FBN HOLDINGS PLC

TRANSCRIPT FOR THE 9M 2019

FINANCIAL RESULTS CONFERENCE CALL

Operator

Good morning and good afternoon, ladies and gentlemen, and welcome to the FBNHoldings nine-month 2019 results conference call. Following an overview by the Group Managing Director of FBNHoldings, an interactive Q&A session will be available. Today's call is being recorded.

I would now like to hand the call over to Mr UK Eke, the Group Managing Director of FBNHoldings. Please go ahead, Sir.

UK Eke

Group Managing Director

Thank you very much. Good afternoon and good morning, welcome to the FBNHoldings Investor and Analyst Presentation for the nine months ended September 30, 2019. My name is UK Eke, the Group Managing Director, FBN Holdings Plc. Let me quickly introduce my colleagues on this call, you know them already. Sola Adeduntan, the CEO of FBN Limited. I have Kayode Akinkugbe, the CEO of FBNQuest Merchant Bank.

Ini Ebong is the Group Treasurer and Head International Banking. Oyewale Ariyibi, CFO at the Holding Company. Olusegun Alebiosu, the CRO of FirstBank. Patrick Iyamabo, the CFO of FirstBank. I also have Val Ojumah, the CEO of the Life insurance business who will be speaking for the Insurance Group.

We had earlier posted the results, and I hope you had time to look through. The intention is to do a very short presentation for the nine months, and then have enough time for Q&A.

I think the key message we want to pass to the investing public is that we are very much on course to deliver sustainable long-term performance. For the nine months ended September 30, 2019, we are happy to report significant improvement across most metrics, largely around asset quality, diversified revenue and of course profitability.

Specifically, on slide 5, you will see a clear statement of how we have fared on the journey. We have been able to bring down the non-performing loans down to 12.6%, from 25.9% as of December, we therefore affirm that we will be below 10% by year end.

Let me repeat please, by December 2018 the NPL ratio stood at 25.9%, by June 2019 it was 14.5%, and now, as at September 201, it is 12.6%, so we reaffirm our commitment to delivering a single-digit NPL ratio by year end. Building on that the credit impairment charge improved by 62.6% and the cost of risk is down from 4.5%, nine months of 2018, to just below 2%, precisely 1.9%.

We have also seen a 17% growth in the profit before tax, the build-up of that was the non-interest revenue which was up 6% year-on-year, again we are fast tracking our transaction-led model which we reported was key to us, and we also have strengthened our electronic banking activities, and you'll see that year-on-year there is an improvement of 45.9%.

Now the contribution of electronic banking income to the total non-interest income continues to soar. At September 2018, it was 25.3%. This time around we have inched up to 34.8%.

Let me then turn to the efficiency ratios which you have on slide 6. You are aware of the declining rate environment, and so we are reporting margin compression with earnings yield down to 11.2% from 11.7% in prior year. Net interest margin is also down, 7.3% from 7.7% previously. However, as you can see in the presentation, the post-tax ROaE has inched up to 12.2% for the nine months 2019 from 8.7% in the corresponding period of 2018, and the post-tax return on average assets also improved to 1.2% relative to what it was last year, 1.1%.

I will also call out the cost to income ratio. You may recall that during the first half 2019 call, we did say that cost to income ratio will remain elevated for the 2019 financial year, and so we are reporting also an increase in CIR, but if you look at the operating expenses, we're going to give you the breakdown when we get into the questions and answers, clearly they are related to ongoing strategic projects, which have continued to improve our non-interest income. So, we do believe that we are doing the right things when it comes to investment for future growth. Notwithstanding, we do believe that we are going to close 2019 in a very comfortable position.

Now, we like you go to slide 23, there's a bit of revision which we are making to the guidance numbers, and that is because based on what we see, we think that four ratios will be impacted by this revision. One is the cost to income ratio we had guided the market to 58% to 62% but from what we see, we are revising that ratio to about 71%.

Cost of risk we had guided to 3.5% - 4%, now we are revising our guidance to 2% to 3% because we have done quite a lot of heavy lifting in the first nine months. Deposit growth, we had also guided the market to about 10%, from what we now see we are revising the growth rate to about 5%. Finally, on loan growth we had suggested 5% at the beginning of the year. During the first nine months, we have done 8.1% which is above what we had guided, so we are revising that target to below 10%. All other guidance numbers remain unchanged.

So, this basically is the highlights of the slides that we have presented to you, and we do hope that you like the progress we have made. But we are certainly ready to take your questions. We then open it up for questions please, thank you.

Q&A Session

Operator

Thank you. If you would like to ask a question, you may signal by pressing star 1 on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, that's star 1 to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for questions.

We will now take our first question. It comes from Toyosi Oni from Renaissance Capital. Please go ahead.

Oluwatoyosi Oni – Renaissance Capital

Hello, good afternoon and thank you very much for taking my questions. My first question is just an update on asset quality trends at the Bank. So, we know that you drove NPLs down, I just wanted to catch up on how much of this came from recoveries, restructuring and write-offs? Also, just to ask if you foresee any further pressure on asset quality going into the end of the year?

My second question is on efficiency and your operational losses. Please could you shed more light on this a little bit? It seems a bit clouded right now, we just want to better understand what is going into this operational and other losses line?

My third question is on your loan growth. So, the macro is still fragile and there was significant loan growth this quarter in light of the LDR requirements. I just wanted to ask what's driving this? What sectors are driving this and what's your outlook on that too, especially ahead of the new minimum LDR requirement in December which will be 65%?

My last question is on the macro, the general macro and the CBN. We've seen a number of circulars come in the last couple of days and I just wanted to pick your brain and hear your thoughts on this, especially in light of the excess liquidity that could be going into the system, thank you very much.

Olusegun Alebiosu – CRO, FirstBank

We don't foresee pressure on our NPL, so as guided, we are moving towards a single-digit NPL, and we don't expect this to change. On what we achieved in Q3 2019, the gains are distributed across the four variables; we saw improved loan growth which has an implication on the NPL ratio. recovery was about 30% of that, restructuring was about 28% and write-off was about 22%. So, there were recoveries on some assets, then we re-structured and some fell off, while loan growth contributed the balance.

On LDR and loan growth, as you must have observed in our financials, we grew loans in Q3 2019. We will grow loan but within our risk appetite. We will prioritise the fact that we will remain disciplined with risk assets. As such, so we don't foresee loan growth contributing further to NPL down the line.

Patrick Iyamabo – CFO, FirstBank

This is Patrick. So, the question around the OpEx trend year-on-year, there are two bits to that. You have the non-reoccurring costs and then you have the business as usual costs. I'd like to start off by saying that when you adjust for the non-reoccurring costs, you are actually looking at OpEx trend 2015 to date at less than 5% CAGR.

Now, to the non-reoccurring costs, they fall largely into four or five buckets. The first is what we describe as exceptional losses, and these relate to charges that we've had to recognise in terms of disputes with government agencies. I think we mentioned one or two names on the previous call. We believe we have a good handle of these transactions, but as we clean up our books and reposition for next year and we don't want to be distracted, we've taken in some of these charges.

The second bucket has to do with our efforts to reposition the workforce to continue to drive the business going forward, and in this instance, we're talking about the productivity uplift of the workforce. We are a unionised entity, again we've proceeded to deal with this issue in a manner that presents minimal distraction to business and management. We've had to take charges, again non-reoccurring charges to address this workforce optimisation efforts.

The third cost bucket has to do with our franchise. Again, this is about doing two things, celebrating who we are and how long we've been around, about 125 years, and then pivoting that to drive our franchise across countries where we are present, and that's in Africa and in Europe. We've had to incur cost, again non-reoccurring, and in terms of what we've done across countries where we are present, to jumpstart the brand awareness we want to push in those markets. We are already seeing the benefits, in terms of the revenue pickup from most of those markets.

The last two I'd like to touch on are regulatory and investment in technology solutions. Regulatory is not a non-reoccurring cost, but you know most of the details. Between AMCON and NDIC and as you think about the growth in our balance sheet as well as the growth in our deposits, and you layer on top of that the change in the AMCON rules, you can see where the growth in our regulatory cost is coming from. That alone has driven up our OpEx bucket by at least ₦3 billion.

We've been talking on the call about our investment in IT to drive the business, to drive productivity, and that is showing up in terms of our maintenance costs as well as our depreciation. So, these are really the things, if we think about this cost profile, the non-reoccurring elements account for more than 90%.

So, we are confident that the balance, which is really meant to drive productivity and efficiency, is money well spent.

Ini Ebong – Group Head, Treasury and International Banking

To answer your question around the macro and recent releases of various Central Bank circulars, I think the more important circular was around the elimination of leveraged T-bill purchases. If you step back, and this is the Central Bank's comment, I think their concerns were around people using, or banks using leveraged loans to boost their LDRs.

I think clarifying that they are barring such T-bill purchases, that effectively dealt with the issue, so you get real credit growth to the real sector, and I guess we'll see how that will pan out in the numbers that will be reported as we get into Q4 2019.

With respect to the additional ones which relate to participation of OMOs and all of that, I think the net summary, you alluded to it in asking the question, by excluding Corporates and Individuals largely from that segment, it forces them to look at primary market issue T-bills and bank deposits. So, naturally you would expect in that segment of the market, rates to decline.

So, when you evaluate it from the bank's perspective, it's probably more NIMs accretive to the extent that we would expect deposits and liability rates to probably trend down in a lower rate environment, whilst the OMO segment remains open for banks and portfolio investors to play. I think it's still early days, we need to see how the dynamic will play out. These circulars were released just last night, and it then suggests we may see some rate volatility or indeed maybe even FX volatility in the market as we go forward.

UK Eke – GMD, FBNHoldings

Okay, next question please.

Oluwatoyosi Oni - Renaissance Capital

I'd like to follow up on some of the answers I got, if that's okay?

UK Eke – GMD, FBNHoldings

Okay.

Oluwatoyosi Oni - Renaissance Capital

This first one is on the credit growth. What sectors are you lending in, and what are the catalysts that you're seeing in these sectors that make them attractive? Then also with the explanation on the cost, I suppose the next question is for next year, where do you see the costs trending towards? Are we expecting a significant fall in OpEx next year? Thank you.

Olusegun Alebiosu – CRO, FirstBank

Our credit growth have been to telecoms, manufacturing, retail/consumer and trade. For us, telecoms, if you observe it in 2019, we have seen the top two telecom companies coming to the market to raise funds to spend on CapEx and to expand. That says a lot about their business plan, their growth and their future, and we try to invest in that future.

In manufacturing we have seen expansion and government interest in lending to the real sector, which we have seen, and we have tried to participate in that because we believe that the future of the country is manufacturing and that the economy will expand along that. In retail and consumer, of course everything we manufacture has to be consumed and then looking at the market and the population, the retail and consumer represent more proportion and of course it’s part of our plan. Trade has to do with everything because there is the need to import raw materials that will be used to manufacture, you need to do all these things. Nigeria also has a population that needs to consume.

So, these four sectors fit into our plan and the risk appetite criteria we have set.

Patrick Iyamabo – CFO, FirstBank

So, in terms of the OpEx trend, like we commented a short while ago, we have a very good handle on our costs. We have a clear distinction between the non-reoccurring and the occurring costs, which are frankly investments for business growth. If you adjust for the non-reoccurring costs, we are confident that we can maintain our historical OpEx growth rate into next year. As pointed out earlier, 2015 to date, that has been less than 5% in CAGR.

UK Eke – GMD, FBNHoldings

Thank you, Patrick. Let's move onto the next questions please.

Operator

Thank you. Again, as a reminder, if you wish to ask a question, it's star 1. We'll now take our next question, it comes from Keo Bosigo – Mazi Capital, please go ahead.

Keo Bosigo – Mazi Capital

Hi, thanks for the presentation, guys. I just wanted to ask, I mean - by the nine months you didn't meet the LDR requirements by the CBN, and looking at your capital, will you be able to meet the new target by the end of December 2019 without the need to raise fresh equity capital?

UK Eke – GMD, FBNHoldings

I think the straight question is that we did not meet the LDR?

Keo Bosigo – Mazi

Yes, from the numbers that I can see, that you didn't meet the 60% - is the numbers that I see, maybe I might be calculating it wrongly, but from my calculations you are around 50 something, 54%, 55% LDR, that's from my calculations. I might be calculating it wrong. But what I wanted to ask is will you be able to meet the new requirements? Because still looking at your capital ratios by the nine months, would you be able to meet the new requirements by the end of December 2019 without the need to raise capital?

Olusegun Alebiosu – CRO, FirstBank

Okay, let me say that capital is not a barrier to us. What we need to grow to 65% is 1.5% CAR. The nine-month profit provides that. For us to grow our LDR by December to meet 65% capital adequacy is not constraint. But what is more important to us is that we remain selective with the choice of our risk assets and so we have to grow the loan in line with our risk appetite and tolerance limit.

So, if we have loans that fit into that bill we will grant. But if we don’t, we will look towards pipeline and see how we make it.

Patrick Iyamabo – CFO, FirstBank

Just to add to the comments made by Olusegun, the CRO, our estimate is to close the year at the CAR of not less than 17%.

Keo Bosigo – Mazi

And still meet the minimum LDR requirements?

UK Eke – GMD, FBNHoldings

I think the question around LDR has been answered. First of all, capital is not a constraint and we have a very rich pipeline of deals, therefore we are considering all of those requests on a case-by-case basis. We have sufficient capital to meet the LDR requirement, if that were an issue. That is your second question i.e. do you have enough capital to hit 65%? Again, the answer is yes, if we wanted to and if we see very good transactions.

We're not going to sacrifice the loan growth to the altar of capital because that would lead to erosion if we make the wrong calls.

Operator

Okay, we can move to our next question, it comes from Karim Sawabini of Moon Capital. Please go ahead.

Karim Sawabini - Moon Capital

Just a quick question and to make it clearer. When you look at the cost to income ratio in 2020 and you remove what you deem as being non-recurring, what is the range of the cost to income ratio you think we should be expecting?

Patrick Iyamabo – CFO, FirstBank

Let me respond this way without giving guidance for 2020. If you look at 2019 and you adjust for the non-reoccurring, our cost to income ratio is actually about 64%, which is approximately what it was in 2018 of about 63%. So, again into 2020, our OpEx CAGR, we expect to maintain what we've done in the previous period on a business as usual basis, i.e. backing out the non-reoccurring, and we're optimistic about our revenue growth potential.

So, we do not expect that 2020 will be adverse relative to the adjusted 2019 cost to income ratio.

Karim Sawabini - Moon Capital

Okay, so basically what you're saying is 64% is the cleaner cost/income ratio in 2019 you should have obviously positive jaws in 2020 and therefore it should come below that range?

Patrick Iyamabo – CFO, FirstBank

Correct.

Karim Sawabini - Moon Capital

Okay, perfect thank you.

Operator

We'll move to our next question. It comes from Ronak Gadhia of EFG Hermes. Please go ahead.

Ronak Gadhia - EFG Hermes

Good afternoon gentlemen, thanks for the presentation. Before I ask my questions, I'd just like to say congratulations on the NPLs. It's been a long road but glad to see that you are gradually getting there. With that being said, just two or three questions which are more or less a follow-up of the previous callers.

Firstly, on the LDR, it would just be helpful if you could just tell us what the LDR number is, because there's a bit of confusion as to what is included in the denominator in terms of various funding sources and what not. So, on the back of that what's the LDR and what's the amount of loan growth that you need to achieve in absolute terms to attain that 65% minimum?

The second point again related to what Keo was asking on your capital. Could you just tell us what your capital adequacy ratio is on a full IFRS 9 basis? From what I understand, what you reported probably the transitional arrangement numbers, so it would be useful to know what the pre-IFRS or the full IFRS 9 number is.

The third question again is just to continue with the discussions on regulations, I guess Ini mentioned some of the regulations, but apart from that, there was also the introduction of the cashless policy, which seems quite punitive and could be counterproductive. There was also an introduction of the stamp duty on electronic transactions and other one or two regulations. So, if you could just talk through what impact that could have on the bank and on the system in general, thank you.

Olusegun Alebiosu – CRO, FirstBank

It's clear that we did not meet the LDR or LFR as at September 2019. The more important thing is our plan towards (1) maintaining healthy loan book (2) growing loan book within our risk appetite (3) ensuring that we have a very strong balance sheet. December 2019 is two and a half months away, it's our plan to meet 65%, but within our risk appetite. So, it's our plan to meet it, yes, but it has to be within our risk appetite.

As we said earlier it has nothing to do with capital. Our capital is sufficient for us to grow and meet the 65% LDR requirement. While I will not be able to give you an exact number is because it's dependent on what the funding base looks like at any point in time. So, if by December 2019, if our funding base increases more than today, I want to book more loans. If by December the funding base reduces, I'll also need to book less loans, so I will not be able to confirm exact figure to you at this time.

Patrick Iyamabo – CFO, FirstBank

To the question about capital, I'll respond to your question in two parts. In terms of our CAR at the end of Q3 2019, I mean as you know it was about 15.1%, adjusting for the transition forbearance, it comes to about 10.2%, of which T1-related is about 9.8%. However, we are comforted with the plans we have to capitalise to year end, three key things to note.

The first is if we capitalise our earnings by year end and then we layer on top of that the T2 raise that is ongoing and will be consummated soon, we are about 17.5%. A portion of the forbearance is going to fall off and that is about ₦30 billion, but we also expect to claw back our regulatory risk reserve, as the loan portfolio gets cleaned up.

So, net-net the transition adjustment gets taken care of by regulatory risk reserve, and between the capitalisation of our T1 earnings and the T2 support, we still expect to be about 17.5%, and we describe it as north of 17%.

UK Eke – GMD, FBNHoldings

Just to give you comfort, I know this question would come up again, you've been quite engaging on the issue of capital. Obviously, you desire that we have very healthy buffer. We share that sentiment; we need to have a healthy buffer. But you remember that full year 2018 we were at about 17.3% CAR. Then we guided you to 5% loan growth. Remember where we are now, we've grown about 8%, so that tells you that there was a deliberate effort at increasing the loan book, particularly after we wrote off the big item, AE.

So, we found the opportunity to grow. That meant capital consumption of risk-weighted assets increased. It was deliberate and we have seen the impact of that on the revenue flowing down to the PBT, which is why we said that we can comfortably get to 17%$^{+}$ at the end of the year, so there are benefits in sweating the capital.

But let's leave 2019 and make the point that 2020 will be a far better year for us because there are very few encumbrances to growing our business. The impairment charges have been taken care of and so we do think that for CAR, 2020 we should be looking beyond 18%, even after growth. So, that should give you some comfort. We haven't leveraged our Tier 1, which is what Patrick talked about. We believe that the process we are undergoing right now should yield the desired Tier 2 and that obviously would increase our capital base.

Operator

Okay, we can move to our next question. It comes from Wale Olusi from United Capital Plc. Please go ahead.

Wale Olusi - United Capital Plc

Good afternoon, thank you for having me. I want to start by congratulating management on the result and of course on the progress on the NPLs. Obviously, the conversation so far has been around cost and asset quality, so most of my questions have been asked about. I just want to quickly get some more colour on what the risk management framework or the strategy going forward will be like for the Bank?

I know someone mentioned something about risk appetite, but I'd like to know what the risk appetite will look like for the Bank. Looking at efforts from the Central Bank lately, almost looking like to compel banks to lend, what are your views on what the NPLs in the entire industry is going to be looking like going forward? Thank you.

Olusegun Alebiosu – CRO, FirstBank

Our risk appetite is targeted at moderate risk, and anchored on weighted average risk rating. Noting the fact that NPLs are lagging indicators, what we've done is for us to map our risk universe. For credit risk, in particular that impacts so much on NPL, we have been able to dimension our target market and our risk acceptance criteria. For our target market we prioritise and try to look at sectors that are less volatile, and also reduce the concentration.

So, what we've done is to map exposure to risk rating and to ensure that only the best customers can take the highest loans, and that the vulnerable ones will take less loans and I think if they fail the impact will be lower on the books of course. Realising the implications of each sectors, we decided that we would prioritise retail and we will prioritise manufacturing and export, because historically they've had low NPL.

Again moving forward it means that when we do transactions, we must have 360-degree view of what we do, from trade and collections and service and that will feed completely into the risk profile.

Dr Adesola Adeduntan – MD/CEO FirstBank

The only thing I will add to that is just to remind you that when we started this journey in 2017, we said we had a focus to revamp the entire risk management infrastructure of our institution. We mentioned the fact that we are putting new people, we implemented new processes and deployed technology, but more importantly the governance around our entire risk architecture has been significantly enhanced.

The results that we have show clearly that we've done the right things, the vintage NPL today is less than 0.5%. We do not intend to change the structure that has worked for us over the last three and a half years. We would work within the defined risk appetite and we are comfortable that we have designed a new risk architecture that can deal with on and off-course risk and we should not find ourselves in the position where we had an oversized risk position compared with our peers.

So, that is what should give you the comfort, that we've fixed the fundamentals and the fundamentals are working.

Operator

Thank you, and we can now move to our next question. It comes from Muyiwa Oni of SBG Securities. Please go ahead.

Muyiwa Oni - SBG Securities

Good afternoon, gentlemen, and thank you for taking time to take our questions. I just have a few follow-up questions. First is on the interest rate environment, wanted to have a view of where loan yields are right now and your loan yield in the medium-term given the pressure from the LDR policy.

Secondly, you did answer the questions on USSD, so I just wanted to get a sense of what's happening in that space, particularly with the issues around fees on USSDs with Telcos and then secondly your e-banking business overall. Just trying to gauge which of the channels drive more profitability, USSD or mobile banking?

Then also just trying to figure out how you're positioning for PSBs and the likely risk from that given the stronger income you're seeing on e-banking.

Then thirdly, just wanted to get a view of where your medium-term ROE outlook is.

Ini Ebong – Group Head, Treasury and International Banking

The interest rate environment I think is clear, directionally it looks like rates will trend lower, certainly on the liability side. Now, on the asset side, we did see some decline in asset pricing, especially in the top-tier segment in the run-off to meeting the initial September 30 deadline, as you would expect, in the scramble to put on quality assets we saw rates come down.

Our view is that rates would start to normalise going forward, because if you think about it, it's a one-time event for whatever loans have been put on as of September to comply with the LDR as at that time. Now that the the deadline has been extended to December 2019, and the limit has been increased, you expect that at least in that segment of the market, rates may remain a bit subdued there. However, for the rest of the market we haven't seen any significant decline.

So, our sense is that this appears to be a bit more NIM supportive directionally going forward.

Dr Adesola Adeduntan – MD/CEO FirstBank

On the issue of USSD, mobile banking, digital income, what I would say is for us these platforms are strategically important to us. Today we have by far the largest number of customers on the USSD platform, we have about 8.5 million FirstBank customers actively transacting on our USSD platform. We have over 3 million people on our first mobile platform, so these are very important platforms to us. Regarding the discourse with the Telcos, we believe we are going to find a landing that will work for all the parties. We are meeting, we are having conversation and we believe this will be resolved shortly.

We've also been very deliberate around our agent banking. We currently have about 37,000 agents. So, when you see what we've done, vis-a-vis your question on the PSB, we think we are well positioned to keep and maintain our space. However, we are also not completely averse to collaborations. We do have very good relationship with all the Telcos, and we believe in the fullness of time what will emerge will be some form of collaboration.

We have built our business up and we are still building it up and we have sufficient skills such that when you combine all our relevant businesses we will maintain strong market share.

Patrick Iyamabo – CFO, FirstBank

In terms of the ROE, here's how we could look at it, and first of all we imagine that when you say in the medium term, you are looking at one to three years out. So, by the end of this year, we would have made significant progress with our workforce optimisation. We've made excellent investment in IT and process improvement initiatives and have dealt with most of our balance sheet issues, both for loans and non-loans.

We'll have a stronger balance sheet from a funding perspective. Frankly the things that have shackled us have largely been dropped off. So, over the next three years, which is the guidance you've requested, we have no doubt whatsoever that we will easily exceed 20%.

Operator

Okay, and again if you'd like to ask a question, it's star 1. We'll now take our next question, it comes from Clement Adewuyi of Rand Merchant Bank. Please go ahead.

Clement Adewuyi – Rand Merchant Bank

Good afternoon, thank you for taking my question. My line cut off earlier on, so some of these questions may have been answered. First is before the line cut off, I heard that you said your adjusted CAR is around 10.2%, and also you mentioned that you're planning to raise Tier 2 Eurobond and claw back some risk from your risk reserves. Can you share how much are you looking to raise in Tier 2 bond?

Also, from your estimates, what are you looking at in terms of claw back from the risk reserve?

Patrick Iyamabo – CFO, FirstBank

Correct, about the 10.2% of which I have pointed out that 9.8% of that was T1 related. Our expectation by the end of the year is for capital to be north of 17%, and I also explained that it's going to be a combination of a couple of things, capitalising our retained earnings, so that would give us the capital boost, and then I didn't say Eurobonds, but consummating T2 - ongoing T2 raise efforts to boost our CAR. Again, we expect to close the year with a CAR north of 17%.

Now there are two bits that will be sticking out. The first is the transition adjustment which I explained earlier was about ₦30 billion. The regulatory risk reserve is about ₦32 billion, so they actually match off, and we are confident about making progress on that to the extent of our loan book clean-up, and the reserves will have built to make that less necessary. But then again, even if all isn't released, we still have capital headroom by the end of the year.

UK Eke spoke about next year, given all the things we've done this year, and with the balance sheets we have for next year, and all the ongoing initiatives including the transactional income growth potential, the earnings potential of the Group will be significant. So, we will be once again in that position to freely accrete capital from earnings during the period.

So, the short answer to your question, ₦30 billion transition vs. ₦33 billion, regulatory risk reserve is what we hope to expect to get. Capitalisation of our T1 earnings and complementing that with T2 raise should take care of us by the end of this year. All the organic capital accretion for next year should just provide any additional capital headroom that we want.

UK Eke – GMD, FBNHoldings

Okay, just to clarify again please because you referenced a comment around Eurobond. You recall that when we had the first half conference call, we said we were considering several options. Every option is on the table, it may not necessarily be now, but into next year, all of those options are still on the table.

That answer was given in the context of where we expect to be by end of next year. So, we have enough time to look at several options, but clearly what is not disputable is that we have not leveraged our Tier 1, and we still have opportunities to do a Tier 2 capital. The form it's going to take is what we will disclose at the right time.

Operator

Thank you. Now we can move to our next question from Ronak Gadhia - EFG Hermes. Please go ahead.

Ronak Gadhia - EFG Hermes

Hi guys, sorry, I got cut off before I could ask a follow-up question. I'll just come back to the LDR issue, and sorry for keep coming back to this issue, because from my point of view, I think it is the single largest issue facing the Bank and the industry right now, particularly the Bank given the asset quality and capital issues that you have been through and have worked hard to try and resolve over the last four or so years.

I understand your point that you cannot give us what the exact figure is because your funding is dynamic, but at least it would be very useful if you could tell us what the funding would include. Because as of now we're not sure what that is. Previously we were led to believe that it would include only deposits. But from our understanding it also includes other borrowing sources.

Given that you are in the process of potentially issuing Tier 2 capital, that could therefore mean that you might have to grow your loan book even more. So, even if you can't give us an exact figure, it would be useful if you could give us some sort of a range in terms of how much loan growth you need to achieve. Yes, that's it from my end.

Olusegun Alebiosu – CRO, FirstBank

On the LDR, yes, I'm sure you have seen the template that the regulator supplied across banks, and it's more of loan to funding. Yes, you are correct, includes borrowing, debentures and all that. It's also important to state that your loan book when considered by Central Bank also includes corporate bonds not strictly loans When you check our financials today, you're looking at my loan to customers. But when Central Bank is looking at it, they also consider corporate loans, corporate bonds, which will not show in my books as loan to customer in the first place.

So, there are a lot of variables that you need to sit back, take the balance sheet and compute. You need to see how it is worked out. Why I cannot give you details is the fact that, yes, we have Tier 2, but the percentage of my Tier 2 will not represent what the growth in my funding would have looked like in the first place. So, it's also dynamic. Again, I will not be able to guide because there many moving parts, deposits come in, the funding we’re looking at includes both foreign and domiciliary deposits.

So, it depends on the time and maturity of deposits. So, I won't be able to give you that, but I know that looking at what we have today, if I took 5% of my deposit base today and you take that as proxy for moving from 60% to 65% and assuming that as at end of October it is near 60%. You do your maths and say 5% of my funding base, I'm sure you will need to approximate, but the reality is that capital is not a show stopper for us, the more important thing is for us to have assets within risk appetite for us to work.

It's also important for us to state here that before we took care of AE in Q2 2019, our loan deposit ratio was 59.9%. So, which means that without us offsetting AE in Q2 we will not have been under any LDR pressure or demand. So, it's not something that is all that material for us to meet. Our balance sheet already took care of that before, so we're only trying to rebalance the books and it's not something that's material for us to handle.

Operator

Thank you. There are no further questions at this time. I would like to hand the call back to Mr UK Eke for any closing remarks. Please go ahead, Sir.

UK Eke – GMD, FBNHoldings

Okay, thank you very much for your continued interest in the FBNHoldings story. What is clear is that we have done all that we promised we were going to do to reposition this franchise to profitable and sustainable growth. Next year we're going to commence a new planning cycle, which means that we'll be guiding you to new numbers by the time we also present our full year 2019 results.

But in the meantime, if there are other concerns or questions you would like to take up with us, please feel free to reach out to Tolulope, the Head of IR or any of our officers that have been on this call.

Again, we thank you sincerely for your interest. Bye-bye.

Operator

This concludes the FBNHoldings Financial Results Call. Thank you for your participation, you may now disconnect.

[End]