FBN HOLDINGS PLC

TRANSCRIPT FOR THE 9M 2018

FINANCIAL RESULTS CONFERENCE CALL

Operator

Good morning and good afternoon ladies and gentlemen. Welcome to the FBNHoldings Nine-months 2018 Financial Results conference call. Following an overview by the GMD of FBNHoldings, an interactive Q&A session will be available. 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, FBNHoldings

Thank you. Good afternoon and good morning ladies and gentlemen. I want to thank you for joining us on our 9-months 2018 results call. I am UK Eke, the Group Managing Director. As usual, I have my colleagues here, the CEO of the Commercial Banking Group, Dr Sola Adeduntan. I also have the CEO of the Merchant Banking Group, Kayode Akinkugbe and I have the Insurance company CEO represented here. Oyewale Ariyibi, the Group CFO is here. Patrick Iyamabo, the CFO at the Commercial Bank is here, and I also have Olusegun Alebiosu who is the CRO at the Commercial Bank.

I hope you have had time to look through the presentation. I will just do a very quick summary of it in two to three minutes and then we will go straight to the Q&A. I would like to begin as usual with slide five where we have demonstrated our commitment again to the key initiatives that we enunciated the last time we addressed you. These are anchored on four critical pillars. You will see revenue generation, specifically diversification of the revenue generation base. We will also talk about the asset quality, operational efficiency and then the capital. You will see from that slide five that we have made progress. We have continued to record very good traction on our e-business activities, and this has resulted in a 26% year-on-year increase in non-interest income. Again, the objective remains to move away from a credit-led model to transaction and digital banking-based model.

Also, we talked about diversifying the earnings base and I am glad to report that the Insurance company which has been performing above its peers increased its contribution to the Group's PBT from 6.3% in 2017 to 7.5% in 2018.

Now we are happy to announce also that we have kept a very tight rein on our costs and the growth has remained well below the inflation rates. We will continue to leverage technology to have better visibility on the cost spend and also to ensure operational efficiency across the various entities.

On that slide, I would like to speak to the asset quality. We are happy with the progress we have made. We see a consistent decline in impairment charge and our vintage NPL ratio remains below 0.5% - indeed, it is about 0.3%. However, the largest exposure in our books remains outstanding. I am talking about the name you know, Atlantic Energy, and we are in discussions, continued discussions, with the authorities to see that this is resolved within our strategic planning period which is 2019.

We will assess the position of that exposure between now and the end of the strategic planning period, otherwise we will have to take the appropriate action to take it off our books.

Slide six, is basically reviewing the operating environment. I am sure there is agreement that the operating environment remains volatile on the back of a drop in GDP growth rate and, of course, the upcoming elections. We have also seen an uptick in inflation. So, overall, it has been a very challenging 2018, specifically challenging Q3 for us.

I would like to go straight to slide seven where we highlight the key regulatory developments. I think the major issue to flag there is the suspension of the tier-based minimum solvency capital policy which was to go into effect in October 1, 2018, but NAICOM has pulled back. But notwithstanding, our insurance companies are adequately capitalised and we do think that if and when NAICOM restarts that policy we would continue to play very actively in that space.

Now, I had highlighted the challenging operating environment and you see that reflect in the results - in slide eight - where we have displayed the ratios and the numbers that we achieved during the period. Specifically, on gross earnings, we saw a marginal growth for the period, less than one per cent. Interest income also declined on the back of lower yield on investment securities and of course more importantly, the drop in the loan book.

Contrary to our anticipation, the growth in our loan book but did not materialise at the level that we had envisaged. I would like to highlight that the growth in non-interest income was also partly attributable to the FX revaluation gains which we booked in the quarter. But even if you back out this FX revaluation gain, we see an increase in non-interest income by 8%. So, again, there is about ₦13 billion of FX translation gain embedded in the non-interest income, which is basically as a result of an adjustment in NAFEX rates.

Slide nine, I talked about improvement in the loan book, but more specifically, we see that the coverage ratio continues to improve year-on-year. If you look at where we were the last time, we talked about 60%, now it is 78.5%, so it is further evidence of the work we are doing to ensure that our loan book is clean.

There is also emphasis on ensuring sustainability of clean-up, and we are going to get some details as we progress in the Q&A. But I think a major endorsement of the results we have shown came from the recent release of a rating agency, where the Commercial Bank has been moved from negative to stable outlook. That decision basically reflects the fact that the downside risk to the asset quality have been significantly reduced following the remedial actions we have taken at the Bank. So, going forward, we will see a progressive reduction in the NPL ratio.

Now, I would like to mention one more point on slide nine which is around capital. The Commercial Bank continues to play well above the regulatory threshold, the same thing for the Merchant Bank and we do think that this will continue to improve even as the Commercial Bank retains earnings without upstreaming dividend and of course the other entities will continue to support HoldCo until we normalise the Commercial Bank.

Moving on to slide 10, which will be my final focus area, I would like to draw your attention to the revised guidance we have provided on three major areas between the time we addressed you and now. The first is on the cost to income ratio, the second is on net loan growth, and finally the NPL ratio. Of course, the reasons are not far-fetched. We are looking at net revenue which has decreased on the back of reduction in the loan book and also the fact that even though we are going to see growth, but it may not be as significant as to cushion the effect of costs which we will continue to rein in.

So, the other metrics we have highlighted remain unchanged in terms of guidance and would deliver what we have promised at the beginning of the year.

So, that would be my six-minute presentation or summary of the results for the nine-months. I would like to give sufficient time for Q&A, so the lines will be open immediately for questions from participants. Thank you.

Q&A Session

Operator

Thank you. Ladies and gentlemen, if you wish to ask a question at this time, please signal by pressing star one on your telephone keypad. Please ensure the mute function on your telephone is switched off to allow your signal to reach our equipment. Again, please press star one to ask a question. We will now take a question from Tolu Alamutu. Go ahead.

Tolu Alamutu - Exotix

Hi, good afternoon and thank you for the presentation. I just have a few quick questions please. The first is on AE which you mentioned earlier. Can you confirm if the level of provisioning coverage is still at 30% or if that has increased since the last time you reported?

Secondly, we know that you called your $300 million bond during the period. I was just wondering about how you are thinking about the bond that is callable next year and whether you would maybe try to maintain a presence in the bond market or whether we could see FBN exit the Eurobond market if you call that bond.

Finally, on cost, just looking at the new cost to income ratio target, obviously it is higher than it was before. I just wanted to know where the cost pressures are coming from specifically and where you think you might be able to make some cost savings perhaps in the fourth quarter, because your cost income ratio is obviously over 60% in Q3. Thank you very much.

UK Eke – GMD, FBNHoldings

I think we can take one other caller and then we will answer in batches. The next question please?

Operator

We will now take another question from Muyiwa Oni from SBG Securities.

Muyiwa Oni - SBG Securities

Good afternoon gentlemen. Thank you for the presentation. I have a few questions. I think the first is still just more elaborating on AE, I am just trying to understand where you are in terms of how optimistic you are of progress on the resolution and if there has not necessarily been progress, why wait until 2019 to take it off the books? Secondly, also trying to understand the key drivers of your adjustment of your NPL ratio guidance. Just trying to understand, what level of deterioration or is it a case of you have not seen recoveries come at a pace which you would have expected, hence the moderation in guidance between half-year and now? Lastly, trying to understand how the planned Payment Service Bank licence - what kind of risks or opportunities do you see in that space? How do you think players like Telcos and Co. come into that space, what kind of risk do you think that has on the digital drive you have been on so far and kind progress we have seen on your e-banking and e-business revenues? Those are my questions.

UK Eke – GMD, FBNHoldings

We will answer the questions that have been raised so far, the CRO will kick off.

Olusegun Alebiosu – CRO, FirstBank

On AE the provision remains 30%. We are reviewing the exposure in a dynamic manner and if at any point in time there is need for us to change our provisioning, we will do so but as at today, we have made progress and we are confident that AE will be resolved, it is no longer an issue of if but when, and knowing fully well that this is a political asset, we are also actively engaging politically to ensure that this is resolved.

On the NPL guidance, the change in NPL guidance is just trying to answer to the foreign currency translation impact on foreign currency exposures. You will admit the fact that between 31 December 2017 and now, we have had almost 10% - 15% change in currency value and that will also impact on foreign currency exposures that may not be resolved within the financial year.

Patrick Iyamabo – CFO, FirstBank

Hello, this is Patrick. So, there is a question around cost, where the pressure is coming from as indicated by the cost to income ratio. I think the first thing is that our OpEx is under control. If you notice the year-on-year growth in OpEx at about 6.7% it is below inflation and that is after factoring in currency impacts on our OpEx base. The cost to income ratio issue you flagged is actually more around revenue and specifically to our net interest income. The summary of our net interest income as to what we reported and where it could have been is really two-fold. The first is we have not grown our loan book as quickly as we thought we would this year and for several reasons including ensuring that we booked the right credits. It is an industry-wide event and indeed, year-to-date loan book in the industry shrunk by about 700 billion.

The second bit has to do with the general rates environment which impacted the pricing of loans and very importantly, treasuries. For a bank like FirstBank with the high liquidity ratio, you can understand how the rates environment impact on treasuries would impact our earnings.

So, in summary, our OpEx is under control, the initiatives aimed at managing that are working out as planned. It was more about revenues, specifically the interest income as driven by our inability to grow risk assets given the prevailing market environment as well as the rate environment.

Dr Adesola Adeduntan – MD/CEO FirstBank

This is Adesola Adeduntan. On your question regarding the Eurobond, that is callable in the course of FY2019, where we are, we are continuously evaluating our position, we will take the right decision within the context of our liquidity and also within the context of our pedigree, and the need to be continuously active in the global financial market. So, it is early days, but it is something that is clearly under continuous evaluation.

There is a second question around the potential impact of Payment Services Bank. Where we are is that the Central Bank has released a draft guideline. All the key participants in the market - banks, other institutions, and even the Chartered Institute of Bankers - have responded to the draft guideline, so it is up for discussion.

But having said that, we at FirstBank, we believe we are strategically positioned. We will continue with our digital banking roll-out. We have been quite successful with our Agency Banking as I speak today, the number of Agents we have working for us is in excess of 10,000. We have the country strategically covered. We have covered everywhere in Nigeria excluding a couple of local governments where there are security concerns and challenges. We have been quite successful with our USSD banking. As we speak today, we have in excess of 6 million customers on that particular platform.

So, we are well positioned. We will continue with our own roll-out because we believe we do have the competitive advantage to continue to exploit this particular opportunity.

So, we are fully prepared, and we are all engaging both as an individual bank and as industry with the Central Bank, to assist them in formulating the right policy that will shape the way this Payment Services Bank will work. So, the jury is out.

UK Eke – GMD, FBNHoldings

Okay, can we take the next set of questions please?

Operator

Yes, we will now take a question from Bisi Ayodeji from Exotix. Please go ahead.

Olabisi Ayodeji - Exotix Partners

Good afternoon and thank you for the presentation. I just had one quick question. I was wondering if the NPL balance based on the NPL ratio provided would be the same as the stage 3 gross loan balance. I know you have not audited the results, but I am hoping you can give some sort of indication of whether or not they are the same or close?

UK Eke – GMD, FBNHoldings

Hello. Let's take more questions please. We can call in other questions.

Operator

The next question is from Ola Ogunsanya from RenCap.

Ola Ogunsanya - Renaissance Capital

Hi, good afternoon and thank you for the presentation. My first question is on asset quality. If we assume a constant Naira rate what would the NPL have been in absolute terms and what would the NPL ratio have been also?

Secondly, looking at slide 20, is it right to assume that a quarter of your term loans matures in a year and if that is the case, how do you then balance that out between the continued shrinking of the loan book and growth? Essentially, will you be able to replace those loans fast enough?

Based on your guidance of NPL ratio, you are assuming a ₦30 billion reduction. Is that largely on the back of recoveries or write-offs? Those are all my questions for now, thank you.

Operator

Ladies and gentlemen, if you wish to ask a question, please press star one on your telephone keypad. We will now take another question from Alieza Jo-Madugu from Leadway Pensure. Please go ahead.

Alieza Jo-Madugu - Leadway Pensure

Hi, good afternoon. Just hoping for a quick update on the EMTS facility, how are negotiations going there. Secondly, I want to know what portion of your loan growth was FCY driven. Finally, listening to your presentation in the previous quarter you had some guidance, but some has now changed. I do not know if there is any reason for that. Those are all my questions.

Operator

We will now take another question from Jerry Nnebue of CardinalStone. Please go ahead.

Jerry Nnebue - CardinalStone

Good afternoon. I would just like to know what your net open position is currently, one. Secondly, I also want to know what happened to your fee income, because I think it actually declined during the quarter. From what I can see, your e-business transactions improved but then net fee income declined. I noticed also that you booked higher fee expenses during the quarter. So, what really happened? In the notes, you said something about customers using other banks' ATMs and the charges you had to pay on that. But why was that the case? Did you have significant amounts of downtime during the period in terms of your e-business transaction. So, what happened there? Thank you.

Olusegun Alebiosu- CRO, FirstBank

The NPL ratio was changed because of foreign currency translation impact. Without foreign currency translation impact today, our NPL would have been 17%. But with foreign currency translation impact, we have this expansion in the NPL loan book in as much as we are trying to resolve all our Naira based NPL transactions.

The other question is on if there is 30% reduction in foreign currency exposures, what will NPL ratio be? It will go back to the same thing that if 30% reduction in foreign currency NPL would take us to about 16.5%. So, if we work it back in respect of that.

The issue of NPL being stage 3, is a yes. So, what we have reported and what you have seen in NPL is stage 3. Stage 2, as per IFRS, is everything after 30 days to 90 days for non-specific and for specific after 180 days. So, for everything after 30 days would be stage 2. You know that anything after 30 days could be watch list, it could fall back, there could be a delay in payment. So, those ones will not form part of our NPL until they have crossed the NPL barrier into stage 3.

On EMTS, we believe that EMTS will be closed this Q4. As we explained earlier, the bank has taken 35% loan loss provision. In our opinion, we do not think we would take more provision. However, if we need to take, based on judgement, we will not take more than 5% more to make it 40%, based on what we know would be coming to us as payback based on the amount that has been shared today, that has been signed and the portion that would be restructured. So, the impact that we need to see will be less than 5%, if we need to take more in it.

Patrick Iyamabo – CFO, FirstBank

I will take two questions. The first has to do with fee income and the second has to do with the NOP. In terms of the NOP, our NOP has improved significantly. Currently, NOP stands at less than 15%. In terms of the decline in fee income, there are two key drivers for that. One has to do with fee income around loan creation and as we earlier explained, loan momentum during the period was less than planned. Then, the second had to do with financial advisory type fee income. Again, a reflection of the operating environment.

The increase in e-business expenses you noted is a reflection of the increased momentum of our e-business transaction velocity. So, I think one way to put the e-business income in context is to think about it as the net. So, if you net off the e-business income against the revenue what you would actually note is an improvement on a year-on-year basis; quite a significant improvement on a year-on-year basis, north of 40%.

Dr Adesola Adeduntan – MD/CEO FirstBank

The only thing to add around your question on ATM machines, it is that we are aware of locations where we do not have enough number of machines and there are plans at a very advanced stage to ensure that we close that gap, and that would ensure that our pay out to other banks in respect of ATM transactions is minimised going forward.

Olusegun Alebiosu – CRO, FirstBank

Our foreign currency loan book is about 51% of total loan book. You appreciate that we have foreign exposures especially in oil and gas project finance and that also has an implication for the books. However, more importantly is the issue you raised about term loan, a quarter of that terminating in less than one year. For us, it is part of our strategy to actually reduce the tenor of our loan book. Two, is the fact that we have pipeline of approvals that we have today that will replace these loans even if they drop off in the next one year. But in looking at our term loan book, you should also look at the fact that personal loans as are also term loans. So today, you have personal loans of three years or four years. So, even looking at our term loan book you will see that a portion of that is also personal loan. So as we also grow our consumer loan book, the term loan will continually be replenished.

UK Eke – GMD, FBNHoldings

Okay, I think we have addressed all the questions that were raised in the last batch, so can we move onto the next batch of questions?

Operator

Again, ladies and gentlemen, if you wish to ask a question, please press star one on your telephone keypad.

We will now take a question from Bisi Ayodeji from Exotix. Please go ahead.

Olabisi Ayodeji - Exotix Partners

Thanks again. I just had one more follow-up question. Could you please give a sense of what sectors you expect to see growth from next year in terms of growing your loan book? What would be the focus sectors? Where do you see the most opportunities for next year? Also, if you could just confirm if you are still seeing the trend in the pay-down sustained into Q3 and Q4? Thank you.

Operator

We will now take our next question from Ola Ogunsanya from RenCap. Please go ahead.

Ola Ogunsanya - Renaissance Capital

This is just a follow-up question to the growth question I had earlier. That means you are going to grow more than 20% next year which seems very aggressive in this environment. So, if you would please just clarify like the previous caller asked where exactly is the growth coming from?

My second question was on NPLs. I do not think you fully understood my previous question. It is really the ₦30 billion reduction in the absolute NPL number is that coming from recovery or is that coming from writing off ₦30 billion in the fourth quarter of the year? Thank you.

Operator

We would now take another question from Oyenike Oluwa from ARM Investments, please go ahead. The line is open, please go ahead. I would now hand it back to the speaker.

Olusegun Alebiosu – CRO, FirstBank

For us, if you finance working capital which is, you have more of LCs and most of those things that turn around in 180 days - which is short-term, you have term loan amortising, you have another term loans replacing them. We do not need 25% loan growth in the year for you to balance your loan book because when the terms are running out you only need to repay the term loans and also increase your activity in the working capital space which LCs, trade will fit into.

For the sectors of growth for next year, we are looking at manufacturing, consumer loans and export. The reason for the consumer loan is we know that with the debate on minimum wage going on, if that is to be actioned next year, households might need to refinance their balance sheet and that will be an opportunity for us to create loans especially for federal civil servants that we know they are still liquid today and across the industries. For manufacturing, we know that the government is trying to diversify the economy and with the RSFF (Real Sector Finance fund) going on now, most companies are participating in that area are essentially manufacturing companies which would import raw materials to take care of their manufacturing and trading cycles.

Again, in the spirit of diversification of the economy, non-oil export will also take a proportion of our interest, this is to ensure we participate in sectors that will one, impact the economy and two, that have strong cash flows enough to pay out the loans.

UK Eke – GMD, FBNHoldings

Okay, questions?

Operator

Again, ladies and gentlemen, if you wish to ask a question at this time, please signal this by pressing star one on your telephone keypad. There are no further questions at this time. I'd like to hand it back to the speaker for any additional or closing remarks.

UK Eke – GMD, FBNHoldings

Thank you very much for joining us today. I just want to recap what I said in my opening remarks. We have a clear focus of our long-term strategic objectives that is anchored on the three-year planning cycle 2017 to 2019. We do believe, and we would like to confirm that we have done sufficient heavy lifting, particularly in the last two years. So, to confirm to all that follow this story that truly we are going to deliver on the commitments we made over the remaining 18 months or so.

We think that the building blocks have been laid for what will turn out to be a very good performance in 2019. So again, I thank you for participating. We look forward to hearing from you again when we address you in 2019 for the full year results. Thank you.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.

[End]