

Analyst Report

NIGERIAN BANKING INDUSTRY COST PERFORMANCE & 2015 FORECAST

Nigerian Banks Spend N3.3trillion in 3 years.....GTB emerges most efficient bank

Lagos Nigeria, November 10, 2015: Our review of financial reports from 2012 to 2014 of 15 publicly quoted banks in Nigeria reveals that the Nigerian Banking Industry has been burdened by increasing operating expenses in the last 3 years with expenses rising year-on-year by N102b and N130b representing 10% and 12% in 2013 and 2014 respectively.

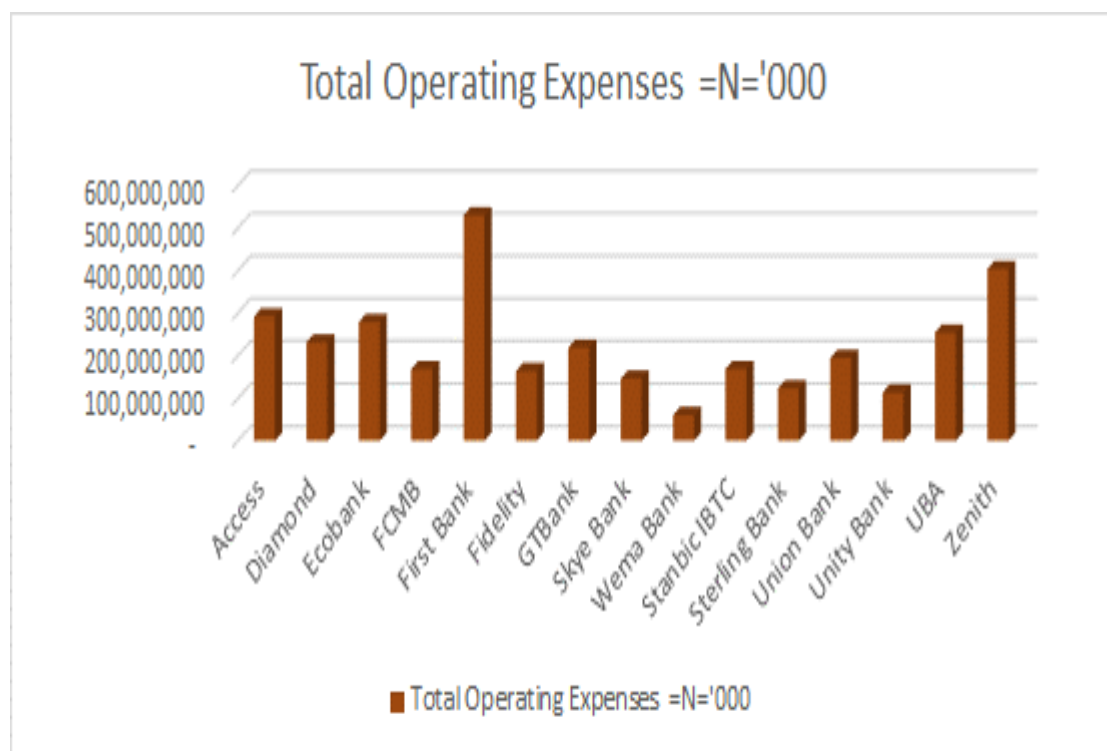
Total Industry Operating Expense for 3 years 2012 to 2014 stand at 3.3trillion naira. 69% of Total Operating Income for the period went into financing this expense. Top 5 spenders are First Bank with N529b representing 15.85% of the Industry total, followed by Zenith Bank with N402b representing 12% and Access Bank with N291b representing 8.72% of industry total expenses. Others are Ecobank N279b representing 8.34% and UBA N253b representing 7.59%. These 5 banks alone account for 52.56% of the industry's total operating expenses in the last 3 years. The least spender is Wema Bank with N60b representing 1.79% of the industry spend within the period.

The breakdown of the Industry operating expenses shows that Other Operating Expenses took the largest chunk of 54% compared with Personnel Expenses which is 39% and Depreciation/Amortisation with 7%. Top 3 spenders on Other Operating Expenses within the last 3 years are First Bank with N333b (19%), Zenith Bank with N199b (11%) and Access Bank with N167b (9%). Again, Wema Bank is the least spender on Other Operating Expenses with N28b (1.5%).

However, Zenith Bank is the largest spender on Personnel with N174b ((representing 13.39% of the industry total for the 3 year period 2012 to 2014. First Bank followed with N167b (12.83%) and Ecobank with N134b (10%). Other top spenders on personnel include UBA with N113b (9%) and Union Bank with N109b (8%). These top 5 banks account for a whopping N697b representing 55% of industry spend on personnel within the last 3 years. Wema Bank again is the least spender on personnel with N27b (2%).

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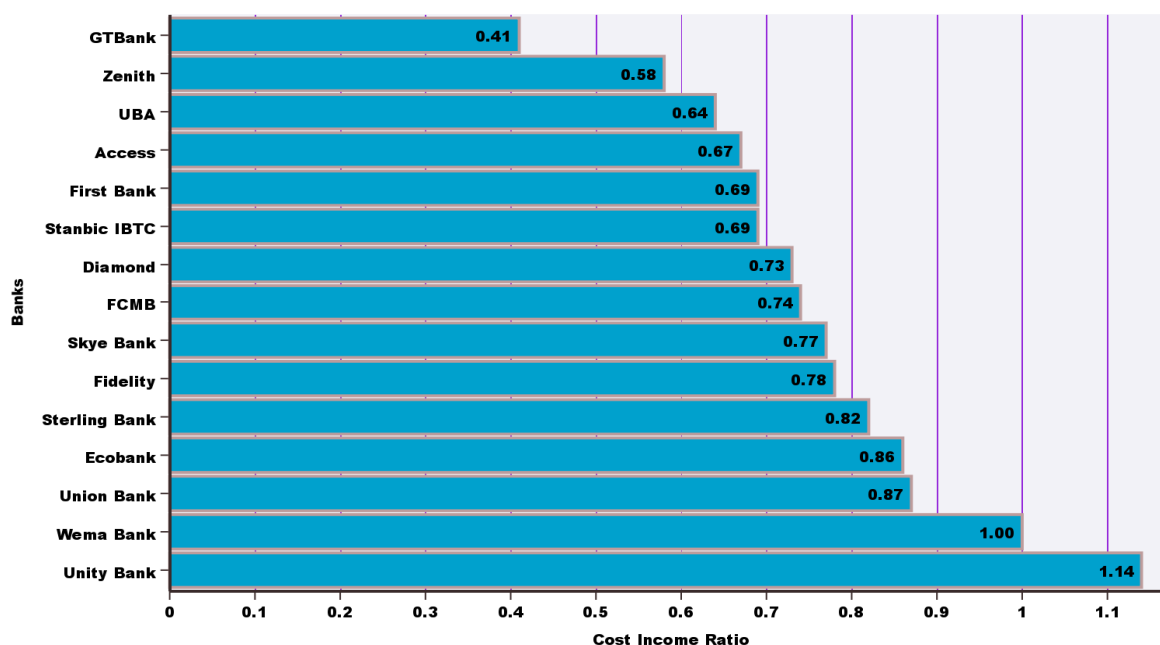
Bank Name	Total Operating Income =N='000	Personnel Expenses =N='000	Depreciation and Amortization =N='000	Other Operating Expenses =N='000	Total Operating Expenses =N='000	Profit Before Tax =N='000	Cost Income Ratio
Access	433,394,000	94,887,000	28,820,000	167,599,000	291,306,000	142,088,000	0.67
Diamond	316,766,195	80,638,061	15,600,367	134,499,316	230,737,744	86,028,451	0.73
Ecobank	323,116,000	133,914,000	22,845,000	121,935,000	278,694,000	44,422,000	0.86
FCMB	226,599,127	70,505,519	11,030,526	86,687,771	168,223,816	58,375,311	0.74
First Bank	770,957,000	167,206,000	29,214,000	333,035,000	529,455,000	241,502,000	0.69
Fidelity	209,045,000	76,852,000	10,873,000	75,428,000	163,153,000	45,892,000	0.78
GTBank	529,609,024	59,130,382	27,916,114	131,591,281	218,637,777	310,971,247	0.41
Skye Bank	190,099,000	52,309,000	13,642,000	79,539,000	145,490,000	44,609,000	0.77
Wema Bank	59,929,284	26,796,602	5,291,781	27,741,864	59,830,247	99,037	1.00
Stanbic IBTC	244,465,000	69,583,000	7,553,000	91,230,000	168,366,000	76,099,000	0.69
Sterling Bank	150,149,768	31,690,226	8,401,956	82,499,752	122,591,934	27,557,834	0.82
Union Bank	222,746,000	108,608,000	10,479,000	75,329,000	194,416,000	28,330,000	0.87
Unity Bank	99,205,734	43,554,774	8,453,270	60,740,940	112,748,984	13,543,250	1.14
UBA	393,842,000	113,068,000	14,713,000	125,662,000	253,443,000	140,399,000	0.64
Zenith	698,773,000	174,499,000	29,104,000	199,165,000	402,768,000	296,005,000	0.58
TOTAL	4,868,696,132	1,303,241,564	243,937,014	1,792,682,924	3,339,861,502	1,528,834,630	0.69



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The Cost Income Ratio which shows how much is spent to generate a given level of revenue shows that only 6 publicly quoted Nigerian banks are efficient in the last 3 years, achieving below 70% which is the industry's benchmark. GTB emerged the most efficient bank in this regard spending 41kobo to generate N1 of income. Other banks include Zenith 58kobo, UBA 64kobo, Access 67kobo, Stanbic IBTC and First Bank 69kobo. The least efficient banks are Unity bank which spent N1.14 to generate N1 of income, Wema spent N1 to generate N1 income and Union Bank which spent 87kobo to generate N1 income within the last 3 years.

Cost Income Ratio(2012-2014)



Researchers at Fulfilgate forecast that with the trend over the last 3 years (2012-2014) and current indices as at September 2015, total expense of these banks will grow by 15% to N1.419trillion by December 2015 over 2014 figure of N1.234trillion. Against the 16% growth in Net Operating Income recorded by the industry in 2014, Researchers at Fulfilgate also forecast a meagre 8% increase in Net Operating Income from N1.818trillion in 2014 to N1.963trillion in 2015. Profit Before Income Tax is therefore expected to drop by about N40billion representing 7% at the end of 2015 from N584b to N544b. We therefore strongly advise that from 2016, bold steps should be taken by these banks to improve their fortunes by implementing sustainable cost optimisation strategies.