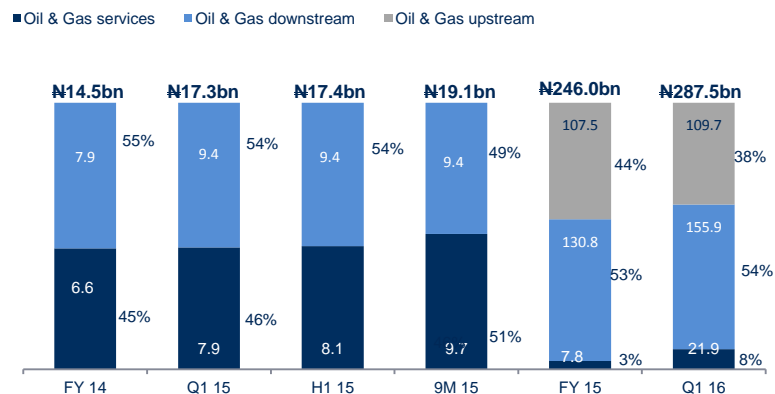
FINANCIAL REVIEW

STRATEGIC REVIEW

APPENDIX

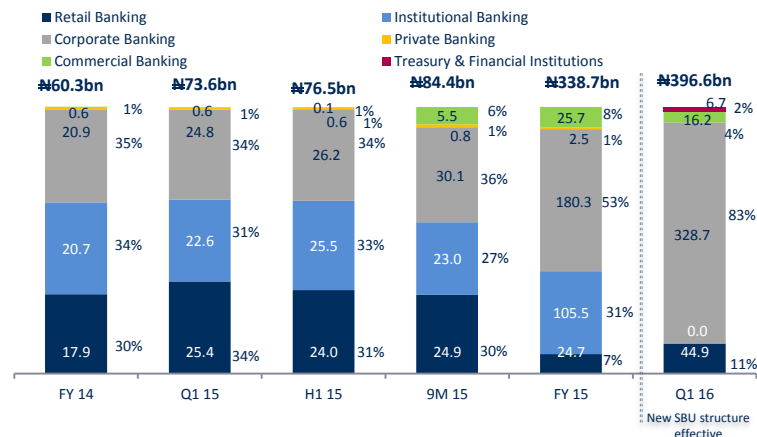
## Oil & Gas NPLs

FirstBank (Nigeria)



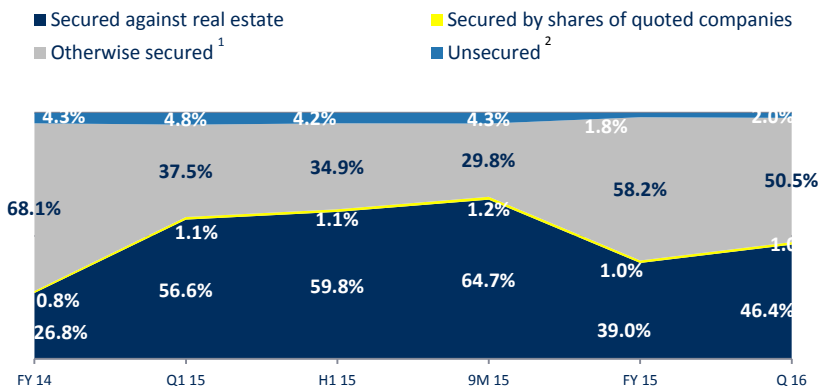
## NPLs by SBU Nbn

FirstBank (Nigeria)



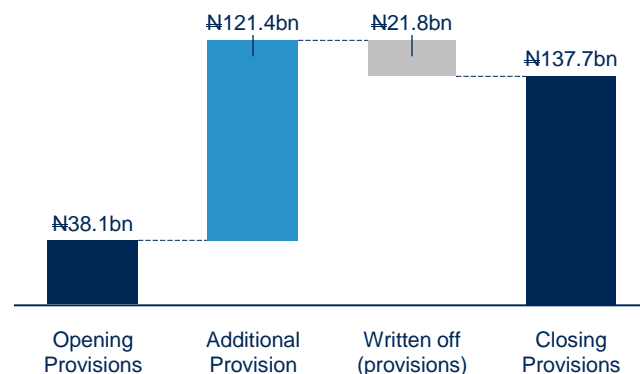
## Breakout of loans and advances by type of collateral

First Bank (Nigeria)



## Provisions evolution (FY 15)

First Bank (Nigeria)



<sup>1</sup> Otherwise secured refers to credits secured through cash/ treasury bills, guarantees/receivable of investment grade banks and corporates, enforceable lien on fast moving inventory in bonded warehouses/tripartite warehousing agreement, all asset debentures, charge on asset financed, insurance policy, postdated cheques, domiciliation

<sup>2</sup> Unsecured credits represent clean lending to top tier corporates



*FBN Holdings*

## Strategic review

# Group strategic framework

OPERATING ENVIRONMENT

FBNH AT A GLANCE

FINANCIAL REVIEW

STRATEGIC REVIEW

APPENDIX

STRATEGY

1

Structural changes in the risk-taking culture, processes and oversight

2

Improve cost and capital efficiency

3

Enhance revenue growth

ENABLERS

- Customer selection
- Transaction structuring
- Management & monitoring
- Remediation
- Recovery

- Increased control on procurement and budget
- Actively monitoring the cut off spend with respect to the budget on a monthly basis
- Eliminating duplication of costs and institutionalising shared services
- Ongoing capital enhancement
- Optimisation of yields on the investment of shareholders' and policy holders' funds

- Leverage the retail network
- Increase contribution from e-banking
- Diversify revenue streams
- Increase digital banking products
- Enhance cross sell through group synergies
- Develop Private Wealth Management platform
- Grow annuity income
- Increase transaction churn and grow Non-interest income

2016 TARGETS

- Reduction in rate of new NPL formation
- Reduced limits by 20% to 100% across the approval grid
- Further diversification of the loan portfolio
- Planned reduction in the O&G exposure
- NPL ratio target of  $\leq 18\%$  and CoR of 3% - 4%
- Net loan growth of 3% - 5%

- Capital Adequacy is targeted at 150bps above the regulatory minimum for SIBs
- Cost of funds between 3% - 4%
- Cost to income ratio is targeted at 57% - 58%

- Deposit growth of 5% - 10%
- NIM targeted at  $\sim 8\%$
- ROaE of 12% - 14%
- ROaA at 1.8% - 2%

Building a stronger, well-diversified financial services group

# Risk management – what went wrong?

OPERATING ENVIRONMENT

FBNH AT A GLANCE

FINANCIAL REVIEW

STRATEGIC REVIEW

APPENDIX

1) Concentration risk

2) Knowledge gaps across the credit chain

3) Credit growth outstripped monitoring capacity

# Overhauling our risk management approach from origination to recovery

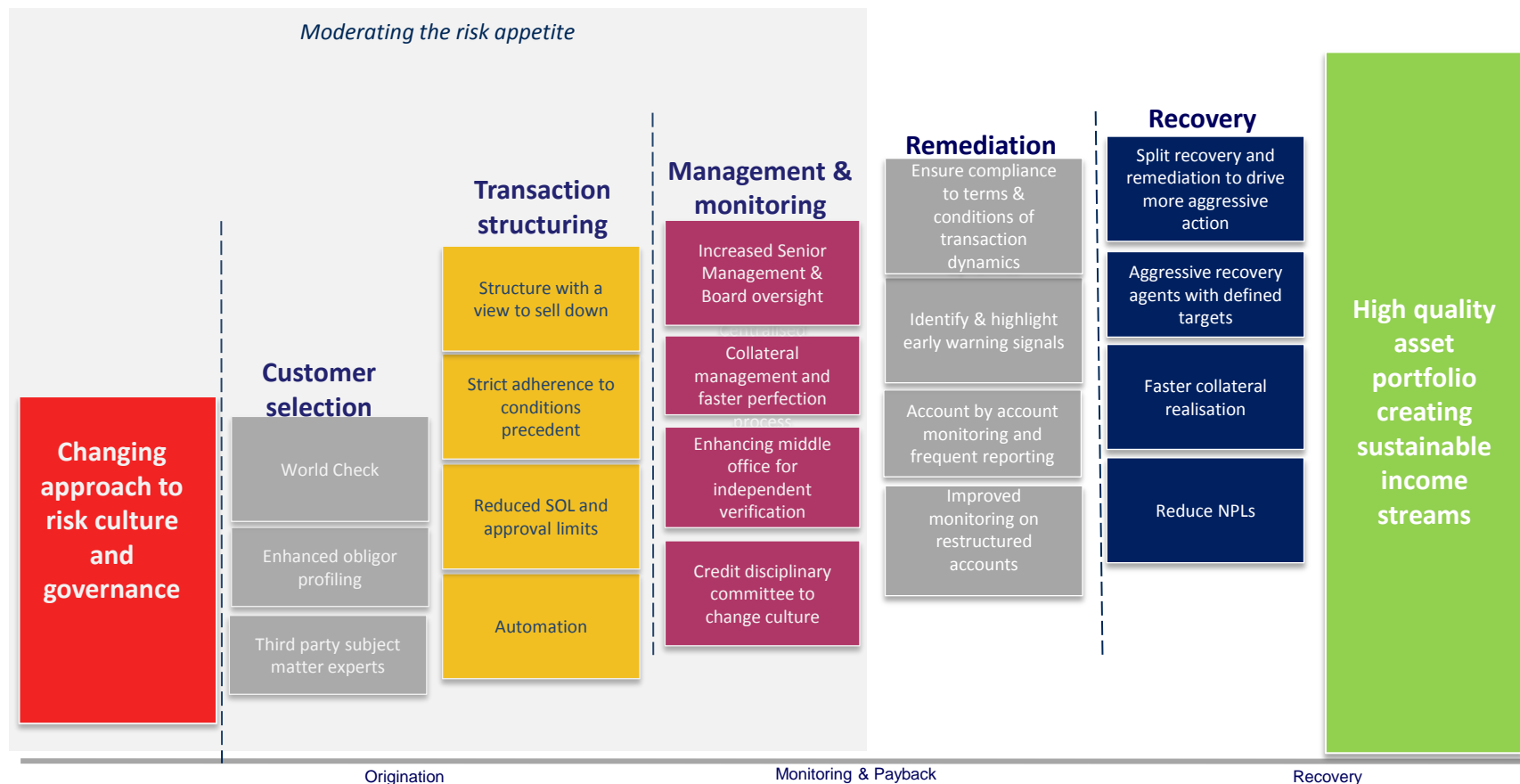
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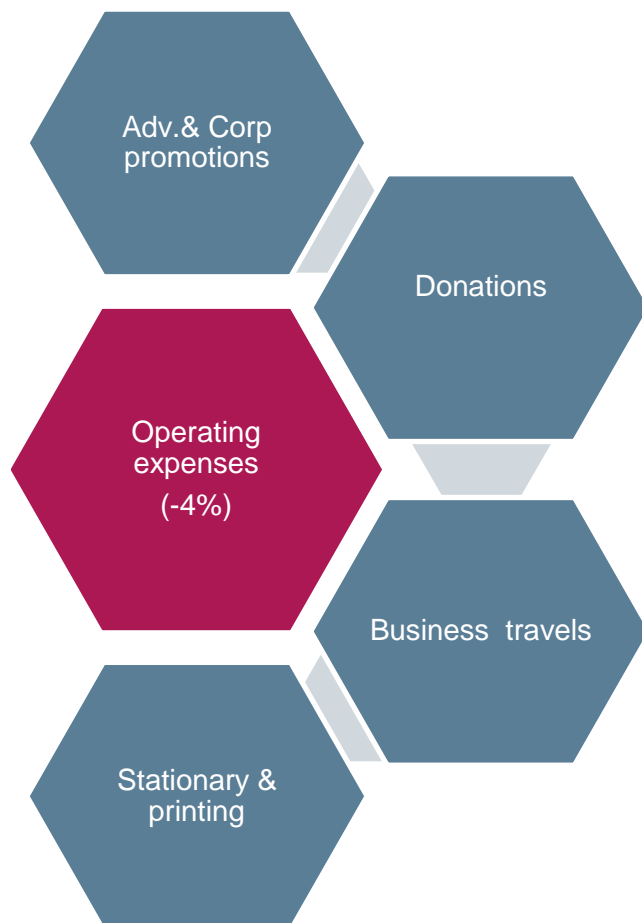
FINANCIAL REVIEW

STRATEGIC REVIEW

APPENDIX



- On-going process to recruit a new Chief Risk Officer
- Restructuring of credit risk function to enhance monitoring and early detection
- An Executive Director with deep expertise in Corporate Banking has been appointed; strengthening origination and coverage
- New Head of Recovery recruited to drive aggressive recoveries
- Group Executive with expertise in shared services has been recruited to head Technology and Services



- 4% y-o-y reduction in operating expenses targeted at Group level
- The bulk of cost savings expected at FirstBank (Nigeria) where we see decline in advert & corporate promotions (~60%), donations (35% - 40%), business travels (40% - 45%) and stationery & printing (35% - 40%)
- Ongoing investments in non-Nigerian businesses to expand revenue generating potential, improve automation and efficiency as well as strengthen compliance
- Aligning budget and expenditure control within the finance function
- Greater rigidity around incurring operating expenses through monthly release of budget allocation coupled with active monitoring
- Increased control over procurement by fast tracking centralised processing to reduce cost to serve
- Eliminating duplication of costs and institutionalising shared services
- Group Shared Services/centralised procurement initiative has commenced with IT software procurement and licensing, and office consumables.
- Group capital is efficiently deployed across all operating entities
- Ongoing capital optimisation through increased retention, more efficient balance sheet management and shedding non-core assets
- The Group does not intend to raise fresh equity in the short term in view of slow paced economic activity coupled with depressed valuations

## Net interest income

- Selective loan creation
- Grow credit card usage
- Focus on short cycle transactions
- Reduce account dormancy rate
- Customer experience improvement
- Increased customer acquisition
- Robust portfolio planning to guide focused lending
- Increased retail credit penetration via advanced analytics and digitalisation of sales
- Aggressively manage cost of funds

## Non-interest revenue

- Increase transaction banking volumes
- Increase penetration of card users to generate non-interest income
- Increase usage of payment solutions per customer
- Utilise digital intelligence and data management
- Deploy end to end cash management platforms
- Increase transaction churn
- Improve efficiency of branch banking
- Alternative channel focus to enhance 'anytime banking'
- Exploiting cross selling and data mining opportunities
- Grow investment banking fee income
- Grow asset management & trustee product platform and fee income
- Offer ancillary services such as selective underwriting, hedging products

# Leveraging our leading position and favourable dynamics in the digital space

## OPERATING ENVIRONMENT

## FBNH AT A GLANCE

## FINANCIAL REVIEW

## STRATEGIC REVIEW

## APPENDIX



Nigeria ranks 1st in Africa and 7th globally in terms of number of mobile phone subscriptions  
148 million active mobile connections  
51.1 million mobile telephone subscribers (unique subscribers)  
~23 million smart phone users and ranked 17th in global smartphone usage



Nigeria ranks 1st in Africa and 8th globally in terms of number of Internet Users  
Over 93 million active internet data subscriptions  
51% penetration (percentage of total population)



15 million Facebook Users (largest in Africa) and 4th fastest growing number of Users worldwide  
Social media remains important to the future of banking



Emergence of fast growing online outlets.  
An increasing number of consumers in Nigeria use the internet to buy products and services.  
Research suggests that the potential worth of e-commerce in Nigeria is estimated at over \$10 billion.  
Ecommerce spending in Nigeria, Africa's largest economy is expected to reach \$8 billion by 2025

- FirstBank (Nigeria) has the highest number of cards in the industry with 50% verve cards market share and highest number of active cards in the industry (Q12016: 8.3mn)
- Increasing penetration of cardholders with 70.5% (FY15: 63.1%) of FirstBank (Nigeria)'s active retail customer accounts having cards and 46.5% (FY15: 41.8%) of the customers owning verve cards
- FirstBank (Nigeria) processed the highest number (32%) of transactions in December 2015 in the industry
- Processed over 1bn transactions on our Front-end Processor in 2015 and affirming leadership (double the next leading Bank)
- FirstBank was the first financial institutions to hit 1bn transactions monthly (achieved in December 2015)
- Increasing digital penetration in a bid to increase the contribution of e-business to the non-interest income and overall profitability
- Growth opportunities for FirstOnline and FirstMobile within our existing customer base as well as signing up new customers
- Provide stable platform and incentives to drive increased transactions by customers.
- Sustained earnings through e-business transactions
- Extending e-business across the other commercial banking subsidiaries

# Goal: to return value to shareholders

OPERATING ENVIRONMENT

FBNH AT A GLANCE

FINANCIAL REVIEW

STRATEGIC REVIEW

APPENDIX



Key measures	FY2015 (guidance)	FY2015 (actual)	Q12016 (actual)	FY2016 (guidance)
Deposit growth	0%	-2.6%	-4.6%	5% - 10%
Net loan growth	-5%	-16.6%	-3.0%	3% - 5%
Net interest margin	7% - 7.5%	8.1%	8.1%	~8%
Cost to income ratio	63%	61.4%	59.4%	57% - 58%
Cost of funds	~4%	3.7%	2.3%	3% - 4%
Cost of risk	3.5%	5.7%	2.6%	3% - 4%
NPL ratio	5%	18.1%	21.5%	≤18%
ROaA	1.4% - 1.7%	0.4%	2.0%	1.8%-2%
ROaE	12% - 14%	2.7%	14.4%	12%-14%

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# Appendix

- Cost-to-income ratio computed as operating expenses divided by operating income
- Leverage ratio computed as total assets divided by total shareholders' funds
- Loans to deposits ratio computed as gross loans divided by total customer deposits
- Net interest margin defined as net interest income (annualised) divided by average earning assets
- Net revenue computed as operating income plus share of profit/loss from associates
- NPL coverage computed as loan loss provisions plus statutory credit reserves divided by non-performing loans
- Operating income is defined as gross earnings less interest expense, fee and commission expense, Insurance claims and share of profit/loss from associates
- Pre-provision operating profit computed as operating profit plus impairment charge
- Return on average equity computed as profit after tax (annualised) divided by the average opening and closing balances attributable to its equity holders
- Return on average assets computed as profit after tax (annualised) divided by the average opening and closing balances of total assets
- Tier 2 capital comprises foreign exchange revaluation reserves, hybrid capital instrument and minority interest for the FirstBank (Nigeria)