COMPANY:	**FBN HOLDINGS PLC**
CONFERENCE TITLE:	**NINE MONTHS 2016 FINANCIAL RESULTS**
PRESENTER:	**UK EKE, MFR**
WEDNESDAY:	**26TH OCTOBER 2016**

Operator

Good morning and good afternoon, ladies and gentlemen. Welcome to the FBNHoldings Nine months 2016 financial results conference call. Following the brief overview by the FBNHoldings Management Team, an interactive question and answer session will be available. I would now like to hand the call over to Mr UK Eke, MFR, Group Managing Director of FBN Holdings Plc. Please go ahead, sir.

UK Eke, MFR

Good morning and good afternoon ladies and gentlemen. I would like to welcome you to the FBN Holdings Plc, Nine months 2016 unaudited financial results conference call. My name is UK Eke, MFR, the Group Managing Director.

Joining me on the call today is the Managing Director of First Bank of Nigeria Limited and its subsidiaries, Dr Adesola Adeduntan.

I would like to introduce our recent additions to FirstBank; the Credit Risk Officer, Olusegun Alebiosu and the Chief Financial Officer, Patrick Iyamabo.

I would like to confirm that we released the financial results today to the Nigerian Stock Exchange and have uploaded the financial results and the presentation to our website. I will encourage us to be guided by the presentation. I am sure you have had time to review it. I will spend a bit of time running through a few slides and then we will go straight to questions and answers.

On slide 5 of the presentation, it was indeed another challenging quarter for us with the economy officially in recession by third quarter 2016 and we saw inflation increase to 17.9%, while the corresponding period had single digit inflation rate of 9.4%.

On the currency and devaluation, the Central Bank further liberalised the market and the intention was to improve supply, however the pressure on Naira persisted as we witnessed widening of spreads between the interbank and the parallel market. It is important to state that FirstBank was approved as the only banking institution to sell proceeds of international money transfer services to the BDCs, which is a strong testament to our ability.

Slide 6, the numbers, in our view, the strength of our underlying business and we see gross earnings of NGN417.4 billion and a PBT of NGN57.5 billion. This is on the back of NGN114.7 billion impairment charge for credit losses ad as presented in the footnote, full year impairment charge on credit losses was about NGN119.3 billion.

It is clear that the revenue momentum remains very strong. We have maintained a disciplined approach to cost reduction, as seen in the ratios provided on slide 7. We remain very efficient in our cost containment initiative, as the cost to income ratio continues to go down.

We closed Nine months 2016 at 48.4% with the corresponding period at 61.6%.

Liquidity ratio is very strong across the operating entities and largely for the bank.

We maintained a good cost of fund ratio at about 2.7%, which is quite strong, again reducing from 4.0% in the 2015 corresponding period.

We are happy to report very strong capital positions for all the operating entities. All the regulated entities maintained capital ratios above the regulatory requirement with the Bank at 15.4%, excluding the Nine months' profits. At the Merchant Bank, we are at a CAR of about 28.9%.

Although the NPL is currently high, it is a point of focus.

Our NIMs remain healthy at 7.5%, despite the tight operating environment.

We believe that cleaning up our loan book, is a clear pathway to value creation and overall we are happy with the progress we have made with respect to the recovery and remediation of the loan book. We do believe that we are well positioned to close the year in a strong position.

Slide 8 speaks to the key developments which we would like the market to take note of particularly as it relates to critical changes in the personnel of FirstBank and FBNBank UK.

We have commenced the implementation of the Enterprise Resource Planning (ERP) and Enterprise Risk Management (ERM) application to bolster the risk management and control environment We believe that the benefits will begin to come through the numbers in full year and into 2017.

Overall, we are happy with the progress and we are of the opinion that 2017 will definitely be better than 2016, starting from what we will see in full year 2016.

That said, I would like to open the lines for questions and would be glad to take questions from participants.

Question and Answer Session

Tolu Almatu - Exotix Partners

Good afternoon and thank you for hosting today's call. I have a few questions, please. First on liquidity, can you make some comments on the status of the dollar liquidity at the bank and how the payments falling due on the dollar denominated bonds are being managed? I recall in the past that you used to keep some of those proceeds offshore. Is that still the case now?

Secondly, on capital, can you give us some guidance on what your capital ratio would be if you were to include all of Nine months' profit? At half year, you stated that it would be around 170 basis points to the total capital ratio.

Finally, on asset quality, is it possible to get an update on the exposure to Atlantic Energy and other large non-performing loans and will there be any progress on working out those NPLs by the end of this year? Thank you.

Patrick Iyamabo – CFO, FirstBank

If we were to capitalise our Nine months' earnings, our CAR would inch up to a little over 17.0%.

Ini Ebong- Treasurer, FirstBank

Speaking to your question on dollar liquidity, broadly speaking since the introduction of the flexible foreign exchange regime a few months back by the Central Bank overall liquidity levels have improved. We have witnessed, on the part of the banks willingness to extend credit to Nigerian banks based on the interventions in the market.

From the bank's perspective, we do have access to lines from our various correspondents and these lines are being used to meet our obligations on trade facilities as and when due.

Speaking to your question on our Eurobonds, both the bonds mature in 2020 and 2021. We believe that well ahead of that, we see some normalisation of markets which then provide opportunities around where we can seek to refinance. Thank you.

Adesola Adeduntan - MD, First Bank of Nig. & its Subsidiaries

Regarding the exposure to AITEO and Atlantic Energy, on AITEO the upstream exposure is being restructured. We are at the tail end of completing up the restructuring process and should be completed in a couple of weeks. The indigenous players that acquired the assets have ramped up production significantly. Production increased from less than 20,000 barrels per day to close to 90,000 barrels a day. Production was initially affected by the Niger Delta challenges, but the relevant pipelines have been repaired and production commenced. We are comfortable working with other members of the syndicate and we should have a better structured transaction before the 31st December.

On Atlantic Energy, our engagement with the government, NNPC, with the resolution of Atlantic Energy is progressing. However, it is slower than we originally planned, but the key thing is that our right as lenders has been secured against the underlying assets. The reality is that we are right in the middle of the resolution of the Atlantic Energy transaction.

Alex Ayoub - WAHA

Thanks. I have three questions. The first one, you mentioned revenue momentum remains very strong, but at the same time the economy is in recession. Can you tell us where the strength is coming from?

Second one is on the dollar liquidity. As a follow-up, can you give us an estimate of how many dollar deposits you have and whether they have been decreasing or not? It is good for us to understand how sticky the dollar deposits are and where they are from. Is it mainly corporate deposits etc.?

The third question is on the Naira liquidity. We hear that the overnight rates were even higher than 20% at some point. We are wondering why there were issues on the Naira liquidity if, for example, you have such a large Naira liquidity in your bank?

UK Eke, MFR – GMD, FBNHoldings

Can we have two or three additional questions and then we will respond to the questions in batches. The next question, please.

Ronak Gadhia - Exotix

Thank you very much. My question relates to your cost of risk. The cost of risk continues to remain high and I guess part of it is driven by the devaluation of the Naira. Nonetheless, when you look at the NPL cover, this is building up, it does seem like management thinks some of these NPLs are unrecoverable and are having to make provisions for it. Can you give some insight as to the kind of cost of risk or provisions to expect for the full year?

What percentage of your NPLs are unrecoverable if we take out AITEO and Atlantic Energy? Is it possible to assume that the rest of the NPLs are actually non-performing and have to be fully provided for?

Gloria Fadipe - CSL Stockbrokers

Thank you. Still on your oil and gas loan book, I would like to know if you have taken any impairments on AITEO and Atlantic Energy and how much impairments have been taken on the two accounts?

On your yields and assets, I find it quite curious that most of the banks have been recording increase in yields and investment securities but yours seems to have declined. Can you provide clarification?

On your CAR at 15.4%, do you think that it is optimal going forward, based on that level of capital adequacy?

UK Eke, MFR – GMD, FBNHoldings

Thank you, we can take the questions now.

Patrick Iyamabo - CFO, FirstBank

To respond to the question on revenue growth drivers and CAR. The drivers are the net interest income and the non-interest income.

The net interest income grew on a year-on-year basis and the two factors that have helped in the last quarter is the rates and our push into retail for better yield.

In terms of non-interest income, the short answer to that is our push into transaction banking. In spite of the drop in things like LCs that has been impacted by the FX liquidity, our collection revenue, e-business revenue, have grown and this reflects success in driving transactional type income.

In the last four to five months, FirstBank has consistently won the Industry award as the only bank in the country, transacting more than 100 million transactions a month.

Still on the non-interest income growth, is the financial advisory, where you would notice that on a year-on-year basis our financial advisory income moved up.

The question on what will be the optimal level for CAR. Anything from 16.0% gives us a level of capital protection and allows us optimise our capital. We are currently at 15.4%, but by the time we capitalise our Nine months' profit, we should be at 17.0%. If this momentum is maintained to the end of the year, this would further increase.

UK Eke, MFR – GMD FBNHoldings

To speak further on the CAR. The first point, is that all the operating entities that are regulated capital-wise are adequately capitalised at this point and this will be maintained.

There are a few dependencies, one will be the capacity of the individual businesses to generate revenues. We have demonstrated over time that our companies are in a strong position to continue to generate revenues.

The next point is the upstreaming of dividend. We have suspended at this time dividend upstreaming by the commercial bank to enable the commercial bank build up capital buffers.

Recall last year, we did not receive dividend from the commercial bank and this year, as stated by the CFO, if you capitalise the Nine months' earnings, we will be above 17.0%. That is a healthy buffer even when you factor in the 16.0% requirement by June 2017.

In addition, the merchant bank is well capitalised at 28.9% CAR.

The third point is the risk-weighted assets. We are not driven by credit now but have moved back a bit. We are a transaction led institution and there is no pressure to grow the loan book aggressively. This means that we will be a lot more efficient in using resources and managing the balance sheet. To that extent, we do believe that we have the capacity to generate business or revenues and also retain capital.

Finally, for each of the operating entities, we have implemented an internal capital adequacy assessment process (ICAAP) not just at the operating entities level, but also at the Group level. There is a constant review of capital requirements and the Group stands ready to capitalise all the entities on an ongoing basis.

Ini Ebong - Treasurer, FirstBank

There are some questions relating to market rate and why rates have recently spiked. Sometimes we do see volatility in the marketplace on account of certain events. In recent times, there was some degree of Central Bank intervention where it announced some forward sales and the funding requirements generated the high overnight rates. One would say that the market still remains very liquid. The bank itself remains excessively liquid as demonstrated by our liquidity ratio of 54.3%.

On the composition of our USD deposits. They are a mix, but are largely corporates. The deposits are quite sticky and over the last 18 months, it has been relatively stable.

Although, we have a large dollar loan book, you typically would have domiciliation of the flows associated with that, this tends to make it quite sticky. Thank you.

Olusegun Alebiosu- CRO, FirstBank

There are some questions around cost of risk and provisioning. The cost of risk at 6.9% is within the guidance for 2016. We expect this to be flat because we have taken aggressive steps in watch listing accounts that can potentially flow into NPLs, as such we do not expect NPL to escalate.

Looking at the provisioning level, it represents our belief and the actions that we have taken to contain the NPL and the recoverability. We do not believe that we will not be able to recover a significant proportion of the impaired loan book. The provisioning we have represents what we have done.

On Atlantic Energy and AITEO, we have taken provisions and the provisions represents the level of impairment and the objective assessments of impairment on the underlying assets.

Adetayo Adedeji - Meristem Securities Limited

Hello, thanks for taking my question. A few of my questions have already been answered, but the last one is on your foreign currency assets and the net interest income. There was a post of NGN62 billion in FX gains in the Nine months' results, I would like a breakdown of that particular figure. In addition, I would like to know what was earned from trading FX normally and what percentage goes into FX revaluation.

I would like to know the current position of your foreign currency assets. What percentage of your financial assets presently make up your foreign currency?

Ndubuisi Obike - Stanbic IBTC Pensions

Hello, I have quite a few questions. Can you provide a breakdown of both the NPL and the impairments? Are you able to tell us the drivers? I recall you mentioned that you had taken appropriate provisions on AITEO and Atlantic Energy. Is it possible to know what portion of your exposure have been classified on these two obligors?

In addition, in third quarter for instance, we have already seen about an NGN83 billion increase in the NPLs. Is it possible to give a breakdown of that for third quarter?

The final question is, are you happy with your coverage ratio at 50%, and if you are not, are there any plans to build this ratio up and how do you intend to achieve that?

Ini Ebong – Treasurer, FirstBank

The first question was a split between the revaluation gains and the trading gains. Given the currency regime, or the operations of the currency markets for the bulk of this year, it has been very tightly regulated by the Central Bank, whatever trading gains that have been made have been nominal. The bulk of what you see are revaluation gains.

It is important to state that given the trajectory of the market and our expectation for currency, we still maintain the currency position. We have not decreased the position. Thank you.

Olusegun Alebiosu- CRO, FirstBank

On the provisioning, the bank took a decisive position on NPL and provisioning in the third quarter to minimise market surprises.

We believe that the coverage we have today is adequate and that a couple of key accounts, may actually be resolved by the fourth quarter based on the outlook provided earlier in this conference call. We are optimistic that when these NPLs are recovered, the coverage ratio will further increase. This represents our objective assessments of our impairment.

Adesola Adeduntan - MD, First Bank of Nig. & its Subsidiaries

In addition, the current leadership of the institution has been decisive in entrenching very strong credit risk management process. This ensures that going forward the quality of risk assets that will be created will be much higher than what it used to be in the past.

All the key personnel involved in our credit process have been changed. We currently have a new Chief Risk Officer, who until recently used to be the Chief Credit Officer of African Development Bank, the only AAA rated entity in Africa.

Furthermore, the risk asset creating team within the bank have been strengthened. Personnel both at the risk end as well as the business end have been changed. A new head of corporate banking from Standard Chartered and a new head of commercial banking have been recruited.

In terms of policies and procedures, during the second quarter, we reported that we hired KPMG professional services to carry out a review of our credit process. The report has been received and we are currently implementing the recommendations by KPMG. These has resulted in a new credit approval policy for the bank. In the policy, we have strengthened governance around credit, the authority of the Chief Risk Officer, the process of supervision and oversight of our various subsidiaries to ensure that there are no surprises from the subsidiaries.

On the technology side, we are implementing an enterprise risk management solution that empowers management and provides clear insight into the state of our credit. We believe a combination of all these ensures that asset creation going forward are of the highest quality while dealing with the current challenges that we have in the portfolio.

We have seen good traction, and as reported by the Chief Risk Officer, we are optimistic that we most of the credit will resolved.

Adewale Okunrinboye - ARM Investment Managers

Good afternoon. Thank you for your presentation. I have a few questions. My first question is on the NPL. I see there is a jump in transport. I did not see it in the last quarter, are you able to talk about it?

Secondly, what is your dividend policy at your non-bank subsidiaries? What do you think the likely dividend payouts will be from these subsidiaries?

Thirdly, did you reprice any of your loans higher between second and quarter? If yes, by how much and what is your NIM guidance for the full year?

Fourth question is on FX. Earlier in the third quarter, you had challenges with CBN regarding the NLNG dividend, can you provide clarification on the resolutions with the Central Bank?

On FX dollar liquidity in the market overall, what is your view on the FX dollar liquidity situation in the interbank? Are the levels better than where they were? Has liquidity further improved? I am trying to get a sense of your perspective of the market.

UK Eke, MFR – GMD, FBNHoldings

I will take the question on the expectations on dividend. Ultimately, the shareholders decide what will be approved for distribution, but I would like to give assurances as we did say at our AGM last year that we are seeing strong growth in the insurance business. Today, the insurance franchise is the fastest growing in the sector. In gross premium written, we are one of the top two. In addition, on the merchant bank, we are seeing accelerated growth in their business from investment banking to corporate banking, fixed income trading and trustee businesses. The entire merchant banking and asset management business is looking very good.

We will be able to make pronouncements on the dividend, not now, but when we close our full year. It is important to stress that we paid NGN0.15 last years and we are looking forward to paying nothing less than that for 2016.

Ini Ebong – Treasurer FirstBank

With respect to repricing, yes, on account of the change in monetary policy stance, the bank did seek to reprice some of our local currency loans and that was a function of the segment. We did push to reprice between 100 and 300 basis points depending on the segment also factoring the impact of the prevailing macroeconomic conditions. There has been some degree of repricing, but this has been moderate. Rather, we have sought to take the benefit of the change through the uplift in the government securities portfolio.

On the FX liquidity, broadly speaking it is better, not so much on account of increased flow, but more on account of increased appetite for Nigeria risk by the correspondent banks. We see better accommodation on the part of offshore correspondents as it relates to providing liquidity to Nigerian banks. Overall, there has been some improvement.

On the question around the NNPC and NLNG dividend account regarding the TSA. It is important to note that the discussion around that started about a year ago between the NNPC, the Central Bank and relevant market players in the market. There was an agreement to transfer about half the aggregate balances that the NNPC had in the domestic banking sector back to the Central Bank. At the time, I believe it was July last year, roughly $4 to $5 billion was transferred.

Thereafter, there was an intense engagement with the Central Bank, simply to point out that given that Nigeria was facing foreign currency liquidity issues, it may be better to keep domestically held foreign currency balances in the domestic market rather than have these placed with offshore correspondents who are not going to avail an equivalent amount of lines to Nigerian banks.

On that basis, there was a stay of action and various ongoing engagements with the Central Bank.

The Central Bank was engaged and we have commenced repayment of those balances. We netted off some various obligations that we had with the entity and the Central Bank to extinguish the obligation. We have some residual amounts and are in the process of repaying as agreed with the NNPC. Thank you.

Nisrin Hala - Sumitomo Bank

Hi there. It is Sean McClelland from SMBC. I want to follow up on NPLs and the coverage. Regarding the restructuring, at the moment the coverage is about 43%, 44%. We have NPLs guidance for the end of the year at 25%. When can we expect some positive momentum on coverage, particularly on NPLs as we move into 2017? Should we expect by half year next year that NPLs will begin to decline significantly or will it take longer? Thank you.

Alex Ayoub - Waha

Thank you. The follow-up question was around the dollar liquidity. You mentioned this year you had some impact. How much do you have to pay in terms of dollar cash?

The other question is in relation to the dollar liquidity, you mentioned that the deposits are quite sticky because it is mainly from the corporates who are leaving these dollars with the local banks in particular with CBN. Why wouldn't the corporates, especially international corporates, leave their cash with international banks, given the situation is a bit more difficult and challenging now in Nigeria?

Why wouldn't the local corporates leave their dollar cash with an international bank? Is there a regulation which forces them to keep their dollars within the country?

Ndubuisi Obike - Stanbic IBTC Pensions

Good afternoon. I have four questions. The first question. Can you disclose how much of your exposure to AITEO and Atlantic Energy have been classified as NPLs and impaired in the income statement?

The second question, at the half-year conference call, you mentioned a planned divestment from FBN Mortgage. Has it been completed? If yes, did it result in a profit or loss?

Will it be possible to give examples of policies introduced? It was stated that the policy will at least give comfort to investors, given the fact that you are seeing strength in governance and supervision around your credit process?

At the last conference call you stated that you expected to make recoveries of about NGN50 to NGN100 billion in the second half of the year from your top three exposures, did this happen? Where you able to make this level of recoveries and if you did, why is it not reflecting as much in the overall absolute numbers?

UK Eke, MFR- GMD FBNHoldings

Thank you. We will respond to the questions.

Ini Ebong - Treasurer, FirstBank

Regarding the questions on liquidity and foreign currency deposits, there are a number of things. First of all, FirstBank has extremely long and deep relationships with its corporate clients, especially its large domestic institutional customers, this might be one of the reasons why deposits are placed with us.

Given the composition of the markets today, it is expected that everybody will source foreign currency from the official market, especially where there is a significant price disparity as opposed to using their own foreign currency balances. That is true even for those that generate significant export earnings at this point. This might also account for the fact that people are not using their dollar deposits aggressively.

On what has been done with the NNPC balances, we have repaid some and have agreed to a plan to repay the balance. We are adhering to that plan as agreed with our customer. Thank you.

Patrick Iyamabo – CFO, FirstBank

To the question on disposal of FBN Mortgage, this is at an advanced stage and we expect to close, if all continues at this pace over the next three months. By close, we mean regulatory approvals, payments etc.

To the question on the profitability or otherwise, we might not be able to give details at this at this stage. Hopefully, by the next call, we should be in a position to share more details.

Olusegun Alebiosu- CRO, FirstBank

Regarding the NPLs, we do not expect NPLs to escalate beyond the market guidance of 25%. We accelerated recovery efforts in the third quarter as promised and we have made material recoveries. However, devaluation increased NPL.

Regarding the NPL coverage, we will improve NPL coverage not by making material provisioning but by working out existing impaired assets to ensure recovery. Our commitment is to improve recovery.

Adesola Adeduntan – MD, First Bank of Nig. & its Subsidiaries

In addition, given the fact that we report under IFRS, part of the reason why the NPL coverage ratio would not be towards the 100% is a factor of the quality of the credit mitigants supporting this specific asset. As stated by the Chief Risk Officer, the objective assessment of the underlining collateral determines what the net impairment charges will be and that is what confirms the level of impairment charges and the level of our NPL coverage ratio.

To provide insight to some of the changes contained in our new credit policy, prior to this time, approval of credit at our subsidiary goes through the subsidiary governance process. We have strengthened the governance such that beyond a certain threshold, credit from all the subsidiaries are directed to the office of the Group Chief Risk Officer for assessment and for approval before it returns to the subsidiaries for approval.

Additional changes made to our credit policy has to do with aligning the level of exposures with the level of seniority of the relationship management to ensure discussions and credit calls are taking place at the right level and that risk and business issues are picked up early and treated.

We have strengthened the policies around waiver, deferral, who can defer, who can waive, the length of deferral, the length of waiver. These three are some of the examples of the changes made to the credit process. This gives us comfort that going forward, we have a much stronger credit risk management policy and framework that can withstand external shock.

Adewale Okunrinboye - ARM Investment Managers

Kindly clarify why there was a rise in transport NPL for the third quarter. Thank you.

Olusegun Alebiosu – CRO, FirstBank

Transport NPL relates to vessels that support oil and gas sector. What we have done, is to consider the cash flow and ensure repayment aligns with the cash flows.

UK Eke, MFR- GMD FBNHoldings

We are aware that this was not stated at the conference call, but we have taken an objective look at the portfolio and we think it is important to highlight. As stated by the Chief Risk Officer, we are working with the obligors to ensure repayment.

We have noted that the bulk of the questions have been around the loan book and that is understandable. We would like to reiterate that for us it is critical to resolve these issues. In addition to what we have said around the risk governance architecture, we would like to draw your attention to other issues which we are dealing with to restore shareholder value.

On capital optimisation. We would like to reassure the market that all the operating entities will remain sufficiently and adequately capitalised and they will weather the storm going forward.

We would like to see the cost efficiency gains which we have achieved in the last Nine months as a plus. This speaks to the discipline that has been embedded in the business. We have seen a drop in our cost to income ratio, even in the face of rising inflation and we have continued to bring our cost down without compromising service quality.

The third point is on the cost synergy through shared services. For us, this is important and we have engaged a global consultant to guide us through this process. We are at the front of implementing the key initiatives and that will further reduce the costs to income ratio across all the operating entities.

Finally, the enhanced revenue synergies. We have witnessed a greater degree of collaboration amongst the operating entities by insurance supporting asset management, the commercial bank supporting the merchant bank, all of these will translate to a better result for the third quarter.

To end this call, I would like to thank all of you for joining us today and we look forward to hosting the full year conference call next year. Thank you very much.

Operator

Thank you. This concludes the FBN Holdings Plc Nine months 2016 financial results call. Thank you for your participation, ladies and gentlemen, you may now disconnect.

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