



ZENITH BANK PLC

GROUP RESULTS

For 12 Months Ended December 31, 2011

Presentation to Analysts and Investors

people | technology | service

www.zenithbank.com

March 2012



...In Your Best Interest



Disclaimer



This presentation is based on the consolidated financial statements of Zenith Bank Plc, a company incorporated in Nigeria on 30 May 1990, and its subsidiaries (hereinafter collectively referred to as "the Group"). The financial statements are prepared under the historical cost convention as modified by the revaluation of certain investment securities and comply with the Statements of Accounting Standards issued by the Financial Reporting Council.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses. Although these estimates are based on the Directors' best knowledge of current events and actions, actual results ultimately may differ from those estimates.



Speakers



- ❑ **Godwin Emefiele – Managing Director/Chief Executive Officer**
- ❑ **Udom Emmanuel – Executive Director/Chief Financial Officer**
- ❑ **Peter Amangbo – Executive Director – Corporate Banking**
- ❑ **Andy Ojei – Executive Director/ Chief Risk Officer**



Agenda



Operating Environment

Results

Group

By Segment

By Geography

Company Risk Management

Strategy and Outlook

Q & A



Macro-Economic Environment



- **GDP Growth:** Nigeria's economy recorded a growth of 8.68% in 2011 compared to 8.29% in 2010. This performance is largely driven by the activities in the non-oil sector as well as recovery in crude oil output. **Zenith Bank Plc leveraged on the robust growth witnessed in both the non-oil and oil sectors of the economy to boost its top and bottom lines in FY11.** Given the sustained growth from the non-oil sector, the 7.2% estimated figure for 2012 by the National Bureau of Statistics (NBS) is on track.
- **Foreign Reserves:** Nigeria's external reserves stood at \$32.64bn in Q4 2011 compared to \$32.34bn recorded in December 2010. High demand for forex (due to the import-dependent nature of the economy) in the market however reduced the volume of the country's reserves in the year under review. **Our Bank supported some key export sector projects and initiatives by providing funds to boost the level of activities in this area.** We expect Nigeria's foreign reserves to improve in 2012 given a stable oil outlook on the back of a strengthened demand from both the US and China and improved industrial production in the globe at large.
- **Exchange Rate:** The FX market was volatile due to increasing demand pressure for dollar at the CBN's WDAS. The exchange rate rose from N151.62/US\$1 in January to N158.21/US\$1 in December 2011. Concerns about the likely impact of a double dip recession on oil prices and already declining foreign reserves impacted negatively on the exchange rate. **Zenith Bank is a major player in the CBN WDAS segment of the market and we generally took advantage of the upsides in the forex market in FY2011. The Bank revenue from foreign exchange trading grew tremendously by 66.62%, indicating its sustained level of efficiency in this area.** We expect CBN's resolve to stabilize the exchange rate to positively impact on the value of the naira. **We would continue to increase our market share in the forex market leveraging on our strength to increase our foreign exchange trading income in FY2012.**



Macro-Economic Environment



- ❑ **Headline Inflation:** Inflation rate in 2011 fluctuated within the lower double-digits range in the early part of the year but moderated thereafter. It dropped to 10.3% in Q4 2011 from 12.1% in January 2011. This trend may not be unconnected with the hikes seen in MPR as it moved from 6.25% at the beginning of 2011 to 12.0% in the last MPC meeting for the year (MPR changed by CBN 6 times in 2011). **Zenith Bank's leveraged on the upward movements in interest rates as reflected in the its earnings in FY2011.** Inflation outlook in the short term would be impacted by the anticipated fiscal injections in relation to the proposed 2012 budget, the recent partial deregulation of pump price of PMS, and new tariff regimes on certain food imports.
- ❑ **Oil Prices:** Relative stability witnessed in oil production, improved demand and sustained average crude oil price (\$108.46 per barrel) in 2011 contributed to the level of growth seen in Nigeria's Oil sector. **The Bank's level of activities improved in the oil and gas sector as it grew its level of credit especially in the downstream sub sector. This also contributed immensely to the Group's income and bottom line.** Risks to global oil outlook are however hinged largely on rising political tensions and slower than expected world growth especially in the developed economies as austerity plans are implemented. Oil prices are currently hovering around \$100.21 - \$106.17 per barrel.



Our Investment Proposition



Strong earnings capacity, Solid capital adequacy, High liquidity, Declining NPLs, Excellent technology and Well-motivated staff

- ❑ **A dominant player in Corporate Banking.** The Bank controls a significant share of the corporate clients in strategic sectors of the Nigerian economy. Through the use of its strong balance sheet and liquidity position as well as efficient trade finance products and services, the Bank is able to continuously support its business in this segment.
- ❑ **Superior Credit Rating.** Standard and Poor's reaffirmed Zenith Bank's rating at B+/Stable/B, being the highest rating awarded to any Nigerian bank and is in line with the country's risk rating.
- ❑ **Strong Focus on Risk Management.** Despite the challenging business environment, the Bank is able to maintain an NPL ratio of 3.99% and coverage ratio of over 100%. The management of the Bank will strive to bring NPL ratios to pre-2008 levels.
- ❑ **Good Dividend Payout.** Zenith Bank is recognized for consistently returning good dividends to its investors. The Bank's Board of Directors has proposed a dividend of 95 kobo per share (payout of 67.95%) to its shareholders for FY11.
- ❑ **Return On Equity.** Since the banking sector began recovery in 2009, Zenith Bank has steadily grown its ROE. We project an ROE of 15% for FY12.



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Financial Highlights



Key Theme

Efficiency and Risk Management for Superior Performance
Surpassing Performance Commitment
Building A Shock-Proof Balance Sheet

P&L

Gross Earnings: N244.1bn
Net Interest Income: N125.6bn
Net Interest Margin: 7.47%
PBT: N60.7bn
PAT: N44.2bn

+26.81% YoY
+37.27% YoY
+16.17% YoY
+21.40% YoY
+18.40% YoY

Balance Sheet

Customer Deposit: N1.65tn
Total Assets: N2.31tn
Shareholders' Funds: N380bn
Net Loans & Advances: N832.8bn

+25.0% (YTD)
+21.58% (YTD)
+ 4.40% (YTD)
+16.80% (YTD)

Key Ratios

Loan to Deposit Ratio: 52.60%
Cost Income Ratio: 62.76%
Liquidity: 61.0% (Group), 59.6% (Bank)
Capital Adequacy: 27.2% (Group), 28.2% (Bank)

NPL: 3.99%
ROE: 11.6%
EPS: 140k
PE Ratio: 9.65x

Key Events

- Standard & Poor's affirmed Zenith Bank's ratings at B+/Stable/B
- A Proposed Dividend of 95 Kobo Per Share



Profit & Loss Statement



	Group 12 mths to Dec-11 (N'm) Audited	Group 12 mths to Dec-10 (N'm) Audited	YOY Change
Gross Income	244,070	192,488	26.80%
Interest Income	160,519	127,265	26.13%
Interest Expense	-34,906	-35,719	-2.28%
Net Interest Income	125,613	91,546	37.21%
Fees and Commission Income	48,965	46,180	6.03%
Foreign Exchange Trading Income	18,033	10,823	66.62%
Net Underwriting Profit	3,564	2,524	41.20%
Trusteeship Income	54	45	20.00%
Income from Investments	470	304	54.61%
Other Income	6,564	726	804.13%
Operating Income	203,263	152,148	33.60%
Operating Expenses	-118,262	-97,769	20.96%
Diminution in Asset Values	-24,303	-4,353	458.30%
Profit Before Tax	60,698	50,026	21.33%
Taxation	-16,509	-12,612	30.90%
Profit After Tax	44,189	37,414	18.11%

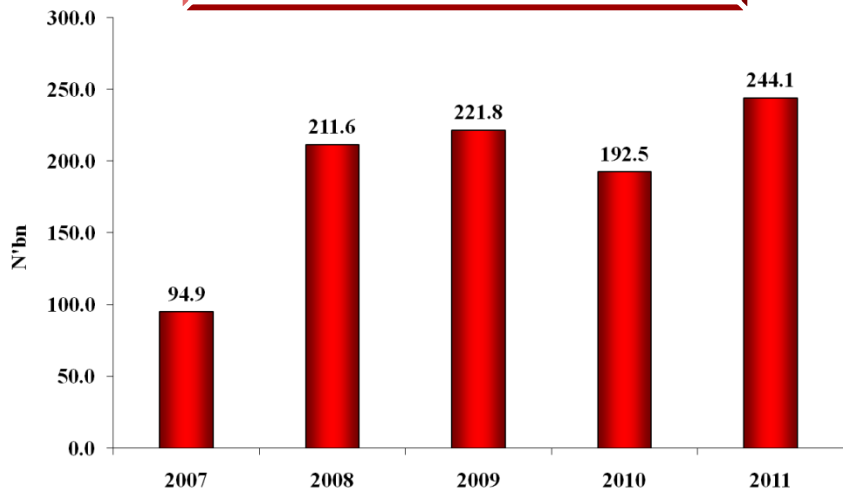
Sustained strong top line....bottom line growth weakened by impairment..



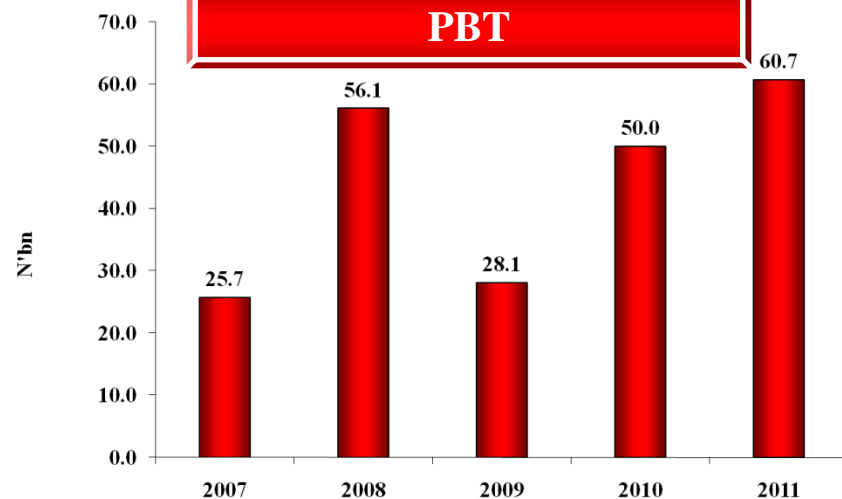
Sustained earnings and profitability growth....



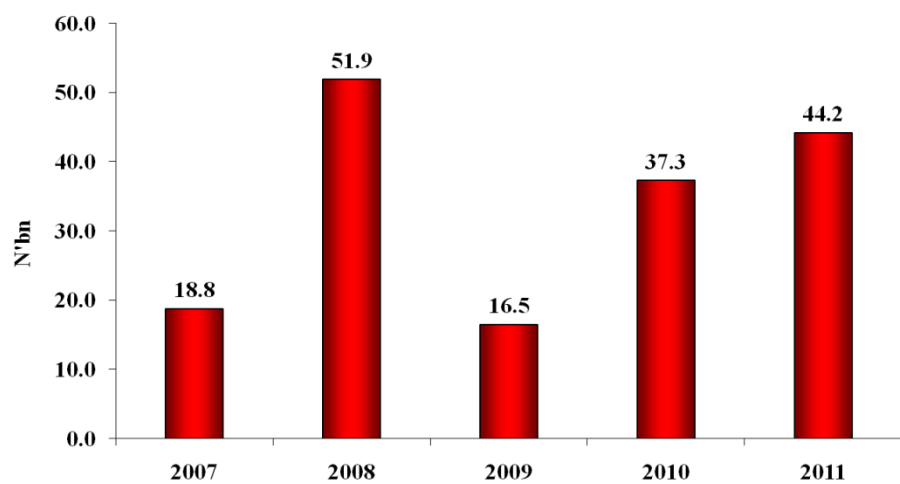
Gross Revenue



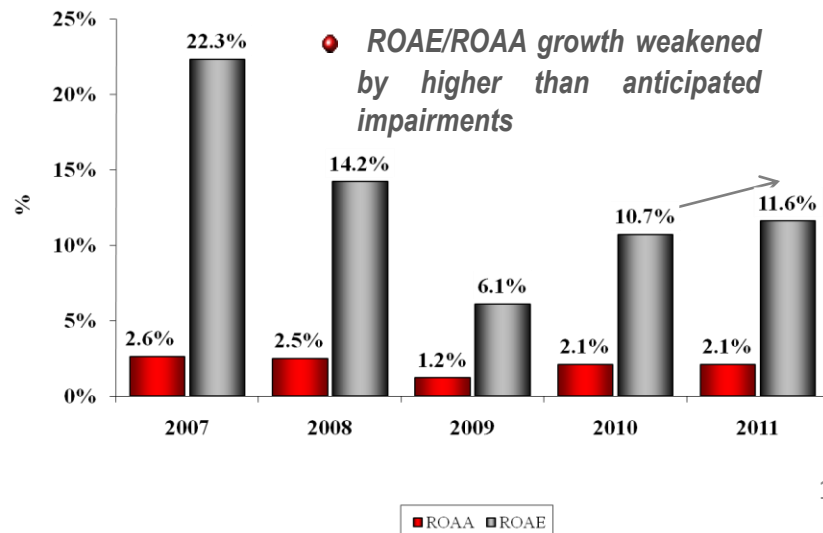
PBT



PAT



ROE/ROA





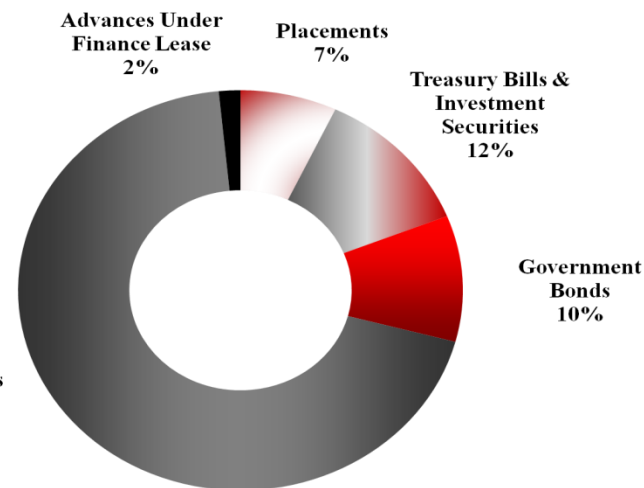
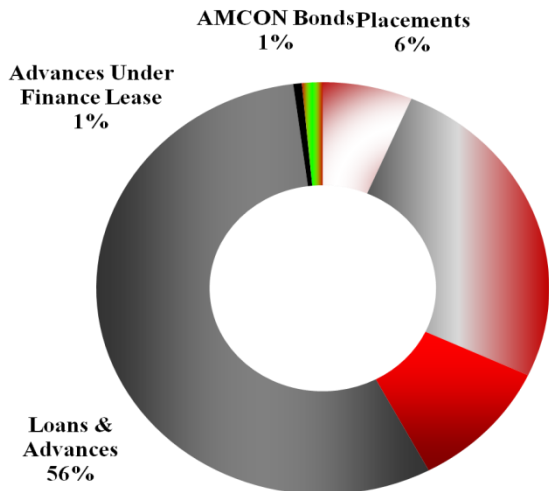
Revenue Base – well diversified....



Interest Income

2011

2010



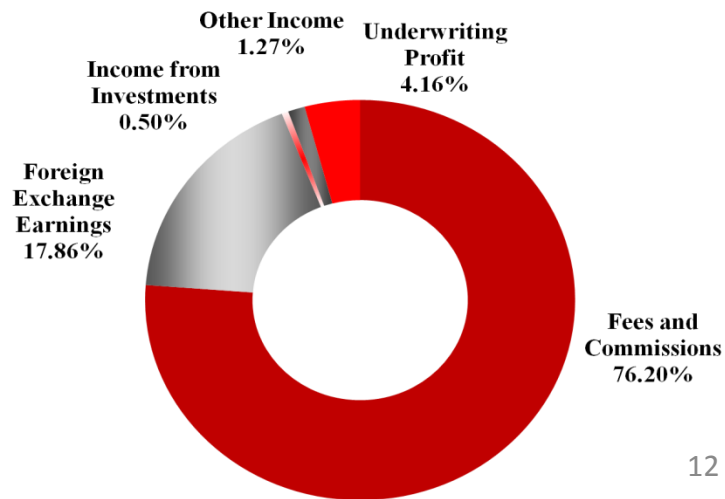
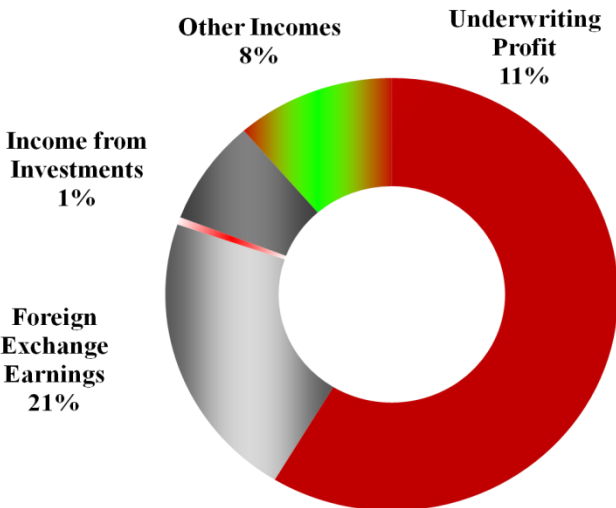
Still leveraging on strong deposit base to continue dominance of the money market space to drive up income and profitability

Non-Interest Income

2011

2010

Still sustaining market share of the FX/WDAS market in the industry to drive FX income & earnings

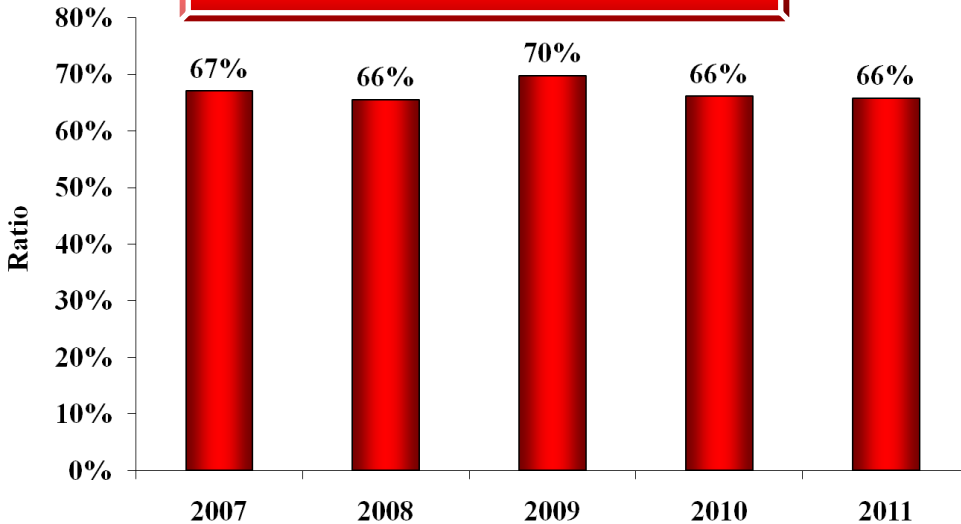




Revenue Composition

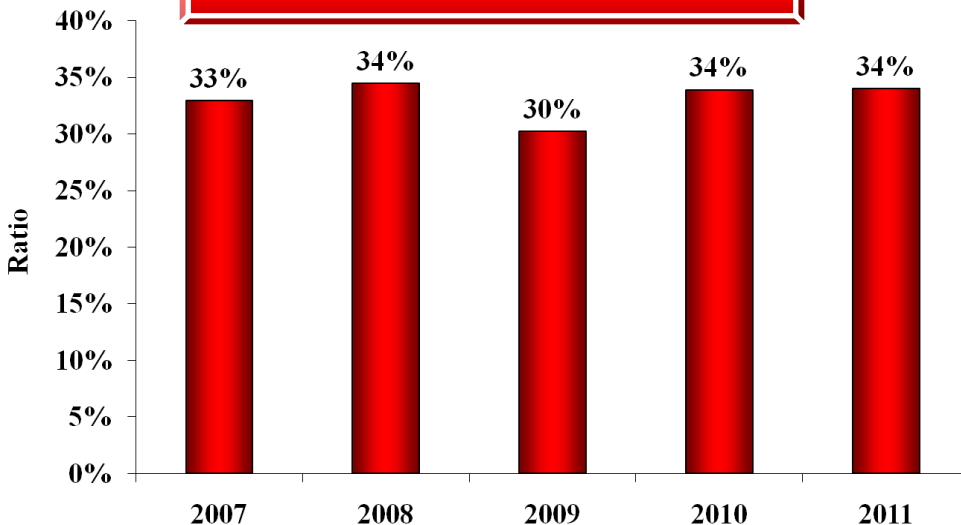


Interest Income/ Income



- 26.13% YoY growth in Interest Income driven primarily by improved credit & money market rates on the back of MPR hikes.

Non-Interest Income / Income



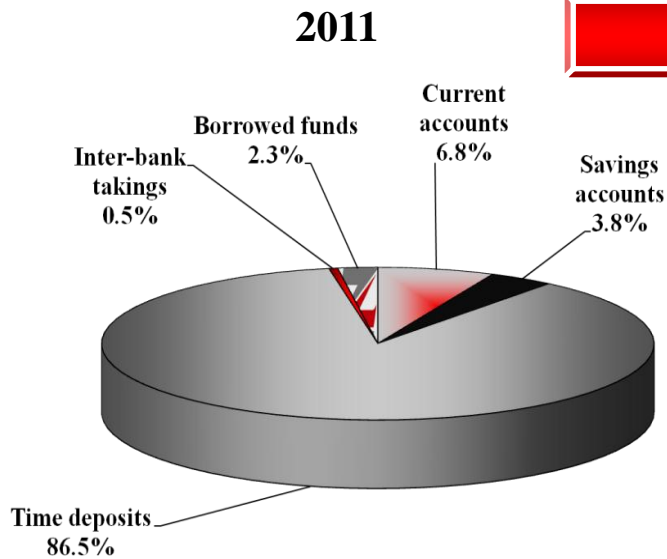
- 28.1% YoY growth in non-interest income due to improved Fx trading income amongst others
- Revenue composition remained stable at 66:34 (Interest/Non-Interest)



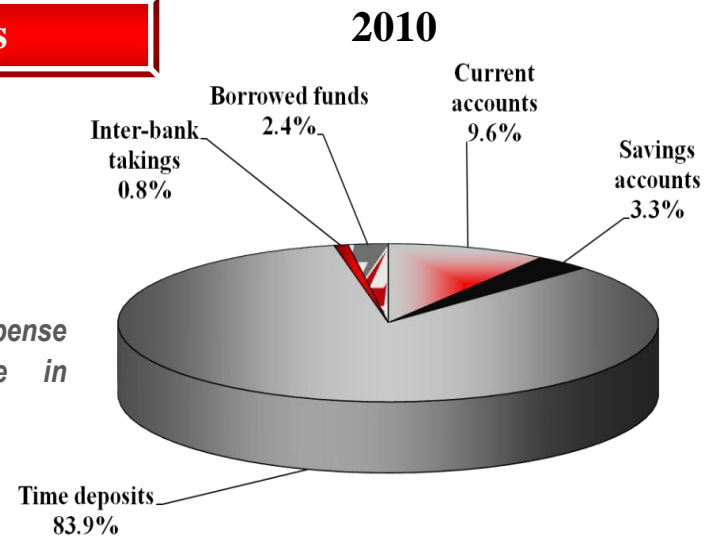
Continuous efforts at Cost reduction yielding results...



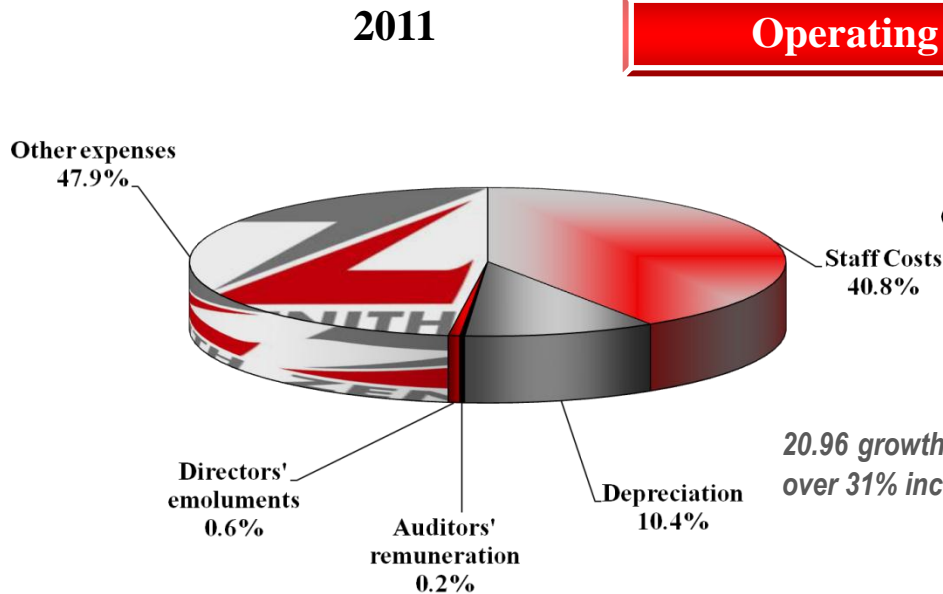
Interest Expenses



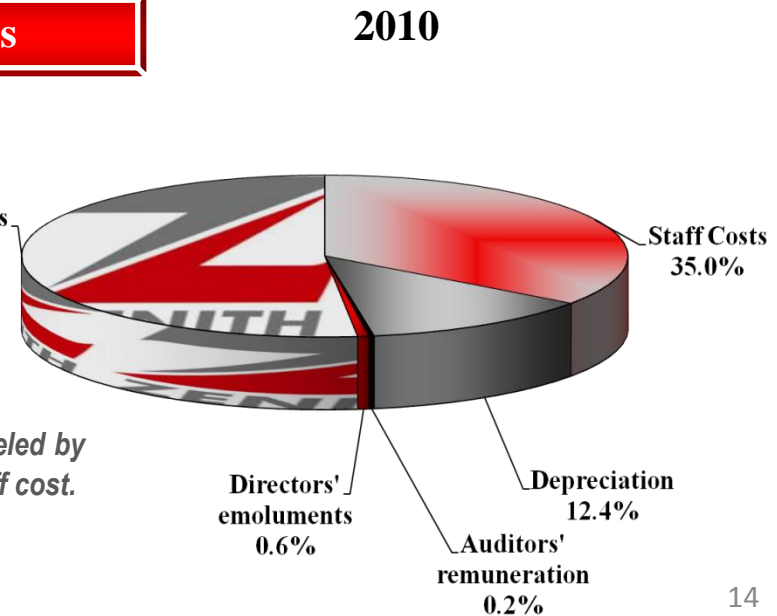
2.28% drop in interest expense despite 25.5% increase in customer deposit.



Operating Expenses



20.96 growth in OPEX fueled by over 31% increase in Staff cost.

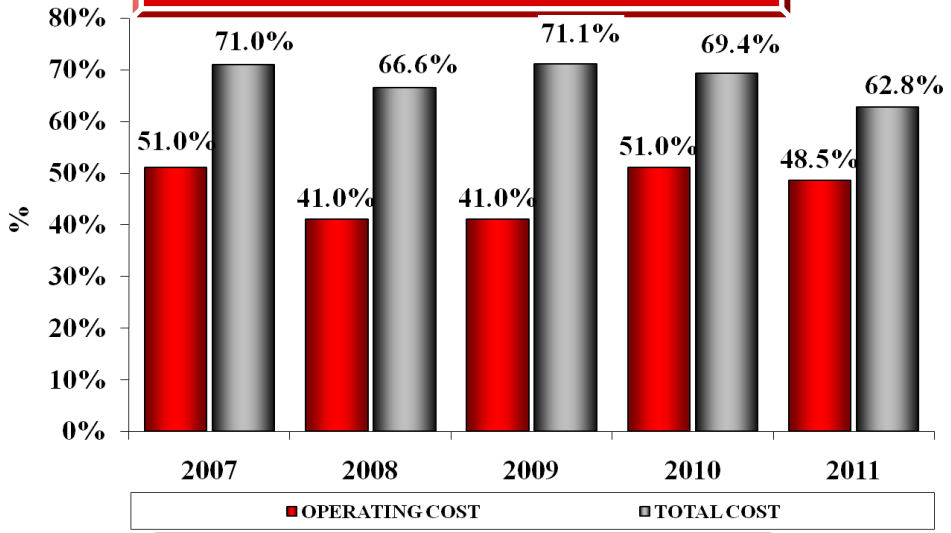




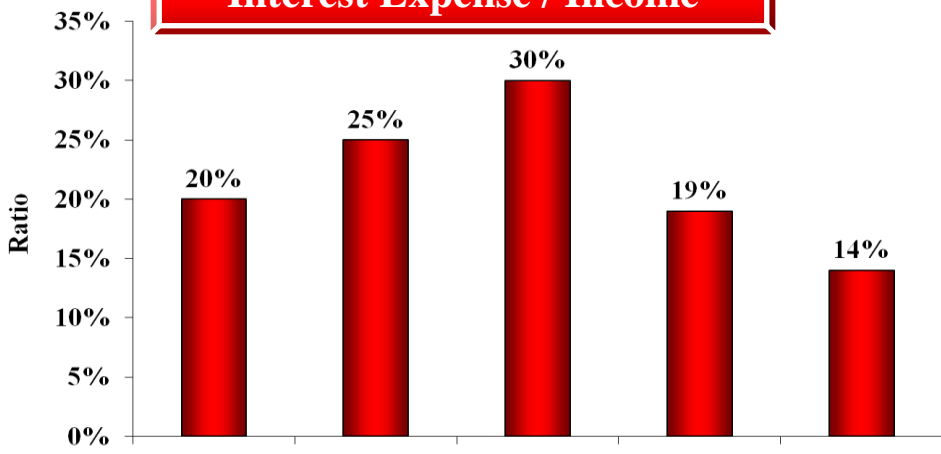
Cost Analysis



Cost Income Ratio



Interest Expense / Income



- Various cost curtailing strategies, policies and procedures initiated by the Group have continued to yield the desired results with improvements in both our total cost to income and operating cost to income ratios in 2011. The Group achieved total & operating costs to income ratios of 62.76% and 48.45% respectively in FY 2011 against 69.35% and 50.97% recorded in FY 2010.
- Interest Expense to Income fell to 14% in FY 2011 compared to FY 2010's 19%. "We would continue to exploit the advantages of our low cost deposit base to drive down our total cost."
- Low cost Demand Deposits continued to yield the desired improvement in the Group's Net Interest Margin

.....exploiting the advantages of low cost deposit base to drive down cost



Balance Sheet - Assets



	Group Dec-11 (N'm)	Group Dec-10 (N'm)
Cash and balances with central banks	223,688	141,724
Treasury bills	516,142	298,869
Due from other banks	272,622	399,503
Loans and advances	832,828	713,285
On-lending facilities	43,199	22,536
Advances under finance lease	7,120	13,188
Insurance receivables	721	711
Investment securities	309,459	210,345
Deferred tax assets	1,304	1,162
Other assets	25,295	18,936
Investment property	7,403	7,623
Fixed assets	68,838	67,145
Total Assets	2,309,427	1,895,027

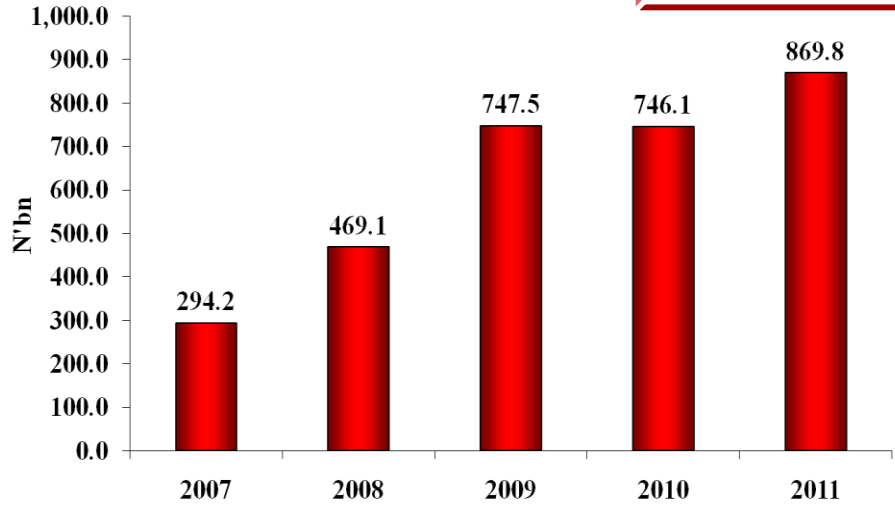
Sustaining a shock-proof balance sheet assets base.....



Loan and Deposit Growth

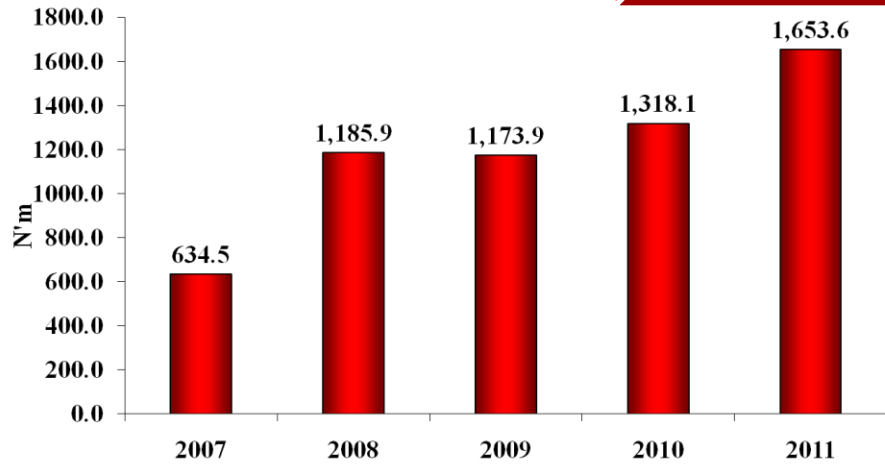


Loan Growth



- 16.6% loan growth still in line with Management's commitment for the year notwithstanding sale of some legacy loans to AMCON

Deposit Growth



- Successfully leveraging on extensive and strategically located branches to drive deposit mobilization.
- Over 25% YoY growth in Deposits.

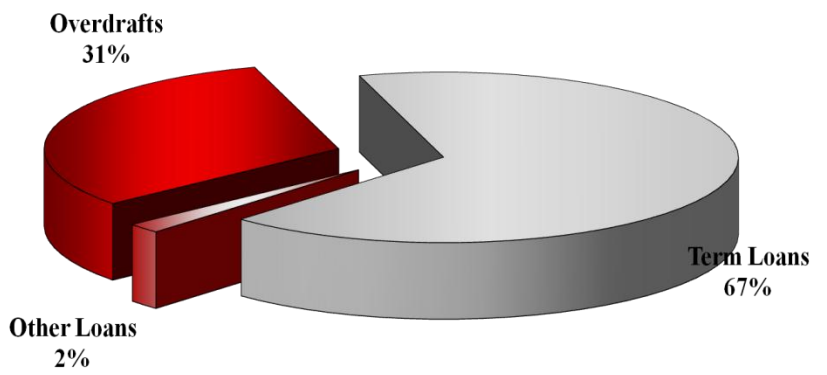


Low cost and appropriately mixed deposit base..driving up income and profitability

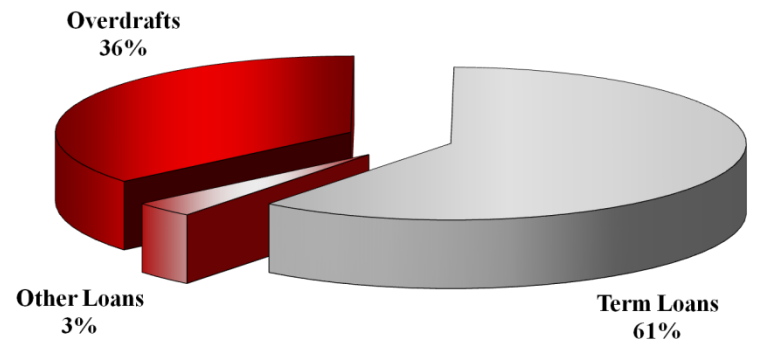


Loans and Advances

Dec'11

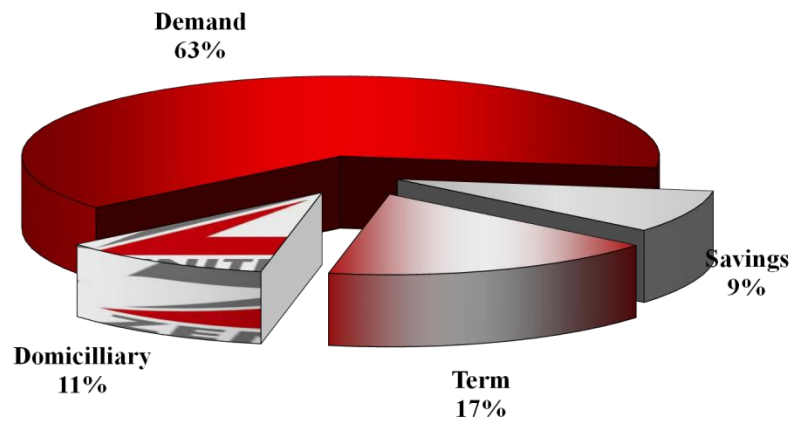


Dec'10

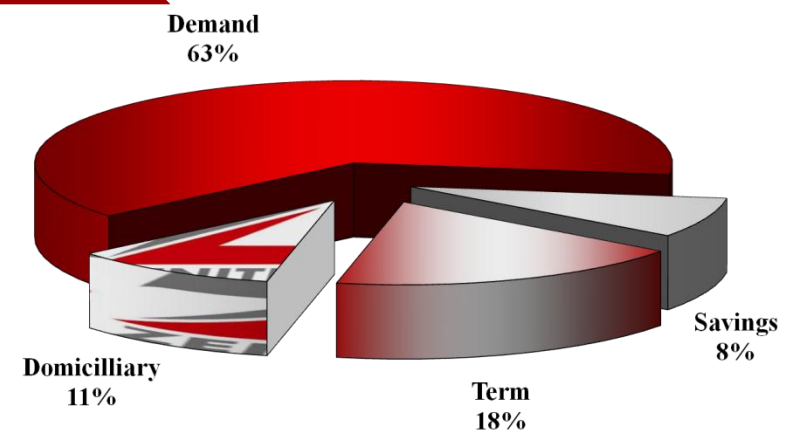


Deposits

Dec'11



Dec'10



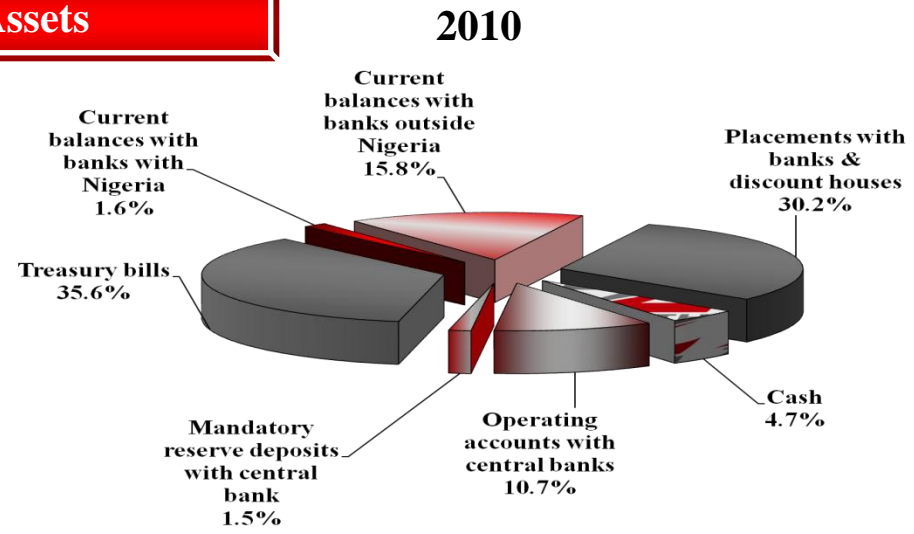
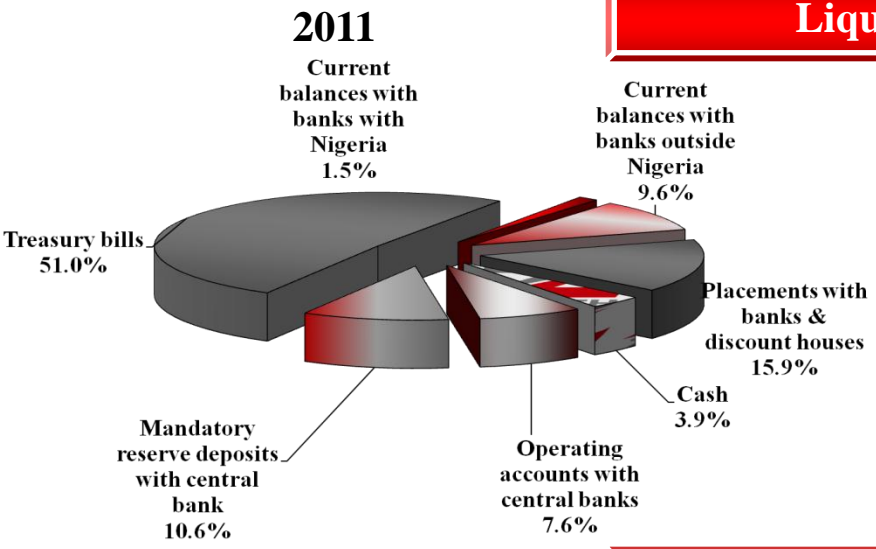
• Still well focused on low cost deposits....driving down funding cost



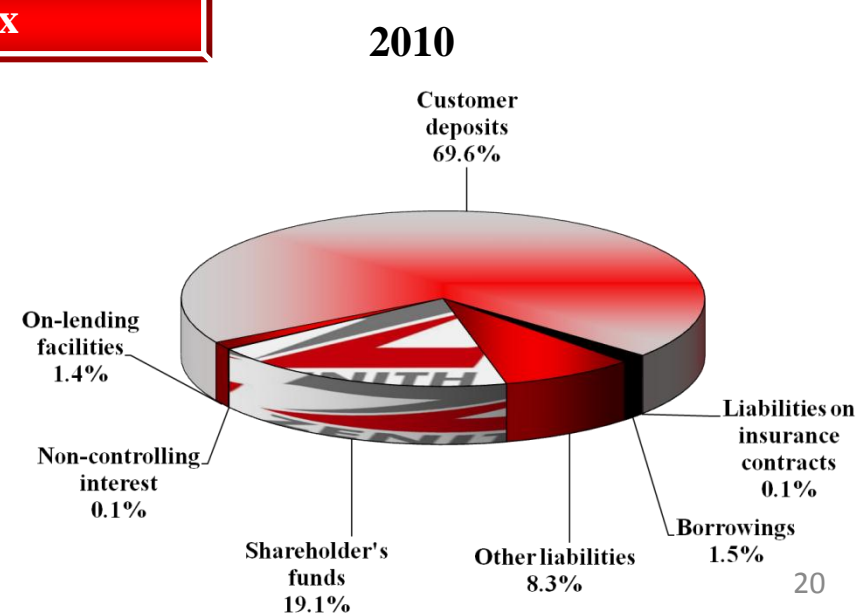
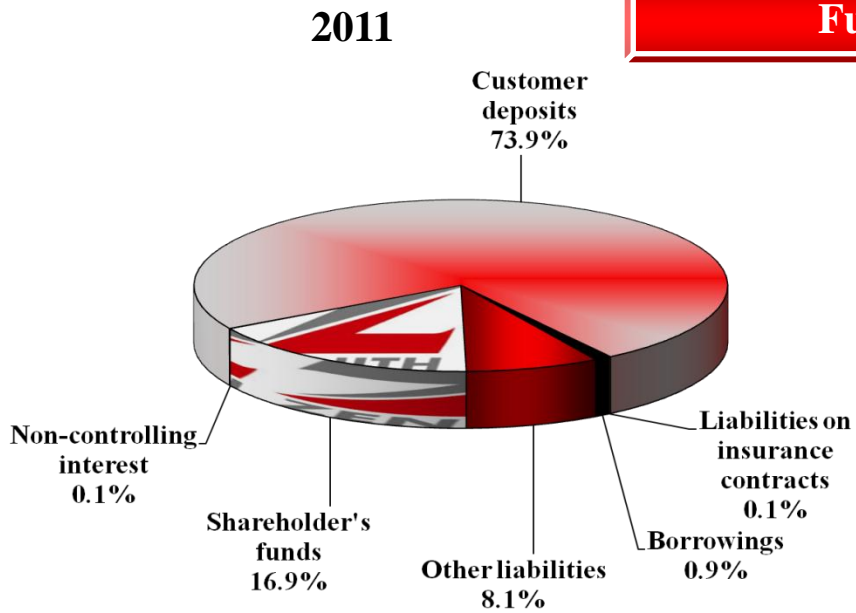
Maintaining good safety - strong liquidity and right funding mix



Liquid Assets



Funding Mix





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P&L – By Segment



**12 Months Ended Dec 2011 (N'm)
(Audited)**

	Corporate & Retail Banking	Investment Mgmt & Stockbroking	General Health & Life Insurance	Others	Eliminations	Consolidated
Total Revenue	232,187	1,210	10,325	3,909	-3,561	244,070
Operating Expenses	177,380	390	8,739	424	-3,561	-183,372
Profit Before Tax	54,807	820	1,586	3,485	-	60,698
Tax	-14,850	-136	-520	-1,003	-	-16,509
Profit After Tax	39,957	684	1,066	2,482	-	44,189

**12 Months Ended Dec 2010 (N'm)
(Audited)**

	Corporate & Retail Banking	Investment Mgmt & Stockbroking	General Health & Life Insurance	Others	Eliminations	Consolidated
Total Revenue	182,033	1,686	7,642	3,094	-1,967	192,488
Operating Expenses	137,564	430	6,292	1,003	-1,967	142,462
Profit Before Tax	44,469	2,116	1,350	2,091	-	50,026
Tax	-10,117	-571	-962	-962	-	-12,612
Profit After Tax	34,352	1,545	388	1,129	-	37,414

Improved top line earnings YoY on core business segments



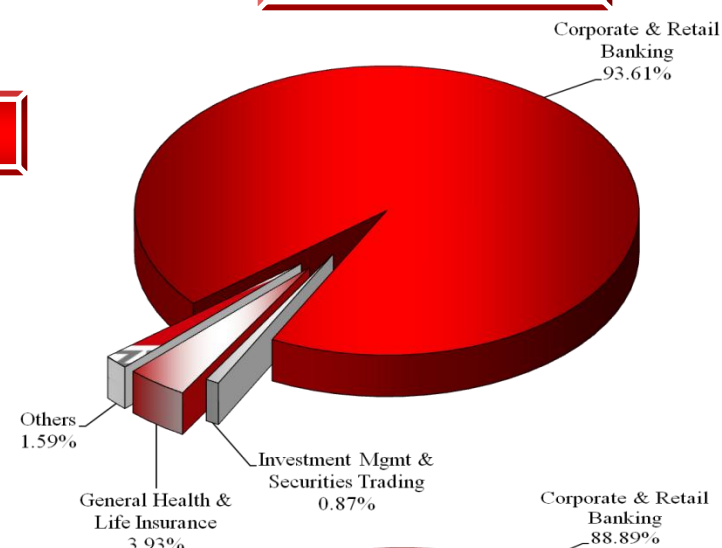
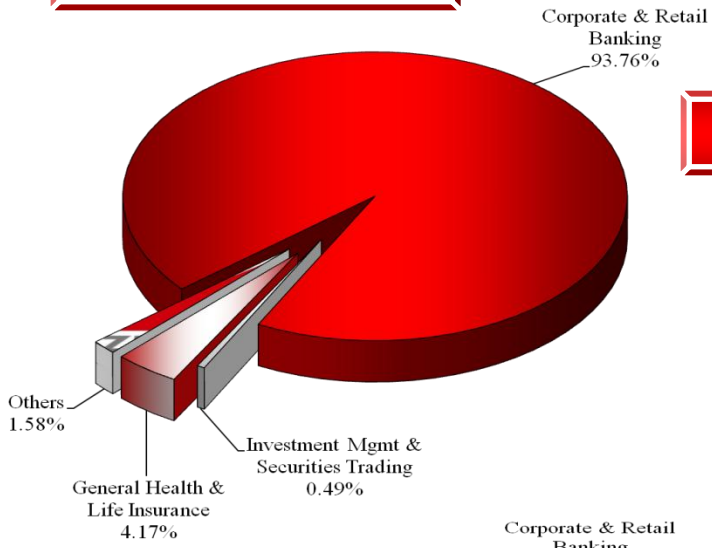
P&L – By Segment



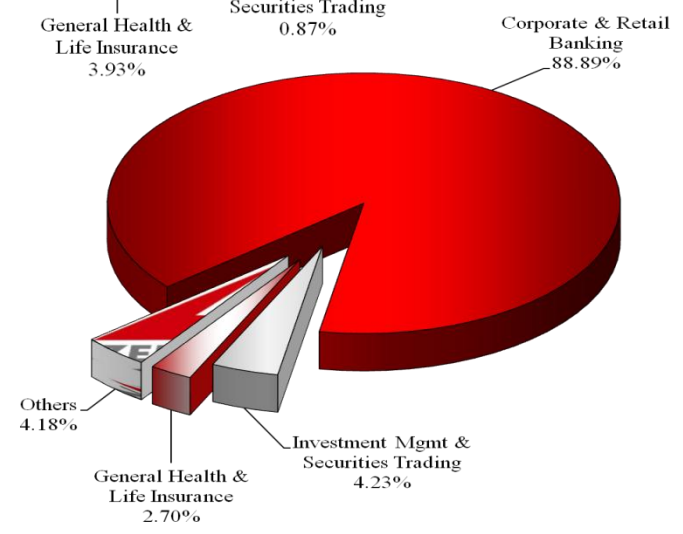
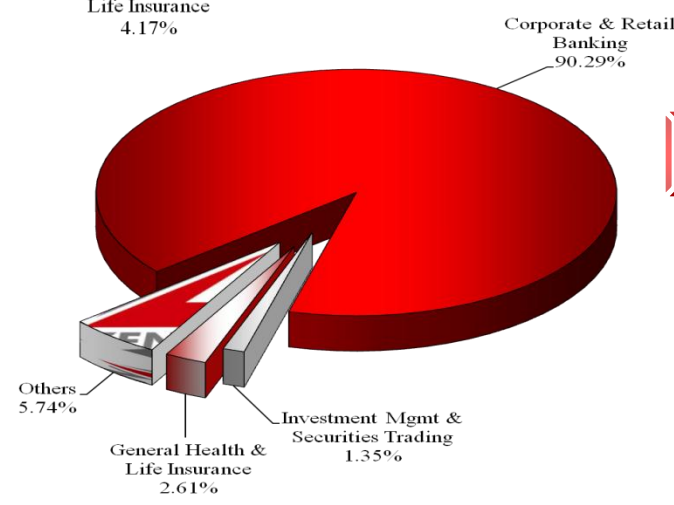
2011

2010

Gross Revenue



PBT



The synergy between our Corporate and Retail Banking business continues to yield commanding performance...



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P&L – By Geography



12 Months Ended Dec 2011 (N'm) (Audited)

	Nigeria	Rest of Africa	Europe	Eliminations	Consolidated
Total Revenue	230,974	12,731	3,926	-3,561	244,070
Operating Expenses	174,025	9,806	3,102	-3,561	183,372
Profit Before Tax	56,949	2,925	824	-	60,698
Tax	-15,659	-626	-224	-	-16,509
Profit After Tax	41,290	2,299	600	-	44,189

12 Months Ended Dec 2010 (N'm) (Audited)

	Nigeria	Rest of Africa	Europe	Eliminations	Consolidated
Total Revenue	181,787	10,074	2,594	-1,967	192,488
Operating Expenses	133,321	9,386	1,722	-1,967	142,462
Profit Before Tax	48,466	688	872	-	50,026
Tax	-12,117	-240	-255	-	-12,612
Profit After Tax	36,349	448	617	-	37,414

Nigeria continues to remain the dominant driver of income.....



P&L – By Geography

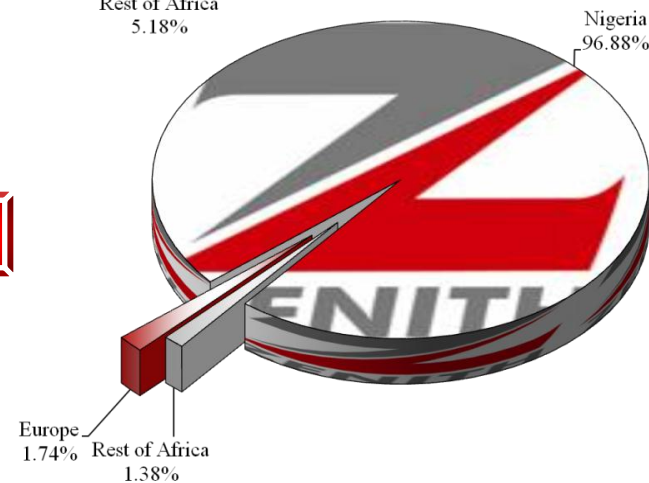
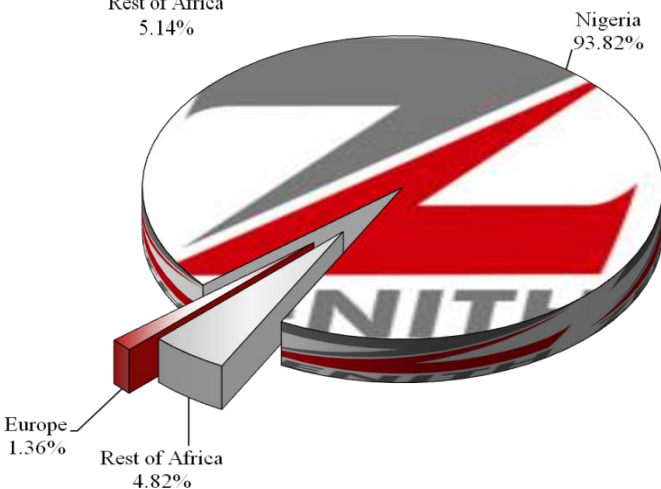
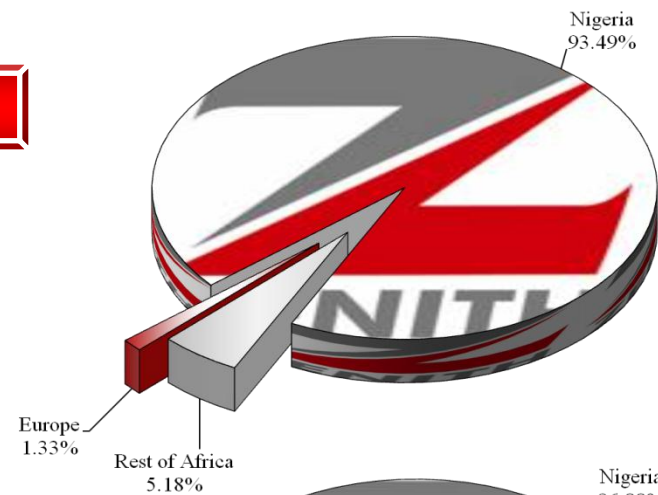


2011

2010

Gross Revenue

PBT



Contribution margins from Nigeria account for a significant portion of the Group's revenue base



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Our Risk Management Strategy



“Effective management of risks and efficient utilization of capital to derive an optimal risk and return ratio are fundamental in the Group’s business operations”

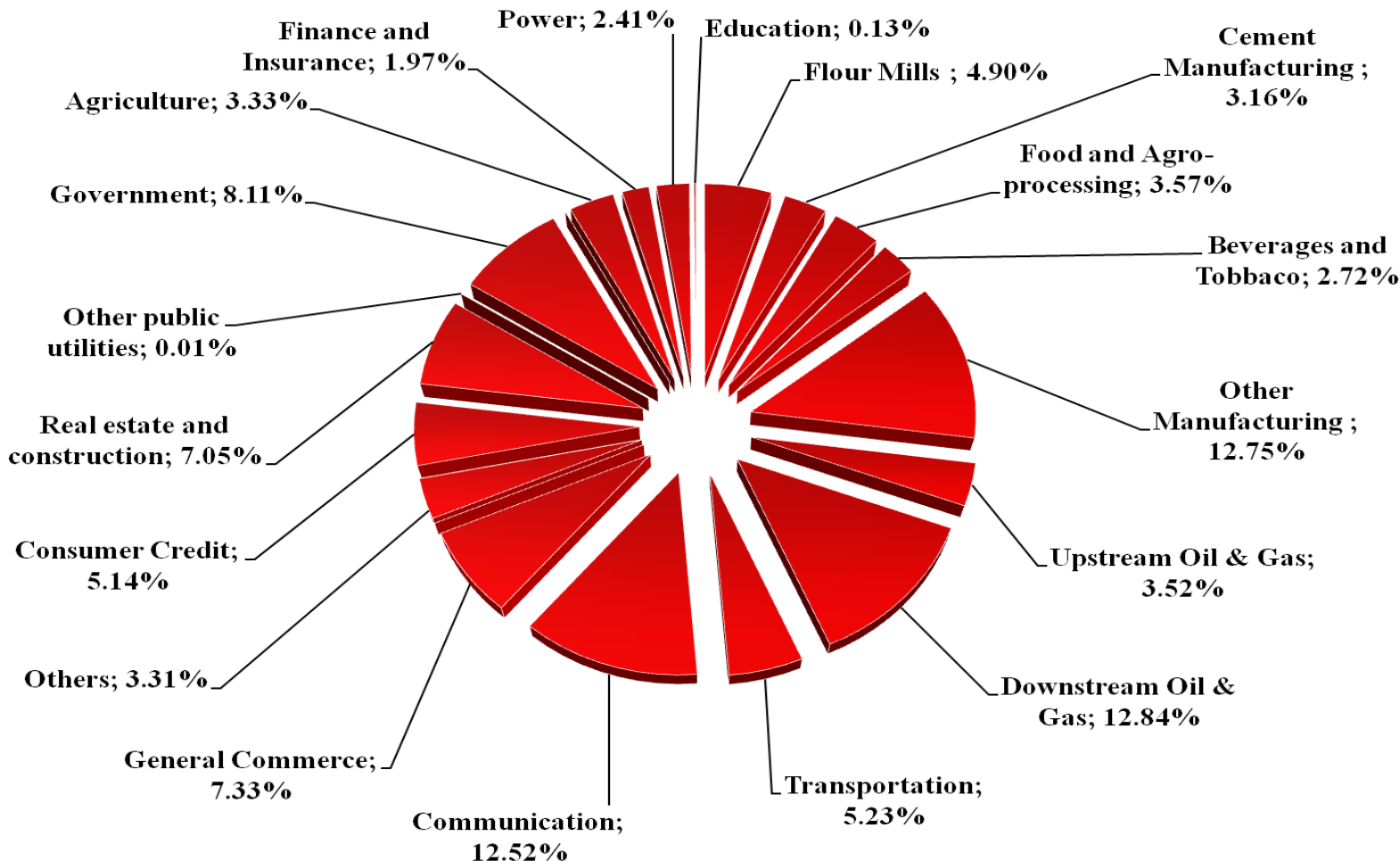
- The Group considers sound risk management to be the foundation of long lasting financial institution.
- It continues to adopt a holistic and integrated approach to risk management hence, brings all risks together under one or a limited number of oversight functions.
- Risk management is a shared responsibility. It builds a shared perspective on risk that is grounded in consensus.
- A clear segregation of duties between market facing business units and risk management functions.
- Risk management is governed by well defined policies which are clearly communicated across the Group.
- Risk related issues are taken into consideration in all our business decisions. The Group continues to strive to maintain a conservative balance between risk and revenue consideration.



Focused risk management...via portfolio diversification



Loans by Sector – Dec'11



Sustaining loan policy of no concentration risk



NPL Analysis

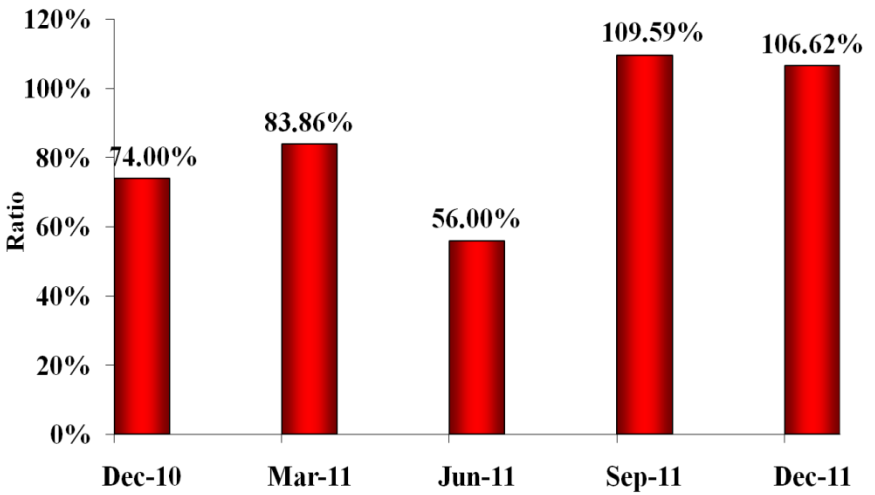


Loans/Provisions

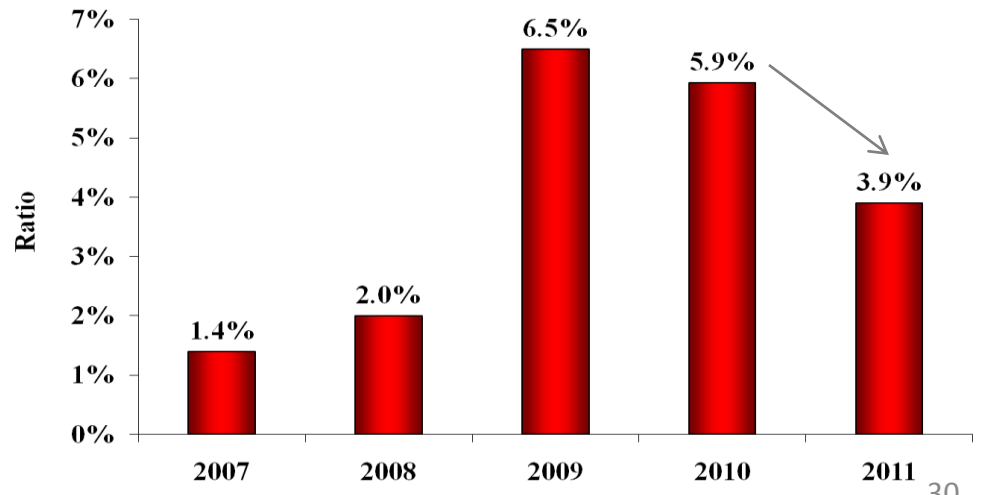
(N'm)	Group Dec-11	Group Dec-10
Gross Loans and Advances	869,837	746,051
Non-Performing Loans	34,712	44,271
Cumulative Loan Loss Reserves	37,009	32,766
NPL Ratio	3.99%	5.93%
NPL coverage ratio	106.62%	74.0%

- The Group's NPL ratio at 3.99% (an improvement over the 5.93% in 2010) is a positive step towards attaining pre-2008 NPL levels
- Coverage ratio improved to over 100%

NPL Coverage Ratio



NPL Ratios

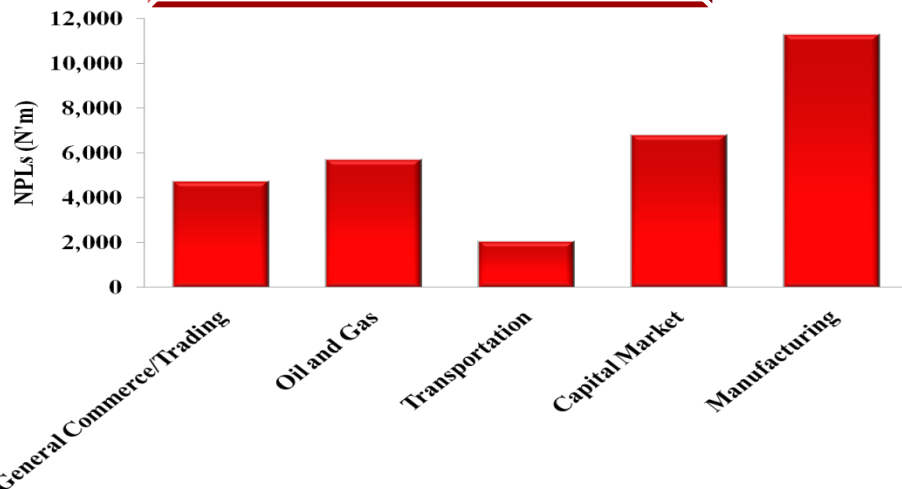




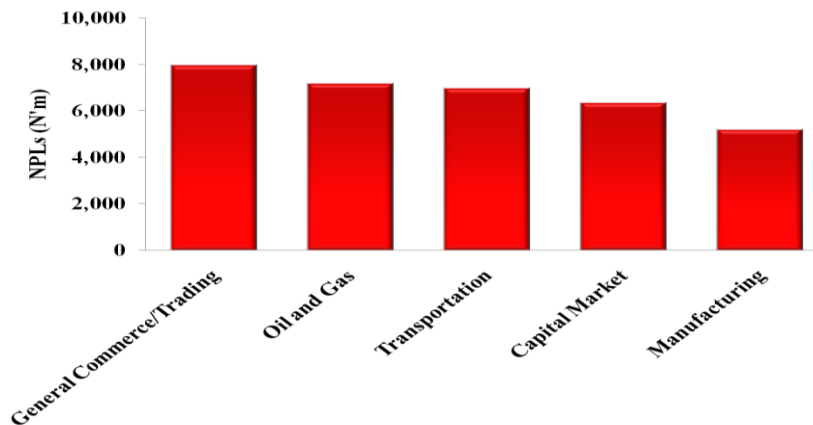
NPL Analysis



2011 NPLs by Sector



2010 NPLs by Sector



NPLs by Sector/Total Loans

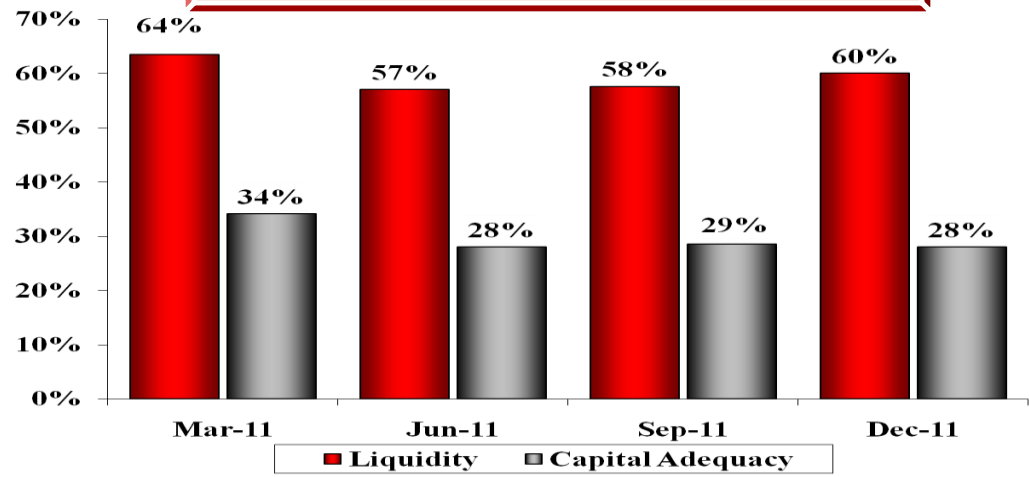
	<u>2011</u>	<u>2010</u>
General commerce NPLs/ Total Loans	0.51%	1.07%
Oil and gas NPLs/ Total Loans	0.62%	0.96%
Transportation NPLs/ Total Loans	0.22%	0.94%
Capital market NPLs/ Total Loans	0.74%	0.85%
Manufacturing NPLs/ Total Loans	0.87%	0.69%
Finance and insurance NPLs/ Total Loans	0.12%	0.38%
Real estate and construction NPLs/ Total Loans	0.09%	0.22%
Communication NPLs/ Total Loans	0.13%	0.20%
Consumer credit NPLs/ Total Loans	0.07%	0.11%
Agriculture NPLs/ Total Loans	0.12%	0.10%
Other NPLs/Total Loans	<u>0.50%</u>	<u>0.41%</u>
Total NPLs/Total Loans	3.99%	5.93%



Strong Capitalization and Liquidity

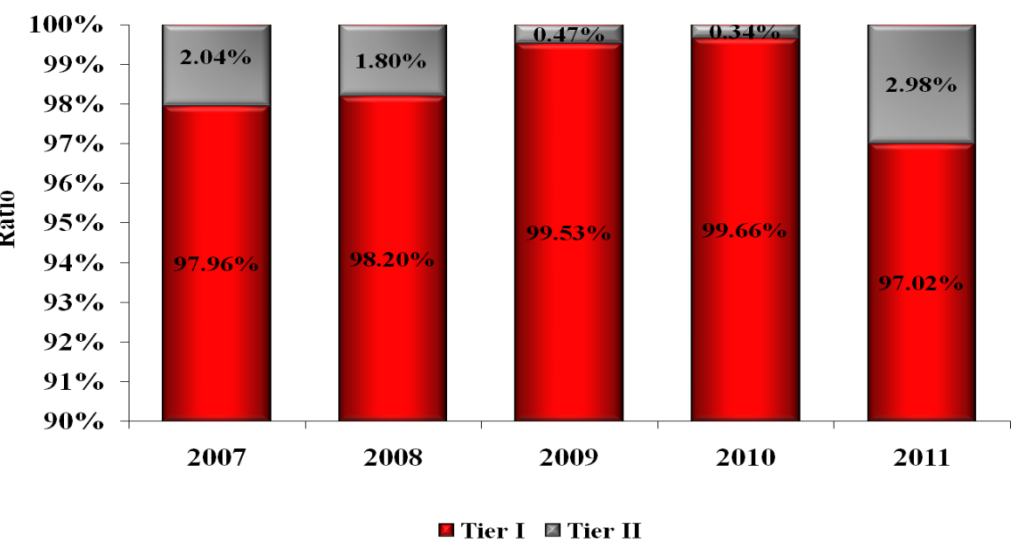


Liquidity and Capital Adequacy



Capital and liquidity ratios for the Bank – well above industry requirements.

Capital Mix



Capital base – predominantly made up of Tier 1 capital.

The increase in Tier II capital was fueled by the general provisioning.



Agenda



Operating Environment

Results

Group

By Segment

By Geography

Company Risk Management

Strategy and Outlook

Q & A



Strategies for driving our vision



1

Compete aggressively for market share, but focus on high quality assets and top-end relationships

- The Bank focuses on cost effective deposits from the retail end of the market to lend to the corporate end with emphasis on emerging business opportunities
- Encourages strong risk management and corporate governance practices

2

Delivering superior service experience to all clients and customers

- The Bank accomplishes this strategy by:
 - ✓ Consistent focus and investment in attracting and keeping quality people
 - ✓ Employing cutting edge technology
 - ✓ Deploying excellent customer service

3

Efficiently expand our operations by adding new distribution channels

- Entering into new markets where opportunities exist to meet funding gaps
- Diversification by business line and geography

4

Develop specific solutions for each segment of our customers' base

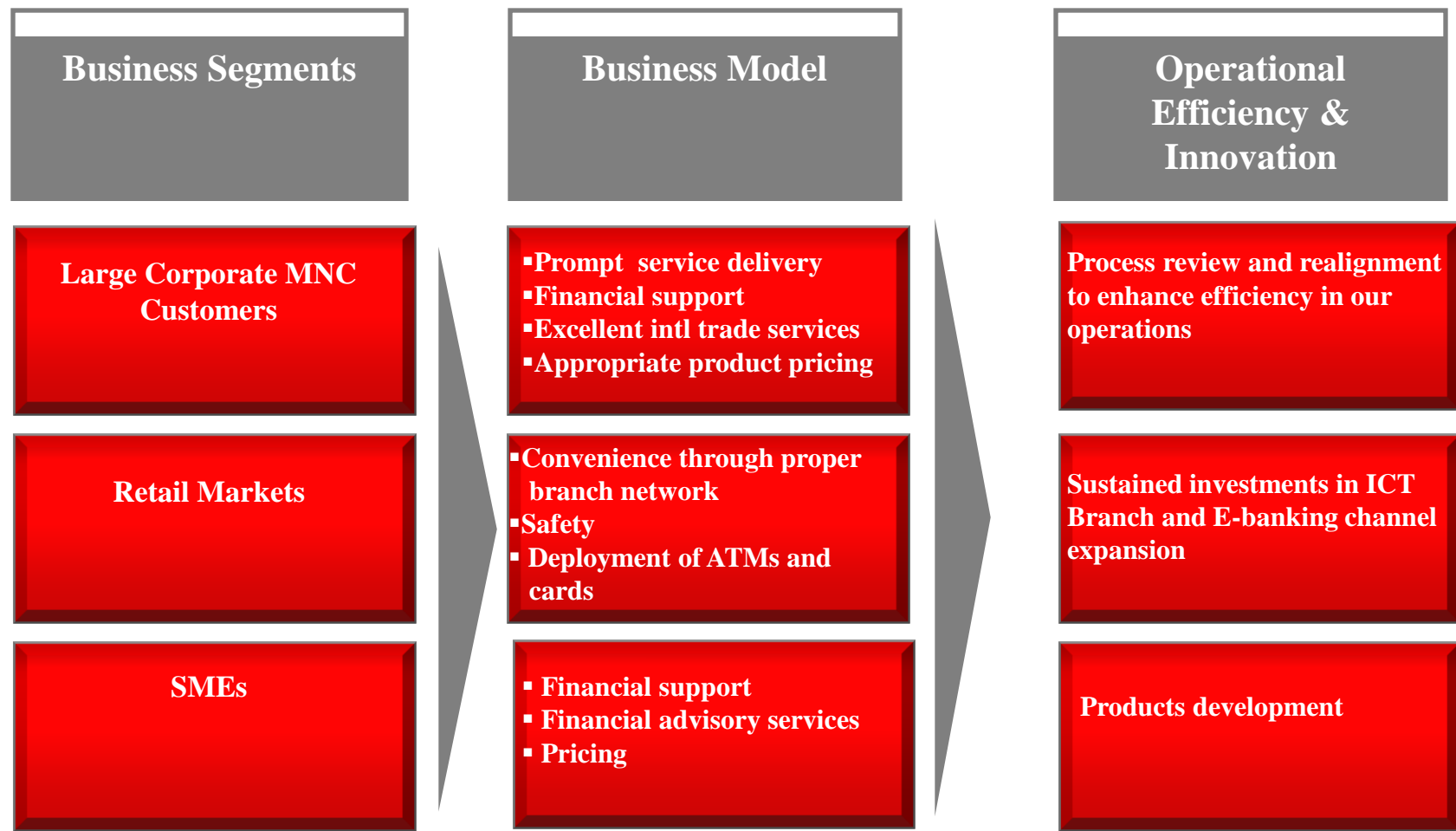
- Leveraging our capabilities and brand strength to consistently meet our clients' needs
- Developing a strong Zenith Bank platform to serve as an integrated financial solutions provider to our diverse customers base



Creating quality and robust business models



Aggressive growth driven by a focus on quality and robust business models





Our Key Growth Target Sectors



Driving profitability with our competitive advantages

Identified Growth Sectors

Infrastructure
Manufacturing
Oil and Gas (Upstream & Downstream)
Power and Energy
Real Estate and Construction
Telecoms
Transportation and General Commerce

Competitive Advantage

- Strong capital and liquidity
- Strong brand
- Strong international rating
- Extensive branch network
- Robust ICT and E-bank channels
- Well motivated staff force
- Excellent customer services



Our Growth Horizon..... A Sustainable Pace



Short Term

- ❑ Efficient and robust risk management structure driving down NPL ratios
- ❑ Focus on operational efficiencies
- ❑ Employing cost management measures to reduce our cost to income ratio.

Medium Term

- ❑ Identifying all risk exposures, threats and opportunities which are then managed through appropriate process in line with best practice and regulatory requirements
- ❑ Maintaining efficient resource allocation and utilization control
- ❑ Continue to maintain high quality credit.

Long Term

- ❑ Strengthen our institutional brand by focusing on best banking principles and corporate governance
- ❑ Remain innovative in delivering products and services to customers using technology and global standards of customer service
- ❑ Consolidating our position through delivering superior performance and sustaining competitive advantage via people, ICT and exceptional customer services
- ❑ To build the Zenith brand into a reputable international financial institution.



Outlook and Prospects for FY2012



- ❑ **Agriculture:** The Federal government's resolve to boost the agricultural sector in the country would no doubt create quite a number of opportunities in the areas of funding, job creation and indeed food security to Africa's most populous nation. Various Funding Schemes such as Commercial Agriculture Credit Scheme (CACS) that has 159 projects valued at N134bn (out of which Zenith Bank has disbursed N14bn), Nigeria Incentive-Based Risk Sharing for Agricultural Lending (NIRSAL) with about N75bn and Seed and Fertilizer Scheme of about N30bn recently launched for banks to lend at a subsidized rate to local farmers and the value chain for the production of fertilizer among others are some of the initiatives to ensure that the country's economy is diversified. The Group would continue to play a major role in this sector to support the various government's projects aiming at boosting our economy.
- ❑ **Power and Infrastructure:** We are fully aware of the different reforms embarked upon by the Nigerian government in the power sector in order to create a customer driven industry wide plan to achieve stable power supply. As we begin to see the inflow of a large volume of private sector investments through the creation of new power generation and distribution entities and the subsequent development of a competitive electricity market, Zenith Bank is strategically positioned to take advantage of any emerging business opportunities in the country's power sector.
- ❑ **Mobile Banking:** In a bid to encourage and promote person-to-person payments and leverage on mobile phone channels as a means of payments, the CBN has given out licences to operators in the country. Zenith Bank Plc is poised to take advantage of this initiative as we have received our mobile banking licence and commenced its pilot scheme with one of the telecom providers.
- ❑ **Investments in Technology and Product Innovations:** The Group has over the years become synonymous with the use of ICT in banking and general innovation in the Nigerian banking industry. We have renewed our commitment in ensuring that all our activities are anchored on the E-platform and providing service delivery through the electronic media to all customers irrespective of place, time and distance.
- ❑ **Cash-lite Project of CBN:** The Group welcomes the CBN's Cash-Lite Project of making sure that E-platforms would continue to be the bedrock of our banking transactions. In the last 12 months, Zenith Bank Plc has efficiently deployed a wide range of banking products that ensures resourceful and robust financial services to its customers. It has launched mainly e-Banking products (Point of Sales Terminals, ATMs etc) geared towards meeting the changing needs of its customers in the light of the recently introduced and evolving cashless society policies being championed and mandated by the Central Bank of Nigeria (CBN) and fully supported by the banking community in the country.



Outlook and Prospects for FY2012



- ❑ **Representative Office:** We remain optimistic of the business opportunities inherent in the Peoples Republic of China hence, our resolve to officially open a Representative Office in the country's capital city, Beijing in 2Q2012. The group is reasonably certain that robust contributions would be realized from this Office considering the various emerging business opportunities found in China.
- ❑ **Divestment in Subsidiaries:** Overall, the bank's directors would ensure a fair, transparent and independently managed divestment process with the ultimate objective of enhancing the Bank's capacity to take advantage of existing and emerging opportunities within the scope of the permissible activities under the new commercial banking licencing regime. We remain increasingly confident that the Group would continue to facilitate its commercial banking operations both on a national scale in Nigeria, via its offshore banking subsidiaries in the West African sub-region, representative offices and the United Kingdom.
- ❑ **Customer Services:** At the center of the Group's pursuit of excellent customer service, we would continue to focus on strengthening our relationship management in a bid to surpass our commitments to all stakeholders.
- ❑ **Deposit Base:** Our drive for low cost and appropriately mixed deposit base to fund our credit and money market transactions would continue in FY2012. We are committed to be a dominant player in the money market space to drive up income and profitability going forward.
- ❑ **Risk Assets:** The Group would continue to seek opportunities to grow its risk assets while maintaining a low NPL ratio and sustaining our improved coverage ratio. We would continue to strive for the optimal protection of our shareholders' wealth through the continuous review and improvement of our risk management culture and processes.
- ❑ **Best Practices:** The Group would continue to uphold best practices and good corporate governance in all segments of our business in line with the recent award of the "Best Corporate Governance Bank in Nigeria for 2011 – World Finance.



Q&A

