# FBNHoldings

## 9M 2015 Results

Tuesday, 27th October, 2015

## Bello Maccido

### Group Chief Executive Officer

Good morning, and good afternoon, ladies and gentlemen. On behalf of ourselves, from FBN Holdings PLC, we are delighted to welcome you to this conference call to announce our financial results for the third quarter, ended September 30, 2015.

We must start by acknowledging that the last nine months have been very tough for FBNHoldings and for the financial services industry, as a result of the difficult macroeconomic conditions, as well as the tough regulatory terrain in which we operated. The big issues in the last quarter for our industry have been, first, the withdrawal of Federal Government accounts from commercial banks through the introduction of the treasury single account (TSA), and second, the subsequent relaxation, or should I say easing, of cash reserve ratio from 31% to 25%, perhaps acknowledging the impact of implementation of TSA on market liquidity.

Moving on to slide 6 of our presentation, where we presented data about Africa, Nigeria and FBNHoldings, which highlighted among other things a very large population base in Africa, rising urbanisation in Africa, as well as a rising middle class. That also highlights a very low banking penetration in Nigeria.

Given our strong retail franchise, we see ourselves as a very strong player in a key market in Africa, Africa itself becoming increasingly important given demographic changes that have been taking place, as well as other factors taking place on the continent. This fact is further reinforced, if you look at slide 8 of our presentation, where we highlighted our active customer account base, presently in excess of 10.6m customer account, also with a customer deposit base almost reaching NGN3 trillion and with a total asset base of NGN4.3 trillion.

So, essentially, these are statistics to highlight our strong retail franchise and our ability to sustain our momentum as a group over the long haul. Now, on slide 9, when you look at the fundamentals of our financial performance, especially of the last quarter, you will observe a very favourable but significant trend in the reduction of cost-to-income ratio, which had peaked in 2014 to 66.7% and has actually dipped to 61.3% by Q3 2015.

This is in spite of the very tough terrain that has actually translated into escalating operating cost in the environment. Now, on slide 11, we just thought it appropriate for us to present you a snapshot of our income statement for the period.

And of course, looking at the top line, you will see that we've continued our growth momentum, with gross earnings growing by 16.9% from NGN333billion to NGN390billion. Of course, as we drill down, as a result of these very challenging macroeconomic environment brought about by decreased oil prices, subsequent devaluations in the environment and the impact on impairment charges, and at an escalating operating cost, we closed the year with a profit before tax of NGN59.6b, which is a decrease of 19.2% from what we obtained in previous year of NGN73.7b.

So in a nutshell, these have been the numbers that we are reporting, given the very difficult environment in which we have operated. The outlook for the Group, as we work towards closing the financial year 2015, is well highlighted on slide 27.

Looking at that slide, 27, we propose that given our situation and given the industry's situation, we do not expect to see any deposit growth from 2014 figures, so we expect deposits to remain flat. Net loan growth, which has actually dipped by 12.4% over the corresponding period 2014, we expect to close something in the negative territory of between 5% to 10%.

So that is to say that in this last quarter, we expect some kind of inching up on our loan book. So, essentially, these numbers that we have presented to you are the summary of our financial picture for the period ended September 30, 2015.

At this point, we'll be happy to take your questions, to take your comments about our financial performance for the period and generally on FBNHoldings as a Group. Thank you. So we'll be happy to take your questions at this time.

# Question and Answer Session

### Muyiwa Oni - SBG Securities

Good afternoon. My name is Muyiwa Oni, from SBG Securities. I have a couple of questions. The first is really more a clarification or an update on the news flow that was out yesterday on a fine on NNPC deposits that wasn't remitted or was concealed. So I just wanted to understand what the Bank's position is on that and also to verify if that's true or not and to know what the implication is.

And then the second is to understand what the constituents of your current public sector deposit – which currently represents 12% of total deposits. Just want to know the mix, so how much was state government? How much is local governments, and how much of that is TSA-related deposits?

And then the third question is on your electronic banking fees, the growth has been rapid over the last three quarters, and just wanted to understand what key products are driving that growth and the kind of outlook you have for the growth. Thank you.

### Ini Ebong

Okay, thank you. With respect to the update on the fine on NNPC deposits, there have been wide media reports with respect to a fine that was imposed on FirstBank as it relates to the TSA process, remittance process. First of all, I would like to say that there was no, or has never been any intention on the part of the Bank, to conceal, or otherwise, any of such funds on the TSA.

We all know that the TSA process has been ongoing since more or less the start of the year, and the Bank has been in full compliance ever since. Now, with respect to the specific issue, we duly reported the requisite balances to the Central Bank, and on the date in question, we had well in excess of NGN150b sitting in our Central Bank account, so there was no incentive to withhold any funds. The Bank remains extremely liquid and in a position to comply with any such directive on the part of the Central Bank.

With respect to the fine, we are in engagement with the Central Bank on the matter and will continue to engage and to express our case. With respect to the TSA funds, as it stands today, all such funds have been remitted -- all such manner of funds have been remitted, and it is an ongoing and dynamic process. If you engage the industry, there is constant stream of communications between the banks and the regulators with respect to clarifications on what has to be transferred or otherwise on an ongoing basis, and we are in compliance.

With respect to your second question on the public sector deposit mix, as you are well aware, the entire TSA process is focused on the Federal Government's deposits, so the balance of funds left with the Bank will be predominantly state and local government funds, ex-TSA.

So as we speak today, it's safe to say that all Federal Government balances have been transferred, barring some of the dollar balances still held with banks across the system.

Muyiwa Oni

Can you provide colour on the dollar balances?  Doesn't it still apply, as well?  Because I would assume it applies to the TSA directive.

Ini Ebong

No, there are some specific balances that are currently excluded from that process.  Most of the other non-excluded balances have been transferred, and the process for transferring on an ongoing -- daily basis is also in place, where some of the agencies have been mandated to open domiciliary accounts with the Central Bank, those funds have been transferred.

Muyiwa Oni

Okay, thanks for that.

Ini Ebong

On your last question, on e-business fees, on the e-business products, I think it's largely driven by the card products and also by just an increase in our overall transaction velocity.  Given our position with the largest number of accounts and probably the largest issuer of cards, we are reaping the benefits in driving the use of our channels. That is what is driving the e-business fees.

Thank you.

Muyiwa Oni

Thank you.

Ronak Gadhia - Exotix

Yes, thank you very much for the presentation and taking the questions.  My first question is just a clarification on the TSA deposits.  On your presentation, we can see that there's about NGN300b of public sector deposits still on your balance sheet.

Are these all dollar-denominated deposits which do not have to be transferred at the moment but will eventually have to be transferred?  The second question is to do with your capital.  Can you please confirm what the capital adequacy ratio at First Bank of Nigeria is?

And the third question is to do with your NPLs.  We've seen a pretty significant deterioration in your NPL ratio and a pretty significant increase in your cost of risk, which is quite a contrast to your immediate competitors within the sector, who are still reporting pretty decent asset quality numbers.

So can you just touch upon on what are the key differences in terms of risk underwriting between FirstBank and your competitors and why are your numbers significantly worse?

Ini Ebong

Okay, to take your first two questions with respect to the TSA, our reported numbers at the end of September, post that date, there's been further transfers of about between NGN60b and NGN70b as it relates to TSA naira balances due the FGN from the reported numbers.

The other balances would certainly be the dollar balances that are currently excluded from that process.

Ronak Gadhia

Sorry, do the dollar deposits eventually have to be transferred, or will that be completely excluded?

Ini Ebong

At the current time, we have received a stay action on some of those particular balances. I think the CBN is reviewing the situation from a context of system-wide foreign currency liquidity.

So at the current time, there has been a stay action on those, because of the funding they provide to the industry as a whole. With respect to your second question on capital adequacy, at the banking group level, we're currently 19.04% while the Bank only is at 16.02% as of Q3. Thank you.

Ronak Gadhia

Sorry, there's the question on asset quality?

Abiodun Odubola

Asset quality. Okay, thank you for your question. First of all, let me just state that the deterioration in asset quality is not unexpected. When we were doing the half-year conference call, we had mentioned the fact that the environment was adverse and that we expected to see an uptick in NPL ratios.

If you look at the NPL ratios that we are reporting right now, we are still within guidance of no more than 5%, while our cost of risk of 3% is also within the guidance of 3.5% that we had provided. So these results are actually not unexpected, given the environment that we have found ourselves in.

As to our underwriting standards relative to competition, I think our underwriting standards remain very strong. One of the issues that we have had relates to the businesses that we went into. For this quarter, especially, we had to recognise impairment in respect of some commercial mortgage projects that we had done.

These had deteriorated even faster than we had thought, given the tough environment. As you also know, the oil and gas sector has changed dramatically, given all the reforms and also the current macroeconomic environment. It has not favoured oil and gas at all, and some of the exposures in our portfolio had actually become worse.

So that's essentially why we have this kind of situation. And as you know, we are a little bit on the high side on oil and gas relative to our main competitors. And this has actually driven the deterioration in impairment charges. But like I said, we had anticipated this, and we're still within the guidance of the NPL of no more than 5% and cost of risk of no more than 3.5%.

Ronak Gadhia

Okay, as a related question, what percentage of your loans have you restructured? And with regards to the oil and gas loans, which may have been restructured, what breakeven price are you now assuming?

Abiodun Odubola

We have restructured about 9% of our portfolio, and essentially, this is mainly in oil and gas, and not just oil and gas, but oil and gas upstream, which is one of the sectors of the oil and gas that is most impacted by the deterioration or the reduction in crude oil prices.

Ronak Gadhia

What's the breakeven price for the restructured loans?

Abiodun Odubola

Sorry, I didn't get that --

Bello Maccido

Break-even price for the restructured loans.

Abiodun Odubola

We are looking at between $40 and $45 a barrel.

Ronak Gadhia

Okay. All right. Thank you very much.

Abiodun Odubola

Thank you.

Adesoji Solanke - Renaissance Capital

Hi, good evening. This is Soji Solanke from RenCap. Thank you for the call. I have a few questions. The first one is around, on your slide on FBNBank UK, you have something called NGN6.5billion provision available for available for sale securities. Can you please shed some colour as to what exactly that relates to?

I also would like to get a sense from management as to exposures to Atlantic Energy. Have you made any provision at all for this exposure, and do you have any thoughts around whether you're going to make any provisions or not?

My third question is around NPLs and provisioning. So within Q3, through your P&L, you basically took an additional NGN24billion in impairments, but then also when I look at your balance sheet provisioning figure, the numbers are flat from half year, so did you have a big write-off in Q3 and then also brought in additional NPLs in the third quarter? Or what exactly explains this difference? Thank you.

Abiodun Odubola

Okay, thanks for these, for your questions. With regards to the NGN6.5billion impairment charge on fixed income, this relates to the write-down of Afren bonds by FBNBank UK, essentially.

On your question about Atlantic Energy, no, we have not made any provisions. We are still working on this exposure, and we are cautiously optimistic that we are going to resolve this exposure before the end of the year.

I cannot disclose more than that, but I can tell you that we are working very closely with the NNPC, as well as an investor that we have pre-qualified to take over the exposure. Like I said, no provisions have been made, but we are cautiously optimistic that we are not going to make any provisions relating to Atlantic Energy before the end of the year.

Thanks also for noting the NPLs and provisions. We actually did a write-off of about NGN20b in the third quarter. Maybe that will explain the discrepancy that you're talking about. Thank you.

### Adesoji Solanke

Okay, and that's fine. Thank you very much. Can I just get some additional colour? So with respect to your cautious optimism, is this because of general feedback or sentiment you've gotten from the NNPC?

And I think I would also like to get a sense from you as to what's driving the growth in NPLs, in finance and insurance.

### Abiodun Odubola

Okay, with regards to Atlantic Energy, it's mostly because we have a willing investor to take over the assets that Atlantic Energy currently has. And also, due to the fact that NNPC is very much interested in resolving this issue and has been extremely supportive and cooperative, so that's what I would say about Atlantic Energy.

The second question is with regards to the impairments in finance and insurance, this is essentially a loan to a mortgage non-bank financial institution that is also a commercial mortgage exposure that is taking a longer time than anticipated to complete.

### Adesoji Solanke

Okay.

### Abiodun Odubola

So proactively, we are taking this NPL and making provisions.

### Adesoji Solanke

Okay, and finally, from a capital perspective, what's management's updated position on capital? Do you think your current level is sufficient? Do you still have no plans to raise capital?

### Ini Ebong

Soji, just to clarify, at the Bank level, we're currently at 16.2%. At the Banking group level, we're just above 19%. Now, as we've stated before, we have no immediate plans to raise Tier 1 capital. We will continue to strive to meet our ratios by internal capital retention and tighter management of our risk-weighted asset growth.

### Adesoji Solanke

Okay, excellent. Thank you.

### Lanre Buluro - Primera Africa

Hi, sorry, came on late on the call, but just on your OpEx, can you just kind of walk us through why the sharp drop in personnel cost? This is for the three months to September. And could you also clarify the Atlantic Energy exposure. I know I just joined the call just now. Could you repeat this if it was asked before? Thank you.

### Ini Ebong

Okay. The question was a drop in personnel costs, which is staff costs, right?

### Lanre Buluro

Yes.

**Ini Ebong**

Just to clarify, right, yes, our personnel cost has been declining. However, if you look at the breakdown, we do need to reclassify about NGN3.5b from operational losses into staff costs which represent some additional staff and severance costs, which should be in the staff cost number. So yes there is a decline. The decline is more 27%, rather than the sharp decline that you've currently seen, so there is some reclassification that is due there.

However, the key drivers have been some of the strategies that we've been employing for a while, where we have encouraged some redundancy, to encourage some of the more senior, older staff to leave and then replace them with younger, lower-cost staff. And also an increase in the outsourced personnel costs, as well. But there has been some reduction in staff costs.

**Abiodun Odubola**

Okay, as to your question on Atlantic Energy, this is one exposure that is taking significant management attention. Currently, the account is still performing. We are cautiously optimistic that we'll resolve all the issues regarding Atlantic Energy before the end of the year, so we're not looking at making impairment charges at this time.

**Lanre Buluro**

What kind of impairment are we looking at in the event the deal doesn't close?

**Abiodun Odubola**

In the event that this doesn't close, we still have windows of opportunity. There is a deal that is on the table right now. If that deal doesn't work out, there will be another one.

However, even if this deal doesn't close and we need to make an impairment, it probably won't be more than 10% impairment, let's say, in the next three months.

**Lanre Buluro**

Thank you.

**Ndubuisi Obike - Stanbic IBTC Pensions**

Hi. Good afternoon. Sorry, I joined the call quite late. I would like your confirmation of how much of your deposits you had to cede to the CBN as a result of the TSA directive. And also, I would like for an explanation on the drop in interest income.

I know you stated it in your account that is a result of, the state government loans that you had to convert into bonds, but I am still struggling to understand how that would lead to such a level of drop in the interest income, given that these same bonds are stated with yields of 14%. Thank you.

**Ini Ebong**

Okay, thank you. With respect to the TSA, I would say that because the latest round of TSA withdrawals effectively started mid-September, in the period under review, we're looking at roughly about NGN80b worth of deposits.

Now, subsequent to the reporting period, we have done some additional transfers to the TSA. But as we speak today, I believe that process is largely completed as it relates to the naira deposits of the FGN that are due to TSA.

What we're left with is just the daily collections that come from normal banking operations that are now swept to them daily. The outstanding relates to the currently exempted dollar balances that we're still allowed to hold.

Now, with respect to your second question, the drop in interest income, the truth is, the macro environment has been quite volatile, and I think there are two impacts of that. First of all, when you factor that we dropped from higher-yielding loan assets -- because on average, the state government short-term loans were priced north of 20%, which were swapped for 20-year bonds, which were in the low teens. And given the duration risk on the balance sheet, we have aggressively sold down a portion of those bonds to move into even lower-yielding government securities. So the dual impact of that has attributed to some reduction in interest income.

However, the counter to that is given the emerging lower-rate environment, you would have noticed that our interest expense line has come down as we've aggressively tried to move deposit rates much lower to reduce our interest expense. So I think it's a combination of two factors.

One, yes, the lower asset-linked yields on the loans, which have been swapped and the lower investment in the government securities. And also, given the emerging environment, we've seen excess liquidity, and we've even had to hold funds idle at some point, given the current emerging Central Bank policy stance. Thank you.

Adesoji Solanke

Hi. Soji, just an additional question. This is with respect to the significant reduction in interest rates that we've seen in the banking sector. Just to get a sense from you as to what exactly is going on, what are banks doing with respect to lending rates and also deposit rates? How are you thinking of margins going into Q4 and in 2016?

And also, do you think the low interest rate environment is here to stay, or is this a short-term blip in the interest rate cycle? And my next question would be with respect to dollar liquidity in the banking system and also from Central Bank overall. What's going on with respect to customers' abilities to service their letters of credit, etc.? Just to get a sense for in terms of what's going on and where FirstBank sits within all of this. Thank you.

Ini Ebong

Okay, Soji. With respect to the interest rate direction, quite frankly, it's still a bit uncertain. It's not very clear as to whether this is the Central Bank's new policy direction. Clearly, we've had a tight monetary policy bias for the last couple of years, and one cannot really say factually at this point whether their policy stance has changed. Because indeed, the thinking had been that the relaxation in monetary policy, as typified by the reduction in the CRR, was in direct response to cushion some of the impact of the withdrawal of the funds or implementation of the TSA.

So it's still a little unclear. It appears that perhaps this may be the stance, but I guess with the emerging constitution of the new economic team and cabinet, I guess the signals will become clearer in terms of what the government's policy stance from the fiscal side will be. And then we can probably tie the two together.

Right now, the response has been tactical, and I guess what we've done is focus on what we can control, so there's been a reduction on deposit pricing, and we've been quite aggressive at that, and you've seen that feed through in the numbers. On the lending side, clearly, given that there is a build-up of liquidity sometimes sitting idle, where we can, we are looking at reducing asset pricing to take cognisance of the current environment.

On your second question, with respect to dollar liquidity, I would say there has not been much change. We are still largely reliant on the Central Bank's intervention mechanism to supply liquidity to meet customer obligations.

As with most other banks, we have had to step up and use our own liquidity to meet customer trade obligations when they mature, where the customer has been unable to purchase FX. It is not that they cannot purchase. They're still able to buy. It just still takes time to fill their orders, and that's the current policy stance, as it remains.

But clearly, for the bigger banks like ourselves, we still have access to our trade lines and financing lines from our offshore correspondent banking partners, and that has not diminished at this time or during the quarter.

### Adesoji Solanke

Thank you. Just a few follow-ups. So the effect of what you've said, I guess is your point that it's really uncertain to see what your margin outlook is? And also, in terms of what competitors are doing, in terms of what you have seen as a bank, are you seeing any sort of cannibalization of loans going on from competition?

Those are my two questions.

### Ini Ebong

I wouldn't say that we're seeing that directly, because again, as the CRO stated, the environment doesn't lend itself to aggressive loan growth per se. So I think everybody is being cautious. Now, with respect to outlook, I would say we're still guiding our NIM, our margins, to remain within 7% and 7.5% range.

We've been very aggressive on the deposit side, and given our liquidity levels, our liquidity ratio is hovering around 50%. We can’t afford to accrete expensive deposits, right? And that is what we are doing, rather, and we're driving growth through our low-cost deposit sources.

So we still believe it's still margin supportive at this time. I still think it's a bit early to say whether we will see extreme competition for loans at this point, because again, we're still in flux with respect to what is the Central Bank's new policy stance, if at all there is, like I said before, I think we're done with the TSA by and large, especially on the naira side.

So I think we should see the true direction come forward. And also, we have to see what's going to come from the fiscal side now that the cabinet is emerging. Thanks.

### Adesoji Solanke

And just a final question on the regulatory environment. With the Central Bank having banned banks from lending FX to companies that do not generate FX revenues, what does that really affect? Does that affect LCs? That's my first question.

And also, what sort of trends are you seeing form customers from a credit demand perspective? Even where there is demand, more Naira now than FX? Thanks.

### Ini Ebong

With respect to cross-currency lending, there has always been a natural aversion on the part of corporate Nigeria to take on foreign currency, and I think that is due to historic reasons and the historic step changes in devaluation we've typically seen. So by their very nature, they're usually adverse to it.

So typically, and we said this before, we typically lend in foreign currency to those that earn foreign currency. The exception is usually the larger multinational type or bigger corporates that have the balance sheets or expertise to manage the risk themselves.

In the trade finance book, the cross-currency lending does exist, but that is usually only for the use of financing the LC for a certain period. And the reason corporates do that is economic, to get the advantage of the cheaper dollar pricing.

But bear in mind, they can switch back to naira at any point. Now, given the environment where FX availability has been a challenge, clearly, at least certainly for FirstBank, and I would expect for some of our peer banks, as well, there's been a reduction in that, because ability to extend such short-term dollar loans, one, liquidity is tight. And then two, we are all managing risk, so we're not trying to increase cross-currency exposure.

So we lend to them in naira and ask them to purchase the FX if they want to do it. So I would say there has been a reduction, but it's on both sides. One is on the part of the Bank from a risk-management perspective, and two, on the part of the customer from a risk-aversion perspective, as well. Thank you.

Adesoji Solanke

But specifically, the Central Bank's regulation, does it affect LC business, or that's simply just direct lending to companies?

Ini Ebong

It affects direct lending. International trade business relies on financing under that. It affects direct lending.

Adesoji Solanke

Okay, all right. Got you. Thank you.

Ndubuisi Obike

Hi. I have one follow-up question. I would like your comments on your recent fine, the TSA fine that the bank was awarded and your forecast of how it's going to affect your full-year profit forecast.

Ini Ebong

Well, as has been reported in the media, the Central Bank imposed a fine of NGN1.8b. However, as stated before, we are currently engaging with the Central Bank, and that engagement is still ongoing and will await further perhaps resolution

Bello Maccido

Well, I guess in closing, we'd basically just like to thank you all that have been able to participate in this conference, and we look forward to closing this year on a positive note, of course bearing in mind that this current terrain which we have continued to operate still subsists.

So on this note, I thank all of you who participated. Thank you.

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