

## Fidelity Bank Plc: Strategic Profile

**Fidelity Bank Plc**  
**Lagos, Nigeria**

May, 2010

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## Fidelity Bank Plc: Overview

**Mission**

**To make Financial Services  
Easy and Accessible**

**Vision**

**To be No.1 in every market we serve  
and for every branded product we offer**

*Compass  
statements that  
are very well  
taken to heart  
by every staff*

**SHARED VALUES**

**Customer First  
Respect  
Excellence  
Shared  
ambition  
Tenacity**

## The Most Socially Responsible Bank in Africa 2008 – The African Banker

- Fidelity incorporated as a Private Limited Liability Company
- Commenced operations as a Merchant Bank

- Registered as a Public Limited Liability
- Company Converted to Commercial Bank

- Licensed to operate as a universal bank
- Accepted into and Quoted on the Nigeria Stock Exchange

- Raised Equity to N22bn (Rights, IPO and Private Placement)
- Acquired FSB Int'l Bank Plc and Manny Bank Plc

- Resolved all Merger integration issues
- Raised Equity to US\$1bn through GDR & Public Offer

- 8<sup>th</sup> Biggest Bank in Nigeria 2009.
- 12<sup>th</sup> in Sub Saharan Africa 2009.
- 450<sup>th</sup> in the World in 2009.

**TheBanker**

Today, Fidelity is one of the safest and most stable financial institutions in Nigeria.

1987

1989

1999

2001

2005

2006

2007

### Nominated:

- ✓ Most Improved Bank – 2005
- ✓ Best Fund Manager – 2005
- ✓ Best Stock Offer – 2005



### Mandated by Debt Mgt Office (DMO) in 2006 as:

- Dealer in FGN Bonds
- Dealer in Pensioners Bond
- Dealer in Contractors Bond
- Best Bond Dealer and Market Maker in 2006, 2008

- Appointed Wholesale Dealer in Foreign Currencies - 2006
- CBN Mandated Manager of Sovereign Reserve – 2006
- CBN appointed Primary Dealer in Treasury Bills and Money Market Instruments - 2007



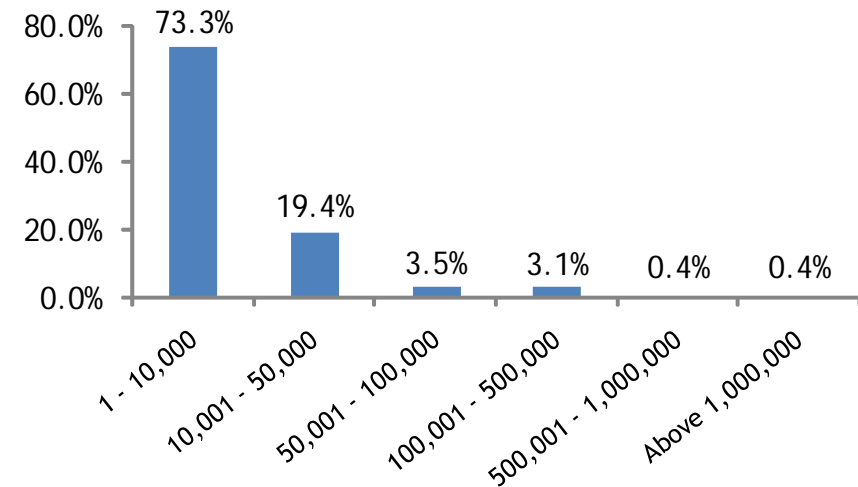
Central Bank of Nigeria

# Shareholding Structure

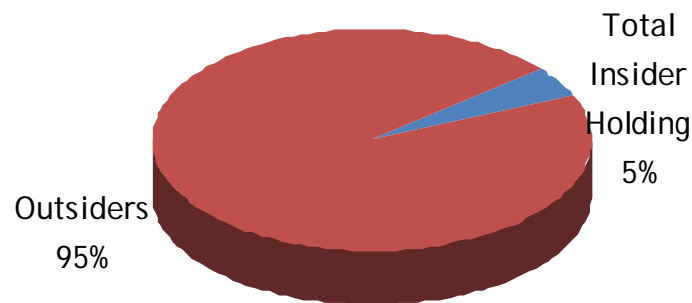
## Diverse Shareholder Distribution

- ▶ Diverse shareholder base with no controlling shareholder
- ▶ Over 466,000 shareholders
- ▶ No single shareholder owns more than 5% of total share capital
- ▶ The bank is owned largely by Nigerian citizens and corporations

Shareholder Distribution

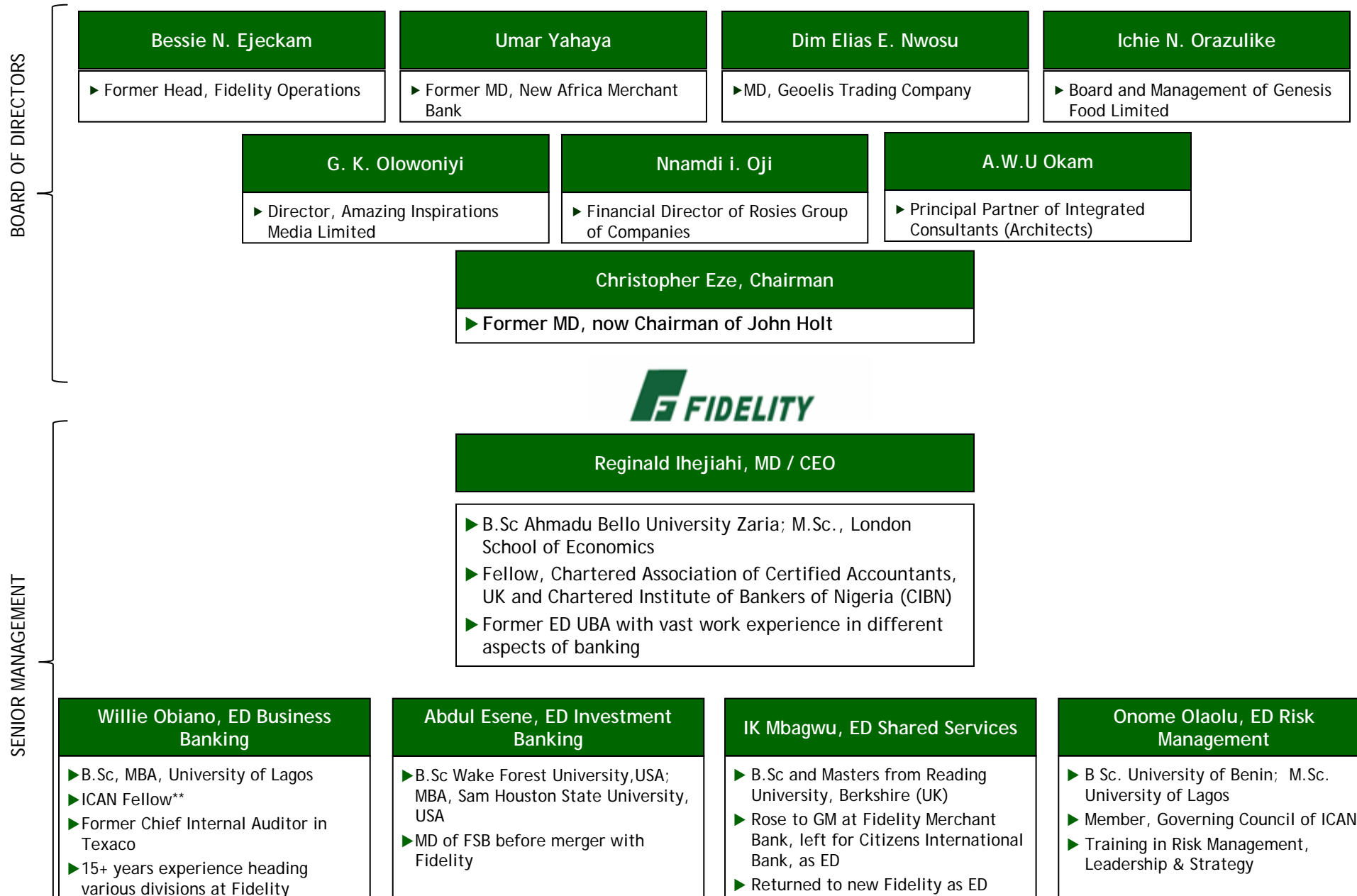


## Limited Insider Ownership



- ▶ Insiders have relatively small shareholder ownership and control

# Experienced Management Team & Board



\*\*ICAN = Institute of Chartered Accountants of Nigeria

# Strategic alliances and global partnerships



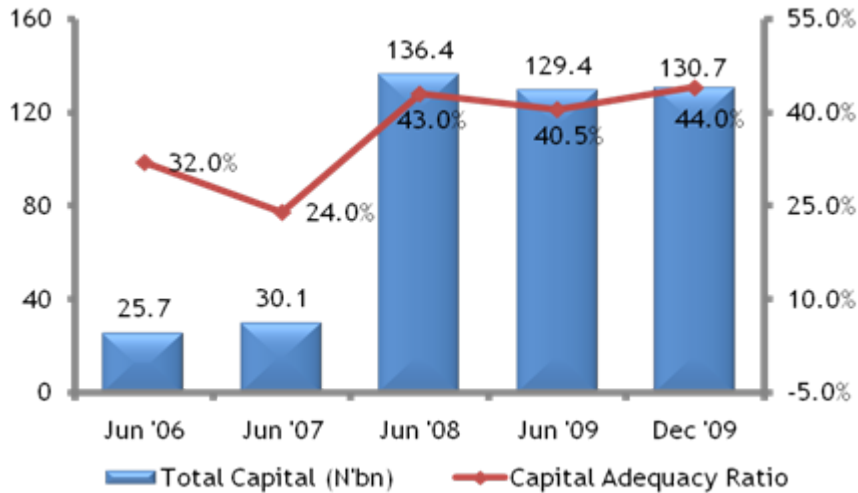
Our strategic partnerships provide us global reach and the benefit of knowledge transfer in our quest to implement best practices.



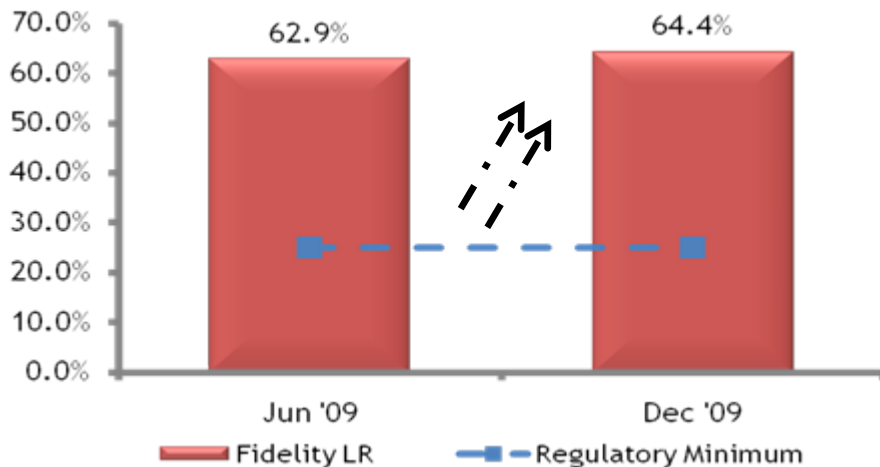
## Historical Financial Review

# One of Nigeria's Strongest Financial Institutions

## Capital Adequacy Ratio



## Liquidity Ratio



**Fidelity may not be the biggest, but we are one of the strongest, most stable, safe and consistent banks in Nigeria.**

**Fidelity has been consistent in making profit and issuing dividend over the last 7 years, even in the most turbulent times in the Nigerian banking industry. Deploying excess capital and liquidity will strengthen this position and provide even higher returns to shareholders.**

# Financial Highlights

## INCOME STATEMENT

(Naira in million)

	Dec '09	Jun '09	Jun '08
	6 Months	12 Months	12 Months
Gross Earnings	34,716	72,274	42,660
Interest income	25,727	51,303	30,128
Interest Expense	-12,363	-18,018	-7,926
Net Interest Income	13,364	33,285	22,202
Other Income	8,724	20,971	12,532
Operating Expenses	-16,158	-26,963	-16,654
Profit Before Risk Assets & Investment Provision & Tax	5,930	27,293	18,080
Provision for Risk Assets & Investment Diminution	-3,876	-23,477	-1,774
Profit Before Tax (PBT)	2,054	3,816	16,306
Profit After Tax (PAT)	1,557	1,599	13,356

With dividend of 2.5k per share for Dec. 2009 (June 2009: 5k), Fidelity is one of few Nigerian banks that is consistent in profitability and dividend payout even in these very tough times.

# Financial Highlights

## BALANCE SHEET

(Naira in million)

	Dec '09	Jun '09
Cash & Short-term Funds	52,155	70,556
T. Bills/Placements/Bonds	164,092	161,066
Net Loans	175,398	230,371
Deposits	288,096	355,770
Other Liabilities	16,978	20,790
Equity	130,691	129,419
Contingents	121,160	59,043
<b>Total Liabilities plus Contingent</b>	<b>556,826</b>	<b>565,310</b>

## KEY RATIOS

Return on Equity (RoE) - pre tax	3.1%	2.9%
Return on Assets (RoA) - pre tax	0.9%	0.8%
Net Interest Margin	51.9%	64.9%

## Industry Ranking (December 31 2009 Financials)

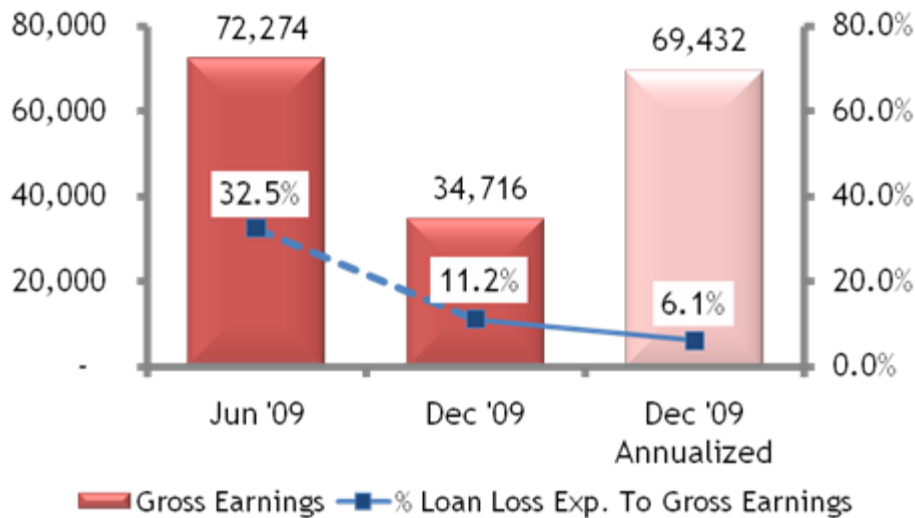
S/n	Bank	Equity	Deposits	Total Assets plus Contingents
1	Zenith	1st	3rd	2nd
2	FBN	2nd	1st	1st
3	UBA	3rd	2nd	3rd
4	GTB	4th	4th	4th
5	Access	5th	7th	5th
6	Fidelity	6th	8th	8th
7	FCMB	7th	10th	9th
8	Diamond	8th	5th	7th
9	Skye	9th	6th	6th
10	Stanbic-IBTC	10th	13th	11th
11	Eco Bank	11th	9th	10th
12	Citi Bank	12th	15th	14th
13	Stan Chart	13th	14th	13th
14	Fin Bank	N/a	12th	15th
15	Unity	N/a	11th	12th

Source: Published audited financial statements of banks as at December 31 2009

## Profit and Loss Analysis

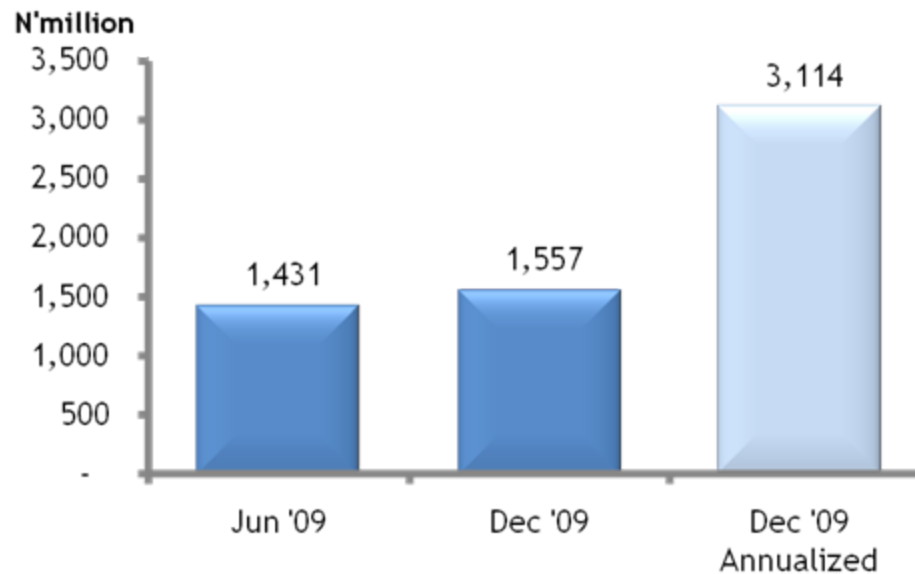
# Key Profit Indicators

## Gross Earnings and Loan Loss Expenses

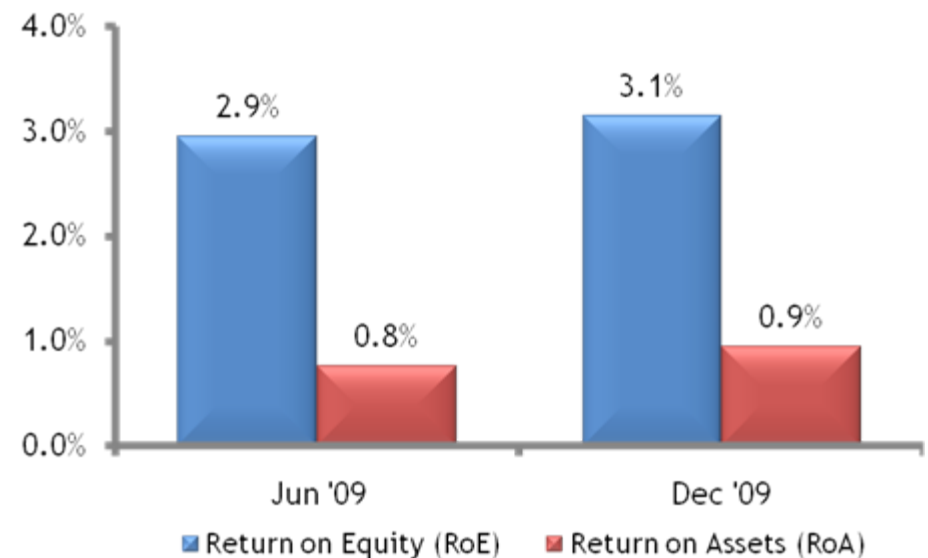


- Fidelity has reworked its risk management procedures and lending structures to deal with the current challenges that resulted in massive asset write-downs across the industry.

## Profit After Tax (PAT)



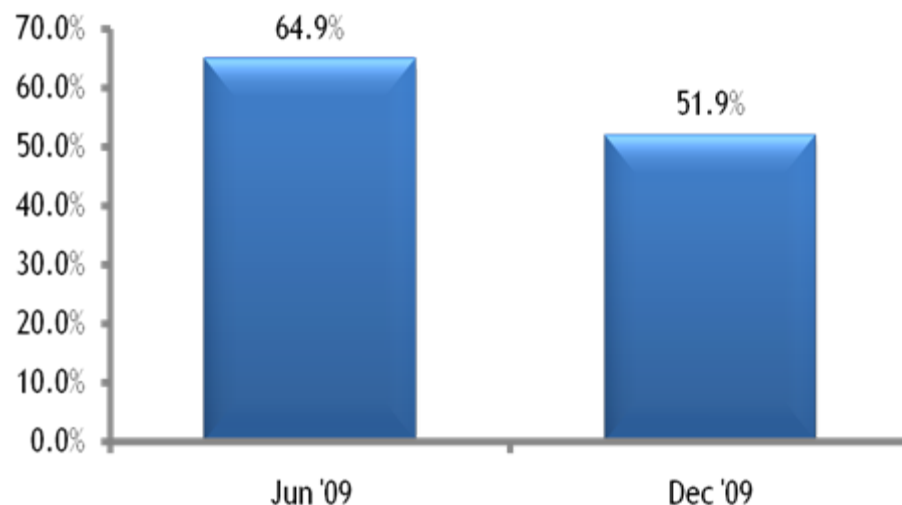
## Trend in RoE & RoA (pre-tax)



Note: Dec. 2009 is for 6-months. Jun. 2009 is 12-months

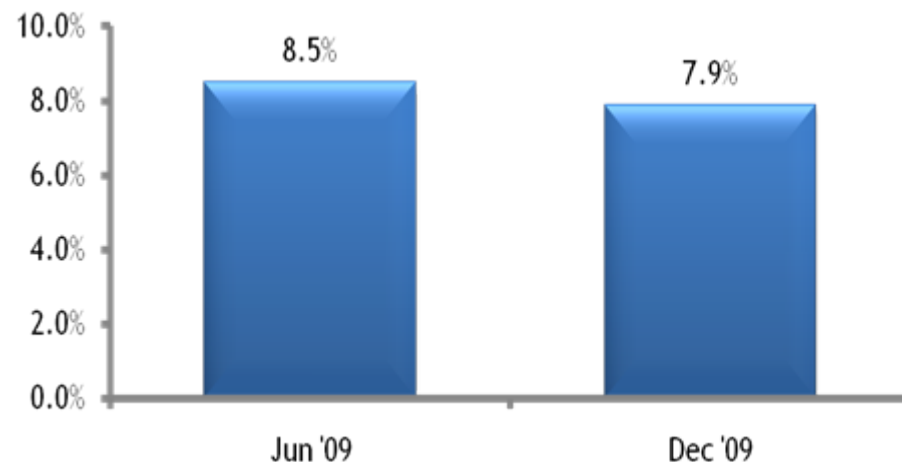
# Net Interest Income

## Net Interest Margin



Note: Net Interest Margin is Net Interest Income to Interest income

## Net Interest Spread



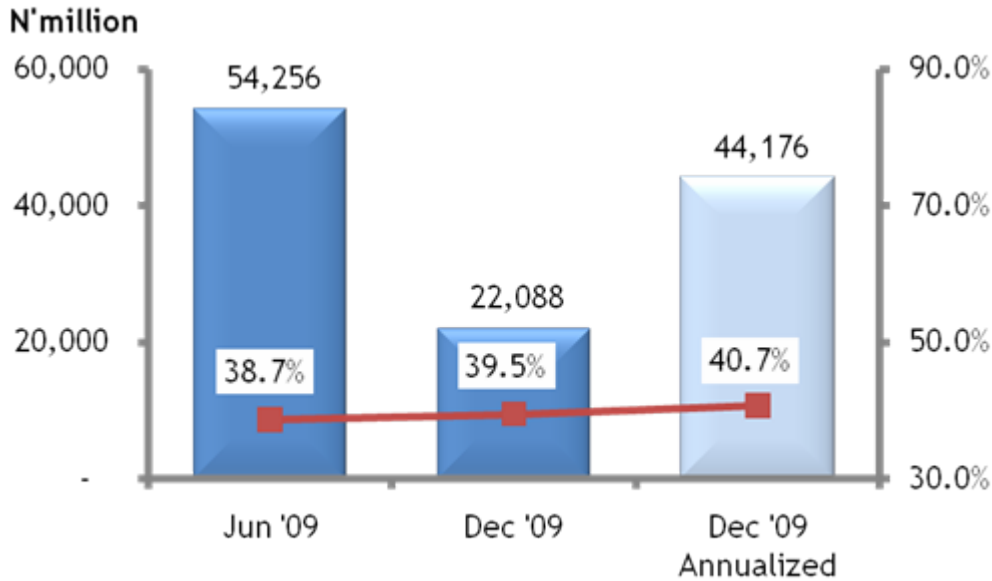
Note: Net Interest Spread is Net Interest Income to Earning Assets

- ▶ Uncertainties in the operating environment continued to challenge ability to create safe assets that provide good returns.
- ▶ Continuously declining return on government securities and Interbank placements which provided good yield and safe earning assets for the bank in the financial year ended June 30 2009 also impacted negatively on net interest margin.
- ▶ Fidelity has implemented a new set of Key Performance Measures for Sales people which heavily rewards low cost funds and high net interest income in order to improve our margin.
- ▶ Fidelity has resumed lending and is re-allocating more assets into high earning assets (loans) on account of improving operating environment and more positive outlook.



# Non-Interest Income

## % of Non-Interest Income to Operating Income

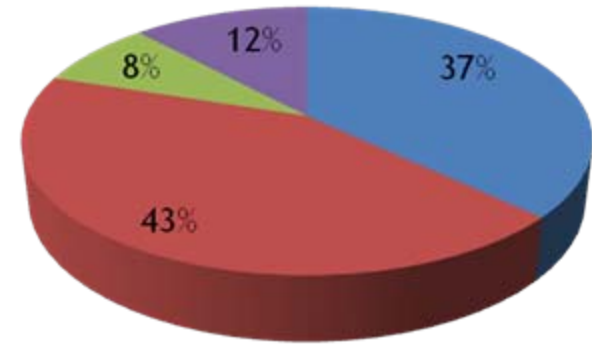


Operating Income (Blue Bar) Non-Int. Income to Operating Income Ratio (Red Line)

- ▶ Historically, Fees & Commission constitute a significant proportion of Fidelity's gross earnings
- ▶ Commission on turnover has grown over the years as Fidelity bank services increasingly wealthy Nigerian population
- ▶ Working the new branches would continue to create linkage effect for growing non interest earnings
- ▶ Fees from banking services are more likely to withstand economic fluctuations and comprise a larger percentage of net revenues in the future.

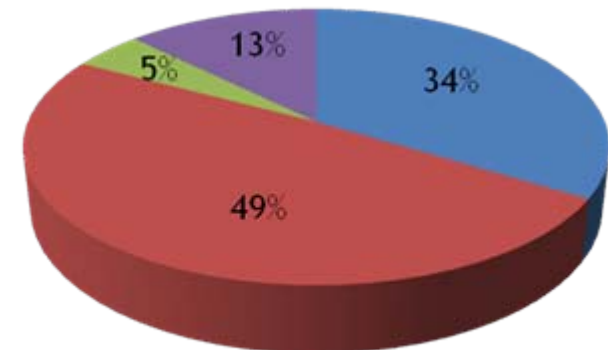
## Composition of Non-Interest Income

Total Non-Interest Income = N8.72bn



Dec '09

Total Non-Interest Income = N20.97bn

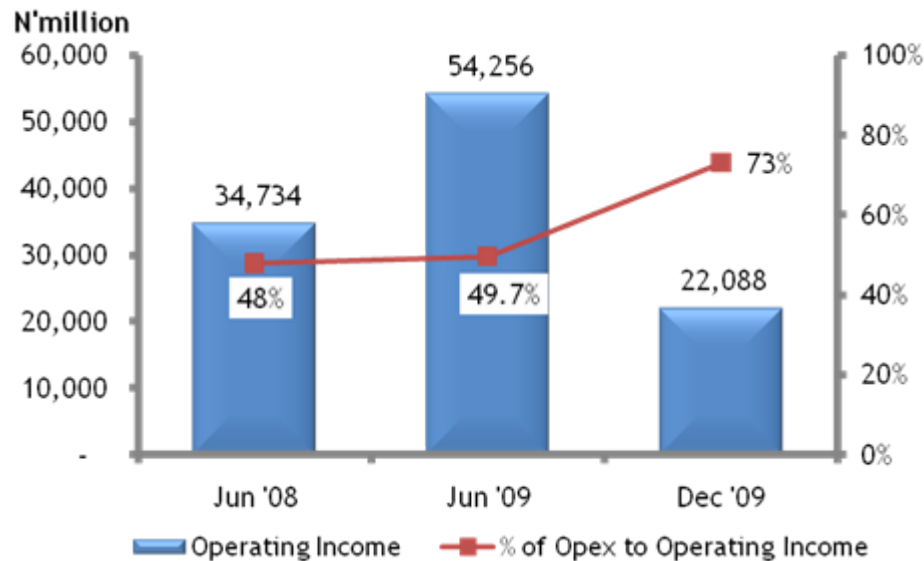


Jun '09

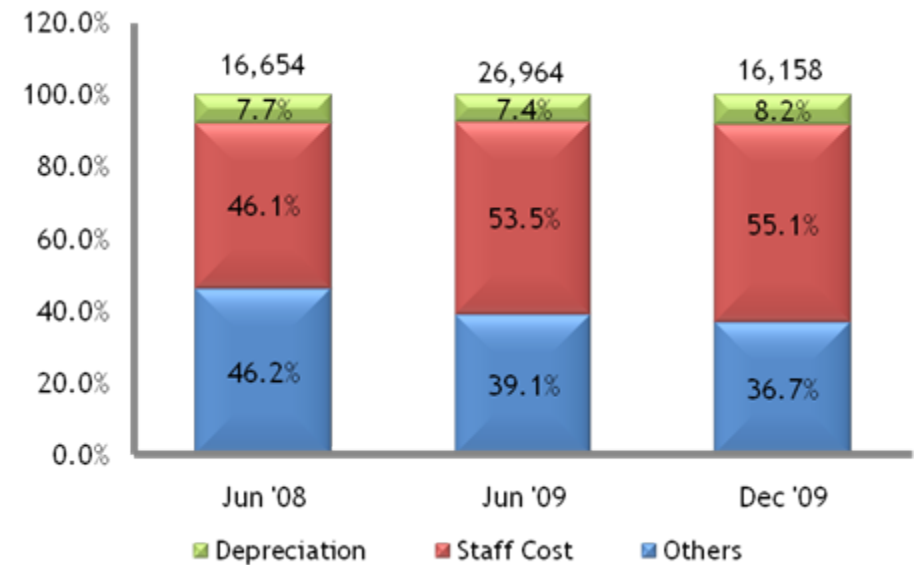
Foreign exchange (Blue) Fees and Commission (Red) Other Income (Purple) Income from Investment (Green)

# Operating Expense Analysis

## Operating Expense & Operating Income

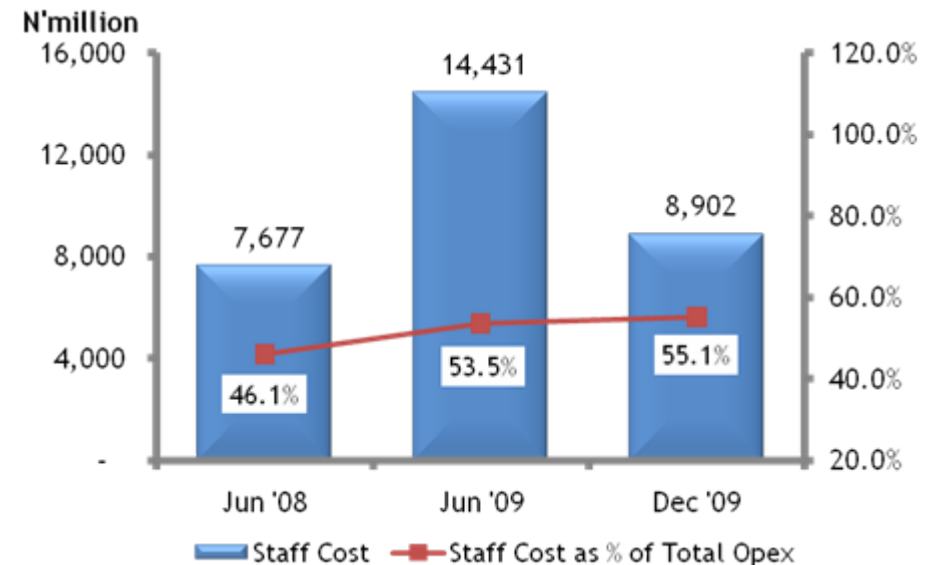


## Operating Expense Breakdown

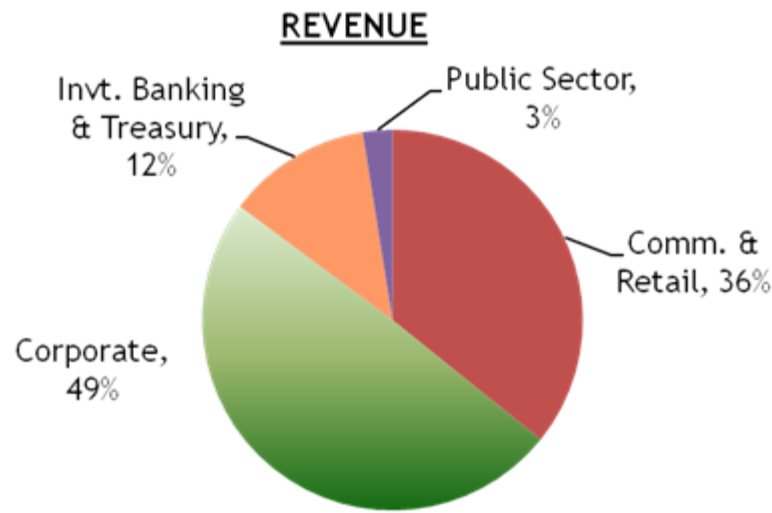


- ▶ Operating expenses have grown significantly over the last few years as the bank pursues huge expansion.
- ▶ Our franchise strategy aims to expand economies of scale in distribution while maintaining focus on profitability
- ▶ Staff costs are the largest contribution to total operating expenses and forms a substantial portion of operating expenses of all Nigerian banks
- ▶ Fidelity cut staff salary by 20% across board in Nov. 2009 in addition to attrition process for underperformance. The impact of this reduction will reflect boldly in 2010.
- ▶ Staff cost is being reduced with technological upgrade and increased efficiency.

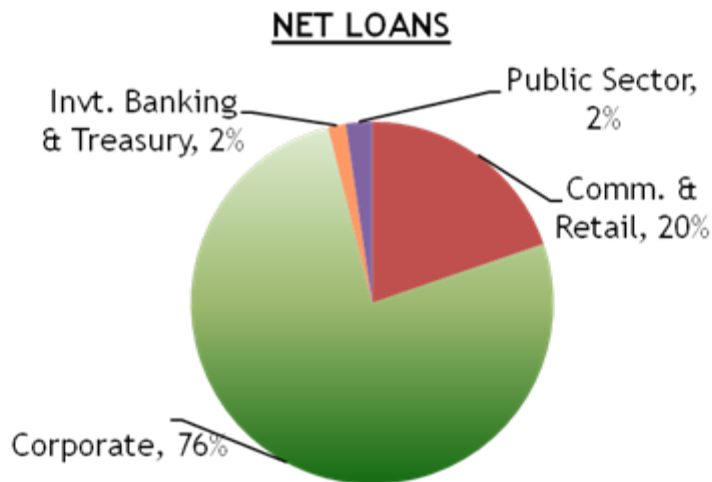
## Staff Expense



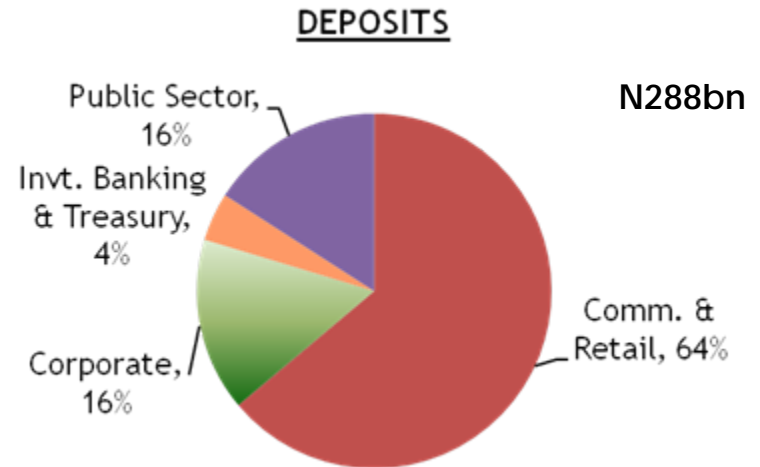
# Contribution by Business Segments



N34.72bn



N175.4bn

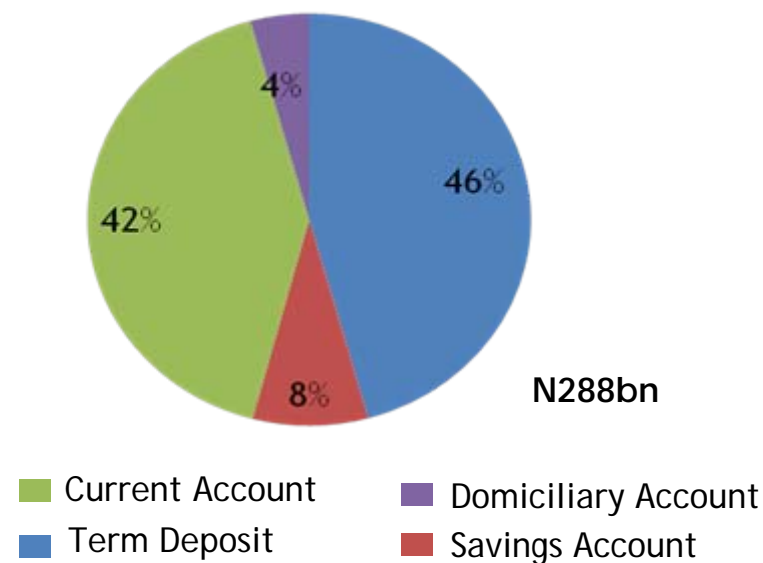
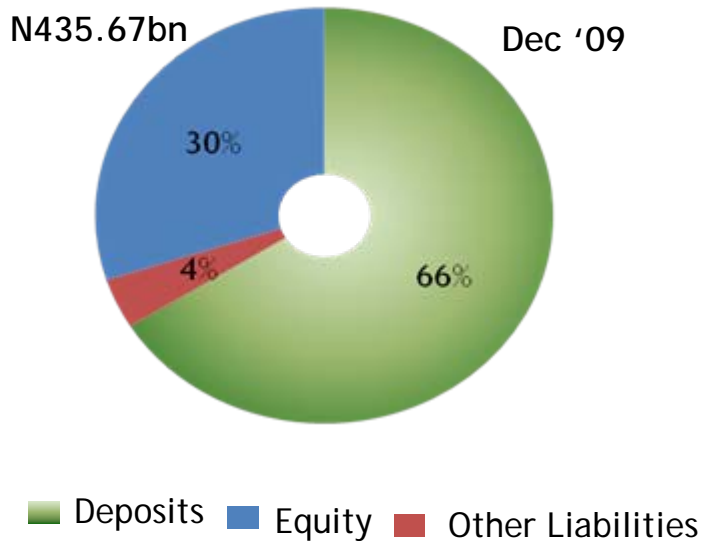


- The continuously declining return on government securities and Interbank placements affected the contribution of income from money market activities.
- But the stable sources of revenue from fee charging services at the retail and commercial banking segment cushioned the volatility from Treasury sources.
- As our new branches and channels make more contribution to our business while deepening our offering to our customers, we expect that the revenue contribution from our retail and commercial business end will continue to cushion any volatility from other sources.

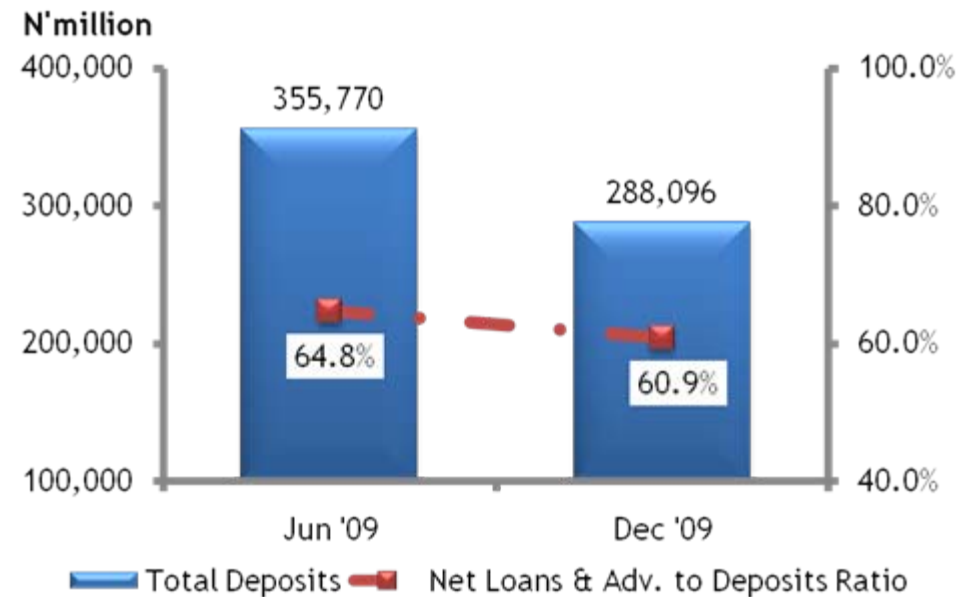
## Balance Sheet Analysis

# Funding and Liquidity

## Sources of Funding



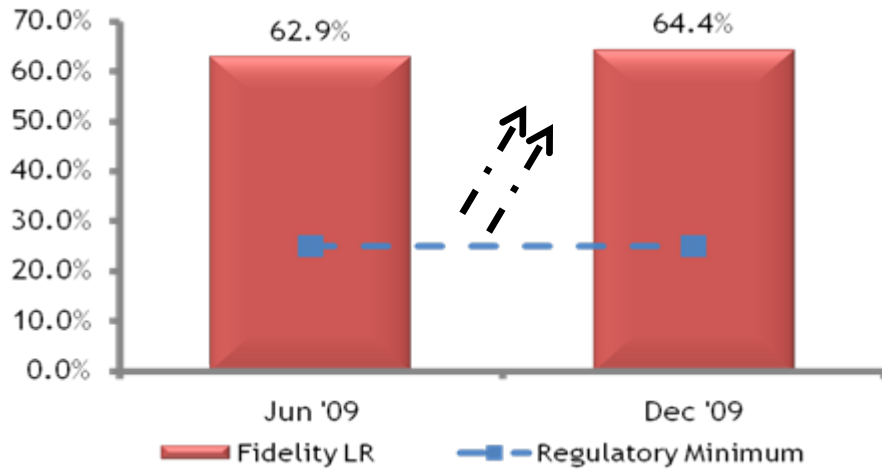
## Net Loans & Advances to Total Deposits



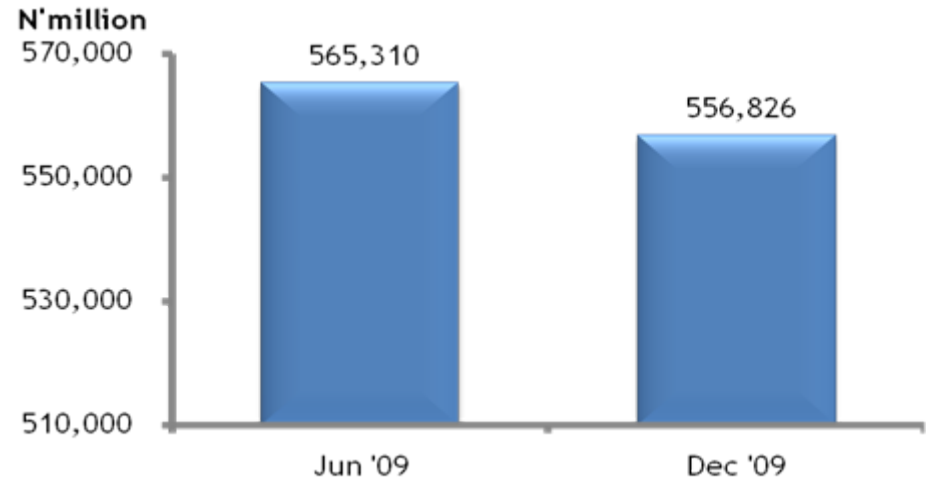
- Equity base stood at N130bn at the end of December 31 2009. Fidelity has significant headroom for lending as loan to deposit ratio is at 61% compared to 80% regulatory maximum.
- Over 54% of deposits are low cost funds. The bank continues to rework its balance sheet by de-emphasizing high cost deposits.
- As we increase lending, we expect the increased net margin arising from this balance sheet repositioning to show more positively in the earnings of the forthcoming periods.

# Asset Composition

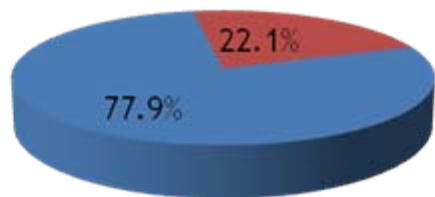
## Liquidity Ratio



## Total Assets plus Contingents



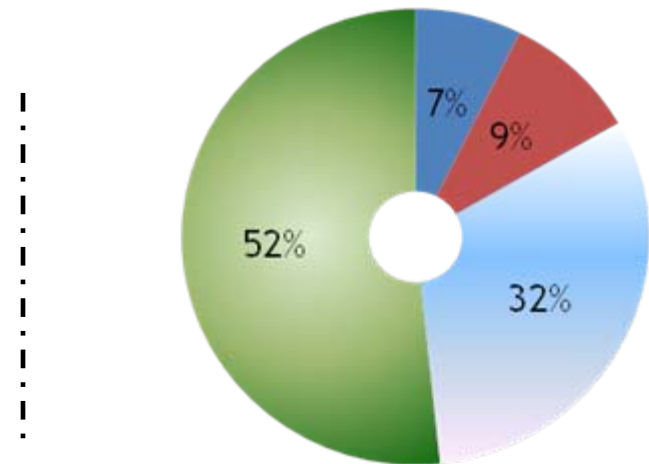
## Composition of Total Assets



N435bn

Other Assets      Earning Assets

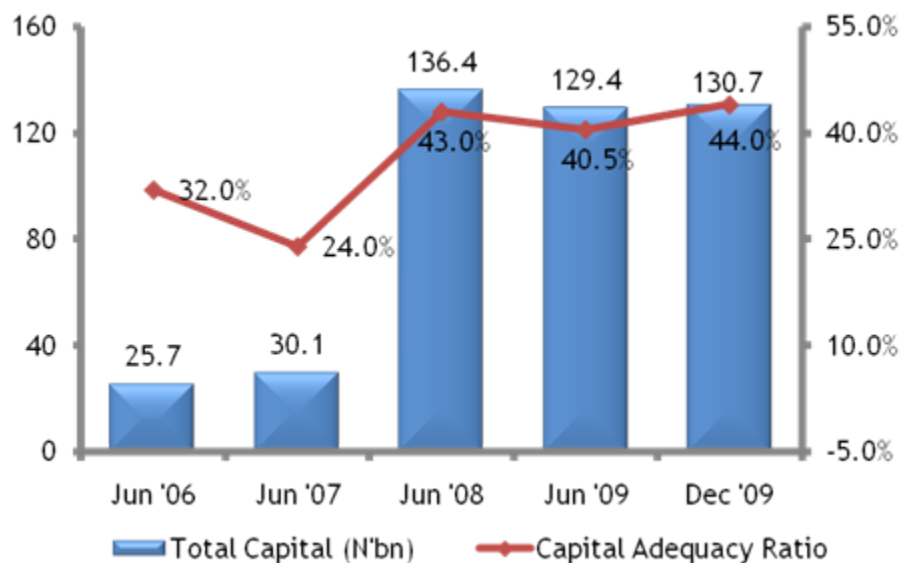
## Composition of Earning Assets



Treasury Bills      Net Loans  
Placements      FG Bonds

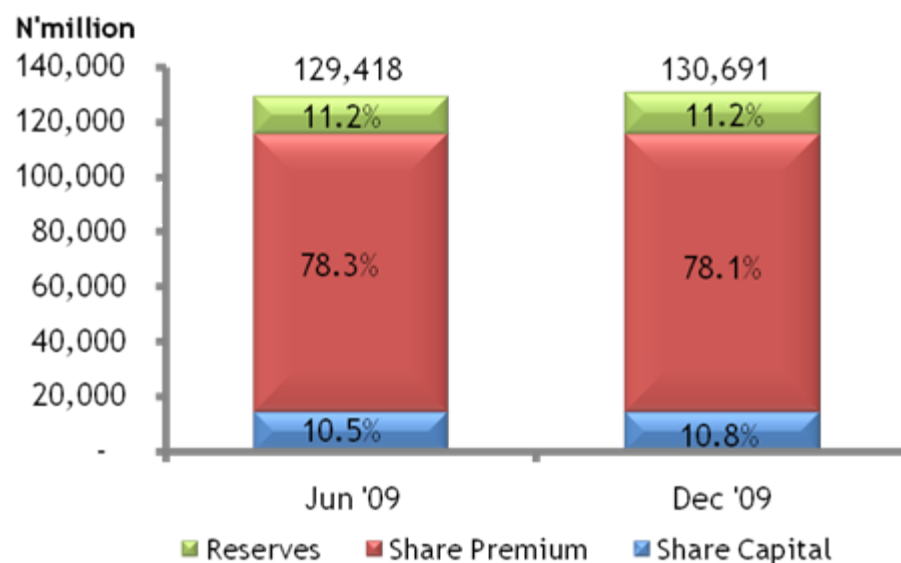
# Capital Adequacy

## Capital Adequacy Ratio

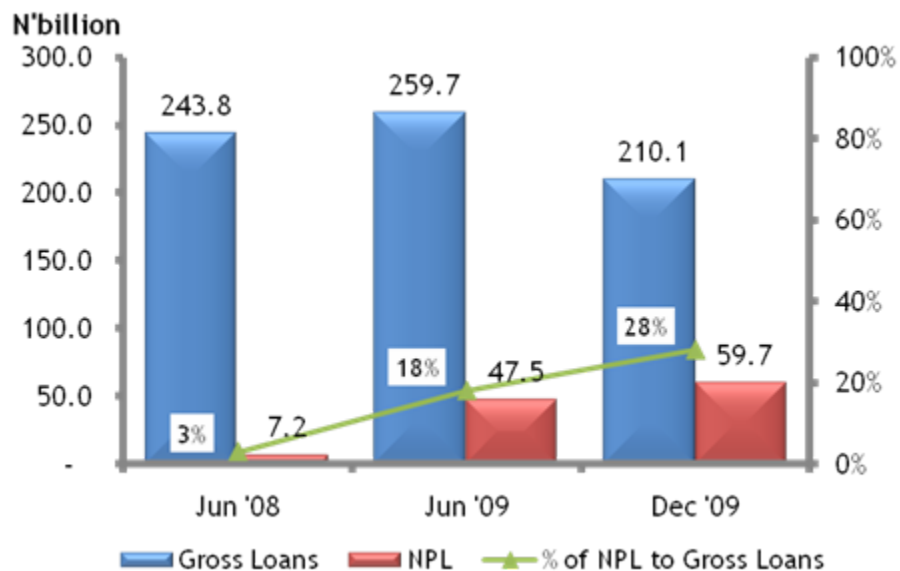


- Fidelity is well capitalised; and has maintained Capital Adequacy Ratio (CAR) above 40% despite the current strict loan provisioning regime which has eroded the equity base and capital adequacy of banks.
- In 2007, Fidelity did a multi-currency equity offering, which raised capital adequacy levels.
- Deploying and re-allocating this excess capital to high yielding business segments will continue to provide good returns to our shareholders.
- At the current CAR level, our capital is sufficient and high enough to support our business risks and growth objectives as well as provide cushion to withstand any unexpected shock from the operating environment.

## Breakdown of Equity



## Gross Loans & Non-Performing Loans



- Overall, gross loans and advances dropped by 23% from N259.7bn to N210bn owing to restricted lending thus forcing the non performing loans ratio to jump to 28% from 18% as at June 30 2009.
- We have resumed lending. Growing our business and sustaining the pressure on recovery of delinquent assets would pull down the NPL ratio to single digit and trend back to the 3% mark we achieved in 2008.
- We have implemented relationship manager rating which establishes who should, and should not create loans in terms of capacity to manage such loans.
- We have implemented Credit Quest software to automate the credit appraisal process for most loans in order to reduce manual intervention.
- A new prudential guideline for loan provisioning has been promulgated by the Central Bank of Nigeria. This will declassify at least 25% of our NPLs.
- We are in the last phase of our project with Deloitte of South Africa to implement a robust Enterprise-wide Risk Management framework for the bank.



## Competitive Strengths

# Competitive Strengths

1.

## Strong Market Position

- ▶ Fidelity has had increasing market shares in the years following recapitalization and has become of substantial systemic importance

2.

## Proven Business Model

- ▶ Fidelity's "Financial supermarket" business model employs an aggressive cross-sell strategy and leverages economy of scale in office functions

3.

## Rapidly Developing Retail Infrastructure and Access to Cheap Deposits

- ▶ Fidelity ranks well in the market based on number of branches, a testament to their commitment to retail banking

4.

## Superior Risk Management Practices

- ▶ Fidelity has robust risk management infrastructure and implementation plan for improving practices in risk management

5.

## Outstanding Financial Performance

- ▶ Fidelity has consistent profitability and solid growth prospects

6.

## Solid Platform for Expansion

- ▶ Fidelity has solid corporate governance, operational, and financial systems in place to expand

## Strong Market Position in Government Securities

- ▶ Fidelity has maintained a safe and stable growth in the Nigerian banking industry
- ▶ Established position in fast growing sectors: power, infrastructure, oil & gas and telecom. No. 2 Bank to MTN since January 2009
- ▶ Very large capacity for commissions and fee based income:
  - ▶ CBN Mandated Primary Dealer and Market Maker in Treasury Bills and Other Money Market Instruments
  - ▶ CBN Mandated Wholesale Foreign Currency Dealer
  - ▶ Debt Management Office (DMO) mandated Primary Dealer and Market Maker in FGN Bonds
  - ▶ Undertakes FGN Bonds and Treasury Bills Purchases/Trading on behalf of other banks and Non-Bank Financial Institutions with significant activity income in a tight credit regime.

## Distribution Points in Key Commercial Centres

- ▶ Fidelity is strong in key business centres and most economically viable regions of the Nigeria with 85% of total branch network planted in this regions.
  - ▶ 36% of the branches in the commercial capital Lagos with more than 15m people and 23.2% of Nigeria GDP and largest Internally Generated Revenue State
  - ▶ 20.7% of the branches in oil rich and commercially strong South East region with 14m people and 8.3% of Nigeria's GDP.
  - ▶ 17.2% of branches in the oil rich South-South region with 17.3m people and 24.2% of GDP.
  - ▶ Large retail account (over 1.5m accounts) with large fee income from account activity.

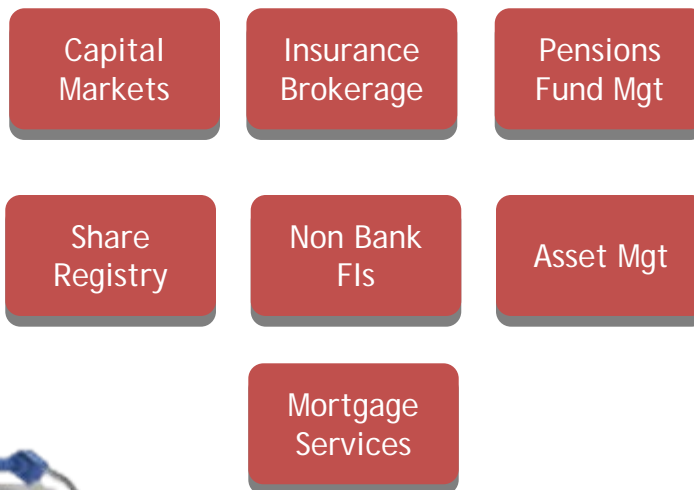
## Established e-Solution Provider for Revenue Collection

- ▶ Our large and growing retail infrastructure avails us cheap deposits through our on-line automated revenue collection system for Federal and State governments:
  - ▶ 6<sup>th</sup> Bank in tax collection for Federal Inland Revenue Service; major collector to Nigerian Customs Services and Nigerian Ports Authority
  - ▶ 6<sup>th</sup> Bank in revenue collection for Lagos State Government (largest IGR state in Nigeria).
  - ▶ Lead Bank for the collection of revenue for Sokoto and Borno State Governments
  - ▶ Co-Lead Bank in revenue collection for Anambra and Bayelsa State Governments
  - ▶ Major revenue collecting banks for other states including, Edo, Oyo, Bauchi and Ogun States.

## Proven Business Model

- ▶ Fidelity Bank operates a financial supermarket model that offers wide range of products and services to customers and leverages on the underpenetrated banking market and the emerging financial services industry.

### Fidelity “Financial Supermarket”



Fidelity’s “financial supermarket” model provides numerous cross-selling and product bundling opportunities and allows for clients’ needs / expectations to be met.

### Shared Services

- ▶ Companies in Fidelity “Financial Supermarket” have strong links for bundling products and shared infrastructure/ services
- ▶ Shared services allow for a low cost processing model Companies

#### Back Office

- ▶ IT
- ▶ Admin/HR
- ▶ Legal/Company secretariat
- ▶ Product Development
- ▶ Data Repositories
- ▶ Credit
- ▶ Transaction processing

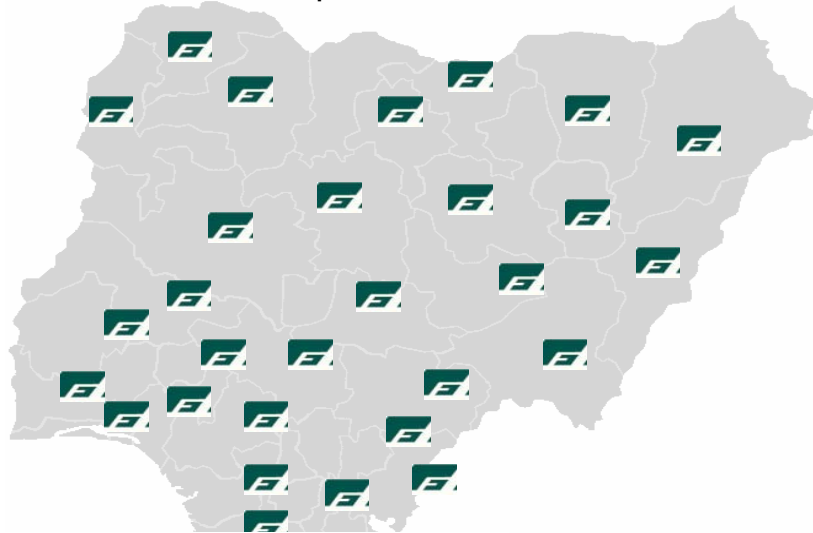
#### Front Office

- ▶ Front Office
- ▶ Customer sharing initiatives
- ▶ Product marketing and bundling initiatives /cross selling

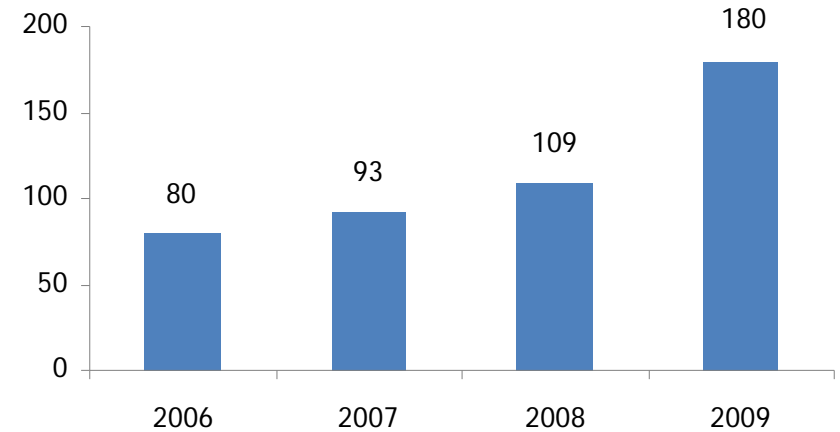
# Rapidly Developing Retail Infrastructure

## Fidelity Branch Footprint

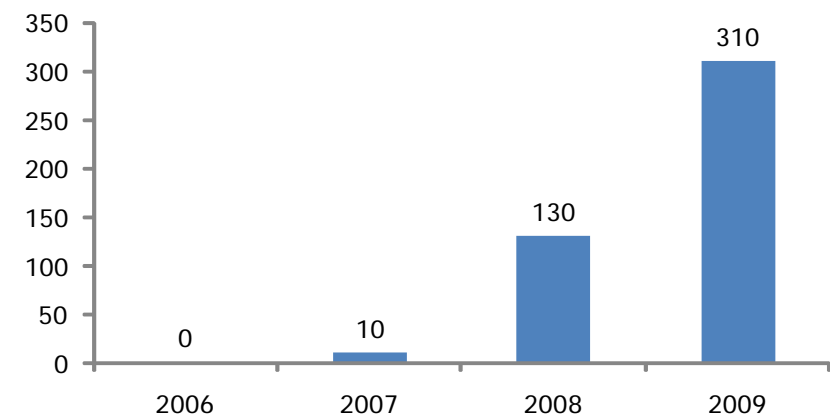
- ▶ Business Offices: 180 operational; fully operates on Finacle. Internet Banking: 24/7 access to accounts
- ▶ Pay Direct: consolidation of customers' accounts across several banks; electronic funds transfers
- ▶ ATMs: 310 ATMs; online connection to over 10,000 ATMs on the ATM Consortium.
- ▶ SMS and Telephone Banking: funds transfers; transaction alerts; mini statements, account balance; e-ticket purchases etc.



## Distribution Network: Branches



## Number of ATMs

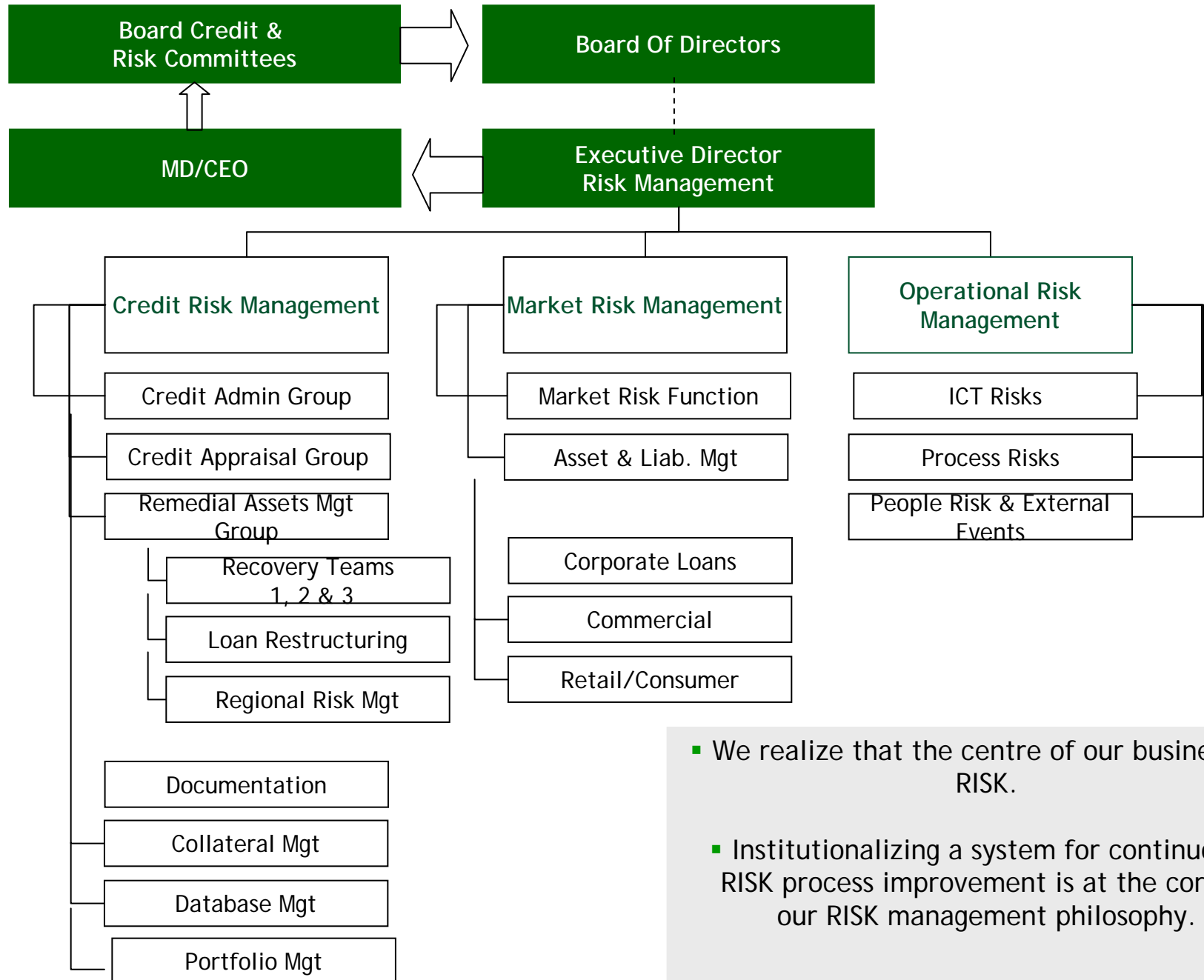


## Risk Management: Key Principles

- ▶ Independent Risk Management function reporting to Board Risk and Credit Committee through the MD/CEO
- ▶ Segregated Risk Management function subdivided into Operational, Credit and Market Risk units
- ▶ Market risk management procedures covering:
  - Setting dealers limit, Stop loss limit, Overnight position limit
- ▶ Operational risk management procedures:
  - Internal control process through constant transaction review by resident auditors for compliance
  - Independent interim and statutory audit by external auditors for compliance to standards and regulation
  - Monthly reporting and quarterly review meetings
- ▶ Credit risk management procedures:
  - Risk acceptance criteria based on positive trade and bank references, risk return analysis, healthy historical financials
  - Sectoral limits and industry exposure as a basis for control
  - Adequate and easily realizable collateral
  - On-line real time credit monitoring processes



# Risk Management Structure



- We realize that the centre of our business is RISK.
- Institutionalizing a system for continuous RISK process improvement is at the core of our RISK management philosophy.

# Fidelity Has A Solid Platform for Quality and Expansion

